



Smallco Investment Fund

Quarterly Update 30 September 2013

SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered strong performance during the September quarter. Major contributors during the quarter included Altium Limited, REA Group Limited, Seek Limited, Magellan Financial Group Limited and Macquarie Atlas Roads Group.

The Australian equity market bounced back strongly in the September quarter, posting its strongest quarterly return in 4 years. The August reporting season was quite well received, although overall revenue and earnings per share (EPS) growth for the market ex-resources were a modest 2% and 5% respectively. Many domestic cyclical stocks performed strongly, driven by increased market expectation that the combination of the Reserve Bank's interest rate cuts and improved political stability would drive a solid improvement in the non-mining economy.

We remain slightly more cautious, expecting a more modest improvement in consumption given the continued slowing in household income growth and lacklustre labour market. Accordingly, SIF has remained selective and has benefited from strong performances of a number of stocks despite a relatively high cash position.

REA Group owns the dominant Australian real estate classifieds internet site and is a stock in which the Fund has had a significant holding for a number of years. During the recent reporting season it reported annual EPS growth greater than 25% for the 7th year in a row. The stock returned 38% in the September quarter and is now trading on a consensus 2014 price earnings ratio (PER) of ~40x.

At more than double the stock market average PER, we regard REA's share price in the short term as very expensive. Our strategy for dealing with this is to trim a portion of the holding so that we crystalize profits, while maintaining a reasonable size holding in this quality long term growth stock.

Further Updates

Please note that along with providing regular quarterly newsletters we are available during business hours to discuss any relevant issues or provide ongoing updates.

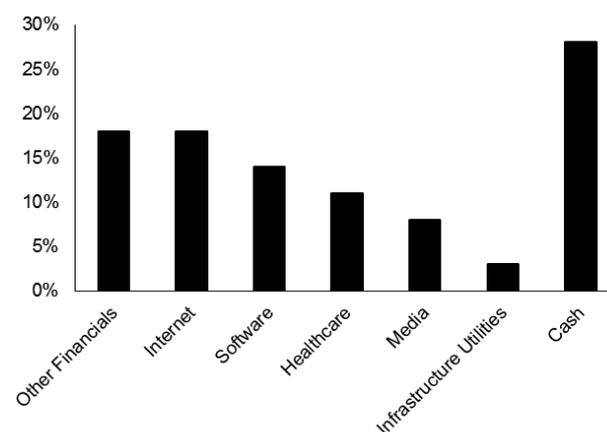
Please feel free to contact Craig Miller, one of our fund managers, for any queries or needs on 02 8256 1000.

SIF Performance

Return to 30 September 2013	
3 months	15.5%
1 year	54.1%
3 year p.a.	29.4%
5 year p.a.	21.3%
10 year p.a.	16.5%
Since inception (31.07.08) p.a.	14.3%
Value of \$100,000 invested at inception	\$561,295

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

SIF Structure: by sector (look through)



SIF Significant Holdings

IRESS Limited
Magellan Financial Group Limited
REA Group Ltd
Resmed Inc.
Seek Limited



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SIF Fund Description

SIF is a concentrated, absolute return, index unaware Australian equity fund investing predominantly in smaller listed companies. In addition SIF may invest in cash when opportunities are scarce and have up to 20% of the fund in larger Australian listed companies (within the ASX 100).

Smallco believes that higher returns are available from smaller companies as these companies are generally not as well followed by the market which in turn makes mispricing more common. Particular focus is placed upon companies with a market capitalisation of between \$100m to \$500m - the Smallco "sweet spot".

SIF typically holds 25 to 35 stocks on the premise that it is better to have a holding of core stocks that offer solid investment fundamentals than a large number of "OK" investments.

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.

Stock weightings within the portfolio are determined by the assessment of the quality of the stock, the likely investment outcome, liquidity and the risk of sustained capital loss.

SIF very rarely invests in mining stocks, is very averse to loss making companies, and takes an extremely cautious approach to biotechs and structurally impaired industries.

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Key Investor Information

Strategy	SIF is a concentrated, Australian equity smaller company focused fund that invests predominantly long but can effectively short when opportunities are found.
Process	Smallco manages SIF employing a bottom up fundamental research approach focusing upon earnings direction, risks and the underlying businesses quality.
FUM	\$165m AUD
Mid Price	\$3.5946 (30 Sep 2013)
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Administration cost	0.39% of net assets *
Performance Fee	18.64% of the performance above the fund's previous end-of-six-month period high. Payable 6 monthly. *
Distribution	Annually - 30 June
Service providers	Custody: JP Morgan Administration: White Outsourcing
Liquidity	Time to exit 50% of SIF assets: < 1 day

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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 quoted are 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.