



Smallco Broadcap Fund

Quarterly Update 30 September 2016

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark during the September quarter.

This primarily reflected strong profit results from many of the Fund's larger exposures, with Webjet, GTN, Corporate Travel and CBL Insurance among those that performed particularly well. APN Outdoor was one holding which provided disappointing guidance commentary, however the Fund had significantly reduced its holding given the high multiples APO was trading on in the lead up to its result.

While SBF's major companies reported, on the whole, quite pleasing results, reporting season for the overall market was quite mixed. Overall market average earnings per share fell 10% in FY16, dragged down by weakness in Resources, Banks and company specific issues at a number of large industrials such as Woolworths. Despite this, median industrial stock EPS grew ~5%, which gives a better feel for the slow (but still positive) growth environment many companies are experiencing.

CBL Insurance is one company that has performed well for the fund that seems to fly under the radar of many investors. CBL is a New Zealand based global insurer that focuses on identifying profitable non-traditional insurance lines. CBL writes business in 25 countries and has particular expertise in offshore construction and property industries and international credit surety.

CBL differs to many traditional insurers in avoiding the typical high volume wide and deep approach to industries it targets. Instead CBL aims to be very selective in the risks it underwrites with the aim of delivering higher and more consistent underwriting margins. The result has been returns on equity consistently above 20% and strong profit and share price growth. While insurance earnings are more difficult to forecast, the range of growth opportunities recently outlined by the company means we believe there is the prospect of 40%+ EPS growth in 2017. If this is delivered CBL should continue to perform well.

SBF Top 5 Holdings

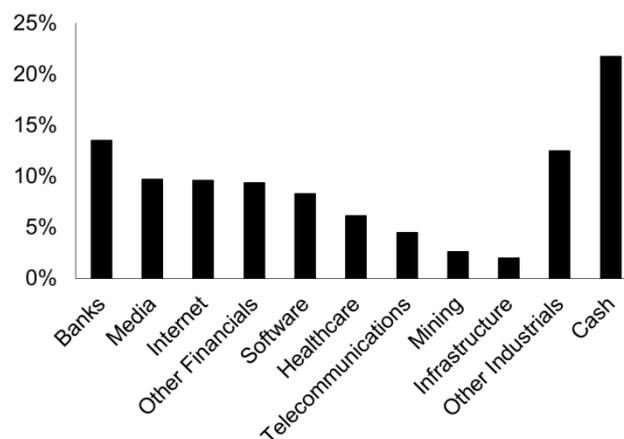
Webjet
 GTN Limited
 Westpac
 Speedcast International
 Commonwealth Bank

SBF Performance

Return to 30 September 2016			
	SBF	Index*	Out Perf.
3 months	13.3%	5.2%	8.1%
1 year	23.2%	13.5%	9.7%
3 year p.a.	16.9%	6.0%	10.9%
5 year p.a.	27.5%	11.0%	16.5%
7 year p.a.	20.9%	6.5%	14.4%
Since inception (31.07.08) p.a.	21.1%	5.7%	15.4%
Value of \$100,000 invested at inception	\$476,220	\$157,564	\$318,656

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 September 2016	SBF	Index*
% in Market Cap < \$1bn	30.0%	3.7%
% in Market Cap \$1bn - \$5bn	25.0%	13.4%
% in Market Cap \$5bn - \$10bn	3.8%	14.3%
% in Market Cap > \$10bn	19.5%	68.6%
% 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, largely 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 the Fund in companies with a market capitalisation of less than \$1bn 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, largely 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	\$214.9m AUD
Mid Price	\$1.9951 (30 Sep 2016)
Distribution	Annually 30 June
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.