

NovaPort Microcap Fund

Quarterly report - June 2019

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)	-0.38	-0.34	-10.32	7.46	7.91	12.61	9.23
Growth return	-3.37	-3.32	-13.60	5.70	6.23	11.12	4.97
Distribution	2.99	2.99	3.28	1.76	1.68	1.49	4.26
S&P/ASX Small Ordinaries Accumulation Index	0.92	3.75	1.92	10.69	9.27	6.31	4.50
Active return ³	-1.29	-4.08	-12.24	-3.23	-1.37	6.30	4.73

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

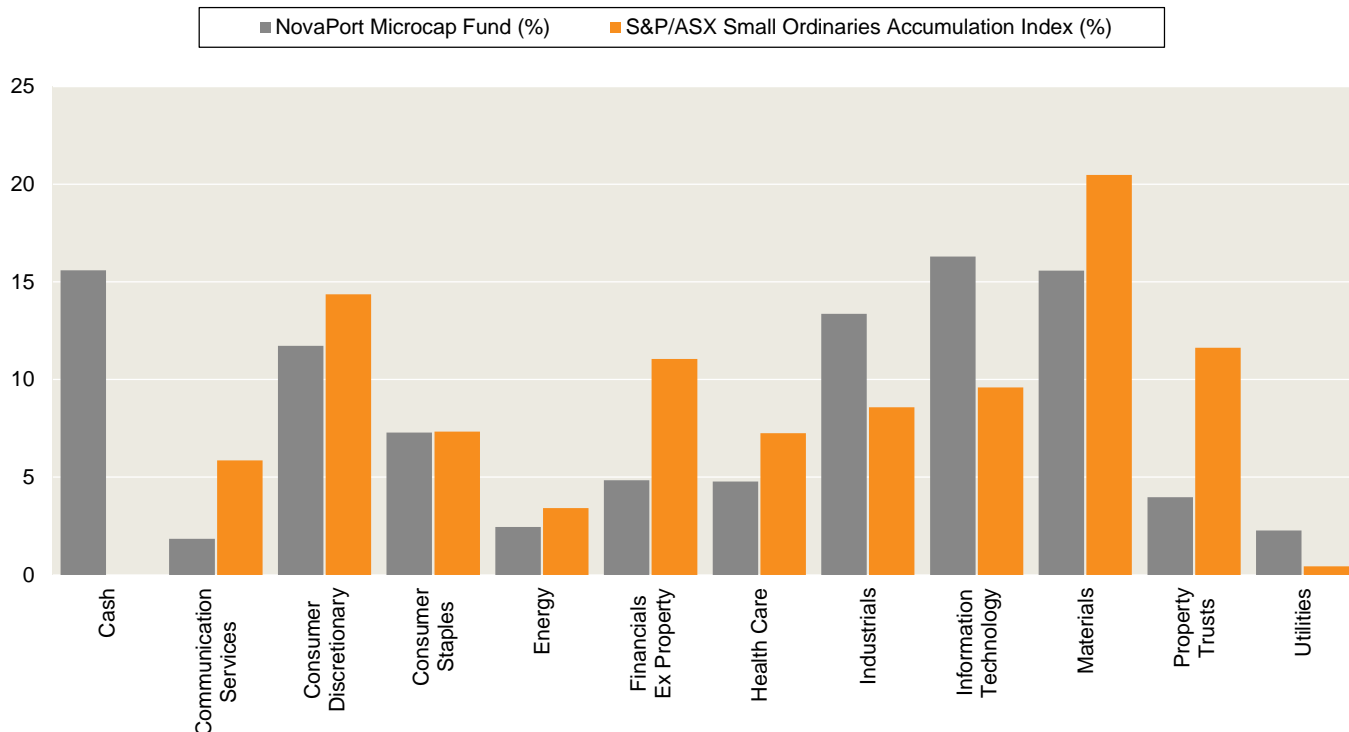
Asset allocation	Actual %	Range %
Security	84.41	80-100
Cash	15.59	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Rhipe Ltd	5.21	0.00	5.21
Data#3 Ltd	5.08	0.00	5.08
West African Resources Ltd	3.99	0.00	3.99
360 Capital Group	3.97	0.00	3.97
Think Childcare Ltd	3.83	0.00	3.83

Fund facts	
Inception date	22 March 2005
Fund size	\$95.9M
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 Index (Accumulation) finished the June quarter on a strong note, up 0.92% bringing the total return over three months to 3.75%. The final three months of the year saw a divergence in performance between industrial companies and the miners with the former up 5.37% and resources down 2.33%. Capping off a volatile financial year the index finished up a relatively subdued 1.92% over FY19.

The June quarter was notable for two key events. First, despite the pundits proclaiming a change in Federal government in the lead up to the May election, the Coalition held government convincingly. The outcome was viewed as largely positive for markets with tax cuts imminent and the threat of unfavourable changes to franking credit refund rules, negative gearing and capital gains tax concessions no longer a cause for concern. Second, after three years of stable cash rates the Reserve Bank elected to cut the rate to a historic low of 1.25% in June in the hope that positive flow on effects, primarily in the labour market, will finally lift what has been a stubbornly low inflation rate.

While the election outcome and rate cuts are positive for markets generally (albeit the latter could be interpreted as a sign of concern regarding the state of the economy), both have occurred in what has been a relatively weaker environment for earnings. Reduction in earnings forecasts due to the number of downgrades issued by companies (especially retailers) as well as from analysts' re-assessing the implications of a slowing economy means we are heading towards the June half reporting season (in August) with profit growth expectations on the decline.

Nevertheless, despite a slowing economy, investors will seek to determine whether we are getting closer to a tipping point and will therefore be cautious in becoming too bearish at the wrong time. While current macro indicators including confidence measures are subdued, they tend to reflect the recent past. However, looking forward from here there are a number of positives now in play that may see underlying conditions improve over the first half of the new financial year. Some of these include the reversal of risk associated with a change in government, lower interest rates, the stimulatory impact of up front tax cuts post-election, increasing anecdotal evidence that declines in house prices are slowing and may be close to the bottom (which is a much better result than feared), APRA easing lending criteria thereby allowing more potential home buyers access to credit, a weaker Australian dollar and strong mining activity.

Should some of these positive factors show some signs of flowing through to economic conditions over the current quarter then full year reporting season may be a balance between absorbing news flow associated with weaker reported numbers but with outlook statements pointing to more positive prospects for the year ahead.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +3.75% for the quarter. The fund underperformed the market and delivered a -0.34% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Rhipe Ltd	Information Technology	5.21	2.53



Countplus Ltd	Industrials	2.41	0.91
SRG Global Ltd	Industrials	2.13	0.74

Rhipe Ltd

Similar to a number of software companies listed in Australia, Rhipe's share price has been well supported over the current calendar year. Operationally, the company is well positioned to grow (as the recent trading update affirms) as a solutions provider to IT services companies looking to assist their clients migrate their Microsoft platforms to the public cloud.

Countplus Ltd

Countplus' share price was significantly rerated in June on the announcement it had entered into an agreement to acquire Count Financial from Commonwealth Bank of Australia (CBA). The proposed transaction will add significant scale to the broader Countplus group expanding its network of accounting and advice firms. The acquisition is well priced and importantly includes CBA indemnity for certain past regulatory and advice failure liabilities which reduces acquisition risk.

SRG Global Ltd

The recent run of new contract wins with the most recent in June has underpinned a substantial share price recovery underway since early April. Prior to this, delays to several construction projects resulted in a revenue and earnings shortfall in FY19 adversely impacting the share price.

Key detractors

Security name	Sector	Active weight %	Value added %
Panoramic Resources Limited	Materials	1.07	-0.84
A2B Australia Ltd	Industrials	3.31	-0.73
GR Engineering Services Ltd	Materials	2.00	-0.72

Panoramic Resources Limited

June quarter share price has been weaker reflecting mixed operational performance over the prior quarter (especially in February) with a slower than expected production ramp up at the Savannah Project. A number of remedial actions have been taken including a newly appointed COO as well as implementation of consultant led initiatives at the mine site to improve productivity.

A2B Australia Ltd

New management at A2B has rejuvenated the company and positioned it to compete more effectively against ride share competitors. However, its share price has been impacted recently by the Victorian Essential Services Commission's release of a draft paper proposing reducing service fee caps on electronic payments. Should the proposal be implemented A2B has options to mitigate the impact but also highlighted the initial outcome would see a \$1.3m hit to pre-tax earnings prior to any action in response.

GR Engineering Services Ltd

While the long-term outlook for GR Engineering remains favourable, the short term outlook for project related earnings remains hostage to client timing issues and are largely beyond the control of the company.

For further information, please contact:

Fidante Partners Investor Services | 13 51 53 | email: info@fidante.com.au | website: www.fidante.com.au

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