



Smallco Investment Fund

Quarterly Update 31 December 2017

SIF Portfolio Commentary

Smallco Investment Fund (SIF) returned 9.3% for the December quarter and 19.6% for the calendar year where the Small Ordinaries Index was up a strong 20.0%. In particular, in the December quarter the market was particularly robust up 13.7%. This performance is not sustainable for any significant length of time and it would not be surprising if some of the gains to date are given back in the new year.

The best performing portfolio stocks over the quarter were Aconex, Appen, Megaport and Wisetech all of which were up more than 50% for the quarter. Some of the negative contributors were G8 Education, GTN and Webjet.

Conditions in the global economy have improved over 2017. All the major economies are doing well and there is the unusual situation where the developed world has synchronised GDP growth. In the US, the unemployment rate has fallen to 4.1% and consumer confidence is at a 17 year high. Combined with the recent tax cuts this has spurred that market to all-time highs.

The Reserve Bank of Australia's forecast is for domestic GDP growth of around 3% over the next few years. However, the outlook for household consumption is somewhat uncertain with household income growing slowly and debt levels high. On this basis we remain cautious on the Australian economy.

Unsurprisingly, at current valuation levels we are cautious on the Australian market. We have been net sellers recently as a number of stocks have reached target prices and our cash position has risen from 14% to 22% over the quarter with another 4% under takeover offer.

This relatively high cash position has hindered our performance but is prudent given the high valuations of most of the stocks we would like to buy.

Aconex (ACX) is a stock that has been in the portfolio since the beginning of calendar 2016. It is a SaaS-based online collaboration platform for the US\$11 billion global construction industry. In the first instance it enables users to collaborate in the construction phase of projects and is particularly advantageous for large, complex projects. Secondly, it is efficient for the owners to use in the management of large facilities. ACX is the market leading collaboration platform and often replaces inefficient internal systems or manual processes, as digitisation underpins significant cost savings and productivity gains.

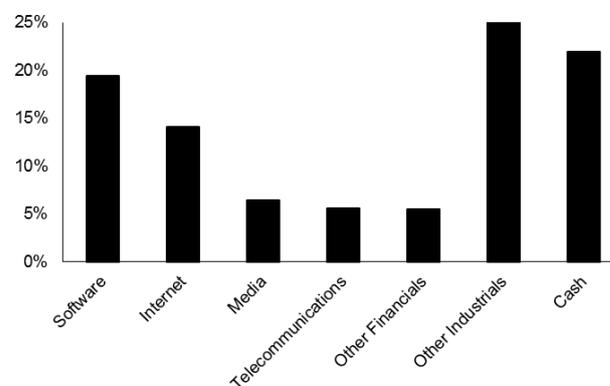
On the 18th of December, Aconex announced that it had entered into a binding scheme with Oracle under which Oracle will pay \$7.80/share for the whole company. We think it is likely that the bid will succeed.

SIF Performance

Return to 31 December 2017	
3 months	9.3%
1 year	19.6%
3 year p.a.	16.1%
5 year p.a.	19.8%
10 year p.a.	11.7%
Since inception (31.10.00) p.a.	14.5%
Value of \$100,000 invested at inception	\$1,027,341

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
Appen
Corporate Travel Management
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 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	\$358.7m
Mid Price	\$5.1484 (29 Dec 2017)
Distribution	Annually 30 June
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Adam Simpson and Craig Miller
APIR Code	ASC0001AU
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Administration cost (FY17)	0.15% 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.