

SMART MONEY

SMALL CAP FUNDS

Managers believe co-investing is a big incentive

Smart Money profiles the success of three top small company funds.

Smallco Investment Fund

This top-performing small company fund returned an impressive 38.7 per cent (after performance fees) over three years to September 30, with a 12-month return of 34.6 per cent.

The fund, which opened in October 2000, is managed by managing director Rob Hopkins, a former small company researcher for a stockbroking firm, and executive director Bill Ryan. They own 15 per cent of the fund each. Hopkins says being co-

investors with people who invest in the fund provides an extra incentive to ensure the fund performs.

The managers seek companies with a market capitalisation of between \$100 million and \$500 million to develop a portfolio of up to 35 stocks. Big contributors to the fund's success have been holdings in data provider IRESS and the Sydney Futures Exchange, recently taken over by the Australian Stock Exchange. The fund has more than \$100 million in net assets and will be closed when it reaches \$200 million.

A unique feature of the fund is its ability to short sell stock – more than 15 per cent of the fund's total returns have been made through shorting. Short selling is where a manager borrows shares from other investors and sells them in the belief that the price will fall. The shares are sold and then repurchased at a lower price before being returned to their owner. The difference between the price at which they were sold and rebought is the profit on the trade.

Annual portfolio turnover is about 30 per cent. Fees include a management fee of 2.15 per cent on net assets each year, plus an annual performance fee of 20 per cent above a previous six-month record performance. The minimum investment in the fund is \$40,000.

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