

# NovaPort Microcap Fund

## Quarterly report - March 2018

Performance <sup>1</sup>	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	Inception % p.a <sup>2</sup>
Fund return (net)	-1.85	-1.62	16.30	11.80	9.43	9.38	10.70
Growth return	-1.85	-1.62	16.06	10.74	8.47	7.98	6.31
Distribution	0.00	0.00	0.24	1.06	0.96	1.40	4.39
S&P/ASX Small Ordinaries Accumulation Index	-2.29	-2.79	14.99	10.69	6.45	1.36	4.19
Active return <sup>3</sup>	0.43	1.16	1.31	1.11	2.98	8.02	6.50

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

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

<sup>2</sup> The inception date for the Fund is 22 March 2005

<sup>3</sup> 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

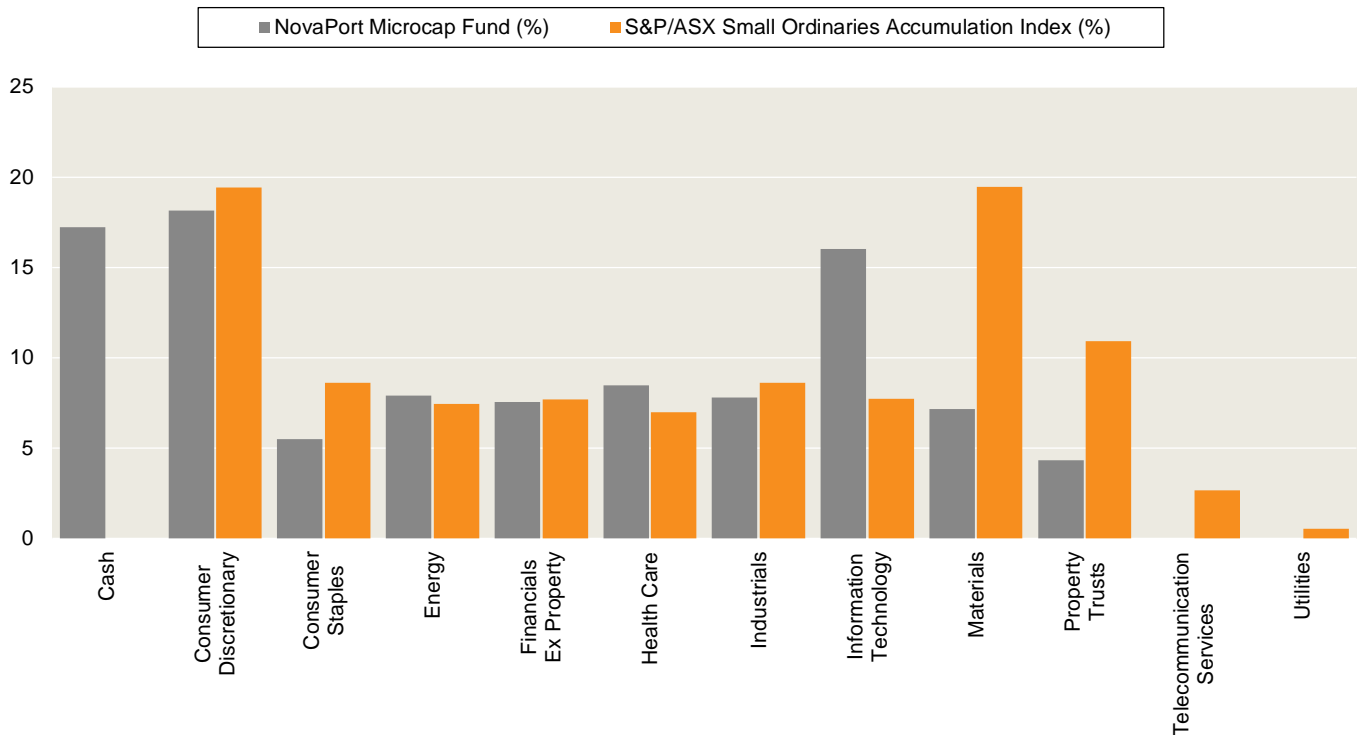
Asset allocation	Actual %	Range %
Security	82.79	80-100
Cash	17.21	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Rhipe Ltd	3.84	0.00	3.84
Gage Roads Brewing Co	3.76	0.00	3.76
Clover Corp Ltd	3.50	0.00	3.50
Data No.3 Limited	3.37	0.00	3.37
Australis Oil & Gas Ltd	3.06	0.00	3.06

Fund facts	
Inception date	22 March 2005
Fund size	\$89.8M
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 March quarter saw the Small Ordinaries Index (Accumulation) finish down 2.79% outperforming the ASX 100 index which declined 3.90% over the same period. Both resources and industrials companies contributed to the decline in the smalls index with the miners down 4.58% and industrials down 2.23%

While the December half year reporting period (over February) tends to be the major event locally for the March quarter, this time around it was significant for other reasons as well. Following strong market returns with very low volatility over the prior 18 months, the March quarter saw some reversal as macro expectations were sharply adjusted. The confluence of emerging signs of inflation in the US above what were previously subdued expectations exacerbated by the potential of late cycle stimulus in the form of corporate tax cuts, as well as the prospect of trade wars and the de-rating of technology stocks all combined to shake markets out of their complacency.

Meanwhile in Australia, reporting season was largely positive with corporate earnings solid and generally in line with expectations. Nevertheless, there remain pockets of uncertainty including conditions in the retail sector, rising cost pressures in some industries, expected decline in housing related construction activity, the flow on effects of the banking royal commission and probably most importantly, a still highly leveraged consumer. However, notwithstanding these concerns, growth in Australia for the year ahead looks solid and with still subdued inflation locally, interest rate rises are not expected any time soon.

From a stock market perspective, the global and local issues highlighted above have manifested in some signs of a rotation from the high multiple growth or momentum stocks that drove index returns last year towards some of the more cyclical exposures where both expectations and multiples are lower therefore holding prospects for a better return profile for the year ahead.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -2.79% for the quarter. The fund outperformed the market and delivered a -1.62% return over the quarter.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Australis Oil & Gas Ltd	Energy	3.06	1.28
Clover Corp Ltd	Health Care	3.50	0.87
Kogan.com Ltd	Consumer Discretionary	2.22	0.68

### Australis Oil & Gas Ltd

The market responded positively to Australis' update on the progress it is making regarding its shale oil interests in the USA, supporting a capital raising and sending the share price higher. Australis management have had prior success in developing US shale assets, and are now seeking to repeat this success as they deploy the newly raised equity to further develop the large land holdings they acquired at lower oil prices.



## Clover Corp Ltd

Clover released its first half financial year 2018 results during March that outlined not only strong top line growth, but significantly improved margins. The company has successfully renegotiated improved contract terms with several key customers. Further to this, Clover has continued to invest in research and development to expand the breadth of its end market to more than just infant formula.

## Kogan.com Ltd

While the core online retailing business has sustained impressive growth. The company has also had success in reselling Kogan branded services such as mobile telephones, which have delivered stronger profits than expected.

## Key detractors

Security name	Sector	Active weight %	Value added %
Experience Co Ltd	Consumer Discretionary	2.98	-0.58
Gage Roads Brewing Co	Consumer Staples	3.76	-0.55
Bellamy's Australia Limited	Consumer Staples	-0.99	-0.48

## Experience Co Ltd

Experience Co announced two major acquisitions in late 2017, a material addition to its tourism and leisure exposure in the far north Queensland market, as well as providing further diversification to its tandem sky diving operations. The acquisitions were funded by an equity raising which, combined with a strong price run since listing in 2015, has seen some profit taking impacting price performance in the short term.

## Gage Roads Brewing Co

Gage Roads have been a very strong performer on the back of positive operational updates issued over the last 18 months. As such, the March quarter saw some profit taking which was not unexpected. The interim result confirmed a buoyant outlook primarily driven by momentum in its more profitable proprietary brands, as the company diversifies away from lower margin, third party contract brewing.

## Bellamy's Australia Limited

Not held by the fund.

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### For further information, please contact:

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