

# Realindex Australian Small Companies Fund-Class A



## Monthly Factsheet

31 July 2022

### Portfolio Description

The portfolio invests in smaller Australian companies by selecting and weighting companies based on fundamental measures of company size.

### Investment Strategy

Realindex forms a universe of smaller Australian companies based on accounting measures Factors such as quality, near-term value and momentum are applied to form a final portfolio of companies. The resulting portfolio has a value tilt relative to the benchmark and provides the benefits of being lower in cost, lower turnover and highly diversified compared to traditional active investment strategies.

### Investment Objective

To provide capital and income growth by investing in smaller Australian companies and outperforming the S&P/ASX Small Ordinaries Accumulation Index over rolling five-year periods before fees and taxes.

### Product Overview

APIR code	FSF0978AU
Inception date	17 November 2008
Fund Size (AS)	853 million
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Number of stock holdings	192
Buy / Sell spread	0.05% / 0.05%
Minimum investment (AS)	25,000
Management cost (p.a.)*	0.59%

\* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

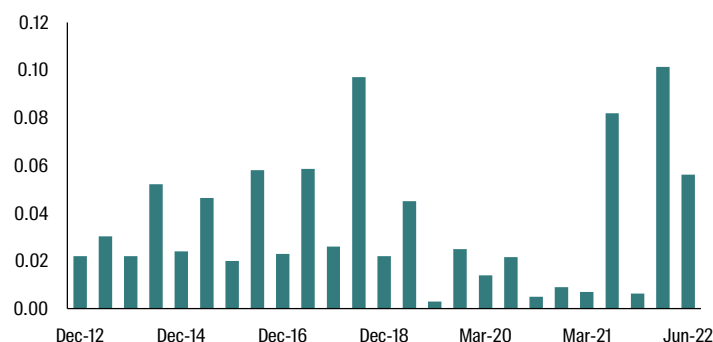
### Performance Summary (%)

Period	1mth	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	9.9	-8.5	-4.2	4.9	7.7	10.1	10.7	10.8
Benchmark return	11.4	-9.9	-10.9	2.5	7.3	8.1	6.5	7.0
Excess net return	-1.5	1.4	6.7	2.3	0.4	2.0	4.1	3.8
Income return	0.0	5.5	13.8	10.2	9.7	9.4	8.9	8.4
Growth return	9.9	-14.0	-17.9	-5.4	-2.0	0.7	1.8	2.4

Note: Net return is the return after management fee

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### Distributions



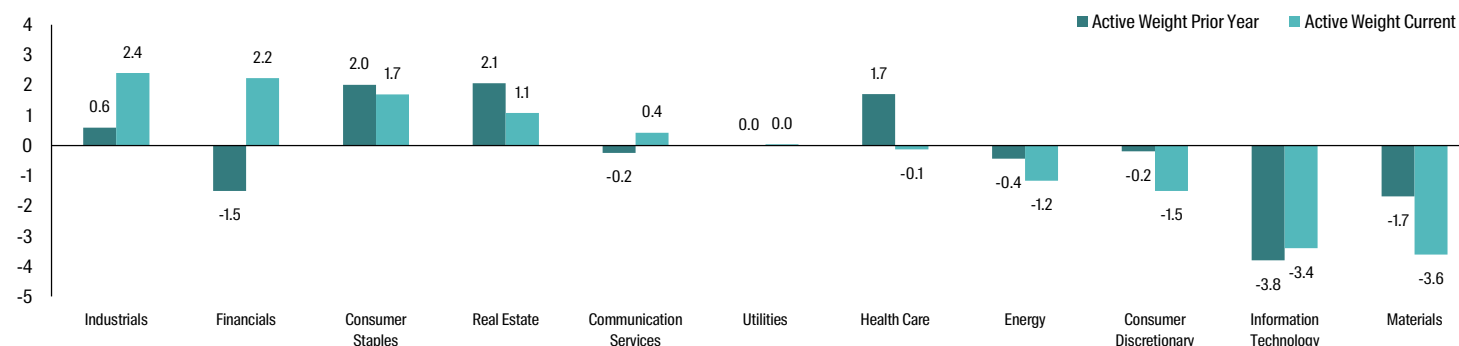
### Top 10 Holdings

Stock	Fund Weight	Benchmark Weight	Active Weight
New Hope	2.70	0.95	1.75
Genworth Mortgage Insurance	2.24	0.48	1.76
NIB	2.05	1.44	0.61
SCA Property Group	1.79	1.43	0.36
Cromwell Property Group	1.64	0.51	1.13
Sigma Healthcare	1.59	0.28	1.31
Growthpoint Properties Australia	1.57	0.48	1.09
Inghams	1.51	0.47	1.04
Elders	1.50	0.76	0.74
Seven West Media	1.48	0.00	1.48

### Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	19.7	23.3	19.0	17.4	16.0	17.1
Benchmark standard deviation (%)	22.1	23.3	19.7	17.9	16.7	17.6
Tracking error (%)	5.9	5.0	4.9	4.8	5.0	5.8
Fund Sharpe ratio	-0.2	0.2	0.4	0.5	0.6	0.5
Information ratio	1.1	0.5	0.1	0.4	0.8	0.7
Beta	0.9	1.0	0.9	0.9	0.9	0.9
Cashflow adjusted turnover (%)	34.1	29.2	27.6	27.6	29.3	

### Fund Active Sector Positions (%)



## Top 5 Contributors To Performance (1 Month)

Stock	Value added
Myer	0.28%
Austal	0.25%
New Hope	0.24%
Graincorp	0.20%
Viva Energy Group	0.19%

## Top 5 Detractors From Performance (1 Month)

Stock	Value detracted
Grange Resources	-0.34%
Telix Pharmaceuticals Ltd.	-0.26%
Megaport	-0.26%
Elders	-0.19%
Ausdrill	-0.19%

The Realindex Australian Small Companies Fund returned +9.95% (net of fees) during July, versus the S&P/ASX Small Ordinaries benchmark which returned +11.43%.

Value stocks outperformed Growth stocks by 6.5% over the quarter (S&P Australia Small Cap Value -16.6% vs. Growth -23.2%). Over the past year, Value has beaten Growth, outperforming by 13.2%, but lagged on a five-year basis by 0.1% p.a., providing a longer-term performance headwind.

The Australian share market finished the quarter lower due to declining investor confidence along with increasing macro headwinds. Inflation and the reserve bank's policy response remained at the centre of investor concerns. The RBA raised the cash rate by 50bps to 1.35% in July, which followed 50bps in June and 25bps in May. The board argued monetary stimulus was no longer needed due to the strength of the economy and labour market coupled with inflationary pressures. During the quarter, we also saw a Labor Party win in the Australian Federal election, with Anthony Albanese elected into power. However, the market response to this has been negligible. The macro environment globally continued to be concerning with several headwinds. The war in Ukraine sees no viable resolution and the continued surge in energy and commodities prices in the second quarter of this year has hampered sentiment. Moreover, we have not seen China's zero-Covid policy change materially over the last couple of months, and this has continued to have an impact on global supply chains. Overall, we saw significant rise of inflation rates in developed markets and consequently aggressive cash rate hikes. Similar to Australia, the US labour market saw strength with low unemployment rates (steady at 3.6%) and strong hiring and wage growth. These factors suggest we are in late cycle.

Overall, Australian small capitalization stocks fared worse than large capitalization names. However, the portfolio's natural tilt towards value has been helpful in alleviating some of that pain during the quarter. Over the quarter, within Small Ordinaries, we saw high book and earnings yield stocks perform well on a relative basis. Similarly, momentum and low volatility also showed strong factor performance, whilst Growth and high beta names underperformed. Materials (-31.7%) and IT (-27.9%) performed poorly over the quarter while Consumer Staples (-4.7%) and Energy (+1.9%) were the best performers. Overall, in a late cycle environment, we are seeing stability, earnings certainty and value being preferred over Growth.

From a sector perspective, the largest contributor was the underweight to Materials and the largest detractor was the underweight to Communication Services. The largest stock level contributor was the overweight to New Hope Corporation Limited and the largest stock level detractor was the underweight to Whitehaven Coal Limited. Moreover, our overall value tilt paid off in April.

The portfolio offers a valuation discount to the market-cap benchmark, as measured by price-to-sales (33.6% discount), price-to-cashflow (14.7% discount), and price-to-book (20.7% discount), as well as a dividend yield higher than the benchmark (38.6% premium).

Note: Percentage figures in parenthesis show total return in Australian dollars for the month ending 31 July 2022 unless otherwise noted.

Performance returns are calculated net of management fees and transaction costs. Performance returns for periods greater than one year are annualised. Past performance is not a reliable indicator of future performance.

Data source: First Sentier Investors 2022

Data as at: 31 July 2022

**Portfolio Beta** measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark. The covariance and variance are ex ante calculations based on current weights and historic patterns of return over the past five years.

**Turnover** is the average of sales and purchases divided by the average portfolio size. **Cashflow Adjusted Turnover** is the same as above, except that the lesser of sales and purchases is used in place of the average of the two. This is to adjust for turnover that is related to investing inflows or selling stocks to meet outflows rather than related to active management of the portfolio.

[www.realindex.com.au](http://www.realindex.com.au)

#### For further information

Acting Head of Wholesale Ross Crocker	+61 2 9010 5424	Business Development Manager - VIC/TAS Jack Heinz	+61 3 9225 5056
Key Account Manager - NSW Paul Sleiman	+61 2 9010 5393	Key Account Manager - QLD Quin Smith	+61 4 5509 5505
Business Development Manager – NSW Emerson Bloom	+61 2 9010 5547	Business Development Manager - QLD Julie Day	+61 4 6641 3176
Key Account Manager - VIC/TAS Nick Everitt	+61 3 9225 5055	Key Account Manager - WA/SA/NT Nathan Robinson	+61 4 0327 2440

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