

# NovaPort Wholesale Microcap Fund

## Quarterly fund report and commentary – 31 December 2011

Performance <sup>1</sup>					
	Quarter (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a.)
<b>Fund</b>	<b>2.42</b>	<b>-8.18</b>	<b>22.45</b>	<b>0.34</b>	<b>8.55</b>
Growth return	0.63	-10.32	20.27	-5.14	1.15
Distribution return	1.78	2.15	2.18	5.48	7.40
S&P/ASX Small Ordinaries Accumulation Index	-0.60	-21.43	11.82	-5.18	2.13
Active return	3.02	13.25	10.63	5.52	6.42

**Past performance is not a reliable indicator of future performance.**

<sup>1</sup> Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

### Investment objective

The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling seven-year periods.

### Investment manager

NovaPort Capital Pty Limited

### Investment strategy

NovaPort is a benchmark unaware, active investment manager. NovaPort's approach to managing the Fund is based on paying a reasonable price for companies with an improving profit growth profile, while paying particular attention to the underlying quality of company earnings and management.

### Distribution frequency

Quarterly

### Suggested minimum investment timeframe

At least seven years

Asset allocation		
	As at 31 December 2011 (%)	Range (%)
Securities	89	60-100
Cash	11	0-40

Top five active positions as at 30 November 2011			
	Fund weight (%)	Index weight (%)	Active weight (%)
Medical Developments International	6.58	0.00	6.58
Saracen Mineral Holdings	5.74	0.47	5.27
Data No.3	4.49	0.00	4.49
Saunders International	4.20	0.00	4.20
Thorn Group	4.43	0.26	4.17

Fund facts	
	Fund
Inception date	22/03/2005
Fund size (\$M)	28.8
APIR code	HOW0027AU

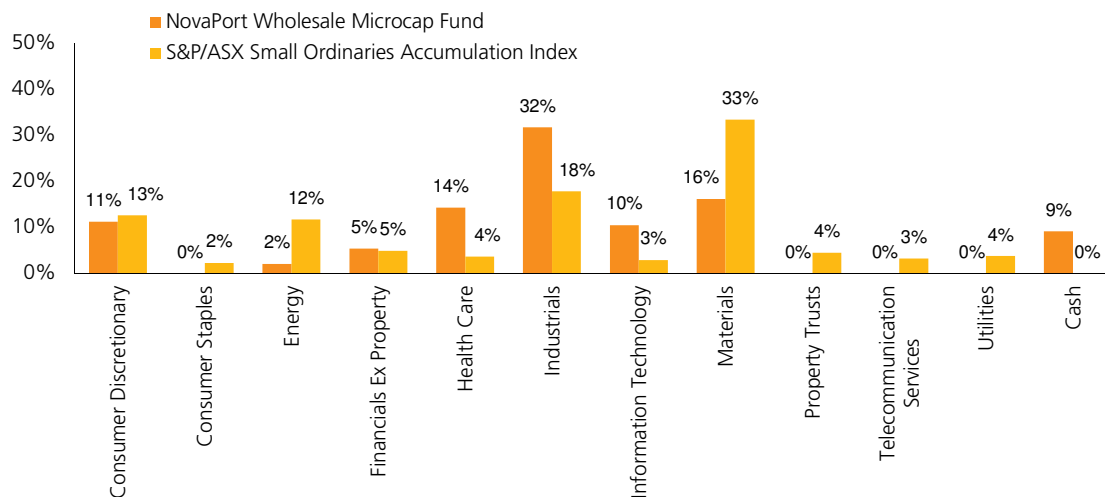
Fees	
	Fund
Entry fee	Nil
2010/2011 ICR	1.50%
Management fee	1.50% p.a.
Performance fee	20% of the difference between the Fund's gross return (before fees and expenses) and the daily return of the S&P/ASX Small Ordinaries Accumulation Index plus 1.50% p.a.
Buy/sell spread	+0.40%/-0.40%



# NovaPort Wholesale Microcap Fund

## Quarterly fund report and commentary – 31 December 2011

### Sector exposure as at 30 November 2011



### Commentary

The Australian Smaller Companies market (S&P/ASX Small Ordinaries Index) finished the quarter down -0.6%, underperforming the broader equities market as risk aversion continued to drive performance. Calendar year 2011 returns also saw smaller companies (-21.4%) lag their larger companies counterparts (-11.0%) by a significant margin. Within the smaller companies sector, Small Industrials (0.0%) outperformed Small Resources (-1.4%) over the quarter.

Global equity markets (MSCI World +7.1%) returned to positive territory over the December quarter aided by strong gains in the S&P500 (+11.1%), which was also a standout performer over the year. In the US, the data continued to improve, with even the housing market starting to show some signs of life. The US labour market also showed improvement as the unemployment rate dropped to 8.6%. Major European markets (CAC40: +5.9%, DAX: +7.2%, FTSE: +8.7%) also finished the quarter up as investors were buoyed by the European central bank's long term refinancing operations designed to increase Eurozone bank liquidity, although 2011 returns were all in the negative.

Oil prices rose +24.8% against a backdrop of geopolitical tensions and threats to supply, while commodity prices appeared to soften due to fears of a slowdown in demand from China. Manufacturing in India and China did improve in December, a sign that Asian economies were holding up despite turmoil in global markets. On the domestic front, the Reserve Bank of Australia cut its official interest rate by 25 bps on two separate occasions over the quarter, citing a lower inflation outlook and conditions in Europe.

Domestic economic data was relatively weak over the quarter. Consumer confidence fell by a significant 8.3% in December, reversing several months of improvement to be significantly below trend. Housing finance continued its weakness during October, rising by just 0.7% over the month with most activity concentrated in the refinancing of existing dwellings. The Australian employment market showed further signs of weakening over the quarter, with the unemployment rate rising to 5.3% in November from 5.2% in October.

The AUD/USD finished the month and year broadly unchanged at 0.02 despite high volatility, which saw the currency swing from 0.98 to 1.04 in December and from 0.94 to 1.11 across 2011.

The portfolio outperformed the benchmark over the quarter. Contributing to returns were overweight positions in Dolomatrix International (up 49.57%), Medical Developments International (up 29.07%) and Saracen Mineral Holdings (up 10.10%). Detracting from returns were overweight positions in WDS (down 19.92%), Clarius Group (down 22.00%) and an underweight position in Aurora Oil and Gas (Index up 51.34%).

### Key contributors

#### **Dolomatrix International:** up 49.57%

Shares in Dolomatrix International surged towards the latter part of the quarter after the company announced that it had agreed to sell its business to Tox Free Solutions for \$58 million, subject to shareholder approval.

#### **Medical Developments International:** up 29.07%

Medical Developments continued its solid price run as investors become more aware and accepting of its growth strategies and results to date.

#### **Saracen Mineral Holdings:** up 10.10%

Saracen Mineral Holdings outperformed after its AGM confirmed its healthy project pipeline and ability to ramp-up production, as underground production at its Red October development comes online in FY12.

# NovaPort Wholesale Microcap Fund

Quarterly fund report and commentary – 31 December 2011

## Key detractors

### **WDS:** down 19.92%

WDS declined on relatively light news and thin volumes. The company has undertaken a substantial turnaround with new management realigning the cost base and bringing renewed focus on margins. So far the group has shown steady progress in rebuilding profitability however it still relies on winning new work to deliver on expectations. With an operational focus on the coal and energy sectors there is ample opportunity for WDS to grow its business, however for now the market requires more tangible evidence.

### **Aurora Oil and Gas:** Index up 51.34%

Aurora outperformed after the company announced that its revenue rose 32% to \$US23 million in the third quarter driven by an increase in production of 43%. Updated reserve estimates to end August 2011 also showed an increase of over 90% in each reserve category since the last report in December 2010.

### **Clarius Group:** down 22.00%

Shares in Clarius fell after the company was forced to revise down its profit guidance for the first half of 2011 in the face of challenging trading conditions. The company reported fairly modest growth in its contracting business while its recruitment business had been impacted due to fairly weak economic conditions and diminished hiring intentions.

Unless otherwise specified, any information contained in this publication is current as at 31/12/11 and is provided by Challenger Managed Investments Limited (ABN 94 002 835 592, AFSL 234668) the issuer of the NovaPort Microcap Fund (ARSN 113 199 698) (**Fund**). NovaPort Capital Pty Limited (ABN 88 140 833 656, AFSL 385329) is the investment manager of the Fund. It should be regarded as general information only rather than advice. It has been prepared without taking account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs. Each person should obtain the relevant Product Disclosure Statement (**PDS**) relating to the Fund and consider that PDS before making any decision about the Fund. A copy of the PDS can be obtained from your financial adviser, our Investor Services team on 13 35 66, or on our website [www.challenger.com.au](http://www.challenger.com.au). If you acquire or hold one of our products, we will receive fees and other benefits, which are disclosed in the PDS for that product (if applicable). We and our employees do not receive any specific remuneration for any advice provided to you. However, financial advisers may receive fees or commissions if they provide advice to you or arrange for you to invest with us. Some or all of the Challenger Limited companies and their directors may benefit from fees, commissions and other benefits received by another Challenger Limited company.