

# InvestSMART Australian Small Companies Fund

## Monthly update

PERFORMANCE TO 30 APRIL 2019	1 MTH	3 MTHS	6 MTHS	1 YR	S. I. (P.A.)
InvestSMART Australian Small Companies Fund	3.44%	6.95%	2.38%	-3.97%	5.61%
S&P/ASX Small Ordinaries Accumulation Index	4.11%	11.04%	11.91%	7.18%	13.06%

Outside of a handful of quarterly results that met our expectations it was a quiet month for portfolio news, so we'll take this opportunity to discuss our thoughts on portfolio management. One of the less discussed but more important parts of investing.

When we hunt for new investments, we generally look for four things: competitive advantage, scalability, alignment and execution. We aim to find companies that rank well across all four, but in practice, we often compromise in some areas. Perfect investments are extremely rare, so the art of investing is knowing when to bend the rules.

For instance, strong recent contributor **Dicker Data** arguably lacks a robust competitive advantage as it's the third largest player in a scale-dependent industry. But our alignment with management couldn't be better (CEO David Dicker owns \$256m worth and doesn't take a salary) and their execution has been impressive, so we upweighted the later factors accordingly. \$226k of director buying after the recent price surge has provided further comfort.

The first three factors - competitive advantage, scalability and alignment - change slowly from year to year. **Sydney Airport's** location and monopoly status give it a competitive advantage. Altium's global market for printed circuit board software gives it scalability. **ARB Corp's** Chairman, and 10% shareholder, Roger Brown is clearly aligned with his shareholders. Our investment universe includes businesses that rank well across all three.

But execution is more transient in nature, especially for smaller companies, whilst being a key driver of returns, so it weighs heavily on our buy decisions and how we size positions.

### A Frontier case study

We bought a 1.5% position in **Frontier Digital Ventures** last August, a holding company for digital classifieds in Frontier markets.

Digital classifieds are competitively advantaged by a network effect. Low adoption of large populations gives Frontier lots of scalability. CEO Shaun Di Gregorio, of **REA Group** and **iProperty** pedigree, owns 15% of the company, so it ticked our initial boxes. But due to the higher risk that comes with operating in Frontier markets, we wanted to see strong execution before making it a meaningful investment. That evidence came in April.

Frontier's most important investment, Zameen, Pakistan's leading property portal, grew its top line by 98% for the quarter and reported its maiden profit. Nine of Frontier's 15 investments have reached a \$1m revenue run rate, up from six in 2018. Frontier's cash burn has reduced significantly. The company is clearly executing.

A year has passed since Zameen was valued at A\$300m based on an internal funding round, which implied \$90m for Frontier's 30% stake. With revenue up around 100% since then, Frontier's stake in Zameen is conceivably worth more than its entire market cap (currently \$147m). This gifts Frontier's 14 fast other fast-growing investments for free.

With more confidence in Frontier's investments and the people making them, we recently built the position to 4%, which outlines our philosophy with position sizing. Instead of using price, we look to execution as our signal. Like capitalism itself, we're looking to feed the performers and starve the underperformers.

For more information on our Australian Small Companies Fund, [click here](#).

## Portfolio allocation

ASSET ALLOCATION	
Sector	Weighting
Information Technology	46.37%
Consumer Discretionary	17.19%
Cash	13.04%
Financials	5.86%
Materials	4.07%
Industrials	3.97%
Energy	3.07%
Communication Services	2.24%
Health Care	1.17%

TOP 5 HOLDINGS	
Security	Weighting
Audinate	7.72%
RPMGlobal Holdings	6.02%
Redflex Holdings	5.15%
Hansen Technologies	4.86%
Adacel Technologies	4.58%

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 April 2019.



## Skin In The Game podcast

Join portfolio managers Nathan Bell and Alex Hughes weekly as they discuss stocks, economics, their respective portfolios and much more.



### 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

## Important information

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