Annual Report RSM Super Fund 2022

Once again the financial year has wound to an end, and its time to reflect on how our SMSF has performed relative to our absolute goals.

Firstly lets remember what the investment strategy is for the SMSF,

We seek to invest capital in the partial ownership of businesses, at a price that if we had sufficient capital, we would be happy to buy the whole business.

Our intention is to partially own them as long as they continue to be businesses we would be happy to own in entirety.

Secondly, how do I identify these businesses? Most of our investments are characterised by being small or micro cap businesses, often with founders who have significant holdings, profitable, high ROIIC, very low debt, positive FCF, financial stability (history of earnings, FCF & dividends). I have created a spreadsheet that helps to quickly check whether a business is worth deeper research to determine if it is investible for us. The final criteria is price, the business needs to be trading at a discount to value, or have a compelling catalyst for rerating. To summarise,

We look for good businesses we can buy at a fair price.

Thirdly how do we measure our performance?

In terms of measuring the performance of the SMSF on an absolute basis, long term the stated goal is returns of at least 10% on invested capital.

The challenge is we don't really know what the performance is until the day (if ever), we sell down the portfolio, realise the gains/losses and move to 100% cash. Up until that point all we can do is take the closing prices on June 30th each year and calculate a theoretical return on unrealised gains and the dividends earned for the year.

My belief is that measuring the unrealised gain once per year is a necessary if undesirable activity for reporting purposes, measuring the CAGR of those unrealised gains over the life of the SMSF is slightly less undesirable!

I also track the performance that come from actual cash returns, we are inactive enough to ignore capital gains and losses realised and just measure dividends paid.

So the actual cash returns I talk about below is the dividend yield on the portfolio.

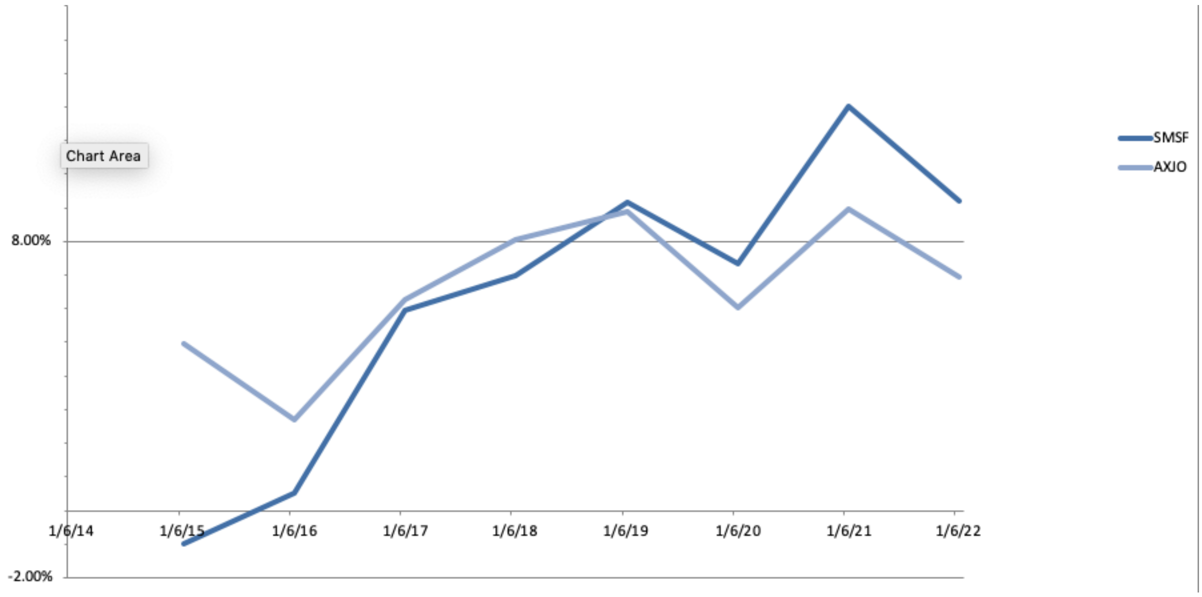
The TWIRR calculation of unrealised capital gains and dividends is compared to our nominal benchmark, the ASX200 Franking Credit Adjusted Superannuation Total Return.

Each year I also consider the SMSF as a single business, compared to the ASX200 considered as a single business. Both are normalised for sales of $100. I suspect this may tell me more about the potential future returns than traditional benchmarking!

In summary,

We seek total returns of at least 10% CAGR over the life of the SMSF.

So what did that all look like for 2021-22?



Unrealised potential capital gains(losses) & dividend returns saw the value of the fund have negative growth on a time waited basis of -8.6% compared to the benchmark -6.12.

Our CAGR over the 8 years life of the SMSF, is 9.2% - just below our absolute goal of 10%.

Our actual cash returns were 6% on the funds unrealised EOFY value and 8.5% on the total capital invested. (Initial funds + all dividends + all contributions over the 8 years.)

This is obviously flattered by the drop in the unrealised EOFY value of the fund, none the less it's a very satisfactory real cash return on any basis.

Below is the comparison between the fund and the ASX200 treated as single businesses based on sales of $100

	price	p/e	div yield	earnings	sales	p/cashflow	p/b	earnings yield	FCF yield
RSM	$ 84.12	10.9	6.01%	$ 7.75	$ 100.00	9.67	1.6	9.2%	11.50%
ASX 200	$ 199.00	14.6	4.87%	$ 13.63	$ 100.00	11.81	1.88	6.8%	

So the P/E is moderate at 11, dividend yield we have discussed, earnings yield of 9.2% is satisfactory as is the FCF yield of 11.5% - these should be a rough proxy for shareholder returns in the long term.

As I have done previously I also did a rough calculation of what our SMSF would look like had we simply held the initial portfolio from 2015 for the ensuing 8 years without any trading activity. With no calculation of dividend stream over the period, the CAGR would have been 6%!

Interestingly the majority of those returns come from 4 businesses, CCP, DDR, MXI & NWH – we still hold 3 of these having sold MXI some years ago. This seems to show that picking a few really good businesses and holding them will not only provide decent returns, but it offsets a few total losses like SGH & VET.

2022-23 will see us continue our simple and straight forward strategy and hopefully we will be rewarded in the fullness of time for sticking to our processes and strategy and not being seduced by the many shiny things and fluffy dogs out there!