

Australian smaller companies... big opportunities!

Why invest in smaller companies?

1. Growth

Investing in a smaller company in its early stages of development, staying invested while it expands and grows, can potentially provide substantial returns. All companies had to start somewhere – many of Australia's top 50 stocks were once 'small caps'. And in the global context, the world's largest company Apple was once a constituent of the MSCI small cap index!

Because a company is 'small' today doesn't mean it will necessarily remain so. Small caps typically grow faster (earnings) and their asset pool appreciation (multiple expansion) is faster than the broader market; this can provide an opportunity for enhanced returns.

Smaller companies are habitually under-researched by stock analysts and therefore potentially mispriced, presenting opportunities for astute investors to cherry pick the best opportunities. They're also often the target of merger and acquisition activity, which is generally positive for a company's share price.

2. Innovation

One of the most compelling reasons to invest in smaller companies is that they are often at the forefront of innovation, providing investors with exposure to new trends and emerging themes. They are often disruptors and in some cases, create entirely new market segments.

Smaller companies benefit from being more nimble and less bureaucratic, the benefit being increased agility and flexibility to adapt to changing market conditions. This can give them an edge over larger competitors.

3. Diversity

Smaller companies typically provide exposure to a more diverse range of industries. There are 2,404 ASX-listed smaller companies stocks; however, just 200 companies comprise the S&P/ASX Small Ordinaries Index.

When compared to the S&P/ASX 200 Index, typically used as the benchmark for Australian equity funds, there are some significant differences with respect to market capitalisation and concentration. As you can see, the top 10 stocks of the S&P/ASX 200 Index make up nearly half of the market weighting of that index; conversely, the Small Ordinaries presents greater diversity.

Figure 1: S&P/ASX Small Ordinaries Index vs S&P/ASX 200 Index of ASX200

	SMALL ORDINARIES	ASX-200
Mean total market cap (\$M)	1,470.63	11,198.36
Largest market cap (\$M)	10,152.01	224,162.58
Smallest market cap (\$M)	194.58	596.12
Weight largest constituent %	1.9	10.7
Weight top 10 stocks %	13.9	47.4

Source: S&P Dow Jones Indices Fact Sheet, 29 September 2023

How do Australia's smaller companies fit into your everyday life?

Sometimes you can use a product or service without being aware of the company behind it. Perhaps it's a mineral powering the battery in your smartphone, or the concrete under your feet. It could be the machine that diagnoses a medical condition or the company that owns your local shopping centre.

The Tribeca Australian Smaller Companies Fund is an actively managed fund that invests in listed Australian companies predominantly outside the top 100 stocks as defined by market capitalisation, and has the flexibility to invest up to 20% of the portfolio in mid-cap stocks outside the ASX-50 Index.

Tribeca's investment approach has been forged over more than a decade and aims to identify the market leaders of the future. The investment process has a bias toward companies with high quality and sustainable earnings streams.

The result is a relatively concentrated portfolio that aims to ensure the benefits of Tribeca's comprehensive research process is captured, that quality control is maintained, and an appropriate level of diversification is achieved.

Smart Group

Novated EVs – Industrials

Smart Group is one of the largest Novated Lease providers in Australia. The Federal Government has recently introduced the Electric Car Discount Policy, making purchasing an EV under the luxury car tax threshold considerably cheaper when done under a novated lease, due to Fringe Benefits Tax exemption.

Life360

Location & Safety – Information Technology

Life360 is a technology platform that enables families to stay connected to loved ones and provides piece of mind regarding location and safety. Over 54 million people globally use the platform each month, a number that's growing approximately 30% p.a. Life 360 recently rolled out a paid membership option, with a large addressable pool of non-paying users targeted for conversion.

Webjet

Travel – Consumer Discretionary

While best known for its travel website, Webjet is the second largest travel wholesaler worldwide. The company is a business to business (B2B) aggregator of hotel room inventory between accommodation providers and distributes to travel sellers such as agents and tour providers. Webjet plans to increase current B2B time to value from less than \$3 billion to \$10 billion.

Paladin Energy

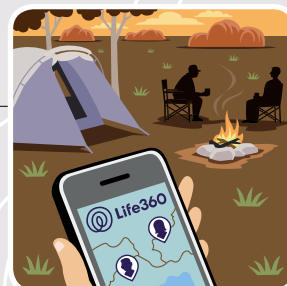
Mining – Materials

Paladin provides exposure to the emerging theme of uranium to replace coal as energy for base-load electricity supply as the world moves towards the 'Net zero 2050' goal.

Fleet Partners Group

Vehicle Leasing – Industrials

A leading provider of vehicle leasing, fleet management, heavy commercial vehicles, Salary Packaging and Novated Leasing, operating across Australia and New Zealand. Fleet Partners is well placed to take advantage of the pivot by fleets and consumers to EVs.



Champion Iron

Green Steel – Materials

Champion holds high grade, low impurity iron ore deposits in Quebec, Canada. Its mines and associated infrastructure are well placed to meet growing demand for high grade stock to assist the decarbonisation of the global steel sector. Demand growth over the next few decades is anticipated to match that of the so-called critical minerals such as cobalt, lithium and graphite.

Kelsian

Public Transport – Industrials

If you've caught a bus or ferry in any of Australia's major capital cities, there's a chance it was operated by Kelsian. The business has evolved from running ferries to Kangaroo Island and a bus route in regional WA, to a global operator of buses and ferries with operations in the USA, UK, Singapore, NZ as well as nationally. Kelsian's strong track record in operating has seen it continue to expand through new contracts.

Boral

The Aussie Cement Company - Materials

Boral is a well-known construction materials business that has been reinvigorated via new management and a new major shareholder in the Stokes family backed Seven Group Holdings. The focus is on increasing returns from the company's asset base through operating efficiencies and pricing strategies.

Allkem

Lithium - Materials

Allkem will play a critical role in the global decarbonisation as a large producer of lithium for use in batteries. The company has assets in Australia, Argentina and Canada, and will add additional downstream processing through a merger with US-listed Livent. The company's forecast production volume is expected to grow 260% over the next four years.

Temple & Webster Group

Furniture - Consumer Discretionary

TWG is Australia's leading online retailer of furniture and homeware. The company has experienced strong growth, with sales up 42% between 1 October and 27 November 2023. Its \$30m on-market buyback has bought back 3.9m shares at a total cost of \$19.9m at end November 2023, and its cash balance remains above \$100m - this provides flexibility to accelerate both organic growth and potential inorganic opportunities.

HMC Capital

Asset Manager - Financials

HMC is an alternative asset manager that invests in real asset strategies on behalf of individuals, large institutions and super funds. From humble beginnings as manager of a collection of old Masters Home Improvement centres, HMC's diversification across sectors and geographies has it looking to emulate industry behemoths such as Blackstone and Macquarie.

PWR Holdings

Formula 1 - Consumer Discretionary

PWR provides advanced cooling technology solutions to Formula 1, which helps their cars go faster! These solutions are also sold into other motor racing competitions around the world - Nascar, WRC and Superbikes. More recently, PWR has moved into adjacencies such as defence and aerospace with large addressable markets. Earnings have grown 13% p.a. since its IPO in 2013.

Eureka Group

Affordable Retirement Living - Real Estate

Eureka is one of Australia's largest providers of quality and affordable rental accommodation for seniors. It owns or manages 40 villages nationally, representing 2215 individual units. Demographic trends such as the ageing population will drive demand in the sector, while fragmentation in the affordable living space presents opportunity for the likes of specialised providers such as Eureka.

Monash IVF

Fertility Specialists - Health Care

Monash IVF has been providing Australians with reproductive care for over 50 years, with IVF research kicking off at Monash Uni in the 1970s. Today, one in 20 births arise from IVF treatment. Monash has expanded offshore (Malaysia) and also conducts genetic testing and ultrasound services; the recent addition of carrier screening to Medicare is expected to drive IVF growth.

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Important Information

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Tribeca Australian Smaller Companies Fund's Target Market Determination is available on our website at gsfm.com.au. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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