

# NovaPort Microcap Fund

## Quarterly report - June 2023

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)	1.51	-0.55	12.95	12.23	3.96	8.74	8.54	8.93
Growth return	-3.68	-5.62	4.73	0.79	-3.38	4.33	4.99	3.71
Distribution	5.18	5.08	8.22	11.44	7.34	4.41	3.55	5.22
S&P/ASX Small Ordinaries Accumulation Index	0.03	-0.54	8.45	5.16	2.25	6.80	2.48	4.02
Active return <sup>3</sup>	1.48	0.00	4.50	7.07	1.71	1.94	6.06	4.91

**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	86.22	80-100
Cash	13.78	0-20

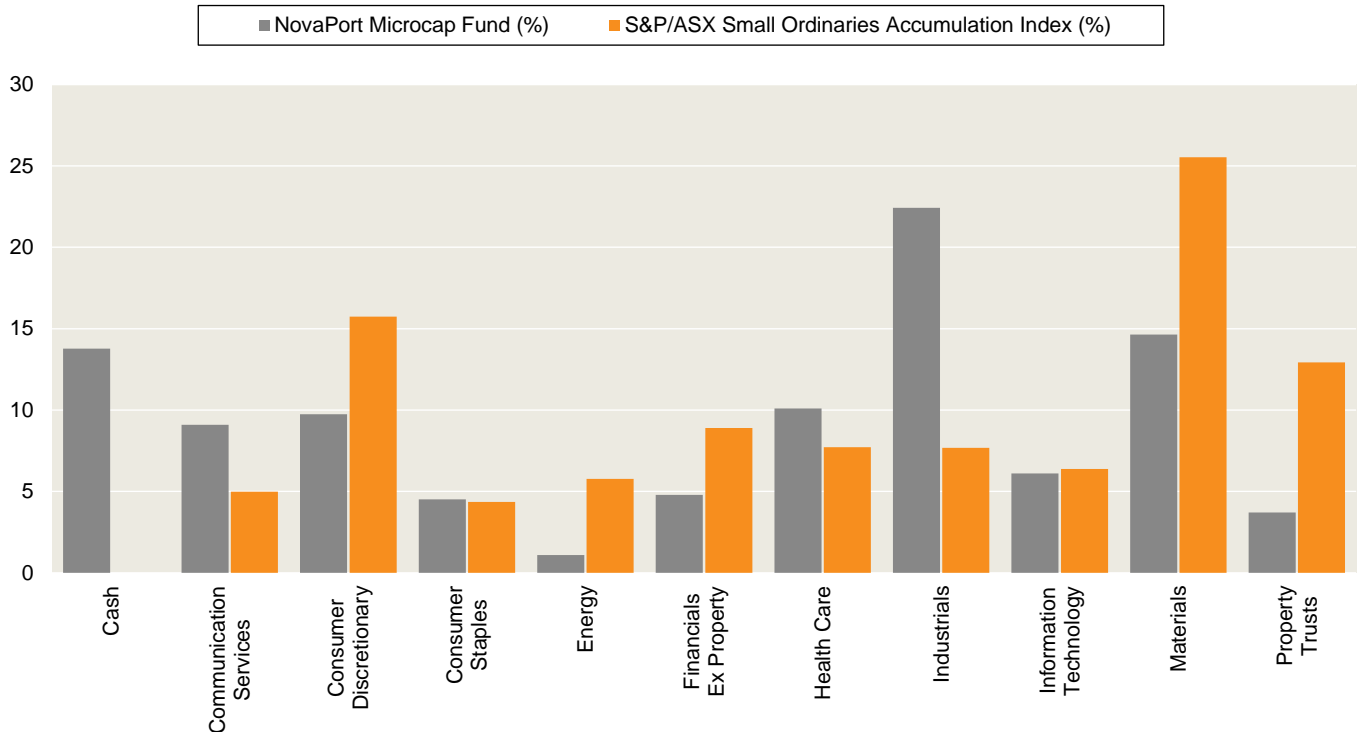
Top 5 active positions	Fund weight %	Index weight %	Active weight %
Lycopodium Ltd	4.73	0.00	4.73
MMA Offshore Ltd	4.63	0.00	4.63
GR Engineering Services Ltd	4.17	0.00	4.17
IVE Group Ltd	3.86	0.00	3.86
CTI Logistics Ltd	3.77	0.00	3.77

Fund facts	
Inception date	22 March 2005
Fund size	\$74.4M
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, 30 June 2023.

## Sector exposure



Data Source: Fidante Partners Limited, 30 June 2023.

## Market overview

Smaller companies were flat in June amid growing concerns over China's economy and conflicting data driving continued recalibration of interest rate expectations. Last month the ASX Small Ordinaries (Accumulation) Index eked out a modest gain, but still finished down 0.5% for the June quarter following a soft May.

Consumer discretionary stocks remained under pressure following profit warnings from a range of retailers. High inflation and the sharp rise in interest rates are now clearly impacting some Australian consumers. The impact is also being felt in parts of the property market, with several real estate trusts revaluing their assets to lower levels, with particular concerns around office property. Regardless, the Reserve Bank of Australia elected to hike in both May and June after its pause in April. Despite the sharp rise in rates and emerging signs of their impact, inflation remains high and domestic interest rates are still below inflation. Unemployment in Australia sits near record lows, wages are rising, and house prices and rents are defying higher interest rates amid surging immigration.

These somewhat contrary signals suggest an uneven impact on different cohorts of the Australian population from interest rate policy. Importantly, the much-publicised rollover of cheap fixed rate mortgages to variable loans will really gather momentum from June 2023 and may cause a further shock to demand. Many cheap pandemic-era loans originated at around 2% will move to variable rates of more than 6%.

In the US, the Federal Reserve (Fed) kept rates on hold in June, albeit subsequent communication from the Fed suggests further hikes lie ahead. US inflation is trending lower, but core inflation remains historically high and the US economy is strong. The world's other economic engine, China, is moving in the opposite direction with policy edging towards stimulating a weak recovery. Deleveraging in the property sector and a shift away from fixed asset investment have weighed on growth. In anticipation of weaker Chinese commodities demand, small resources stocks were weak again in June (-1.2%) after a big fall in May (-7.1%). Small industrials rose 0.5% last month for a 2.4% gain for the quarter.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -0.54% for the quarter. The fund underperformed in line with the market and delivered a -0.55% return over the quarter.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Fleetwood Ltd	Consumer Discretionary	3.63	1.70
Lycopodium Ltd	Industrials	4.73	1.12
Silk Laser Australia Ltd	Health Care	1.34	0.69

Data Source: Fidante Partners Limited, 30 June 2023.



## Fleetwood Ltd

Fleetwood has rallied sharply over the last three months as new resource projects in WA move towards the construction phase. New gas and fertiliser projects will underpin occupancy at Fleetwood's accommodation village ('Searipple') in Karratha.

## Lycopodium Ltd

Lycopodium remains near its highs amid a full order book, strong outlook, and robust margins on its engineering services. The demand environment is supportive across a range of commodities from gold to battery metals.

## Silk Laser Australia Ltd

Silk Laser's share price was boosted over the June quarter by two competing takeover bids with Wesfarmers backed Australian Pharmaceutical Industries initial proposal in April followed by EC Healthcare's higher bid a month later. Subject to some conditions, the Board has recommended shareholders accept EC's offer.

## Key detractors

Security name	Sector	Active weight %	Value added %
Australian Vintage Ltd	Consumer Staples	2.04	-0.62
Good Drinks Australia Ltd	Consumer Staples	2.47	-0.51
Experience Co Ltd	Consumer Discretionary	2.67	-0.50

Data Source: Fidante Partners Limited, 30 June 2023.

## Australian Vintage Ltd

While there has been some alleviation in input cost pressures, higher expenses as well as competitor discounting have adversely impacted the company's earnings outlook for the short term.

## Good Drinks Australia Ltd

Sentiment has been impacted with short term earnings under pressure due to higher costs (both cost of goods and services and investment for growth) and weaker revenues due to increased competitor discounting.

## Experience Co Ltd

Despite a positive trading update issued in early May, Experience Co has seen some weakening in share price as investors take a cautious stance in light of bearish trading updates by several retailers over the June quarter highlighting weaker household spend as higher interest rates take effect.

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### For further information, please contact:

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