



# Smallco Investment Fund

## Quarterly Update 31 March 2021

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) was down 0.7% for the March quarter versus the Small Ordinaries index up 2.1%. The March quarter represents the twelve month anniversary of the market bottoming from the COVID induced selloff. On a twelve month basis the Fund is up 61.9% versus the Small Ords up 52.1%.

The majority of the Fund's holdings delivered solid results through the February reporting season and there were strong returns from the Fund's stocks most leveraged to economic reopening such as Corporate Travel, Webjet and IDP Education. This was largely offset by the market rotation towards lower quality and cyclical stocks and pressure on the ratings of the quality growth companies more favoured by the Fund as a result of rising bond yields and inflation concerns.

The ongoing global vaccine rollout should facilitate strong economic recovery and global growth in CY21/22. While this is likely to see bond yields continuing to rise and may sustain the rally in cyclicals we are not convinced the reflationary and inflationary pressures will be sustained. The Fund retains a healthy weighting to stocks exposed to economic reopening but generally remains overweight quality/growth and underweight cyclical/yield stocks as we continue to believe this positioning will deliver longer term outperformance. Cash levels have again increased and we remain well positioned to take advantage of new opportunities or any pullback in the quality growth companies typically favoured by the Fund.

Webjet is one of the Fund's most leveraged reopening plays. While best known for its synonymous online travel booking website the company's business-to-business (B2B) division is now the most significant earnings contributor to the group. The WebBeds B2B division originates and aggregates hotel inventory to then sell to third party physical and online travel agents. It has grown to be the number 2 player globally.

Webjet's revenues and cashflows were effectively cut off twelve months ago as global travel ground to a halt. The company undertook a heavily discounted emergency capital raising that SIF participated in to provide it with the liquidity required to sustain its operations until travel activity resumed.

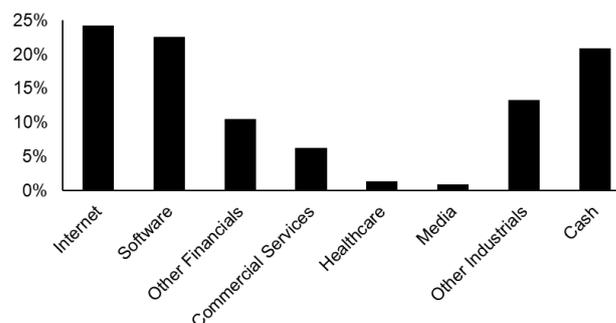
With the balance sheet repaired and its operations intact we believe the company is well positioned to take advantage of its strengthened industry position across both divisions as travel volumes recover. Domestically we believe the Webjet website is positioned to capitalise on the rationalisation of bricks and mortar travel agents and accelerate its market share gains. The COVID enforced shut down has facilitated a strategic transformation of the B2B division which has seen longer term revenue and margin outlooks increased. We do note that while longer term earnings targets have increased, the pace of the recovery in travel volumes remains uncertain and the stock has performed strongly with the market cap now back above pre COVID levels.

### SIF Performance

Return to 31 March 2021	
3 months	-0.7%
1 year	61.9%
3 year p.a.	12.0%
5 year p.a.	12.6%
10 year p.a.	17.9%
20 year p.a.	14.3%
Since inception (31.10.00) p.a.	14.0%
Value of \$100,000 invested at inception	\$1,462,341

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)

Corporate Travel  
IDP Education  
REA Group  
Seek  
WiseTech Global

Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs 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 biotech 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	\$388.9m AUD
Mid Price	\$5.2173 (31 Mar 2021)
Distribution	Annually 30 June
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Adam Simpson, 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 (FY20)	0.15% 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.

\* 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.