



Smallco Investment Fund

Quarterly Update 31 March 2019

SIF Portfolio Commentary

Smallco Investment Fund (SIF) returned 20.2% for the March quarter versus the Small Ordinaries index which increased 12.6%. The March quarter saw a strong rebound in global equity markets after the December quarter sell off. On a rolling twelve month basis SIF is up 15.5% versus the Small Ordinaries index up 5.8% for the same twelve month period.

Investor appetite for growth was a key feature of the February reporting period. Those stocks that exceeded market earnings expectations or delivered results that increased confidence in future growth projections were handsomely rewarded. SIF enjoyed a very strong February reporting season as its major holdings which are typically growth orientated delivered results that were in line with or ahead of healthy expectations. Best performers over the quarter included Altium, Appen, IDP Education and Webjet.

We do caution that the broad based recovery in the market through 1Q19 has once again seen valuations returning to relatively high levels. In particular the valuations of high quality growth companies that the fund typically favours are returning towards stretched levels and a pullback would not surprise. Cash levels remain relatively high at ~22% as we struggle to find reasonably priced stocks with attractive earnings outlooks in the current market.

IDP Education was one of the fund's holdings that delivered results well ahead of expectations and enjoyed a very strong performance in the March quarter. IDP is a provider of international student placement services and high-stakes English language testing services. It also operates English language schools in South East Asia. It provides a direct exposure to the global growth in international education and the strong demand from people looking to study, work and live in English speaking destinations.

IDP has over 100 placement offices in more than 30 source countries. It places over 40,000 students annually into ~700 institutions across six countries. IDP is also the co-owner of IELTS along with strategic partners British Council and Cambridge Assessment English. IELTS is the world's leading high-stakes English test recognised by more than 10,000 organisations worldwide.

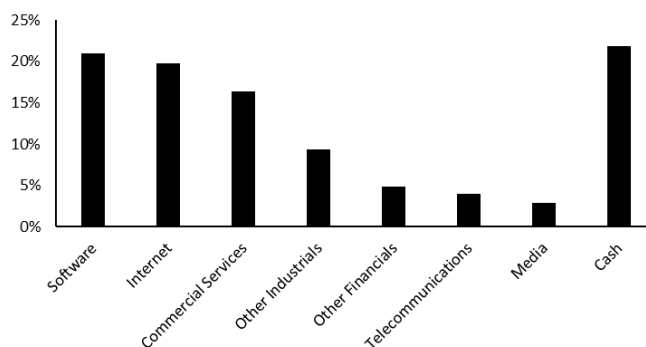
IDP has grown EPS at a CAGR of over 20% since listing in 2015. The last two years has seen the company invest heavily in the creation of an integrated digital platform that transforms the student experience and should result in increased leads and conversion of IDP's student services. While the benefits of this investment are expected to drive an acceleration of earnings growth rates into FY20 and FY21 we do acknowledge the stock already commands a significant valuation premium.

SIF Performance

Return to 31 March 2019	
3 months	20.2%
1 year	15.5%
3 year p.a.	14.2%
5 year p.a.	14.5%
10 year p.a.	22.5%
Since inception (31.10.00) p.a.	14.5%
Value of \$100,000 invested at inception	\$1,203,678

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
Appen
Corporate Travel Management
IDP Education
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 Fund Description

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.

Contact Details

Phone:

(02) 8256 1000 or 1300 888 583

Fax:

(02) 8256 1010

Mailing Address:

Smallco Investment Manager Limited
GPO Box 4564
SYDNEY NSW 2001

Email:

smallco@smallco.com.au

Web Address:

www.smallco.com.au

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	\$367.3m AUD
Mid Price	\$5.3636 (31 Mar 2019)
Distribution	Annually 30 June
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Adam Simpson, Han Xu and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Admin cost (FY18)	0.14% 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: Link Fund Solutions
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.