



Smallco Broadcap Fund

Quarterly Update 31 December 2018

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) fell well short of its benchmark in the December quarter driven by primarily a de-rating of quality growth stocks and smaller companies, both key focus areas of the Fund's style. Notwithstanding this, for the 2018 year the Fund managed to exceed its benchmark by 0.2%.

The December quarter saw a sharp selloff in equities in both offshore and domestic markets. Fears early in the quarter that the US Fed would raise interest rates faster than expected were compounded later in the period by escalating trade tensions, Brexit ructions and concerns over the extent to which global economic growth is slowing. Closer to home a rapidly cooling property market and its potential impact on the consumer raised questions on the Australian economy's momentum into 2019.

The AGM commentary and trading updates during the quarter from the vast majority of the fund's major holdings were at least in line with our expectations. The main exception was GTN which delivered a disappointing update driven partly by a weaker advertising market. However the main feature of the quarter was that many companies that delivered positive updates were not spared in the global equity sell off as we saw a partial unwind of the rerating enjoyed by quality growth companies over the past year or two.

We noted in both the June and September updates that SBF's cash weighting had increased due to rising valuations in the Australian market, particularly among the quality stocks that the fund targets. This higher cash weighting allowed us to add to our positions in our favoured quality franchises at significantly lower prices. The cash redeployment is however being done cautiously given valuations of many quality growth companies remain somewhat elevated relative to historical norms (even despite the recent declines) and elevated uncertainty.

There has been much focus on a loss of momentum following the breakdown in synchronised global economic growth experienced through 2017 and into early 2018. The reality is such levels of growth were never going to be sustainable for long and the extent of the slowing in growth is what is relevant.

At this stage consensus expectations are for world growth to slow to around trend in 2019. The strength of the US consumer has been the key factor underpinning these expectations, however recent data suggests downside risk to this without a resolution to the trade war and/or a more cautious US Fed.

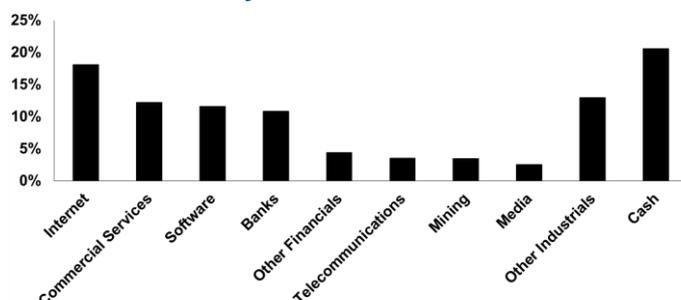
Assuming a more modest but still reasonable level of growth we remain positive on the earnings outlook of the fund's key holdings given their structural growth type characteristics. Whilst in the current market environment risk of further de-rating remains, over the medium term we would expect delivery on our earnings growth expectations will still result in solid outperformance.

SBF Performance

Return to 31 December 2018			
	SBF	Index*	Out Perf.
3 months	-14.9%	-8.4%	-6.5%
1 year	-2.9%	-3.1%	0.2%
3 year p.a.	5.5%	6.6%	-1.1%
5 year p.a.	10.4%	5.6%	4.8%
7 year p.a.	19.5%	9.5%	10.0%
10 year p.a.	21.1%	8.9%	12.2%
Since inception (31.07.08) p.a.	16.9%	5.8%	11.1%
Value of \$100,000 invested at inception	\$508,100	\$179,407	\$328,693

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 2018	SBF	Index*
% in Market Cap < \$1bn	24.3%	3.8%
% in Market Cap \$1bn - \$5bn	31.5%	14.4%
% in Market Cap \$5bn - \$10bn	9.4%	14.9%
% in Market Cap > \$10bn	14.3%	66.9%
% Cash	20.6%	Nil

SBF Top 5 Holdings

- Webjet
- Corporate Travel Management
- Altium
- REA Group
- Pinnacle Investment Management

* Benchmark index is the S&P/ASX 300 accumulation index



Smallco Broadcap Fund

Quarterly Update 31 December 2018

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.

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	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	\$172.9m
Mid Price	\$1.6199 (31 Dec 2018)
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

Australian Financial Services Licence # 224 108

ARSN 163 030 626

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), Smallco 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 this time.

*** 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.