

NovaPort Wholesale Microcap Fund

Quarterly report - June 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)	1.46	-1.05	12.44	9.85	12.38	4.49	9.93
Growth return	1.46	-1.05	11.73	8.56	11.34	2.88	5.32
Distribution	0.00	0.00	0.72	1.29	1.04	1.60	4.60
S&P/ASX Small Ordinaries Accumulation Index	1.99	-0.35	7.01	7.13	5.66	-1.88	3.24
Active return ³	-0.54	-0.70	5.43	2.72	6.73	6.37	6.68

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	84.17	60-100
Cash	15.83	0-40

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Fiducian Group Ltd	4.84	0.00	4.84
Codan Limited	4.12	0.00	4.12
Data No.3 Limited	4.05	0.00	4.05
Skydive the Beach Group Ltd	3.76	0.00	3.76
Southern Cross Electrical Engineering Ltd	3.60	0.00	3.60

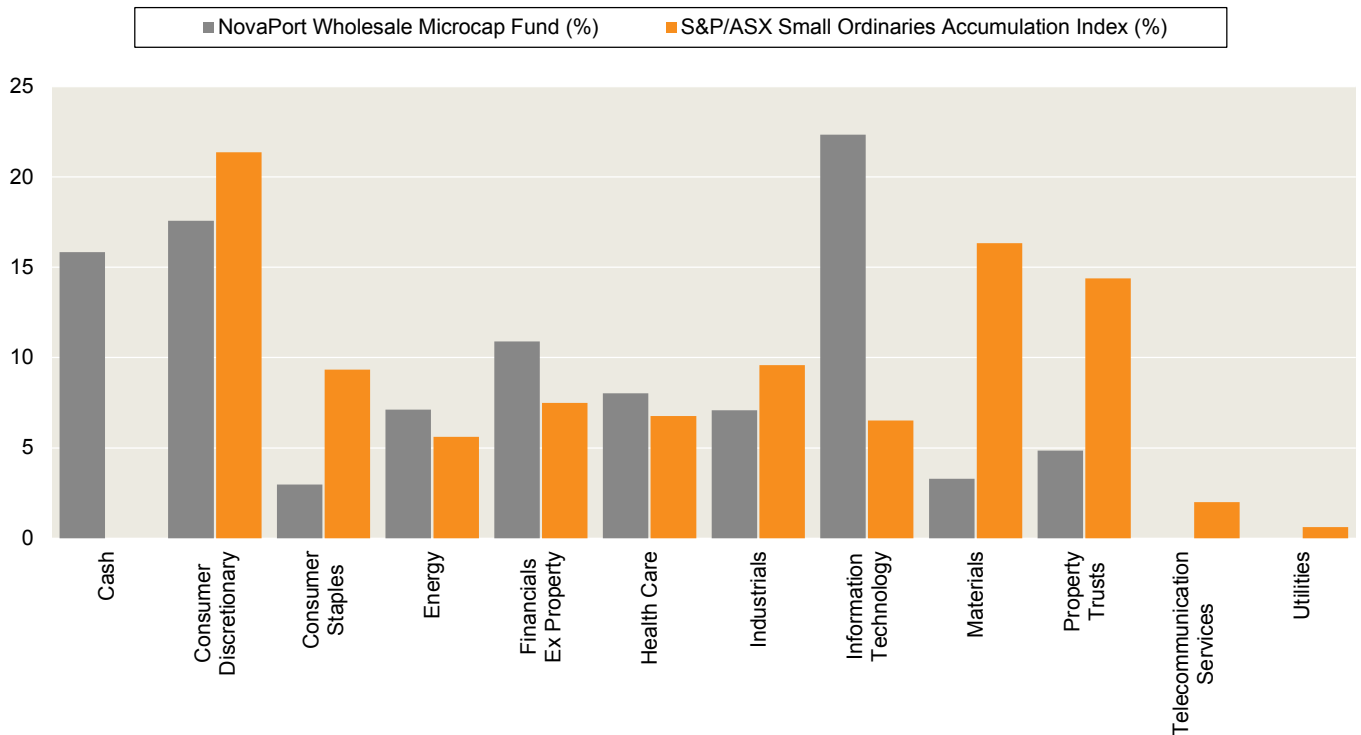
Fund facts

Inception date	22 March 2005
Fund size	\$55.6M
APIR code	HOW0027AU

Fees

Entry fee	Nil
2015-2016 ICR	1.50%
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 declined 0.35% during the quarter. We observed stock specific factors as a dominant driver of performance however we did notice two themes during the quarter. The primary theme was strongly negative sentiment towards retailers. This was partially driven by signs of weaker consumer spending but mainly by growing fears about Amazon and the impact it will have when it establishes a physical presence in Australia. Consumer sentiment tends to wax and wane, however the competitive squeeze Amazon will place on future earnings is impossible to reliably predict at this stage. Regardless the share prices of most retailers saw significant losses during the quarter and in our view reflect a fearful outlook. We also observed generally strong performances of technology related companies during the quarter. In part this may have been driven by investors wishing to avoid exposure to companies exposed to the domestic economy but is also likely to be correlated to strong performance of technology companies globally. In contrast, to our minds the factors driving the success of any technology company are largely stock specific.

Being the final quarter of the financial year we entered the period braced for the risk of earnings downgrades however this was less of a feature than it has been in previous years. We take this to be a relatively positive sign however the potential for earnings surprises remains as another month must pass before companies report their FY17 results. Nonetheless at this stage it appears that management forecasts have been sufficiently conservative to meet market expectations (or vice versa!).

Debate about the future direction of central bank policy (globally) is relevant to all investors and their positioning. As an investor in Australian small companies, we believe our best strategy to deal with these risks is to focus on the individual fundamentals of the companies in which we invest our clients money. To that end we continue to observe valuation dispersions in the small cap sector. Their presence supports our view that attractive stock selection opportunities remain.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -0.35% for the quarter. The fund underperformed the market and delivered a -1.05% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Pacific Current Group Ltd	Financials Ex Property	3.21	1.00
Oliver's Real Food Ltd	Consumer Discretionary	2.19	0.71
Codan Limited	Information Technology	4.12	0.69

Pacific Current Group Ltd

Pacific Current Group has recapitalised and simplified its corporate structure via an equity raising and the (profitable) sale of a share of RARE Infrastructure. Following the execution of this simplification and rationalisation strategy the company now has a stable of quality 'boutique' managers showing some signs of positive business momentum. Aside from potential for growth within existing boutiques the company also has potential to add new opportunities to its portfolio.



Oliver's Real Food Ltd

June saw the successful Initial Public Offering listing of Oliver's Real Food on the ASX. Established in 2003, Oliver's operates 22 stores across eastern Australia and specialises in the sale of healthy alternative quick serve food options along strategically located highway stops. The focus on natural and organic products with no artificial ingredients and additives has allowed the company to stand along side the large processed, fast food operators at popular food stops as a differentiated offering rather than as another "me too" option. The company has a very attractive growth profile primarily based on continued store rollout along unexploited sections of Australia's east coast highway system.

Codan Limited

Codan's core radio communication business continues to perform well. The company has enjoyed success in reinvigoration of its metal detection business which despite having strong technology credentials, had been plagued by counterfeiting and a sub-optimal distribution channel. Metal detection sales have rebounded with a re-worked distribution strategy and new product launches. This has seen the company generate strong cash flows and earnings growth. There is further upside potential in the longer term from commercialisation of its underground mine tracking technology.

Key detractors

Security name	Sector	Active weight %	Value added %
MOQ Limited	Information Technology	2.70	-0.94
Indoor Skydive Australia Group Ltd	Consumer Discretionary	1.36	-0.93
Orotongroup Limited	Consumer Discretionary	1.30	-0.64

MOQ Limited

Despite the recent appointment of a new CEO which has adversely impacted the share price in the short term, the outlook for the company remains positive with material growth in earnings expected over the medium term as the company continues to gain market share.

Indoor Skydive Australia Group Ltd

The market is likely to remain cautious on Indoor Skydive most likely until the release of the full year result in late August. Investors will want to see an improvement at the new Gold Coast operation which generated lower than expected results during its initial ramp up phase earlier this year.

Orotongroup Limited

Oroton has suffered from a weaker consumer sector overall as well as failing to generate consumer interest in its core products. This has seen earnings decline in the current half. Its Australian GAP franchise has also dragged on group performance. The company has secured support from a major shareholder to enable it to build inventory for the next season. Key to its success in the short term are its capacity to deliver attractive product at the right price point as well as exiting unprofitable ventures.

For further information, please contact:

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