



# Smallco Broadcap Fund

Quarterly Update 30 June 2021

## SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) performed moderately ahead of its benchmark for the June quarter, despite a drag from its cash position given very strong market gains in the quarter. For the Financial Year SBF performed well ahead of its benchmark, aided by the Fund's deployment of cash early in the COVID crisis and strong rebounds in both its key quality growth exposures and its reopening plays.

The Australian sharemarket performed very strongly in the June quarter. The strength of the economic rebound remained the key driver, particularly in Australia. Despite this, performance across the market broadened with the major miners, some banks and some value stocks continuing to perform well (though retailers struggled as they cycled very strong comps and as spend starts to shift towards services), while many growth stocks benefited from a fall in longer dated bond yields.

This movement in longer term bond yields, particularly in the US, is of interest in light of concerns in the market that the uptick being seen in inflation globally will be stickier than many expect. We have not subscribed to this view, particularly in relation to the US economy. There we see the current increase in inflation being driven by a combination of massive recent stimulus and a reopening economy driving a temporary boost in demand for goods, at a time where supply is still somewhat constrained by the COVID situation (some unvaccinated people unwilling to work and elevated Government benefits discouraging work). We expect this dynamic to reverse significantly later in the year - supply should start to improve (extended jobless benefits ending and high vaccination rates both drive more people back to work) at a time when consumer spending likely continues to shift more towards services.

While not overly concerned about the medium term inflation outlook we still expect interest rates to rise moderately over time. A more immediate risk to equities comes from the inevitable tapering of bond purchases by central banks globally which will impact money supply trends, typically a headwind for equities and growth stocks. In this environment earnings delivery will become more crucial.

During June one of the Fund's larger and longest held positions, Altium, received an indicative non-binding takeover offer from Autodesk Inc at \$38.50 per share. This offer was rejected by the Altium board, a move we supported despite the 41% premium being offered.

Altium provides engineering & design software solutions for the Printed Circuit Board (PCB) market. Altium grew its revenue 17% pa over the 8 years to 2019 and became the global leader in PCB design tools, prior to COVID inflicting modest short term impacts on the business.

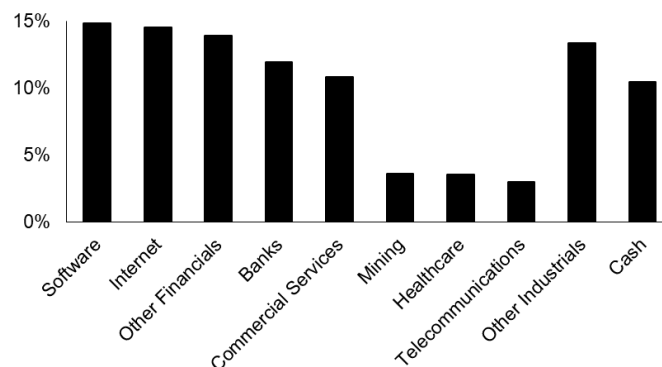
Altium has been pursuing a strategy of industry transformation through dominance. With the largest pool of PCB design users, a rapidly growing cloud product and the industry leading search engine for electronic parts, Altium is uniquely placed within the industry to execute on its vision to create a platform that connects the electronics and product design worlds to the electronics supply chain and manufacturing partners.

## SBF Performance

Return to 30 June 2021			
	SBF	Index*	Out Perf.
3 months	9.7%	8.5%	1.2%
1 year	45.4%	28.5%	16.9%
3 year p.a.	12.3%	9.8%	2.5%
5 year p.a.	14.2%	11.3%	2.9%
10 year p.a.	17.9%	9.2%	8.7%
Since inception (31.07.08) p.a.	17.7%	7.5%	10.2%
Value of \$100,000 invested at inception	\$816,171	\$255,236	\$560,935

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 2021	SBF	Index*
% in Market Cap < \$1bn	20.2%	2.1%
% in Market Cap \$1bn - \$5bn	33.3%	13.1%
% in Market Cap \$5bn - \$10bn	5.2%	12.2%
% in Market Cap > \$10bn	30.8%	72.6%
% Cash	10.5%	Nil

## SBF Significant Holdings (alphabetical order)

Altium  
 Corporate Travel Management  
 Pinnacle Investment Management  
 PWR Holdings  
 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 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 (cum dist)	\$213.8m AUD
Mid Price (cum dist)	\$2.2229 (30 Jun 2021)
Distribution	\$0.1454 (30 Jun 2021)
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.