



16 July 2007
PO Box R718
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Smallco Investment Fund - 6 Monthly Newsletter to 30/06/07

In the 6 months to 30 June 2007 the fund returned +10.9% and the ending unit price, pre-distribution, was \$3.3492. For the last year the fund returned +38.0%. We regard both of these results as satisfactory.

Stocks which made major contributions over the period include Iress Market Technology (IRE), Talent2 International (TWO) and Transpacific Industries (TPI). We have spoken about Iress numerous times in the past as it has consistently performed well. TWO is the reincarnation of the specialist recruitment pairing of Geoff Morgan and Andrew Banks of Morgan and Banks fame. The fund has been invested in TWO for approximately 2.5 years.

Transpacific Industries main business is waste management. Initially the company built a dominant position in the liquid waste industry. With the acquisition of Waste Management New Zealand in March 2006, TPI became a significant operator in solid waste in Australia and New Zealand. A number of further acquisitions including Baxter, Twigg and Cleanaway has made TPI the largest solid waste organisation in the region. Largely driven by the acquisition spree, the share price has performed strongly since listing almost 2 years ago at \$2.40 to be above \$12.00 now. The management team is headed by founder and major shareholder Terry Peabody, who has impressive attention to detail, a clear strategic outlook and has assembled a strong management team.

These three stocks continue to have strong earnings growth outlooks. However, the market is currently valuing them on high price earnings multiples so they need to continue their good profit growth.

Closing the fund to in-flows

So that it is easier for the fund to achieve high compound returns, we will limit the size of the fund. As previously announced, the offer was closed to the general public at the end of January 2007. The manager is still accepting applications from existing members of the Trust. Once the size of the fund reaches approximately \$250m the offer will be closed to general applications. The fund is now approximately \$220m. 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