NOVAPORT CAPITAL

NovaPort Wholesale Microcap Fund

Quarterly fund report and commentary – 31 March 2012

Performance[1]	Quarter (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a.)
Fund	**9.73**	**-0.61**	**24.71**	**0.83**	**9.67**
Growth return	9.73	-2.94	22.58	-4.68	2.45
Distribution return	0.00	2.33	2.13	5.51	7.22
S&P/ASX Small Ordinaries Accumulation Index	14.98	-8.57	17.93	-3.85	4.10
Active return	-5.25	7.96	6.78	4.68	5.57

Past performance is not a reliable indicator of future performance.

[1] Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

Investment objective

The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling seven-year periods.

Investment manager

NovaPort Capital Pty Limited

Investment strategy

NovaPort is a benchmark unaware, active investment manager. NovaPort's approach to managing the Fund is based on paying a reasonable price for companies with an improving profit growth profile, while paying particular attention to the underlying quality of company earnings and management.

Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least seven years

Asset allocation	As at 31 March 2012 (%)	Range (%)
Securities	85	60-100
Cash	15	0-40

Top five active positions as at 31 March 2012	Fund weight (%)	Index weight (%)	Active weight (%)
Medical Developments International	5.59	0.00	5.59
1300 Smiles	4.98	0.00	4.98
Southern Cross Electrical Engineering	4.94	0.00	4.94
Data No.3	4.28	0.00	4.28
Saunders International	4.12	0.00	4.12

Fund facts	Fund
Inception date	22/03/2005
Fund size ($M)	30.1
APIR code	HOW0027AU

Fees	Fund
Entry fee	Nil
2010/2011 ICR	1.50%
Management fee	1.50% p.a
Performance fee	20% of the difference between the Fund's gross return (before fees and expenses) and the daily return of the S&P/ASX Small Ordinaries Accumulation Index plus 1.50% p.a.
Buy/sell spread	+0.40%/-0.40%

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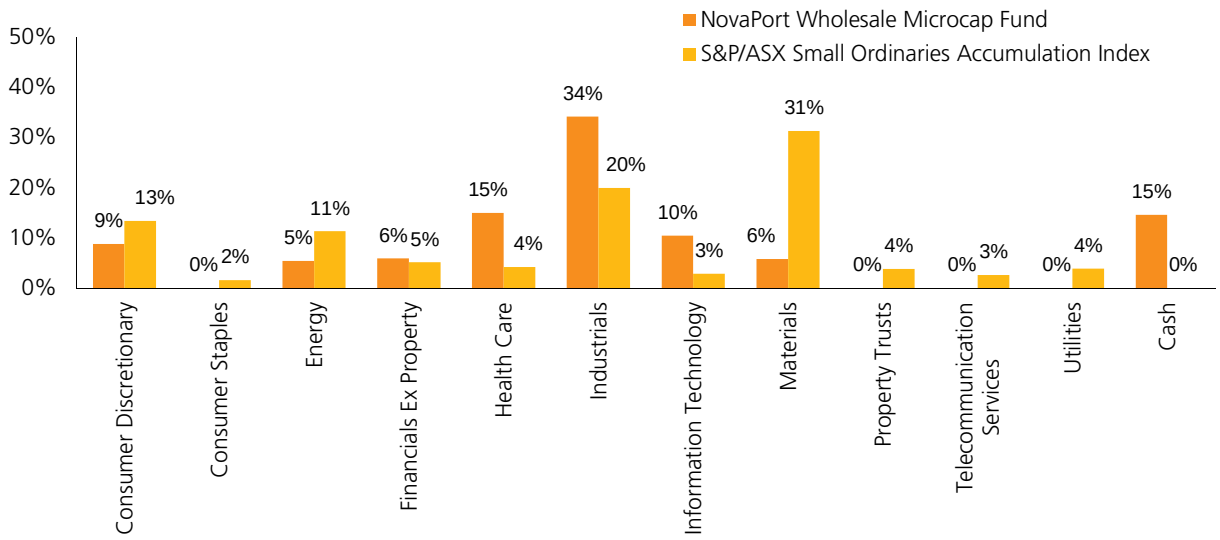
Sector exposure as at 30 November 2011



Commentary

The Australian Small Caps market (S&P/ASX Small Ordinaries Index) ended the March quarter +15.0%, outperforming the broader equities market (S&P/ASX 300 Accumulation Index) which returned +8.6% over the same period. The divergence of Small Industrials (+18.9%) and Small Resources (+8.9%) continued, as concerns over China's growth outlook remained.

Global equity markets continued their strong momentum over March quarter (MSCI World: +10.9%, S&P500: +12.0%), supported by evidence of stability in Europe. Eurozone leaders agreed on a €130 billion bailout package after the announcement of the debt swap for Greek bond holders. Falling yields supported the improvement in appetite for riskier assets. While more positive US economic data, especially on the employment and manufacturing front and a commitment from the Fed to maintain its loose monetary policy, continued to provide an element of support for equities. The only real piece of negative news over the period for investors centred on concerns regarding the slowdown in China as policy makers cut economic growth targets for 2012 from 8.0% to 7.5%. Despite this, investors were encouraged by efforts of the People's Bank of China to support the Chinese economy after they cut the reserve requirements for banks.

Domestically, the focus over the quarter was on reporting season where results came in broadly in line with previously downgraded forecasts. The strong outperformance of Industrials and Consumer Discretionary (+9.2% & +13.4% respectively) stood out although this was more a result of earnings not disappointing as much as expected rather than improved outlooks.

On the macroeconomic front, the data was disappointing. Weak 4Q11 GDP was weighed down by sluggish construction activity across all sectors. In a surprise decision, the Reserve Bank of Australia decided to leave rates on hold at 4.25%, although this did not stop the banks from initiating out-of-cycle rate rises. The January consumer confidence index rose 4.2% to 101.1 reflecting earlier mortgage cuts while the surprise fall in unemployment (5.2% to 5.1%) in January was the most notable positive data release. Housing was weak, with home sales falling 1.2% (month on month) in January while business conditions remained sluggish in the non-resource sector.

The portfolio underperformed its benchmark over the quarter. Key contributors to returns were overweight positions in Cooper Energy, Southern Cross Electrical Engineering and 1300 Smiles. Detracting from returns were overweight positions in Medical Developments International, Calliden Group and Thorn Group.

Key contributors

Cooper Energy: 98.48%
Cooper Energy outperformed over the quarter after posting a 40% increase in its first half FY12 revenue to $25.8 million on the back of strong oil sales. Cooper also continues to benefit from its share of the Cooper Basin project, which saw the FY12 production outlook increased to more than 500,000 barrels.

Southern Cross Electrical Engineering: 58.75%
Shares rallied in Southern Cross Electrical Engineering after the company reported revenue of $84.2 million for the first half FY12, representing an increase of 78% from the previous corresponding period. The strong result reflected strengthening business conditions as major resources projects move to the phase requiring electrical and instrumentation construction works.

1300 Smiles: 35.84%
1300 Smiles rallied following a record lift in performance for the first half FY12, which saw net profits increase by 27% from the previous corresponding period. Investors continue to view its growth strategy favourably as it expands its presence in new and existing markets, through the purchase of existing dental practices and the opening of new ones.

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Key detractors

Medical Developments International: 1.60%
Medical Developments International underperformed despite reporting a record result for the first half FY12, which saw net profits increase 44% from the previous period.

Calliden Group: -39.47%
Calliden fell in trading after reporting a $10.2 million loss for 2011, which was considered a very disappointing result in what was a challenging year for the industry. The loss was attributed to an increase in catastrophes and large loss activity as well as adverse movements in the discount rate.

Thorn Group: -2.53%
Despite a sustained period of strong operating performance, Thorn Group's share price has suffered during the quarter. Primarily we believe this is due to weak investor sentiment towards consumer related companies. Other factors contributing to investor concerns include uncertainty about recent acquisitions as well as the persistent price deflation in consumer electronics.