



Smallco Broadcap Fund

Quarterly Update 31 December 2017

SBF Portfolio Commentary

In very strong market conditions the Smallco Broadcap Fund fell moderately short of its benchmark in the December quarter. Nonetheless, for the 2017 year the Fund delivered a very solid return and exceeded its benchmark by 3.2%.

The Australian equities market rebounded strongly in the December quarter, driven by continued strength in global equities markets and arguably an element of catch up. For the year the Australian market's 11.9% total return was only a little over half that achieved by global equities. Primarily this reflects differences in earnings growth across markets (~4% EPS growth for Australian Industrials in 2017 vs ~12% expected from global equities) which in itself is reflective of differences in economic trends and compositional differences.

At this point market expectations are for continued strong global profit growth in 2018 given that the factors which drove the 2017 earnings rebound - principally robust global economic growth and profit margins (outside of the US) below prior cycle highs - remain in place. The extent to which this translates into another year of solid returns for global equities will depend on a number of factors, in particular trends in inflation and changes to the earnings outlook as the year progresses. While global inflation yet again surprised on the downside in 2017, one must be cognisant of the eventual impact of continued robust global growth and the forward looking nature of markets. Valuations of certain high priced high growth stocks would be particularly sensitive to any greater than expected increase in inflation.

The Fund currently has significant offshore exposure driven by its focus on quality businesses with a strong multi-year growth path. While this does mean the Fund typically runs an overweight position in more highly rated stocks, we attempt to manage this risk by focusing on those businesses which have both a more attractive price-growth trade off and more risk of earnings upside.

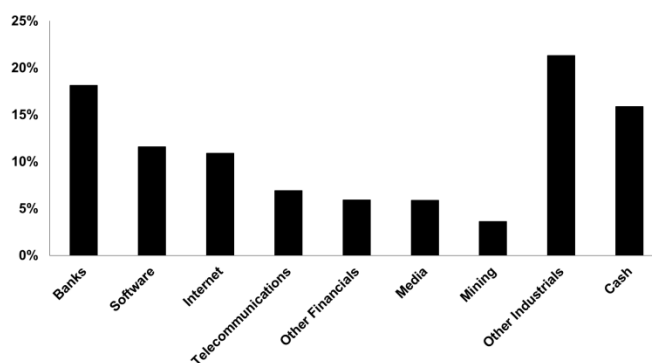
Out of cycle distribution: as previously detailed a 20c per unit distribution was paid to unit holders at the end of the quarter. This is to reduce the size of the Fund and aimed at maintaining the Fund's flexibility when investing in smaller companies. Investors are unable to reinvest this out of cycle distribution. Craig Miller, one of our portfolio managers, is available with regards to this or any other queries on 02 8256 1000.

SBF Performance

Return to 31 December 2017			
	SBF	Index*	Out Perf.
3 months	6.2%	7.7%	-1.5%
1 year	15.1%	11.9%	3.2%
3 year p.a.	13.4%	8.8%	4.6%
5 year p.a.	18.9%	10.1%	8.8%
7 year p.a.	18.8%	8.1%	10.7%
Since inception (31.07.08) p.a.	19.3%	6.8%	12.5%
Value of \$100,000 invested at inception	\$523,222	\$185,072	\$338,150

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

SBF Structure: by sector



SBF Structure – by size

As at 31 December 2017	SBF	Index*
% in Market Cap < \$1bn **	26.0%	3.3%
% in Market Cap \$1bn - \$5bn	34.5%	16.2%
% in Market Cap \$5bn - \$10bn	2.0%	13.2%
% in Market Cap > \$10bn	21.6%	67.3%
% Cash	15.9%	Nil

SBF Top 5 Holdings

Webjet
Commonwealth Bank
GTN Limited
Altium
Corporate Travel

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

** From time to time the market capitalisation of stocks within the portfolio may fall below \$1bn and as a result the Fund's 40% limit may be exceeded. Rather than immediately selling positions to reduce the exposure below 40% (which could adversely affect stock prices), Smallco may remain above 40% for a period of up to 6 months whilst selling down in an orderly fashion. Smallco will not add to any sub \$1bn holdings during this time.



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SBF Fund Description

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

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 the Fund in companies with a market capitalisation of less than \$1bn 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.

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Key Investor Information

Strategy	SBF is a concentrated, long only, largely 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	\$221.1m (\$200.3m post distribution)
Mid Price (cum dist)	\$2.1254 (\$1.9254 ex dist)
Distribution	\$0.2000 (31 Dec 2017 - out of cycle)
Inception Date	31 July 2008
Portfolio Managers	Andrew Hokin, Rob Hopkins, Bill Ryan, Paul Graham, Adam Simpson and Craig Miller
APIR Code	ASC0003AU
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: Link Fund Solutions

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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.

Smallco
Investment Manager