

NovaPort Smaller Companies Fund

Quarterly report - September 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)	-0.94	1.99	12.33	10.59	7.21	11.26	12.50	14.14
Growth return	-1.07	1.86	7.91	5.91	2.09	7.14	3.53	5.33
Distribution	0.13	0.13	4.42	4.68	5.12	4.12	8.96	8.81
S&P/ASX Small Ordinaries Accumulation Index	-0.35	1.10	20.32	17.00	8.76	4.78	6.61	7.92
Active return ³	-0.58	0.89	-7.99	-6.41	-1.55	6.48	5.88	6.22

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	90.96	80-100
Cash	9.04	0-20

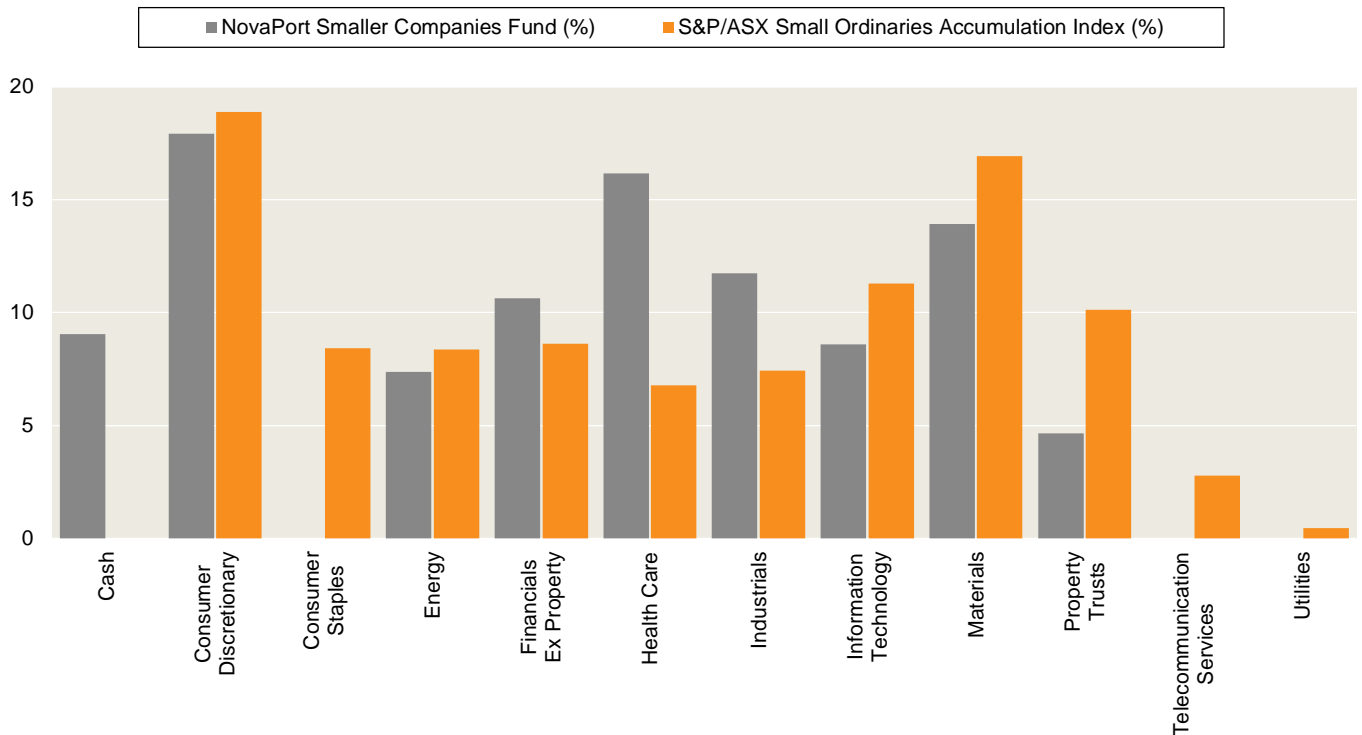
Top 5 active positions	Fund weight %	Index weight %	Active weight %
Kathmandu Holdings Ltd	4.37	0.00	4.37
HT&E Ltd	4.30	0.40	3.90
AUB Group Ltd	3.79	0.00	3.79
Cleanaway Waste Management Ltd	3.65	0.00	3.65
Credit Corp Group	4.10	0.54	3.56

Fund facts	
Inception date	31 December 2002
Fund size	\$292.4M
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.

Sector exposure



Market overview

Following a strong 7.67% increase over the previous quarter, the Small Ordinaries Index (Accumulation) reported a more subdued 1.1% gain over the three months to 30 September. This is in line with calendar year to date performance and is the weakest quarter since June 2017. There was a material divergence between industrials and miners with the former up 3.38% while resources were down 6.75%.

High multiple stocks (software and financial technology) were a key driver for industrials strength despite reporting results and guidance in August that were in line or even below market expectations. Meanwhile, a couple of the larger gold stocks dragged down the resources index for the quarter.

As is always the case at this time of the year the key highlight for the quarter were earnings reports for the 30 June reporting season. With increased disclosure requirements, earnings estimates were largely already reset heading into August so outlook statements and updated guidance were generally of more interest. While some headwinds are no doubt emerging such as the slowdown in housing construction, the potential for high levels of household indebtedness to slow consumer spending from here as well as the flow on effect of what could be a protracted trade war between the world's two biggest economies, economic conditions locally are still holding at solid levels. Of more note (as mentioned above) was the significant share price performance of some of the high multiple technology stocks on what were in line or below expectations earnings reports suggesting factors other than fundamentals driving share prices which to us represents a ratchet up in risk appetite in what is a mature bull market.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +1.10% for the quarter. The fund outperformed the market and delivered a +1.99% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
HT&E Ltd	Consumer Discretionary	3.90	0.75
Technology One Limited	Information Technology	2.88	0.74
Credit Corp Group	Financials Ex Property	3.56	0.66

HT&E Ltd

HT&E announced the sale of its outdoor advertising business in a cash transaction with Ooh! Media. The ACCC subsequently gave approval for the sale and upon settlement, HT&E was able to announce its capital management initiative. In early October the company paid a sizeable fully franked dividend as well as announce a share buyback. With a robust balance sheet the market sees good prospects for continued strong dividend payments and has rated the stock.



Technology One Limited

Technology One's share price increased by a strong 31% over the quarter following the release of an update to the market in July 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.

Credit Corp Group

Credit Corp performed well relative to the market despite limited new newsflow since releasing its results. In recent time the company has not traded at a significant valuation premium relative to the broader market despite a strong track record of delivering earnings growth. We suspect recent investor interest has been recognition of its past performance and growing optimism surrounding its US and lending operations.

Key detractors

Security name	Sector	Active weight %	Value added %
Western Areas Limited	Materials	2.30	-0.81
Experience Co Ltd	Consumer Discretionary	0.98	-0.78
Afterpay Touch Group Ltd	Information Technology	-1.46	-0.61

Western Areas Limited

Concerns surrounding the sustainability of China's economic boom has resulted in weaker commodity prices, including nickel, which Western Areas produces. Despite this, the outlook for nickel is supported by the strong outlook for demand relative to supply, particularly for the scarce ores suitable for use in the fast growing battery market.

Experience Co Ltd

Experience Co's share price has continued to drift down since issuing disappointing guidance for the current financial year in August as a result of more conservative assumptions for some of its north Queensland operations following high levels of rainfall earlier this year. In addition, recent sky diving fatalities impacted on consumer behaviour which is expected to linger for some time.

Afterpay Touch Group Ltd

Not held by the fund.

For further information, please contact:

Fidante Partners Investor Services | 13 51 53 | email: info@fidante.com.au | website: www.fidante.com.au

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