



Smallco Investment Fund

Quarterly Update 31 December 2019

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 1.1% for the December quarter versus the Small Ordinaries index up 0.8%. For the 2019 calendar year, the Smallco Investment Fund was up 23.2% versus the Small Ordinaries index up 21.4%. The fund enjoyed a particularly strong start to the year, which was only partially offset by a market rotation during the second half of the year, away from secular growth towards value and cyclical stocks. We continue to believe global growth will remain subdued and quality growth companies will deliver longer-term outperformance. The Fund remains heavily underweight cyclical/yield stocks and overweight quality/growth.

Altium is a quality growth company that has been a long-term significant holding and a major contributor to the fund's performance. Altium provides engineering and design software solutions for the Printed Circuit Board (PCB) market. PCB's are at the core of almost all electronic devices. The use of PCB's has increased exponentially as more and more products across a wide variety of industries embed electronics and become more connected and complex.

After ~8 years of what was coined "line and length strategy" Altium has grown its revenues largely organically at a CAGR of ~20% with expanding EBITDA margins. It has emerged as the market leader with over 20% revenue share of the PCB design software market. This growth was driven by the success of its mid-market Altium Designer product and more recently through expansion of its product set into both the high end and entry-level areas of the market. The group recently upgraded its 2020 revenue target to US\$205-\$215m.

The next phase of the group's strategy is to take advantage of this leadership position and transform the industry by developing the first integrated software platform for managing not just the design but also the component procurement and manufacture of PCB's. This cloud based platform, called Altium 365 will allow all the key stakeholders to seamlessly share information and provide real time visibility over the design parameters, the components required, their availability and other manufacturing considerations associated with PCB design and production.

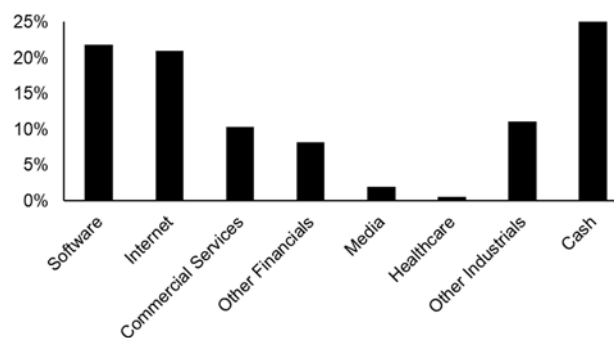
Altium 365 should open up additional revenue opportunities by delivering operating and manufacturing efficiencies throughout the PCB design and manufacture supply chain. Altium have set a medium term goal of \$500m revenue and 100,000 subscribers on their platform by 2025. At its recent investor day, Altium outlined a path by which they plan to achieve these targets. It was coined the "rule of 50", this is that revenue growth plus EBITDA margin should exceed 50% each year through to 2025. This combination of strong revenue growth and margins would put them the upper echelon of the most successful software companies. While Altium commands a premium multiple and appears fully priced near term, we expect it to perform well over the medium term given its strong market position and growth outlook. It remains a significant holding in the fund.

SIF Performance

Return to 31 December 2019	
3 months	1.1%
1 year	23.2%
3 year p.a.	12.8%
5 year p.a.	13.5%
10 year p.a.	17.7%
Since inception (31.10.00) p.a.	14.0%
Value of \$100,000 invested at inception	\$1,234,060

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.



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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. 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.

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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	\$330.7m AUD
Mid Price	\$4.8216 (31 Dec 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

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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.