



Smallco Broadcap Fund

Quarterly Update 31 December 2020

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark for the 2020 calendar year. A small part of this outperformance was given up in the December quarter, roughly equivalent to the impact of the fund's moderate cash position during a strong end to the year driven by positive COVID vaccine results.

2020 was a unique year for investors with a once in a century pandemic posing both challenges and opportunities. The Fund's strong performance in such a volatile environment was primarily driven by two key factors – style and taking advantage of some of the opportunities presented by the pandemic.

Whilst the Fund was not immune at the start of the pandemic, the high quality structural growth businesses that form the core of the Fund's portfolio rebounded quickly, significantly outperforming lower quality more economically sensitive businesses. In addition, the Fund made significant gains from deploying a little over half of its ~20% cash position back into its core positions at much lower prices during March and April.

We begin 2021 with significant expectation within markets that we will witness a strong global economic rebound as the year progresses, despite continued uncertainty at the start of the year given record high COVID cases in the US and parts of Europe. This belief is largely driven by the strength of the initial vaccine results and an expectation the virus will be brought substantially under control as vaccination progresses. This scenario, which assumes adequate uptake of vaccinations and that the vaccines will largely prevent transmission, would drive a spending boom in the high-contact consumer services sectors (hospitality, events, travel etc) that remain heavily depressed.

Assuming the markets' working assumption that vaccine rollouts adequately suppress the virus comes to fruition, the resulting economic rebound would drive a strong recovery in corporate earnings. This expectation drove the strong market recovery in the December quarter and is, along with the zero cash rate environment, driving expectations from many of a positive environment for equities in 2021, despite many traditional valuation measures already being at high levels.

The main risks the market is likely to focus on if this positive virus & earnings environment is realised are a potential inflation rebound and rotation within the equity market. We do not expect inflation to be sustained at or above the 2% level many central banks target in the next couple of years given latent capacity in most economies.

However, if vaccine rollouts are very effective we see a risk that the recent rotation within equity markets from quality structural growth stocks to lesser quality more economically sensitive stocks will continue in the near term, given the greater benefit such businesses realise from an economic rebound. While this poses risk to the Fund's relative performance in the near term given its core focus on quality structural growth stocks, assuming inflation remains under control we would not expect this rotation to be long lasting as the greater structural growth from quality companies will return to focus as the stimulus wears off.

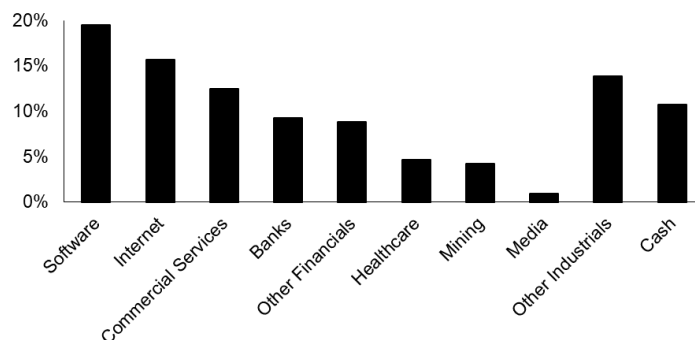
SBF Performance

Return to 31 December 2020

	SBF	Index*	Out Perf.
3 months	12.7%	13.8%	-1.1%
1 year	15.5%	1.7%	13.8%
3 year p.a.	10.7%	6.9%	3.8%
5 year p.a.	10.4%	8.8%	1.6%
10 year p.a.	16.3%	7.7%	8.6%
Since inception (31.07.08) p.a.	17.1%	6.8%	10.3%
Value of \$100,000 invested at inception	\$709,514	\$225,904	\$483,610

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 31 December 2020	SBF	Index*
% in Market Cap < \$1bn	25.2%	2.6%
% in Market Cap \$1bn - \$5bn	28.0%	13.9%
% in Market Cap \$5bn - \$10bn	14.5%	16.0%
% in Market Cap > \$10bn	21.6%	67.5%
% Cash	10.7%	Nil

SBF Significant Holdings (alphabetical order)

Altium
 Audinate
 Corporate Travel Management
 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 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	\$179.7m AUD
Mid Price	\$1.9325 (31 Dec 2020)
Distribution	Annually 30 June
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.

Smallco
Investment Manager