



# Smallco Investment Fund

## Quarterly Update 30 September 2015

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered a positive 7.6% for the September quarter and for the 12 months was up a solid 16.6%. Over the same periods the Small Ordinaries index had a difficult time and was down 3.9% for the quarter and down 4.9% for the year.

World markets were down approximately 9% over the quarter. The major international negative was poor China economic data which was exacerbated by the Chinese Government first trying to prop up its stock market, but ultimately having it fall by close to 30% for the quarter. This was followed by inaction by the US Federal Reserve on raising interest rates citing "monitoring developments abroad". This somewhat surprised and concerned equity markets which interpreted it as a sign the Fed knows more bad news than the markets. This was a communication error, which recent speeches have tried to counter.

With volatile markets such as now, it is worthwhile reflecting on Smallco's investment philosophy. Our aim is to invest in companies with strong medium to long term earnings growth. In the short term, the vagaries of the stock market will move share prices up and down unpredictably. However, our strong view is that in the medium to long term, the stock market performance of a company will be driven by its long term earnings growth. To achieve this, the team at Smallco spend the majority of their time doing fundamental research. That is studying companies and their industries and attempting to forecast the earnings outlook for the next few years.

The best measure of our success in achieving our desired outcome is our long term performance, where the fund has risen by a compound return of 14.3% pa since inception over 15 years ago. This compares to the Small Ordinaries index which has returned 4.3% pa over that period or the broader ASX300 at 7.4% pa.

Additionally, it is worth noting that during the August reporting month, when the Small Ordinaries index fell 4.5%, SIF was up 0.5% with nine of the twelve largest stocks in the portfolio returning a positive market performance for the month principally due to positive earnings surprises. Most of these companies we have spoken about before and include APN Outdoor, Cover-More, Isentia, Magellan Financial Group, oOh!media, Sirtex and Speedcast.

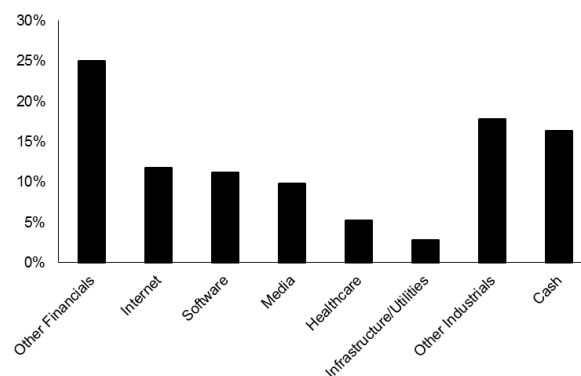
Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.

### SIF Performance

Return to 30 September 2015	
3 months	7.6%
1 year	16.6%
3 year p.a.	26.4%
5 year p.a.	23.2%
10 year p.a.	11.7%
Since inception (31.10.00) p.a.	14.3%
Value of \$100,000 invested at inception	\$735,809

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)

Cover-More Group  
Isentia Group  
oOh!media  
Sirtex Medical  
Veda Group



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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	\$232.4m AUD
Mid Price (cum)	\$4.3396 (30 Sep 2015)
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 (FY15)	0.25% 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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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.