



# Smallco Investment Fund

## Quarterly Update 30 September 2020

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 16.5% for the September quarter versus the Small Ordinaries index up 5.7%. Over the last 12 months the Fund was up 10.3% versus the Small Ordinaries index which fell -3.3%. SIF enjoyed strong outperformance through the August reporting period. This reflected solid results from the majority of the Fund's quality growth stocks and strong performances from stocks exposed to changing consumption patterns through COVID-19 and economic reopening.

The strong performance and rising valuations means we have once again found ourselves trimming core positions which has kept cash levels at ~15%. While low interest rates should continue to support equity markets we remain comfortable retaining healthy cash levels given macro and economic uncertainties.

Corporate Travel Management (CTD) is a stock the Fund has held for some time but increased its position earlier in the year and again more recently via its acquisition related capital raising. CTD is a founder led, global corporate travel business. Established in Australia, CTD has grown organically and via acquisition and now has significant operations in the UK/Europe, Asia and the US.

CTD was amongst the Fund's strongest performers in the September quarter. Stocks exposed to economic reopening were generally well bid as market anticipation of a successful vaccine continues to build. Travel stocks were amongst those hardest hit by the pandemic and thus will be major beneficiaries of a successful vaccine. In addition, CTD's August result, whilst severely impacted by COVID-19 travel restrictions, was better than expected. CTD's domestic and essential services exposure meant its 2H20 revenue run rate was relatively resilient versus other travel peers, while its cost base was lowered to limit operating losses, and a solid net cash balance sheet position was maintained.

This lower cash burn and stronger liquidity position meant CTD, unlike a number of other travel stocks, was able to avoid a dilutionary capital raising to get through the peak of the COVID-19 crisis. Instead CTD took advantage of the recovery in its share price to undertake a potentially company transformative acquisition. CTD's acquisition of US based Travel and Transport catapults CTD to the 5<sup>th</sup> largest corporate travel management company globally and significantly increases its scale in the North American market. While this acquisition clearly increases the company's risks in relation to the timing and extent of a recovery of corporate travel we generally view this as captured in the acquisition price and the earnings upside potential of the acquired business once integrated into the CTD platform.

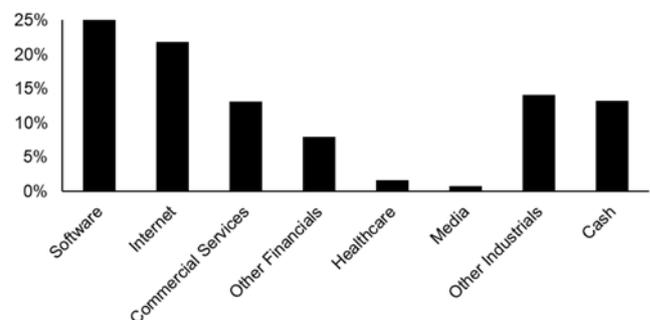
The stock has performed well post results and in response to this acquisition. While appearing fairly valued near term we expect CTD to outperform over the medium as corporate travel activity recovers and management is able to leverage its enhanced North American position.

### SIF Performance

Return to 30 September 2020	
3 months	16.5%
1 year	10.3%
3 year p.a.	12.7%
5 year p.a.	12.8%
10 year p.a.	17.9%
Since inception (31.10.00) p.a.	13.9%
Value of \$100,000 invested at inception	\$1,346,470

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)

Altium  
Corporate Travel Management  
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 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 biotechs 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	\$346.9m AUD
Mid Price	\$4.8039 (30 Sep 2020)
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: JP Morgan 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.