



11 January 2005  
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## Smallco Investment Fund - 6 Monthly Newsletter to 31/12/2004

In the 6 months to 31 December the fund returned +26.2% and the ending unit price was \$1.8669. For the last year the fund returned +51.5%. We regard both of these results as being satisfactory.

The stock market performed strongly over the year, particularly over the last 6 months and this has assisted the fund. Macquarie Communications Group, Sydney Futures Exchange and Iress, stocks that we have previously spoken about and in which we continue to retain significant holdings, were major contributors over the last six months as they were in the previous six months.

Commander Communications (CDR) was also one of the major profit contributors over the period. CDR holds a unique position in the Small to Medium Enterprise (SME) market as the dominant telephone equipment reseller. After listing in late 2000, it had lacklustre profits in its early years due mostly to an unfavourable deal with Telstra. In 2003, Commander changed its business model significantly by acquiring voice reseller RSL COM and re-negotiating its contract with Telstra. The RSL COM acquisition also gave CDR a very experienced management team, which has continued making acquisitions to expand CDR's product set to include the sale of data products. The last 2 years for CDR has been a period of significant change, but we believe that the building blocks are now in place for the company to capitalise on its extremely strong brand name for telecommunications solutions in the SME market.

In previous 6 Monthly Newsletters, we have mentioned Macquarie Goodman Management (MGM) a number of times. It has been an on-going good performer in our portfolio since we bought our first shares in December 2000 for \$0.35. Unfortunately, MGM's impending merger with its major listed trust will mean that its profit growth will go from the 64% pa, which it has averaged over the last 5 years, to something probably a bit less than 10%. While we understand the reasons for the merger, we don't think this investment is appropriate in the fund for the next couple of years and consequently have sold our holding recently for close to \$4.00 per share.

Recently we shortened our name. The fund is now called Smallco Investment Fund and the manager is now Smallco Investment Manager. We now have a website – [www.smallco.com.au](http://www.smallco.com.au). The current Product Disclosure Statement, independent research reports and historical performance information, including monthly unit prices, are included in the information on the website.

On behalf of Bill Ryan and myself, I would like to take this opportunity to thank you for your support of the fund. We will continue to work diligently over the coming period to achieve a satisfactory return and I look forward to giving you an update in 6 months.

Yours sincerely,

Rob Hopkins  
Smallco Investment Manager