



# Smallco Investment Fund

## Quarterly Update 30 June 2018

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 10.1% for the June quarter and 27.5% over the past year. For the quarter the Small Ordinaries index was up 7.7% and was up 24.2% for the year.

Over the quarter, the fund benefited from strong returns across a broad range of companies including Wisetech Global, IDP Education and Appen. Negative contributors included 3P Learning and Link Administration.

The portfolio has performed strongly in what has been a very strong equity market. The fund has benefitted from good operating updates from key positions and further rerating of quality growth companies. We are however increasingly wary of the valuation levels in the Australian stock market. It is becoming more difficult to find reasonably priced stocks with attractive earnings outlooks and as a result the funds cash levels have increased to approximately 25%. In the current environment we are prepared to hold higher levels of cash and wait for more attractive redeployment opportunities.

Globally economic growth remains robust but is not as strong nor as uniform as CY17. The consensus amongst market economists is for fiscal stimulus from the US and a number of other governments to continue to support corporate earnings through 2019. Trade tensions however continue to escalate and appear the key near term risk to growth and equity markets globally.

Domestically the economy continues to perform solidly supported by business investment. Weaknesses however remain particularly around the consumer and housing.

As mentioned above, Link Administration has dragged on performance this quarter. Link has four divisions one of which is the largest provider of administrative services in the Australian Superannuation Industry. Its revenue model is based upon the number of member accounts it services. While an annuity style business, it's near term outlook was impacted by superannuation reform announced in the budget designed to accelerate account consolidation by the closure of inactive low balance accounts.

Whilst a reduction in the number of superannuation accounts that Link administers will impact near term revenues we believe the company has multiple levers such as repricing and cost reductions to help mitigate the impact. Longer term, Link remains the most efficient, lowest cost service provider and is thus well placed to capitalise on what remain favourable industry dynamics.

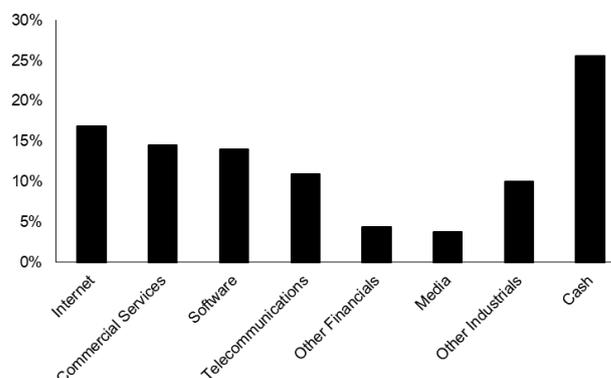
In addition we see potential for both earnings upside and re-rate potential from Link's second largest and newest division, Link Asset Services. This division, acquired in November 2017, provides a broad range of financial and administrative services. It established a platform for European growth for Link that we believe is still not well understood by the Australian market.

### SIF Performance

Return to 30 June 2018	
3 months	10.1%
1 year	27.5%
3 year p.a.	18.8%
5 year p.a.	18.7%
10 year p.a.	17.6%
Since inception (31.10.00) p.a.	14.8%
Value of \$100,000 invested at inception	\$1,146,834

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)

Altium  
Corporate Travel Management  
IDP Education  
Superloop  
Webjet

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



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## SIF Fund Description

SIF is a concentrated, index unaware Australian equity fund investing predominantly in smaller listed companies. SIF may invest in cash when opportunities are scarce and invest up to 20% of the fund in Australian companies within the ASX100. SIF is currently closed to new investment.

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.

## Contact Details

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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	\$388.3m AUD
Mid Price (cum dist)	\$5.7473 (30 Jun 2018)
Distribution	\$0.6370 (30 Jun 2018)
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Adam Simpson and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Adminn cost (FY17)	0.15% 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: Link Fund Solutions
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.