



Smallco Broadcap Fund

Quarterly Update 31 March 2017

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered a solid return during the March quarter. Nevertheless, performance was a little below that of the index, primarily reflecting a continuation of the market's shift out of smaller companies and quality stocks (sectors the Fund's style favours) and the Fund's cash position.

The February reporting season was solid overall but characterised mainly by improving trends in cyclical sectors such as resources and construction, reflecting the rally in commodity prices following last year's mini stimulus by the Chinese Government. While earnings for the overall market are expected to grow close to 20% in FY17, after removing the rebound in Resource earnings (which tend to be fleeting), expected profit growth for the typical (median) industrial company is little changed on last year at around 5%. This is more reflective of the slow (but still positive) growth environment many companies continue to experience.

SBF's major companies on the whole reported quite pleasing results with the vast majority meeting or exceeding expectations. While a couple of small positions disappointed, the real feature this reporting season was a lower reward than has historically been the case for the Fund's positions which exceeded expectations.

We consider this reflective of the Market's rotation from smaller industrials and quality businesses into Resources and other lower quality cyclical businesses that we discussed in our December newsletter. We remain of the view that by focusing on the quality businesses that are better priced relative to the growth anticipated, these businesses will quickly grow earnings to a level the market finds attractive relative to current valuations.

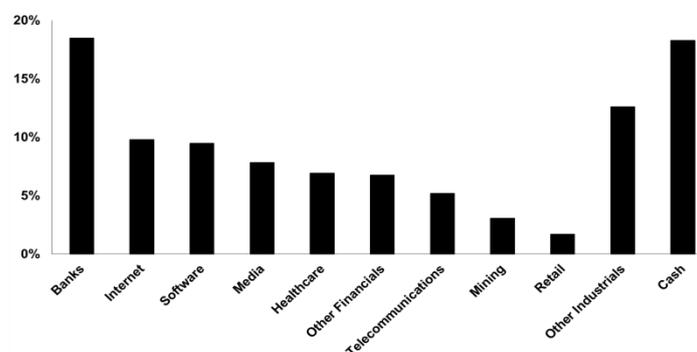
A good example of this is Webjet which delivered 50% underlying EPS growth in the half and upgraded its underlying FY17 EBITDA guidance by 7%. Webjet's stock price eased after this upgrade and rose a moderate 8% for the quarter. The market effectively saying this is priced in at 26x FY17 earnings. Our view is that as the market looks to FY18 earnings in the coming 6 months it will consider WEB's 21x FY18 earnings multiple quite attractive given expectations of ~25% pa earnings growth in the following 2 years. This is driven by both continuing good growth in the existing businesses and the Thomas Cook wholesaling contract commencing in 2019.

SBF Performance

Return to 31 March 2017			
	SBF	Index*	Out Perf.
3 months	2.8%	4.7%	-1.9%
1 year	14.5%	20.2%	-5.7%
3 year p.a.	12.0%	7.5%	4.5%
5 year p.a.	22.0%	10.8%	11.2%
7 year p.a.	19.1%	7.2%	11.9%
Since inception (31.07.08) p.a.	19.5%	6.5%	13.0%
Value of \$100,000 invested at inception	\$467,492	\$173,130	\$294,362

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

SBF Structure: by sector



SBF Structure – by size

As at 31 March 2017	SBF	Index*
% in Market Cap < \$1bn **	34.5%	4.0%
% in Market Cap \$1bn - \$5bn	17.5%	13.1%
% in Market Cap \$5bn - \$10bn	5.2%	15.2%
% in Market Cap > \$10bn	24.5%	67.7%
% Cash	18.3%	Nil

SBF Top 5 Holdings

Commonwealth Bank
 Speedcast International
 Corporate Travel
 GTN Limited
 ANZ Bank

* 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.



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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 is currently closed to new investment.

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	\$222.0m AUD
Mid Price	\$1.9585 (31 Mar 2017)
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.