

# NovaPort Smaller Companies Fund

## Monthly report - July 2018

Performance <sup>1</sup>	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	15 years % p.a	Inception % p.a <sup>2</sup>
Fund return (net)	-0.13	2.71	8.37	7.56	8.65	10.67	13.03	14.14
Growth return	-0.13	-0.04	3.92	3.02	3.47	6.56	4.04	5.26
Distribution	0.00	2.75	4.45	4.54	5.18	4.11	8.99	8.89
S&P/ASX Small Ordinaries Accumulation Index	-1.01	3.74	22.58	14.03	9.27	3.07	7.08	7.86
Active return <sup>3</sup>	0.88	-1.03	-14.21	-6.46	-0.62	7.60	5.95	6.28

**Past performance is not a reliable indicator of future performance.**

<sup>1</sup> Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

<sup>2</sup> The inception date for the Fund is 31 December 2002

<sup>3</sup> 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	91.11	80-100
Cash	8.89	0-20

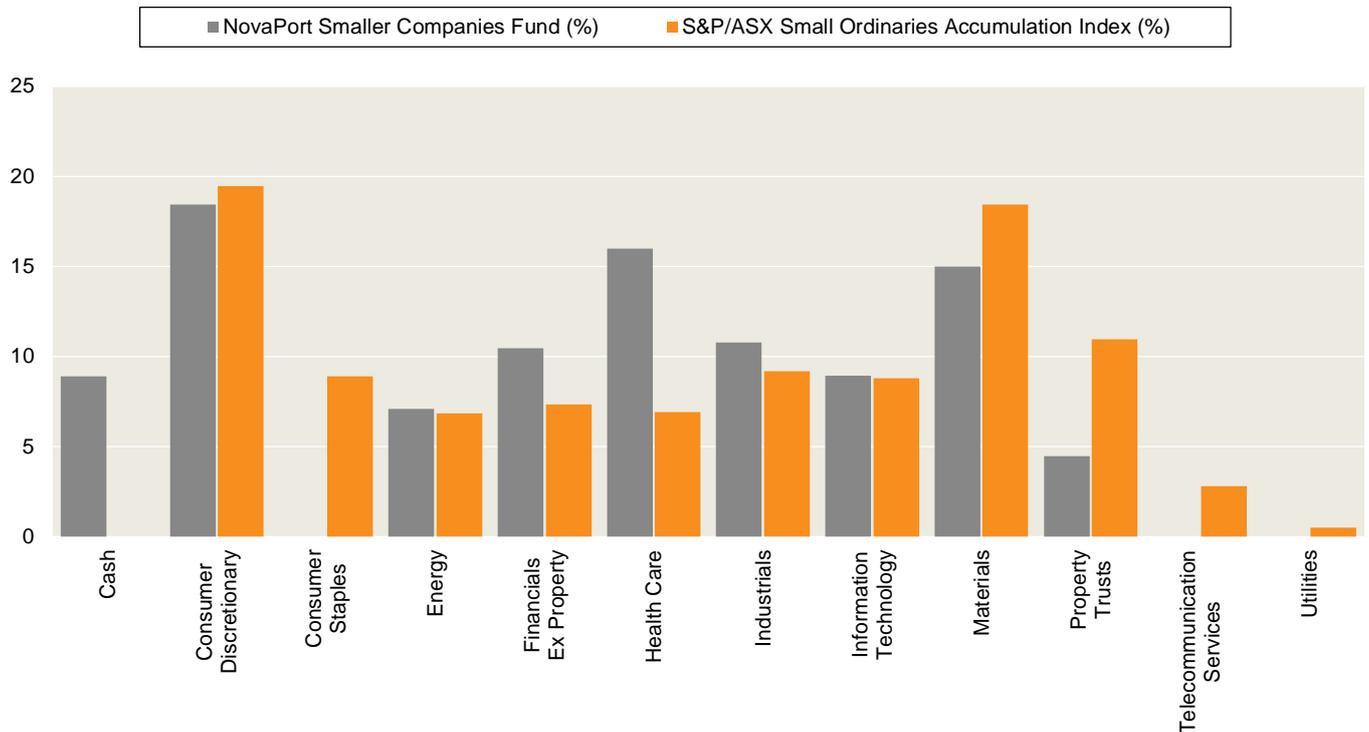
Top 5 active positions	Fund weight %	Index weight %	Active weight %
Kathmandu Holdings Ltd	4.16	0.00	4.16
HT&E Ltd	4.23	0.35	3.88
AUB Group Ltd	3.74	0.00	3.74
Cleanaway Waste Management Ltd	3.66	0.00	3.66
Credit Corp Group	3.94	0.52	3.42

Fund facts	
Inception date	31 December 2002
Fund size	\$290.7M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2016-2017 ICR	0.90%
Management fee <sup>1</sup>	0.90% p.a.
Performance fee <sup>2</sup>	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%

<sup>1</sup> 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 start of the financial year was somewhat underwhelming for the Small Ordinaries Index (Accumulation) compared to last year's 24.25% return. The index finished down 1.01% in July with industrials down 0.54% and small miners down a heftier 2.62%.

July normally sees the last of the "confessions" as companies firm up their 30 June financials and are in a position to update the market of earnings to be reported versus broker estimates. Overall, conditions heading into reporting season this month suggest another positive reporting season following on from solid earnings announced in February. While concerns persist regarding high levels of household indebtedness (especially with the prospect of out of cycle rate increases), rising cost of living expenses and little wages growth to compensate, earnings will reflect some positives as well. Unemployment remains low, house prices are weakening but not collapsing, business confidence is at robust levels, east coast infrastructure and increasing mining related spend augurs well and global economic conditions remain buoyant.

Moving from an economic perspective to some of the stock market dynamics driving stock returns, calendar year to date would suggest investors are starting to revisit some of the value or cyclical exposures largely ignored over 2016 and 2017. This partly reflects acknowledgement that some of the very highly rated growth/technology stocks carry considerable risk of a severe de-rating should earnings fall even slightly short of expectations as well as wider appreciation earnings growth is now evident (globally as well as locally) across a broader range of stocks reflecting long awaited improved economic conditions following years of monetary stimulus.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -1.01% for July. The fund outperformed the market and delivered a -0.13% return over July.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Cooper Energy Limited	Energy	2.79	0.55
Credit Corp Group	Financials Ex Property	3.42	0.45
Technology One Limited	Information Technology	2.89	0.42

### Cooper Energy Limited

Cooper Energy has completed the drilling programme associated with development of its Sole Gas Project. The performance of the wells met expectations for the project and passing this significant milestone has supported confidence in the project and hence the Cooper share price. Robust domestic gas and LNG prices have also contributed to positive sentiment.



## Credit Corp Group

Credit Corp delivered earnings in line with expectations. While earnings and guidance did not provide any surprise to the market the company did provide an encouraging update on the prospects for growth in the medium term. Management highlighted continued opportunities for growth from its US Collection business as well as lending in Australia.

## Technology One Limited

Technology One's share price bounced back hard over July (making up for the de-rating in May) post a presentation to the market quantifying what would be a minimal impact from the adoption new accounting rules as well as highlighting the potential of its cloud strategy and success to date in migrating clients from legacy pricing structures.

## Key detractors

Security name	Sector	Active weight %	Value added %
Afterpay Touch Group Ltd	Information Technology	-0.97	-0.34
Independence Group NL	Materials	2.55	-0.33
Saracen Mineral Holdings Ltd	Materials	1.92	-0.30

## Afterpay Touch Group Ltd

Not held by the fund.

## Independence Group NL

Independence Group released its quarterly report and reserves update during the month. While the Nova Nickel project saw an encouraging ramp up in the final quarter, the company did reduce reserves associated with the project based upon interpretation of its extensive grade control drilling programme. The Nova Project benefits from low costs and a long life, over which time there remains ample prospects for further value accretion.

## Saracen Mineral Holdings Ltd

Some profit taking after a strong price run over the last year adversely impacted Saracen's price over July. Notwithstanding, news flow from Saracen continues to be very positive. July saw the release of a quarterly report highlighting a strong finish to the year as well as an increase in production guidance for the current financial year from 320k ounces of gold to 345k ounces as well as opportunities for further upside longer term through exploration activity.

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### For further information, please contact:

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