

NovaPort Smaller Companies Fund

Quarterly report - June 2021

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)	2.35	7.34	28.48	7.61	8.85	10.33	10.29	13.13
Growth return	-0.64	4.20	23.97	3.99	5.15	6.01	3.91	5.08
Distribution	2.99	3.13	4.51	3.63	3.69	4.32	6.37	8.05
S&P/ASX Small Ordinaries Accumulation Index	3.08	8.50	33.23	8.59	11.24	5.99	4.37	8.08
Active return ³	-0.72	-1.16	-4.75	-0.98	-2.39	4.34	5.91	5.06

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	95.13	80-100
Cash	4.87	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Independence Group NL	4.44	0.00	4.44
Ebos Group Ltd	4.02	0.00	4.02
Estia Health Ltd	4.00	0.22	3.78
Kathmandu Holdings Ltd	3.42	0.00	3.42
Fletcher Building Limited	4.38	0.97	3.41

Fund facts	
Inception date	31 December 2002
Fund size	\$301.0M
APIR code	HOW0016AU

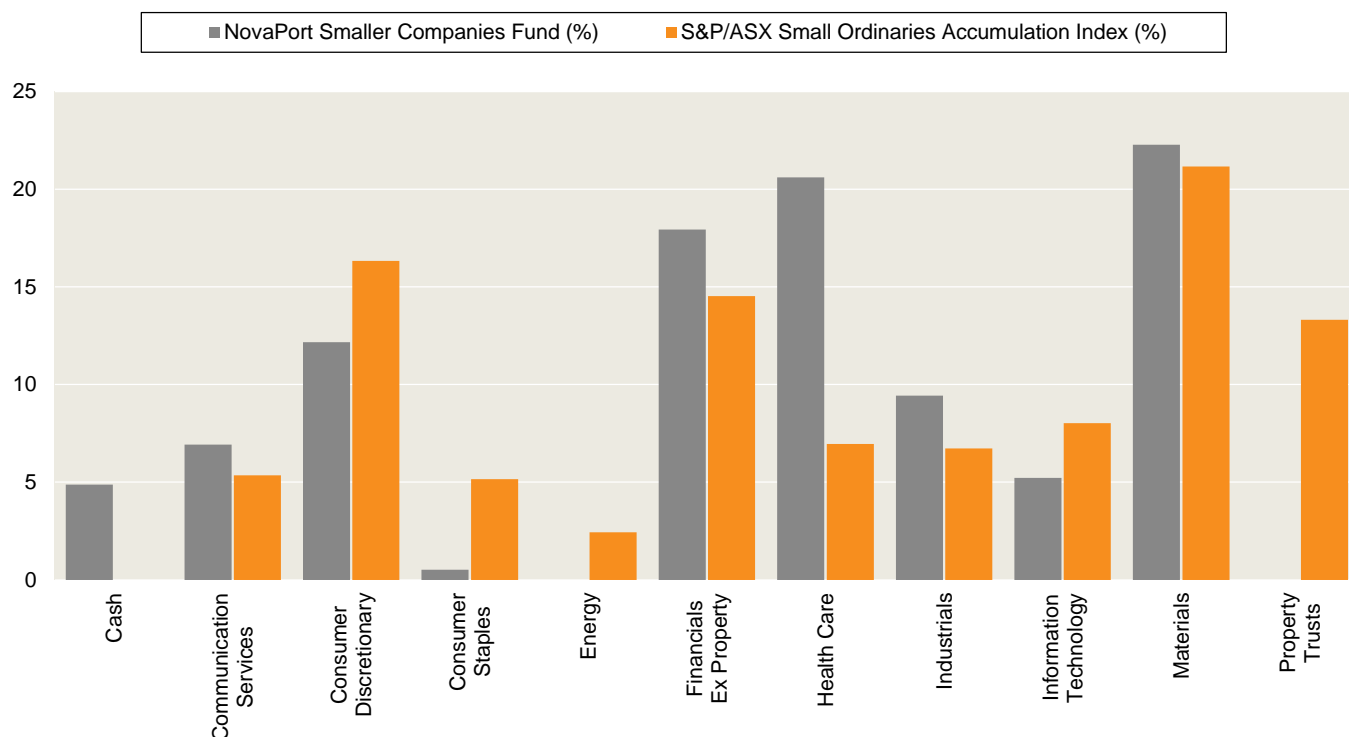
Fees	
Entry fee	Nil
2017-2018 ICR	0.90%
Management fee ¹	0.90% p.a.
Performance fee ²	20% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Fund's Performance Benchmark (the daily return of the S&P/ASX Small Ordinaries Accumulation Index). The performance fee is capped at 2.00% p.a.
Buy/sell spread	+0.30% / -0.30%

Data Source: Fidante Partners Limited, 30 June 2021.

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



Data Source: Fidante Partners Limited, 30 June 2021.

Market overview

Australian shares hit a record high last month on the back of a booming economy and synchronised global stimulus efforts. The ASX Small Ordinaries (Accumulation) Index rose 3.1% in June, closing out a very strong 8.5% quarterly gain for the smaller companies' index.

The combination of extremely accommodative monetary policy and sustained fiscal stimulus has created a very strong outlook for corporate profits. Earnings expectations for Australian businesses have been increasing in the lead-up to August reporting and the number of downgrades has been well below average.

Domestic economic strength has been clear in building approvals, house prices, retail sales, car sales, and the rapid improvement in employment. This promising environment exists despite ongoing COVID-19 outbreaks, restrictions to activities like aviation and sporting events, and sporadic lockdowns in Australia and offshore.

Global vaccination rates are strong and suggest developed economies in the northern hemisphere should be fully reopened by Christmas. Australia's vaccine rollout has lagged other wealthy countries, but full reopening remains a relatively near-term prospect that should give the economy its next leg up.

Alongside this supportive backdrop for cyclical stocks, investors have been weighing the outlook for interest rates and the appropriate discount rate for growth stocks. US 10-year bonds – a key pricing benchmark for assets globally – rallied in June, supporting a rebound in the higher valuation technology and healthcare sectors that are more vulnerable to higher discount rates.

Markets appear to have accepted the US Federal Reserve's view that high inflation will be temporary and the path to higher interest rates will be very gradual. However, inflation and monetary policy settings remain key potential risks for the market going forward.

Notwithstanding last month's rally in technology and healthcare names, materials, energy, and financials were the strongest sectors for the June Quarter. Small resources stocks were up 13.6% for the three months ended 30 June, while small industrials gained 7.3%.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +8.50% for the quarter. The fund underperformed the market and delivered a +7.34% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Independence Group NL	Materials	4.44	0.52
Lynas Rare Earths Ltd	Materials	0.00	0.35
Kathmandu Holdings Ltd	Consumer Discretionary	3.42	0.32

Data Source: Fidante Partners Limited, 30 June 2021.



Independence Group NL

IGO group announced the completion of the acquisition of a share of Tianqi Lithium's international operations, including the highly valuable Greenbush mine and refinery. The acquisition price was set at an attractive level. The outcome of the transaction gives IGO a high quality exposure to the battery materials sector.

Lynas Rare Earths Ltd

Not held by the fund.

Kathmandu Holdings Ltd

Notwithstanding COVID related restrictions across Sydney post financial year end, Kathmandu's share price was up nearly 20% over the June quarter on a more favourable outlook for travel related winter apparel as restrictions ease (albeit still missing the international component) as well as a very strong performance by Rip Curl validating its acquisition in late 2019. In addition, the formal appointment of a new CEO in mid-May was well received by the market.

Key detractors

Security name	Sector	Active weight %	Value added %
Credit Corp Group	Financials Ex Property	2.12	-0.52
Seven Group Holdings Ltd	Industrials	2.08	-0.45
Megaport Ltd	Information Technology	-1.01	-0.37

Data Source: Fidante Partners Limited, 30 June 2021.

Credit Corp Group

Credit Corp underperformed the stronger market. Credit Corp has a strong position in the Australian debt recovery market as well as a fast growing exposure in the United States. Following a substantial capital raising last year the company has ample capacity to acquire opportunistically in future years.

Seven Group Holdings Ltd

Seven Group's share price underperformed the broader market, which continues to digest the recent capital raising as well as the transformational acquisition of a stake in Boral. Despite these concerns, Seven Group is sitting on substantial gains from these transactions.

Megaport Ltd

Not held by the fund.

For further information, please contact:

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