



Smallco Investment Fund

Quarterly Update 31 December 2014

SIF Portfolio Commentary

The return for Smallco Investment Fund (SIF) was 4.0% during the December quarter and 15.3% for the calendar year. During the quarter our holdings in Ozforex, Magellan Financial, Sirtex Medical and Vista were each up in excess of 20%.

For the December quarter the Small Ordinaries index returned negative 3.9% while for the calendar year it was down 3.8%.

International markets had a roller-coaster ride in the December quarter. In mid-October, markets were concerned about global political tensions, but then rallied into November. Subsequently, a collapse in oil prices undermined confidence in the global economy as well as hitting shares. However, the MSCI World index still managed to rally into the end of the year and was up 2.9% for the quarter. The Australian market fairly closely followed the world indices, while falling commodity prices, particularly iron ore and oil impacted Australian resources companies negatively.

One stock that we own is Vista Group International (VGI). VGI produces cinema management software and in the 18 years of its existence has built a strong market position with 37% of the global large circuit cinema market – nearly four times its largest competitor.

The current forecast profit growth principally comes from a contract with Regal, the largest exhibitor in the world. VGI is currently rolling out its core software product to Regal's 575 sites. However, the real upside for VGI's earnings comes from a number of other relatively immature products, in particular Movio.

Movio is based on big data analytics and assists cinema operators to target their marketing. This product will be rolled out in 2015. However, the bigger upside from Movio is expected to come from use by the movie studios - supplying them with better market data and reshaping their marketing efforts.

The fund purchased some shares in VGI at the float price of NZ\$2.35 and more when it listed in August 2014. We regard its current share price of NZ\$3.80 as fully valued in the short term.

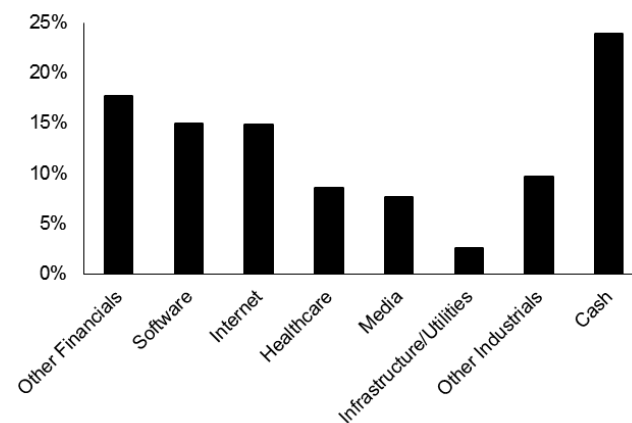
Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.

SIF Performance

| Return to 31 December 2014 | |
|--|-----------|
| 3 months | 4.0% |
| 1 year | 15.3% |
| 3 year p.a. | 37.5% |
| 5 year p.a. | 22.0% |
| 10 year p.a. | 12.5% |
| Since inception (31.10.00) p.a. | 14.2% |
| Value of \$100,000 invested at inception | \$656,594 |

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 (alphabetical order)

IRESS
Isentia Group
REA Group
Seek
Sirtex Medical



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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 | \$206.2m AUD |
| Mid Price | \$4.1636 (31 Dec 2014) |
| Distribution | Annually: 30 June |
| Inception Date | 31 October 2000 |
| Portfolio Managers | Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham and Craig Miller |
| APIR Code | ASC0001AU |
| Minimum Initial | \$40,000 |
| Buy/sell costs | +/- 0.45% |
| Management Fee | 1.40% of net assets * |
| Administration cost (FY14) | 0.28% of net assets * |
| Performance Fee | 18.64% of the performance above the fund's previous end-of-six-month period high. Payable 6 monthly. * |
| Service providers | Custody: JP Morgan Administration: White Outsourcing |
| Liquidity | Time to exit 50% of SIF assets: < 1 day |

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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 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.