



# Smallco Investment Fund

## Quarterly Update 30 June 2016

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered 1.7% for the June quarter and 20.2% over the past year. For the quarter the Small Ordinaries index was 5.8% and for the year 14.4%.

Over the quarter, the fund benefited from solid returns from Webjet, Vista Group and oOh!media while Speedcast, Cover-More and Pepper Group were negative contributors.

The vote for the UK to exit the European Union has caused a short term negative impact to both global and the Australian equity markets. However, we anticipate the impact going forward from here, while unlikely to be positive, will be relatively minor unless the UK's move causes a major destabilisation in Europe.

We acquired a small holding in WiseTech Global (WTC), which listed in April. WTC is a leading software provider to the global logistics industry. The founder and CEO, Richard White, has spent the last 20 years totally focussed on developing his product and remains very involved in all aspects of the businesses development as well as remaining a 50% shareholder.

WTC was a relatively early pioneer in Software-as-a-Service (SaaS) and first introduced it in 2008 in conjunction with On-Demand pricing which allowed the company to accelerate sales by making it easier for customers to access its product without significant upfront costs or prolonged sign-on processes. WTC spends over 40% of its revenue on product development and to date the product has had over 2.5 million development hours spent on it, is in 115 countries, has over 150,000 module users and in 2015 handled over 2.7 billion transactions.

With an addressable market forecast to be US\$5bn by FY19, WTC is ideally positioned to benefit from the global trend towards cloud-deployed software solutions due to its strong technology platform and should continue to take market share from legacy solutions. Market forecasts are for WTC to deliver in excess of 25% p.a. revenue growth over the forecast period and EPS growth in excess of 30% p.a. over FY17 and FY18.

As a SaaS business, WTC commanded a solid valuation at IPO and has subsequently appreciated over 30%. Consequently, it now appears to us fully valued.

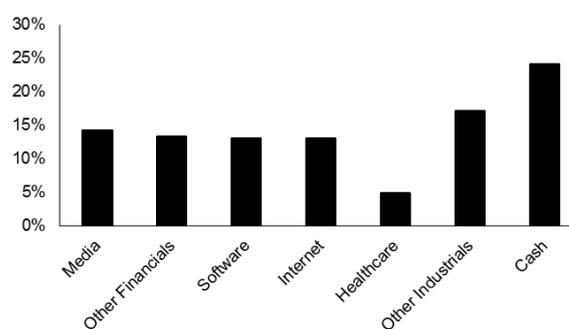
Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.

### SIF Performance

Return to 30 June 2016	
3 months	1.7%
1 year	20.2%
3 year p.a.	19.1%
5 year p.a.	25.0%
10 year p.a.	10.5%
Since inception (31.10.00) p.a.	14.4%
Value of \$100,000 invested at inception	\$821,663

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)

APN Outdoor Group  
Isentia Group  
oOh!media  
Sirtex  
Webjet



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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 biotech and structurally impaired industries.

### Contact Details

**Phone:**

(02) 8256 1000 or 1300 888 583

**Fax:**

(02) 8256 1010

**Mailing Address:**

Smallco Investment Manager Limited  
GPO Box 4564  
SYDNEY NSW 2001

**Email:**

[smallco@smallco.com.au](mailto:smallco@smallco.com.au)

**Web Address:**

[www.smallco.com.au](http://www.smallco.com.au)

### 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	\$314.1m AUD
Mid Price (cum)	\$4.8459 (30 Jun 2016)
Distribution	\$0.3479 (30 Jun 2016)
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 (FY16)	0.16% 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.