



Smallco Broadcap Fund

Quarterly Update 30 September 2018

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark in the September quarter, driven by a combination of a strong reporting season for the Fund and further outperformance by quality growth companies.

For the market as a whole the August reporting season was broadly in line with expectations with earnings up 7% and the ratio of beats to misses in line with historical averages. A key feature was increased share price volatility following earnings announcements. This was a net benefit for the Fund given core holdings Pinnacle Investment Management, Webjet, Altium and PWR all delivered underlying results ahead of expectations and experienced strong share price gains. Corporate Travel also performed well off a strong but in-line result, while disappointing results from Speedcast and Experience Co were a partial offset.

During the quarter the Fund trimmed a number of positions in response to significant price gains. This, combined with a further reduction in the Fund's weighting to Banks, drove an increase in the Fund's cash position despite the addition of one new position and increasing the weighting of 4 existing positions.

Pinnacle Investment Management was the strongest contributor for the Fund during the quarter. Pinnacle is a multi-affiliate investment management firm, meaning it invests in and provides seed capital, marketing and administration services to boutique funds management businesses, typically on start up. Pinnacle currently invests in and provides services to 12 fund managers controlling over \$45bn of funds under management. This is up from 6 fund managers controlling \$19.8bn two years ago, while Pinnacle's net profit has risen accordingly to \$23.1m from \$8.4m two years ago.

SBF established a significant position in Pinnacle between January and July 2017 on the view that Pinnacle had clearly established itself as the highest quality partner for leading fund managers seeking to establish their own business. Accordingly, our view was that Pinnacle would continue to source quality new affiliates and would not just be solely tied to the success of its 2015 investment in Antipodes Partners, which has been a key driver of Pinnacle's flows recently. This was borne out with the recent additions of Firetrail and Metrics Credit.

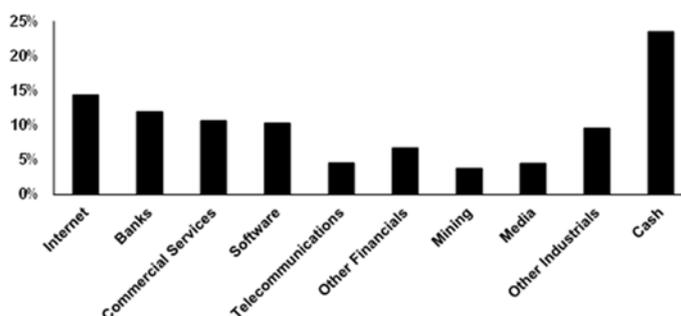
While Pinnacle has more than tripled since SBF commenced establishing a position and now trades on ~40x forecast FY19 earnings, we remain very positive on its long term outlook. In addition to new affiliates, significant potential remains in existing affiliates. Metrics Credit, for example, has the potential to become Pinnacle's largest earnings contributor if it is able to maintain its track record at significantly increased scale. The main short term risks are the relative performance of Pinnacle's affiliates' funds and its earnings leverage to equity market movements.

SBF Performance

| Return to 30 September 2018 | | | |
|--|-----------|-----------|-----------|
| | SBF | Index* | Out Perf. |
| 3 months | 3.5% | 1.5% | 2.0% |
| 1 year | 21.2% | 14.0% | 7.2% |
| 3 year p.a. | 15.6% | 12.2% | 3.4% |
| 5 year p.a. | 14.9% | 8.2% | 6.7% |
| 7 year p.a. | 22.9% | 11.2% | 11.7% |
| 10 year p.a. | 20.3% | 7.7% | 12.6% |
| Since inception (31.07.08) p.a. | 19.3% | 6.8% | 12.5% |
| Value of \$100,000 invested at inception | \$597,023 | \$195,873 | \$401,150 |

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 30 September 2018 | | |
|--------------------------------|-------|--------|
| | SBF | Index* |
| % in Market Cap < \$1bn ** | 22.1% | 6.0% |
| % in Market Cap \$1bn - \$5bn | 34.1% | 18.2% |
| % in Market Cap \$5bn - \$10bn | 2.8% | 11.3% |
| % in Market Cap > \$10bn | 17.5% | 64.5% |
| % Cash | 23.5% | Nil |

SBF Top 5 Holdings

Webjet
Pinnacle Investment Management
Corporate Travel
Altium
GTN Limited

* 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 | \$204.3m |
| Mid Price | \$1.9034 (30 Sep 2018) |
| Distribution | Annually 30 June |
| 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.