



Smallco Investment Fund

Quarterly Update 30 June 2017

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 3.9% for the June quarter and 9.5% over the past year. For the quarter the Small Ordinaries index fell 0.3% and was up 7.0% for the year.

Over the quarter, the fund benefited from positive returns from Appen, Pepper Group and Wisetech Global. Autosports Group, GTN and Nanosonics were negative contributors.

Global growth continues to improve and the Reserve Bank of Australia (RBA) expects it to reach its long-run average over the next couple of years. A number of the major global markets achieved all-time highs during the quarter.

Chinese economic growth, which has a significant impact on Australian growth is forecast in 2017 to be only a bit lower than last year as the authorities continue to support economic activity to achieve their annual GDP growth target.

The Australian economy continues with ongoing modest growth and the RBA's forecasts are for growth to continue to lift over the forecast period as the drag from mining investment comes to an end and the ramp-up in resource exports continues. However, consumption growth has been subdued and Consumer Sentiment has been in negative territory for all of this year and continues tracking downwards, which suggests a cautious approach to investing is warranted.

As mentioned above, Appen (APX) was a strong contributor to fund performance over the quarter. In May APX reported a significant upgrade to CY17 earnings guidance with the company now looking for 40%-50% profit growth in the year.

Appen is one of the few small caps in our market that gives direct exposure to a range of the leading global technology growth thematics with machine learning product development being a key driver – in particular speech recognition/voice interfaces, optimisation of search relevance and a host of other machine learning applications. APX's customer base is relatively concentrated but includes the majority of the dominant global consumer tech firms.

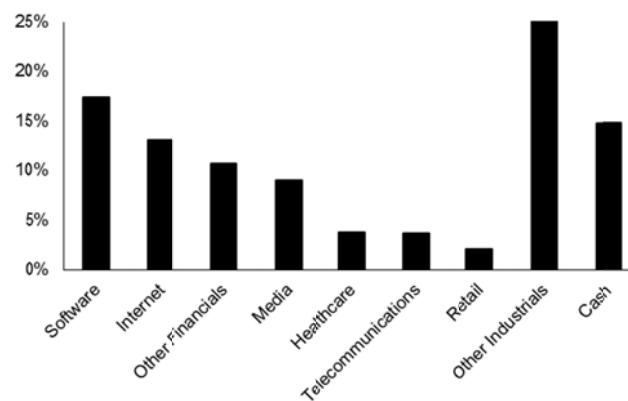
APX has two divisions - Language Resources and Content Relevance. The Language division provides services that help improve the accuracy of speech recognition applications through speech data sets, the current demand growth being driven by the growth of machine (computer/mobile) based personal assistants (think Echo, Siri, Cortana, Google Assistant etc). Content Relevance provides training data for machine learning applications including search, social media services and e-commerce where APX sources a crowd (a large number of contractors) to provide defined data inputs (eg refining search results) for specific projects.

SIF Performance

Return to 30 June 2017	
3 months	3.9%
1 year	9.5%
3 year p.a.	15.0%
5 year p.a.	23.9%
10 year p.a.	7.9%
Since inception (31.10.00) p.a.	14.1%
Value of \$100,000 invested at inception	\$899,400

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
G8 Education
GTN
Webjet

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



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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 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	\$342.4m AUD
Mid Price (cum dist)	\$4.9236 (30 Jun 2017)
Distribution	\$0.4163 (30 Jun 2017)
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: Link Fund Solutions
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.