INVESTSMART

InvestSMART Australian Small Companies Fund

Monthly Update - February 2019

PERFORMANCE TO 28 FEB 2019	1 mth	3 mths	6 mths	1 yr	Since Inception (p.a.)
InvestSMART Australian Small Companies Fund	3.38%	1.67%	-6.23%	-9.71%	4.35%
S&P/ASX Small Ordinaries Accumulation Index	6.78%	8.01%	-3.06%	3.48%	12.05%

Key points

- **Growth stocks driving the market**
- **No big surprises during reporting season**
- **Pushpay and Lovisa join the portfolio**

February was another strong month for small companies. Globally-focused, rapidly growing companies, including **Webjet, Altium, A2 Milk** and **Lovisa**, were among reporting season's brightest stars. Results were patchy outside of these names.

We've reduced our position in **Trade Me** as a superior bid for the company seems unlikely. The New Zealand online classifieds business has been replaced by fellow Kiwi and accounting cloud software business **Xero**, local online job ads business **Seek**, and local online car classifieds business **CarSales**.

They've all performed strongly this year, as investors crave companies with growing overseas businesses to help cushion the weakness in their domestic businesses as property prices fall.

While the market was falling in December, our motley collection of deeply out of favour stocks held firm. Unfortunately, they've been left behind this year, as investors have pursued perceived safety in market darlings. Given the latent value in our holdings, and the increased market risks from higher price-to-earnings ratios, we remain patient.

Reporting season

Though the vast majority of our holdings delivered results in line or above expectations, the share prices of **Adacel**, **MSL Solutions** and **Hansen** fell due to underwhelming operational results. All three have attractive business models but recent management execution has been disappointing.

The standout result came from **Audinate**, which is fast becoming the only choice for audio-visual (AV) equipment manufacturers. Audinate is in the final stages of a digital landgrab, where it's dominating the number of AV devices adopting its networking software.

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Adopted devices increased 7% in the recent half, extending its lead over the competition, which have largely conceded defeat. Yet consumers have been slow to purchase digital AV equipment, with digital sales representing just 8% of total sales.

We expect they'll eventually reach 100%, highlighting the rapid earnings growth that we're banking on to justify today's high price tag. That will take 5-10 years, depending on how fast businesses upgrade their equipment. A soft global economy would slow purchases. But even if it takes longer, taking the bulk of a $1bn market would still deliver handsome returns.

IT distributor **Dicker Data** (profiled last month), also beat expectations handsomely and is on track for another strong year after winning an exclusive distribution agreement with computer manufacturer Lenovo in New Zealand.

Hayne commission whipping boy **IOOF** also rebounded strongly after announcing a decent result and healthy dividend. We remain confident that the business is undervalued and look forward to the resolution of the legal dispute with APRA.

New investments

We added two new stocks in February, **Pushpay** and **Lovisa**. Like Audinate, **Pushpay** is another rapidly growing business asserting its dominance in mobile payments in the large US faith sector. The industry includes 340,000 churches collecting $115B annually in donations.

Pushpay has become the industry leader by making it easy to collect donations digitally. It serves 7,000 churches, including 55 of the largest 100.

Pushpay's size means it can outspend competitors on marketing and research and development, which we hope will help it to win more large churches, which are the most profitable customers. Once Pushpay is embedded in a church's IT system, it's unlikely to switch to a competitor.

Pushpay also became profitable in January and, as digital collections remain in their infancy, profits should grow rapidly for many years.

Lovisa sells fast fashion jewellery mainly to teenage girls. Its special sauce is its supply chain. The company gets cheap imitations of fashionable designs in its stores within weeks of the launches of their much more expensive originals. Lovisa has captured the hearts and minds of Instagrammers who have low budgets and even shorter attention spans.

We've long marvelled at Lovisa's economics, with profit margins and stock turnover levels that put Tiffany's to shame. During February, the company confirmed that the US store trial has been a resounding success. A full rollout, capable of increasing total store numbers several times over, will progress as fast as the company can hire staff to find attractive leases.

Although the chief executive recently sold some of his shares, we're comforted by the ~$400m worth of shares owned by billionaire retailer Brett Blundy, who owns a 41% stake. Clearly he sees the same potential that we do.

PORTFOLIO ALLOCATION

ASSET ALLOCATION

Sector	Weighting
Information Technology	41.26%
Consumer Discretionary	21.66%
Cash	14.54%
Financials	8.38%
Materials	3.97%
Real Estate	3.05%
Energy	3.01%
Communication Services	2.10%
Industrials	2.03%

TOP 5 HOLDINGS

Security	Weighting
Audinate	6.26%
Redflex Holdings	5.90%
Thorn Group	5.75%
RPMGlobal Holdings	5.74%
Adacel Technologies	5.15%

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 28 February 2019.

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).

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