

NovaPort Smaller Companies Fund

Quarterly report - June 2019

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)	1.04	1.35	3.10	8.13	6.43	12.56	10.84	13.53
Growth return	-1.37	-1.06	-2.04	3.86	1.03	8.34	1.82	4.84
Distribution	2.41	2.41	5.14	4.28	5.40	4.22	9.03	8.69
S&P/ASX Small Ordinaries Accumulation Index	0.92	3.75	1.92	10.69	9.27	6.31	6.06	7.60
Active return ³	0.12	-2.40	1.17	-2.56	-2.85	6.25	4.78	5.93

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	89.86	80-100
Cash	10.14	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Credit Corp Group	5.03	0.76	4.27
Cleanaway Waste Management Ltd	4.14	0.00	4.14
Worleyparsons LTD	3.46	0.00	3.46
Gold Road Resources Ltd	3.83	0.41	3.42
Ebos Group Ltd	3.29	0.00	3.29

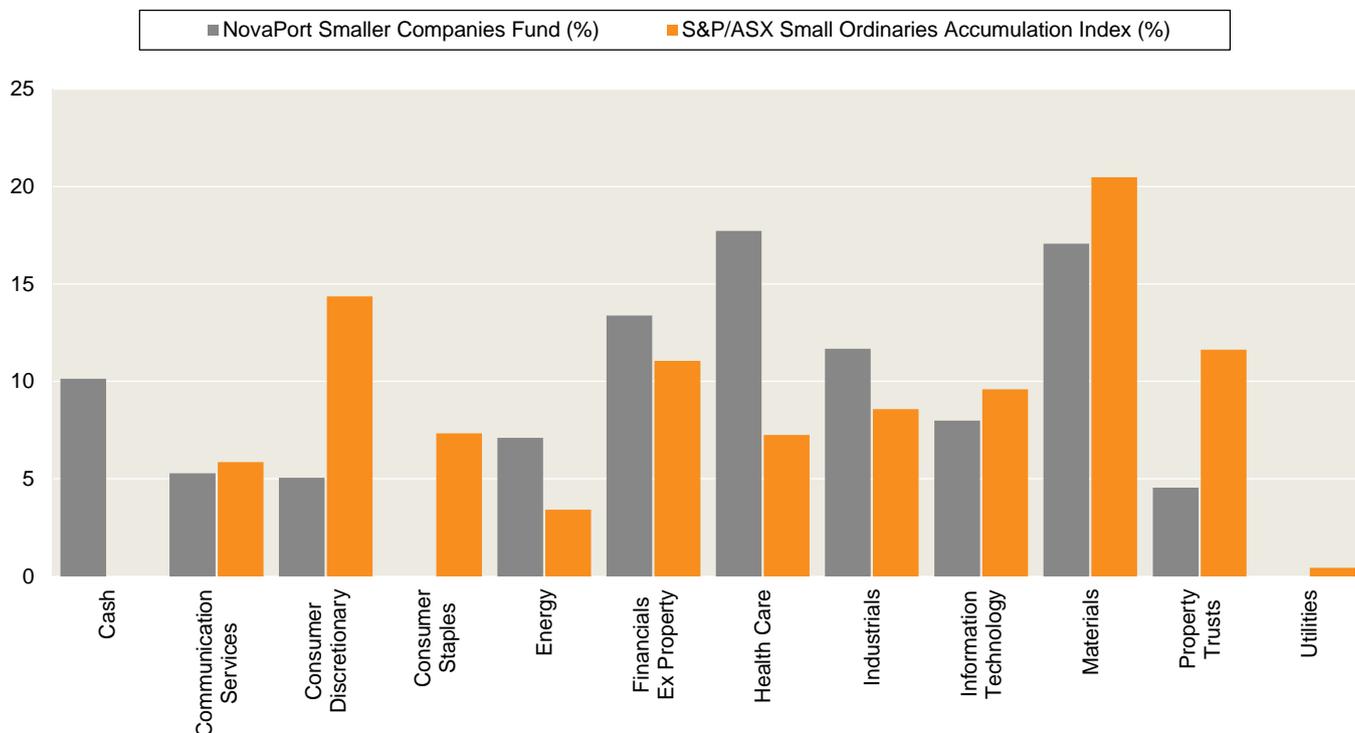
Fund facts	
Inception date	31 December 2002
Fund size	\$278.4M
APIR code	HOW0016AU

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 Small Ordinaries Index (Accumulation) finished the June quarter on a strong note, up 0.92% bringing the total return over three months to 3.75%. The final three months of the year saw a divergence in performance between industrial companies and the miners with the former up 5.37% and resources down 2.33%. Capping off a volatile financial year the index finished up a relatively subdued 1.92% over FY19.

The June quarter was notable for two key events. First, despite the pundits proclaiming a change in Federal government in the lead up to the May election, the Coalition held government convincingly. The outcome was viewed as largely positive for markets with tax cuts imminent and the threat of unfavourable changes to franking credit refund rules, negative gearing and capital gains tax concessions no longer a cause for concern. Second, after three years of stable cash rates the Reserve Bank elected to cut the rate to a historic low of 1.25% in June in the hope that positive flow on effects, primarily in the labour market, will finally lift what has been a stubbornly low inflation rate.

While the election outcome and rate cuts are positive for markets generally (albeit the latter could be interpreted as a sign of concern regarding the state of the economy), both have occurred in what has been a relatively weaker environment for earnings. Reduction in earnings forecasts due to the number of downgrades issued by companies (especially retailers) as well as from analysts' re-assessing the implications of a slowing economy means we are heading towards the June half reporting season (in August) with profit growth expectations on the decline.

Nevertheless, despite a slowing economy, investors will seek to determine whether we are getting closer to a tipping point and will therefore be cautious in becoming too bearish at the wrong time. While current macro indicators including confidence measures are subdued, they tend to reflect the recent past. However, looking forward from here there are a number of positives now in play that may see underlying conditions improve over the first half of the new financial year. Some of these include the reversal of risk associated with a change in government, lower interest rates, the stimulatory impact of up front tax cuts post-election, increasing anecdotal evidence that declines in house prices are slowing and may be close to the bottom (which is a much better result than feared), APRA easing lending criteria thereby allowing more potential home buyers access to credit, a weaker Australian dollar and strong mining activity.

Should some of these positive factors show some signs of flowing through to economic conditions over the current quarter then full year reporting season may be a balance between absorbing news flow associated with weaker reported numbers but with outlook statements pointing to more positive prospects for the year ahead.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +3.75% for the quarter. The fund underperformed the market and delivered a +1.35% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Credit Corp Group	Financials Ex Property	4.27	0.59
Nanosonic Limited	Health Care	2.61	0.56
Saracen Mineral Holdings Ltd	Materials	2.33	0.48

Credit Corp Group

While the debt purchasing segment in Australia can go through phases of mis-pricing thereby adversely impacting subsequent profitability for receivables management companies, Credit Corp has a long-established record as disciplined operator. In addition, after substantial and considered investment over time, the US market is now coming into focus for investors as a meaningful source of long term growth for the company.

Nanosonic Limited

Nanosonic's high level disinfectant products and solutions continue to gain traction globally. While a presence in the US market is well established, its product is gaining traction in other markets, primarily in Europe. In addition, new products under development with the potential to open new markets for the company are generating some investor interest as release dates draw closer.

Saracen Mineral Holdings Ltd

As highlighted in last month's update, Saracen's positive operational performance and history of generating solid production growth over time saw the share price increase over the June quarter. Aside from positive stock specific news flow, looser monetary policy settings globally have been supportive of the broader gold sector.

Key detractors

Security name	Sector	Active weight %	Value added %
Regis Healthcare Ltd	Health Care	3.10	-1.12
AUB Group Ltd	Financials Ex Property	2.83	-0.87
ARQ Group Ltd	Information Technology	0.08	-0.64

Regis Healthcare Ltd

As highlighted last month, the company's share price over the June quarter has been adversely impacted by weaker occupancy at its aged care facilities. Occupancy is reported to have fallen across the sector due to the combined impact of disruptions associated with an early start to the 'flu season' as well as delayed decision making by families of the aged (some of who are likely to be watching and waiting for more details to emerge from the Royal Commission into Aged Care).

AUB Group Ltd

AUB's share price was impacted by a trading update in mid-June which highlighted a disappointing performance in its Risk Services division due to a material decline in case volumes as well as weaker growth in insurance premiums.

ARQ Group Ltd

ARQ released a disappointing update over June highlighting continued execution issues as well as a shortfall in revenues relative to expectations. We no longer hold shares in the company.

For further information, please contact:

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