



# Smallco Investment Fund

## Quarterly Update 31 March 2018

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) returned 1.4% for the March quarter and 20.4% for the last twelve months. The Small Ordinaries Index was down -2.8% in the March quarter and was up 15.0% for the year.

The best performing portfolio stocks over the quarter were Altium, Appen, Audinate Group and IDP Education. Some of the negative contributors were G8 Education, GTN and Wisetech.

The global economy continues to strengthen and the Reserve Bank of Australia, expects the Australian economy to grow faster in 2018 than it did in 2017.

We continue to be very cautious on the valuation levels in the Australian stock market and the cash level in the fund has remained close to 25% for the whole quarter as we struggle to find reasonably priced stocks with attractive earnings outlooks.

In the 6 years to 31<sup>st</sup> March to 2018, Altium's (ALU) share price has gone from \$0.24 to \$19.90 and as such has been a strong contributor to the fund's return. ALU's heritage and still the bulk of its business, is in producing EDA (electronic design automation) software, which are tools for designing electronic systems such as printed circuit boards and integrated circuits.

Historically, ALU has concentrated on the mainstream mid-priced level of the EDA market, but over the last few years has been expanding its product features, so that it can compete more effectively at the high end of the market and has recently started getting some sales in this area.

Additionally, it has produced a cut down version for use at the low end of the market. This product has an indirect monetisation model. Users, often electrical engineering students, don't pay for the use of the software, but rather it is monetised at the component search and physical production stage of the process. This is done through an acquisition called Octopart, which is already more than 7% of the whole business and grew in excess of 40% over the last half year. Octopart targets the Electronic Design and Manufacturing Services market which is dramatically larger than the EDA market, which Altium's traditional products target. We expect this division to be one of the most significant growth drivers of the group beyond management's current 2020 goal of US\$200m of revenue.

The recent half year profit result was considerably better than forecast with profit up 51% on the prior year. The better than expected result was driven by better than expected revenue growth from Europe and China and lower than expected cost growth, which resulted in an expanding margin. While trading on a premium multiple, Altium's growth outlook remains strong. It continues to be one of our 5 major holdings.

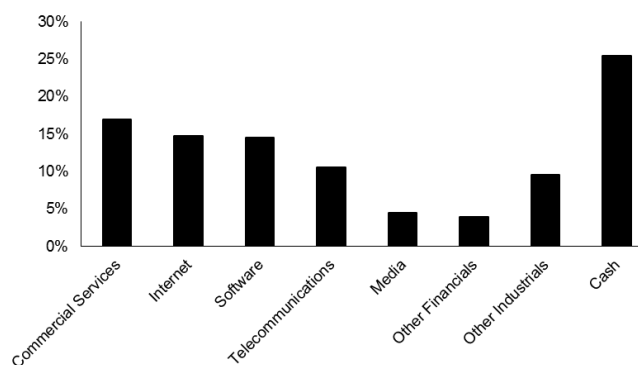
### SIF Performance

Return to 31 March 2018	
3 months	1.4%
1 year	20.4%
3 year p.a.	14.8%
5 year p.a.	17.9%
10 year p.a.	15.4%
Since inception (31.10.00) p.a.	14.4%
Value of \$100,000 invested at inception	\$1,042,014

Fund returns calculated after all fees and expenses and based upon exit price and reinvestment of distributions.

Past performance is not a reliable guide as to future performance. Returns are not guaranteed.

### SIF Structure: by sector (look through)



### SIF Significant Holdings (alphabetical order)

Altium  
Appen  
Corporate Travel  
Speedcast  
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 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	\$356.7m
Mid Price	\$5.2220 (29 Mar 2018)
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).