



Smallco Investment Fund

Quarterly Update 31 December 2015

SIF Portfolio Commentary

Smallco Investment Fund (SIF) delivered a return of 13.0% for the December quarter and for calendar 2015 year 26.6%. For the quarter the Small Ordinaries index was up 11.3% and for the year 10.2%.

World markets rose 5% over the quarter. Against a backdrop of generally weakening economic data, equity markets started the quarter strongly with some central bank easing. However, the later part of the quarter saw falling world equity markets and the Fed raising interest rates for the first time in nine years.

Malcolm Turnbull was elected Prime Minister of Australia in mid-September and since then there has been a significant rise in consumer confidence and unemployment has started edging down, although the Australian economic outlook remains subdued. This has not stopped the equity market rising with the broad ASX300 up 2.8% for the quarter and the Small Ordinaries up 11.3%. By historical standards good quality small industrial stocks are on high valuations, which makes us cautious on the Australian market outlook.

We have previously spoken about our substantial investments in the outdoor media companies APN Outdoor Group (APO) and oOh!media (OML). However, it is worth expanding on some of the reasons why the outdoor media sector revenue was up more than 15% in 2015 and the APO and OML share prices are up more than 100% for the year.

The dominant driver of outdoor media growth is digitisation which we spoke about in our March Quarterly. Additionally, outdoor media appears to be benefiting from the move away from free-to-air TV, particularly by younger demographics. As the outdoor companies continue their large format digital rollouts, they are getting a network effect where they can offer major brand advertisers significant exposure to all the major Australian metropolitan areas.

The effect of all this is that outdoor media has grown from 3.5% of total Australian advertising spend in 2010 to currently over 5%. We expect this trend to continue for some time as there are very significant digital screen rollouts still to come over the next couple of years and the trends spoken about above continue to play out. Outdoor media companies remain a significant portion of our portfolio, although we have taken some profits as share price targets have been met.

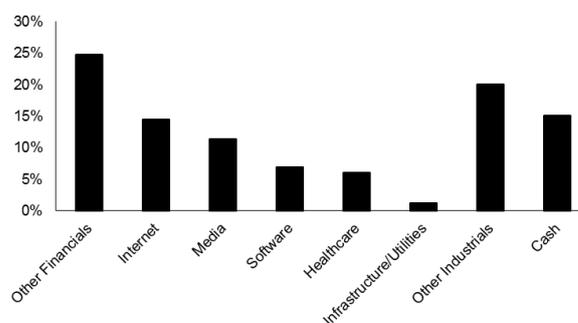
Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.

SIF Performance

Return to 31 December 2015	
3 months	13.0%
1 year	26.6%
3 year p.a.	26.0%
5 year p.a.	25.4%
10 year p.a.	12.6%
Since inception (31.10.00) p.a.	15.0%
Value of \$100,000 invested at inception	\$831,422

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)

APN Outdoor Group
Cover-More Group
Isentia Group
oOh!media
Veda Group



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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	\$290.5m AUD
Mid Price	\$4.9035 (31 Dec 2015)
Distribution	Annually 30 June
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 (FY15)	0.25% 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.