

# NovaPort Smaller Companies Fund

## Monthly report - November 2017

Performance <sup>1</sup>	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	Inception % p.a. <sup>2</sup>
Fund return (net)	1.64	4.69	7.86	7.62	11.44	7.32	14.46
Growth return	1.64	4.37	4.95	1.81	6.61	2.81	5.44
Distribution	0.00	0.32	2.90	5.82	4.83	4.50	9.02
S&P/ASX Small Ordinaries Accumulation Index	3.91	11.60	20.50	13.33	7.40	-0.59	7.74
Active return <sup>3</sup>	-2.27	-6.91	-12.64	-5.71	4.05	7.90	6.72

**Past performance is not a reliable indicator of future performance.**

<sup>1</sup> Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

<sup>2</sup> The inception date for the Fund is 31 December 2002

<sup>3</sup> 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	87.87	80-100
Cash	12.13	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Credit Corp Group	4.60	0.61	4.00
AUB Group Ltd	3.93	0.00	3.93
Peet Ltd	3.37	0.00	3.37
Ebos Group Ltd	3.16	0.00	3.16
a2 Milk Co Ltd	0.00	3.12	-3.12

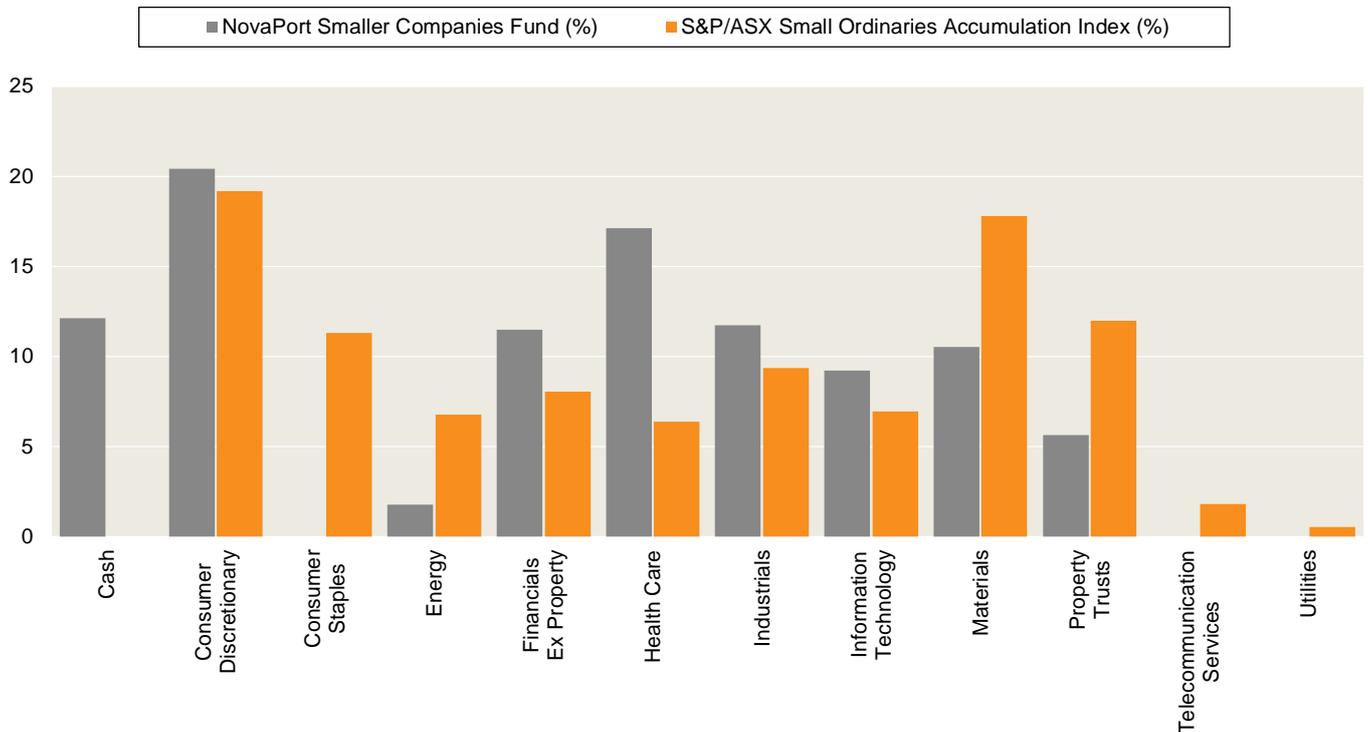
Fund facts	
Inception date	31 December 2002
Fund size	\$280.5M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2016-2017 ICR	0.90%
Management fee <sup>1</sup>	0.90% p.a.
Performance fee <sup>2</sup>	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%

<sup>1</sup> 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.

<sup>2</sup> The performance fee was introduced from 1 October 2011

## Sector exposure



## Market overview

The Small Ordinaries Index continued to rally through November in line with positive momentum from overseas markets. The small ordinaries accumulation index rose 3.9% during the month with resources leading the market higher.

November and October sees most companies host their annual general meetings, providing a forum to update the market on their underlying performance in the first quarter of the new financial year. This year saw little change in the outlook compared to that provided at the most recent earnings season. Companies exposed to the household sector remain cautious, particularly with the prospect of increased competition. Companies providing services to business and government expect to benefit from increasing demand over the medium term.

The resource sector saw strong gains lead by the energy sector and battery making commodity producers. Gold and base metals companies delivered mixed performances. Despite signs of a more moderate Chinese demand growth, the prospect of synchronised economic growth in the rest of the world has seen commodity prices perform well during the last year. On a stock specific basis we still see value in select names and favour exposures with favourable cost of production advantages.

Companies delivering better than expected earnings outcomes have seen strong share price appreciation during the year. They now trade at substantial premiums to the rest of the market, in anticipation that momentum can see them continue to surprise on the upside. The current stark dispersion in valuations amplifies the risk investors take when trying to predict the future pace and trajectory of earnings for growing companies. Predictions are inherently uncertain and it seems prudent to also consider the downside risks should they prove incorrect. At this juncture we believe there is a more favourable reward versus risk in seeking to identify those companies which are positioned to establish positive earnings momentum rather than chase those which have already been recognised by the market.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +3.91% for November. The fund underperformed the market and delivered a +1.64% return over November.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Credit Corp Group	Financials Ex Property	4.00	0.37
Corporate Travel Management Limited	Consumer Discretionary	-0.95	0.22
GWA Group Ltd	Industrials	2.64	0.21



## Credit Corp Group

The company provided an update at its AGM which highlighted continued progress at its operations in the USA as well as continued opportunities to acquire portfolio's of debt ledgers in the Australian market. The lending business is now well established with some positive progress on new growth initiatives.

## Corporate Travel Management Limited

Not held by the fund.

## GWA Group Ltd

GWA has a new management team which have brought a refreshed approach to the operations, focussed on delivering differentiated product to drive revenue. The company continues to enjoy strong market share in its bathroom products business. The share price has recovered from an oversold position following supportive commentary at the most recent Annual General Meeting.

## Key detractors

Security name	Sector	Active weight %	Value added %
Nanosonic Limited	Health Care	2.44	-0.54
iSelect Ltd	Consumer Discretionary	1.87	-0.30
Iress Limited	Information Technology	2.40	-0.30

## Nanosonic Limited

Nanosonic continues to deploy its Trophon infection prevention device at a consistent rate, at the same time investing in research and development of future products. That said, the timing of the delivery of these devices to market is potentially later than some aggressive expectations in the market. The CEO also sold down some of his holding to meet tax obligations during the month.

## iSelect Ltd

Since listing in 2013 management stability, or lack thereof, has been a bugbear for investors regarding iSelect. In light of this the departure of the CFO during November, having only been with the company for 16 months albeit for health reasons, saw the share price come under pressure.

## Iress Limited

IRESS announced that delays at key customer projects has seen deferral of revenue which management had previously expected to earn in 2017 and thus earnings would fail to meet previous guidance. The variance to expectations was not severe and the company believes it is a timing issue however the share price fell on the weaker result.

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### For further information, please contact:

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