

# NovaPort Microcap Fund

## Quarterly report - December 2022

Performance <sup>1</sup>	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	15 years % p.a	Inception % p.a <sup>2</sup>
Fund return (net)	0.10	4.74	-9.86	6.15	4.59	8.09	5.95	9.20
Growth return	-0.75	3.85	-19.35	-2.85	-1.71	4.31	2.88	4.17
Distribution	0.85	0.89	9.49	9.00	6.30	3.77	3.07	5.03
S&P/ASX Small Ordinaries Accumulation Index	-3.73	7.54	-18.38	1.38	2.92	5.13	0.94	4.06
Active return <sup>3</sup>	3.82	-2.79	8.52	4.77	1.67	2.95	5.01	5.14

**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	84.42	80-100
Cash	15.58	0-20

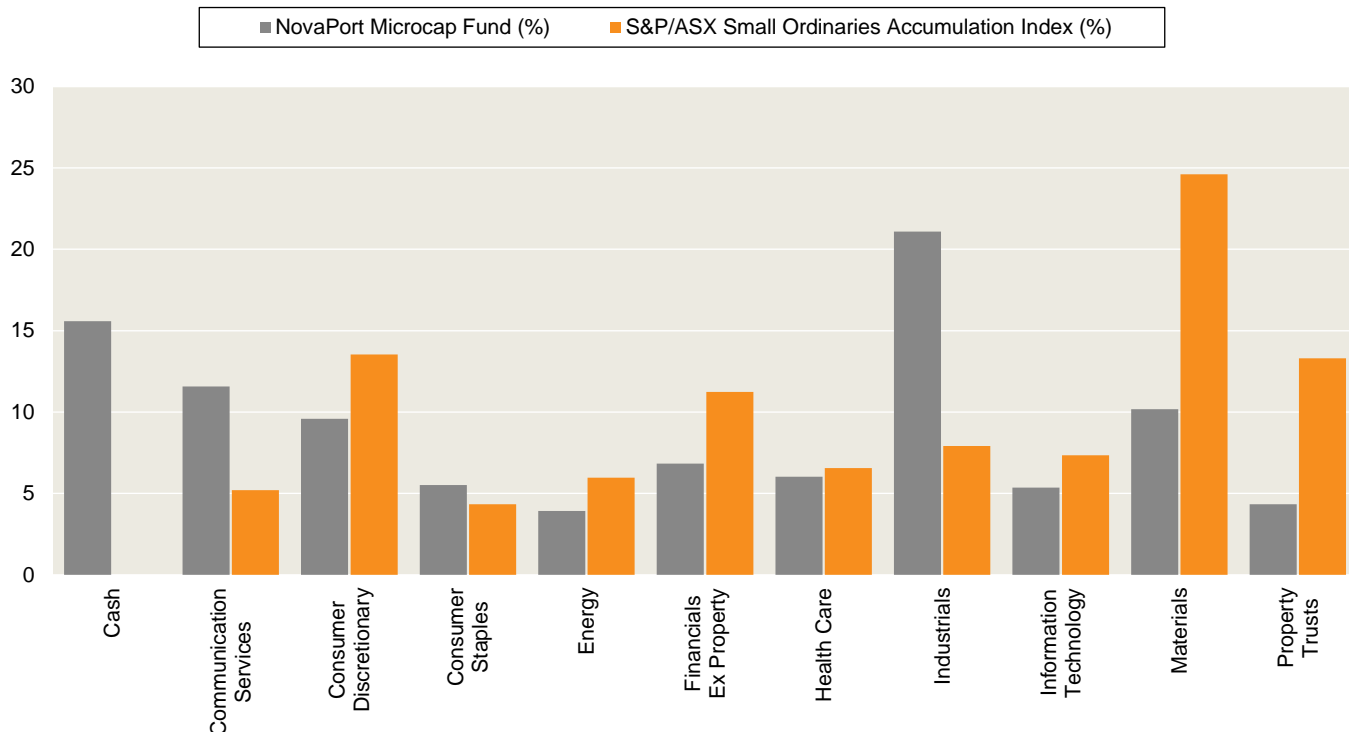
Top 5 active positions	Fund weight %	Index weight %	Active weight %
Praemium Ltd	4.26	0.00	4.26
CTI Logistics Ltd	4.14	0.00	4.14
GR Engineering Services Ltd	3.94	0.00	3.94
Warrego Energy Ltd	3.92	0.00	3.92
IVE Group Ltd	3.91	0.00	3.91

Fund facts	
Inception date	22 March 2005
Fund size	\$75.1M
APIR code	HOW0027AU

Fees	
Entry fee	Nil
2020-2021 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%

Data Source: Fidante Partners Limited, 31 December 2022.

## Sector exposure



Data Source: Fidante Partners Limited, 31 December 2022.

## Market overview

Equity markets were weak in December as investors grapple with central bank policy and the reopening of China's economy. The ASX Small Ordinaries (Accumulation) Index fell 3.7% in December, taking the shine off a sharp two-month rally to finish up 7.5% for the quarter.

Some investors conflated slowing US inflation and smaller interest rate hikes with a policy pivot, buying equities aggressively as a result. However, the US Federal Reserve responded to markets by flagging a terminal interest rate above expectations and suggesting rates would be elevated for a protracted period, stymying the rally.

Economic data in the world's biggest economy was mixed with weakness in areas like housing but ongoing strong employment and wages. Europe and the UK also continued their rate hikes amid rapidly deteriorating economics and an uncertain winter due to the energy crisis. Inflation remains very high in the major northern hemisphere economies, albeit the absolute level of price increases has eased in the US.

Market sentiment whip-sawed further when the Chinese Communist Party ended its "zero COVID" policy and moved to reopen the economy. Investors were initially buoyed by the growth potential of a resurgent China, but this hope was fading by December on fears the reopening would be inflationary.

In Australia, inflation is still accelerating, and consumer spending remains robust despite rapid interest rate hikes by the Reserve Bank. Company earnings remain strong, but a steady flow of downgrades have started to filter through the market. Christmas trading is expected to be solid but calendar 2023 is likely to be more challenging.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +7.54% for the quarter. The fund underperformed the market and delivered a +4.74% return over the quarter.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Warrego Energy Ltd	Energy	3.92	2.24
Aroa Biosurgery Ltd	Health Care	3.67	0.96
MMA Offshore Ltd	Industrials	3.81	0.95

Data Source: Fidante Partners Limited, 31 December 2022.

### Warrego Energy Ltd

Strong demand for gas as a transitional source of energy in a decarbonising world has seen Warrego's share price double over the December quarter as multiple bidders emerged with takeover proposals for its onshore gas assets in the Perth Basin.



## Aroa Biosurgery Ltd

Aroa's share price continued to strengthen as the company achieved a maiden profit at their first half results. The company continues to achieve both product acceptance amongst physicians and gain market share within the wound care industry with their Extra Cellular Matrix derived product portfolio, due to its inherent cost advantage and superior clinical results achieved.

## MMA Offshore Ltd

Marine services group MMA Offshore outperformed following a sizeable earnings upgrade. Day rates and vessel utilisation are improving amid a cyclical upswing in offshore energy markets.

## Key detractors

Security name	Sector	Active weight %	Value added %
Calidus Resources Ltd	Materials	0.43	-1.34
Good Drinks Australia Ltd	Consumer Staples	3.09	-0.59
GR Engineering Services Ltd	Materials	3.94	-0.47

Data Source: Fidante Partners Limited, 31 December 2022.

## Calidus Resources Ltd

While an improvement in operations was noted more recently with full production expected as of the current quarter, material COVID related disruptions as well as costs higher than budget and a high level of debt impacted the company's share price over the final quarter of 2022.

## Good Drinks Australia Ltd

While demand levels have been solid, higher input costs and some pricing pressure have adversely impacted margins for the first half of the financial year.

## GR Engineering Services Ltd

While its share price has recently posted a recovery, some profit taking after a solid performance relative to the index as well as a "good as it gets" perception saw GR Engineering's share price weaken over the December quarter.

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### For further information, please contact:

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