

Top small cap manager Smallco turns investors away



In June, Smallco portfolio manager Andrew Hokin told *Financial Review Smart Investor* magazine the fund was finding it increasingly difficult to discover quality investment opportunities. Louise Kennerley



by [James Frost](#)

One of Australia's most private and best performing fund managers will close its doors to new and existing money from February 1 as capacity issues weigh on returns.

Boutique fund manager Smallco will "hard close" both its Smallco Investment Fund and its Smallco Broadcap Fund after making the decision in February last year to knock back funds from new investors – known as a "soft close". Investors will still be able to make redemptions.

A spokesman for the company said that after closing the fund to new investors, flows had remained strong, forcing the firm to close the fund to existing investors as well to preserve returns for all unitholders.

"It is easier to invest in smaller companies if you are managing a smaller amount of money," the spokesman said.

The fund was founded by former Macquaries Equities analyst Rob Hopkins and former agricultural entrepreneur Bill Ryan in 2000. Mr Hopkins is Smallco's managing director.

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The decision to close the fund comes at the end of a difficult year for active managers, [such as star stockpicker Peter Hall who resigned and sold his stake in the company he founded.](#)

Smallco had funds under management (FUM) of \$700 million prior to the soft closure in February 2016. The firm now manages \$805 million across the two funds and runs a single institutional mandate. The institutional mandate will also cease to accept any further investments.

[Both the funds have excellent long term track records, making unitholders very wealthy.](#)

The larger of the two funds – the Smallco Investment Fund with FUM of \$356 million as of September 30 – has delivered unitholders returns of 27.1 per cent over five years and 14.3 per cent since inception in 2000.

The Smallco Broadcap Fund with FUM of \$215 million has also delivered outstanding results, delivering returns of 25.3 per cent over five years and 20.0 per cent since inception in 2008.

Like many other stockpickers however Smallco encountered difficulties in 2016. Many active managers delivering middling performances over the last 12 months after being blindsided by Brexit, the US election and a broad rally in resources stocks.

Over the 12 months to November 30 the Smallco Investment Fund returned 6.7 per cent and the smaller Smallco Broadcap Fund returned 8.9 per cent, compared with a 10.1 per cent return from the benchmark ASX 300 Accumulation Index.

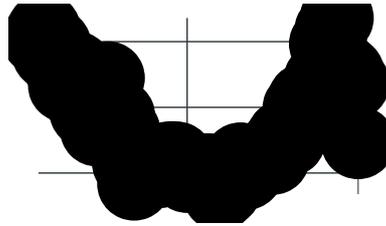
More recently the focus on the smaller end of the market has weighed on performance as large cap stocks rallied while smaller companies have faded. Over the month of November the ASX50 rose 3.6 per cent while the ASX Small Ordinaries fell 1.2 per cent.

Over the same period the Smallco Investment Fund lost 4.1 per cent and the Smallco Broadcap Fund lost 2.6 per cent, compared with a return of 2.8 per cent from the benchmark ASX 300 Accumulation Index.

The company says it has no plans to launch a third fund. A spokesperson said the company's expertise was in Australian equities.

"The reason for shutting was to limit the amount of FUM that we were investing into smaller companies so it would be counter-intuitive to open another Australian-focused fund at this stage," the spokesman said.

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Smallco will join other star Australian fund managers such Paradise Investment Management and Airlie Funds Management, which have also closed their funds to new and existing investors to avoid capacity issues.

David Paradise, who closed his top performing small caps fund in 2002, went so far as to liquidate almost half of his \$1.8 billion fund in 2014, [returning \\$800 million to clients to preserve its performance.](#)

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