

Smallco

Smallco Investment Fund

Quarterly Update | 31 March 2024

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 11.9% for the March quarter versus the Small Ordinaries Index up 7.5%. On a rolling twelve month basis the Fund is up 32.6% versus the Small Ordinaries up 13.8%.

SIF had a strong February reporting season with good results and outlook statements from the majority of the Fund's major holdings. Temple & Webster (TPW) continued its strong performance from last quarter, up another 50% after a 1H24 profit beat and reporting strong sales momentum had continued into 2H24. Audinate (AD8) was up 29% after a strong result that benefitted from easing supply chain constraints. Wisetech (WTC) was up 25% after a better than expected 1H24 margin performance suggested there was upside risk to FY24 targets and it announced more top tier Freight Forwarder customer wins.

Altium (ALU), was the largest positive contributor to the Fund's performance in the quarter. It was up 40% after agreeing to an all-cash takeover offer of \$68.50 per offer from Japanese listed semiconductor solutions company Renesas Electronics. SIF has been invested in Altium for over 23 years.

Founded in 1985 in Tasmania, Altium (then called Protel) listed in 1999 with a market cap of \$200m. The Renesas takeover offer valued Altium at over \$9 billion. Whilst a tremendous success story, it has not been all smooth sailing. The long term opportunity for Altium presented by the pervasive growth of the electronics industry has always been vast but after a number of disappointing years plagued by execution issues, Altium fell to a low of 9c per share or around \$10m market cap in 2011.

Altium has always had a compelling product. Management and board changes were the catalyst for a turnaround in performance. The current team has done an outstanding job in developing the Altium product set and business model to the point today where it is the global leader in design software for printed circuit boards and a key strategic asset in the global electronics design industry.

The takeover by way of Scheme of Arrangement is currently going through regulatory approval processes and is expected to go to a shareholder vote in the second half of this calendar year. We think it likely the takeover offer will be approved and voted through.

Corporate Travel (CTD), down 13%, was the largest detractor in the quarter after downgrading FY24 guidance. Whilst the company presented a five year target to double profits, we have become increasingly cautious on earnings visibility and have exited the position. IDP (IEL), down 11%, remained under pressure due to the previously flagged increased competition in its English Language Testing division and government policies to reduce international student numbers in key markets. Whilst near term earnings remain under pressure we continue to believe in the long term growth potential of IDP.

Equity markets have had a strong start to the year and look to be pricing a soft landing scenario and for rate cuts to commence mid CY24. Key risk to market valuations appears that stronger economic data sees the timing and quantum of these rate cuts pushed out. Macro risks also remain elevated. The Fund's cash position remains healthy and we remain well positioned to capitalise on new opportunities.

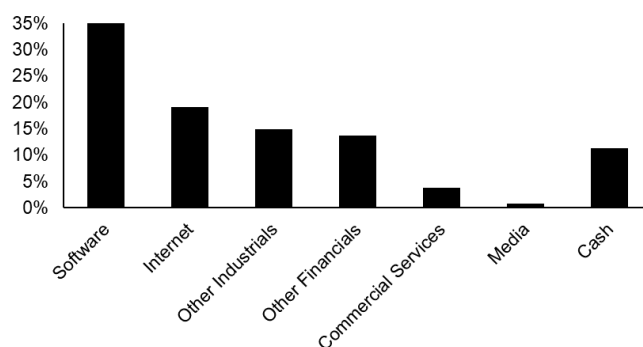
The Smallco Investment Fund remains open to new and existing investors.

SIF Performance

Return to 31 March 2024	
3 months	11.9%
1 year	32.6%
3 year p.a.	10.6%
5 year p.a.	10.5%
10 year p.a.	12.5%
20 year p.a.	13.9%
Since inception (31.10.00) p.a.	13.6%
Value of \$100,000 invested at inception	\$1,980,707

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

SIF Structure: by sector (look through)



Significant Holdings (alphabetical order)

Altium
 Audinate Group
 REA Group
 WiseTech Global
 Xero

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SIF Fund Description

SIF is a concentrated, index unaware Australian smaller company focussed fund. It is predominantly long only but can short when suitable opportunities are found. SIF does not invest in mining stocks and is extremely cautious with respect to loss making companies including biotechs.

Smallco's philosophy is that it is better to have a small number of good investments than a large number of mediocre investments. Accordingly, SIF is relatively concentrated, generally invested in between 20 and 35 securities. It will hold cash when opportunities are scarce.

SIF is managed with a "growth at a reasonable price" bias employing a bottom-up approach with a strong focus on earnings direction and risks. We are strong believers that earnings are the key driver of share prices and that more accurate forecasting of earnings will drive greater and more consistent outperformance.

Smallco believes that higher returns are available from smaller companies as these companies are generally not as well followed by the market. Smallco actively looks for high quality smaller companies whose current share price is significantly less than what it considers to be the true long term underlying value of the shares.

Particular focus is placed on identifying new opportunities in companies with a market capitalisation of sub \$500m. SIF has the flexibility to continue to hold these companies in the portfolio if they grow successfully and move into the ASX100.

Some characteristics of high quality, smaller companies that Smallco seeks to identify include: strong competitive position, good management, attractive and predictable earnings outlook, high returns on funds employed and strong cash generation.

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

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Key Investor Information

Strategy	SIF is a concentrated, Australian equity smaller company focused fund that invests predominantly long only 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	\$533.2m AUD
Mid Price	\$6.3812 (28 Mar 2024)
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 (FY23)	0.14% 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 & Perpetual Corporate Trust Limited 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.

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.