



Smallco Broadcap Fund

Quarterly Update 30 September 2014

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark during the September quarter. This reflected strong profit results from many of the fund's larger exposures and, late in the quarter, some benefit from the fund's underweight positions in Resources and Banks as these sectors declined.

The strongest contributors during the quarter included Sirtex Medical, Isentia Group, GBST Holdings & IRESS. A key portfolio decision made during the first half of the quarter was to further reduce the fund's European exposure through exiting Henderson (given increased risk to near term inflows). This followed the exit of Macquarie Atlas in June and was replaced with new or increased positions in Lend Lease & Computershare.

The August reporting season delivered a solid 7.4% EPS growth for the June half year, albeit this was driven by a rebound in Resources that appears unsustainable. Industrials delivered EPS growth of a modest 3.1% with relatively flat margins despite a prevalence of cost reduction programs. While a sustained depreciation in the \$A would provide an earnings tailwind, we view market expectations of low double digit Industrials EPS growth in FY15, driven by improving margins, as optimistic.

Despite the market selloff in recent weeks the fund's cash position remains elevated. The market decline has been substantially driven by the Resources and Banks sectors, and to a lesser degree by other sectors that had benefited from the global yield trade (eg REITs). While we have used this weakness to moderately increase the fund's position in the Banks post quarter end, the relative resilience of large industrial growth stocks has restricted a wider deployment of the fund's cash reserves.

Notwithstanding this, SBF is close to its investment limit in smaller companies. This reflects selective opportunities provided by strong IPO activity with the fund taking a significant position in Isentia in June and, more recently, smaller positions in Vista and Speedcast.

SBF Top 5 Holdings

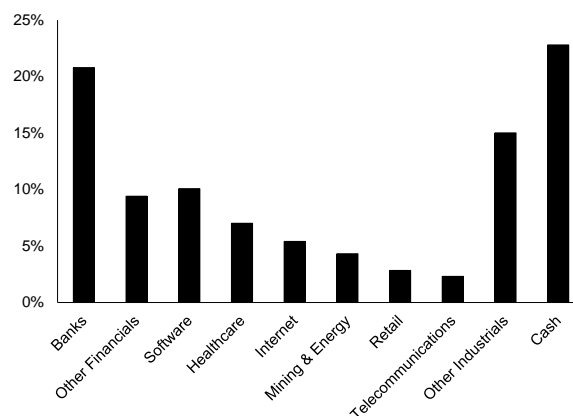
Westpac
Sirtex Medical
Commonwealth Bank
Isentia Group
IRESS

SBF Performance

Return to 30 September 2014			
	SBF	Index*	Out Perf.
3 months	4.2%	-0.6%	4.8%
1 year	14.8%	5.7%	9.1%
3 year p.a.	34.3%	14.4%	19.9%
5 year p.a.	22.1%	6.6%	15.5%
Since inception (31.07.08) p.a.	22.2%	5.6%	16.6%
Value of \$100,000 invested at inception	\$342,529	\$139,749	\$202,780

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 30 September 2014	SBF	Index*
% in S&P/ASX 20	26.6%	66.2%
% in S&P/ASX 50 less 20	6.7%	16.2%
% in S&P/ASX Mid 50	5.4%	9.5%
% outside S&P/ASX 100	38.5%	8.1%
% Cash	22.8%	Nil

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



Smallco Broadcap Fund

Quarterly Update 30 September 2014

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 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 Manager 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	\$71.7m AUD
Mid Price	\$1.6852 (30 Sep 2014)
Distribution	Annually: 30 June
Inception Date	31 July 2008
Portfolio Managers	Andrew Hokin, Rob Hopkins, Bill Ryan, Paul Graham 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. **
Application & Withdrawal Timing	Units are priced daily on every business day in Sydney.
Service providers	Custody: JP Morgan Administration: White Outsourcing

Australian Financial Services Licence # 224 108

ARSN 163 030 626

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.