

NovaPort Smaller Companies Fund

Monthly report - April 2018

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)	2.30	0.15	8.63	5.98	8.71	9.39	13.91	14.19
Growth return	2.30	-0.04	5.63	0.18	4.09	4.90	4.90	5.35
Distribution	0.00	0.19	3.00	5.81	4.62	4.49	9.01	8.84
S&P/ASX Small Ordinaries Accumulation Index	2.75	0.44	18.45	11.07	8.05	1.28	7.71	7.74
Active return ³	-0.45	-0.28	-9.82	-5.08	0.66	8.10	6.20	6.45

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

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	91.33	80-100
Cash	8.67	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
AUB Group Ltd	4.01	0.00	4.01
Kathmandu Holdings Ltd	3.84	0.00	3.84
HT&E Ltd	4.00	0.34	3.67
Cleanaway Waste Management Ltd	3.55	0.00	3.55
GWA Group Ltd	3.98	0.58	3.39

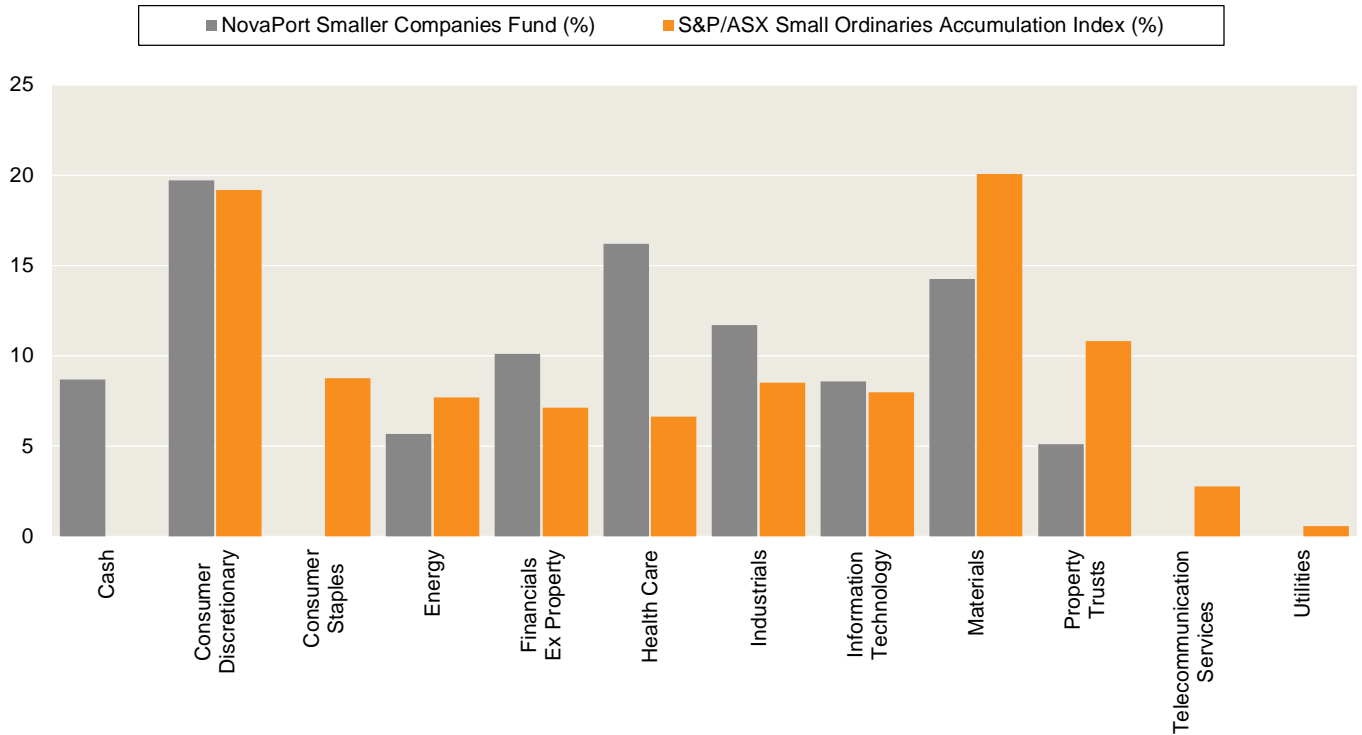
Fund facts	
Inception date	31 December 2002
Fund size	\$290.4M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2016-2017 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.

³ Numbers may not add due to rounding

Sector exposure



Market overview

The Small Ordinaries Index rose 2.75% over April, posting strong performance from a broad based rally. Small resources rose 6.85%, substantially outperforming small industrials which rose by 1.37%. A weaker Australian dollar helped support the resources sector, while energy stocks were boosted by higher oil prices.

Most companies are now in the final quarter of their financial year (ending 30th June). Profitability in these final months can determine whether they are likely to meet their earnings goals, elevating tension in the market which is allergic to earnings downgrades. As such, we anticipate stock specific news to drive prices in the lead up to the August reporting season. We expect to hear companies explain variations in their earnings performance citing as reasons (among others) wet weather in Queensland, warmer and dry weather in New South Wales and the timing of school and public holidays. The Federal budget is being prepared as we write this report which creates further uncertainties the market must grapple with.

The Financial Services Royal Commission dominated headlines during April. While its focus has been on major banks and platforms, its outcome and findings are highly relevant to the broader economy and will impact on smaller companies. The regulatory dynamics of wealth management sector seem likely to change and the impact of stricter oversight of responsible lending obligations will reach far into the domestic economy.

The global economic recovery is maturing, however continues to support equity markets and commodity prices. The questions surrounding; if, how, and when central banks adjust to more normalised monetary settings sharply divide investor opinions, creating frictions which we believe will be a continued source of volatility.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +2.75% for April. The fund underperformed the market and delivered a +2.30% return over April.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
HT&E Ltd	Consumer Discretionary	3.67	0.63
GWA Group Ltd	Industrials	3.39	0.35
Blue Sky Alternative Investments Ltd	Financials Ex Property	-0.12	0.29

HT&E Ltd

HT&E reaffirmed its earnings guidance and reported that it had received a conditional, unsolicited bid for its Adshel outdoor advertising business. This saw the share price recover from low levels. Other news highlighted that the popularity of their radio network remains strong and that radio advertising expenditures continue to grow.



GWA Group Ltd

GWA continued its re-rating since the release of its half year result into the month of April. As mentioned in our last update, strong management execution as well as housing construction activity at elevated levels has underpinned renewed investor demand after a quiet few years. In addition, the proposed divestment of the Doors & Access segment in order to focus on the core Bathroom & Kitchens division has been well received by the market.

Blue Sky Alternative Investments Ltd

Not held by the fund.

Key detractors

Security name	Sector	Active weight %	Value added %
Village Roadshow Limited	Consumer Discretionary	1.33	-0.73
iSelect Ltd	Consumer Discretionary	0.52	-0.54
Experience Co Ltd	Consumer Discretionary	1.51	-0.38

Village Roadshow Limited

Village Roadshow downgraded Financial Year 2018 (FY18) earnings again in April with its theme park and cinema operations both reporting difficult trading conditions. Theme parks on the Gold Coast experienced a high level of rain over March and the Commonwealth Games proved a distraction with attendances adversely impacted. Meanwhile, cinema exhibition ticket revenues were below expectations with recent releases failing to attract high audience numbers. The company expects a better June quarter for its cinemas on the back of higher profile product including the latest instalments from the Avengers, Star Wars and Jurassic World franchises.

iSelect Ltd

iSelect suffered one of the markets most severe allergic reactions to an earnings downgrade during the month. Citing poor marketing spend allocation and industry headwinds within the broader private health insurance market, the company more than halved its FY18 Earnings Before Interest and Tax guidance. The stock has sold off due to ongoing concerns regarding the visibility of its earnings.

Experience Co Ltd

Experience Co downgraded earnings guidance for the financial year in late April, which adversely impacted its share price for the month. The current six month period has been significantly affected by an excessive level of rainfall across its Queensland operations, especially far North Queensland where Experience Cooperates a number of tourism and leisure activities. Lost days due to unfavourable weather impeded the processing of bookings at its sky diving, ballooning, canyoning, helicopter and rafting businesses.

For further information, please contact:

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