



7 July 2011

PO Box R718
Royal Exchange
NSW 1225

Dear Investor

**Smallco Investment Fund -
Six-monthly newsletter to 30/06/11**

In what was a difficult 6 months for equity markets it is pleasing to report a positive, albeit modest, return of 0.2%. The closing unit price was \$1.7885, before the 2.40¢ distribution.

Smallco Investment Fund outperformed the Small Industrials Accumulation Index over the past 6 months (0.2% versus -2.6%) but underperformed that same index over the past 12 months (12.7% versus 15.7%).

Macquarie Atlas Roads (MQA) has been a major positive contributor to the Fund's performance over the last 6 months and is currently one of our largest holdings. MQA was formed in January 2010 when toll road operator Macquarie Infrastructure Group (MIG) split into Intol (the relatively lowly geared "good MIG") and MQA (the highly geared "bad MIG").

We bought a small position in MQA soon after its listing at around 68¢ as we felt the market was overly concerned about MQA's chances of rolling over holding company debt in relation to its key asset, French tollroad operator APRR. Post the June 2010 announcement that MQA and its partners were buying out the minority interests in APRR, we significantly increased our stake at around 95¢. This purchase of the minority interests in APRR allowed MQA and its partners to tax consolidate APRR and the holding company vehicle, significantly increasing overall cashflow and thus significantly reducing the risk in relation to the debt rollover due in 2013.

While the market has responded strongly to this reduction in MQA's risk profile (MQA is now trading around \$1.75), we still believe there is considerable long term value in MQA given the high and growing distributions we expect it to pay once the refinancing of APRR holding company debt is completed (expected by April 2012, a year ahead of the debt maturity date).

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 in May of this year. For the second year in succession Smallco was announced as a finalist in Money Management's 2011 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. 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 should you have any queries with regard to your investment.

Yours sincerely

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

Rob Hopkins
Managing Director
Smallco Investment Manager