



# Smallco Broadcap Fund

Quarterly Update 30 June 2022

## SBF Portfolio Commentary

Conditions remained challenging for both the Australian equity market and the Smallco Broadcap Fund (SBF) during the June quarter. The market shift away from quality structural growth businesses and small industrials continued as concerns regarding inflation further increased. While this drove underperformance for the Fund, given these sectors form the core of the Fund's style, it has started to throw up longer term opportunities with the Fund's solid cash balance being partially deployed during the quarter.

The key feature of the June quarter was a significant increase in expectations of the extent to which many central banks globally will be forced to raise interest rates, following greater than expected increases in price pressures in many parts of the world. While central banks reiterate their belief they can, over time, lower inflation to target levels without causing a recession, and many economists still are not forecasting a contraction, equity markets have become more sceptical.

The key challenge facing central banks is to bring inflation down before consumer expectations embed it. The rate of inflation is expected to ease somewhat in many countries in the back half of 2022 as some of the transitory factors fall out (assuming commodity prices don't jump again). However, given the extent of savings built up by households during the pandemic and the strength of labour markets in many countries, there is concern inflation will not fall fully back to targeted levels without central banks forcing a contraction in economic activity.

If this occurred corporate earnings as a whole would inevitably fall. To date the price-earnings multiple of equity markets has de-rated to a level historically consistent with inflation at 3-4%, however that is based on expectations of moderate earnings growth. This highlights that equity markets have factored in an increased risk of recession, not necessarily an actual one.

The Fund is managed on a bottom up (company fundamental & valuation) basis rather than a top down (positioning primarily based on economic forecasts) approach. This approach saw the fund increase cash levels during late 2021 due to high valuations and increase portfolio quality during late 2021 and early 2022 for the same reason. Similarly, the significant selloffs witnessed during parts of May & June provided the Fund the opportunity to gradually build positions in very high quality structural growth businesses at prices 40-50% below where they were.

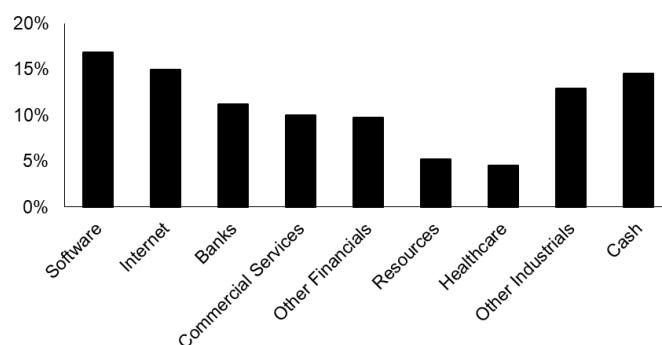
The commentary here is not meant to represent a forecast of a recession, just that the Fund is very alert to this risk and its plan is to gradually deploy cash reserves into high quality structural growth businesses if economic events (rather than a change in company fundamentals) continue to drive prices of such businesses to lower levels. Such businesses typically emerge stronger from downturns and while valuations of these businesses have been hit hard this year, this reflects particularly high pricing last year and not a change in fundamentals of the key businesses the Fund is invested in.

## SBF Performance

Return to 30 June 2022			
	SBF	Index*	Out Perf.
3 months	-14.9%	-12.2%	-2.7%
1 year	-13.5%	-6.8%	-6.7%
3 year p.a.	4.3%	3.4%	0.9%
5 year p.a.	8.3%	6.9%	1.4%
10 year p.a.	15.2%	9.2%	6.0%
Since inception (31.07.08) p.a.	15.1%	6.4%	8.7%
Value of \$100,000 invested at inception	\$706,020	\$237,942	\$468,078

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

## SBF Structure: by sector (look through)



## SBF Structure – by size

As at 30 June 2022	SBF	Index*
% in Market Cap < \$1bn	17.0%	4.6%
% in Market Cap \$1bn - \$5bn	25.2%	14.6%
% in Market Cap \$5bn - \$10bn	10.6%	12.3%
% in Market Cap > \$10bn	32.7%	68.5%
% Cash	14.5%	Nil

## SBF Significant Holdings (alphabetical order)

Altium  
National Australia Bank  
REA Group  
Seek  
Webjet

\* Benchmark index is the S&P/ASX 300 Accumulation Index



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### SBF Fund Description

SBF is a concentrated, long only, largely index unaware Australian equities fund providing a broad exposure to the Australian listed market.

SBF typically holds 20-30 stocks and aims to outperform the S&P/ASX 300 Accumulation Index after fees on a rolling three year basis.

SBF can invest up to 40% of the Fund in companies with a market capitalisation of less than \$1bn and will deviate significantly from the index when appropriate opportunities are found. \*\*

The theoretical investable universe is anything which meets Smallco's liquidity requirements. In practice SBF very rarely invests in mining stocks other than the major miners, is very averse to loss making companies, and takes an extremely cautious approach to biotechs and structurally impaired industries.

SBF's portfolio is constructed around a large core of high quality longer term growth stocks. A range of smaller shorter term value ideas are wrapped around this when Smallco can identify such stocks that meet our requirements for earnings outlook and risk/reward.

SBF can hold up to 50% in cash. Elevated cash positions are held when opportunities are not present in the market.

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.

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### Key Investor Information

Strategy	SBF is a concentrated, long only, largely index unaware Australian equities fund providing a broad exposure to the Australian listed market.
Process	Smallco manages SBF employing a bottom up fundamental research approach focused upon earnings direction, risks and the underlying business's quality.
FUM (cum dist)	\$211.0m AUD
Mid Price (cum dist)	\$1.7972 (30 Jun 2022)
Distribution	\$0.1069 (30 Jun 2022)
Inception Date	31 July 2008
Portfolio Managers	Andrew Hokin, Rob Hopkins, Bill Ryan, Paul Graham, Adam Simpson, Han Xu and Craig Miller
APIR Code	ASC0003AU
Buy/sell costs	+/- 0.45%
Management Fee	1.20% of net assets ***
Performance Fee	15.0% of outperformance of the Standard & Poor's ASX 300 Accumulation Index. Payable quarterly in arrears. ***
Application & Withdrawal Timing	Units are priced daily on every business day in Sydney.
Service providers	Custody: Link Fund Solutions Administration: Link Fund Solutions

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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.

\*\* From time to time the market capitalisation of stocks within the portfolio may fall below \$1bn and as a result the Fund's 40% limit may be exceeded. Rather than immediately selling positions to reduce the exposure below 40% (which could adversely affect stock prices), SBF may remain above 40% for a period of up to 6 months whilst orderly selling down. Smallco will not add to any sub \$1bn holdings during such a period.

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

**Smallco**  
Investment Manager