



11 July 2006  
PO Box R718  
Royal Exchange  
NSW 1225

## Smallco Investment Fund - 6 Monthly Newsletter to 30/06/06

In the 6 months to 30 June 2006 the fund returned +19.1% and the ending unit price, pre distribution, was \$2.6347. For the last year the fund returned +35.5%. We regard both of these results as satisfactory.

Stocks which made major contributions over the period include Gullivers Travel Group, Allco Financial Group (previously called Record Investments) and Iress Market Technology. We have spoken about Iress numerous times in the past as it has consistently performed well. In our last newsletter we mentioned that Record had proposed to merge with its 24% shareholder, Allco Financial Group. This has now happened and the combined entity has taken on the name of Allco Financial Group.

Gullivers Travel is New Zealand's largest vertically integrated travel company, incorporating wholesale, corporate, retail, internet and technology businesses. Its origins date back 30 years to 1976, when the managing director and major shareholder, Andrew Bagnall, founded Gullivers Travel as a wholesale travel company. Since then Mr Bagnall's interests in the travel industry have expanded both organically and through acquisition and the group was floated in December 2004 on both the NZ and Australian Stock Exchanges. As a relatively small New Zealand based company, it appeared to us that the stock market ignored it after the float. Consequently, despite the company over delivering on the first year of its prospectus profit forecasts and management announcing that they expected to at least meet forecasts the following year, the share price languished. The prospective price earnings multiple fell to under 10x and the dividend yield went to over 6% at the time we bought it in May 2005. In May 2006, S8 Limited made a friendly bid for the stock, which we anticipate accepting in due course.

Smallco aims to achieve high compound returns in the fund by investing in the stock market. We believe that it is easier to achieve this aim by limiting the size of the fund. Consequently, it is currently the manager's intention to start limiting in-flows to the fund once it reaches \$200m and close it at \$250m. While it is very difficult to estimate when this will occur, we expect it will be within the next year or two.

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