



Smallco Broadcap Fund

Quarterly Update 31 March 2022

SBF Portfolio Commentary

Despite a strong profit reporting season from its key positions, the Smallco Broadcap Fund (SBF) fell well short of its benchmark in the March quarter. This was driven by a pronounced market shift away from quality structural growth businesses which are the core of the Fund's style, to more cyclical businesses such as resources, which the Fund heavily underweights due to the nature of commodity markets (difficulty in forecasting earnings and, typically over time, limited product differentiation). The Fund's return during the quarter was broadly in line or ahead of the mid and small cap industrial sectors which make up a significant proportion of the Fund's portfolio. During the quarter the resources sector outperformed these sectors by >25%.

The Fund's December quarter update noted that a shift from quality growth stocks towards resources and other beneficiaries of higher interest rates had begun in late 2021, driven at the time by a more hawkish US Federal Reserve following higher than expected inflation readings. In the March quarter this shift extended significantly due to ongoing inflationary pressures and significant increases in a number of commodity prices following Russia's invasion of Ukraine.

While market expectations are for inflation to start to fall later this year and into early 2023, short term inflation trends are increasingly unknowable given the unpredictability of the Ukraine situation, the extent to which sanctions on Russia (and their associated impacts on certain commodity prices) will remain even if it withdraws, and the potential for the COVID situation in China to lead to wider spread lockdowns (which may exacerbate supply chain pressures).

In this environment the Fund will continue to look for opportunities to deploy its elevated cash position should significant further weakness occur in both key existing positions and a number of quality names on its radar. However, given valuations of quality structural growth businesses remain elevated, this is likely to be a gradual process. During the March quarter the Fund topped up weightings in a number of quality positions hit hard during January, however this was broadly offset by exiting some small positions in March to further improve portfolio quality.

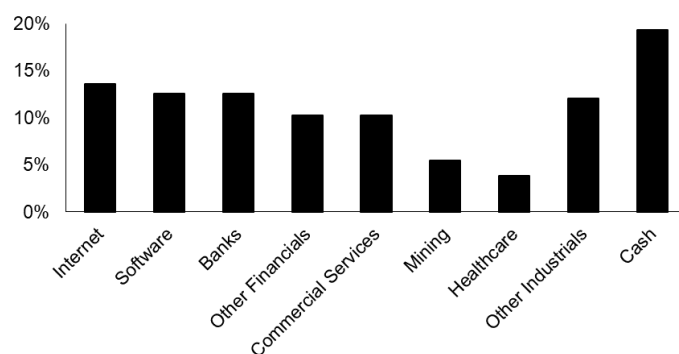
A material exposure that performed well for the Fund during the quarter was its travel stocks – Corporate Travel and Webjet. While the Omicron variant hurt demand for travel during December and January, market data and company reports suggest travel bookings have increased strongly in many countries during February and March. We are cognisant that a full earnings recovery for these stocks requires an extended run of the world being able to “live with COVID” and that bumps may occur given some will have larger exposures to sectors where the recovery is lagging (eg, Webjet to Asia). Nevertheless our expectation is that both these businesses will emerge with material market share gains over the next few years and, accordingly, should perform well over time.

SBF Performance

Return to 31 March 2022			
	SBF	Index*	Out Perf.
3 months	-6.7%	2.1%	-8.8%
1 year	11.5%	15.2%	-3.7%
3 year p.a.	11.8%	10.9%	0.9%
5 year p.a.	12.2%	9.4%	2.8%
10 year p.a.	17.0%	10.1%	6.9%
Since inception (31.07.08) p.a.	16.8%	7.6%	9.2%
Value of \$100,000 invested at inception	\$829,567	\$271,063	\$558,504

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 2021	SBF	Index*
% in Market Cap < \$1bn	16.3%	1.7%
% in Market Cap \$1bn - \$5bn	24.6%	13.4%
% in Market Cap \$5bn - \$10bn	4.6%	11.9%
% in Market Cap > \$10bn	35.1%	73.0%
% Cash	19.4%	Nil

SBF Significant Holdings (alphabetical order)

Altium
BHP
National Australia Bank
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	\$248.6m AUD
Mid Price	\$2.1117 (31 Mar 2022)
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 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