



Smallco Investment Fund

Quarterly Update 30 September 2017

SIF Portfolio Commentary

Smallco Investment Fund (SIF) returned 4.5% for the September quarter and 1.9% for the twelve month period. For the quarter the Small Ordinaries index was up 4.4% and for the year 3.0%.

Over the quarter, the fund benefited from solid returns from Appen, Wisetech Global and Altium, while CBL Insurance, Corporate Travel and Webjet were negative contributors.

The Australian economy continues with ongoing modest growth. The Index of Consumer Sentiment remains in pessimistic territory which it has done for all of 2017. We continue to be cautious on the Australian economic outlook.

Internationally economic growth has good momentum and some economists have upgraded their 2017 forecasts recently. A number of the major international stock markets are at or close to all-time highs. This is despite the political tension on the North Korean peninsula.

G8 Education (GEM), Australia's largest for-profit childcare services provider, is in our significant holdings list. SIF started buying GEM at the end of 2016 and with an average entry price of \$3.30, it has been a good performer for SIF already this year (last \$4.10). GEM is undergoing a transformation under a new management team and refreshed Board, which we believe will set the company up for a sustained period of earnings growth. GEM had been successfully following an aggressive acquisition based business model, however after its centre numbers doubled in 2014, the group started to show roll up fatigue through 2015/2016 (high debt, waning organic growth and narrowing valuation arbitrage potential), at a time when industry conditions had become more difficult. The new management team has reset the focus towards cost reduction, efficiency gains and organic revenue growth opportunities. These types of drivers had taken a back seat to acquisition arbitrage for most of GEM's earlier years and given the scale of the business, there is significant scope for GEM to take advantage of these more operational factors.

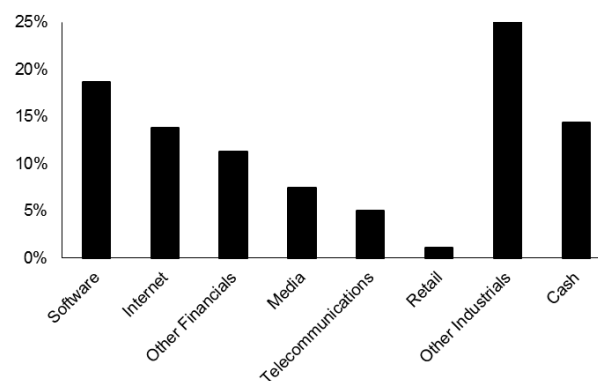
Industry conditions remain a headwind in the childcare sector. Affordability is getting stretched with an increasing percentage of parents hitting the childcare rebate cap earlier in the year. This factor, together with a cyclical increase in new centre supply over 2016 has resulted in a fall in occupancy levels for most industry participants over the past 18 months. However potential resolutions to both of these issues appear in sight. Low acquisition activity from the major childcare players has resulted in a fall in completion rates for proposed centre developments and this should ease supply concerns going into 2018. Most importantly, the next reset in affordability comes mid 2018 with the introduction of the Federal Government's new childcare package which is expected to ease average net childcare costs and be a positive for GEM's occupancy rates.

SIF Performance

Return to 30 September 2017	
3 months	4.5%
1 year	1.9%
3 year p.a.	14.2%
5 year p.a.	20.8%
10 year p.a.	10.1%
Since inception (31.10.00) p.a.	14.2%
Value of \$100,000 invested at inception	\$939,727

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)

Altium
Corporate Travel Management
G8 Education
GTN
Webjet

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



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SIF is a concentrated, index unaware Australian equity fund investing predominantly in smaller listed companies. SIF may invest in cash when opportunities are scarce and invest up to 20% of the fund in Australian companies within the ASX100. SIF is currently closed to new investment.

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	\$334.2m AUD
Mid Price	\$4.7094 (30 Sep 2017)
Distribution	Annually 30 June
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Adam Simpson and Craig Miller
APIR Code	ASC0001AU
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Administration cost (FY17)	0.15% 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.