



Smallco Broadcap Fund

Quarterly Update 30 September 2017

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered solid outperformance of its benchmark during the September quarter. This was particularly pleasing given continued strong outperformance by Resources which the Fund deliberately heavily under-weights.

The Fund's performance was aided by a solid profit reporting season in which all of the Fund's significant positions delivered results in line with or ahead of expectations. GTN, which we spoke about in our June quarter update, performed particularly well during the quarter. GTN's result was a little ahead of expectations, however it is likely the stock's rebound has been driven more by positive commentary regarding early traction on advertising yields in its US business. Despite the rally, the market is now placing little or no value on the US business, rather than a negative value. So we continue to see significant long term value in GTN, though recognise the potential for ongoing volatility as the US business moves towards profitability over the next two years.

While SBF's major companies reported quite pleasing results, reporting season for the overall market was very mixed. 12 month forward consensus earnings were cut ~2% across both large and small industrial companies as a long list of disappointing results suggested overall profit conditions were not as buoyant as implied by recent strong business surveys and employment reports. Sectors displaying either outright weakness or disappointment versus expectations included telecoms, insurance and private hospitals.

Despite the relatively disappointing domestic earnings season, the earnings environment globally remains positive, supported by global economic trends which are some of their strongest since the GFC. This environment is supporting the performance of a number of the Fund's companies which have significant offshore exposure.

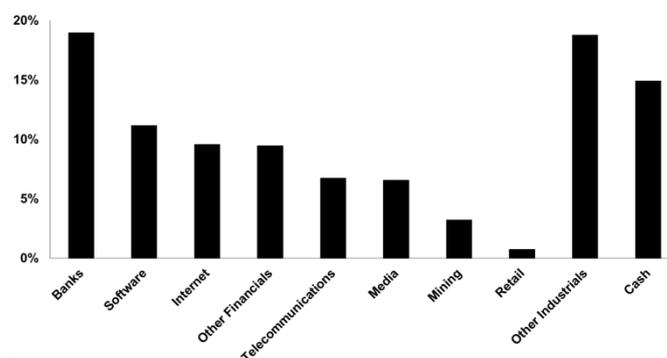
The combination of solid global economic growth and still very low inflation is continuing to support robust global equity valuations, as markets continue to price in a very slow pace of normalisation of monetary policy globally. While we expect the global earnings environment to remain positive near term, the extent to which inflation responds to continued declines in the unemployment rate in a number of countries will have some influence on both the ultimate pace of monetary policy normalisation and equity market pricing globally.

SBF Performance

Return to 30 September 2017			
	SBF	Index*	Out Perf.
3 months	3.8%	0.8%	3.0%
1 year	3.4%	9.0%	-5.6%
3 year p.a.	12.9%	7.1%	5.8%
5 year p.a.	20.5%	9.9%	10.6%
7 year p.a.	19.0%	7.7%	11.3%
Since inception (31.07.08) p.a.	19.1%	6.1%	13.0%
Value of \$100,000 invested at inception	\$492,474	\$171,772	\$320,702

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 September 2017	SBF	Index*
% in Market Cap < \$1bn **	31.7%	4.1%
% in Market Cap \$1bn - \$5bn	28.3%	14.9%
% in Market Cap \$5bn - \$10bn	3.9%	12.5%
% in Market Cap > \$10bn	21.1%	68.4%
% Cash	14.9%	Nil

SBF Top 5 Holdings

GTN Limited
 Webjet
 Westpac
 Commonwealth Bank
 Corporate Travel

* 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 Fund's 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	\$216.1m AUD
Mid Price	\$2.0005 (29 Sep 2017)
Distribution	Annually 30 June
Inception Date	31 July 2008
Portfolio Managers	Andrew Hokin, Rob Hopkins, Bill Ryan, Paul Graham, Adam Simpson and Craig Miller
APIR Code	ASC0003AU
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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ARSN 163 030 626

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.