



Smallco Investment Fund

Quarterly Update 30 September 2016

SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered 12.2% for the September quarter and 25.3% over the past year. For the quarter the Small Ords was 8.5% and for the year 29.2%.

SIF outperformed a strong equity market in the quarter. It was pleasing, given the Fund's stated investment philosophy, that outperformance was driven by a number of our holdings exceeding market earnings expectations through the August reporting period. These included our positions in Webjet, GTN and Altium amongst others. Strength in these stocks more than offset SIF's previously overweight position in outdoor media which was a drag after 18 months of outperformance. While SIF maintains a high cash position with market valuations stretched, there are still a number of stocks with significant potential upside within the portfolio.

One of these opportunities is the newly listed GTN. GTN is a unique advertising platform. It provides radio/TV stations with traffic reports, sourced from its info/data network including teams embedded in government control centres and helicopter updates. In return GTN receives or is able to buy ad slots adjacent to its traffic updates which it then aggregates and on-sells to national advertisers at a premium given its national reach and captive audience. The majority of current earnings come from a dominant position in Australia where it has close to 100% penetration in radio. The Australian operation is expected to deliver high single digit revenue growth albeit with good cashflow and high returns.

The near term earnings growth driver is its Canadian operations. GTN found in Australia that significant pricing power and high sell-through followed when it reached 70%+ penetration. It has just surpassed this level in Canada and is seeing prices and volumes accelerate. Canada is 10% of earnings but could, in time, be similar in size to Australia.

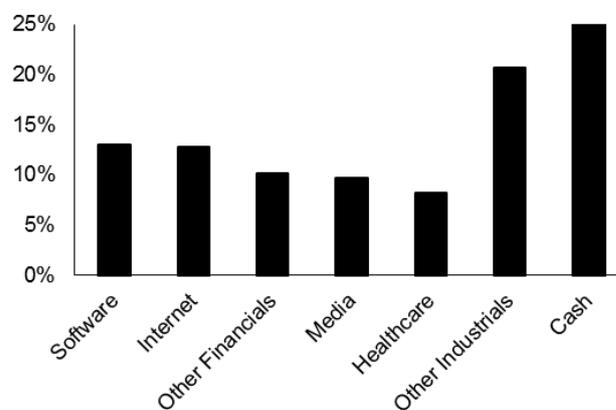
Additional upside may come from GTN's potential entry into the US through its option to acquire the #2 player, Radiate. Clear Channel (major radio network operator) acquired the #1 US traffic player, Metro Networks, a few years ago. A number of Metro's larger radio contracts are up for renewal over the next 12-24 months and there is an opportunity for Radiate to gain market share as radio networks look for an alternative provider (rather than giving business to a competitor in Clear Channel). This could be aided by GTN management's US experience and relationships with major customers. Given the potential size of the US market, earnings upside is significant. This is subject to GTN's successful due diligence on Radiate, the option exercise and additional contracts being won.

SIF Performance

Return to 30 September 2016	
3 months	12.2%
1 year	25.3%
3 year p.a.	18.0%
5 year p.a.	30.0%
10 year p.a.	10.9%
Since inception (31.10.00) p.a.	15.0%
Value of \$100,000 invested at inception	\$922,271

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)

Altium
GTN Limited
Isentia Group
Sirtex Mecial
Webjet

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



Smallco Investment Fund

Quarterly Update 30 September 2016

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.

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

Web Address:

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	\$355.8m AUD
Mid Price	\$5.0488 (30 Sep 2016)
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 (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

Australian Financial Services Licence # 224 108

ARSN 103 148 107

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.