



# 8IP AUSTRALIAN SMALL COMPANIES FUND

Fund Update: October 2021

## KEY FACTS

<b>INCEPTION DATE</b>	Current Portfolio Team commenced 1/10/2012
<b>NO OF STOCK HOLDINGS</b>	56
<b>LIQUIDITY</b>	Daily
<b>BENCHMARK</b>	S&P/ASX Small Ordinaries Accumulation Index.
<b>DOMICILE &amp; STATUS</b>	Registered Managed. Investment Scheme domiciled in Australia
<b>BASE CURRENCY</b>	Australian dollars
<b>DISTRIBUTIONS</b>	Paid annually, shortly after June; reinvested unless otherwise instructed
<b>UNIT PRICES AT 31/10/2021</b>	Buy Price: \$1.2394 Sell Price: \$1.2296

## Fund Snapshot

The 8IP Australian Small Companies Fund ("Fund") provides diversified exposure to small companies. The Fund aims to deliver outperformance above the S&P/ASX Small Ordinaries Accumulation Index with a diversified portfolio of equities within the Australian small companies segment.

**Since inception\* in October 2012, the fund has delivered an annualized return of +13.47%, and outperformance of +5.31% p.a. (net). Over the last three years, the fund has delivered annualized performance of +21.97%, outperforming by +8.45% p.a. (net).**

*The Fund is rated Investment Grade by Lonsec Research - please contact 8IP for more information.*

## Commentary

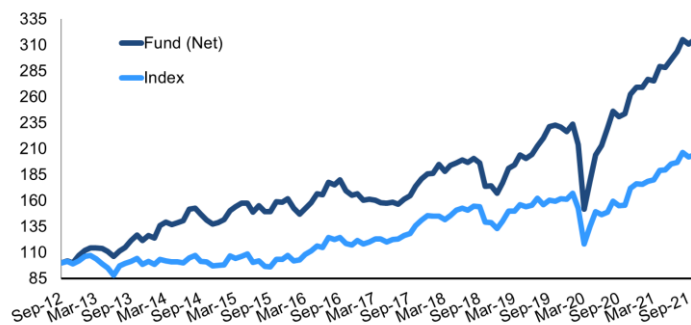
The fund returned +1.29% post-fees in October, +0.37% against the index. Quarterly performance was +3.76%, +0.09% relative. Calendar year-to-date performance sits at +17.09% (net) +1.47% against the index.

Nick Scali (NCK, +27.38%) was our best performing stock in October. During the month the furniture retailer announced the acquisition of Plush-Think Sofas (Plush). The acquisition nearly doubles the company's footprint of stores. It is earnings per share accretive in the first full year of ownership, (FY23) before synergies. (Given the similar nature of the two businesses, we think synergies are likely.)

Life 360 (360, +22.38%) is a relatively recent addition in the technology space. Led by smart, US-based founders who have been developing a global business for over ten years, the company has developed from providing an app-based service to parents with real time location information for each

## PERFORMANCE

\$100,000 Invested On 1/10/2012



Note: Returns sourced from 8IP and S&P/ASX as on 31/10/2021 in Australian dollars. Fund returns are net returns. The inception date is the date that current management took responsibility for investing this Fund.

8IP Small Companies Fund vs Benchmark	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception
8IP Small Companies Fund (net of fees - %)	1.29%	3.76%	8.92%	29.19%	21.97%	13.20%	13.47%
S&P/ASX Small Ordinaries Accumulation Index (%)	0.92%	3.68%	7.88%	31.01%	13.52%	11.45%	8.16%
Active Return (net of fees - %)	0.37%	0.09%	1.04%	-1.82%	8.45%	1.75%	5.31%

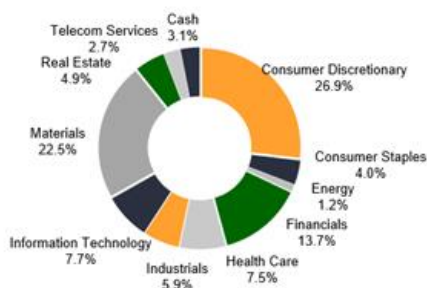
Net of fees returns is the Fund return after the deduction of ongoing fees and expenses based on end of month redemption prices assuming the reinvestment of all distributions. Past performance is not an indicator of future performance. Returns for periods of one year or more are annualised.

## TOP HOLDINGS

### Top 5 Holdings (Alphabetical)

Chalice Mining  
 City Chic Collective  
 Hub24  
 Life360Inc  
 Lifestyle Communities

## SECTOR ALLOCATION



Source: 8IP and Bloomberg.

Please note that 8IP may reallocate sector classifications where we believe it appropriate.

member of the family, to a nascent financial services group. From zero, 360 has more than one million “paying circles”, being families who pay subscription fees for a set of services. The stock rose strongly in October following a very positive AGM update. Annualised Monthly Revenue has now accelerated vs pcp in each of the last four quarters; cost control has been good; and there are several catalysts on the horizon including acquisitions, entry into new territories and a possible US dual listing.

We added Imdex (IMD, +23.7%) after its excellent FY21 result. The business has obtained a strong global position selling technology solutions to mining explorers over many years. It has good management, and a credible plan to increase market share both in its traditional space and by increasing its presence in development and production. While the company has displayed a capacity to grow through the cycle, we anticipate the exploration cycle will be favourable in the near term. The stock rose following a positive AGM trading update, with revenues in constant currency terms +9% in 1Q22 vs 4Q21. Solutions per site should continue to rise over coming years, especially given the company's evident capacity to innovate.

SeaLink (SLK, -17.53%) fell on news a contested Melbourne bus contract was awarded to a competitor. We had reduced our position by selling above \$10 previously but had retained a holding, taking the view that SLK's superior record would make it the rational choice in Melbourne. The result was disappointing. We retain conviction that SLK is a very good operator but are wary of being exposed to another major contract award (Sydney) in the near term. We have decided to take a risk averse view in this case and have sold out. We may well re-enter later.

Strike Energy (STX, -35.85%) fell despite the presence of gas in the latest well (WE5). The flow test was problematic, and the well will need recompletion in future. These wells are among the deepest drilled in Australia and given the pressures experienced, can take longer, and cost more to complete. Strike also announced they had invested \$23m in shares issued by their JV partner (WGO), increasing their exposure to the West Erregulla field which was unnecessary in our view. After the

quarter's end, a maiden reserve estimate disappointed and we have exited the position. We believe these developments will put pressure on the company's cash requirements. The discovery is nevertheless important so we may look to re-enter the stock at a timelier stage.

AUB Group (AUB, -9.7%) traded down on no news. Other insurance stocks have also sold off, following strong results in August. We would expect these to move back up over time.

### Outlook

The macro environment has flipped several times this year, alternately favouring value and growth style investing. In the face of this relative unpredictability, we have maintained a balanced stance. As we close the year, and move ever closer to normalisation post-Covid, our sense is that markets are moving to favour growth again.

While the persistence or otherwise of inflation dominates discussion, global growth has slowed. US industrial production has weakened and is currently well below trend; personal consumption expenditures have stalled after an explosive recovery between 2Q 2020 and 1Q 2021; and the most recent US GDP report confirmed that 3Q growth slowed to 2%, well below consensus.

How much of this has been caused by supply disruption as opposed to higher energy costs or uncertainty over President Biden's agenda is impossible to define; but raising rates to combat inflation caused by supply disruptions is likely to prove a mistake and arguably “a recipe for stagflation”. We think the bond markets are onto this – US bond yields have stepped down and our economics advisers think fair value for US 10-Year yields is 110bps, way lower than today. Such an environment would be highly supportive of long duration valuations, and so for some of our longest-term positions such as Megaport and Pro-Medicus.

### Stephen Walsh

#### Chief Investment Officer

## STEPHEN WALSH

### Chief Investment Officer



With over 30 years' experience, Stephen has held director level roles in equities research and investment banking in Australia and overseas.

He was Banks Analyst at Macquarie, Head of Research at Wilson HTM, and Head of Asia (ex-Japan) Consumer Research at WI Carr / Credit Lyonnais.

Previously, he worked in senior strategy roles for LEK Consulting and Standard Chartered Bank.

## KEY FUND INFORMATION

**Investment Manager:** Eight Investment Partners Pty Ltd (8IP)  
**Responsible Entity:** Equity Trustees Limited  
 ABN: 46 004 031 298  
 AFSL: 240975

## FUND IDENTIFIERS

**ARSN:** 143 454 013

## FEES

**Management Costs:** 1.20% p.a. including GST  
**Performance Fee:** 20% over hurdle  
**Minimum Investment:** \$5,000





## EIGHT INVESTMENT PARTNERS

8iP is a boutique investment group with offices in Sydney and Brisbane. Our senior staff have decades of experience in small cap investing. We employ a unique philosophy combining insights from our experience and academia to select between 40-60 stocks for the 8iP Australian Small Cap Fund, which is our flagship product. The objective of the fund is to deliver positive investment returns of at least 5% above benchmark over a rolling 5-year period.

For more information about our team and products, please visit [www.8ip.com.au](http://www.8ip.com.au)

### IMPORTANT INFORMATION

*Equity Trustees Limited ("Equity Trustees") ABN 46 004 031 298 | AFSL 240975, is the Responsible Entity for the 8iP Small Companies Fund (the Fund). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). This document has been prepared by Eight Investment Partners Pty Ltd ("8iP") ABN 22 139 616 783 | AFSL 342305, the investment manager for the Fund, to provide you with general information only. In preparing this document, 8iP did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither 8iP, Equity Trustees nor any of their related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should consider the Product Disclosure Statement ("PDS") before making a decision about whether to invest in this product. The PDS can be obtained by visiting [www.eqt.com.au/insto](http://www.eqt.com.au/insto) or request a copy by calling the Investment Manager 8iP on 07 3155 6509 or emailing them at [enquiry@8ip.com.au](mailto:enquiry@8ip.com.au). 8iP Small Companies Fund's Target Market Determination is available here at <https://www.8ip.com.au/australian-small-companies-fund/>. 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.*