



Smallco Investment Fund

Quarterly Update 31 December 2013

SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered 1.4% during the December quarter and for the year was up a pleasing 37.0%. During the quarter Seek Limited, Macquarie Atlas Roads and Ozforex Group Limited delivered solid contributions that were partially offset by Sirtex Medical Limited and Carsales.com Limited.

The good September quarter equity market resulted in a flood of new floats for the quarter just gone. The early success of these floats resulted in pricing becoming quite high, with price earnings ratios in excess of 20 times becoming the norm. Fortunately, this unsustainable euphoria died when the market had a minor correction in November. For the quarter the Small Ordinaries index was marginally down.

The global economy appears to be improving modestly. Combined with low interest rates and no signs of rising inflation, this would appear supportive of equities, albeit the speed of the withdrawal in US monetary stimulus adds some uncertainty to the mix. Domestically in the short term we are cautious about the local economy and hence the equity market. However, in the longer term there are some prospects for an improvement.

Over the quarter, SIF invested in Ozforex Group Limited (OFX). As the names implies, OFX is an Australian headquartered online provider of international payment services (forex). The forex market is currently dominated by the major trading banks, typically charging a 2-4% margin and taking 4-5 days to complete a transaction. OFX typically charges 0.6% margin and transacts overnight and hence is very competitive.

OFX's historical growth rate has been solid and we expect it will increase significantly over the forecast period as it rolls out its white label deal with international bricks and mortar payment specialist Travelex and expands into the US. OFX has recently received licenses to operate in states covering over 75% of the US population.

SIF Further Updates

Please note, that along with providing regular quarterly newsletters, we are available during business hours to discuss any relevant issues or provide ongoing updates.

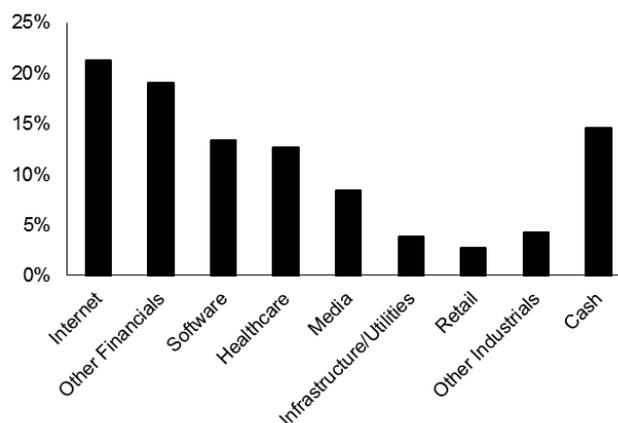
Please feel free to contact Craig Miller, one of our fund managers, for any queries or needs on 02 8256 1000.

SIF Performance

Return to 31 December 2013	
3 months	1.4%
1 year	37.0%
3 year p.a.	28.5%
5 year p.a.	29.3%
10 year p.a.	15.6%
Since inception (31.10.00) p.a.	14.1%
Value of \$100,000 invested at inception	\$569,678

Fund returns calculated after all fees and expenses and based upon exit price and reinvestment of distributions.

SIF Structure: by sector (look through)



SIF Significant Holdings

IRESS Limited
Magellan Financial Group Limited
Ozforex Group Limited
Seek Limited
Sirtex Medical Limited



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SIF Fund Description

SIF is a concentrated, absolute return, index unaware Australian equity fund investing predominantly in smaller listed companies. In addition SIF may invest in cash when opportunities are scarce and have up to 20% of the fund in larger Australian listed companies (within the ASX 100).

Smallco believes that higher returns are available from smaller companies as these companies are generally not as well followed by the market which in turn makes mispricing more common. Particular focus is placed upon companies with a market capitalisation of between \$100m to \$500m - the Smallco "sweet spot".

SIF typically holds 25 to 35 stocks on the premise that it is better to have a holding of core stocks that offer solid investment fundamentals than a large number of "OK" investments.

Smallco's dominant investment tool is fundamental analysis. Focus is placed upon internal financial modelling supplemented by some broker research. We are strong believers that earnings are the key driver of share prices and as such, the greater the accuracy in forecasting earnings the more consistent the outperformance.

Stock weightings within the portfolio are determined by the assessment of the quality of the stock, the likely investment outcome, liquidity and the risk of sustained capital loss.

SIF very rarely invests in mining stocks, is very averse to loss making companies, and takes an extremely cautious approach to biotech and structurally impaired industries.

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Key Investor Information

Strategy	SIF is a concentrated, Australian equity smaller company focused fund that invests predominantly long but can effectively short when opportunities are found.
Process	Smallco manages SIF employing a bottom up fundamental research approach focusing upon earnings direction, risks and the underlying businesses quality.
FUM	\$170m AUD
Mid Price	\$3.6442 (31 Dec 2013)
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Administration cost	0.39% of net assets *
Performance Fee	18.64% of the performance above the fund's previous end-of-six-month period high. Payable 6 monthly. *
Distribution	Annually: 30 June
Service providers	Custody: JP Morgan Administration: White Outsourcing
Liquidity	Time to exit 50% of SIF assets: < 1 day

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This document does not take into account the investment objectives, financial situation and particular needs of each reader. Accordingly, nothing in this document should be construed as a recommendation by Smallco, or any associate of Smallco or any other person, concerning an investment in the fund.

* Unless otherwise stated, all fees quoted are inclusive of GST, after allowing for an estimate for Reduced Input Tax Credits (RITC). Past performance is not a reliable guide as to future performance. Returns are not guaranteed.