



Smallco Broadcap Fund

Quarterly Update 31 December 2013

SBF Portfolio Commentary

Smallco Broadcap Fund (SBF) performed moderately ahead of its benchmark in the December quarter. For the year the Fund delivered a return of 41.0%, which was a pleasing 21.3% ahead of its benchmark.

During the December quarter strong contributions from the likes of Henderson, Seek and 21st Century Fox, were partially offset by negative contributions from Sirtex Medical and Resmed. We have not changed our views on either of these names. We expect Sirtex's growth profile to be significantly enhanced by the SIFLOX trial results later this year and expect Resmed's recent market share losses to at least partially reverse as new products are released in coming quarters.

We currently expect a reasonable improvement in global economic growth in 2014, driven by the forecast end to fiscal contraction in the US and a return to (very slight) growth in Europe. Australia is expected to grow below trend and we remain cautious regarding the likely strength of recovery in the non-mining economy in 2014.

Fundamentally, an improvement in global economic growth should be positive for Equities. However, a combination of the year-end rally and an acceleration in the pace of earnings downgrades in Australia during December (reflecting a combination of the divergent economic outlook and some stock specific issues) suggest some need for caution short term.

The impact of the US Fed unwinding its monetary stimulus depends on trends in inflation & US economic growth. Low inflation and a reasonable improvement in US economic growth are supportive for Equities. We are mindful of the risk that much stronger than expected US economic growth could, perversely, impact Equities through a more rapid increase in longer term bond yields.

SBF retains significant exposure to quality companies that should benefit from expected improvements in developed world economies and, over time, markets. SBF has only very selective exposures to the domestic economy.

SBF Top 5 Holdings

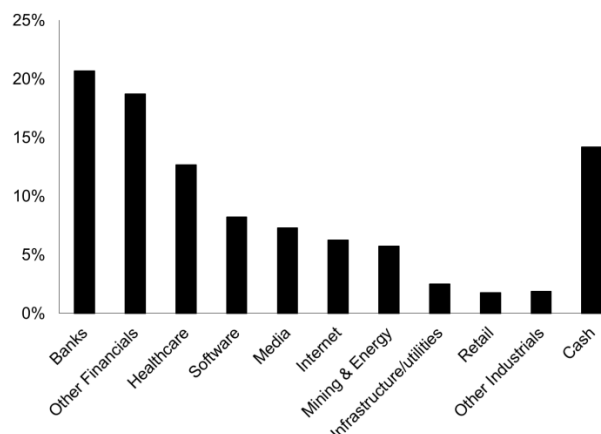
21st Century FOX
Commonwealth Bank
Westpac
IRESS
Resmed

SBF Performance

Return to 31 December 2013			
	SBF	Index*	Out Perf.
3 months	4.0%	3.4%	0.6%
1 year	41.0%	19.7%	21.3%
3 year p.a.	25.7%	8.5%	17.2%
5 year p.a.	32.8%	12.3%	20.5%
Since inception (31.07.08) p.a.	23.4%	5.9%	17.5%
Value of \$100,000 invested at inception	\$310,468	\$136,621	\$173,847

Fund returns calculated after all fees and expenses and based upon exit price and reinvestment of distributions.

SBF Structure: by sector (look through)



SBF Structure – by size

As at 31 December 2013	SBF	Index*
% in S&P/ASX 20	29.4%	66.8%
% in S&P/ASX 50 less 20	8.4%	16.0%
% in S&P/ASX Mid 50	11.2%	9.5%
% outside S&P/ASX 100	36.8%	7.7%
% Cash	14.2%	Nil

* Benchmark index is the S&P/ASX 300 accumulation index



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SBF Fund Description

SBF is a concentrated, long only, index unaware Australian Equities fund providing a broad exposure to the Australian listed market.

SBF typically holds 20-30 stocks and targets returns of 5% p.a. above the ASX 300 accumulation index after fees on a rolling 3 year basis.

SBF can invest up to 40% of assets outside of the ASX 100 and will genuinely deviate significantly from the index when appropriate opportunities are found.

The theoretical investable universe is anything which meets Smallco's liquidity requirements. In practice SBF very rarely invests in mining stocks other than the major miners, is very averse to loss making companies, and takes an extremely cautious approach to biotechs and structurally impaired industries.

SBF's portfolio is constructed around a large core of high quality longer term growth stocks. A range of smaller shorter term value ideas are wrapped around this when Smallco can identify such stocks that meet our requirements for earnings outlook and risk/reward.

SBF can hold up to 50% in cash. Elevated cash positions are held when opportunities are not present in the market.

Smallco's dominant investment tool is fundamental analysis. Focus is placed upon internal financial modelling supplemented by some broker research. We are strong believers that earnings are the key driver of share prices and as such the greater the accuracy in forecasting earnings the more consistent the outperformance.

Contact Details

Phone:

(02) 8256 1000 or 1300 888 583

Fax:

(02) 8256 1010

Mailing Address:

Smallco Investment Manger Limited

GPO Box 4564

SYDNEY NSW 2001

Email:

smallco@smallco.com.au

Web Address:

www.smallco.com.au

Key Investor Information

Strategy	SBF is a concentrated, long only, index unaware Australian Equities fund providing a broad exposure to the Australian listed market.
Process	Smallco manages SBF employing a bottom up fundamental research approach focused upon earnings direction, risks and the underlying businesses quality.
FUM	\$52m AUD
Mid Price	\$1.7090 (31 Dec 2013)
Inception Date	31 July 2008
Portfolio Managers	Andrew Hokin, Rob Hopkins, Bill Ryan and Craig Miller
APIR Code	ASC0003AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.20% of net assets **
Performance Fee	15.0% of outperformance of the Standard & Poor's ASX 300 Accumulation Index. Payable quarterly in arrears. The hurdle resets after 3 years of no performance fees. **
Application & Withdrawal Timing	Units are priced daily on every business day in Sydney.
Distribution	Annually - 30 June
Service providers	Custody: JP Morgan Administration: White Outsourcing

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ARSN 103 148 107

This document does not take into account the investment objectives, financial situation and particular needs of each reader. Accordingly, nothing in this document should be construed as a recommendation by Smallco, or any associate of Smallco or any other person, concerning an investment in the fund.

** Unless otherwise stated, all fees are quoted inclusive of GST, after allowing for an estimate for Reduced Input Tax Credits (RITC). Past performance is not a reliable guide as to future performance. Returns are not guaranteed.