



# Smallco Investment Fund

## Quarterly Update 31 March 2017

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered 0.8% for the March quarter and 7.2% over the past year. For the quarter the Small Ordinaries index was up 1.5% and for the year 13.7%.

Over the quarter, the fund benefited from solid returns from Sirtex, Corporate Travel and Webjet while CBL Insurance, Aconex and ISENTIA were negative contributors.

The Australian economy continues with ongoing modest growth, although some indicators of conditions in the labour market have softened recently.

The first couple of months of Donald Trump's presidency have passed with a lot of noise and tweeting but no real policy action in the US. However, he has had a positive impact on US Consumer Sentiment and the US equity market was up over 5% for the quarter. As a consequence the domestic rotation from quality companies into more earnings cyclical companies mentioned in our last quarterly update continued.

Parallel to the above rotation the last 6 months have been testing for smaller company focused funds like SIF given the Small Ords has trailed the ASX 300 by nearly 11% (-1.0% v 9.9%).

These two factors have provided some opportunities given our focus on quality smaller companies and as a result SIF's cash position has fallen from 25% 6 months ago to 16%.

One of our larger holdings, Corporate Travel Management (CTD), delivered a very good first half result in February with EPS up 52% and the stock continues to perform well. CTD is a global corporate travel business which has grown through organic expansion and acquisition from its base in Australia to significant operations in the US, UK/Europe and Asia. The stock is one of the more expensive ASX small caps, however it has an impeccable track record (EPS CAGR since listing of 34% to FY17 guidance) and we believe that its future prospects remain strong.

While CTD's Australian business continues to deliver good organic growth through market share and margin expansion (EBITDA growth 23% 1H17), the upside potential in the US and Europe provide the long term attraction. Recent results from the US and Europe have confirmed CTD's successful entry into these markets. They are now major group contributors at 36% and 21% of group earnings respectively (expected next 12 months) and both are generating strong organic growth (revenue growth and exceptional margin expansion). CTD prides itself on having a technology edge over competitors enabling internal cost efficiency and contract wins, and recent results suggest that it is able to take this advantage with effect into offshore markets. Most importantly these markets have a long run-way for expansion as CTD has less than 1% market share in both the US and Europe

and the competition remains fragmented. The US corporate travel market is over US\$350bn pa and Europe EUR500bn pa.

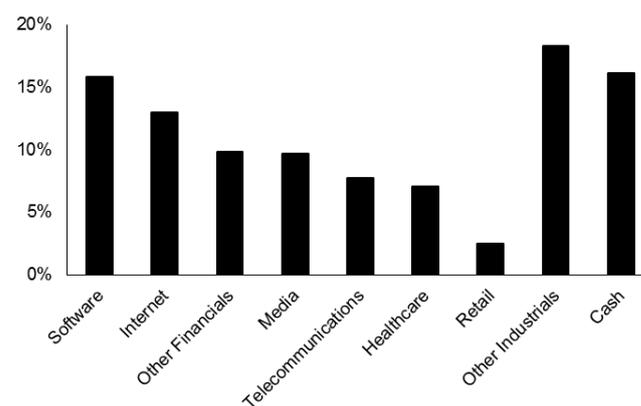
The major risk is cyclical in corporate spending trends. CTD has largely seen minor headwinds from these macro demand influences over recent years and still delivered the growth mentioned.

### SIF Performance

Return to 31 March 2017	
3 months	0.8%
1 year	7.2%
3 year p.a.	12.2%
5 year p.a.	24.1%
10 year p.a.	8.2%
Since inception (31.10.00) p.a.	14.1%
Value of \$100,000 invested at inception	\$865,647

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  
Corporate Travel Management  
GTN  
Speedcast International  
Webjet



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### SIF Fund Description

SIF is a concentrated, index unaware Australian equity fund investing predominantly in smaller listed companies. SIF may invest in cash when opportunities are scarce and invest up to 20% of the fund in Australian companies within the ASX100. SIF is currently closed to new investment.

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	\$341.5m AUD
Mid Price	\$4.7389 (31 Mar 2017)
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

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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.