



Smallco Broadcap Fund

Quarterly Update 31 December 2016

SBF Portfolio Commentary

The December quarter performance of the Smallco Broadcap Fund (SBF) was weak, primarily driven by a significant market shift away from quality businesses with structural growth characteristics (the key focus of the Fund's style) to Resources and other cyclicals (which the Fund deliberately heavily under-weights). This brought SBF's 1 year return below benchmark for the first time in its more than 8 year history. Given such, the Fund's longer term results remain strong.

The weak world growth environment that has persisted for much of the past 7 years since the global financial crisis gradually led the market to focus more on high quality businesses which could deliver consistent solid growth despite the slow economic backdrop. The market's perception in recent months that the economic backdrop is changing, first through moderate improvements in global economic data but more significantly driven by the US President-elect's pledge to significantly cut taxes and increase spending, led to a significant rotation within Equities during the December quarter – towards lower quality businesses more leveraged to economic trends.

We have commented a number of times over the past few years that we felt valuations of the quality growth businesses preferred by the Fund had become stretched. Our stated response has always been, and remains, to focus on those quality businesses that were better priced relative to the growth we anticipated. While these businesses were still at risk to a change in market sentiment, provided they continue to deliver on our earnings expectations they will quickly grow into these valuations. Indeed, once the market starts to focus on FY18 forecasts in the next 6 months, a number of the major positions in the Fund will start to look genuinely cheap relative to the growth we expect them to deliver.

Accordingly, while the current rotation may have further to run, continued delivery of earnings expectations should in due course lead to a refocusing on the strong growth characteristics of the Fund's key investments.

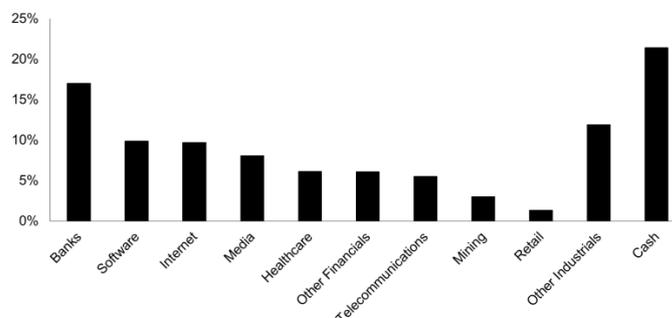
Smallco aims to achieve high compound returns in the Fund by investing in the stock market. We believe that it is easier to achieve this aim by limiting the size of the Fund. To this end, Smallco has decided it will not accept any applications for units in the Fund from new or existing investors effective 1 February 2017. Please note that the distribution reinvestment policy will continue (distributions are automatically reinvested in the Fund for investors who have selected reinvestment on 30 June each year). Smallco also reserves the ability to issue units to persons associated with it.

SBF Performance

Return to 31 December 2016			
	SBF	Index*	Out Perf.
3 months	-4.5%	4.9%	-9.4%
1 year	5.2%	11.8%	-6.6%
3 year p.a.	13.6%	6.6%	7.0%
5 year p.a.	25.6%	11.6%	14.0%
7 year p.a.	19.4%	6.7%	12.7%
Since inception (31.07.08) p.a.	19.8%	6.2%	13.6%
Value of \$100,000 invested at inception	\$454,616	\$165,338	\$289,278

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 31 December 2016	SBF	Index*
% in Market Cap < \$1bn **	32.8%	4.1%
% in Market Cap \$1bn - \$5bn	19.2%	13.3%
% in Market Cap \$5bn - \$10bn	4.6%	15.7%
% in Market Cap > \$10bn	22.1%	66.9%
% Cash	21.4%	Nil

SBF Top 5 Holdings

Commonwealth Bank
 Speedcast International
 GTN Limited
 Webjet
 Westpac

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

** From time to time the market capitalisation of stocks within the portfolio may fall below \$1bn and as a result the 40% limit may be exceeded. Rather than immediately selling positions to reduce the exposure below 40% (which could adversely affect stock prices), Smallco may remain above 40% for a period of up to 6 months whilst selling down in an orderly fashion. Smallco will not add to any sub \$1bn holdings during this time.



Smallco Broadcap Fund

Quarterly Update 31 December 2016

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 the Fund in companies with a market capitalisation of less than \$1bn 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.

Contact Details

Phone:

(02) 8256 1000 or 1300 888 583

Fax:

(02) 8256 1010

Mailing Address:

Smallco Investment Manager Limited
GPO Box 4564
SYDNEY NSW 2001

Email:

smallco@smallco.com.au

Web Address:

www.smallco.com.au

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	\$213.5m AUD
Mid Price	\$1.9045 (30 Dec 2016)
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

Australian Financial Services Licence # 224 108

ARSN 163 030 626

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.

Smallco
Investment Manager