

# NovaPort Microcap Fund

## Quarterly report - December 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)                           | -4.12     | -15.11    | -11.29   | 9.10          | 7.55          | 13.56          | 9.26                         |
| Growth return                               | -4.78     | -15.69    | -12.21   | 8.08          | 6.46          | 12.29          | 5.08                         |
| Distribution                                | 0.65      | 0.58      | 0.92     | 1.02          | 1.09          | 1.27           | 4.18                         |
| S&P/ASX Small Ordinaries Accumulation Index | -4.18     | -13.70    | -8.67    | 7.45          | 5.62          | 6.88           | 3.49                         |
| Active return <sup>3</sup>                  | 0.06      | -1.42     | -2.63    | 1.65          | 1.93          | 6.69           | 5.77                         |

**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

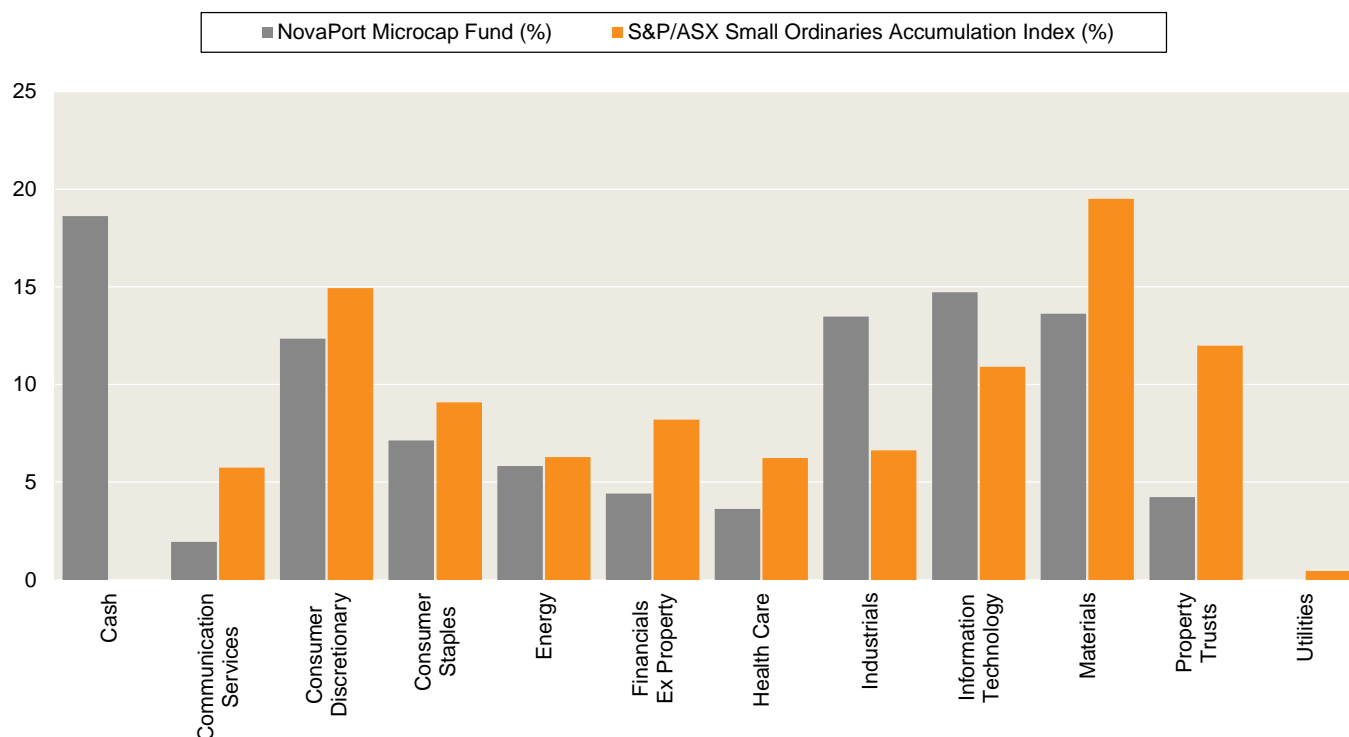
| Asset allocation | Actual % | Range % |
|------------------|----------|---------|
| Security         | 81.38    | 80-100  |
| Cash             | 18.62    | 0-20    |

| Top 5 active positions | Fund weight % | Index weight % | Active weight % |
|------------------------|---------------|----------------|-----------------|
| Rhipe Ltd              | 5.15          | 0.00           | 5.15            |
| Baby Bunting Group Ltd | 4.70          | 0.00           | 4.70            |
| 360 Capital Group      | 4.23          | 0.00           | 4.23            |
| A2B Australia Ltd      | 3.87          | 0.00           | 3.87            |
| Gage Roads Brewing Co  | 3.72          | 0.00           | 3.72            |

| Fund facts     |               |
|----------------|---------------|
| Inception date | 22 March 2005 |
| Fund size      | \$91.1M       |
| 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 final weeks of 2018 brought no Christmas cheer to markets and the Small Ordinaries Index (Accumulation) fell 4.18% during the month of December. This contributed to a bruising 13.7% fall of the benchmark over the December quarter of 2018. Property trusts were the only market sector which rose during the quarter.

The energy sector posted the greatest declines during the quarter weighed down by much weaker oil prices. Industrial and consumer discretionary stocks were also hit by persistent concerns about the broader economy, both in Australia and globally. In Australia the market is particularly concerned about the prospects of a weaker residential property market weighing on consumer sentiment, financial stability and also construction activity.

Gold miners were the star performers during the quarter dragged higher by a rebound in gold prices, a weak Australian dollar and possibly also the prospect of lower energy costs. We believe strength in the gold price corresponds to weaker sentiment globally and gold's status as a safe haven asset. The associated prospect of fewer interest rate rises also supports gold prices. The portfolio's gold mining exposures included gold producers as well as developers, where we see disproportionate valuation upside relative to the uncertainties in commissioning new projects.

Thus far indications from retailers suggest that the crucial Christmas trading results will be patchy, only rewarding retailers with the right mix of price and inventory. With reporting season commencing in February we will soon see whether this corresponds to broader weakness in the economy. The market has been willing to pay significant premiums for growth and therefore signs of fading momentum can see share prices fall significantly. We believe the currently mature economic growth cycle elevates these risks and see a better balance of risk versus reward from factors other than momentum.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -13.70% for the quarter. The fund underperformed the market and delivered a -15.11% return over the quarter.

## Performance of key securities

### Key contributors

| Security name     | Sector                 | Active weight % | Value added % |
|-------------------|------------------------|-----------------|---------------|
| Worleyparsons LTD | Energy                 | 0.00            | 0.85          |
| Rhipe Ltd         | Information Technology | 5.15            | 0.80          |
| 360 Capital Group | Property Trusts        | 4.23            | 0.68          |

### Worleyparsons LTD

Not held by the fund.



## Rhipe Ltd

Rhipe's share price bounced during the final week of October after retracing some of the strong gains over the last 18 months. While there was no news from the company regarding operations, it continues to accumulate shares under its buyback. Meanwhile, Rhipe also continues to attract new investor interest as its market capitalisation grows.

## 360 Capital Group

The management of 360 Capital have largely liquidated the balance sheet, profitably divesting their property funds management platform and direct property exposures. The company has identified attractive financing opportunities in the property space as a means to earn attractive returns and continues to look for further opportunities in the property sector.

## Key detractors

| Security name             | Sector                 | Active weight % | Value added % |
|---------------------------|------------------------|-----------------|---------------|
| National Tyre & Wheel Ltd | Consumer Discretionary | 1.21            | -1.10         |
| Smiles Inclusive Ltd      | Health Care            | 0.49            | -1.04         |
| Praemium Ltd              | Information Technology | 1.88            | -0.89         |

## National Tyre & Wheel Ltd

National Tyre's share price fell materially in November on the release of a trading update highlighting weaker consumer activity, extra costs and adverse moves in currency (National Tyre imports all its tyres from overseas). While extra costs due to higher import costs are eventually passed onto customers, current half profitability will be adversely impacted by the upfront increase in costs. Longer term, National Tyre is undervalued and is expected to benefit from consolidation opportunities.

## Smiles Inclusive Ltd

Smiles Inclusive released a disappointing update in late November highlighting some shortcomings in the execution of its acquisition based dental rollup strategy. While some improvements have already been made and the company trades on a low valuation, investors will likely await the release of results over 2019 before forming a more positive view.

## Praemium Ltd

Weaker equity markets translated to investor concern that lower asset prices would result in weaker revenue growth for Praemium. The company extended a key customer contract and is progressing expansion of its product offering.

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### For further information, please contact:

**Fidante Partners Investor Services** | 13 51 53 | email: [info@fidante.com.au](mailto:info@fidante.com.au) | website: [www.fidante.com.au](http://www.fidante.com.au)

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