

NovaPort Smaller Companies Fund

Quarterly report - March 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)	-1.83	-2.90	5.94	5.04	8.10	9.31	14.13	14.11
Growth return	-2.02	-3.09	3.02	-0.73	3.50	4.82	5.11	5.22
Distribution	0.19	0.19	2.92	5.76	4.59	4.49	9.03	8.88
S&P/ASX Small Ordinaries Accumulation Index	-2.29	-2.79	14.99	10.69	6.45	1.36	7.85	7.59
Active return ³	0.45	-0.12	-9.05	-5.65	1.65	7.95	6.28	6.52

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	90.32	80-100
Cash	9.68	0-20

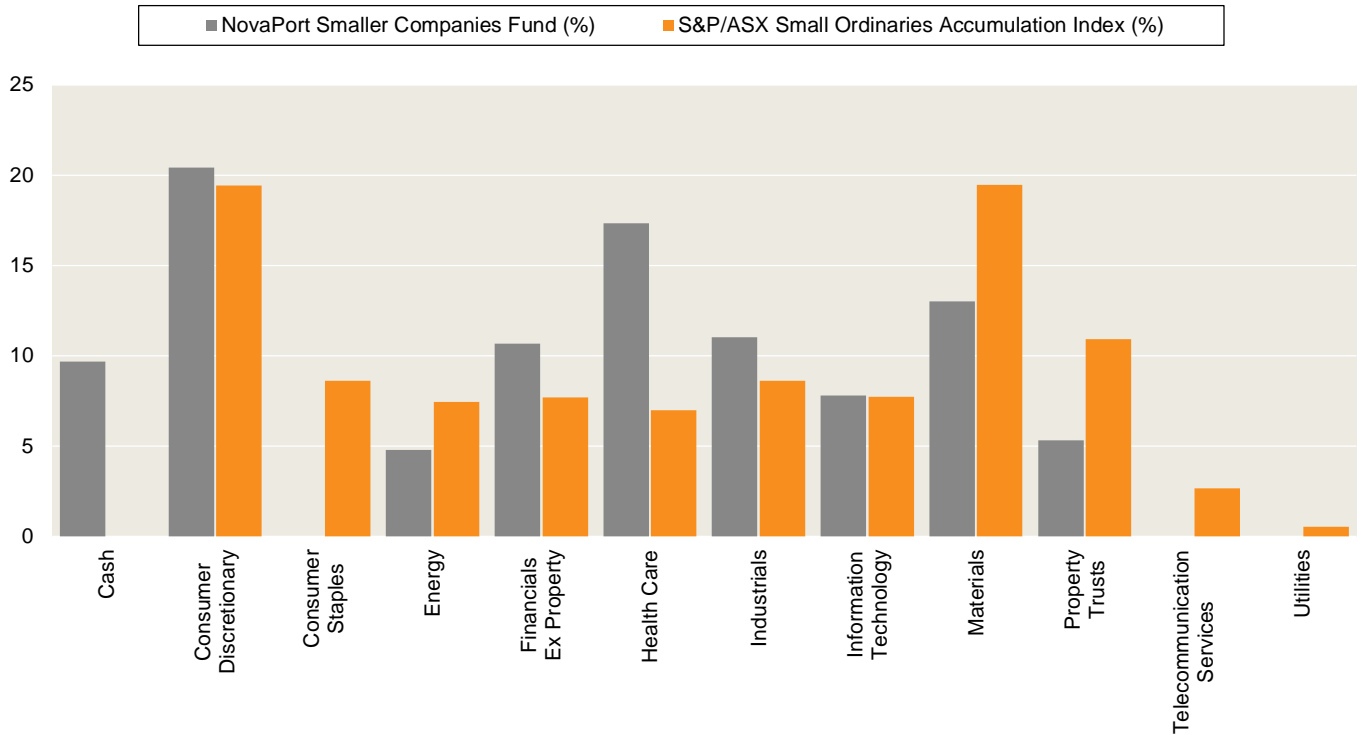
Top 5 active positions	Fund weight %	Index weight %	Active weight %
AUB Group Ltd	4.12	0.00	4.12
Kathmandu Holdings Ltd	3.60	0.00	3.60
Ebos Group Ltd	3.39	0.00	3.39
Peet Ltd	3.39	0.00	3.39
Cleanaway Waste Management Ltd	3.30	0.00	3.30

Fund facts	
Inception date	31 December 2002
Fund size	\$284.2M
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.

Sector exposure



Market overview

The March quarter saw the Small Ordinaries Index (Accumulation) finish down 2.79% outperforming the ASX 100 index which declined 3.90% over the same period. Both resources and industrials companies contributed to the decline in the smalls index with the miners down 4.58% and industrials down 2.23%

While the December half year reporting period (over February) tends to be the major event locally for the March quarter, this time around it was significant for other reasons as well. Following strong market returns with very low volatility over the prior 18 months, the March quarter saw some reversal as macro expectations were sharply adjusted. The confluence of emerging signs of inflation in the US above what were previously subdued expectations exacerbated by the potential of late cycle stimulus in the form of corporate tax cuts, as well as the prospect of trade wars and the de-rating of technology stocks all combined to shake markets out of their complacency.

Meanwhile in Australia, reporting season was largely positive with corporate earnings solid and generally in line with expectations. Nevertheless, there remain pockets of uncertainty including conditions in the retail sector, rising cost pressures in some industries, expected decline in housing related construction activity, the flow on effects of the banking royal commission and probably most importantly, a still highly leveraged consumer. However, notwithstanding these concerns, growth in Australia for the year ahead looks solid and with still subdued inflation locally, interest rate rises are not expected any time soon.

From a stock market perspective, the global and local issues highlighted above have manifested in some signs of a rotation from the high multiple growth or momentum stocks that drove index returns last year towards some of the more cyclical exposures where both expectations and multiples are lower therefore holding prospects for a better return profile for the year ahead.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -2.79% for the quarter. The fund underperformed the market and delivered a -2.90% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
GWA Group Ltd	Industrials	3.02	0.59
AUB Group Ltd	Financials Ex Property	4.12	0.38
Mineral Resources Ltd	Materials	-1.52	0.29

GWA Group Ltd

March quarter saw a strong price reaction to the release of the interim result which, while not materially above expectations, highlighted strong management execution. Meanwhile, housing construction activity remains at elevated levels for now. The proposed divestment of the Doors & Access segment in order to focus on the core Bathroom & Kitchens division, was also well received by the market.



AUB Group Ltd

AUB Group continues to benefit from a hardening premium rate cycle. To date average rate increases in the low to mid-single digits over the prior six months have been noted by the market. The company is set to benefit over and above the rate cycle due to the investment in network depth, as well as in systems and processes.

Mineral Resources Ltd

Not held by the fund.

Key detractors

Security name	Sector	Active weight %	Value added %
Bellamy's Australia Limited	Consumer Staples	-0.99	-0.48
Village Roadshow Limited	Consumer Discretionary	2.25	-0.47
iSelect Ltd	Consumer Discretionary	1.17	-0.45

Bellamy's Australia Limited

Not held by the fund.

Village Roadshow Limited

Village Roadshow's price weakened over the previous quarter, with an underwhelming half year result. While asset divestments have largely addressed concerns regarding balance sheet gearing and there were more signs of continued recovery in theme park attendances at its Gold Coast sites, cinema performance was adversely impacted by low rating product. June quarter visitor levels at its theme parks, especially sale of annual passes in the lead up to 30 June and cinema ticket sales of what should be more popular movies are expected to drive the share price in the short term and this is where some uncertainty still lies.

iSelect Ltd

Despite delivering robust growth in its Energy & Telco business, the company's revenue remains primarily weighted to its Health division. The revenue split for the Health division is heavily second half weighted as it is reliant on consumers response to health premium increases in April of every year. The stock has been sold-off on concerns regarding its ability to deliver strong second half earnings and to therefore meet its financial year 2018 guidance.

For further information, please contact:

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