

# Sigma Emerging Companies Fund

Monthly update as at 31 May 2016

	Month %	Quarter %	FYTD %	1 year %	3 years % p.a	Since Inception^ % p.a.
Sigma Emerging Companies Fund*	3.1	9.7	4.3	(2.4)	5.1	2.9
S&P/ASX Small Ord. Accumulation Index	4.1	13.1	15.9	6.9	6.9	3.9
<b>Value added (deducted)</b>	<b>(1.0)</b>	<b>(3.4)</b>	<b>(11.6)</b>	<b>(9.3)</b>	<b>(1.8)</b>	<b>(1.0)</b>

\*Gross Performance. Past performance is not a reliable indicator of future performance. ^Since Inception: 10<sup>th</sup> October 2012

## Key points

- Small Cap “value opportunity” clearly evident as traditional metrics remain compelling
- Cyclical sectors expected to benefit as earnings bottom and risk appetite increases
- Fund positioned for cyclical re-rating and away from lower return defensives

## Individual stock performance of note

The Sigma Emerging Companies Fund (“the Fund”) *underperformed* a rising small cap market in May as defensive-quality-yield remained well supported by the RBA’s surprise rate cut.

Fund performance was driven positively by:

- Smartgroup (+35%) and McMillian Shakespeare (+22%) rallied strongly in response to the Australian Labor Party announcing they were not proposing any changes to fringe benefits in the salary packaging sector;
- APN News & Media (+16%) was stronger post raising capital and restructuring the business. With the balance sheet repaired and the impending divesture of the newspaper businesses in Australia (by sale) and NZ (by IPO) announced, management intends to focus on the core radio and outdoor media assets which generally command higher multiples.
- Yowie Group (+27%) rallied post announcing new distribution deals for its range of chocolates in the United States;
- Australian Agriculture Company (+22%) rose above NTA after delivering a stronger than expected result on the back of rising beef prices and a more focussed brand strategy;
- RCR Tomlinson (+21%) was up after announcing new contract wins which point to a stronger FY17.

Fund performance was driven negatively by:

- Seymour White (-21%) downgraded earnings due to continued project delays on infrastructure on the East Coast as well as continued legacy contracts impacting margins. However, the outlook on the East Coast is still strong with recent work won at better margin and low risk;
- Significant fund overweights drifted lower on little new news. Tox Free Solutions (-4%), and Ingenia Communities (-3%) and Peets (-4%) all fell into this camp;
- While the absence of Infigen (+50%), Orocobre (+37%) and Metcash (+17%) impacted performance in a relative sense.

## Portfolio Changes

### Stocks Added

None

### Stocks Sold

**Broadspectrum (BRS)** was sold post the board recommending Ferrovial’s increased \$1.50 all-cash bid was attractive in light of the uncertainty with the Manus Island detention centre contract post the PNG Supreme Court’s ruling the facility breached the country’s constitution.

**Austal Limited (ASB)** was sold on valuation grounds.

## Top 5 active positions

Stock	Active weight %
<b>Overweights:</b>	
G8 Education	4.6
Tox Free Solutions	4.4
Ingenia Communities Group	4.1
Seven West Media	4.1
ERM Power	3.7
<b>Underweight:</b>	
Northern Star Resources	2.0
Blackmores	1.6
Evolution Mining	1.6
Macquarie Atlas Roads	1.5
NIB Holdings	1.5

Note: Active weights refer to positions above benchmark only.

### Strategy summary

Sigma Emerging Companies is a 'value based' investment approach that specifically focuses on avoiding "value traps", leading to:

- Superior performance potential,
- Lower risk, and
- Increased consistency.

### What makes Emerging Companies unique?

- Value-biased portfolio of 40 to 60 stocks
- High conviction small cap positions: we back our ideas
- Focused on downside protection through *Sigma's Value: Risk: Adjust* investment approach

## Asset allocation

Sector	Active weight %
Consumer Discretionary	9.2
Industrials	6.3
Utilities	5.0
Financials-A-REIT	2.4
Information Technology	(1.8)
Energy	(2.0)
Telecommunication Services	(2.0)
Financial-x-Real Estate	(2.4)
Healthcare	(5.3)
Consumer Staples	(6.2)
Materials	(11.7)
Cash & Other	8.5

Note: Active weights refer to positions above or below benchmark.

### What makes Sigma's Emerging Companies Fund different?

Most investment management firms comprise distinct Large Cap and Small Cap teams with separate incentive structures and competing interests. In contrast, Sigma's Large Cap and Small Cap teams are equal partners and completely aligned to the success of two *interlinked* strategies: Sigma Select and Emerging Companies. As the best Small Cap ideas are also high conviction holdings in Select, the whole investment team is focused on delivering outperformance.

### About Sigma Funds Management

- Value-style Australian equities manager which aims to outperform without the downside of "value traps" through an investment approach called *Value: Risk Adjust*
- Sigma is an investment partnership, 51% owned by Aziumt, Itlay's leading independent asset manager with the Executive founders owning the remaining 49%

### Contact

For more information contact Pinnacle Investment Management, the Fund's distributor, on 1300 010 311.

See also [www.sigmafunds.com.au](http://www.sigmafunds.com.au)

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