



Smallco Broadcap Fund

Quarterly Update 30 June 2018

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark in the June quarter, driven by a combination of the release of solid operational updates by a number of the Fund's key positions and a further market re-rating of quality growth companies. For the financial year SBF delivered a total return of 21.5% which was a pleasing 8.3% above the Fund's benchmark.

After a weak start to calendar 2018 the Australian equity market rebounded very strongly in the June quarter. While economic factors such as solid economic growth, strong business confidence and resilient industrial company earnings expectations no doubt played some part in this, we suspect the regional safe haven status of the Australian market during a period of material weakness across many Asian share markets also contributed.

The result is that Australian industrial company valuations are now at high levels, particularly for the higher quality longer term growth franchises that the Fund targets. Accordingly, despite the addition of a new position and a couple of positions being increased, the Fund's cash weighting has risen to 21%. We are comfortable holding higher levels of cash when market pricing is high and would not rule out a further increase in the cash weighting if valuations continue to expand.

Globally, economic growth has rebounded somewhat in the June quarter following a slow start to the year. Notwithstanding this, global growth is not as uniform as it was in 2017 – while the US appears to be growing very strongly, Europe and China have slowed more than expected. It seems a near consensus view is that, given the extent of fiscal stimulus committed by Governments in the US and a number of other countries this year and next, world growth, and thus corporate earnings, will remain robust until this stimulus falls away in 2020. However, global trade tensions are already more significant than many expected. A material further increase in these tensions would have the potential to bring forward this inflection point in global economic growth.

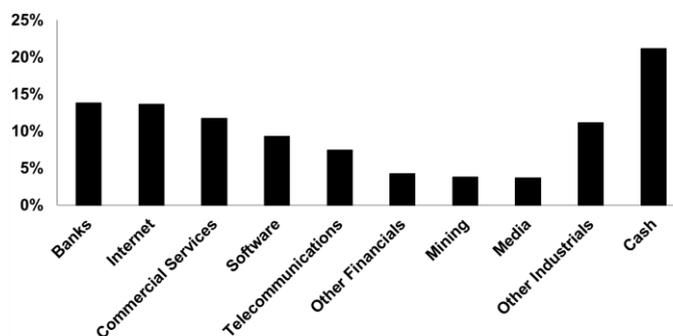
One stock the Fund has been invested in for many years despite it being firmly in the highly priced quality growth stocks camp is REA Group. REA is the dominant real estate listings portal and one of Australia's highest quality franchises, demonstrated by its ability to raise prices at least 10% pa. While we believe this core attribute is well reflected in its ~35x FY19 PE multiple, the Fund continues to hold a small position (which it would consider increasing at meaningfully lower prices) as we believe REA will make yet another significant step change up the real estate value chain by becoming a significant referral provider to real estate agents over the next 3-5 years.

SBF Performance

Return to 30 June 2018			
	SBF	Index*	Out Perf.
3 months	10.3%	8.4%	1.9%
1 year	21.5%	13.2%	8.3%
3 year p.a.	14.5%	9.1%	5.4%
5 year p.a.	17.4%	10.0%	7.4%
7 year p.a.	20.4%	9.0%	11.4%
Since inception (31.07.08) p.a.	19.4%	6.9%	12.5%
Value of \$100,000 invested at inception	\$576,729	\$192,976	\$383,753

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 30 June 2018	SBF	Index*
% in Market Cap < \$1bn **	24.1%	5.7%
% in Market Cap \$1bn - \$5bn	34.0%	18.3%
% in Market Cap \$5bn - \$10bn	2.1%	11.1%
% in Market Cap > \$10bn	18.7%	64.9%
% Cash	21.1%	Nil

SBF Top 5 Holdings

Webjet
 Corporate Travel
 Altium
 Pinnacle Investment Management
 ANZ Banking Group

* 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	\$208.9m
Mid Price (cum dist)	\$2.1223 (30 Jun 2018)
Distribution	\$0.2836 (30 Jun 2018)
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.