



# Smallco Broadcap Fund

## Quarterly Update 31 March 2014

### SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark during the March quarter. This reflected solid gains across much of the portfolio following the announcement of strong profit results by many of the Fund's companies. The strongest contributors during the quarter included Seek, REA Group, Sirtex Medical and Capitol Health.

The February reporting season delivered EPS growth of 5.6% for the market ex-Resources, slightly ahead of expectations. Although growth was still modest there were some positive signs with a number of companies leveraged to consumer spending starting to see benefits from the lower interest rate cycle. Despite this, higher valuations and an expectation of reduced central bank support globally led to more volatile market conditions during the quarter.

The Australian equity market has re-rated strongly over the past 2 years with banks and core industrials the key beneficiaries. Indeed, many companies with good long term structural growth that form the core of our investment style have been keenly sought after. The result is that it has become more difficult to identify such companies trading at reasonable near term valuations. Our response to this environment has been to:

- Focus on those stocks which have the greatest expected long term growth and upside.
- Trim or exit stocks that rank lower on these metrics. This and the exit of FOX (delisting) and Resmed (risk of significant further regulatory change) has led to a more elevated cash position.
- Avoid a number of generously priced stocks that have reasonable but not strong growth potential.

Even with these measures the pullback in the prices of quality growth stocks in recent weeks may pose some risk to the Fund's short term performance should it continue. However, it may also provide opportunities to deploy some of the Fund's elevated cash reserves at more attractive entry points.

### SBF Top 5 Holdings

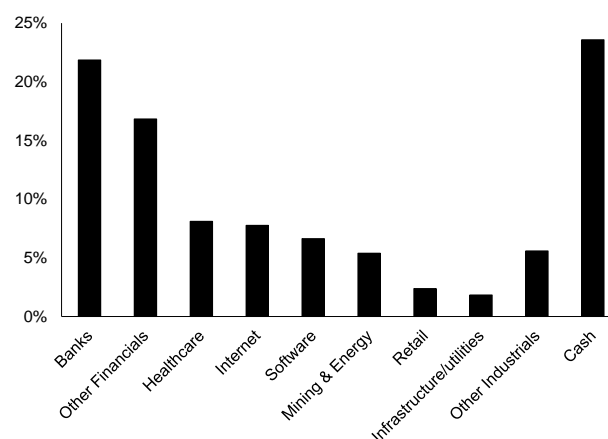
Westpac  
Sirtex Medical  
ANZ Banking Group  
OzForex  
Commonwealth Bank

### SBF Performance

| Return to 31 March 2014                  |           |           |           |
|--|-----------|-----------|-----------|
|  | SBF       | Index*    | Out Perf. |
| 3 months                                 | 7.2%      | 2.0%      | 5.2%      |
| 1 year                                   | 34.9%     | 13.0%     | 21.9%     |
| 3 year p.a.                              | 26.8%     | 8.1%      | 18.7%     |
| 5 year p.a.                              | 34.6%     | 13.2%     | 21.4%     |
| Since inception (31.07.08) p.a.          | 23.7%     | 6.0%      | 17.7%     |
| Value of \$100,000 invested at inception | \$332,951 | \$139,335 | \$193,616 |

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

### SBF Structure: by sector (look through)



### SBF Structure – by size

| As at 31 March 2014     | SBF   | Index* |
|-------------------------|-------|--------|
| % in S&P/ASX 20         | 30.0% | 66.7%  |
| % in S&P/ASX 50 less 20 | 2.1%  | 15.6%  |
| % in S&P/ASX Mid 50     | 12.1% | 9.6%   |
| % outside S&P/ASX 100   | 32.2% | 8.1%   |
| % Cash                  | 23.6% | Nil    |

\* Benchmark index is the S&P/ASX 300 accumulation index



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### SBF Fund Description

SBF is a concentrated, long only, index unaware Australian Equities fund providing a broad exposure to the Australian listed market.

SBF typically holds 20-30 stocks and targets returns of 5% p.a. above the ASX 300 accumulation index after fees on a rolling 3 year basis.

SBF can invest up to 40% of assets outside of the ASX 100 and will deviate significantly from the index when appropriate opportunities are found.

The theoretical investable universe is anything which meets Smallco's liquidity requirements. In practice SBF very rarely invests in mining stocks other than the major miners, is very averse to loss making companies, and takes an extremely cautious approach to biotechs and structurally impaired industries.

SBF's portfolio is constructed around a large core of high quality longer term growth stocks. A range of smaller shorter term value ideas are wrapped around this when Smallco can identify such stocks that meet our requirements for earnings outlook and risk/reward.

SBF can hold up to 50% in cash. Elevated cash positions are held when opportunities are not present in the market.

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.

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### Key Investor Information

|                                 |   |
|---------------------------------|---|
| Strategy                        | SBF is a concentrated, long only, index unaware Australian Equities fund providing a broad exposure to the Australian listed market.                  |
| Process                         | Smallco manages SBF employing a bottom up fundamental research approach focused upon earnings direction, risks and the underlying businesses quality. |
| FUM                             | \$57m AUD   |
| Mid Price                       | \$1.8328 (31 Mar 2014)  |
| Inception Date                  | 31 July 2008  |
| Portfolio Managers              | Andrew Hokin, Rob Hopkins, Bill Ryan and Craig Miller   |
| APIR Code                       | ASC0003AU   |
| Minimum Initial                 | \$40,000  |
| Buy/sell costs                  | +/- 0.45%   |
| Management Fee                  | 1.20% of net assets **  |
| Performance Fee                 | 15.0% of outperformance of the Standard & Poor's ASX 300 Accumulation Index. Payable quarterly in arrears.  |
| Application & Withdrawal Timing | Units are priced daily on every business day in Sydney.   |
| Distribution                    | Annually - 30 June  |
| Service providers               | Custody: JP Morgan<br>Administration: White Outsourcing   |

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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 are quoted 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.