



# Smallco Broadcap Fund

Quarterly Update 30 June 2020

## SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark in the June quarter, benefiting from strong gains among quality growth companies and the deployment of more than half the Fund's cash position during March and the first half of April. Despite this the Fund's performance for the financial year was moderately behind its benchmark, reflecting a challenging period for the Fund in mid-2019.

After its worst March quarter performance on record the Australian sharemarket rebounded with its strongest quarter since the recovery from the Global Financial Crisis and its 10<sup>th</sup> strongest quarter on record. Many are attributing the pace of the market's recovery to the extraordinary support measures rolled out by major central banks. While these measures are unquestionably having a positive impact on asset prices, many of these actions had been announced by early-mid April. It is the speed of the initial economic recovery from the COVID lockdowns that has surprised since then (witness economic surprise indexes in the US at record levels and a strong recovery in the US manufacturing & services sectors) and has contributed to the rally in risk assets.

Notwithstanding the speed of the initial economic recovery, it seems likely that the pace of recovery will slow and a full recovery globally could take as long as it did post the GFC (7 quarters). This reflects the combination of some sectors remaining impaired by the crisis, a reduction in Government support programs and increased debt levels. The potential for further COVID outbreaks (as seen in quite a few US states & Victoria) to hamper reopening efforts also adds uncertainty to the near term outlook.

In coming months markets will increasingly turn their focus to the potential for a Democratic President in the US (potentially negative for corporate taxes but positive for Government spending) and the need for some of the COVID vaccine trials to show positive results later in the year given markets appear to be assuming success in this regard.

To sum up, after the sharpest economic downturn in history many economies have recovered part of their losses very quickly, as have equity markets. With valuations more stretched again and risks to the recovery remaining, new opportunities have become more difficult to find. Notwithstanding this, the Fund has only banked a part of the gains made from the investments entered into in March and the first part of April, recognising that an economic recovery is, nevertheless, underway and that it is being supported by significant Government spending and what is, we suspect, one of the greatest monetary stimuli ever undertaken. Given the uncertainties a temporary pullback would not be a surprise. If such eventuates, the Fund retains sufficient cash to participate.

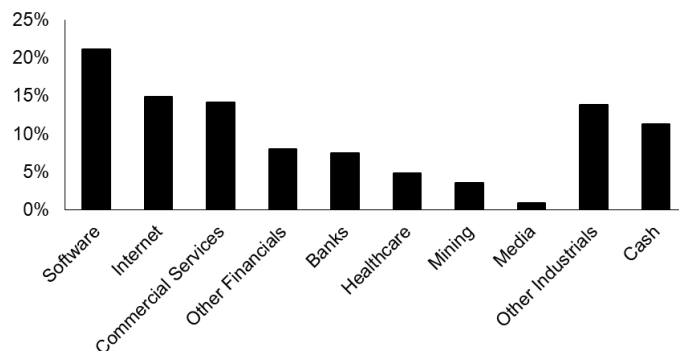
**REOPENED:** As a reminder SBF is currently accepting both new investors and top-ups from existing investors. The Product Disclosure Statement (including the application form) is available on our website, via email [smallco@smallco.com.au](mailto:smallco@smallco.com.au) or by contacting us on 02 8256 1000.

## SBF Performance

Return to 30 June 2020			
	SBF	Index*	Out Perf.
3 months	24.6%	16.8%	7.8%
1 year	-9.9%	-7.6%	-2.3%
3 year p.a.	5.8%	5.2%	0.6%
5 year p.a.	7.9%	6.0%	1.9%
10 year p.a.	15.9%	7.7%	8.2%
Since inception (31.07.08) p.a.	15.6%	5.9%	9.7%
Value of \$100,000 invested at inception	\$561.333	\$198.638	\$362,695

Fund returns calculated after all fees and expenses and based upon exit price and reinvestment of distributions.

## SBF Structure: by sector



## SBF Structure – by size

As at 30 June 2020	SBF	Index*
% in Market Cap < \$1bn	28.3%	3.3%
% in Market Cap \$1bn - \$5bn	28.5%	14.6%
% in Market Cap \$5bn - \$10bn	10.7%	13.3%
% in Market Cap > \$10bn	21.2%	68.8%
% Cash	11.3%	Nil

## SBF Significant Holdings (alphabetical order)

Altium  
 Appen  
 PWR Holdings  
 REA Group  
 Seek

\* 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 biotech 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 (cum dist)	\$151.6m
Mid Price (cum dist)	\$1.6307 (30 Jun 2020)
Distribution	\$0.1018 (30 Jun 2020)
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: JP Morgan 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