



Smallco Investment Fund

Quarterly Update 31 December 2020

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 9.4% for the December quarter versus the Small Ordinaries index up 13.8%. While the Fund's absolute performance was strong, the even stronger equity market was driven by the recovery in value and cyclical stocks not typically favoured by the Fund.

For the calendar year 2020 SIF was up 19.4% and ahead of the Small Ordinaries index up 9.2%. In what was an extremely volatile year the quality growth companies favoured by the fund rebounded strongly post the March sell off.

The strong performance in 2020 was achieved with modest changes in portfolio composition and importantly no deviation in our style or process. The equity market drawdown in March afforded us the opportunity to deploy some of the substantial cash reserves held at the start of the year. Several new names were added to the portfolio however the majority of the cash was directed towards existing quality holdings such as Seek and Wisetech at more attractive valuations.

Despite the uncertainties thrown up by Covid 19 the strength in the equity market saw an increase in IPO activity throughout the year. While we assessed many we elected to participate in only three, the largest position of which was Nuix.

Nuix is a leading global provider of investigative analytics and intelligence software. Its core data processing engine allows users to rapidly analyse huge volumes of structured and unstructured data. It is widely used by large government agencies, regulators, corporates and professional services firms.

Rapid growth in data volumes, increasing focus on Governance, Risk and Compliance and the consequences of data breaches are expected to drive strong demand for its services. Nuix's industry position, operating model and growth opportunities are all highly attractive and typical of the business characteristics we look for. However the stock has performed strongly since listing and with the valuation now appearing full we await a better opportunity before adding to our position.

Looking into 2021, a successful global vaccine rollout should facilitate economic recovery and strong earnings growth. Government support measures will likely start to be wound back however interest rates are set to remain low for several years providing a backdrop which should be positive for equity markets.

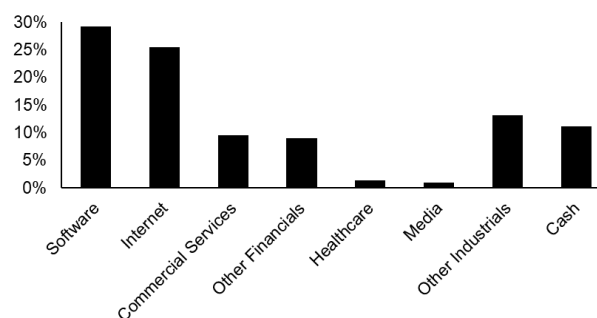
We do caution that the continued strong rebound in markets since March would appear to have factored in much of the near term earnings recovery. Valuations of the quality growth companies favoured by the Fund have returned to near record highs and we are once again seeing cash levels build as we trim core positions. The Fund remains heavily underweight cyclical/yield stocks and overweight quality/growth. This may lead to periods of increased volatility near term but we continue to believe this positioning will deliver longer term outperformance.

SIF Performance

Return to 31 December 2020	
3 months	9.4%
1 year	19.4%
3 year p.a.	12.8%
5 year p.a.	12.1%
10 year p.a.	18.6%
20 year p.a.	14.4%
Since inception (31.10.00) p.a.	14.3%
Value of \$100,000 invested at inception	\$1,472,949

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
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.



Smallco Investment Fund

Quarterly Update 31 December 2020

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.

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	\$383.7m AUD
Mid Price	\$5.2552 (31 Dec 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: Link Fund Solutions 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.