



Smallco Investment Fund

Quarterly Update 30 June 2020

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 27.9% for the June quarter versus the Small Ordinaries index up 23.9%. Despite the strong final quarter the fund was down 8.3% over the last 12 months versus the Small Ordinaries index down 5.7%. The sharp rebound in equity markets through the June quarter was almost as breathtaking as the drawdown experienced in the preceding March quarter. While the rebound in markets was broad based the quality growth companies favoured by the Fund were particularly well bid.

Equity markets have responded extremely positively to the gradual reopening and better than expected early global economic recovery underway post Covid enforced lockdowns. The extensive monetary and fiscal stimulus packages and virus containment measures appear to have been successful in limiting the economic damage in most developed countries. While the continuing low interest rate environment is likely to be supportive for equity market valuations we do remain cautious on the sustainability of the pace of the economic recovery factored into equity markets as stimulus packages begin to wind down later in the year and second wave outbreaks potentially limit reopening efforts.

As flagged in the last quarterly we were able to deploy roughly half of the cash position built at the start of the year into existing and new holdings. As the market rebounded and valuations increased these new opportunities have reduced and we remain comfortable retaining healthy cash levels which will give us the flexibility to take advantage of opportunities as they present themselves down the track.

Xero is a company we have followed and admired for some time and was a new addition to the portfolio during the market drawdown. Xero provides cloud accounting software for small businesses. It is the market leader in ANZ, has a strong position in the UK market and is growing in other regions including North America.

While in the near term we expect their growth to slow as their SME end customer base is impacted by Covid-19 we expect Xero will be relatively resilient given its low cost and the essential nature of accounting software. Longer term we see no change to Xero's strong structural growth potential driven by increasing cloud adoption resulting in growing subscriber numbers and provision of additional services to their end SME customer base. The balance sheet is in a strong net cash position and there is the potential to augment this organic growth with acquisition opportunities which would most likely build out its functionality or services.

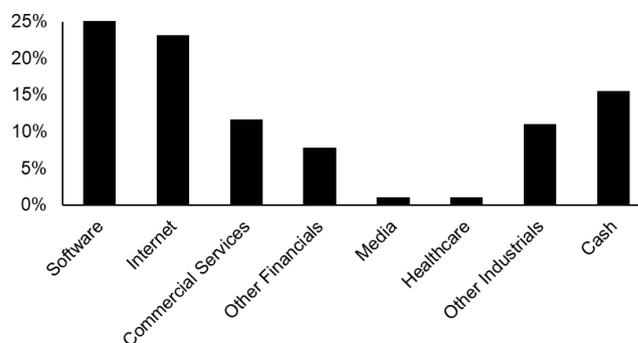
REOPENED: As a reminder SIF is currently accepting both new investors and top-ups from existing investors. The Product Disclosure Statement (including the application form) is available on our website, via email smallco@smallco.com.au or by contacting us on 02 8256 1000.

SIF Performance

Return to 30 June 2020	
3 months	27.9%
1 year	-8.3%
3 year p.a.	8.7%
5 year p.a.	11.1%
10 year p.a.	17.1%
Since inception (31.10.00) p.a.	13.3%
Value of \$100,000 invested at inception	\$1,155,525

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
Appen
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.



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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.

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 (cum dist)	\$304.6m AUD
Mid Price (cum dist)	\$4.5147 (30 Jun 2020)
Distribution	\$0.3921 (30 Jun 2020)
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. *
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.