



# Smallco Investment Fund

## Quarterly Update 30 June 2023

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 4.3% for the June quarter versus the Small Ordinaries Index down 0.5%. On a rolling twelve month basis the Fund was up 23.4% versus the Small Ordinaries up 8.4%.

Key contributors to the outperformance in the quarter included Pinnacle (PNI), Wisetech (WTC) and Xero (XRO). Pinnacle, the multi-affiliate investment management firm, reversed its underperformance from last quarter following stronger investment returns from its underlying affiliates. The positive momentum in Wisetech continued following the major customer win earlier in the year that validated the opportunity for its CargoWise software in a second major industry vertical. Both Pinnacle and Wisetech featured in our prior March quarterly update.

Xero is a new significant holding for the Fund, having progressively added to the position through 2022. Xero provides cloud accounting software for small businesses. It is the market leader in ANZ, has a strong position in the UK market and is growing in other regions including North America. Xero has a long track record of delivering strong double digit revenue growth through both adding new subscribers and increasing average revenue per subscriber via product add-ons and price increases.

Xero has historically prioritised top line growth at the expense of profitability. New CEO Sukhinder Singh Cassidy was appointed towards the end of CY22. She has overseen a pivot in strategy and in particular a more balanced approach to revenue growth, operating costs and free cash generation which has been welcomed by the market and driven its strong performance this calendar year.

Key detractors this quarter included Frontier Digital Ventures (FDV) and IDP Education (IEL). FDV is an investor in online classified portals in emerging markets, several of which have come under pressure in the current inflationary environment.

IDP Education was weaker after the announcement by the Canadian government that it would accept results from a number of additional English tests providers which has resulted in increased competition for IELTS, IDP's high-stakes English testing division. We expect IELTS growth to slow in the face of this increased competition however it retains a strong market position and we continue to believe IDP's other major division, International Student Placement, can continue to grow strongly.

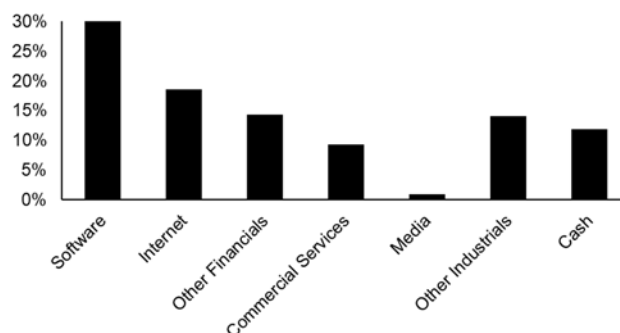
Whilst inflation looks to have peaked and we appear towards the end of the interest rate rising cycle, evidence of the demand destruction and pressure on the consumer are now just emerging in company updates. In this environment of tighter monetary policy and slowing economic growth we retain a heightened focus on quality companies that have an ability to grow structurally through periods of economic slowdown and deliver on growth forecasts. Our cash balance remains healthy which has the fund well positioned to take advantage of new and existing opportunities that may emerge.

### SIF Performance

Return to 30 June 2023	
3 months	4.3%
1 year	23.4%
3 year p.a.	10.5%
5 year p.a.	6.3%
10 year p.a.	12.3%
20 year p.a.	14.5%
Since inception (31.10.00) p.a.	12.9%
Value of \$100,000 invested at inception	\$1,558,846

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  
Audinate Group  
REA Group  
WiseTech Global  
Xero

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

Please contact Craig Miller, one of our portfolio managers, for assistance with investing or for any queries or needs that you may have 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 biotechs 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 (cum dist)	\$408.1m AUD
Mid Price (cum dist)	\$5.1972 (30 Jun 2023)
Distribution	\$0.1752 (30 Jun 2023)
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 (FY22)	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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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.