



Smallco Investment Fund

Quarterly Update 31 March 2014

SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered 7.5% during the March quarter and for the 12 months was up a pleasing 34.0%. During the quarter Seek Limited, Sirtex Medical Limited, Magellan Financial Group and REA Group delivered solid contributions that were partially offset by ResMed Inc.

For the March quarter equity markets in Australia and the US were modestly positive. This was despite negative US data surprises, a slowdown in China and a rise in geopolitical tensions as Russia occupied the Crimea. Over the quarter the Small Ordinaries Index was up 0.9%.

The global and the Australian economies both appear to be improving modestly and, combined with low interest rates and no signs of rising inflation, would appear supportive of equities, albeit the speed of the withdrawal in US monetary stimulus adds some uncertainty to the mix. In the SIF portfolio, trimming of very high PER stocks – mostly internet related – and a lack of reasonably priced alternatives to buy has resulted in an elevated cash level at 26% and sounds a note of caution on the outlook.

One of SIF's significant holdings is Sirtex Medical Limited (SRX). SRX is a medical device company which manufactures and distributes an FDA approved treatment for liver cancer. It has been profitable for the last 8 years and has accumulated over \$40m of cash while funding 5 large randomised controlled trials to supplement the preliminary positive data supplied by earlier small trials.

If the results of these trials are positive, they will lift the SRX process from a fourth line (salvage) treatment to a frontline treatment and result in a very significant increase in its usage. The first of these results are due in early CY15. The anecdotal evidence suggests to us that the trial results will be positive, which would give a valuation considerably above the current share price. The stock market appears to be taking the same view and the share price is up 40% over the last year.

SIF Further Updates

Please note, that along with providing regular quarterly newsletters, we are available during business hours to discuss any relevant issues or provide ongoing updates.

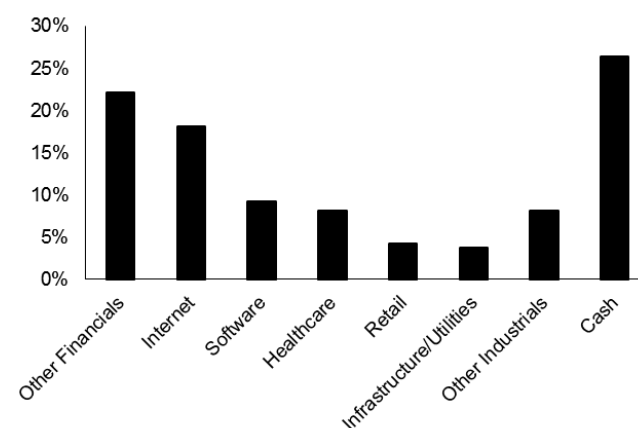
Please feel free to contact Craig Miller, one of our fund managers, for any queries or needs on 02 8256 1000.

SIF Performance

Return to 31 March 2014	
3 months	7.5%
1 year	34.0%
3 year p.a.	29.4%
5 year p.a.	31.1%
10 year p.a.	15.4%
Since inception (31.10.00) p.a.	14.5%
Value of \$100,000 invested at inception	\$612,271

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

SIF Structure: by sector (look through)



SIF Significant Holdings

IRESS Limited
Magellan Financial Group Limited
REA Group
Seek Limited
Sirtex Medical Limited



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SIF Fund Description

SIF is a concentrated, absolute return, index unaware Australian equity fund investing predominantly in smaller listed companies. In addition SIF may invest in cash when opportunities are scarce and invest up to 20% of the fund in larger Australian listed companies (within the ASX 100).

Smallco believes that higher returns are available from smaller companies as these companies are generally not as well followed by the market which in turn makes mispricing more common. Particular focus is placed upon companies with a market capitalisation of between \$100m to \$500m - the Smallco "sweet spot".

SIF typically holds 25 to 35 stocks on the premise that it is better to have a holding of core stocks that offer solid investment fundamentals than a large number of "OK" investments.

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.

Stock weightings within the portfolio are determined by the assessment of the quality of the stock, the likely investment outcome, liquidity and the risk of sustained capital loss.

SIF very rarely invests in mining stocks, is very averse to loss making companies, and takes an extremely cautious approach to biotech and structurally impaired industries.

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Key Investor Information

Strategy	SIF is a concentrated, Australian equity smaller company focused fund that invests predominantly long but can effectively short when opportunities are found.
Process	Smallco manages SIF employing a bottom up fundamental research approach focusing upon earnings direction, risks and the underlying businesses quality.
FUM	\$185m AUD
Mid Price	\$3.9168 (31 Mar 2014)
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Administration cost	0.39% of net assets *
Performance Fee	18.64% of the performance above the fund's previous end-of-six-month period high. Payable 6 monthly. *
Distribution	Annually: 30 June
Service providers	Custody: JP Morgan Administration: White Outsourcing
Liquidity	Time to exit 50% of SIF assets: < 1 day

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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 quoted are 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.