

## Smallco Broadcap Fund

Rating issued on 27 Jun 2024 | APIR: ASC0003AU

### Investment objective

To outperform the S&P/ASX 300 Accumulation Index (after fees) by 5% p.a. over rolling three-year periods.

Manager	Smallco Investment Manager
Distributor	Smallco Investment Manager
Sector	Australian Shares \ All Cap
Investment Style	Growth
RI Classification	Aware
Absolute Risk	High
Relative Risk	Active - Benchmark Aware
Investment Timeframe	7+ Years
Benchmark	S&P/ASX 300 (Accum)
Min Investment Amount	\$40,000
Redemption Frequency	Daily
Income Distribution	Annually
Fund Size (31 May 2024)	\$330.20M
Management Cost	1.20% p.a. Incl. GST
Performance Fee	15% of the outperformance (after fees) of the S&P/ASX 300 Accumulation Index.
Buy / Sell Spread	0.45% / 0.45%
Inception Date	31 Aug 2008

### Fund facts

- Holds between 20 and 35 securities
- Can hold up to 50% in cash
- Portfolio turnover expected to average 40% p.a. over a market cycle

### Viewpoint

The Fund, managed by Smallco Investment Manager Limited (Smallco), provides investors with exposure to a concentrated portfolio of Australian equities. The Fund has relatively wide portfolio constraints and invests across the market capitalisation spectrum. Zenith has a high regard for Smallco given its experienced investment team and robust investment process.

Established in 2000 by Rob Hopkins and Bill Ryan, Smallco is a Sydney-based boutique fund manager that specialises in managing Australian equity strategies. As at 31 May 2024, Smallco managed approximately \$A 846 million firmwide. In response to negative market movements and outflows, Smallco reopened the Fund to new investment in April 2020, after being hard closed in January 2017.

The investment team of seven is led by Hopkins, who is supported by Ryan, Andrew Hokin, Paul Graham, Craig Miller, Adam Simpson and Han Xu. Whilst Hokin is the lead portfolio manager for the Fund, portfolio construction follows a consensus approach. All team members hold stock coverage responsibilities, with a number of key sectors allocated across the team. Outside of the key sectors, team members are given the freedom to cover stocks in any sector. Overall, Zenith considers Smallco's investment team to be highly experienced and well resourced to manage the Fund.

Smallco's investment philosophy is centred on the belief that equity markets are inefficient and that rigorous fundamental research can identify opportunities to generate excess returns. Smallco targets quality companies that are likely to exceed consensus earnings expectations and under-appreciated companies expected to at least meet earnings expectations. Smallco aims to invest in companies with the potential to double in value over a three-year investment period.

Meetings with senior company management form a key part of the security selection process. The aim of the research process is to produce an internally-generated target price that reflects the company's long-term intrinsic value. Target prices are compared against current market prices to determine a stock's upside. Zenith believes the security selection process adopted by Smallco is sufficiently robust and that the research conducted by the investment team is comprehensive.

The portfolio construction process is primarily driven by fundamental analysis conducted by the investment team. Smallco constructs the Fund through a benchmark-unaware approach. Portfolio guidelines, stock liquidity and downside risk are considered to avoid unintended risks. Zenith is comfortable with Smallco's portfolio construction approach, believing it ensures a strong connection between the output of the security selection process and the resultant weight of the stock in the portfolio.



## Fund analysis

### Fund characteristics

Constraint	Value
Security Numbers	20 to 35
Absolute Stock Weight	Max: 20% (max: 15% at time of purchase)
Sector Exposure	Must hold stocks across at least 4 sectors
Securities under \$A 1 billion market cap	Max: 40%
Exposure to Illiquid Stocks	Max: 30%
Cash	Max: 50%

### Investment objective and philosophy

The Fund's investment objective is to outperform the S&P/ASX 300 Accumulation Index (after fees) by 5% p.a. over rolling three-year periods. Smallco intends to achieve this investment objective whilst delivering an Information Ratio in excess of 1.

Smallco's investment philosophy is centred on the belief that equity markets are inefficient and that rigorous fundamental research can identify opportunities to generate excess returns. Smallco targets quality companies likely to exceed consensus earnings expectations or under-appreciated companies expected to at least meet earnings expectations. Smallco aims to invest in companies with the potential to double in value over a three-year investment period.

Whilst the Fund's investment process is predominantly fundamental in nature, Smallco also seeks to add value via a macroeconomic overlay that is used as a source of idea generation and feedback loop.

### Portfolio applications

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income. However, this higher growth is also often associated with higher volatility. Therefore, it is recommended that investors adopt a longer timeframe when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market is relatively concentrated, with the Materials and Financials sectors dominating the market. The market also only represents approximately 2% of global equity markets (in terms of market capitalisation). Therefore, to mitigate this concentration risk it is highly recommended that investors diversify their investments across asset classes, both domestically and globally.

The Fund adopts a benchmark unaware approach, which is expected to exclude or be underweight large segments of the market (resources sector, biotechnology sector and industries Smallco deems to be structurally challenged) from the portfolio. In addition, the Fund typically has a meaningful exposure to small capitalisation stocks, averaging exposure of approximately 35% to stocks outside of the S&P/ASX 100 Accumulation Index since inception.

Given these characteristics, Zenith believes the Fund offers significant diversification benefits when blended with other Australian equity funds and it can improve the risk/return profile of an overall portfolio. Investors need to be aware that performance can diverge significantly from the benchmark.

The Fund is likely to exhibit characteristics in common with other more traditional growth-orientated offerings. Manager-specific risk can be mitigated by blending the Fund with other Australian equity funds. As such, the Fund could be blended with style-neutral or value-orientated Australian equities products to achieve a more diversified exposure to the Australian equity sector.

Zenith believes investors should be prepared to invest with an investment time horizon of at least seven years to maximise the potential for optimal results.

The Fund's portfolio turnover is expected to average approximately 40% p.a. over a market cycle, which Zenith considers to be low. Smallco has indicated that approximately 65% of the expected turnover is attributed to resizing existing positions and approximately 35% is due to initiating and closing positions. Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are highly likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

### Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Aware
Has Responsible Investment Policy	No
PRI Status	
PRI Signatory	No

\*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact



# Absolute performance

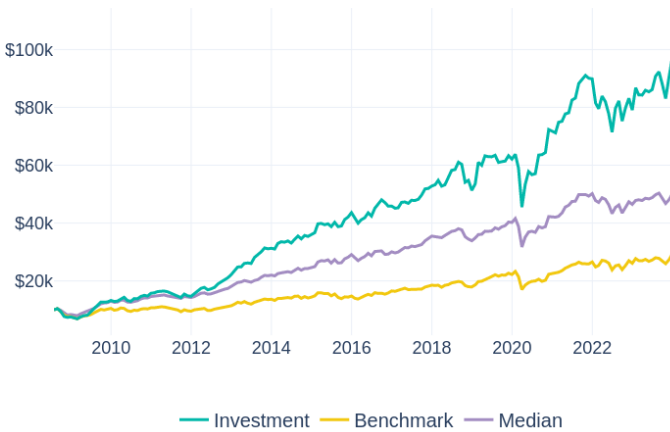
## Performance as at 31 May 2024

### Monthly performance history (% , net of fees)

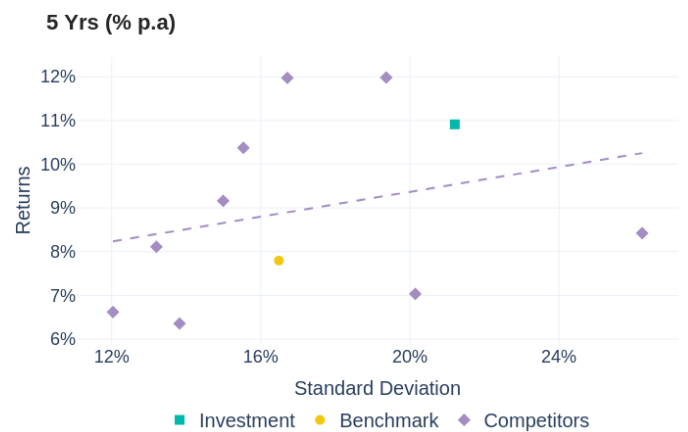
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	1.35%	8.76%	1.46%	-3.44%	0.64%								8.68%	3.21%
2023	9.75%	-2.83%	-0.07%	1.96%	-0.62%	0.90%	5.37%	1.70%	-4.60%	-5.68%	8.64%	7.70%	22.94%	12.13%
2022	-9.34%	-2.39%	5.48%	-2.24%	-5.23%	-8.14%	11.65%	3.15%	-8.46%	6.13%	4.10%	-4.93%	-12.03%	-1.76%
2021	-0.74%	5.13%	0.45%	3.41%	0.47%	5.62%	0.85%	6.10%	1.56%	1.54%	-1.07%	-0.23%	25.29%	17.55%
2020	2.71%	-7.49%	-22.85%	17.09%	8.48%	-1.89%	0.62%	11.25%	0.24%	1.14%	12.37%	-0.85%	15.49%	1.74%

\*S&P/ASX 300 (Accum)

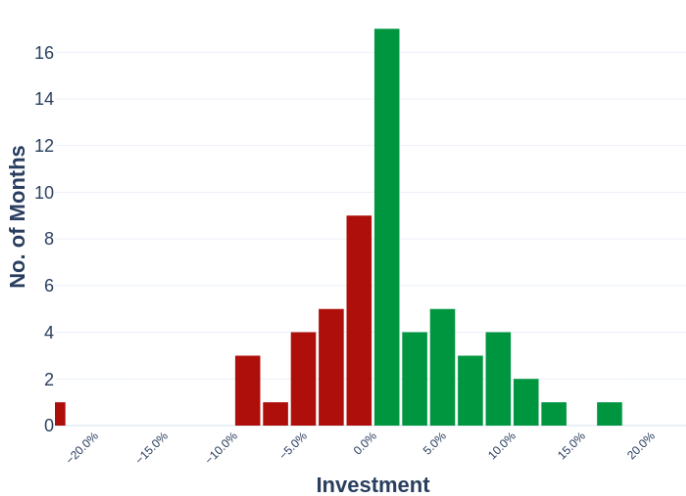
### Growth of \$10,000



### Risk / return



### Monthly histogram



### Minimum and maximum returns (% p.a.)





## Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
<b>Investment</b>	<b>23.73%</b>	<b>10.58%</b>	<b>10.91%</b>	<b>12.07%</b>	<b>16.06%</b>
Income	7.64%	6.90%	7.53%	9.65%	10.52%
Growth	16.09%	3.68%	3.38%	2.42%	5.53%
<b>Benchmark</b>	<b>12.82%</b>	<b>6.54%</b>	<b>7.80%</b>	<b>7.79%</b>	<b>7.23%</b>
<b>Median</b>	<b>13.16%</b>	<b>5.83%</b>	<b>8.05%</b>	<b>8.97%</b>	<b>11.33%</b>
<b>Cash</b>	<b>4.28%</b>	<b>2.31%</b>	<b>1.59%</b>	<b>1.84%</b>	<b>2.68%</b>

## Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	2 / 9	2 / 9	3 / 8	1 / 7
Quartile	1st	1st	2nd	1st

## Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
<b>Standard Deviation (% p.a.)</b>					
Investment	16.42%	18.06%	21.21%	17.51%	17.69%
Benchmark	11.00%	13.52%	16.49%	14.04%	14.33%
Median	8.75%	10.47%	14.20%	11.87%	11.70%
<b>Downside Deviation (% p.a.)</b>					
Investment	8.07%	10.99%	13.88%	11.04%	10.85%
Benchmark	5.65%	8.75%	12.21%	9.99%	10.13%
Median	5.26%	7.15%	10.36%	8.26%	7.72%

## Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
<b>Sharpe Ratio (p.a.)</b>					
Investment	1.18	0.46	0.44	0.58	0.76
Benchmark	0.78	0.31	0.38	0.42	0.32
Median	1.01	0.34	0.45	0.60	0.74
<b>Sortino Ratio (p.a.)</b>					
Investment	2.41	0.75	0.67	0.93	1.23
Benchmark	1.51	0.48	0.51	0.60	0.45
Median	1.69	0.49	0.62	0.86	1.12

All commentary below is as at 31 May 2024.

The Fund's objective is to outperform the S&P/ASX 300 Accumulation Index (after fees) by 5% p.a. over rolling three-year periods.

The Fund has achieved its investment objective over the long term. In addition, Zenith notes that the Fund has demonstrated material outperformance relative to the median manager and benchmark over the same timeframe.

The Fund's volatility (as measured by Standard Deviation) has been greater than the benchmark over all assessed periods. Zenith believes this result is in line with expectations given its concentrated nature and material exposure to small capitalisation stocks.

The Fund's Sharpe Ratio has been higher than that of the benchmark since inception, which indicates that investors have been sufficiently compensated for its risk.

Investors should be aware that Smallco does not target a specific level of income returns, with distributions made annually where possible. Zenith would prefer a more frequent distribution profile to alleviate potential issues involved with large distributions at 30 June.



## Relative performance

### Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	10.91%	4.04%	3.12%	4.28%	8.83%
Monthly Excess (All Mkts)	50.00%	50.00%	46.67%	53.33%	64.21%
Monthly Excess (Up Mkts)	62.50%	61.90%	48.72%	51.95%	64.17%
Monthly Excess (Down Mkts)	25.00%	33.33%	42.86%	55.81%	64.29%

### Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	117.14%	115.08%	107.30%	93.21%	85.62%
Upside Capture	150.01%	128.26%	116.92%	113.08%	124.71%

### Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	9.39%	8.98%	9.86%	9.23%	8.63%
Median	5.47%	6.03%	5.72%	5.54%	5.83%

### Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	1.16	0.45	0.32	0.46	1.02
Median	0.06	-0.12	0.04	0.21	0.70

### Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	1.25	1.17	1.15	1.06	1.08
R-Squared	0.70	0.77	0.80	0.72	0.77
Correlation	0.84	0.88	0.89	0.85	0.88

All commentary below is as at 31 May 2024.

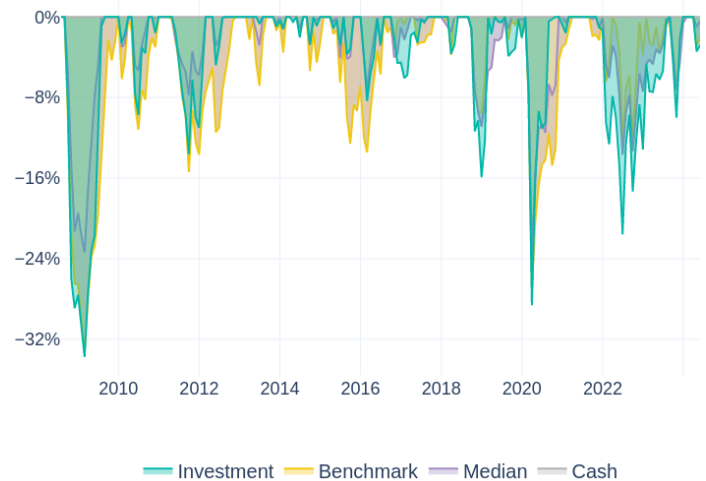
Zenith seeks to identify strategies that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. In addition, we view a strategy's ability to produce stronger upside capture ratios relative to downside capture ratios as an attractive feature. The Fund has achieved both outcomes since its inception.

Given the growth bias of the Fund, Zenith expects that it would exhibit a greater propensity to outperform during rising markets. Whilst the Fund has exhibited strong outperformance consistency in both rising and falling markets, it has shown greater outperformance consistency in rising market environments over the long term.

The Fund has experienced a relatively high level of Tracking Error compared to typical long-only Australian large capitalisation equity funds, which is consistent with the Fund's benchmark-unaware investment approach.

### Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentary below is as at 31 May 2024.

Although the Fund has typically produced drawdowns that are marginally larger than those of the benchmark, this is an expected outcome given the Fund's bias toward smaller companies, which tend to be susceptible to greater volatility in market downturns.



## Fund commentary

### Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

**Key person risk:** As with any boutique manager, Zenith views key person risk at Smallco to be high. Zenith believes Rob Hopkins, Bill Ryan and Andrew Hokin are critical members of the investment team, with a departure being a significant loss to the firm, triggering an immediate review of the Fund's rating.

Zenith acknowledges the material equity stake of all three members in the business and we believe that this mitigates the risk of a departure over the medium term. In addition, we believe there is sufficient depth in the team to take over the daily management of the Fund should Smallco experience a material departure. Zenith notes that there have not been any departures from the firm since its inception.

**Capacity risk:** Excessive levels of funds under management (FUM) can inhibit a manager's ability to trade portfolio positions effectively and may therefore limit outperformance potential. As at 31 May 2024, Smallco managed approximately \$A 846 million firmwide. Overall, Zenith does not believe the Fund is currently impacted by capacity limitations.

In response to negative market movements and outflows, Smallco reopened the Fund to new investment in April 2020 after being hard closed since January 2017. Zenith notes that Smallco has a strong track record of prudently managing capacity, having previously closed the Fund at conservative levels of FUM. Notwithstanding this, Zenith will continue to monitor the strategy's excess return generation closely to ensure that increasing levels of FUM do not begin to negatively impact performance.

**Relative performance risk:** Zenith notes that the Fund is more concentrated than many Australian equities peers. Zenith believes that a concentrated portfolio has greater exposure to stock-specific risk than more diversified strategies and, as such, investors should be cognisant that the Fund may experience capital volatility in excess of a more diversified strategy. In addition, given that the Fund follows a benchmark unaware investment approach, its performance may diverge substantially from the benchmark and peers.

**Team focus risk:** While Zenith believes Smallco's team is sufficiently resourced and experienced, we note that the team is also responsible for another Australian equity strategy. As such, Zenith believes that the team's research focus may be diluted. However, we note that there is a high level of overlap between the strategies, which somewhat mitigates our concerns.

### Security/asset selection

Smallco focuses its research on stocks with market capitalisations between \$A 100 million and \$A 500 million, as it believes this segment of the market is both relatively under-researched and possesses sufficient liquidity.

Smallco is generally cautious when investing in stocks with market capitalisations of less than \$A 100 million, given the high level of earnings risk and generally less developed financial discipline and reporting. In addition, Smallco typically excludes resources stocks, the biotechnology sector and other industries it deems to be structurally challenged as it believes such earning streams are too difficult to forecast with sufficient accuracy.

Smallco seeks to identify quality companies that exhibit the following characteristics:

- Strong cash flow
- High return on funds employed
- Attractive earnings outlook
- Strong competitive advantage
- Strong board and good management

Meetings with senior company management form a key part of the security selection process. The aim of the research process is to produce an internally-generated target price that reflects the company's long-term intrinsic value. Target prices are compared against current market prices to determine a stock's upside.

Smallco's valuation process incorporates a combination of the following metrics that are based on three-year forecasts:

- Price-to-cashflow
- Price-to-earnings
- Earnings before interest, taxes, depreciation and amortisation

To aid idea generation and to serve as a feedback loop, Smallco utilises a macroeconomic overlay to make an assessment of the economy.

A quality rating system is utilised to prevent the portfolio from holding an excessive number of lower quality stocks. Every stock considered by the investment team is assigned a numerical rating from 0 to 10 based on its quality and cyclicity, with 10 being the most attractive. Smallco introduced the quality rating system after the Fund experienced a significant drawdown during 2008 and 2009.

Portfolio holdings and potential candidates for inclusion are subject to a rigorous peer-review process.

Overall, Zenith believes the security selection process adopted by Smallco is sufficiently robust and that the research conducted by the investment team is comprehensive.

### Responsible investment approach

Smallco does not have an established Responsible Investment Policy.

Smallco incorporates environmental, social and governance (ESG) considerations into its investment process, with a particular focus on governance. Zenith believes that this qualitative analysis of a company's operations is crucial on a forward basis, given that a company's performance with regard to ESG considerations is increasingly being reflected in its share price. Overall, while we do not believe Smallco considers ESG factors to the same extent as peers, we are comfortable with its approach.





## Portfolio construction

The portfolio construction process is primarily driven by fundamental analysis conducted by the investment team. Although Hokin is the lead portfolio manager for the Fund, portfolio construction follows a consensus approach. Smallco constructs the Fund through a benchmark-unaware approach, with the number of positions and weightings a function of investment opportunities.

The portfolio construction approach allows for the team's best ideas based on their risk/return profiles and the team's conviction levels to be represented in the Fund. Portfolio guidelines, stock liquidity and downside risk are also considered.

The size of an individual position is dependent upon its target price and quality rating. As a guide, initial position sizes of 3%, 5% or 7% will be implemented based on a combination of these two factors.

In July 2016, Smallco changed the investment strategy to allow the Fund to invest up to 40% in securities with market capitalisations under \$A 1 billion. Previously, the Fund was permitted to invest 40% outside the S&P/ASX 100 Index. Smallco specified that this change was to enable the Fund more flexibility in its security selection. Specifically, larger stocks outside the S&P/ASX 100 were unable to be held at optimal weights due to the 40% limit being utilised by other attractive opportunities further down the market capitalisation spectrum. Zenith believes this change was appropriate and retains conviction in Smallco's ability to generate excess returns.

As part of the portfolio construction process, an overall weighted average quality rating is calculated for the portfolio. The weighted average portfolio rating is not permitted to fall below 4, Smallco's assessment of the market average. In addition, Smallco employs a 25% limit on the Fund's total exposure to companies rated 3 or less. Zenith believes the presence of the quality rating system promotes discipline and mitigates the risk of the portfolio being overly exposed to lower quality stocks.

Zenith notes that in 2016, the Fund's investment strategy was changed to allow the Fund's exposure to illiquid stocks to increase to 30%, previously 25%. Smallco defines an illiquid holding as one in which it owns greater than 75% of the security's average monthly market volume. Given the Fund typically holds a material exposure to small capitalisation securities, Zenith believes the previous limit of 25% was more appropriate.

The Fund typically holds between 20 and 35 securities. Whilst cash can be held up to a maximum of 50%, it has averaged approximately 20%. Zenith believes that actively-managed equities funds should remain fully invested and that the asset allocation decision should be left to the individual investor.

Portfolio holdings will be sold, reduced or reviewed under the following circumstances:

- Smallco's valuation target has been achieved
- The investment thesis has changed
- Availability of superior investments
- To stay within the Fund's portfolio construction constraints

Smallco does not make tactical asset allocation decisions, with the Fund's equity exposure primarily a result of available investment opportunities. Zenith notes that this differs from some of the Fund's peers, where tactical allocations between equities and cash can be made based on the prevailing market conditions.

Portfolio turnover is expected to average approximately 40% p.a. over a market cycle, which Zenith considers to be low.

Zenith is comfortable with Smallco's portfolio construction approach, believing it ensures a strong connection between the output of the security selection process and the resultant weight of the stock in the portfolio.

## Risk management

The Fund's formal risk management constraints are broad and provide Smallco with significant scope to achieve its investment objective.

Investors should be aware of the concentrated nature of the Fund and relatively generous limit relating to maximum individual security weights. Given the Fund typically holds a material exposure to small capitalisation securities, Zenith believes a more conservative position limit should be in place.

Smallco defines an illiquid holding as a stock in which it owns greater than 75% of average monthly market volume. Zenith believes that Smallco's assessment of stock liquidity is less conservative than peers. Investors should be aware that during a significant market event, the liquidity profile of the Fund could be sub-optimal leading to potential capital impairment.

Smallco's detailed fundamental approach to stock selection, including the quality rating system, acts as the main tool for mitigating the risk of poor stock selection.

Formal internal meetings occur on a monthly basis to monitor the portfolio's characteristics, exposures and market events. However, given the flat investment team structure, Zenith notes that communication amongst the team occurs on an ongoing basis.

Overall, Zenith believes Smallco's risk management processes are adequate, particularly given the detailed due diligence conducted as part of the security selection process. However, investors should be aware there is a significant reliance on the judgement and skill of Smallco's investment team in managing investment risk.

## Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	1.71% p.a.	1.29% p.a.
Management Fees and Costs	1.20% p.a.	1.01% p.a.
Transaction Costs	0.05% p.a.	0.11% p.a.
Performance fees as at 30 Jun 2023	0.46%	0.17%
Performance fees description	15% of the outperformance (after fees) of the S&P/ASX 300 Accumulation Index.	
Management Cost	1.20% p.a.	0.99% p.a.
Buy / Sell spread	0.45% / 0.45%	0.26% / 0.26%



All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average management cost is based on the average management cost of all flagship Australian Shares - All Cap products surveyed by Zenith.

The Fund's performance fee is subject to the recoupment of all prior benchmark underperformance and is calculated daily and paid semi-annually. Zenith believes there is scope for the payment period to be extended, with an annual frequency being the preferred structure. We are of the view that a longer payment frequency is better aligned with the Fund's longer-term investment objectives.

For any fund that charges a performance fee, Zenith would prefer to see a performance fee hurdle in place (i.e. a target return above the index greater than the management cost).

Overall, Zenith believes the Fund's fee structure is fair, relative to peers, given its stated objectives. In addition, we believe the fees paid over the past three years (ending 30 June 2023) are justified given the Fund's risk-adjusted performance over the same period.

Zenith believes the buy/sell spread is high on an absolute and relative basis. As such, we believe there is scope for this to be reduced.

The fees mentioned below are reflective of the flagship version only. Fees may differ when the product is accessed through an alternate investment vehicle such as a platform.

## About the fund manager

### Organisation

Established in 2000 by Rob Hopkins and Bill Ryan, Smallco is a Sydney-based boutique fund manager that specialises in managing Australian equity strategies. Smallco's boutique structure allows for equity participation amongst the broader team, which Zenith believes is a positive, as it allows for closer alignment of interests between the investment team and investors in the Fund, while also serving as a staff retention mechanism.

Although Smallco previously engaged Gateway Financial Marketing for the provision of retail distribution services, we note that this partnership ended in early 2020. Zenith believes Smallco would benefit from distribution support, allowing the investment team to focus on research and portfolio management efforts.

As at 31 May 2024, Smallco had approximately \$A 846 million in funds under management.

As at the same date, Smallco managed approximately \$A 330 million in the strategy, all of which was in the Fund.

### Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Andrew Hokin	Portfolio Manager	29	17	Sydney, Australia
Rob Hopkins	Portfolio Manager	38	24	Sydney, Australia
Bill Ryan	Portfolio Manager	28	24	Sydney, Australia
Craig Miller	Portfolio Manager	19	19	Sydney, Australia
Adam Simpson	Portfolio Manager	21	6	Sydney, Australia
Paul Graham	Portfolio Manager	29	10	Sydney, Australia
Han Xu	Portfolio Manager	16	5	Sydney, Australia

The investment team of seven is led by Rob Hopkins, who is supported by Bill Ryan, Adam Simpson, Andrew Hokin, Paul Graham, Craig Miller and Han Xu.

Founding members, Hopkins and Ryan, established Smallco in 2000. Previously, Hopkins was the Head of Small Companies Research at Macquarie Equities, BT Alex Brown, ANZ Securities and Macintosh. Ryan worked together with Hopkins at ANZ Securities for a number of years.

Miller joined Smallco in June 2005. In addition to his analytical responsibilities, Miller is responsible for a significant portion of the firm's business development, client servicing and compliance responsibilities.

Prior to joining Smallco in July 2007, Hokin held a senior position within Macquarie Equities. Zenith believes Hokin has improved the rigour of the investment process since his arrival, introducing a quality rating system to the security selection process.

Graham joined Smallco in June 2014 having held senior positions at Nomura, Credit Suisse and Citigroup.

Simpson and Xu are the latest additions to the team, having joined Smallco in July 2017 and November 2018, respectively. Prior to joining Smallco, Simpson worked at Macquarie Equities for a period of 15 years where he was most recently the Head of Emerging Leaders Research. Xu previously worked as an analyst at Ellerston Capital for three years and, prior to that, a sell-side analyst at UBS for nine years. Zenith notes that Smallco has continued to bolster team resourcing, which we view favourably.

Whilst Hokin is the lead portfolio manager for the Fund, portfolio construction follows a consensus approach.

All team members hold stock coverage responsibilities, with a number of key sectors allocated across the team. Outside of the key sectors, team members are given the freedom to cover stocks in any sector.

The team has remained stable, with no staff departures since Smallco's inception. Where applicable, each team member is entitled to a profit-sharing arrangement that is commensurate with their equity/shadow equity holding, which Zenith believes provides a strong incentive to remain with the firm.





Overall, Zenith considers Smallco's investment team to be highly experienced and well resourced to manage the Fund.

## About the sector

### Sector characteristics

The Zenith 'Australian Shares – Large Companies' sector consists of long-only strategies investing in the Australian equities asset class. The sector incorporates both benchmark-aware and benchmark-unaware strategies that focus predominantly on stocks with large market capitalisations. Additionally, the sector is one of the most competitive in the investment landscape, based on the number of managers and strategies available to investors. Zenith expects rated long-only products to outperform the passive index (after fees) over the long term.

Zenith benchmarks all funds in this sector against the S&P/ASX 300 Accumulation Index. However, many managers in this sector benchmark themselves against the S&P/ASX 200 Accumulation Index. Both indices are market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the highest weightings within the index. Over the longer term, Zenith believes there will be minimal difference between the return profiles of these indices.

The Australian equities asset class, as represented by the S&P/ASX 300 Index, is highly concentrated and narrow. Zenith considers a company to be a large-cap company if it falls within the S&P/ASX 50 Index, with stocks falling within the S&P/ASX 51 to 100 considered mid-cap companies. Furthermore, Zenith considers stocks that fall within the S&P/ASX 101 to 300 to be small-cap companies.

As at 31 May 2024, the Financials and Materials sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 30% and Materials approximately 23%. In addition, the top 10 stocks represented approximately 46% of the Index and the top 20 stocks represented approximately 60%.

### Sector risks

Funds within the 'Australian Shares – Large Companies' sector are exposed to the following broad risks:

**Market and economic risk:** A sustained downturn across the Australian equity market is a risk to the absolute performance of funds in the sub-asset class. Additionally, changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

**Specific security risk:** This is the risk associated with an individual security. The price of common shares in a company may be affected by unexpected changes in company operations such as changes in management or the loss of a significant customer.

**Liquidity risk:** This is the risk that a security or asset cannot be traded promptly, due to insufficient trading volumes in the Australian equity market. When trading volumes are low, buyers/sellers can significantly impact the price of a security when entering or exiting a position.

**Style bias risk:** Australian equity managers employ different investment styles such as Growth, Value or Neutral (a

combination of Value and Growth). Each style is conducive to certain market conditions. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

**Capacity risk:** High levels of funds under management (FUM) can present additional challenges to an Australian equity manager. High FUM has the potential to restrict a manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

**Regulatory Risk:** All investments carry the risk of being affected by changes to government policies, regulations and laws. Security prices in which funds may have exposure are also subject to certain risks arising from government intervention in the Australian equity market. Such regulation or intervention could adversely affect fund performance.

## Administration and operations

### Responsible Entity

Smallco Investment Manager Limited

## Zenith rating

### Report certification

Date of issue: 27 Jun 2024

Role	Analyst	Title
Analyst	Stephen Colwell	Senior Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities
Authoriser	Bronwen Moncrieff	Head of Research

### Association & relationship

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### Rating history

As At	Rating
27 Jun 2024	Recommended
29 Jun 2023	Recommended
30 Jun 2022	Recommended
24 Jun 2021	Recommended
18 Jun 2020	Recommended



As At	Rating
20 Jun 2019	Recommended

*Last 5 years only displayed. Longer histories available on request.*

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.



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