

NovaPort Smaller Companies Fund

Quarterly report - September 2019

Performance ¹	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	15 years % p.a	Inception % p.a ²
Fund return (net)	3.40	7.25	8.41	5.35	7.48	10.79	10.72	13.78
Growth return	3.31	7.16	3.05	1.28	2.08	6.63	1.71	5.19
Distribution	0.09	0.09	5.36	4.07	5.40	4.16	9.00	8.59
S&P/ASX Small Ordinaries Accumulation Index	2.61	3.11	3.95	8.81	9.61	4.55	5.56	7.68
Active return ³	0.79	4.14	4.47	-3.46	-2.13	6.24	5.15	6.11

Past performance is not a reliable indicator of future performance.

¹ Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

² The inception date for the Fund is 31 December 2002

³ Numbers may not add due to rounding

Investment objective

The Fund is designed to provide investors with a diversified portfolio of smaller Australian companies that aims to outperform its benchmark over rolling three-year periods.

Responsible entity

Fidante Partners Limited

Investment manager

NovaPort Capital Pty Ltd

Investment strategy

NovaPort is a benchmark unaware, active investment manager. NovaPort is a high conviction investor, which invests in a concentrated number of companies at any given time and consequently its investment portfolios typically have a lower turnover of securities.

Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years

Asset allocation	Actual %	Range %
Security	87.76	80-100
Cash	12.24	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Credit Corp Group	5.55	0.82	4.73
Kathmandu Holdings Ltd	3.80	0.00	3.80
Gold Road Resources Ltd	4.28	0.54	3.74
Independence Group NL	5.05	1.53	3.52
Regis Healthcare Ltd	3.53	0.20	3.33

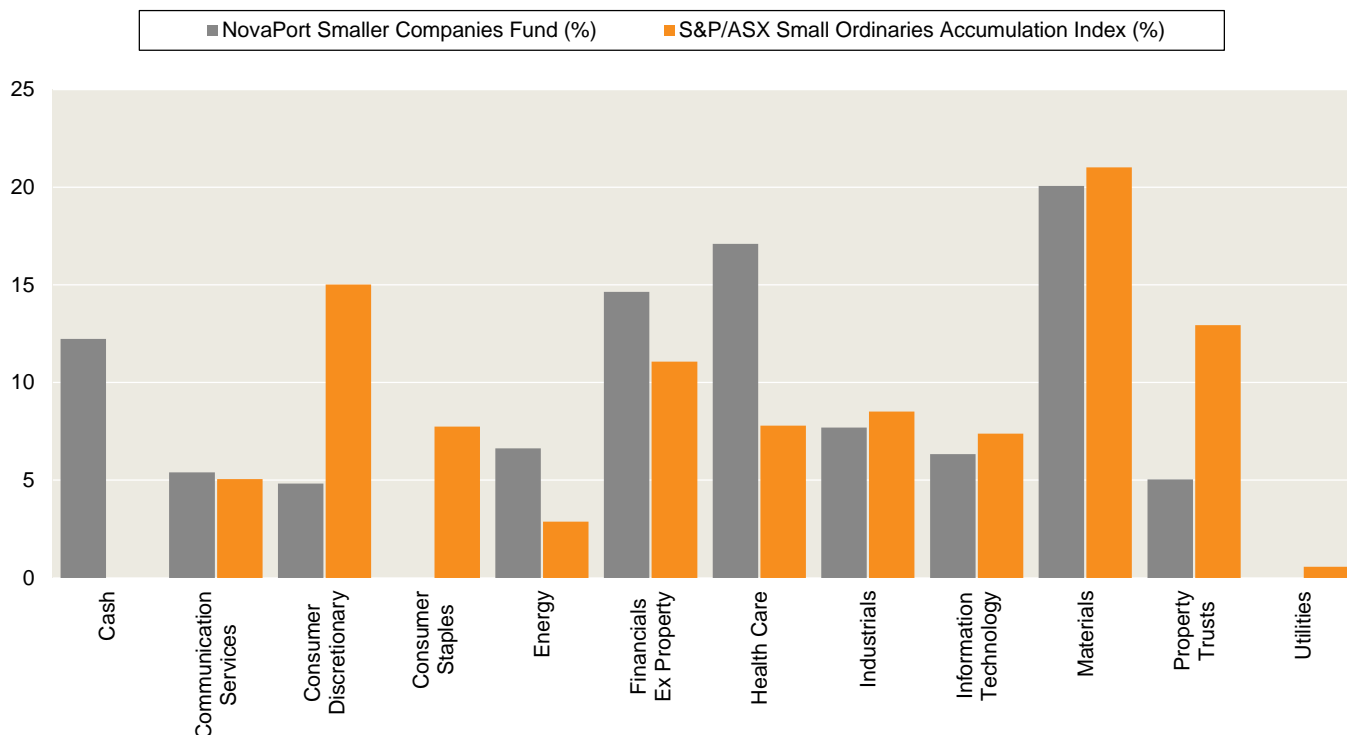
Fund facts	
Inception date	31 December 2002
Fund size	\$286.7M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2017-2018 ICR	0.90%
Management fee ¹	0.90% p.a.
Performance fee ²	20% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Fund's Performance Benchmark (the daily return of the S&P/ASX Small Ordinaries Accumulation Index). The performance fee is capped at 2.00% p.a.
Buy/sell spread	+0.30% / -0.30%

¹ Up to and including 30 September 2011, the management fee was 0.95% p.a. From 1 October 2011, the management fee was reduced to 0.90% p.a.

² The performance fee was introduced from 1 October 2011

Sector exposure



Market overview

The ASX Small Ordinaries Accumulation Index posted another strong result for September with a 2.61% gain, a positive end to a volatile quarter for which the overall benchmark return was 3.11%. The sectors which performed the best during the quarter were Consumer Discretionary, Financials and Property Trusts. The lagging sectors were Information Technology, Communications and Energy.

Companies reporting their annual results during the quarter generated substantial stock specific information which the market continues to digest. As highlighted in last month's fund report, reported earnings for the June half were weak in general. This was unsurprising given broadly subdued economic factors and uncertainty over the first six months of the year. The lagging sectors seemed to reflect less confidence in earnings expectations.

The outperformance of property trusts appears to be driven by rising expectations of persistent and aggressively loose monetary policy (with prominent announcements by the European Central Bank and market actions by the US Federal Reserve). While this can buoy the market overall, close attention needs to be paid to fundamentals and earnings per share (EPS) growth forecasts in particular. From a top down perspective endless liquidity can irrigate markets indefinitely however the bottom up challenge of forecasting a company's profit remains as difficult and error prone as ever before. The currently high dispersion of valuation premiums and discounts raises the stakes for investors. In this framework we believe the best returns will arrive from identifying those companies with underappreciated earnings potential while avoiding over bought companies where expectations are optimistically inflated.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +3.11% for the quarter. The fund outperformed the market and delivered a +7.25% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Kathmandu Holdings Ltd	Consumer Discretionary	3.80	1.11
Western Areas Limited	Materials	2.59	0.96
Independence Group NL	Materials	3.52	0.95

Kathmandu Holdings Ltd

Kathmandu's share price rallied 35% over the September quarter following the release of a trading update highlighting solid sales growth on a buoyant previous corresponding period as well as a strong performance from US based Oboz which was acquired in April 2018.



Western Areas Limited

Western Areas is a nickel producer based in Western Australia. The group operates high grade mines which have benefited from higher nickel prices. The company is also making progress in delivering new mine developments.

Independence Group NL

Independence Group produces nickel and gold from high quality mines in Western Australia. The company is benefiting from stronger pricing for these metals which is expected to translate into significant cash profitability.

Key detractors

Security name	Sector	Active weight %	Value added %
Iress Limited	Information Technology	2.35	-0.56
Worleyparsons LTD	Energy	2.97	-0.48
Monadelphous Group Limited	Industrials	1.88	-0.42

Iress Limited

The stock saw a multiple constriction during September as it traded lower despite the company reiterating its 2019 guidance and delivering organic growth in the current period.

Worleyparsons LTD

Worleyparsons reported a robust earnings result albeit with limited transparency around the impact of the recent Jacobs acquisition. Shifting sentiment to the oil price continues to drive short term share price performance.

Monadelphous Group Limited

At the last results presentation Monadelphous Group highlighted that delays to the commencement of major resource projects might impact its earnings performance in the current financial year.

For further information, please contact:

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