



Smallco Investment Fund

Quarterly Update 30 September 2014

SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered 6.8% during the September quarter and for the 12 months was up a solid 12.3%. During the quarter Iress, Isentia Group and Sirtex Medical performed positively, while Carsales.com, Ozforex Group and Macquarie Atlas Roads were negative contributors.

For the September quarter the Small Ordinaries index was modestly positive at 1.5% while for the year to 30 September it was down -0.1%.

In general the Australian market had a solid reporting season and that was reflected in share prices during August, particularly for Industrial companies. However, towards the end of the quarter, the Australian and international markets became concerned about global political tensions – Ukraine, Iraq and Hong Kong – with a falling iron ore price having a significant negative impact on the Australian resources index.

One of our major holdings is IRESS (IRE). SIF originally invested in IRE in 2002 when it had a market capitalisation of \$260m. At the time we invested it was already the dominant provider of information systems to the professional equity market in Australia and New Zealand (ANZ). Since then it has increased its ANZ equity market dominance, expanded into the financial planning market and now has significant profitable operations in Canada, South Africa and, with the acquisition of Avelo just over a year ago, the UK.

Avelo is the UK's largest financial planning software vendor and also has a mortgage sourcing hub. The UK Government has introduced legislation which will force a considerable increase in compliance on financial planners and dealer groups over the next two years, providing an incentive for a technology upgrade with Avelo being a major beneficiary. In CY14 Avelo is expected to provide 20% of IRE's earnings and over 30% in two years time.

Since SIF originally invested, IRE has returned a very impressive compound return of around 16.5% pa and is now capitalised at \$1.6bn. As such, it is a quintessential example of the sort of business we like to invest in: a company with a dominant market position, good pricing power, producing a high return on funds employed and driven by a good management team.

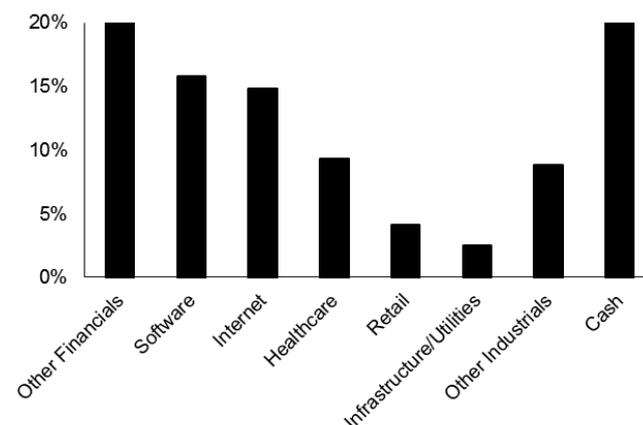
Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.

SIF Performance

Return to 30 September 2014	
3 months	6.8%
1 year	12.3%
3 year p.a.	36.4%
5 year p.a.	22.5%
10 year p.a.	13.6%
Since inception (31.10.00) p.a.	14.2%
Value of \$100,000 invested at inception	\$631,173

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 (alphabetical order)

- IRESS
- Isentia Group
- REA Group
- Seek
- Sirtex Medical



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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 invest 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 biotechs 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	\$194.4m AUD
Mid Price	\$4.0024 (30 Sep 2014)
Distribution	Annually: 30 June
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Administration cost (FY14)	0.28% of net assets *
Performance Fee	18.64% of the performance above the fund's previous end-of-six-month period high. Payable 6 monthly. *
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.