



Smallco Investment Fund

Quarterly Update 30 June 2014

SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered -3.5% during the June quarter and for the 12 months was up a pleasing 21.4%. During the quarter Sirtex Medical Limited and Macquarie Atlas Roads performed positively, while Magellan Financial Group, Seek Limited and REA Group relinquished a small portion of their strong 12 month gains.

For the June quarter, while the Australian ASX300 Index was modestly positive, the Small Ordinaries index was negative 2.3%. This was despite a positive lead from the major international markets, continuing low interest rates and continuing modest growth in the global economy.

A recent listing that SIF has acquired a position in is iSentia (ISD). ISD is the leading player in the media intelligence industry in both Australia and the relatively immature Asia Pacific region. It has 28% market share across the Asia Pacific region, over four times its nearest competitor. ISD's business involves tracking what is happening across all forms of media, filtering the data and presenting the relevant information to organisations in a very timely manner. Because the business involves gathering information from so many different sources and presenting it quickly and intelligently, it requires not only an efficient automated collection system, but significant human intervention. Consequently, it has considerable scale benefits and consequently high barriers to entry.

The regional industry over the last few years has been growing in excess of 15% pa. ISD has recently acquired AAP's media monitoring business, which was its major competitor in ANZ. Additionally, over the last few years it has made a number of acquisitions to position itself in the more rapidly growing Asian market.

We have recently increased the size of our investment team with Paul Graham joining us as a portfolio manager. Paul is highly experienced, having covered Australian smaller companies for much of the past 19 years, and is very well known by the Smallco team.

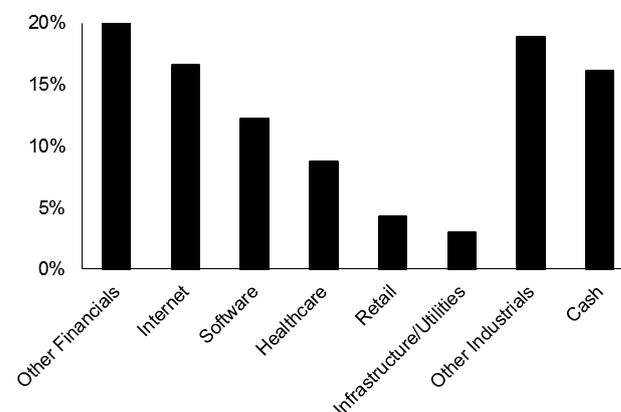
Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.

SIF Performance

Return to 30 June 2014	
3 months	-3.5%
1 year	21.4%
3 year p.a.	30.0%
5 year p.a.	26.8%
10 year p.a.	13.9%
Since inception (31.10.00) p.a.	13.9%
Value of \$100,000 invested at inception	\$591,002

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 (alphabetical order)

iSentia
IRESS Limited
REA Group
Seek Limited
Sirtex Medical 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 invest 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 biotech 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	\$185m AUD
Mid Price (cum dist)	\$3.7806 (30 Jun 2014)
Distribution	\$0.0330 (30 Jun 2014)
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Administration cost (FY14)	0.28% of net assets *
Performance Fee	18.64% of the performance above the fund's previous end-of-six-month period high. Payable 6 monthly. *
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.