



Smallco Broadcap Fund

Reference Guide

20 April 2020

The information in this document forms part of the Product Disclosure Statement 20 April 2020 and is issued by Smallco Investment Manager Limited as responsible entity of the Smallco Broadcap Fund

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Responsible Entity and Investment Manager:
Smallco Investment Manager Limited

Smallco
Investment Manager

About this Reference Guide

The information in this Reference Guide forms part of the PDS issued by Smallco Investment Manager Limited (“**Smallco**”, the “**Manager**”, “**we**” or “**us**”) as responsible entity of the Smallco Broadcap Fund (ARSN 163 030 626) (the “**Fund**” or “**SBF**”) and dated 20 April 2020.

Defined terms used in the PDS have the same meaning in this Reference Guide unless stated otherwise.

We recommend that you keep a copy of the PDS for the Fund and this Reference Guide handy for future reference.

The Information contained in the PDS and this Reference Guide is general information only and has been prepared without taking into account your personal objectives, financial situation or needs. You should read this Reference Guide together with the PDS (in their entirety) before making a decision to invest in the Fund. You should consult a licensed financial adviser to obtain financial advice that is tailored to suit your personal circumstances before proceeding to acquire or dispose of units in the Fund.

You can access the PDS and this Reference Guide on our website at www.smallco.com.au.

We will provide you, free of charge, a paper copy of the PDS and this Reference Guide upon request when you contact us on (02) 8256 1000.

PART A – BENEFITS OF INVESTING IN THE FUND

Experience

Managed funds pool investor money in the one place and the professionals who manage the fund use their resources, experience and expertise to make investment decisions.

Smallco commenced operations in October 2000 and currently manages approximately \$620 million of funds, including the Fund, Smallco Investment Fund (a specialist small cap fund with a 19 year track record), and a broadcap style mandate from a family office.

The Fund is managed by Andrew Hokin with stock specific assistance from all members of the Smallco investment team.

The Smallco investment team

Andrew Hokin – Portfolio Manager, Manager SBF (25 years investment experience) – Andrew joined Smallco in July 2007 from Macquarie Securities, where he was a Division Director and led the banking sector research team. During more than eight years with Macquarie Andrew gained broad market experience, through his coverage of small companies, diversified financials and developers/contractors prior to moving into the banking sector. During this time Andrew built a professional relationship with Rob and Bill, including working with Rob in Macquarie's smaller companies team in 1999. Andrew's investment career began at Adelaide stockbroker Day Cutten in 1994, where he gained exposure to a range of businesses, in particular utilities and property trusts.

Rob Hopkins – Managing Director (34 years investment experience) – Rob founded Smallco in 2000 with Bill Ryan. Prior to founding Smallco, Rob had been specialising in smaller company research since 1994 and was the head of small company research at Macquarie Equities, BT Alex Brown, ANZ Securities and Macintosh. Rob began his career in the Australian investment industry in 1985 and was a Senior Industrial Analyst at Potts West Turnbull & Company, the General Manager for Australian Equities with Chase Corporation and an analyst with Potter Partners. Rob commenced his working life as a civil engineer and also has an Masters of Business Administration.

Bill Ryan – Executive Director (24 years investment experience) – Prior to establishing Smallco with Rob in 2000, Bill commenced his investment career working with Rob at ANZ Securities in 1996. Bill's working life began in the 1980s owning, developing and managing agricultural enterprises. This background has ingrained in Bill a strong focus on risk management and the uncontrollable risks faced by certain industries. It has proven to be an invaluable background for Smallco.

Paul Graham – Portfolio Manager (25 years investment experience) – Paul joined Smallco in June 2014. Paul has 25 years of experience as an equity analyst in Australia and the UK with the majority of this time covering Australian small cap companies, including working with Rob and Bill in the late 1990s. Paul has worked at a number of international investment banks including Citi, Credit Suisse, Nomura and HSBC (UK). Paul has Bachelor of Commerce (Hons) and Bachelor of Law degrees from the University of Queensland.

Adam Simpson – Portfolio Manager (17 years investment experience) – Adam joined Smallco in July 2017 from Macquarie Group, where he had been a Division Director and Head of Emerging Leaders Research. During his 15 years at Macquarie, Adam was a highly rated analyst responsible for all aspects of equities research in the emerging leaders sector. Adam has a Masters of Business Administration (Distinction) from London's Cass Business School and a Bachelor of Veterinary Science (First Class Honours) from the University of Queensland. Prior to working at Macquarie, Adam practised as a Veterinarian for seven years in Australia and the UK.

Craig Miller – Portfolio Manager (14 years investment experience) – Craig is a portfolio manager at Smallco and spends part of his time overseeing the management of the business with Smallco's Financial Controller. Prior to joining Smallco in 2005 Craig was head of the tax division for GE Commercial Australia and New Zealand for three years. Craig is a Chartered Accountant and spent seven years with Ernst & Young prior to working at GE.

Han Xu – Portfolio Manager (12 years investment experience) – Han joined Smallco in November 2018. Before joining Smallco Han spent over three years at Ellerston Capital as the senior analyst in the emerging companies fund investing in Australian and New Zealand small cap companies. Prior to Ellerston Capital, Han worked in equities research at UBS Australia as a top rated analyst covering various sectors including infrastructure & utilities and emerging companies, as well as working on a number of capital market transactions.

Corporate governance

Under the Corporations Act and the Fund documents, investors are provided with several layers of independent oversight providing a robust and appropriate corporate governance structure. The structure provides additional investor safeguards through the separation of duties, specialisation of expertise, clear lines of responsibility and layered approval processes.

We are the responsible entity and investment manager of the Fund. We hold an appropriate AFSL.

We have appointed JP Morgan Chase Bank, N.A. as the independent custodian to hold the assets of the Fund and Link Fund Solutions Pty Limited as the Fund's administrator.

Clear legal rights

The Fund's constitution, the PDS and the law govern our relationship with investors.

The Fund's constitution establishes the Fund and sets out the rules.

It gives us rights to be paid fees and expenses and be indemnified from the Fund. The Fund's constitution governs (among other things) our powers (which are very broad), investor meetings, the issue of units, what happens if the Fund is terminated and describes our rights, obligations and liability.

The Fund's constitution limits our need to compensate investors if things go wrong. Generally, if we comply with our duties, then we do not need to compensate you unless the law so requires.

The Fund's constitution also contains a provision that it alone is the source of the relationship between you and us and not any other laws (except, of course, those laws that cannot be excluded).

We are required by law to obtain investors' approval to make any changes to the Fund's constitution which might adversely affect investors' rights.

You can obtain a free copy of the Fund's constitution by calling us on 02 8256 1000.

PART B – RISKS OF MANAGED INVESTMENT SCHEMES

Risks in general

About risk and return

All investments are subject to varying risks and the value of your investment can decrease as well as increase (i.e. you can experience investment gains or investment losses).

Investment returns are affected by many factors including market volatility, interest rates and economic cycles. Changes in value can be significant and they can happen quickly.

Different types of investments perform differently at different times and have different risk characteristics and volatility.

These are some of the reasons why you should consider investing in several different types of investments (often called diversification).

The significant risks associated with investing in this Fund are discussed in the PDS.

Smallco cannot eliminate all risks and can't promise that the ways they are managed will always be successful. However, its process is an important step in managing many of these risks.

The performance of the Fund will be influenced by many factors, some of which are outside Smallco's control.

If these risks materialise, your distributions may be lower than expected or there may be none. The value of your investment could fall and you could lose money.

Ways to manage your risk

You can help manage your own risks too.

You can:

- know your investment goals and your risk tolerance;
- understand risk and return and be comfortable that an investment may not give you the outcomes you hope for;
- diversify your investments (that is, don't invest all your monies in the Fund);
- invest for at least the recommended timeframe;
- keep track of your investment; and
- speak with a financial adviser and make sure the Fund is the right investment for you.

PART C – HOW WE INVEST YOUR MONEY

Investment strategy

SBF invests in companies listed in Australia, companies that were listed in Australia when we first invested in them but are now listed offshore and may also hold some cash. To take advantage of Smallco's background and experience in smaller listed companies, SBF can invest up to 40% of SBF's FUM in companies with a market capitalisation of less than \$1 billion and will typically invest 25-40% of its assets in these companies.

Individual stock weightings are determined by Smallco's assessment of the quality of the stock, the likely investment outcome and the risk of sustained capital loss and liquidity.

Reflecting the primarily industrials and financials skill set of the Smallco team, SBF will often be underweight in resource stocks given they fit poorly with Smallco's strong bottom up focus on forecasting a company's earnings and the risk to these forecasts.

As a high conviction fund with a willingness to realise investments when target prices are reached and an absolute focus on outperformance, SBF is at times quite actively managed. Smallco is willing to realise investments when target prices are reached and hold cash when sufficient attractive investment opportunities are not identified. It is not unusual for the cash weighting to hit 20% until attractive replacement investment opportunities are found.

Up to 50% of the assets of SBF may be held in cash if appropriate investment opportunities cannot be identified or market risks are deemed too high.

Investment style and process

Smallco employs a mix of both bottom up and top down analysis, with a strong focus on earnings direction and risks.

Smallco selects stocks based on a research-driven bottom up style which forms the core of its process. Additionally, top down analysis is employed moderately as both a feedback loop to its bottom up work and to identify parts of the market in which to concentrate its bottom up work.

Smallco employs elements of both growth and value styles in the management of SBF, seeking to overlay a significant core of reasonably priced quality long-term growth stocks with, when they can be found, attractive value ideas where it believes a re-rating trigger is likely within 6-12 months.

Smallco seeks to identify stocks which are likely to exceed consensus earnings expectations or stocks which are out of favour and which it is confident will at least meet earnings expectations. Smallco strongly believes that earnings are the key driver of share prices and that more accurate forecasting of earnings will drive greater and more consistent outperformance. This approach, when combined with its top down overlay and a requirement that turnaround stories must have a backable re-rating trigger within 12 months, has historically enabled it to generate strong performance from a number of turnaround ideas and avoid a range of value traps. Past performance is not a reliable indicator of future performance and returns are not guaranteed.

PART D – FEES AND OTHER COSTS

Additional information on fees and costs

Performance fee

Smallco is entitled to a performance fee of 15% (inclusive of GST and taking into account reduced input tax credits) of the Fund's outperformance of the S&P/ASX 300 Accumulation Index, provided any prior underperformance has been caught up. The performance fee is calculated daily and accrued in the unit price. It is payable to Smallco for each quarter in which there has been outperformance.

For example, if, over a year:

- the S&P/ASX 300 Accumulation Index returned 2%;
- the Fund returned 7% (after deduction of relevant fees and expenses, adjusted for distributions); and
- there was no underperformance to catch up,

then the Fund's outperformance for the year would be 5%.

If you held a \$50,000 investment in the Fund, then the amount deducted from your investment to pay the performance fee for that year would be \$375.

Can fees be different for different investors?

The law allows us to negotiate fees with "wholesale" investors or otherwise in accordance with ASIC requirements. The size of the investment and other relevant factors may be taken into account. The terms of these arrangements are at our discretion.

If you qualify as a wholesale investor contact us to see if you're eligible to negotiate fees with us.

Can the fees change?

Yes, all fees can change. Reasons might include changing economic conditions and changes in regulation. The constitution for the Fund sets the maximum amount we can charge for all fees. If we wished to raise fees above the amounts allowed for in the Fund's constitution, we would need the approval of investors.

We will give you (or the operator of your master trust or wrap account service) 30 days written notice of any proposed change to these fees.

We may accept lower fees than those disclosed in the fee table in this section.

Government charges and taxation

Government taxes such as GST will be applied to your account as appropriate. In addition to the fees and costs described in this section, standard government fees, duties and bank charges such as stamp duties may also apply. Some of these charges may include additional GST and will apply to your investments and withdrawals as appropriate.

The fees outlined in the PDS above take into account any reduced input tax credits which may be available.

PART E – HOW MANAGED INVESTMENT SCHEMES ARE TAXED

The Fund is not a tax paying entity under the present law as the trustee distributes all of the income of the Fund in each financial year. Your tax liability, however, ultimately depends on your circumstances. So it's important that you seek professional advice before you invest or deal with your investment.

Smallco will send you a tax statement as soon as is practicable after June 30 each year. It will contain all the information you need to complete your tax return.

Will I be liable for tax on money I receive from the Fund?

Probably yes. The tax impact for you depends on what makes up the distributions. Distributions could comprise:

- income (like dividends and interest);
- net capital gains (from the sale of Fund investments ~ the gains can be either discounted and non-discounted depending on the type of investor you are); and
- tax credits (like franking credits attached to dividend income).

Will I be liable for tax when I withdraw money from the Fund?

Probably yes.

Australian residents are generally subject to capital gains tax on gains when they withdraw any money or transfer units to someone else.

Depending on the kind of taxpayer you are, and how long you have held your units, you may be entitled to a capital gains concession which can reduce the liability by up to one half.

Do I need to provide my tax file number ("TFN") or Australian business number ("ABN")?

It's not compulsory, but we recommend it. Use the application form.

If you choose not to give us your TFN or ABN and don't have an exemption, we must deduct tax at the highest personal rate, plus the Medicare levy, before passing on any distribution to you. The law is very strict on how we can use these details.

Other information

We have elected to operate the Fund under the attribution managed investment trust ("AMIT") new regime. As an AMIT the Fund can attribute amounts of income and tax offsets to investors on a fair and reasonable basis. There is also an ability to adjust the cost base of an investor's interest in the Fund upwards or downwards.

PART F – MORE INFORMATION

Privacy

Smallco will collect personal information from you when you apply for units and in the course of administering your investments. This will include the personal information that you include in the Application Form, as well as other personal information that you provide from time to time in connection with your investment. Where possible, Smallco will only collect personal information directly from you. However, it may be necessary for us to collect personal information about you from other sources for the purposes of verifying your identity or otherwise conducting checks for the purpose of compliance with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) (“**AML/CTF Act**”). If Smallco does not collect personal information from you, or if you provide incomplete or inaccurate information, then your application may not be processed or Smallco may not be able to otherwise provide you with requested services or information.

Smallco will not give anyone any information it has about an investor unless:

- the law requires it to (including under anti-money laundering and counter-terrorism financing legislation);
- it needs to provide your personal information confidentially to external service providers including custodians, auditors, taxation and legal advisers and information technology consultants;
- it considers that the investor’s adviser needs the information; or
- it needs the information to send promotional material to the investor. Investors who do not wish to receive promotional material can notify Smallco.

Smallco operates in Australia with the support of its affiliates, related bodies corporate and service providers.

If you think Smallco’s records are wrong or out of date, particularly your address, e-mail address or adviser details, it is important that you contact Smallco so that corrections can be made.

If you wish to access the personal information Smallco holds about you, please contact Smallco on 02 8256 1000.

Anti-money laundering

By subscribing to invest in the Fund you warrant that:

- You are not aware and have no reason to suspect that the monies used to fund your investment have been derived from or are related to any money laundering, terrorism financing or similar activities that would be illegal under applicable laws or regulations or otherwise prohibited under any international convention or agreement. You also warrant that any proceeds from your investment in the Fund will not be used to finance any illegal activities.
- The information and documentation you provide to Smallco is true, correct and valid (it is a criminal offence under the AML/CTF Act to provide Smallco with false or misleading information or documentation).
- You will provide us with all additional information and assistance that Smallco may request in order to comply with its obligation under the AML/CTF Act now and in the future.

By subscribing to invest in the Fund you also acknowledge that Smallco:

- Will not accept or process your application until all of the required documentation under the AML/CTF Act has been received and it is satisfied that all client identification procedures that it considers necessary to satisfy its obligations under those laws have been completed.
- Reserves the right not to accept an application with or without reason and that any money not accepted will be returned to you without interest.
- May delay or refuse any request or transaction in the future including suspending the issue or redemption of units in the Fund if it is concerned that it might breach an obligation, or cause it to commit an offence, under any AML/CTF Act, and that Smallco will incur no liability to you for any resulting loss if it does so.
- May be required to disclose information that you have provided to Smallco or information about your transaction history with the Australian Transaction Reports and Analysis Centre or other government bodies and may be prohibited from informing you of such disclosure.
- Will take any further action it considers necessary in order to comply with its AML/CTF Act obligations with regards to your application or investment in the Fund.

If you are unsure of anything or have any questions regarding the AML/CTF Act requirements, please contact Smallco on (02) 8256 1000.

No offer to foreign investors

The PDS is not an offer or invitation in relation to units in the Fund in any place in which, or to any person to whom, it would not be lawful to make that offer or invitation. The distribution of the PDS outside Australia may be restricted by the laws of places where it is distributed and therefore persons into whose possession this document comes should seek advice on and observe those restrictions.

The offer of units in the Fund is not available to foreign investors.

For this purpose, **foreign investors** include:

- a non-Australian citizen, resident or tax resident
- a partnership domiciled outside of Australia
- a corporation incorporated or domiciled outside of Australia or controlled or owned by a foreign individual or entity
- a trust of which any trustee or beneficiary is non-Australian
- an estate of which any executor or administrator is non-Australian

Help and enquiries

If you need help about investing generally, speak to a licensed financial adviser. ASIC can help you check if a financial adviser is licensed. If you don't have an adviser, contact us and we can put you in touch with someone who can help.

If you have questions about investing, speak to your adviser. If you have questions about this Fund in particular, speak to your adviser or call Smallco for more information.

An electronic version of the PDS, this Reference Guide and other historical information on the Fund and Smallco can be obtained from the Smallco web site: www.smallco.com.au

Investors with questions on how to complete the application form or who require printed copies of the PDS should contact their financial adviser or Smallco on 02 8256 1000 or 1300 888 583 (for the cost of a local call) or by email to: smallco@smallco.com.au

If you are investing through a master trust or wrap account then any enquiries should be directed to the operator of that service, not to Smallco.



Smallco
Investment Manager

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