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## Fund Pick

# Smallco Investment Fund hits the big time

John Collett | July 27 2005 | [The Sydney Morning Herald](#) & [The Age](#) (subscribe)

For the three years to June 30, the fund, which invests in Australian-listed small companies, returned an average annualised 24.8 per cent (after fees), compared with the small ordinaries accumulation index return of 18.8 per cent.

Smallco Investment Management was founded in 2000 by Rob Hopkins and Bill Ryan, and manages \$30 million in its one fund. The two men have significant amounts of their own money in the fund.

The manager has not been covered by many researchers. In May this year, the investment researcher Lonsec gave the manager a favourable report card.

The fund is unique in that it runs a concentrated portfolio of no more than 35 stocks and has a mild ethical overlay. It doesn't market itself as an ethical fund, but Michael Walsh, chief executive of the ethical funds researcher Corporate Monitor, is the independent director on the Smallco board. Walsh advises the manager on ethical screening.

Smallco also has the ability to take on some modest gearing and to short stocks. When done successfully, shorting is a way of making money when stock prices fall. At any one time the manager will have three or four short positions. However, up to half the value of the fund can be in short positions.

The ability to short may be comforting to investors worried that small companies, having had a couple of stellar years, may be ready for a breather.

Lonsec awarded the fund its second-highest "recommended" rating - a good rating for its ratings debut with the researcher.

"Given that the fund is focused on the small-cap end of the market, is reasonably concentrated and has the ability to gear, it is suitable for higher-risk-profile investors," Lonsec says in its report.

The fund invests in companies with high returns on shareholders' funds. "We do not like 'gonna' companies, those that are 'going to' make good earnings," co-founder Bill Ryan says.

Core holdings include the sharemarket information company IRESS, the Sydney Futures Exchange and Macquarie Communications Group.

While no one knows what markets are going to do over the short and median term, Ryan is "very positive" on the longer-term outlook for the portfolio.

The profit outlook for the companies held in the portfolio is still very good and, given the quality of the companies, Ryan expects that to continue to be reflected in the performance of the fund.

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