



Smallco Investment Fund

Quarterly Update 30 June 2019

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 4.7% for the June quarter and 9.8% for the last 12 months. This is ahead of the Small Ordinaries index which was up 3.7% for the quarter and 1.9% for the year. Over the quarter, the fund benefited from strong returns from Appen, REA Group, Wisetech and Seek. Negative contributors included GTN and Corporate Travel.

SIF has performed strongly over the past year capitalising on the rebound in global equity markets that followed the December quarter sell off. Equity markets and in particular the growth orientated companies typically favoured by the fund reacted positively to the about face in central bank monetary policy earlier in the year.

We do caution that the strong recovery in CY19 has once again seen valuations returning towards stretched levels and a pullback would not surprise. Cash levels have increased to ~24% as we trimmed strong performers and have struggled to find reasonably priced quality companies to reinvest into.

Seek has been a long term holding in the fund. Since listing in 2005 it has developed from an ANZ job board to a diverse group of market leading online employment businesses across Australia, Asia and Latin America. In recent years Seek has also undertaken a wide range of earlier stage investments in the broader human capital and education sectors.

Seek currently faces cyclical pressures in its major ANZ and Asian employment businesses which places near term growth forecasts at risk. However, it is a quality holding and we increased our position at lower prices earlier in the year given the quality of its management and its strong longer term growth outlook. Management recently outlined a credible pathway for Seek to be a ~\$5bn revenue business by 2025. As context that is ~4x's FY18 revenue and would represent ~20% revenue CAGR.

Seek's Australian business is set to leverage its market leading position and move to a more dynamic industry, role and demand based pricing model. This should capture more of the value it provides in the recruitment value chain and drive significant medium term revenue growth.

Seek also owns 61% of Zhaopin, one of China's leading white collar employment businesses. The Chinese market is still relatively immature and there is a significant longer term revenue opportunity if it can fully monetise its market leading position.

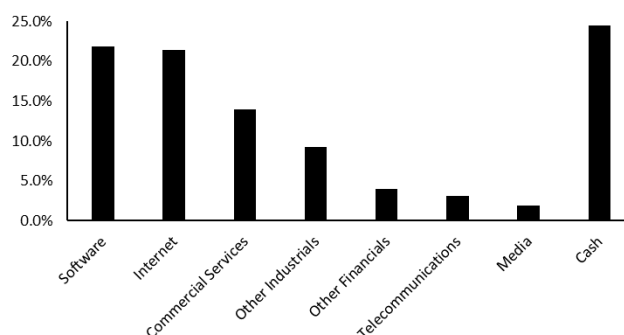
Seek's Asian business is now operating more closely with the ANZ operations and has significant longer term upside if its performance can be more closely aligned. In addition, Seek's early stage investments in human capital and online education businesses drag on near term profitability but offer the potential of substantial longer term capital appreciation.

SIF Performance

| Return to 30 June 2019 | |
|--|-------------|
| 3 months | 4.7% |
| 1 year | 9.8% |
| 3 year p.a. | 15.3% |
| 5 year p.a. | 16.3% |
| 10 year p.a. | 21.5% |
| Since inception (31.10.00) p.a. | 14.5% |
| Value of \$100,000 invested at inception | \$1,259,769 |

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
Appen
Corporate Travel Management
REA Group
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.

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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 (cum dist) | \$377.7m AUD |
| Mid Price (cum dist) | \$5.6135 (30 Jun 2019) |
| Distribution | \$0.6915 (30 Jun 2019) |
| Inception Date | 31 October 2000 |
| Portfolio Managers | Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Adam Simpson, Han Xu and Craig Miller |
| APIR Code | ASC0001AU |
| Minimum Initial | \$40,000 |
| Buy/sell costs | +/- 0.45% |
| Management Fee | 1.40% of net assets * |
| Admin cost (FY18) | 0.14% 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.