



22 January 2007
PO Box R718
Royal Exchange
NSW 1225

**Smallco Investment Fund -
6 Monthly Newsletter to 31/12/06**

In the 6 months to 31 December 2006 the fund returned +24.4% with the unit price ending the year at \$3.0192. For the last year the fund returned +48.2%. We regard both of these results as satisfactory.

Stocks which made major contributions over the period include Mariner Bridge Investments (MBR), Allco Financial Group (AFG) and Iress Market Technology. We have spoken previously about Iress Market Technology and Allco Financial Group and both these investments continue to perform well.

AFG was an unlisted company and last year merged with the listed Record Investments in which it owned 24%. As part of the merger, the managing director of Record Investments, Mr Mark Phillips, left the group and has now setup MBR. Similar to Record Investments, MBR is an investment vehicle that invests in structured finance transactions while developing managed funds. Early indications are that the company has been performing well and has already invested most of its shareholder funds, despite having only been operational for a few months.

Limiting the fund in-flows

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. As detailed in our Product Disclosure Statement and reiterated in our newsletter 6 months ago, our intention is to start limiting in-flows once the fund reaches \$200m. Consequently, we will be closing the fund to new investors as at the 31st January 2007. At this time, we expect the size of the fund and reserved capacity to be approximately \$200m. Existing investors will be able to invest new monies and their distributions for a period after that. However, they will not be able to invest in the fund under another name.

Closing the fund to in-flows

Once the size of the fund and reserved capacity reach approximately \$250m the offer will be closed to general applications. It is impossible to predict when this will occur, but our forecasts suggest it will probably be within 2 to 6 months. It is our current intention to continue to operate the Distribution Reinvestment Plan.

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