



# Smallco Broadcap Fund

## Quarterly Update 30 June 2017

### SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered solid outperformance of its benchmark during the June quarter. This led to the Fund's performance for the Financial Year falling only marginally short of its benchmark despite significant underperformance by small industrials, a key focus of the Fund's style.

The Fund's solid performance during the June quarter amid weaker market conditions reflected a combination of the Fund avoiding all earnings downgrades during the May/June "confession season" and a return to outperformance of quality growth businesses.

The latter, however, may reverse somewhat given early signs that economic data in the US and China may be starting to meet or beat expectations, after consistently missing expectations in recent months. This, combined with more hawkish comments by several international central banks has, in recent weeks, led to increased market preference for lower quality cyclical stocks which the Fund's style does not favour.

The Fund was reasonably active during the June quarter. A number of positions were trimmed where either our short term price targets had been met or where we felt there was potential risk to earnings expectations. This was offset by 4 additions to the portfolio and increased weightings in a couple of positions which we felt were unfairly sold down during the quarter.

One of the positions added to during the quarter was GTN. GTN provides traffic reports to radio stations in Australia, Canada, the UK, Brazil and now the US. The Australian and Canadian businesses have high market shares, generate most of the earnings and, in our view, are worth at least \$2.70/share. GTN's stock price has fallen since announcing an entry to the US market last December, with the market focused on initial losses in the US. During the June quarter GTN fell to a 20%+ discount to our valuation of the existing business (ex-US) and the Fund topped up its holding.

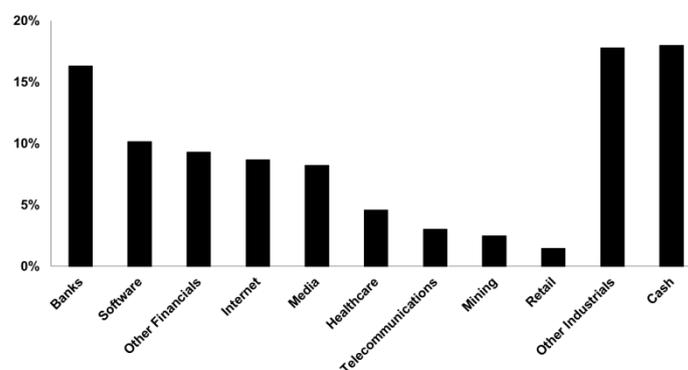
While the US is expected to lose money for at least the next 18 months GTN has, through acquisition and winning contracts, created an advertising platform in the US that has similar penetration to its competitor. GTN management, who have significant US experience, are boosting its sales infrastructure to monetise this platform. The potential is for the US to double GTN's earnings if it can achieve a share of the existing radio traffic advertising market approaching its share of listeners. While the final outcome is uncertain, we expect GTN to re-rate as the US revenue increases over the coming 12-18 months.

### SBF Performance

Return to 30 June 2017			
	SBF	Index*	Out Perf.
3 months	1.5%	-1.6%	3.1%
1 year	12.9%	13.8%	-0.9%
3 year p.a.	13.0%	6.6%	6.4%
5 year p.a.	22.6%	11.6%	11.0%
7 year p.a.	20.5%	8.8%	11.7%
Since inception (31.07.08) p.a.	19.1%	6.2%	12.9%
Value of \$100,000 invested at inception	\$474,613	\$170,410	\$304,203

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

### SBF Structure: by sector



### SBF Structure – by size

As at 30 June 2017	SBF	Index*
% in Market Cap < \$1bn **	32.6%	4.0%
% in Market Cap \$1bn - \$5bn	24.1%	14.3%
% in Market Cap \$5bn - \$10bn	3.5%	13.2%
% in Market Cap > \$10bn	21.7%	68.5%
% Cash	18.0%	Nil

### SBF Top 5 Holdings

- Commonwealth Bank
- Corporate Travel
- GTN Limited
- Webjet
- G8 Education

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

\*\* From time to time the market capitalisation of stocks within the portfolio may fall below \$1bn and as a result the 40% limit may be exceeded. Rather than immediately selling positions to reduce the exposure below 40% (which could adversely affect stock prices), Smallco may remain above 40% for a period of up to 6 months whilst selling down in an orderly fashion. Smallco will not add to any sub \$1bn holdings during this time.



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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 is currently closed to new investment.

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	\$212.7m AUD
Mid Price (cum dist)	\$1.9883 (30 Jun 2017)
Distribution	\$0.0604 (30 Jun 2017)
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: Link Fund Solutions

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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.