



19 July 2005
PO Box R718
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**Smallco Investment Fund -
6 Monthly Newsletter to 30/6/2005**

In the 6 months to 30 June the fund returned +10.9% and the ending unit price, pre distribution, was \$2.0695. For the last year the fund returned +39.9%. We regard both of these results as being satisfactory.

The Small Ordinaries Index performed strongly in the first six months of the year, up 21%, but was only modestly positive in the last six months, up 5.3% and contained three months of negative market returns. Iress, Macquarie Communications Group and Sydney Futures Exchange, stocks that we have previously spoken about and in which we continue to retain significant holdings, were major contributors over the last six months, yet again. Our effectively short sold positions were significant contributors over the period.

Investor Group (IGP) was a significant contributor to the fund's performance over the period. IGP is an aggregator of accounting practices and, with over 1,000 accounting professionals, is now the fifth largest Australian accounting group. IGP buys firms which typically have revenue of \$2m to \$3m and assists them to grow both organically and by regional acquisitions. Some functions, such as training and compliance, have been centralised and IGP provides its member groups with a series of key performance indicators with which to benchmark themselves against their peer groups. The management team, led by the managing director Kevin White, has been acquiring and integrating accounting practices since 1988. Over that time IGP has shown itself to be adept at resolving the issues that these mergers present. The real upside from the group, however, is the financial planning portion of the business, which IGP encourages its member firms to develop. As the trusted personal accountants, the IGP members are in the ideal position to help clients with their financial planning needs. The IGP management team is working hard to increase the percentage of profits which flow from this side of the business and in the 2005 financial year Financial Planning should be close to one third of total IGP profits. This will also have the effect of increasing return on funds employed and continuing the company's solid EPS growth record.

On behalf of Bill Ryan and myself, I would like to take this opportunity to thank you for your support of the fund. We will continue to work diligently over the coming period to achieve a satisfactory return and I look forward to giving you an update in 6 months.

Yours sincerely,

Rob Hopkins
Smallco Investment Manager