# Annual Report RSM Super Fund 2023

Another financial year has come around, and its time to reflect on how our SMSF has performed relative to our absolute goals. This year marks 9 years of running the SMSF so its getting to a meaningful time frame to evaluate.

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, this year that understates the performance because we had about $45k of realised capital gains flow through due to the forced sale of PPH & PTB and the reduction in Apple position. I am ignoring those capital gains as its not a typical activity in the SMSF.

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

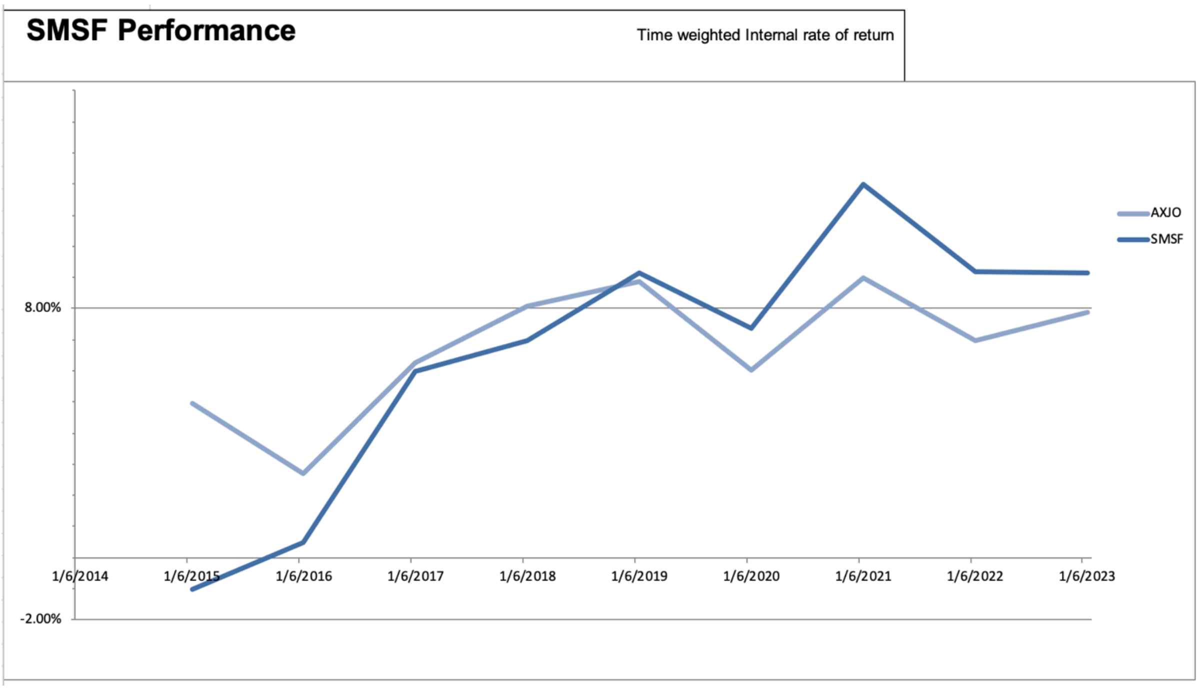
The TWIRR calculation of unrealised capital gains and dividends is compared to our nominal benchmark, the ASX200 Franking Credit Adjusted Superannuation Total Return.

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 2022-23?




Unrealised potential capital gains(losses) & dividend returns saw the value of the fund grow on a time waited basis of 9.4% compared to the benchmark 15.51%.

Our CAGR over the 9 years life of the SMSF, is 9.2% - just below our absolute goal of 10%.

Our actual cash returns were 5.9% on the funds unrealised EOFY value and 7.2% on the total capital invested. (Initial funds + all dividends + all contributions over the 9 years.)

This real cash return is reasonable, although with a cash rate at 5% the equity premium implies a higher return is required.

Below is the comparison between the fund and the ASX200 treated as single businesses based on sales of $100 I have included last years for comparison,

2023 –

| | price | p/e | div yield | earnings | sales | p/cashflow | p/b | earnings yield | FCF yield |
|---|---|---|---|---|---|---|---|---|---|
| RSM | $ 88.39 | 12.2 | 5.89% | $ 7.27 | $ 100.00 | 6.48 | 1.6 | 8.2% | 7.33% |
| ASX 200 | $ 248.00 | 14.7 | 4.75% | $ 3.81 | $ 100.00 | -288.77 | 1.97 | 1.5% | |

2022 -

| | 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 12, dividend yield we have discussed, earnings yield of 8.2% is satisfactory as is the FCF yield of 7.3% - they are slightly lower this year, a reflection of the economic environment and the roll off of Covid. These should be a rough proxy for shareholder returns in the long term.

We did make some significant changes this year, we sold down some APPLE as the position had become oversized, and two holdings got taken out by takeovers, PTB & PPH. I would not have sold either given the choice. All of these funds were moved to cash, giving us a cash position of around $55k at year end and I took lump sum payments of $135,000.

We had a typically inactive year, one new position was initiated, CDA, which I have held for many years in our personal portfolio, it became a compelling buy at just over $5 and has already re-rated to over $8. We added to KSL as it is very undervalued and paying about a 13% yield now.

Our only sales were the previously mentioned forced disposal of PPH & PTB and the disposal of NTD which was sold as a result of the thesis being broken after management mislead about their capital allocation plans and then loaded the business up with debt. We took a significant loss on this position.

NTD remains a salient lesson in selling as soon as red flags arise with management, I had commented on the issue at the time it came up, in March 22 and continued to hold instead of selling. An expensive mistake!

2023-24 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!