



6 January 2006
PO Box R718
Royal Exchange
NSW 1225

**Smallco Investment Fund -
6 Monthly Newsletter to 31/12/05**

In the 6 months to 31 December the fund returned +13.7% with the unit price ending the year at \$2.2122. For calendar year 2005 the fund returned +25.5%. We regard both of these results as being satisfactory.

Stocks which made major contributions over the period include Record Investments Limited, Sydney Futures Exchange and Tribeca Learning. Sydney Futures Exchange, we have spoken about numerous times in the past as it has consistently performed well. Tribeca is a profitable small company which dominates the on-line provision of financial services education and professional development for Australian financial institutions. With a highly scaleable model in a growth industry and the potential to expand into other products and similar industries, Tribeca offered significant growth potential. Unfortunately from a long term view, but profitably short term for the fund, this potential has been cut short by a takeover bid which looks like being successful.

Record Investments is an investment company. It invests in and makes loans to participants of structured finance transactions. The core asset classes in which Record has invested to date have been shipping, commercial aircraft, rail assets, IT, real estate and securitisation programs. Record also invests opportunistically outside these asset classes where the investment meets the Company's risk and return criteria. Most of Record's investments are introduced to it by its 24% shareholder, the Allco Finance Group. We were attracted to Record, because it offered a high return on funds employed backed up by the long track record of the Allco Group. After meeting with the company's management several times over a period of 6 months, we eventually got the confidence that the business would be able to consistently deliver the returns that its first two years as a listed company indicated. At the time we first invested over 2 years ago, Record was an undiscovered small company and we were able to invest at marginally above the float price of \$2.00. Record has recently announced that it is discussing a merger with Allco. Conceptually we support the merger, as it eliminates the conflicts of interest between the two groups. However, we were surprised that the share price increased over 30% to over \$8.50 on the announcement of the discussions, given that no merger terms have been announced. Consequently, we have recently lightened our position.

On behalf of the Smallco team, 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