

BETASHARES AUSTRALIAN SMALL COMPANIES SELECT FUND (MANAGED FUND) ASX: SMLL Quarterly Report - March 2023

| Performance ¹ | 1 Month % | 3 Months % | 6 Months % | 1 Year % | 3 Years % p.a. | Inception ² % p.a. |
|--|--------------|---------------|---------------|-------------|-------------------|----------------------------------|
| Fund Return (net) | -1.32% | 2.40% | 11.93% | -10.52% | 16.99% | 6.39% |
| Growth return | -1.32% | 0.27% | 9.60% | -15.92% | 11.39% | 2.30% |
| Income return | 0.00% | 2.13% | 2.33% | 5.40% | 5.60% | 4.09% |
| S&P/ASX Small Ordinaries Accumulation Index | -0.72% | 1.88% | 9.55% | -13.19% | 13.15% | 5.58% |
| Active Return | -0.60% | 0.52% | 2.38% | 2.67% | 3.84% | 0.81% |

Past performance is not a reliable indicator of future performance.

¹ Returns are calculated after fees & expenses have been deducted and distributions have been reinvested.

² Inception date for the Fund is 7 April 2017.

Investment objective

The Fund aims to provide investors with capital growth and income from a portfolio of small company shares listed on the ASX. The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index (Index) over the medium to long term (after fees and expenses).

Responsible entity

Betashares Capital Ltd

Distribution frequency

Semi-annual

Suggested minimum investment timeframe

At least five years

Fund Facts

| | |
|---------------------------|----------------|
| Inception Date | 7-Apr-17 |
| Fund Size | \$72.84m |
| Historical Tracking Error | 0.70% |
| ASX Code | SMLL |
| Bloomberg Code | SMLL AU Equity |
| IRESS Code | SMLL.ASW |

Fees

| | % p.a. |
|------------------------------|--------|
| Management fees | 0.32 |
| Recoverable expenses | 0.07 |
| Performance fee ¹ | 15.5 |

¹ A performance fee may be payable.

This fee is 15.5% of the Fund's performance above the performance benchmark in a calendar quarter.

Investment strategy

The Fund's assets are invested in a portfolio of high quality, profitable small companies that are drawn from a universe of ASX-listed stocks that are generally within the 101-350 largest by market capitalisation. The portfolio typically consists of 50-100 stocks.

The portfolio is constructed using a series of screens that aim to identify companies with positive earnings and a strong ability to service debt. Relative valuation metrics and price momentum are also evaluated as part of the stock selection process. In addition, liquidity is taken into account with a view to selecting stocks that are more liquid relative to other small companies. The Fund does not track a published benchmark.

| Top 5 positions ¹ | % | Asset Allocation ¹ | Actual % | Range % |
|------------------------------|-----|---------------------------------------|----------|---------|
| ILUKA RESOURCES LTD | 3.8 | Security | 98.7 | 90-100 |
| QUBE HOLDINGS LTD | 3.5 | Cash | 1.3 | 0-10 |
| JB HI-FI LTD | 3.2 | ¹ Average over the quarter | | |
| METCASH LTD | 2.9 | | | |
| NEW HOPE CORP LTD | 2.8 | | | |

¹ Excludes any small cap ETFs which may be used from time to time for cash management purposes.

| Sector exposure ¹ | Fund Weight % ² | Index Weight % ² | Active Weight % |
|------------------------------|----------------------------|-----------------------------|-----------------|
| Energy | 9.8 | 5.7 | 4.2 |
| Consumer Staples | 5.6 | 4.4 | 1.2 |
| Consumer Discretionary | 17.6 | 16.1 | 1.5 |
| Industrials | 11.4 | 8.4 | 3.0 |
| Financials | 6.2 | 8.9 | -2.7 |
| Materials | 28.0 | 26.8 | 1.2 |
| Communication Services | 3.0 | 5.1 | -2.1 |
| Information Technology | 1.1 | 4.9 | -3.7 |
| Health Care | 5.0 | 7.3 | -2.3 |
| Real Estate | 12.4 | 12.6 | -0.3 |
| Utilities | 0.0 | 0.0 | 0.0 |
| TOTAL | 100.00 | 100.00 | 0.00 |

¹ Excludes any small cap ETFs which may be used from time to time for cash management purposes.

² As at 31 March 2023

Market commentary

The Australian sharemarket gained 3.46% during Q1 despite the RBA increasing their cash rate target in both the February and March meetings. The collapse of three US regional banks also injected fresh volatility as markets became jittery of wider contagion. Most of the quarter's performance was derived in the last two weeks of March, as moderating inflation indicators and the added banking stress boosted expectations of a pause in the rate hiking cycle. Unsurprisingly, we saw outperformance across growth sectors such as Information Technology and Consumer Discretionary that would stand to benefit most from a less hawkish central bank policy.

The Australian small-cap sector slightly lagged the broader market in Q4 returning 1.88% which was partly driven by the strong performance of large-cap miners such as BHP, Newcrest & Fortescue. Within SMLL's portfolio, footwear distributor Accent Group (AX1) gained 48.7% during the quarter following strong half-yearly results and a positive trading update leading into 2023. While gold producer Alkane Resources (ALK) also had an impressive quarter (+48.6%), benefiting from a higher gold price as well as a guidance upgrade.

Fund performance summary

The Fund outperformed the S&P/ASX Small Ordinaries Accumulation Index by 0.5% during the quarter. Of this 0.5% relative performance, stock selection contributed 0.35%, while sector allocation contributed 0.15%.

Top contributors and detractors from sector allocation

| Sector Name | Active Weight % | Index Return % | Sector Contribution % |
|------------------------|-----------------|----------------|-----------------------|
| Real Estate | -4.3 | -4.7 | 0.2 |
| Information Technology | -1.2 | -4.3 | 0.2 |
| Consumer Discretionary | 1.5 | 9.4 | 0.1 |
| Communication Services | -1.5 | 4.7 | 0.0 |
| Consumer Staples | 3.3 | -0.8 | -0.2 |
| Health Care | -4.7 | 8.7 | -0.4 |

The underweight position in Real Estate and Information Technology contributed to sector allocation while an underweight position in Health Care detracted from relative performance.

Top contributors and detractors from security selection

Key contributors

| Security Name | Sector | Active Wgt % | Stock Return % | Value added % |
|--------------------------|------------------------|-----------------|-------------------|------------------|
| Altium Ltd | Information Technology | 3.2 | 9.1 | 0.4 |
| Orora Ltd | Materials | 2.2 | 21.3 | 0.4 |
| Arb Corp Ltd | Consumer Discretionary | 1.6 | 23.2 | 0.4 |
| Iluka Resources Ltd | Materials | 3.3 | 13.5 | 0.4 |
| Seven Group Holdings Ltd | Industrials | 1.6 | 10.2 | 0.3 |

Key detractors

| Security Name | Sector | Active Wgt % | Stock Return % | Value added % |
|----------------------------|------------------------|-----------------|-------------------|------------------|
| Liontown Resources Ltd | Materials | -1.2 | 95.5 | -1.0 |
| Neuren Pharmaceuticals Ltd | Health Care | -0.5 | 69.8 | -0.3 |
| Harvey Norman Holdings Ltd | Consumer Discretionary | 2.4 | -10.2 | -0.3 |
| Qube Holdings Ltd | Industrials | 0.6 | -4.7 | -0.3 |
| Bendigo And Adelaide Bank | Financials | 4.1 | -6.2 | -0.3 |

On an individual basis, Altium Ltd was the largest contributor (returning 9.13%), and this contributed 0.4% to relative performance. Liontown Resources Ltd was the largest detractor (returning 95.45%), which detracted -1.03% from relative performance.

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