

NovaPort Microcap Fund

Quarterly report - December 2017

Performance ¹	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	Inception % p.a ²
Fund return (net)	5.19	11.13	18.20	15.40	11.70	6.64	11.06
Growth return	5.02	10.95	17.95	14.16	10.72	5.25	6.57
Distribution	0.17	0.18	0.25	1.24	0.98	1.38	4.49
S&P/ASX Small Ordinaries Accumulation Index	3.20	13.69	20.02	14.40	7.40	-0.03	4.51
Active return ³	1.99	-2.56	-1.81	1.00	4.30	6.67	6.55

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 22 March 2005

³ 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

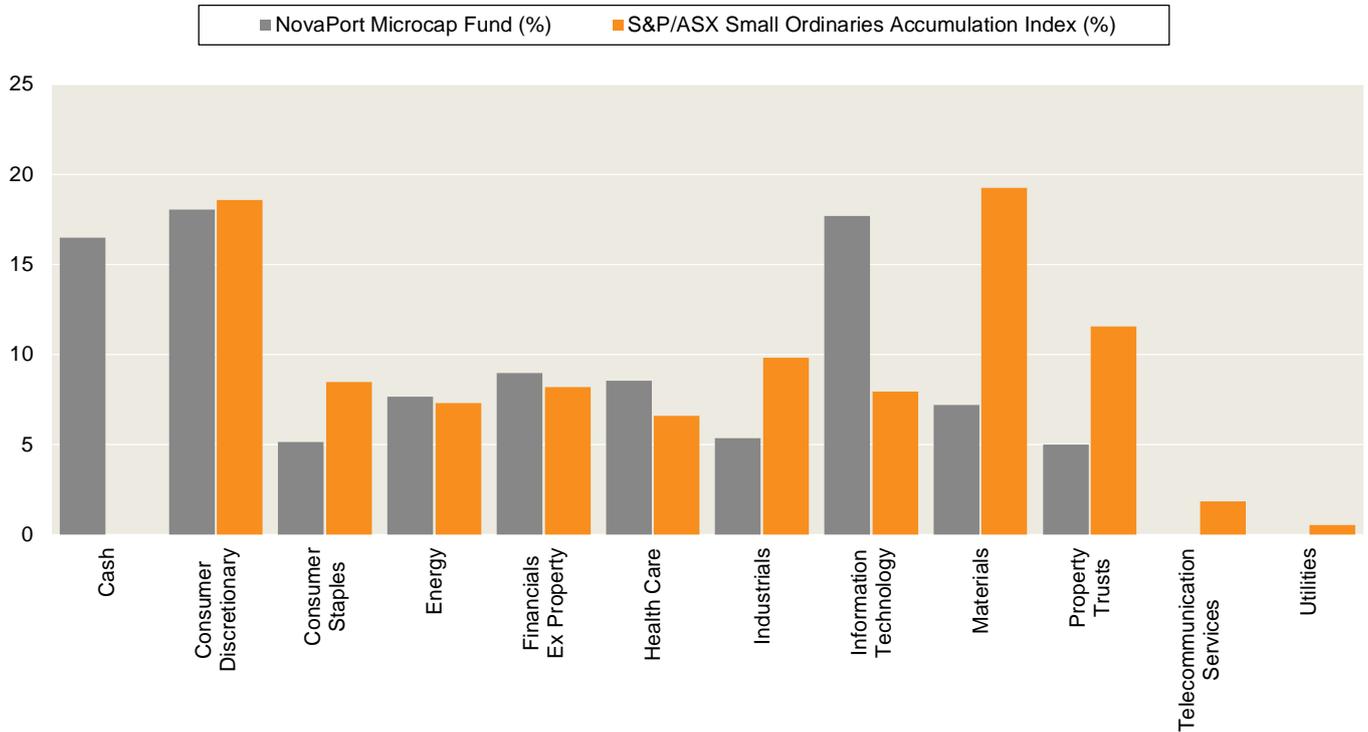
Asset allocation	Actual %	Range %
Security	83.52	60-100
Cash	16.48	0-40

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Gage Roads Brewing Co	5.13	0.00	5.13
Experience Co Ltd	8.26	0.00	4.13
Rhipe Ltd	4.11	0.00	4.11
Fiducian Group Ltd	3.85	0.00	3.85
Southern Cross Electrical Engineering Ltd	3.40	0.00	3.40

Fund facts	
Inception date	22 March 2005
Fund size	\$78.5M
APIR code	HOW0027AU

Fees	
Entry fee	Nil
2016-2017 ICR	2.16%
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



Market overview

The Small Ordinaries Accumulation Index finished the year particularly strongly with the index up 13.69% over the December quarter. This was easily the best performance since the 14.89% return posted over the September quarter in 2013. For the calendar year the smaller companies market finished up 20.02% making it the best year since the 57.43% bounce back in 2009 following the Global Financial Crisis related collapse over the previous twelve month period.

While both industrials and resources sectors posted double digit returns over the final quarter last year, it was the miners that lead the way up 25.38% versus 10.57% for industrials over the same period.

Overall, equities markets offshore and locally carried momentum throughout the latter stages of the year largely driven by similar factors. The global economy is benefitting from synchronous growth across the US, Europe and Asia for the first time since the financial crisis broke out 10 years ago and this in turn has boosted commodity prices. While monetary stimulus is slowly being withdrawn in order to normalise what have been emergency level low interest rates investors, at least for the moment, are taking the view high valuations are sustainable in the face of mildly increasing rates and so will not be a material drag on equities for the foreseeable future.

The experience is similar in Australia where a significant boost in planned infrastructure spend (primarily across the eastern states) is occurring just as the mining sector emerges from a multi-year downturn and housing construction remains at elevated levels. Income growth may be weak and cost of living expenses continue to rise for households already carrying significant debt, however the market continues to take the sanguine view that strong jobs growth and diminishing spare capacity in a solid economy will eventually see pay rises flow through the system thereby bolstering consumer related activity.

The key risk for both offshore and local equities markets (as well as bonds for that matter) is the level of comfort if not complacency regarding the expected "Goldilocks" trajectory of interest rate increases which assumes that while inflation is emerging it is unlikely to surprise on the upside. However, should inflation emerge above expectations forcing upward revisions in the rate hike cycle then the positive correlation between rate increases and equities performance is likely to breakdown. In that environment we would expect highly priced growth assets (or high Price/Earnings stocks) which have been the primary driver of market returns will likely to feel some pressure after a strong run over 2017. Conversely this may augur well for cyclical or value type exposures largely ignored last year.

Fund Performance Summary

The S&P/ASX Small Ordinaries Accumulation Index returned +13.69% for the quarter. The fund underperformed the market and delivered a +11.13% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Praemium Ltd	Information Technology	3.35	1.57
Clover Corp Ltd	Health Care	3.08	1.18
Kogan.com Ltd	Consumer Discretionary	2.49	1.09

Praemium Ltd

Gross fund inflows to Praemium's investment administration platform have been particularly strong, breaking previous records. Aided by strong equities markets, gross inflows were up over 50% for the year.

Clover Corp Ltd

Following the release of a solid result last financial year, Clover's price performance reflects its industry position as a provider of fish oil based ingredients for infant formula products. The strong demand for infant formula in China is well known, however, the European Union's recently announced decision to mandate a 100% increase in required fish oil product for infant formula sold in its market is another factor driving the positive sentiment.

Kogan.com Ltd

One of the best performers on the market last year, Kogan's product presentation and fulfilment platform is highly attuned to evolving customer preferences and has been able to capture a growing share of online spend in Australia.

Key detractors

Security name	Sector	Active weight %	Value added %
Pureprofile Ltd	Information Technology	0.84	-0.72
Southern Cross Electrical Engineering Ltd	Industrials	3.40	-0.68
Oliver's Real Food Ltd	Consumer Discretionary	1.41	-0.66

Pureprofile Ltd

Has been trading in an information vacuum as the company transitions to a new CEO which was finally announced late in the year. Investors will now wait for a presentation on the growth strategy under new management as well as expectations regarding financial outcomes.

Southern Cross Electrical Engineering Ltd

As an industrial services provider (focussing on electrical and telecommunications engineering), Southern Cross remains a preferred exposure to the positive outlook for infrastructure spend across the eastern states over the medium term. While its share price was up strongly over 2017, the December quarter was adversely impacted as investors absorbed a discounted equity raising to fund growth in its order book and future acquisitions.

Oliver's Real Food Ltd

Has a favourable growth outlook via the store rollout of its unique health food quick service offering at its stores across Australia's east coast highway system. However, positive Initial Public Offering sentiment was marred by a downgrade to forecasts only weeks after the company's listing. Investors likely to wait for the release of at least the interim result in February, if not the full year report in August, to regain confidence in the earnings outlook.

For further information, please contact:

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