



Smallco Broadcap Fund

Quarterly Update 31 March 2018

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark during the March quarter, driven primarily by strong profit results from most of the Fund's key companies during the February reporting season. Altium, Corporate Travel, Pinnacle Investment Management & Webjet were key contributors on the back of particularly strong results, while GTN dragged on performance after exiting its loss making US business.

After a very strong December quarter Global equities markets were increasingly volatile and, ultimately, quite weak during the March quarter. Early optimism driven by the US tax cuts gave way initially to concerns that long term bond yields would rise too quickly (following stronger than expected US wages growth – subsequently revised down), and then to concerns over a US-China trade war and some moderately weaker than expected economic data.

Despite this, recent data points remain consistent with the global economy continuing to grow above the pace of recent years, which supports consensus expectations for solid growth in global corporate earnings in 2018. A serious escalation in trade tensions could derail these trends, however, this is not our central scenario given both the US & China have a lot to lose. Political risks aside, we believe the extent to which wages growth in the US responds to tighter labour market conditions will remain a key focus for markets.

Speedcast International (SDA) is one of the funds' holdings that is starting to benefit from the acceleration in global economic growth. After a number of acquisitions since listing in 2014 SDA is now the world's largest provider of remote communications and IT services. SDA is an integrator and network services provider using satellite communications but is not a satellite owner/operator. Sectors served by SDA include shipping, oil & gas, mining and remote communities/developing countries where there is a lack of terrestrial broadband infrastructure.

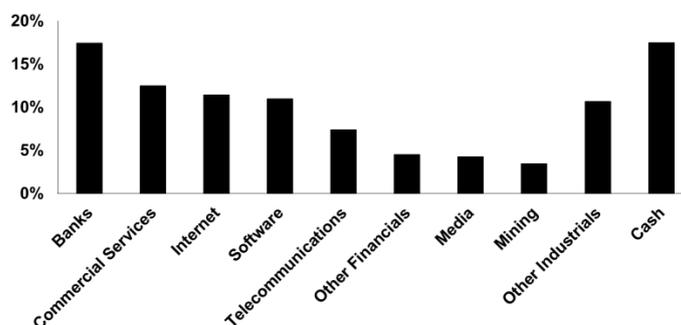
While most of these sectors have an underlying need for significant growth in their broadband internet usage, some sectors such as maritime and oil & gas are more cyclical and had cut back across 2015/2016. With the improvement in the global economy SDA is now seeing a return to strong growth in maritime and a slow turn in their oil & gas business. Along with strong growth in cruise, significant contract wins and acquisition benefits, we are forecasting over 50% EPS growth in 2018. Despite having risen over 150% since SBF invested at the 2014 float, SDA still trades on only 13x 2018 earnings.

SBF Performance

Return to 31 March 2018			
	SBF	Index*	Out Perf.
3 months	-0.1%	-3.8%	3.7%
1 year	11.8%	2.9%	8.9%
3 year p.a.	9.7%	3.9%	5.8%
5 year p.a.	16.2%	7.6%	8.6%
7 year p.a.	18.1%	7.1%	11.0%
Since inception (31.07.08) p.a.	18.7%	6.2%	12.5%
Value of \$100,000 invested at inception	\$522,679	\$178,080	\$344,599

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 2018	SBF	Index*
% in Market Cap < \$1bn **	26.2%	3.9%
% in Market Cap \$1bn - \$5bn	33.6%	15.8%
% in Market Cap \$5bn - \$10bn	2.0%	13.1%
% in Market Cap > \$10bn	20.7%	67.2%
% Cash	17.5%	Nil

SBF Top 5 Holdings

Webjet
 Corporate Travel
 Altium
 Commonwealth Bank
 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 Fund's 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.

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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	\$190.7m
Mid Price	\$1.9234 (29 March 2018)
Distribution	Annually 30 June
Inception Date	31 July 2008
Portfolio Managers	Andrew Hokin, Rob Hopkins, Bill Ryan, Paul Graham, Adam Simpson and Craig Miller
APIR Code	ASC0003AU
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: Link Fund Solutions

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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.