



Smallco Investment Fund

Quarterly Update 30 September 2019

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was down 3.1% for the September quarter and is up 2.6% for the last 12 months. This is behind the Small Ordinaries index that was up 3.1% for the quarter and 3.9% for the year. Over the quarter, the Fund benefited from strong returns from Wisetech and REA while Speedcast (now exited), Webjet, Appen and Corporate Travel dragged on performance.

While it was a weak August reporting season from a market earnings perspective, the Fund's major holdings generally delivered results in line with expectations. The negative performance this quarter largely reflects share price retractions following a lack of earnings upgrades and a market rotation out of secular growth stocks into value and cyclical stocks. In addition, escalating political disturbances in key markets resulted in reduced growth expectations for the Fund's travel stocks.

Our base case remains that in a world where growth remains weak, the current rotation is unlikely to be sustained and quality growth companies will continue to deliver longer-term outperformance. The Fund remains heavily underweight cyclical/yield stocks and overweight quality/growth.

REA has been a long term holding in the Fund and is a position we added to during the market weakness earlier in the year. REA is a high quality business and the clear market leader in the Australian online property-advertising sector. Its business model, based upon a network effect created by having the largest audience and richest property listings, is amongst the strongest in our portfolio.

REA has delivered many years of strong revenue and earnings growth as first they drove the switch of property advertising from print to online and more recently as they have grown the overall online market with subscription and depth products. Depth products, which are typically paid for by vendors, are premium ads and services which provide greater visibility to a listing. The success of these depth products in providing superior returns to agents and vendors has allowed REA to steadily increase prices.

Whilst REA's strong pricing power should continue to deliver solid growth from its core online listings, it has recently introduced a lead generation product that has the potential to be the next significant driver of revenues. REA has commenced generating leads from its website that indicate that a consumer may be interested in transacting. REA can then sell the lead to interested agents. This model, which has been successful overseas, opens up a new source of revenues and allows REA to capture a greater share of the value they provide in the property transaction process.

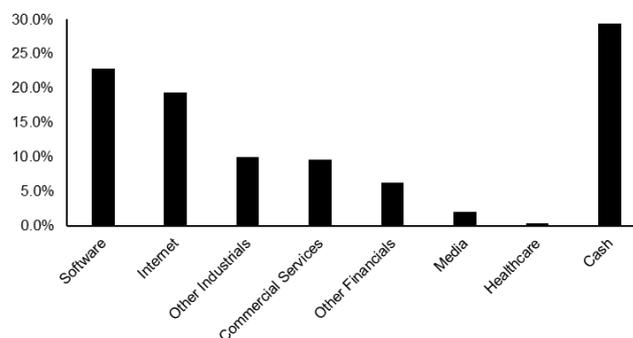
We do caution that while we believe the long-term earnings outlook is strong, REA is currently facing cyclical headwinds from a reduction in property listings that will crimp growth near term. While earnings are expected to remain resilient, the stock has performed strongly and the current full valuation appears to be already factoring improved property market conditions into CY20.

SIF Performance

Return to 30 September 2019	
3 months	-3.1%
1 year	2.6%
3 year p.a.	9.8%
5 year p.a.	14.1%
10 year p.a.	18.2%
Since inception (31.10.00) p.a.	14.1%
Value of \$100,000 invested at inception	\$1,220,433

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
Audinate
Corporate Travel Management
REA Group
Seek

Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.



Smallco Investment Fund

Quarterly Update 30 September 2019

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. SIF is currently closed to new investment.

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.

Contact Details

Phone:

(02) 8256 1000 or 1300 888 583

Fax:

(02) 8256 1010

Mailing Address:

Smallco Investment Manager Limited
GPO Box 4564
SYDNEY NSW 2001

Email:

smallco@smallco.com.au

Web Address:

www.smallco.com.au

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	\$343.7m AUD
Mid Price	\$4.7683 (30 Sep 2019)
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 (FY19)	0.13% of net assets *
Performance Fee	18.64% of the performance above the Fund's previous end-of-six-month period high. Payable 6 monthly in arrears. *
Service providers	Custody: JP Morgan Administration: Link Fund Solutions
Liquidity	Time to exit 50% of SIF assets: < 1 day

Australian Financial Services Licence # 224 108

ARSN 103 148 107

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.