

NovaPort Smaller Companies Fund

Quarterly report - December 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)	-1.81	-12.36	-8.69	3.11	4.15	13.44	10.81	12.96
Growth return	-4.01	-14.32	-13.41	-1.59	-1.02	9.19	1.86	4.23
Distribution	2.20	1.96	4.71	4.70	5.17	4.25	8.95	8.73
S&P/ASX Small Ordinaries Accumulation Index	-4.18	-13.70	-8.67	7.45	5.62	6.88	5.29	6.80
Active return ³	2.37	1.34	-0.02	-4.34	-1.47	6.57	5.52	6.16

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	89.97	80-100
Cash	10.03	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Kathmandu Holdings Ltd	4.21	0.00	4.21
AUB Group Ltd	4.09	0.00	4.09
Credit Corp Group	4.11	0.53	3.58
Cleanaway Waste Management Ltd	3.43	0.00	3.43
Regis Healthcare Ltd	3.53	0.21	3.32

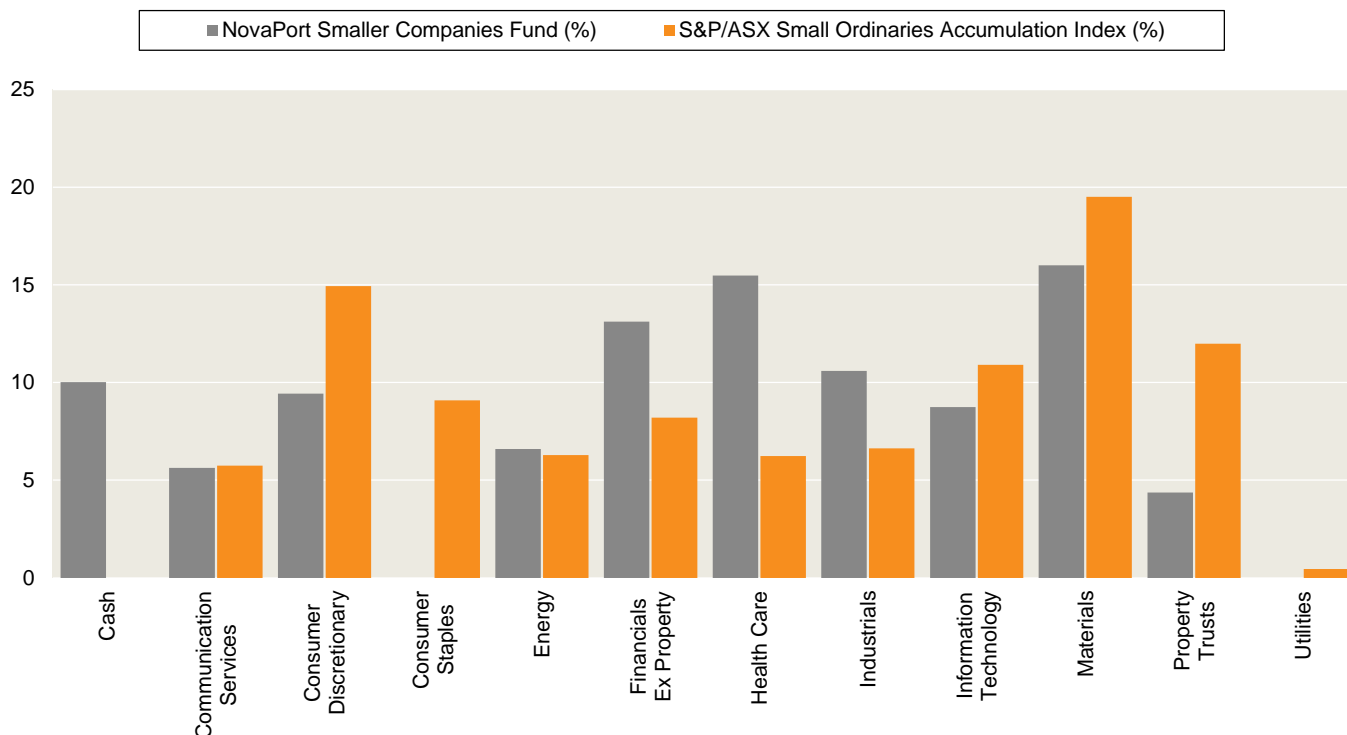
Fund facts	
Inception date	31 December 2002
Fund size	\$252.3M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2017-2018 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

The final weeks of 2018 brought no Christmas cheer to markets and the Small Ordinaries Index (Accumulation) fell 4.18% during the month of December. This contributed to a bruising 13.7% fall of the benchmark over the December quarter of 2018. Property trusts were the only market sector which rose during the quarter.

The energy sector posted the greatest declines during the quarter weighed down by much weaker oil prices. Industrial and consumer discretionary stocks were also hit by persistent concerns about the broader economy, both in Australia and globally. In Australia the market is particularly concerned about the prospects of a weaker residential property market weighing on consumer sentiment, financial stability and also construction activity.

Gold miners were the star performers during the quarter dragged higher by a rebound in gold prices, a weak Australian dollar and possibly also the prospect of lower energy costs. We believe strength in the gold price corresponds to weaker sentiment globally and gold's status as a safe haven asset. The associated prospect of fewer interest rate rises also supports gold prices. The portfolio's gold mining exposures included gold producers as well as developers, where we see disproportionate valuation upside relative to the uncertainties in commissioning new projects.

Thus far indications from retailers suggest that the crucial Christmas trading results will be patchy, only rewarding retailers with the right mix of price and inventory. With reporting season commencing in February we will soon see whether this corresponds to broader weakness in the economy. The market has been willing to pay significant premiums for growth and therefore signs of fading momentum can see share prices fall significantly. We believe the currently mature economic growth cycle elevates these risks and see a better balance of risk versus reward from factors other than momentum.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -13.70% for the quarter. The fund outperformed the market and delivered a -12.36% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Saracen Mineral Holdings Ltd	Materials	2.45	1.16
Technology One Limited	Information Technology	2.64	0.70
Beach Energy Limited	Energy	-1.42	0.46

Saracen Mineral Holdings Ltd

Saracen continued to meet production targets while delineating a path to production of ~400koz/annum. That said, the biggest driver for the share price appreciation during the period was the strong uplift in the AUD denominated gold price as discussed in the market overview



Technology One Limited

Technology One's share price gained over November on the release of a well received full year result (30 September year end). The company re-affirmed positive trends in activity levels broadly as well as its initiatives to migrate its customers (new and old) onto its cloud delivery platform. While many high PER software stocks have de-rated recently, Technology One has outperformed on positive news flow and more modest investment multiples relative to the market darlings in the sector.

Beach Energy Limited

Not held by the fund.

Key detractors

Security name	Sector	Active weight %	Value added %
Worleyparsons LTD	Energy	3.10	-0.53
St Barbara Limited	Materials	-1.46	-0.45
HT&E Ltd	Communication Services	2.38	-0.44

Worleyparsons LTD

Worleyparsons acquired Jacobs Energy, Chemicals and Resources division for \$4.6 billion, resulting in a hefty \$2.9bn capital issue which has weighed on the market. The acquisition meaningfully diversifies the business away from its historic dependence on the oil and gas sector however integration of acquisitions always poses some risks.

St Barbara Limited

Not held by the fund.

HT&E Ltd

After paying a meaningful special dividend which distributed the proceeds from selling the Adshel outdoor advertising business HT&E's share price fell. This was exacerbated by concerns that weakness in overall advertising expenditure would be sustained.

For further information, please contact:

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