



Smallco Broadcap Fund

Quarterly Update 30 September 2020

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark during the September quarter. This reflected a combination of solid results from a number of the Fund's core quality growth positions and strong performance from a number of positions which have leverage to the broader economic reopening that a successful COVID-19 vaccine would bring.

The Australian equity market was flat over the quarter, underperforming offshore markets despite a local reporting season that was not as bad as feared. While we saw more beats than misses, this arguably reflected a higher than usual level of uncertainty (reflecting the sharp economic downturn) leading to conservative expectations. Performance was sporadic with the market embracing both COVID-19 winners such as retailers and e-commerce plays (for whom the tailwinds should ease over time) and those stocks hardest hit by the pandemic and which would benefit most from a successful vaccine (such as travel stocks). Outperformance by the Small Industrials index assisted the Fund's performance during the quarter.

After falling ~10% in the June half the global economy is forecast to have rebounded strongly in the September quarter, reflecting the partial V-shaped recovery that began in May/June. However, growth is expected to slow considerably in the December quarter given the extent of recovery in the goods sector, reliance on an improvement in the services sectors to drive a full recovery and the accelerating 2nd COVID-19 wave in Europe. While the Australian economy didn't perform as poorly in the June half, it is expected to recover more slowly given the 2nd Victorian lockdown and likely ongoing weakness in investment, particularly housing construction given its reliance on immigration which has collapsed post the international border closure.

Given the strength of recovery in equity markets since late March, the short term outlook is likely to be influenced by the level of protection the early COVID-19 vaccine candidates are found to provide over coming months, in addition to uncertainties surrounding the US election. Should initial vaccines provide a strong level of protection, and thus drive a recovery in the services sectors of the economy, equity markets should remain well supported given a combination of extremely supportive monetary and fiscal policies and an ongoing economic recovery.

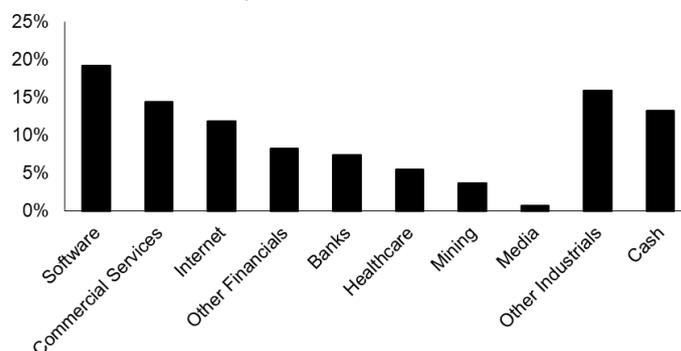
We see two key risks to this scenario. Firstly, even if some vaccines are "successful", there is a risk they are only partially successful (eg, reduce how sick one gets from COVID-19 and not eliminate transmission). In this scenario a return to "normality" in the services sector may be slow. Secondly, even if some vaccines provide a strong level of protection and services sectors recover strongly we may witness a switch away from quality growth stocks to cyclical/re-opening plays. While SBF's style focuses on a significant core of quality growth stocks, the earnings of a number of the Fund's such exposures would benefit from a full global economic recovery and provide some support to those names. In addition, SBF maintains a reasonable exposure to reopening plays.

SBF Performance

| Return to 30 September 2020 | | | |
|--|-----------|-----------|-----------|
| | SBF | Index* | Out Perf. |
| 3 months | 12.2% | -0.1% | 12.3% |
| 1 year | 3.9% | -10.0% | 13.9% |
| 3 year p.a. | 8.5% | 4.9% | 3.6% |
| 5 year p.a. | 10.3% | 7.4% | 2.9% |
| 10 year p.a. | 15.8% | 6.9% | 8.9% |
| Since inception (31.07.08) p.a. | 16.4% | 5.8% | 10.6% |
| Value of \$100,000 invested at inception | \$629,659 | \$198,525 | \$431,134 |

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 2020 | SBF | Index* |
|--------------------------------|-------|--------|
| % in Market Cap < \$1bn | 28.3% | 3.3% |
| % in Market Cap \$1bn - \$5bn | 26.0% | 14.3% |
| % in Market Cap \$5bn - \$10bn | 15.3% | 16.0% |
| % in Market Cap > \$10bn | 20.7% | 66.4% |
| % Cash | 9.7% | Nil |

SBF Significant Holdings (alphabetical order)

Altium
 Corporate Travel Management
 IDP Education
 PWR Holdings
 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 | \$154.4m |
| Mid Price | \$1.7150 (30 Sep 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: 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.