

International Smaller Companies Q4 investment update

January 2025

Investment manager Brian Lum and investment specialist Eoin Anderson give an update on the International Smaller Companies Strategy covering Q4 2024.

Your capital is at risk. Past performance is not a guide to future returns.

Eoin Anderson (EA): Hello and welcome to this International Smaller Companies update for year-end 2024. My name is Eoin Anderson and I'm an investment specialist on the Strategy, and today I'm joined by Brian Lum who's the lead investment manager.

As a reminder, International Smaller Companies is a small cap strategy that looks to invest in a broad portfolio of small, exciting, and most importantly, growing companies from within the international equity universe. So Brian, we've reached the end of the year. Maybe start with a pretty big question. What are your reflections overall on 2024?

Brian Lum (BL): So if you remember this time last year, having reflected on what has been a very challenging period for us, we've made some structural changes. And this year we have made real improvements to our processes and it's about bedding those down in 2024.

On the idea generation side, we felt that decentralisation is really the way to go for us. After more than five years, we have established a strong both internal and external networks to help us with idea generation. So I'm talking about our colleagues internally, we're talking about companies that we meet, and we're talking about other experts. And so we have continued to cultivate these links and we are becoming much more systematic in exploring what is a very vast small cap universe.

On portfolio management, we've gone the other side, the other way. We are becoming much more centralised. It is very much about better consistency in terms of sizing positions, and it's about improved nimbleness and discipline in decision-making. As an example of this, this time last year we had 29 Japanese stocks. This has now come down to, it's now 23 as of today. We have exited a number of the tail holdings and we reinvested the proceeds towards higher conviction ideas. And I

would say that 12 months ago, our portfolio still felt somewhat siloed. This is not the case today. So we've made progress there, I felt.

In terms of portfolio changes, we have introduced 8 new names in the past 12 months and on the other side, we exited 10, and some of that would be linked to M&A (mergers and acquisitions). And more importantly, we have made meaningful additions and reductions, adding to names where we're building conviction, such as Sansan and PVR Inox, and we reduced large holdings, such as Addtech and Chroma ATE on portfolio and valuation grounds.

EA: So it sounds like there's been a reasonable amount of portfolio activity. I wonder if those new buys you mentioned that have come in, if there's anything there that you'd like to highlight?

BL: Our new buys have always been an eclectic mix, and this year, the past year, has been no different.

New names include Flow Trader, which is a European platform for exchange-traded products. We now have a running shoe brand called Xtep in our portfolio. So Xtep shoes are worn by 40 per cent of marathon runners in China, and we have Keeper, which is a Japanese car coating business growing very fast and very exciting. And we have another example would be ViTrox, which is a Malaysian semiconductor testing equipment company and the strong corporate culture there really struck a chord with us.

But I think the stock specifics aside, our approach to portfolio construction and risk management have evolved as well. In the past, I would say that we have been too index-agnostic. So in the past year, we have been increasing our use of risk tools: so correlation tools, factor analysis tools, these are now tools that we do use on a routine basis. And we are working more closely with our risk team on that as well. The aim is really help us avoid unintended correlations and to make sure that our bottom-up insight on stocks can really be expressed in a portfolio context in a more optimal way.

EA: So maybe taking that and moving on to performance, what's the market backdrop been like this year and how has that impacted the portfolio?

BL: It has been a tough year. Overall, smaller companies, especially international smaller companies, remain deeply out of fashion and we were behind the benchmark. Q1 last year had been particularly challenging with Global UniChip, one of our bigger holdings, giving up some of the big significant gains in 2023. And we had broad weaknesses in Japan as well, where we were overweight. But since Q1, the portfolio's performance has stabilised against the index.

There are other trends that I think are worth mentioning. There were weaknesses among some of our industrial names, especially those exposed to the rather depressed auto and EV (electric vehicle) markets.

And the other theme would be the opportunistic acquisitions of small caps, including a number of our own holdings. So three out of five exits related to M&A in the portfolio were Japanese and I think this reflects the depressed valuation there, as well as where the yen is versus the dollar.

I think it's worth talking about AI just briefly as well. We do have a number of AI-related names, especially in semiconductors. So, Chroma ATE, ASPEED, as well as Global UniChip, which we already mentioned. Sentiments there can fluctuate wildly, both on a stock-specific level, as well as on an aggregate level. But for us, the long-term direction is clear.

What I found particularly interesting is actually names outside of semis' using AI in increasingly productive and profitable ways. So examples there would be Appier, Docebo, and Douzone Bizon, amongst various other software names and this phenomenon will spread beyond software over time. So the progress will always be non-linear.

EA: OK, last question. Let's look ahead. Let's look forward to 2025. What are you and the team's goals, aspirations? Is there anything you can share with us?

BL: We are optimistic. We felt that we've made a lot of progress internally in 2024. So it is about building on those and making sure that we continue to improve our processes and never stop questioning what we do. We think that decentralised idea generation and centralised portfolio management is the right approach for us and we felt we are well supported by our colleagues and we are confident of turning our performance around.

I think our team is particularly energised by our portfolio as well as the pipeline. This is a genuine growth portfolio. Our portfolio companies are delivering a significantly higher growth versus the markets. They have significantly stronger balance sheets relative to the benchmark and in the vast majority of cases, we have aligned management at the top of these companies. And in the meantime, the premium over the market has come down quite significantly looking past one, two, three years. So the next few years look exciting for us.

EA: Thank you, Brian. And thank you very much for joining us. We hope you found that informative. But please do let us know if you have any questions. Goodbye.

International Smaller Companies

Annual past performance to 31 December each year (net%)

	2020	2021	2022	2023	2024
International Smaller Companies Composite	46.1	9.1	-38.8	16.2	-2.6
MSCI ACWI ex US Small Cap Index	14.7	13.4	-19.6	16.2	3.9

Annualised returns to 31 December 2024 (net%)

	1 year	5 years	Since inception*
International Smaller Companies Composite	-2.6	2.0	3.7
MSCI ACWI ex US Small Cap Index	3.9	4.8	6.1

*Inception date: 28 February 2019.

Source: Revolution, MSCI. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

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