

NovaPort Smaller Companies Fund

Monthly report - August 2019

Performance ¹	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	15 years % p.a	Inception % p.a ²
Fund return (net)	-1.90	4.80	3.87	5.18	5.83	11.23	10.77	13.63
Growth return	-1.90	2.31	-1.31	1.03	0.47	7.06	1.75	5.02
Distribution	0.00	2.50	5.18	4.16	5.36	4.17	9.02	8.62
S&P/ASX Small Ordinaries Accumulation Index	-3.85	1.41	0.95	8.43	7.82	4.79	5.63	7.55
Active return ³	1.95	3.40	2.92	-3.25	-1.99	6.43	5.14	6.08

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 31 December 2002

³ Numbers may not add due to rounding

Investment objective

The Fund is designed to provide investors with a diversified portfolio of smaller Australian companies that aims to outperform its benchmark over rolling three-year periods.

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 five years

Asset allocation	Actual %	Range %
Security	89.20	80-100
Cash	10.80	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Credit Corp Group	5.48	0.83	4.64
Gold Road Resources Ltd	4.65	0.55	4.10
Kathmandu Holdings Ltd	3.41	0.00	3.41
Regis Healthcare Ltd	3.49	0.20	3.29
Ebos Group Ltd	3.25	0.00	3.25

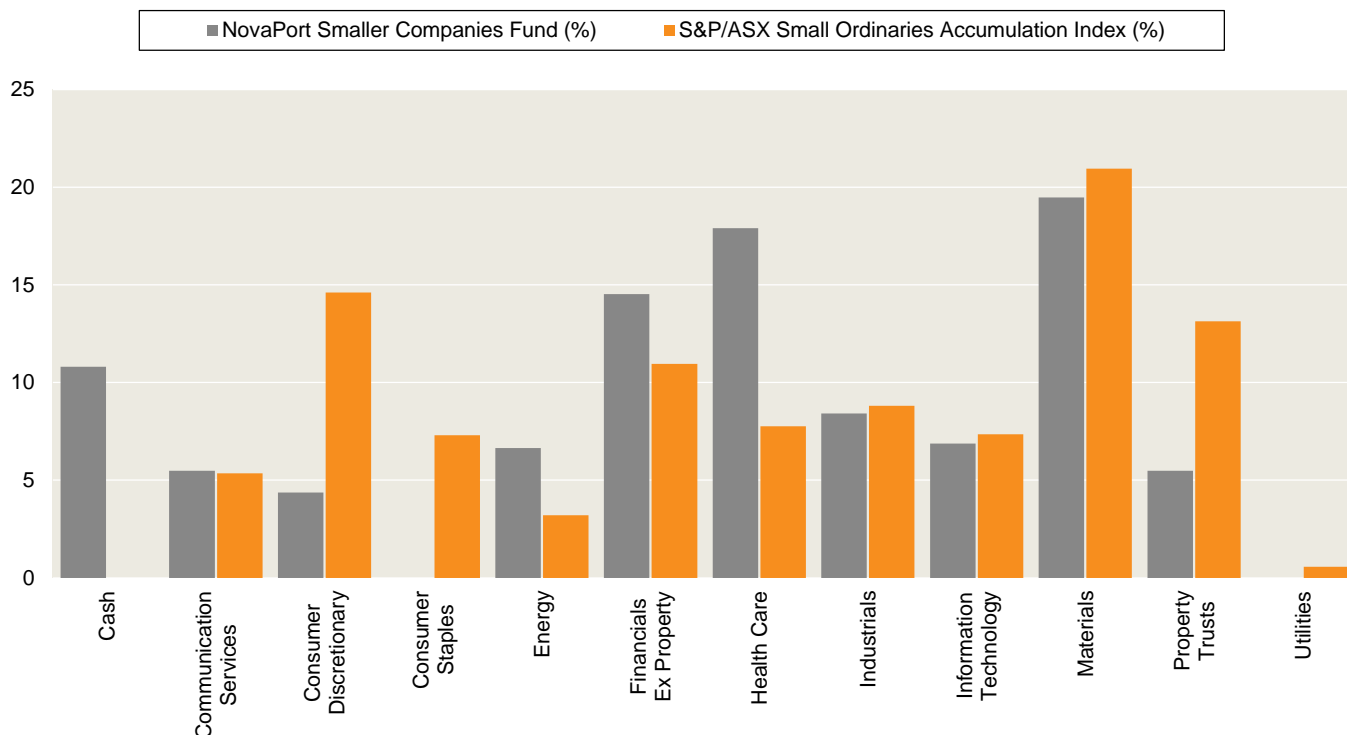
Fund facts	
Inception date	31 December 2002
Fund size	\$277.5M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2017-2018 ICR	0.90%
Management fee ¹	0.90% p.a.
Performance fee ²	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). The performance fee is capped at 2.00% p.a.
Buy/sell spread	+0.30% / -0.30%

¹ Up to and including 30 September 2011, the management fee was 0.95% p.a. From 1 October 2011, the management fee was reduced to 0.90% p.a.

² The performance fee was introduced from 1 October 2011

Sector exposure



Market overview

After a strong start to the financial year in July, the Small Ordinaries Index (Accumulation) did it tougher last month finishing down 3.85%. Both industrial and mining companies posted negative returns down 3.0% and 7.03% respectively.

Global events didn't help market performance with US-China trade rhetoric heating up, Brexit no closer to resolution as the clock runs down to the 31 October deadline, Hong Kong street protests and central banks becoming more dovish even as rates approach, or pass through, zero percent. Nevertheless, as would be expected, news flow regarding June half earnings results dominated commentary in August.

Reported earnings for the June half were weak in general prompting downgrades to earnings expectations for the full year. In itself this was no surprise given broadly subdued economic factors over the first six months of the year including weaker consumer sentiment and housing conditions as well as a ramp up in election related uncertainty impacting some segments of the economy. However, while it was a poor reporting season (though not disastrous) some companies reported an improvement in conditions in their trading updates, notably even some of the retailers. Underpinning some of these more sanguine comments were a reversal of the issues that adversely impacted the June half including improved housing conditions (price declines stabilising, easier lending criteria), re-election of the government (franking credits and negative gearing restrictions now off the table) and interest rate cuts by the Reserve Bank.

With the Small Ordinaries Index up a strong 17.38% so far in 2019 and trading on a premium to its historical valuation range, all eyes will be on Annual General Meeting commentary starting next month and into November. The key issue for investors will be whether stabilised house prices, improved auction activity, lower interest rates, more elapsed time since the election and possibly some trade related détente between the US and China is enough to sustain earnings expectations. This assessment will be in the context of recent economic indicators showing the economy is still slowing with both consumers and businesses exhibiting a reluctance to spend.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -3.85% for August. The fund outperformed the market and delivered a -1.90% return over August.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Credit Corp Group	Financials Ex Property	4.64	0.76
Kathmandu Holdings Ltd	Consumer Discretionary	3.41	0.59
Servcorp Limited	Property Trusts	2.55	0.51

Credit Corp Group

Credit Corp's results were not a surprise to the market. The Australian business is cycling lower ledger purchases while the USA and the lending businesses continue to grow strongly. The competitive environment appears to be shifting favourably which has provided Credit Corp opportunities to exceed its ledger purchase forecasts.

Kathmandu Holdings Ltd

Kathmandu's share price rallied 20% in August following the release of a trading update highlighting solid sales growth on a buoyant previous corresponding period as well as a strong performance from US based Oboz which was acquired in April 2018.

Servcorp Limited

Servcorp's results reflected a competitive operating environment. Nonetheless signs of improving occupancy and positive impact from its asset refurbishment programme have stoked some optimism that the group can re-accelerate earnings growth.

Key detractors

Security name	Sector	Active weight %	Value added %
Worleyparsons LTD	Energy	2.90	-0.70
Cleanaway Waste Management Ltd	Industrials	0.73	-0.33
Virtus Health Limited	Health Care	1.50	-0.27

Worleyparsons LTD

Worleyparsons reported a robust earnings result albeit with limited transparency around the impact of the recent Jacobs acquisition. Shifting sentiment to the oil price continues to drive short term share price performance.

Cleanaway Waste Management Ltd

As part of its financial year 2019 (FY19) results release the company provided earnings guidance where it expects underlying earnings before interest, tax, depreciation and amortisation (EBITDA) in FY20 to "moderate slightly from market expectations".

Virtus Health Limited

Virtus reported weaker than expected earnings from its IVF businesses. Volume growth has been sluggish, mitigated by a pivot to the lower cost market, however margins were reduced as a result.

For further information, please contact:

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