



# Smallco Investment Fund

## Quarterly Update 30 September 2018

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 3.7% for the September quarter and 26.5% for the twelve month period. For the quarter the Small Ordinaries index was up 1.1% and was up 20.3% for the same twelve month period.

Over the quarter the fund benefitted from good returns from a broad range of companies. These included Pinnacle Investment Management, Wisetech Global, Altium, Webjet and Corporate Travel Management. The portfolio's performance in the quarter was impacted by negative returns from Speedcast and Superloop.

SIF enjoyed a strong August reporting period. The majority of our holdings delivered results that were in line with or exceeded market expectations and there was a further rerating of quality growth companies. We continue to remain cautious of the valuation levels in the Australian stock market and have taken advantage of the strong returns of key holdings to further increase the Fund's cash levels. In the current environment we are prepared to build higher levels of cash and wait for more attractive redeployment opportunities.

Having made an initial investment at the time of IPO, SIF took advantage of a sell down from early venture capital investors to increase its holding in Audinate Group during the quarter.

Audinate is the leading provider of professional digital audio network technologies globally. Its software and hardware products are sold under the Dante brand and allow the distribution of audio signals over digital computer networks, replacing older analogue technologies. This technology has many benefits including reduced cabling requirements, improved audio quality and improved interconnectivity.

Dante products are sold to OEM customers such as Yamaha, Bose and Sony who embed them in their products for the professional Audio Visual Industry. Audinate's growth strategy is to increase both the number of OEM's adopting Dante and to increase the penetration of Dante within their product range. With over 400 OEM customers and over 1,600 Dante enabled products in market, nearly five times more than its nearest competitor, Audinate is already the clear market leader. The business model creates a network effect which we expect will entrench Dante as the preferred networking technology for professional AV installations.

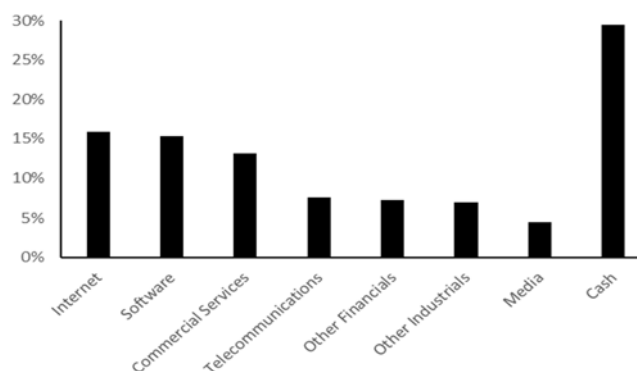
Whilst near term valuation metrics are demanding, Dante is rapidly becoming the industry standard for digital audio connectivity. We expect there will be an acceleration of Dante adoption rates and there are also emerging growth opportunities including the development of a Dante video solution. The conversion from analogue installations to connected digital networks remains in its early stages and Audinate is well positioned to deliver very strong earnings growth over the medium term.

### SIF Performance

Return to 30 September 2018	
3 months	3.7%
1 year	26.5%
3 year p.a.	17.4%
5 year p.a.	16.2%
10 year p.a.	18.7%
Since inception (31.10.00) p.a.	14.8%
Value of \$100,000 invested at inception	\$1,189,124

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  
Pinnacle Investment Management  
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 2018

### 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.

### 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](mailto:smallco@smallco.com.au)

**Web Address:**

[www.smallco.com.au](http://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	\$378.2m AUD
Mid Price	\$5.2988 (30 Sep 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
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Admin cost (FY18)	0.14% 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

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.