

NovaPort Wholesale Microcap Fund

Quarterly report - December 2014

Performance #	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	Inception % p.a.
Fund return	-2.75	5.65	12.55	10.68	3.09	9.76
Growth return	-2.81	4.78	11.95	9.60	1.66	4.34
Distribution return	0.06	0.87	0.60	1.08	1.43	5.42
S&P/ASX Small Ordinaries Accumulation Index	-3.89	-3.81	0.58	-2.01	-5.64	1.65
Active return [^]	1.14	9.46	11.97	12.69	8.73	8.11

Past performance is not a reliable indicator of future performance.

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.

[^] Numbers may not add due to rounding

Investment objective

The Fund aims to outperform its benchmark over rolling seven-year periods through the investment in a diversified portfolio of micro-cap Australian companies.

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 seven years

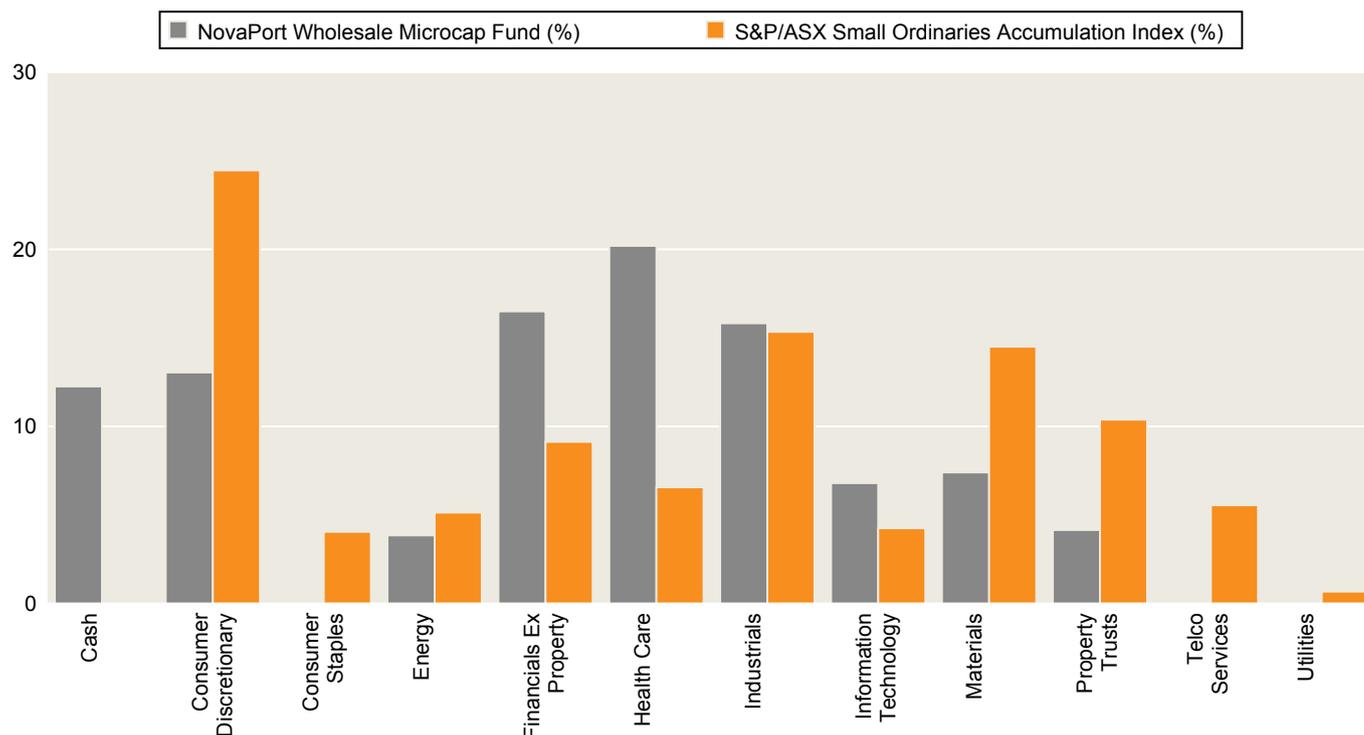
Asset allocation	As at 31 December 2014 (%)	Range (%)
Security	87.74	60-100
Cash	12.26	0-40

Top 5 active positions as at 31 December 2014	Fund weight (%)	Index weight (%)	Active weight (%)
Folkestone Ltd	4.93	0.00	4.93
Somnomed Limited	4.88	0.00	4.88
Capitol Health Ltd	5.11	0.35	4.76
1300 Smiles Limited	4.67	0.00	4.67
Saunders International Limited	4.28	0.00	4.28

Fund facts	
Inception date	22 March 2005
Fund size	\$34.0M
APIR code	HOW0027AU

Fees	
Entry fee	Nil
2013-2014 ICR	2.76%
Management fee	1.50%
Performance fee	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).
Buy/sell spread	+0.30% / -0.30%

Sector exposure as at 31 December 2014



Market overview

Despite a positive month in December (+0.5%) the S&P/ASX Small Ordinaries Accumulation Index was unable to recover from negative returns for the prior two months finishing the quarter down 3.9%. The Resources segment continued its downtrend with the accumulation Index down 21.6% for the quarter (reflecting lower demand for underlying commodities) marking three negative quarters out of four for 2014. The Industrials sector fared somewhat better, up 0.3% for the quarter. The AGM season was largely uneventful with company management flagging still difficult conditions across a number of sectors including resources and related services companies, retail, media and businesses services in general. Subdued AGM commentary was underlined by retailers issuing downgrades in the lead up to year end. Buoyant levels of housing related activity remains the one bright light amongst key drivers of the economy. Macro factors driving markets included a significant 41.2% decline in the oil price, by far the worst quarterly decline since the 55.7% decline posted for the December quarter in 2008. While the market acknowledges a weaker A\$ and lower oil prices are good for the economy, the precipitous decline of the latter has raised levels of volatility to the extent such a decline reflects parts of the global economy (largely ex US) potentially succumbing to deflationary forces – clearly a negative outcome for highly indebted sovereigns as well as those seeking to reign in deficits.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -3.89% for the quarter. The fund outperformed the market and delivered a -2.75% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Somnomed Limited	Health Care	4.88	1.42
Capitol Health Ltd	Health Care	4.76	1.30
Medical Developments International Limited	Health Care	3.85	0.93

Somnomed Limited

Somnomed operates much of its businesses outside Australia and we expect will benefit from a weaker Australian dollar. It has delivered a strong track record of unit volume growth and is now approaching a point where we expect greater earnings leverage. The company is a market leader in the supply and manufacture of oral devices for the management of sleep apnoea, an application that has good patient acceptance and efficacy for milder cases.



Capitol Health Ltd

Capitol Health announced the acquisition of a significant new practise, expanding its geographic footprint and continuing the strategy of inorganic growth. The company has benefited from favourable changes to radiology referral regulations and management continue to pursue growth opportunities.

Medical Developments International Limited

Solid share price performance over the quarter largely driven by positive commentary at the AGM highlighting strong growth in sales, gross margins and EBIT year on year. In addition, the board offered some encouraging comments regarding its expectations regarding the potential for European regulatory approval for the sale of Pentrox in select EU markets. A positive outcome would position the company to add additional EU countries over the following months thereby materially expanding Pentrox's market reach.

Key detractors

Security name	Sector	Active weight %	Value added %
WDS Limited	Industrials	0.76	-1.54
Tap Oil Limited	Energy	2.23	-0.95
Indoor Skydive Australia Group Ltd	Consumer Discretionary	2.06	-0.68

WDS Limited

Following the report of a tragic fatality of one of WDS Limited's employees in a workplace incident, the company announced that it had failed to secure a substantial package of LNG project work which it had seemed likely to win. Furthermore the company's coal mining service businesses continue to struggle against a very challenging industry environment.

Tap Oil Limited

Weaker oil prices have coincided with the commencement of production from the Manora oil field in Thailand. Tap is an oil producer and the share price has fallen in line with the poorer oil price environment.

Indoor Skydive Australia Group Ltd

There has been no negative news that would support the decline in share price. In fact from an operational perspective the company continues to progress initiatives to expand the number of indoor skydiving facilities (Gold Coast, Perth and Adelaide) beyond the newly established inaugural site at Penrith. We do note however the longer term nature of the investment proposition (as sites are identified, secured, developed and ramped up) as well as a material equity raising in November are two factors likely to have relieved some of the buying pressure on the shares for the short term.

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