



# Smallco Broadcap Fund

## Quarterly Update 30 September 2015

### SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered a small positive return during the September quarter. This was a pleasing result given weak market conditions lead to SBF's benchmark falling 6.5% over the quarter.

Key drivers of SBF's outperformance during the quarter included its underweight position in banks (which fell 11% over the quarter) and only very small exposure to Resources (which fell 16%). In addition, many of the Fund's key smaller company investments delivered strong financial results in August and, accordingly, performed strongly over the quarter (despite a somewhat disappointing reporting season for the market as a whole).

Broad equity market weakness during the quarter was driven by concerns that global economic growth may slow materially. This has been driven primarily by weaker manufacturing data out of China (and to some extent the US & Europe) and the decision by the Chinese Government to devalue its currency. Despite this, the services sector continues to grow strongly in China and remains solid to date in the US & Europe.

A combination of the weak market conditions and new floats provided a number of opportunities for SBF during the quarter. Key changes to the Fund included:

- Materially increased the position in REA Group given a recent change to REA's pricing structure has positively skewed earnings risks for FY16
- Doubled the position in Veda post its result where the operational outlook hadn't changed but the market responded negatively to guidance for increased amortisation that it should have been aware of
- Increased positions in Henderson & Macquarie Group
- Participated in the Pepper Group IPO

These investments were partially funded by reducing the Fund's cash balance. Still robust valuations for many high quality large capitalisation growth stocks has prevented a further reduction in SBF's cash weighting.

### SBF Top 5 Holdings

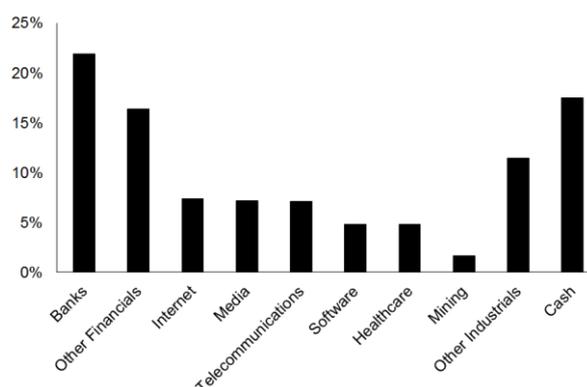
Westpac  
Commonwealth Bank  
Isentia Group  
Speedcast International  
Cover-More Group

### SBF Performance

Return to 30 September 2015			
	SBF	Index*	Out Perf.
3 months	0.5%	-6.5%	7.0%
1 year	12.8%	-0.7%	13.5%
3 year p.a.	25.8%	9.1%	16.7%
5 year p.a.	21.6%	6.3%	15.3%
7 year p.a.	22.3%	5.8%	16.5%
Since inception (31.07.08) p.a.	20.8%	4.7%	16.1%
Value of \$100,000 invested at inception	\$386,468	\$138,820	\$247,648

Fund returns calculated after all fees and expenses and based upon exit price and reinvestment of distributions.

### SBF Structure: by sector (look through)



### SBF Structure – by size

As at 30 September 2015	SBF	Index*
% in S&P/ASX 20	29.9%	62.1%
% in S&P/ASX 50 less 20	3.5%	18.6%
% in S&P/ASX Mid 50	9.5%	10.8%
% outside S&P/ASX 100	39.6%	8.5%
% Cash	17.5%	Nil

\* Benchmark index is the S&P/ASX 300 accumulation index



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### SBF Fund Description

SBF is a concentrated, long only, largely index unaware Australian Equities fund providing a broad exposure to the Australian listed market.

SBF typically holds 20-30 stocks and targets returns of 5% p.a. above the ASX 300 accumulation index after fees on a rolling 3 year basis.

SBF can invest up to 40% of assets outside of the ASX 100 and will deviate significantly from the index when appropriate opportunities are found.

The theoretical investable universe is anything which meets Smallco's liquidity requirements. In practice SBF very rarely invests in mining stocks other than the major miners, is very averse to loss making companies, and takes an extremely cautious approach to biotechs and structurally impaired industries.

SBF's portfolio is constructed around a large core of high quality longer term growth stocks. A range of smaller shorter term value ideas are wrapped around this when Smallco can identify such stocks that meet our requirements for earnings outlook and risk/reward.

SBF can hold up to 50% in cash. Elevated cash positions are held when opportunities are not present in the market.

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.

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### Key Investor Information

Strategy	SBF is a concentrated, long only, largely index unaware Australian Equities fund providing a broad exposure to the Australian listed market.
Process	Smallco manages SBF employing a bottom up fundamental research approach focused upon earnings direction, risks and the underlying businesses quality.
FUM	\$110.8m AUD
Mid Price (cum dist)	\$1.6807 (30 Sep 2015)
Distribution	Annually: 30 June
Inception Date	31 July 2008
Portfolio Managers	Andrew Hokin, Rob Hopkins, Bill Ryan, Paul Graham and Craig Miller
APIR Code	ASC0003AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.20% of net assets **
Performance Fee	15.0% of outperformance of the Standard & Poor's ASX 300 Accumulation Index. Payable quarterly in arrears. **
Application & Withdrawal Timing	Units are priced daily on every business day in Sydney.
Service providers	Custody: JP Morgan Administration: White Outsourcing

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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 are quoted 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.