

NovaPort Smaller Companies Fund

Quarterly report - June 2023

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)	0.49	-0.91	11.33	5.76	2.79	6.44	7.78	11.33
Growth return	-0.81	-2.19	8.10	0.41	-1.69	1.59	3.55	3.55
Distribution	1.30	1.28	3.23	5.35	4.48	4.86	4.24	7.78
S&P/ASX Small Ordinaries Accumulation Index	0.03	-0.54	8.45	5.16	2.25	6.80	2.48	6.55
Active return ³	0.46	-0.37	2.88	0.60	0.53	-0.36	5.31	4.78

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	94.34	80-100
Cash	5.66	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Estia Health Ltd	5.39	0.30	5.09
EQT Holdings Limited	4.38	0.00	4.38
Monash IVF Group Limited	4.05	0.00	4.05
AUB Group Ltd	5.20	1.18	4.02
Technology One Limited	3.88	0.00	3.88

Fund facts	
Inception date	31 December 2002
Fund size	\$183.0M
APIR code	HOW0016AU

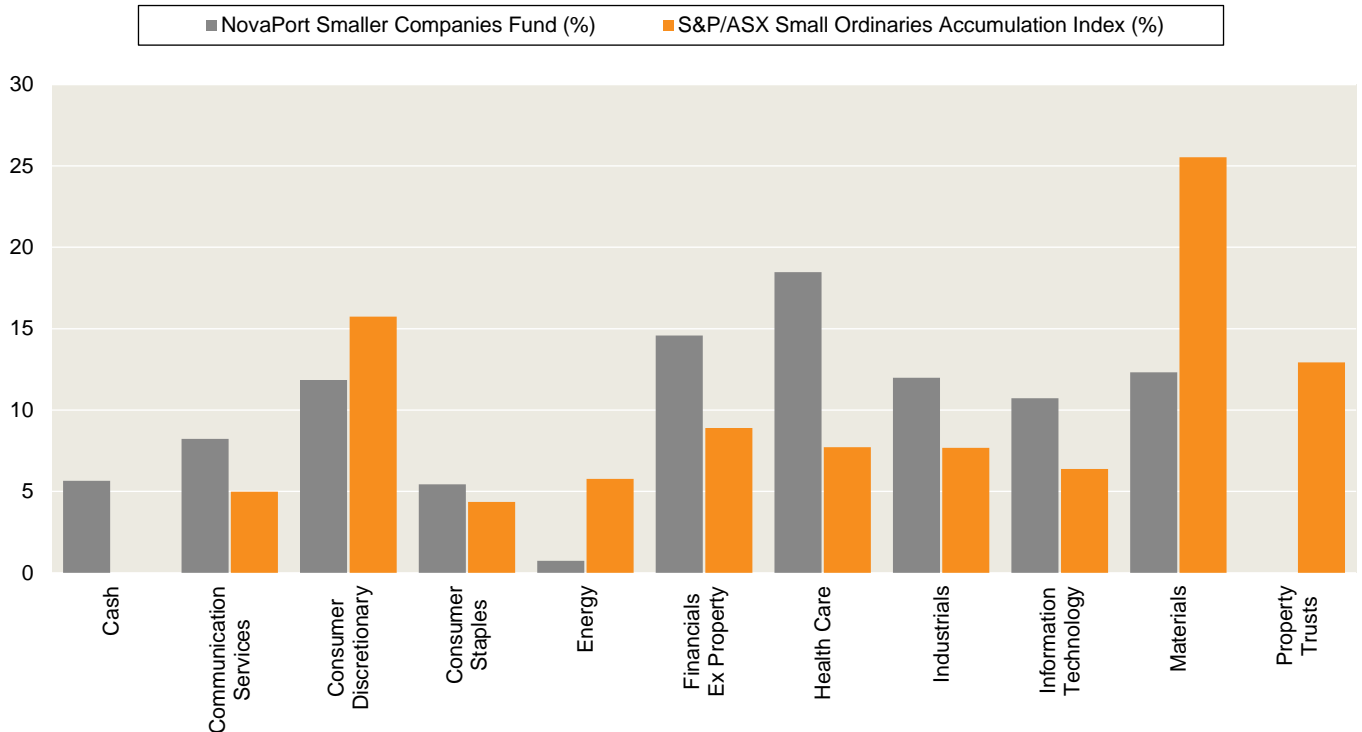
Fees	
Entry fee	Nil
2020-2021 ICR	1.00%
Management fee ¹	0.90% p.a.
Performance fee ²	20% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Fund's Performance Benchmark (the daily return of the S&P/ASX Small Ordinaries Accumulation Index). The performance fee is capped at 2.00% p.a.
Buy/sell spread	+0.30% / -0.30%

Data Source: Fidante Partners Limited, 30 June 2023.

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 2023.

Market overview

Smaller companies were flat in June amid growing concerns over China's economy and conflicting data driving continued recalibration of interest rate expectations. Last month the ASX Small Ordinaries (Accumulation) Index eked out a modest gain, but still finished down 0.5% for the June quarter following a soft May.

Consumer discretionary stocks remained under pressure following profit warnings from a range of retailers. High inflation and the sharp rise in interest rates are now clearly impacting some Australian consumers. The impact is also being felt in parts of the property market, with several real estate trusts revaluing their assets to lower levels, with particular concerns around office property. Regardless, the Reserve Bank of Australia elected to hike in both May and June after its pause in April. Despite the sharp rise in rates and emerging signs of their impact, inflation remains high and domestic interest rates are still below inflation. Unemployment in Australia sits near record lows, wages are rising, and house prices and rents are defying higher interest rates amid surging immigration.

These somewhat contrary signals suggest an uneven impact on different cohorts of the Australian population from interest rate policy. Importantly, the much-publicised rollover of cheap fixed rate mortgages to variable loans will really gather momentum from June 2023 and may cause a further shock to demand. Many cheap pandemic-era loans originated at around 2% will move to variable rates of more than 6%.

In the US, the Federal Reserve (Fed) kept rates on hold in June, albeit subsequent communication from the Fed suggests further hikes lie ahead. US inflation is trending lower, but core inflation remains historically high and the US economy is strong. The world's other economic engine, China, is moving in the opposite direction with policy edging towards stimulating a weak recovery. Deleveraging in the property sector and a shift away from fixed asset investment have weighed on growth. In anticipation of weaker Chinese commodities demand, small resources stocks were weak again in June (-1.2%) after a big fall in May (-7.1%). Small industrials rose 0.5% last month for a 2.4% gain for the quarter.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -0.54% for the quarter. The fund underperformed the market and delivered a -0.91% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
AUB Group Ltd	Financials Ex Property	4.02	0.55
Estia Health Ltd	Health Care	5.09	0.55
Brickworks Limited	Materials	3.24	0.51

Data Source: Fidante Partners Limited, 30 June 2023.



AUB Group Ltd

Favourable trading conditions (strong premium pricing) in contrast to a growing cohort of listed industrials facing adverse recessionary conditions as well as a positive trading update in May have underpinned a strong share price over the June quarter.

Estia Health Ltd

Post an initial boost to its share price in late March on the receipt of a takeover proposal from Bain Capital, the price increased further in early June with Bain returning with a higher revised bid.

Brickworks Limited

Increased international migration post COVID re-opening as well as a material shortage of housing construction in recent years augur well for the Brickwork's outlook as Australia's largest brick maker and other building products manufacturer. In addition, strategically located industrial property assets remain a source of long-term value for shareholders.

Key detractors

Security name	Sector	Active weight %	Value added %
Ebos Group Ltd	Health Care	2.02	-0.99
Universal Store Holdings Ltd	Consumer Discretionary	0.03	-0.52
Telix Pharmaceuticals Ltd	Health Care	-1.23	-0.47

Data Source: Fidante Partners Limited, 30 June 2023.

Ebos Group Ltd

The company's share price was sold off late in the June quarter with the announcement its wholesale supply contract with Chemist Warehouse will not be renewed on expiry in June next year.

Universal Store Holdings Ltd

Share price has been under pressure post a downgrade announcement in late May highlighting a much higher than expected decline in consumer spending.

Telix Pharmaceuticals Ltd

Not held by the fund.

For further information, please contact:

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This material has been prepared by NovaPort Capital Pty Ltd ABN 88 140 833 656 AFSL 385 329 (NovaPort), the investment manager of the NovaPort Smaller Companies Fund ARSN 094 601 475 (**Fund**). Fidante Partners Limited ABN 94 002 835 592 AFSL 234 668 (**Fidante Partners**) is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. NovaPort and Fidante Partners have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, NovaPort and Fidante Partners may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the Banking Act 1959 (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (Challenger ADI) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.

