



7 July 2010

PO Box R718
Royal Exchange
NSW 1225

Dear Investor,

**Smallco Investment Fund -
Six-monthly newsletter to 30/06/10**

Smallco Investment Fund (SIF) returned 32.4% for the year ended 30 June 2010, outperforming the Small Industrials Accumulation Index by 22.1%. The closing unit price was \$1.6449, before the 5.84c distribution. Particularly pleasing to us was SIF's outperforming in both the rising markets of the first half of the year (34.7% which was 6.4% better than the index's 28.3%) and outperforming in the falling markets of the second half of the year (-1.7% which was 12.3% better than the index's -14.0%).

The first six months of the 2010 financial year were characterised by equity markets rebounding strongly from the very depressed levels caused by the Global Financial Crisis. The Australian equity market's improvement has been based on forecasts of an improving world economy and anticipation of improving corporate earnings to come through in the 2011 financial year. While we believe these two broad themes remain largely in place, the negative markets of the last six months have shown that recovery will vary significantly across countries and across companies.

ResMed (RMD) has been a strong contributor to the Fund's performance over the period and is currently one of our largest holdings. RMD is an Australian technology success story. It is one of two companies that dominate the world market in medical products for the treatment of sleep apnea. The market for sleep apnea products has been growing at 12-15% pa. Strong growth in this market is expected to continue due to increasing public awareness of the debilitating effects of sleep apnea, increasing obesity and the fact that only a small percentage of the affected population is currently being treated.

RMD's 20% growth in compound earnings per share over the last four years has been impressive. In the nine months to 31 March 2010 growth in earnings per share has accelerated to 35%. The company's outlook remains encouraging. RMD has just had a major technology release which we expect will boost sales as well as reduce manufacturing costs by more than 10%. The company is also expected to benefit from a new testing practice which allows sleep apnea patients to be tested in their homes rather than having to go through the more intrusive process of being tested overnight in a sleep disorder clinic.

Looking forward, we are cautiously optimistic about the outlook for the Australian economy and, more significantly, about the medium term earnings outlook of the portfolio of quality companies in which the Fund is invested.

As an aside, it was pleasing to be recognised by our peers during the year. In May Smallco was announced as Money Management's 2010 Australian Equities (Long Short) Fund Manager of the Year.

On behalf of the Smallco team, I would like to take this opportunity to thank you for your continued support and I look forward to giving you an update in six months. We remain focused and will continue to work diligently over the coming period to achieve a satisfactory return. The Fund remains open for investment.



Please note that as well as providing regular six-monthly newsletters we are available during business hours to discuss any relevant issues or to provide ongoing fund updates. Please feel free to contact Craig Miller, one of our investment managers, on 02 8256 1000.

Yours sincerely

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

Rob Hopkins
Managing Director
Smallco Investment Manager