



Smallco Broadcap Fund

Quarterly Update 30 September 2019

SBF Portfolio Commentary

The Australian share market delivered further gains in the September quarter, despite the weakest company reporting season since the global financial crisis driving significant downgrades to expectations of market wide earnings growth.

Essentially, the continued fall in market interest rates globally has insulated equities against weaker economic trends and uncertainties such as the US-China trade war. This again has been reflected in the search for yield and, in recent months, a rebound in some low quality domestic cyclicals driven by hopes of a consumer rebound following rate cuts by the Reserve Bank and modest tax relief.

While the expectation of further rate cuts by the Reserve Bank will continue to provide support to the market, rich pricing and the lagged economic impact of prior escalations in the US-China trade war leaves global equities more exposed to the ebbs & flows of the trade negotiations.

Despite the Fund's major holdings all delivering results in line with expectations, the Smallco Broadcap Fund underperformed its benchmark during the quarter. This primarily reflected reduced growth expectations for the Fund's travel names (although reasonable growth is still anticipated) in the current weaker economic environment and the market switch out of high growth stocks into lower quality cyclicals. While the latter may continue for a period we believe that in a low growth world quality stocks delivering strong profit growth will ultimately remain well bid.

Audinate is a good example of the high quality long term growth stocks the Fund seeks out. Audinate is the leading provider of professional digital audio network technologies globally. Its software and hardware products sold under the Dante brand allow the distribution of audio signals over digital computer networks, replacing older analogue technologies. This technology significantly reduces cabling requirements and improves interconnectivity.

Dante products are sold to Original Equipment Manufacturer (OEM) customers such as Yamaha, Bose and Shure who embed them in their products for the professional Audio Visual Industry. Dante is the clear market leader with more 400 OEM customers that have launched over 2,100 Dante enabled products, roughly 6 times that of its nearest competitor. With customers able to link products from different OEMs through the Dante ecosystem, the business model creates a valuable network effect which is already entrenching Dante.

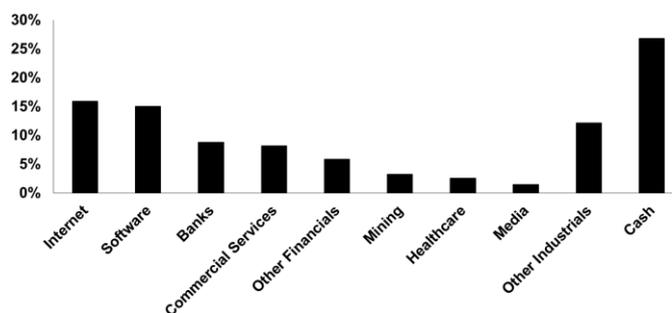
The Fund first invested in Audinate at its 2017 IPO. Whilst near term valuation metrics are demanding with the stock now at 6 times its IPO price, Dante's network effect in the audio market provides the opportunity for strong growth from this market for years to come given its estimated ~8% penetration. Further, Audinate has recently launched a solution for the video market which, although likely to take time to gain significant traction, doubles its long term opportunity.

SBF Performance

Return to 30 September 2019			
	SBF	Index*	Out Perf.
3 months	-2.7%	2.6%	-5.3%
1 year	1.5%	12.6%	-11.1%
3 year p.a.	8.4%	11.9%	-3.5%
5 year p.a.	12.1%	9.5%	2.6%
10 year p.a.	17.0%	8.0%	9.0%
Since inception (31.07.08) p.a.	17.6%	7.3%	10.3%
Value of \$100,000 invested at inception	\$605,773	\$220,491	\$385,282

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 September 2019	SBF	Index*
% in Market Cap < \$1bn	28.5%	3.1%
% in Market Cap \$1bn - \$5bn	19.7%	13.0%
% in Market Cap \$5bn - \$10bn	5.1%	13.2%
% in Market Cap > \$10bn	19.9%	70.7%
% Cash	26.8%	Nil

SBF Top 5 Holdings

- REA Group
- Corporate Travel Management
- Altium
- Audinate
- 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 is currently closed to new investment.

SBF typically holds 20-30 stocks and targets returns of 5% p.a. above the ASX 300 accumulation index after fees on a rolling 3 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 businesses quality.
FUM	\$189.9m
Mid Price	\$1.7598 (30 Sep 2019)
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: JP Morgan 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