

Smallco Investment Fund

Quarterly Update 31 December 2022

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 1.7% for the December quarter versus the Small Ordinaries Index up 7.5%. Webjet (WEB) was the standout positive contributor in the quarter up 30%. WEB's 1H23 result in November was well ahead of most market forecasts. It pointed to strong underlying momentum in its WebBeds B2B division, capitalising on the recovery in leisure travel globally and good execution delivering solid market share gains. Whilst the recovery in global travel markets is ongoing there are good signs that the WEB business is structurally improved post pandemic.

SIF's other major travel exposure, Corporate Travel Management (CTD) was also its weakest contributor in the quarter, down 12%. CTD's AGM update pointed to a moderation in the pace of its revenue recovery attributed largely to airline capacity constraints. We remain positive on CTD on a longer-term view with its valuation on recovered earnings now far from demanding. Whilst questions remain on the North American business and an economic slowdown in 2023 will likely have a negative impact on demand for corporate travel, we note CTD has emerged with solid market share gains in several other regions post pandemic. It is also leveraged to China's reopening and a recovery in corporate travel in that region.

Propel Funeral Partners (PFP) also dragged on performance in the quarter, down 8.5%. This was somewhat surprising given the very strong AGM update which pointed to the death rate and thus funeral volumes remaining well above long term trends. We remain positive on the medium term outlook for PFP given favourable demographic trends, management's execution track record and the valuation gap that has now opened up to its larger peer, Invocare (IVC).

2022 has been a tough year for equity markets and SIF, driven largely by geopolitical events which exacerbated underlying inflationary pressures culminating in faster and larger interest rate increases than were expected at the start of the year. Higher interest rates negatively impacted equity valuations with higher quality growth stocks and small cap industrials amongst the hardest hit.

Inflation looks to have peaked, however 2023 is shaping as a tough year economically as Central Banks continue to apply handbrakes to get it back within targeted ranges. This economic slowdown will put pressure on corporate earnings, the recessionary downside scenarios of which, are not currently factored into market forecasts.

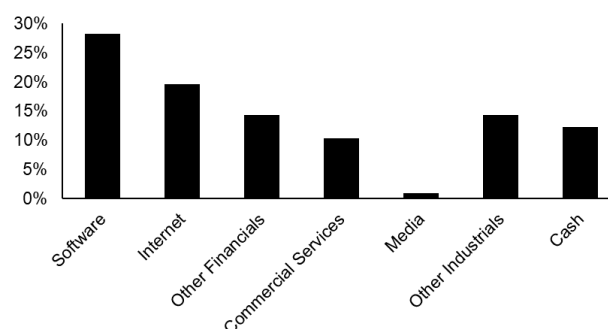
The macroeconomic and corporate earnings outlooks for 2023 remain challenging but we note equity markets are forward looking and are likely to begin to rebound well before economic growth and corporate earnings bottom. Whilst there is potential for further valuation downside, SIF remains heavily overweight businesses that are expected to be able to grow structurally through periods of economic slowdown. Cash levels remain robust which provides flexibility to take advantage of new opportunities that may present. There will be no change to SIF strategy of focussing on high quality businesses with strong long term outlooks.

SIF Performance

Return to 31 December 2022	
3 months	1.7%
1 year	-22.7%
3 year p.a.	3.3%
5 year p.a.	5.8%
10 year p.a.	12.6%
20 year p.a.	14.0%
Since inception (31.10.00) p.a.	12.5%
Value of \$100,000 invested at inception	\$1,361,734

Fund returns calculated after all fees and expenses and based upon exit price and reinvestment of distributions.

SIF Structure: by sector (look through)



SIF Significant Holdings (alphabetical order)

Altium
IDP Education
REA Group
Seek
WiseTech Global

Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.



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SIF Fund Description

SIF is a concentrated, index unaware Australian equity fund investing predominantly in smaller listed companies. SIF may invest in cash when opportunities are scarce and invest up to 20% of the fund, at the time of purchase, in Australian companies within the ASX100.

Smallco believes that higher returns are available from smaller companies as these companies are generally not as well followed by the market which in turn makes mispricing more common. Particular focus is placed upon companies with a market capitalisation of between \$100m to \$500m - the Smallco "sweet spot".

SIF typically holds 25 to 35 stocks on the premise that it is better to have a holding of core stocks that offer solid investment fundamentals than a large number of "OK" investments.

Smallco's dominant investment tool is fundamental analysis. Focus is placed upon internal financial modelling supplemented by some broker research. We are strong believers that earnings are the key driver of share prices and as such, the greater the accuracy in forecasting earnings the more consistent the outperformance.

Stock weightings within the portfolio are determined by the assessment of the quality of the stock, the likely investment outcome, liquidity and the risk of sustained capital loss.

SIF very rarely invests in mining stocks, is very averse to loss making companies, and takes an extremely cautious approach to biotech and structurally impaired industries.

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Key Investor Information

Strategy	SIF is a concentrated, Australian equity smaller company focused fund that invests predominantly long but can effectively short when opportunities are found.
Process	Smallco manages SIF employing a bottom up fundamental research approach focusing upon earnings direction, risks and the underlying businesses quality.
FUM	\$363.5m AUD
Mid Price	\$4.5401 (31 Dec 2022)
Distribution	Annually 30 June
Inception Date	31 October 2000
Portfolio Managers	Adam Simpson, Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Han Xu and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Admin cost (FY21)	0.13% of net assets *
Performance Fee	18.64% of the performance above the Fund's previous end-of-six-month period high. Payable 6 monthly. *
Service providers	Custody: Link Fund Solutions Administration: Link Fund Solutions
Liquidity	Time to exit 50% of SIF assets: < 1 day

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ARSN 103 148 107

This document does not take into account the investment objectives, financial situation and particular needs of each reader. Accordingly, nothing in this document should be construed as a recommendation by Smallco, or any associate of Smallco or any other person, concerning an investment in the fund.

You should consider the product disclosure statement and target market determination available at <https://www.smallco.com.au/How-To-Invest> prior to making any investment decisions.

* Unless otherwise stated, all fees quoted are inclusive of GST, after allowing for an estimate for Reduced Input Tax Credits (RITC). Past performance is not a reliable guide as to future performance. Returns are not guaranteed.