

Smallco

Smallco Broadcap Fund

Quarterly Update | 31 December 2024

SBF Portfolio Commentary

In volatile market conditions, the Smallco Broadcap Fund (SBF) performed broadly in line with its benchmark in the December quarter. During the quarter solid gains in Pinnacle Investment Management (PNI), Xero (XRO) and HMC Capital (HMC) were effectively offset by disappointing updates from WEB Travel Group (WEB) and Audinate (AD8). For the 2024 year, SBF delivered strong outperformance of its benchmark, with the strongest contributors including PNI (+130%), WiseTech (WTC) (+61%) and HMC Capital (+62%).

After consistent solid gains throughout the first nine months of 2024, equity market volatility returned during the December quarter. Weakness during October was followed by strong gains in November as markets initially took a very rosy view of the US election result. Those gains largely reversed in December as markets started to focus on some of the uncertainties posed by US president-elect Trump's proposed policies and a negative market response to the US Federal Reserve's (Fed) December meeting (despite the Fed's commentary being largely predictable given recent stickier than expected inflation).

Despite markets coming off two years of strong returns (which have exceeded 20% p.a. in the US), general expectations are for ongoing positive, albeit much more modest, returns from equities in 2025. This reflects solid growth in the US, expectations of supportive Government policies in the US and China and the hope of further interest rate cuts. Notwithstanding that many experts consider the backdrop to be supportive, it is important to recognise there is an elevated level of uncertainties among factors that may influence equity markets in 2025.

These uncertainties include elevated government policy uncertainty in both the US and China (how aggressive President Trump is on tariffs and the deportation of undocumented migrants, China's response to tariffs) and stickier than expected inflation, which may prove to be a drag to economic growth expectations if US bond yields rise much further. Overlaying this are historically high valuations, which could leave equities susceptible if these uncertainties fall the wrong way.

One of the stocks which drove SBF's performance in 2024 is HMC Capital (HMC). HMC listed in 2019 as an internally managed property group, quickly morphed to a property funds management model and has subsequently expanded to become a more diversified manager of real assets across real estate, private equity, digital infrastructure, private credit and energy transition (in launch phase). SBF first invested in HMC in April 2023 at \$3.50 when HMC's assets under management (AUM) were ~\$6bn. In less than 2 years HMC's AUM has grown to ~\$16bn and its share price has almost tripled.

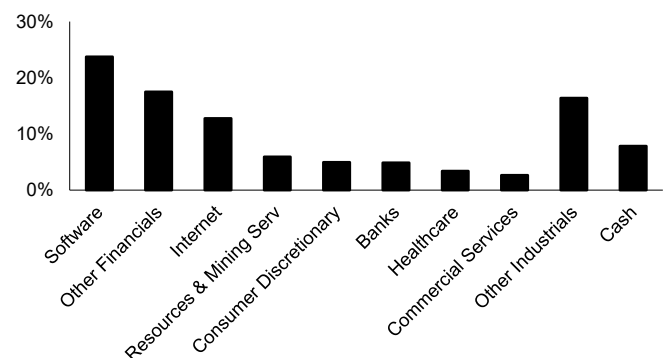
HMC maintains strong growth targets, aiming for \$50bn+ AUM in coming years through leveraging off its proven ability to identify growth sectors and raise capital. Should HMC come close to this target, we expect the share price to continue to perform well over time. However, the ability to continue to rapidly raise funds will ultimately rely on the performance of the funds it manages. While public markets are only one source of funds for HMC, the disappointing initial market response to the recent DigiCo REIT listing highlights one risk to the model.

SBF Performance

Return to 31 December 2024			
	SBF	Index*	Out Perf.
3 months	-1.0%	-0.8%	-0.2%
1 year	18.5%	11.4%	7.1%
3 year p.a.	8.6%	7.1%	1.5%
5 year p.a.	13.1%	8.0%	5.1%
10 year p.a.	12.3%	8.5%	3.8%
Since inception (31.07.08) p.a.	16.0%	7.5%	8.5%
Value of \$100,000 invested at inception	\$1,138,113	\$325,790	\$812,323

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 31 December 2024	SBF	Index*
% in Market Cap < \$1bn	10.5%	1.6%
% in Market Cap \$1bn - \$5bn	34.5%	11.7%
% in Market Cap \$5bn - \$10bn	14.8%	11.1%
% in Market Cap > \$10bn	32.4%	75.6%
% Cash	7.8%	Nil

SBF Significant Holdings (alphabetical order)

HMC Capital
Pinnacle Investment Management
Seek
WiseTech Global
Xero

* 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 that provides exposure to a broad range of companies listed on the ASX, from some of the smallest through to some of the largest.

The Fund has a significant bias to small and mid-capitalisation companies and can invest up to 40% of FUM into companies with a market capitalisation of less than \$1bn.** Accordingly, the Fund will always be heavily underweight in the very largest companies on the ASX.

SBF typically holds 20-35 stocks and aims to outperform the S&P/ASX 300 Accumulation Index after fees on a rolling five year basis.

SBF's portfolio is constructed around a large core of high quality, longer term growth stocks. A small component of shorter term value ideas can be included when Smallco can identify such stocks that meet our requirements for earnings outlook and risk/reward.

Given a primary focus on quality growth stocks with forecastable earnings, 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 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.

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	\$368.3m AUD
Mid Price	\$2.4094 (31 Dec 2024)
Distribution	Annually 30 June
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 & 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.

** 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.