



10 July 2008
PO Box R718
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**Smallco Investment Fund -
6 Monthly Newsletter to 30/06/08**

As you would be aware the last financial year and particularly the last 6 months have been very challenging in investment markets. The Small Industrials Accumulation Index, which most closely resembles Smallco's universe, was down 31.9% in the 6 months to 30 June 2008. To put this in perspective, in the 18 years that this index has been calculated, this fall is more than twice as bad as any previous 6 monthly decline.

In the 6 months to 30 June 2008 the fund returned -33.7% and the ending unit price, pre-distribution, was \$1.7053. For the last year the fund returned -46.0%.

The continuing market sell off in recent months reflects a combination of ongoing impacts from the US sub-prime crisis and ensuing debt contagion, increasing inflationary concerns and significantly higher interest rates in Australia. While these issues continue to drive uncertainty over the short term market outlook, the significant and often indiscriminate selling that has occurred at the smaller end of the market is providing numerous opportunities for long term investors to purchase high quality businesses at prices that we believe will eventually prove to be well below their long term intrinsic value.

Our continuing focus in stock selection is to buy high quality businesses (generally those with a strong competitive position) which we expect to have strong profit and earning per share (EPS) growth. The reason for this is that as long as the companies continue to increase profits and EPS we believe that in due course the market will recognise this and it will be reflected in the share price.

Two examples of the fund taking advantage of recent price weakness to purchase or increase positions in high quality companies are Wotif.com and Primary Health Care.

Wotif.com is the leading provider of online accommodation booking services in Australasia. Since listing in 2006 Wotif has reported EPS growth in excess of 30% per annum and has been able to maintain a very strong balance sheet despite buying major competitors in Australia and Asia. The benefits of these acquisitions and the likelihood of on-line accommodation continuing to increase its penetration drive our view that Wotif should continue to deliver strong EPS growth over the next 2 years despite a slower travel market in Australia. The market has not shared our view and has sold the stock down to all time lows providing us with an opportunity to increase our holding.

Primary's original business was the provision of medical centres. Primary's typical medical centre has 10 to 15 doctors offering bulk billing services and often including a range of ancillary services. In our view, the success of the business has been the ability of its founder, Dr Ed Bateman, to get efficiencies and economies of scale into the traditional General Practitioner's business model. Historically the share price has been very expensive. However, early this calendar year, Primary took over Symbion Health which more than doubled the size of the business, but the share price has approximately halved. Based on the company's forecast synergies, the stock looks cheap on a 1 year view. However, in its current negative mood the market is not believing the forecasts of Dr Bateman, a very experienced medical manager and proven performer, instead preferring to assume the merger will not be a success. This has provided us with an opportunity to establish a position in this high quality company.



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.

Please note that along with providing regular 6 Monthly Newsletters to our co-invested unit-holders we are also available during business hours to further discuss any relevant issues or to provide ongoing fund updates. Please feel free to contact our Business Manager Craig Miller on 02 8256 1000.

A handwritten signature in black ink that reads "Rob Hopkins".

Yours sincerely,
Rob Hopkins
Smallco Investment Manager