

InvestSMART Australian Small Companies Fund

Monthly Update - November 2018

PERFORMANCE TO 30 NOV 2018	1 mth	3 mths	6 mths	1 yr	Since Inception (p.a.)
InvestSMART Australian Small Companies Fund	-2.66%	-7.77%	-9.12%	-14.00%	4.01%
S&P/ASX Small Ordinaries Accumulation Index	-0.37%	-10.25%	-7.98%	-1.63%	9.09%

Key points

- **Adding to Adacel**
- **Thorn Group's first half**
- **A bid for Trade Me**

During November, the Small Ordinaries Accumulation Index declined by 0.37%. The InvestSMART Small Companies Fund declined by 2.66%.

The fund was impacted by a smaller holding in **Adacel Technologies**, an air traffic software business, which fell by 59% after announcing that this year's earnings are expected to be 25-30% lower than the prior year.

The main reason for the downgrade was a legal stoush with its competitor, Adsync, which has cast uncertainty over Adacel's FAA Tower Simulation System (TSS) contract.

Adacel believes that Adsync has infringed its intellectual property (IP) rights and it's commenced legal proceedings to defend its position. But due to the uncertainty of the situation, Adacel has decided to remove any contribution from the TSS contract from its forecast, as there's a chance it will be unsuccessful with the legal proceedings, and that Adsync will displace it on the contract. There's also a decent chance that Adacel wins the legal dispute, placing it in pole position to retain the TSS contract and cause a reversion in its earnings forecast.

Either way, we don't consider Adacel's business to be

broken, as its IP is very difficult to replicate (so much so that its competitors resort to stealing, it would seem) and its customers tend to be incredibly sticky, which makes for high margins and strong cash generation. And as Adacel continues to win new contracts overseas, particularly with the software air traffic controllers use to direct inbound and outbound flights, it's got a decent chance of quickly

"WE'D PREFER TO HOLD TRADE ME FOR THE LONG TERM, AS IT'S NOT EASY FINDING HIGH QUALITY BUSINESSES WITH RUNWAYS FOR GROWTH AND AN ATTRACTIVE PRICE TAG."

regaining lost ground. We've recently added to our holding, comforted by its strong net cash position, insider buying and low valuation.

Thorn Group also trended 6% lower after the release of its first half accounts, which included a small earnings downgrade.

Things are still tough for Radio Rentals, which continues to originate fewer leases than prior years whilst incurring elevated corporate costs due to the Maurice Blackburn class action. However, some early signs of stabilisation have appeared, with lease originations increasing 34% on the prior half, which aligns with what we've recently seen firsthand in their stores.

We remain of the view that Thorn's challenges are more than adequately compensated for in the price, with a share price at 40% of its conservatively valued net tangible assets, which we expect to be unlocked once the class action has been settled.

The key contributor for the month was Trade Me, which increased by 27% after receiving a takeover offer from UK based private equity firm, Apax Partners.

It was bittersweet news, as we'd prefer to hold Trade Me for the long term, as it's not easy finding high quality businesses, with long runways for growth, and an attractive price tag, like Trade Me had when we first bought it.

But we'll happily sell our shares if we receive an appropriate price, and with US based private equity firm Hellman & Friedman rumoured to also be considering a bid, there's a chance we'll get one. We've reduced our position to 7% of the portfolio to mitigate the risk of the bidders walking away, whilst stilling retaining some exposure in case they receive a higher bid.

PORTFOLIO ALLOCATION



Information Technology	34.88%
Consumer Discretionary	22.69%
Cash	16.08%
Health Care	3.37%
Financials	8.13%
Real Estate	4.45%
Materials	4.29%
Industrials	2.65%
Energy	3.47%

TOP 5 HOLDINGS

Security	Weighting
Thorn Group	7.12%
Trade Me	6.95%
RPMGlobal Holdings	5.79%
Hansen Technologies	5.56%
MSL Solutions	4.93%



Skin in the Game Podcast

Join Portfolio Managers, Nathan Bell and Alex Hughes weekly as they chat about stocks in the news, economic events, markets and much more.



Performance numbers exclude franking, after investment and admin fees; excludes brokerage. All yield figures include franking. All performance figures, graphs and diagrams are as at 30 November 2018. Performance figures are based on the portfolio's previous investment structure, a Separately Managed Account (SMA). This portfolio is now offered as a Professionally Managed Account (PMA), as of 1 November 2018. The underlying securities remain the same between the SMA and PMA structures. The inception date refers to the SMA. Please see the Investment Menu for full PMA fee details.

InvestSMART Group Limited (INV)

was founded in 1999 and is a leading Australian digital wealth advisor which has over 32,000 clients and over \$1.4B in assets under advice. InvestSMART's goal is to provide quality advice and low cost investment products, free from the jargon and complexities so commonly found in the finance industry, to help you meet your financial aspirations.

The Fund

The InvestSMART Australian Small Companies Fund is a concentrated portfolio of 10 - 25 Australian listed small companies and cash, that seeks to deliver moderate to high total portfolio returns over the long-term.

Investment objective

The Fund's investment objective is to deliver long-term capital growth by investing in small Australian companies.

Why the InvestSMART Australian Small Companies Fund?

Suitable for those looking to diversify their Australian equity exposure, take advantage of the potential missed opportunities that are often overlooked and not well-researched by larger fund managers.

Actively managed by our investment team, the InvestSMART Australian Small Companies Fund allows investors access to these opportunities at a lower fee structure than most fund managers.

Who manages the investment?

Alex joined the team in July 2016 to provide dedicated research on small capitalisation companies (small caps) and is supported by our Investment Committee, chaired by Paul Clitheroe. Alex has over 8 years successfully managing private portfolios, and prior to joining the team, held various roles in funds management and international research. Alex is a Chartered Financial Analyst (CFA) charterholder and holds a degree in Finance and International Business from Griffith University.

Key Details

INVESTMENT CATEGORY

A portfolio of individually selected Australian Equities

INVESTMENT STYLE

Active Stock Selection, Value Investing Approach

BENCHMARK

S&P/ASX Small Ordinaries Accumulation Index

INCEPTION DATE

1 February 2017

SUGGESTED INVESTMENT TIMEFRAME

7+ years

NUMBER OF STOCKS

10 - 25

INVESTMENT FEE

0.97% p.a.

PERFORMANCE FEE

10.25% of the excess of the Fund's performance above the benchmark^

MINIMUM INITIAL INVESTMENT

\$25,000

STRUCTURE

Managed Fund

SUITABILITY

Suitable for investors who are seeking domestic equity exposure with a growing stream of dividends to offset inflation

PORTFOLIO MANAGER

Alex Hughes, CFA

^Benchmark is the greater of the S&P/ASX Small Ordinaries Accumulation Index and the RBA Cash Rate in each 12 months to June 30. Performance fees are only accrued if the Fund Net Asset Value (NAV) is higher than the NAV when last performance fee was paid (high watermark).

Important information

While every care has been taken in preparation of this document, InvestSMART Funds Management Limited (ABN 62 067 751 759, AFSL 246441) ("InvestSMART") makes no representations or warranties as to the accuracy or completeness of any statement in it including, without limitation, any forecasts. Past performance is not a reliable indicator of future performance. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to the investor's objectives, financial situation and needs. This document is solely for the use of the party to whom it is provided.

This document has been prepared by InvestSMART. Financial commentary contained within this report is provided by InvestSMART. The information contained in this document is not intended to be a definitive statement on the subject matter nor an endorsement that this model portfolio is appropriate for you and should not be relied upon in making a decision to invest in this product.

The information in this report is general information only and does not take into account your individual objectives, financial situation, needs or circumstances. No representations or warranties express or implied, are made as to the accuracy or completeness of the information, opinions and conclusions contained in this report. In preparing this report, InvestSMART has relied upon and assumed, without independent verification, the accuracy and completeness of all information available to us. To the maximum extent permitted by law, neither InvestSMART, their directors, employees or agents accept any liability for any loss arising in relation to this report.

The suitability of the investment product to your needs depends on your individual circumstances and objectives and should be discussed with your Adviser. Potential investors must read the Product Disclosure Statement (PDS) and Investment Menu (IM), and FSG along with any accompanying materials.

Investment in securities and other financial products involves risk. An investment in a financial product may have the potential for capital growth and income, but may also carry the risk that the total return on the investment may be less than the amount contributed directly by the investor.

Past performance of financial products is not a reliable indicator of future performance. InvestSMART does not assure nor guarantee the performance of any financial products offered.

Information, opinions, historical performance, calculations or assessments of performance of financial products or markets rely on assumptions about tax, reinvestment, market performance, liquidity and other factors that will be important and may fluctuate over time.

InvestSMART, its associates and their respective directors and other staff each declare that they may, from time to time, hold interests in Securities that are contained in this investment product. As Responsible Entity, InvestSMART is the issuer of the product through the Managed Investment Scheme (ARSN: 620 030 382).

InvestSMART Funds Management Limited
PO Box 744
Queen Victoria Building
NSW 1230 Australia

Phone: 1300 880 160
Email: invest@investsmart.com.au

www.investsmart.com.au