



# Fund Review

## Smallco Broadcap Fund

ISSUE DATE 14-10-2016

### About this Review

ASSET CLASS REVIEWED	AUSTRALIAN EQUITIES
SECTOR REVIEWED	AUSTRALIAN LARGE CAP
SUB SECTOR REVIEWED	GROWTH
TOTAL FUNDS RATED	25

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	SMALLCO BROADCAP FUND
APIR CODE	ASC0003AU
PDS OBJECTIVE	THE FUND AIMS TO ACHIEVE RETURNS 5% P.A. ABOVE THE S&P/ASX 300 ACCUMULATION INDEX AFTER FEES ON A ROLLING THREE-YEAR BASIS
INTERNAL OBJECTIVE	BENCHMARK + 5% P.A. (AFTER FEES) OVER A ROLLING THREE-YEAR TIME PERIOD
STATED RISK OBJECTIVE	INFORMATION RATIO >1
DISTRIBUTION FREQUENCY	ANNUAL
FUND SIZE	\$180M (JUNE 2016)
FUND INCEPTION	01-07-2008
MANAGEMENT FEE	1.20% P.A.
PERFORMANCE FEE	15% OF ANY OUTPERFORMANCE OF THE S&P/ASX 300 ACCUMULATION INDEX (PLEASE FIND A DETAILED DESCRIPTION OF THE FEE STRUCTURE UNDER 'WHAT IS THIS FUND?')
RESPONSIBLE ENTITY	SMALLCO

### About the Fund Manager

FUND MANAGER	SMALLCO
OWNERSHIP	WHOLLY OWNED BY INVESTMENT TEAM: ROB HOPKINS (45%), BILLY RYAN (32%), ANDREW HOKIN (13%), CRAIG MILLER (10%)
ASSETS MANAGED IN THIS SECTOR	\$800M (JUNE 2016)
YEARS MANAGING THIS ASSET CLASS	16

### Investment Team

PORTFOLIO MANAGER	ANDREW HOKIN
INVESTMENT TEAM SIZE	5
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	SYDNEY

### Investment process

STYLE	ACTIVE - GARP
TYPICAL STOCK NUMBERS	20-30 (TOTAL)
BENCHMARK	S&P/ASX 300 ACCUMULATION INDEX
TYPICAL CAPITALISATION BIAS	SMALL - MID
STOCK ACTIVE POSITION LIMITS	15% (ABSOLUTE)
SECTOR ACTIVE POSITION LIMITS	EXPOSURE TO A MINIMUM OF FOUR GICS SECTORS

### Fund rating history

OCTOBER 2016	HIGHLY RECOMMENDED
OCTOBER 2015	RECOMMENDED
OCTOBER 2014	RECOMMENDED

### What this Rating means

The 'Highly Recommended' rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.

### Strengths

- The Fund's consistent outperformance since inception, and its ability to adhere to its performance objectives.
- The portfolio manager's experience in small and mid cap stocks.
- High personal equity ownership of key investment personnel in business.
- Strong commitment to capacity management serves to preserve its investment appeal.

### Weaknesses

- The Fund's high fee load (1.2% + 15% of any out-performance over the S&P/ASX 300 Accumulation Index).
- The boutique ownership structure of the firm attracts a mild degree of business risk.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

### BIometrics

#### Aggregate risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with AFSA/FSC guidelines.

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG AWARENESS	●		

We strongly recommend that potential investors read the product disclosure statement or investment statement. Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL No. 421445. This information must be read in conjunction with the warning, disclaimer and disclosure at the end of this document. This report supersedes all prior reports.

ANALYST: STEVEN SWEENEY | APPROVED BY: SHAILESH JAIN

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### Fee profile

	LOW	MODERATE	HIGH
FEES VS LONSEC UNIVERSE			●
FEES VS ASSET CLASS			●
FEES VS PEER GROUP			●

Fee Biometrics are a function of expected total fee as a percentage of expected total return.

### What is this Fund?

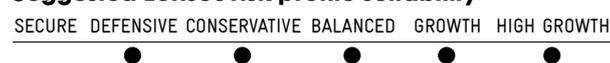
- The Smallco Broadcap Fund ('the Fund') is a concentrated, 'benchmark unaware' Australian equity product with the ability to have material exposure to stocks with a market cap of less than \$1 billion (maximum 40%). Additionally, the Fund has the flexibility to hold up to 50% in cash if no appropriate investment opportunities are identifiable or market risks are deemed to be too high.
- The Fund is managed by Smallco Investment Management ('Smallco' or 'the Manager'). Smallco believes they are able to source investment opportunities with above average return potential by conducting rigorous fundamental analysis into company's earnings and cash generation abilities, management quality and industry characteristics. Smallco prefers to use 'bottom up' analysis as opposed to macroeconomic research when sourcing investment ideas and constructing the underlying portfolio.
- The Fund aims to outperform the S&P/ASX 300 Accumulation Index by 5% (net of fees) over a rolling three year time period. The Manager will typically aim to target small-mid cap stocks, believing a greater level of inefficiency exists in this portion of the market.
- The ongoing management fee for the Fund is 1.20% p.a. Lonsec observes that this fee is towards the higher end compared to peers, but acknowledges Smallco's disciplined approach to capacity management, which has been determined on the basis of preserving its ability to meaningfully invest in stocks outside the S&P/ASX 100.
- Smallco may also be entitled to a performance-based fee. This performance fee, payable quarterly, is calculated as 15% of any outperformance of the S&P/ASX 300 Accumulation Index.
- Lonsec supports the concept of performance fees as long as they are appropriately structured. Lonsec considers an appropriate structure to be one where the performance fee is in line with industry standard (in percentage terms), where the fee is subject to an appropriate hurdle rate of return, and where the fee is subject to a prior 'high water mark'.
- With respect to this Fund's performance fee structure, Lonsec notes the absence of any hurdle rate of return in excess of the S&P/ASX 300 Accumulation Index.

### Using this Fund

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

- The Fund is subject to equity market risks and movements (both positive and negative) in the prices of the underlying securities in the portfolio. Investors should therefore be aware of / comfortable with the potential for the Fund to experience periods of negative returns which result in capital losses being incurred on their investment. As such, the Fund will generally sit within the growth component of a diversified portfolio.
- Advisors should consult the Lonsec Risk Profile Review and / or the Lonsec Risk Profile Definitions document(s) for guidance on appropriate allocations to Australian equities within a diversified portfolio. Lonsec recommends that equity investments are suitable for investors with an investment-time horizon of at least five years.
- The Fund is a 'long only' Australian equity product which has the flexibility to be able to invest up to 50% of the Fund in cash. As such the Fund will sit within the growth component of a diversified investment portfolio. As a 'growth' style product, Lonsec considers it suitable for blending with other Australian Equity strategies including benchmark aware, style biased, or long / short products.
- Given the Fund's relatively high conviction / concentrated nature, and the ability to invest up to 40% in stocks with a market cap of less than \$1 billion (typically 25-40%), Volatility (as measured by Standard Deviation of returns) may be higher than traditional benchmark aware Australian Equity products. Lonsec suggests the Fund should only be considered for those investors that are willing to accept returns that can differ significantly from the broader market.

### Suggested Lonsec risk profile suitability



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

### Changes Since Previous Lonsec Review

- The firm has continued to grow its funds under management to approximately \$800 million (up from approximately \$540 million at previous review).
- The Manager has soft-closed the Fund as at 1 March 2016. Existing investors can continue to invest but it is closed to new investors. The same arrangement applies to the Manager's flagship Investment Fund.
- The Manager has made a minor amendment to its investment strategy. As of 1 July 2016, the Fund can hold 40% of the portfolio in stocks with a market cap of <\$1 billion. The previous constraint limited the Fund from holding more than 40% of the portfolio in stocks outside the ASX 100. Lonsec does not believe this fundamentally alters the investment strategy or portfolio characteristics of the Fund.
- Bill Ryan has moved to a flexible working arrangement and now works remotely from his home in rural NSW.
- Lonsec has not been advised of any further changes to the investment team or process since the last review of this Fund.

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### Lonsec Opinion of this Fund

#### People and resources

- The Smallco Investment team consists of five investment professionals, with three of the most senior members of the investment team having previously worked alongside each other at ANZ Securities. While the team tends to adopt a collective decision making philosophy, Andrew Hokin is the Portfolio Manager of this Fund and ultimately accountable for its performance.
- Lonsec believes Hokin has made a strong contribution to managing this Fund bringing appropriate technical knowledge on both the market and stocks to his portfolio management duties. In Lonsec's view Hokin has also been instrumental in tightening the rigour of the Manager's investment approach, particularly through the introduction of improved quality factor assessment. Hokin appears highly motivated for managing this investment vehicle and is viewed as a key attraction of the offer.
- Hokin sits alongside the four remaining members of the investment team, namely Bill Ryan, Rob Hopkins, Craig Miller and Paul Graham. All members of the investment team, with the exception of Miller, focus exclusively on investment related activities. Graham, the most recent hire, worked previously with Hopkins and Ryan at ANZ Securities prior to Smallco's formation. This practice suggests greater likelihood of enhanced team and cultural fit. While on aggregate the size of the investment team appears smaller than some peers, Lonsec judges the scale of resourcing to be appropriate for the investment process.
- Despite the size of the team, Lonsec notes the team benefits from above average depth of investment experience (almost 20 years average). Furthermore, the Manager is not attempting to cover the whole large cap universe and tends to have a meaningful focus on small and mid cap names.
- Smallco also has several part-time resources, covering accounting, compliance, information technology, and database management. Administration of the Fund is outsourced to White Outsourcing, whilst JP Morgan provides custody services. Given the Manager's boutique structure, Lonsec considers this to be a prudent approach that frees up the time of the key investors.
- Lonsec observes a highly performance driven culture at Smallco, one which to date has proven to be conducive to a stable environment with a clear alignment of interests between the investment team and end investors. Hopkins and Ryan remain large equity owners of the business and, pleasingly, equity stakes have been afforded to other investment team members strengthening their engagement with the firm. Additionally, there is a high level of staff co-investment and a performance fee structure in place. Lonsec is pleased to note that there have been no departures from the investment team since inception (2000).
- As is typical for a small investment team that is reliant on intrinsic knowledge of the investment universe to construct the underlying portfolio, Lonsec notes there is a high degree of **key person risk** in Hokin. This also extends to co-founders Hopkins and

Ryan given their integral involvement in the Smallco investment process and the broader business. To this end, Lonsec acknowledges the equity ownership structure to be a significant mitigating factor. Andrew Hokin's tenure at the Manager and involvement in the process continues to heighten and Lonsec is pleased to observe his growing equity stake in the business. Lonsec would view the departure of these individuals to be a material event, which could be likely to negatively impact the Fund's rating. That said, Lonsec notes the tripartite portfolio manager structure serves to aid key investor continuity.

- Succession planning is a tricky issue for investment firms, particularly, boutique investment firms reliant on one or two founding investment identities. While there is no indication of any key departures, Lonsec believes it is appropriate that the manager continues to make appropriate planning for the ongoing leadership of both the business and key investment strategies. Lonsec will continue to monitor these aspects in future reviews.
- Pleasingly, given the growth in FuM in recent years, the profitability of the firm has continued to improve and at current levels is no longer a concern. Lonsec continues to be impressed with the firm's longevity and commitment to expanding going forward. The firm's retail-only-focus and elevated price point does assist in supporting business health.

#### Research and portfolio construction

- Lonsec has reviewed the Manager over a number of years and has continued to build its conviction levels in Smallco's 'bottom up' research process over this period. Specifically, Lonsec believes Smallco offer a competitive advantage in researching stocks in the \$100-\$500m market capitalisation bracket, which tend to be less well covered by other market participants. Given this small cap focus, Lonsec notes the Manager subscribes to a long-standing 'quality' investment style, which is quite pervasive across the small cap specialist peer group.
- Lonsec believes Smallco's portfolio construction process to be robust, with a clear link between the team's conviction in each stock, the assessment of its risk, and its weight within the portfolio. The high conviction nature of the investment process means only the Manager's best ideas are included in the portfolio. The portfolio will hold cash if there are not enough sufficiently compelling opportunities in the investment universe.
- Portfolio's will tend to be concentrated at stock and sector level, with individual stock positions able to make up 15% of the underlying portfolio. While Lonsec acknowledges this limit has rarely been utilised over the life of the Fund, relative to peers Lonsec considers the positioning of the underlying portfolio to be rather aggressive when conviction levels permit.
- Stocks are sold when they move above the Manager's assessment of intrinsic value, or there is a negative change in the company's fundamentals. Lonsec notes the Manager tends to tolerate holding growth stocks with high valuations if the fundamental growth story is still judged to be a positive. Nonetheless, Lonsec notes the Manager tends to be more pragmatic in reducing stock weights as they approach the

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investment team's predicted valuation than some of its peers. Additionally, it is more active in selling positions judged to be 'lower quality' and / or positions with more cyclical earnings.

- This Fund is a direct derivative of Smallco's flagship Australian equity strategy, the 'Smallco Investment Fund'. Given the strong cohesion and interdependencies of the investment team, the active allocations of the two portfolios are typically somewhat similar.

### Risk management

- Overall, Lonsec considers Smallco's risk management to be appropriate given the 'benchmark unaware' nature of the strategy, noting that risk management is largely embedded within the Manager's stock selection process.
- Given this Fund is an 'index unaware', high conviction investment strategy, it is subject to few formal portfolio risk controls. The potential level of stock concentration in the portfolio is high, given any single holding in the portfolio being able to represent up to 15% of the Fund. In addition, exposure to any one sector can also be significant. Although sector exposures are monitored closely by the Manager, there are few explicit portfolio construction sector constraints, the only requirement being to have exposure to a minimum of four Global Industry Classification Standard (GICS) sectors.
- The Firm assigns a quality score to each stock in the portfolio from which it calculates weighted average quality rating for the portfolio. An internal portfolio construction rule requires the portfolio to meet a minimum quality score. Lonsec believes the use of these scores assists the Manager in avoiding unintended risk within the portfolio, making sell decisions, and ensuring the cyclical and exposure to lower quality stocks is controlled.
- The Fund also employs a separate 25% limit on total exposure to what are assessed as 'low quality' companies. Smallco has a relatively broad definition of what constitutes 'low quality', which includes most non-major resource and mining service stocks and others considered to be in weak competitive positions.

### Funds Under Management

- Since Lonsec's most recent review, the Manager has been able to grow its FuM from \$540m to \$800m. Through ongoing consultation with the Manager, Smallco states its capacity will be breached as ex-ASX 100 positions exceed \$300m of its total FUM. Accordingly, the Manager has moved to limit access to this Fund by closing the Fund to new investors as at March 2016.
- Pleasingly, Lonsec has observed prudent discipline by the Manager historically with respect to FuM capacity management, having previously closed the Manager's sister Fund, the Smallco Investment Fund, to investors when capacity was reached (this Fund is also currently soft closed). A further testament to this discipline is the target fund size of the Broadcap strategy being determined on the basis of preserving its ability to meaningfully invest in stocks in the <1 billion market cap range. Lonsec supports Smallco's

discipline on this aspect which should serve to preserve the appeal of the offer.

### Performance

- The objective of the Fund is to outperform the S&P/ASX 300 Accumulation Index ('the Benchmark') by 5% p.a. over a rolling three-year period. The Fund has been able to achieve its stated objective over the assessed period (all figures net of fees to August 2016).
- The Fund returned 17.0% p.a. and 25.6% p.a. over the three and five year period, outperforming the Benchmark by 10.4% p.a. and 16.1% p.a. respectively. Over the same periods, the Fund has also outperformed Lonsec's Australian large cap 'Growth' peer median by 8.5% p.a. and 14.9% p.a. over its respective three and five year period.
- The Fund returned 19.9% p.a. over the past year to outperform the Benchmark by 10.2% p.a. Key winning positions over the past year include Ooh Media, Speedcast and APN Outdoor.
- Pleasingly, Lonsec notes that the Fund has consistently delivered on its risk objective of maintaining an Information Ratio above one. Additionally, the Fund has also consistently generated an Information Ratio which is higher than the Lonsec Peer Group median across all assessed time periods. Lonsec looks favourably on investment vehicles delivering high Information Ratios, believing it to be a reflection of manager skill.
- Furthermore, Lonsec observes that the Fund has outperformed in 'down' markets more often than in 'up' markets over the past three years.

### Overall

- Lonsec has upgraded the Fund to '**Highly Recommended**' at this review. Lonsec holds a high regard for Andrew Hokin's stock investment experience, his portfolio management skill and his overall contribution to Smallco's investment process. The Fund is differentiated by its all cap structure, benchmark unaware mindset and high conviction approach. Lonsec notes the fee load remains at the high end compared to peers in this sector, but investors have been duly compensated with some impressive long term performance.
- Lonsec stresses the suitability of this offering is limited to investors who are able to withstand significant stock concentration, a high weighting to cash (at times) and material 'small-mid cap' stock exposure.

## People and Resources

### Corporate overview

Smallco Investment Manager (Smallco) commenced operations in October 2000 and has a specialist focus on investing in smaller Australian listed companies. Smallco has approximately \$8000m of Funds under Management (FuM) across three strategies: this Fund, a family office mandate, and the "Smallco Investment Fund". The Manager was profitable in FY16 and has no debt.

ANALYST: STEVEN SWEENEY | APPROVED BY: SHAILESH JAIN

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### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
ROB HOPKINS	MANAGING DIRECTOR	31 / 16
BILL RYAN	EXECUTIVE DIRECTOR	21 / 16
ANDREW HOKIN	SENIOR PORTFOLIO MANAGER	22 / 9
PAUL GRAHAM	PORTFOLIO MANAGER	22 / 2
CRAIG MILLER	BUSINESS MANAGER / ANALYST	11 / 11

The Smallco investment team comprises five investment professionals with an average of 20 years of investment experience. The team is led by Rob Hopkins (Managing Director) and Bill Ryan (Executive Director). Hopkins, who has 30 years of industry experience, previously led small companies research at brokerage firms Macquarie Equities, BT Alex Brown, ANZ Securities, and Macintosh Securities. Ryan, with 21 years of industry experience, previously worked at ANZ Securities.

Hopkins and Ryan co-founded Smallco in April 2000 and own 45.3% and 31.7% of the firm respectively.

Andrew Hokin (Senior Portfolio Manager) has 13% ownership and Craig Miller (Business Manager / Analyst) has a 10% equity stake. The most recent hire, Paul Graham (Assistant Portfolio Manager) has no equity but participates via a profit share agreement.

The Smallco Broadcap Fund is managed by Hokin with the assistance of stock specific input from the other members of the Smallco investment team. Hokin has been with the Manager since July 2007 and has held prior roles at brokerage firms Day Cutten and Macquarie Securities prior to joining Smallco. Lonsec notes that in addition to managing this Fund, Hokin also co-manages the Smallco Investment Fund (SIF) with Hopkins and Ryan.

### Research Approach

#### Overview

INVESTMENT STYLE	GROWTH AT A REASONABLE PRICE (GARP)
STOCK UNIVERSE	ASX 500
STOCKS FULLY MODELLED	115
LIQUIDITY	MINIMUM MARKET CAP-\$100M
TOP DOWN	0%
BOTTOM UP	100%
RESEARCH FOCUS	FUNDAMENTAL
QUALITATIVE ANALYSIS	MANAGEMENT QUALITY, COMPETITIVE POSITIONING, RETURN ON FUNDS EMPLOYED (ROFE), EPS GROWTH, CASH GENERATION
KEY RESEARCH INPUTS	MANAGEMENT, COMPETITORS, SUPPLIERS, INDUSTRY ANALYSIS
BROKER RESEARCH	MANAGER RELIANCE LARGELY SKEWED TO INTERNAL RESEARCH. SMALLCO WILL ONLY USE BROKER RESEARCH TO SUPPLEMENT INTERNAL RESEARCH AND ONLY WHEN IT IS CONFIDENT IN THE BROKER ANALYSIS
VALUATION APPROACH	AS APPROPRIATE: P/E, EBIT MULTIPLE, EBITDA MULTIPLE, PRICE TO CASH FLOW MULTIPLE

Smallco primarily rely on proprietary fundamental analysis when determining individual stock valuations. The Manager filters the investible universe via application of a porter style 'Quality Rating System' with each stock considered achieving a numerical rating (between 0 to 10) based upon both its quality and cyclicity. An overall weighted average rating is produced for the portfolio. The weighted average portfolio rating is not allowed to fall below 4 – what the Manager assesses to be the market average. Additionally, the Manager imposes a 25% limit on exposure to companies rated 3 or less. At the time of review the portfolio weighted average of the Fund was 4.9.

The Manager is a strong believer in the relationship between earnings and above average returns, and will reflect this by continually assessing earnings upgrade potential and 'market surprises'.

Top down and macroeconomic analysis does not feature heavily in the in firm's investment process.

### Portfolio Construction

#### Overview

FUND BENCHMARK	S&P/ASX 300 ACCUMULATION INDEX
RETURN OBJECTIVE	BENCHMARK + 5% P.A. (NET OF FEES)
RISK OBJECTIVE	INFORMATION RATIO >1
PORTFOLIO APPROACH	CONCENTRATED
INVESTMENT STYLE	GROWTH (QUALITY)
PORTFOLIO DECISIONS	PORTFOLIO MANAGER DRIVEN
TYPICAL TURNOVER RANGE	50-150%
TYPICAL NUMBER OF HOLDINGS	20-35
MARKET CAPITALISATION BIAS	SMALL / MID
% OF PORTFOLIO IN TOP 10 HOLDINGS (JUNE 2016)	35%
CASH RANGE	0-50%

Portfolio construction is the responsibility of Andrew Hokin, however given the collective decision making philosophy at the firm, consensus views will also have some influence on positioning. The Manager aims to populate the portfolio with 25 to 35 of the most attractive stocks (primarily based on the stock's current discount to valuation) as identified during the research phase, whilst also taking into account the risk guidelines in place.

Fund performance and positions vis-a-vis its risk parameters are formally considered at the quarterly Board meeting.

The Manager is not permitted to short stocks or use gearing in this Fund.

### Risk Management

#### Risk limits

SEPARATE RISK MONITORING	NO
STOCK POSITION LIMITS (ABSOLUTE)	15%
SECTOR POSITION LIMITS (ABSOLUTE)	EXPOSURE TO A MINIMUM OF FOUR GICS SECTORS
CASH	MAXIMUM OF 50%
TRACKING ERROR	NOT TARGETED
DERIVATIVES	NOT PERMITTED

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### **Risk monitoring**

Smallco monitors a range of performance statistics, including quarterly attribution relative to the S&P/ASX 300 Accumulation Index. The diversification, risk, quality, cyclical, and liquidity controls in place are monitored daily.

### **Risks**

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**An investment in the Fund carries a number of standard investment risks associated with investment markets. These include performance, liquidity, counterparty, market and tax risks. These and other risks are outlined in the Investment Memorandum and should be read in full and understood by potential investors. Lonsec considers the following to be the major risks:**

#### **Equity market**

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

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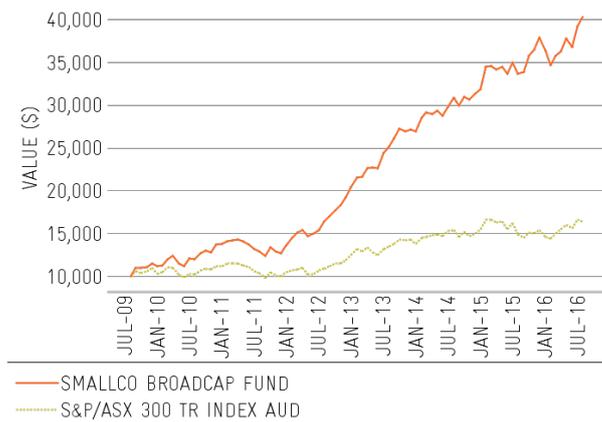
## Quantitative Performance Analysis - annualised after-fee % returns (at 31-8-2016)

### Performance metrics

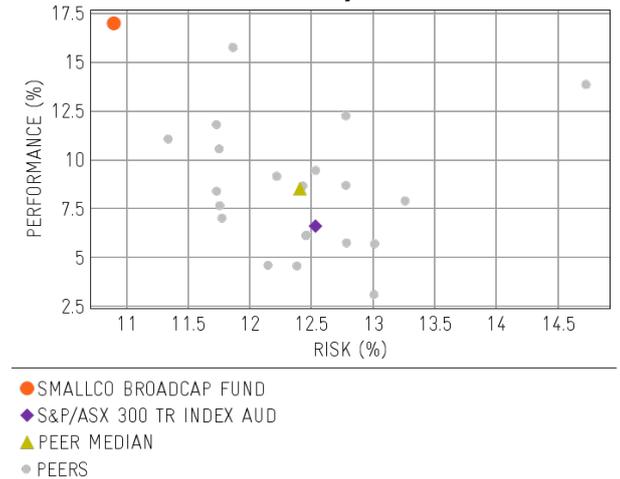
	1 YR		3 YR		5 YR		7 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	19.85	12.41	16.99	8.53	25.56	10.65	22.05	8.24
STANDARD DEVIATION (% PA)	12.50	12.72	10.90	12.41	12.04	12.65	12.66	12.67
EXCESS RETURN (% PA)	10.16	2.79	10.38	1.92	16.09	1.12	14.74	0.93
OUTPERFORMANCE RATIO (% PA)	66.67	50.00	69.44	52.78	78.33	53.33	77.38	54.17
WORST DRAWDOWN (%)	-8.35	-7.50	-8.35	-10.32	-8.35	-10.46	-13.63	-15.63
TIME TO RECOVERY (MTHS)	5	3	5	6	5	8	5	13
SHARPE RATIO	1.41	0.76	1.33	0.49	1.87	0.65	1.47	0.38
INFORMATION RATIO	1.34	0.85	1.71	0.59	2.68	0.58	2.51	0.43
TRACKING ERROR (% PA)	7.59	4.22	6.08	3.07	5.99	2.85	5.88	2.86

FUND: SMALLCO BROADCAP FUND  
 LONSEC PEER GROUP: AUSTRALIAN EQUITIES - AUSTRALIAN LARGE CAP - GROWTH  
 BENCHMARK USED: S&P/ASX 300 TR INDEX AUD  
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD  
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

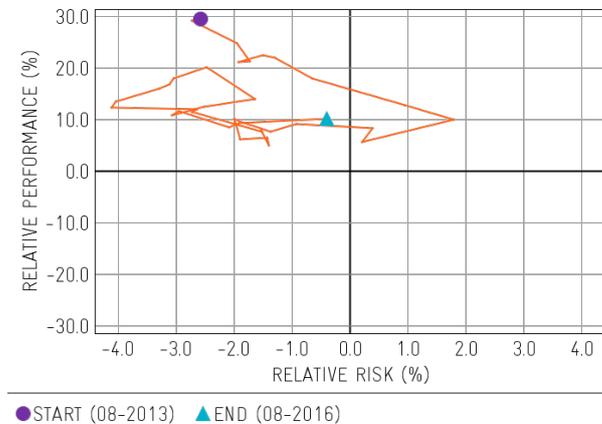
### Growth of \$10,000 over seven years



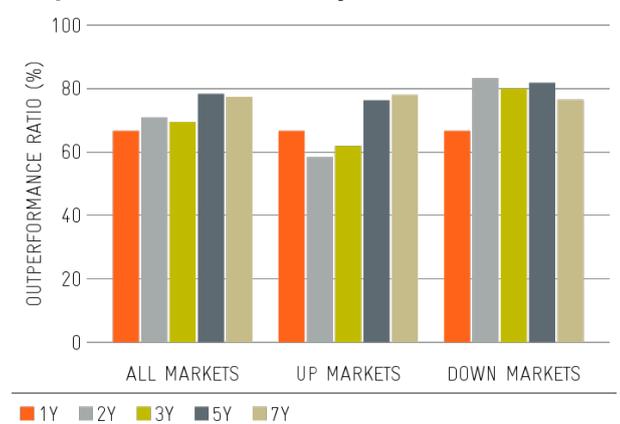
### Risk-return chart over three years



### Snail trail



### Outperformance consistency



## Smallco Broadcap Fund

### Glossary

**Total return** 'Top line' actual return, after fees  
**Excess return** Return in excess of the benchmark return  
**Standard deviation** Volatility of monthly Absolute Returns  
**Tracking error** Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)  
**Sharpe ratio** Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)  
**Information ratio** Relative reward for relative risk taken (Excess Returns / Tracking Error)  
**Worst drawdown** The worst cumulative loss ('peak to trough') experienced over the period assessed  
**Time to recovery** The number of months taken to recover the Worst Drawdown  
**Snail Trail** A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

### About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

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