NovaPort Smaller Companies Fund

Quarterly report - June 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)	2.58	5.21	10.65	8.36	10.23	10.38	13.80	14.24
Growth return	-0.17	2.39	6.11	3.77	4.98	6.27	4.75	5.30
Distribution	2.75	2.82	4.54	4.58	5.25	4.10	9.05	8.94
S&P/ASX Small Ordinaries Accumulation Index	1.06	7.67	24.25	15.02	11.56	2.59	7.62	7.98
Active return[3]	1.52	-2.47	-13.59	-6.66	-1.33	7.78	6.18	6.26

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	90.04	80-100
Cash	9.96	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Kathmandu Holdings Ltd	3.92	0.00	3.92
HT&E Ltd	4.17	0.34	3.82
AUB Group Ltd	3.79	0.00	3.79
Cleanaway Waste Management Ltd	3.35	0.00	3.35
Western Areas Limited	3.69	0.50	3.19

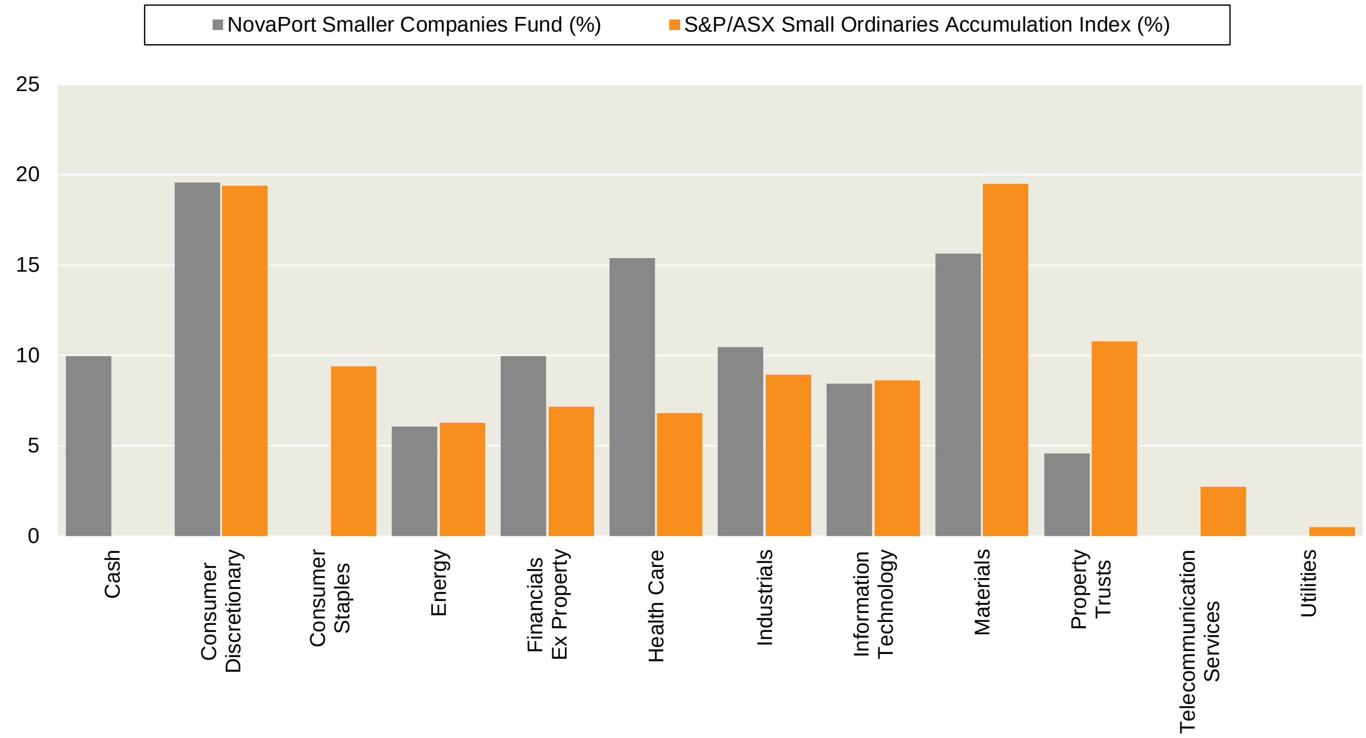
Fund facts	
Inception date	31 December 2002
Fund size	$296.9M
APIR code	HOW0016AU

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.

[2] The performance fee was introduced from 1 October 2011

Sector exposure



Market overview

Following a blistering 3.7% rise in May, the Small Ordinaries Accumulation Index delivered another positive month in June with a 1.0% gain. The market shrugged off concerns surrounding geo-political risks, tightening monetary policy and the sustainability of low volatility. The small cap benchmark delivered a strong 24.25% gain over the 2018 financial year (FY18).

The small resources aggregate delivered stronger returns than industrials during the year. Stronger energy, battery materials and base metals prices all provided impetus for the rally and resource services. Businesses also benefited from renewed investor interest.

Within the industrial sector out performance was concentrated in relatively few names, evidenced by a median return less than half the average return for the sector. Despite a strong representation of technology and infant formula stocks within the top performers, we believe earnings revisions were the dominant common factor explaining stock outperformance during the year.

Companies were richly rewarded for earnings outperformance, enjoying disproportionate increases in price relative to earnings. As such the market enters FY19 with a subset of companies trading at substantially higher multiples than they did a year ago and with elevated earnings expectations for the year ahead. This has meaningfully raised the stakes leading into the forthcoming earnings season and investors will be looking for strong guidance to justify current multiples in these names.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +7.67% for the quarter. The fund underperformed the market and delivered a +5.21% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
HT&E Ltd	Consumer Discretionary	3.82	0.72
Southern Cross Media Group	Consumer Discretionary	2.80	0.44
Kathmandu Holdings Ltd	Consumer Discretionary	3.92	0.44

HT&E Ltd

HT&E Ltd received a higher than expected bid for its 'Adshell' outdoor advertising division. The potential sale of this division has been viewed favourably by the market, which has held concerns that it lacks competitive scale within the HT&E portfolio. The sale of the division (subject to regulatory approval) would leave HT&E with substantial financial flexibility and the company has indicated a desire to return capital to shareholders.

Southern Cross Media Group

Some stabilisation in radio ratings and the benefit of a stronger rating programming feed from the Nine Network (as opposed to Ten) has attracted some more investor interest in recent months. While still carrying some earnings risk, the attractive valuation appears to have discounted some of these concerns.

Kathmandu Holdings Ltd

A recent positive earnings update was another reporting milestone highlighting the new management team's execution regarding product design, inventory management and success in generating targeted margins.

Key detractors

Security name	Sector	Active weight %	Value added %
Village Roadshow Limited	Consumer Discretionary	0.54	-0.73
Technology One Limited	Information Technology	2.38	-0.71
Peet Ltd	Property Trusts	3.01	-0.50

Village Roadshow Limited

Earnings at Village's theme parks on the Gold Coast and Sydney have been below expectations, partly due to the after effect of the multiple fatalities at a neighbouring theme park in 2016, as well as some management execution issues. Lower earnings have raised the issue of debt sustainability and the associated balance sheet risks. We have reduced our exposure to the company.

Technology One Limited

While the recently released interim result was disappointing, there were no issues raised which concern us regarding the company's long term prospects, which we view favourably based on the quality of its product offering and capacity to benefit from cloud adoption across its client base. However, the company's imminent transition to a new accounting regime which, while not changing the cashflow based valuation of the company, will potentially cause a temporary dip in earnings and add some caution in the short term.

Peet Ltd

Despite a solid medium term earnings outlook, Peet's share price is facing the headwind of a softening Australian housing market. In light of the banking royal commission, home buyers are seeing a tightening lending criteria and higher borrowing costs being passed through.

For further information, please contact:

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