



Smallco Broadcap Fund

Quarterly Update 30 June 2014

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) fell short of its benchmark during the June quarter. This primarily reflected short term underperformance by quality growth stocks (raised as a possibility in our March update) and the market chasing yield proxies in an environment of continued central bank support. Over the year to June SBF outperformed its benchmark by a pleasing 9.9%.

The June quarter was marked by a slowdown in Australian consumer spending, reflecting both reduced consumer sentiment and continued slow household income growth. To date this has led to an increase in profit warnings in those sectors most exposed – retail and media – but has had only modest impact on broader earnings expectations. Indeed, earnings forecasts for Small Industrials (which is most exposed to these sectors) experienced downgrades in the June quarter at ~2.5x the rate of larger industrial companies.

Despite the more limited downgrades by larger more diversified businesses, the more challenging domestic environment is likely to make it more difficult for these companies to exceed earnings expectations than it was in the February reporting season. Moreover, we expect market expectations for double digit EPS growth for core industrials in FY15 to be challenged in the August reporting season.

In this environment our focus remains on identifying stocks with the best long term growth and valuation upside, whilst attempting to limit exposure to near term earnings risks. During the June quarter the major addition to the portfolio was newly listed media monitoring group Isentia, which was partially offset by exiting a small position in Lend Lease (which reached our price target late in the quarter) and trimming a number of others.

We have recently increased the size of our investment team with Paul Graham joining us as a portfolio manager. Paul is highly experienced, having covered Australian smaller companies for much of the past 19 years, and is very well known by the Smallco team.

SBF Top 5 Holdings

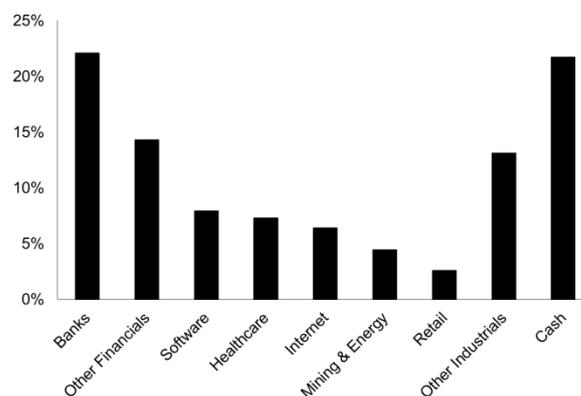
Westpac
Commonwealth Bank
Sirtex Medical
Isentia Group
ANZ Banking Group

SBF Performance

Return to 30 June 2014			
	SBF	Index*	Out Perf.
3 months	-1.3%	0.9%	-2.2%
1 year	27.2%	17.3%	9.9%
3 year p.a.	28.0%	9.9%	18.1%
5 year p.a.	28.9%	11.0%	17.9%
Since inception (31.07.08) p.a.	22.4%	5.9%	16.5%
Value of \$100,000 invested at inception	\$328,691	\$140,532	\$188,159

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 30 June 2014	SBF	Index*
% in S&P/ASX 20	27.8%	67.0%
% in S&P/ASX 50 less 20	2.5%	15.9%
% in S&P/ASX Mid 50	9.8%	9.5%
% outside S&P/ASX 100	38.2%	7.6%
% Cash	21.7%	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	\$60m AUD
Mid Price (cum dist)	\$1.8093 (30 Jun 2014)
Distribution	\$0.1921 (30 Jun 2014)
Inception Date	31 July 2008
Portfolio Managers	Andrew Hokin, Rob Hopkins, Bill Ryan, Paul Graham 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.
Service providers	Custody: JP Morgan Administration: White Outsourcing

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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 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.