

NovaPort Smaller Companies Fund

Monthly report - May 2017

Performance ¹	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	Inception % p.a ²
Fund return (net)	-0.21	2.03	6.61	4.43	13.34	7.12	13.49
Growth return	-0.21	2.03	1.23	-1.77	8.71	0.29	4.25
Distribution	0.00	0.00	5.38	6.20	4.63	6.83	9.24
S&P/ASX Small Ordinaries Accumulation Index	-2.05	0.31	3.55	6.03	4.22	-2.07	6.35
Active return ³	1.84	1.73	3.07	-1.60	9.12	9.19	7.13

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 13 September 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	88.05	80-100
Cash	11.95	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
AUB Group Ltd	4.82	0.00	4.82
Ebos Group Ltd	3.70	0.00	3.70
Credit Corp Group	4.15	0.57	3.58
Peet Ltd	3.34	0.00	3.34
Cleanaway Waste Management Ltd	4.44	1.41	3.03

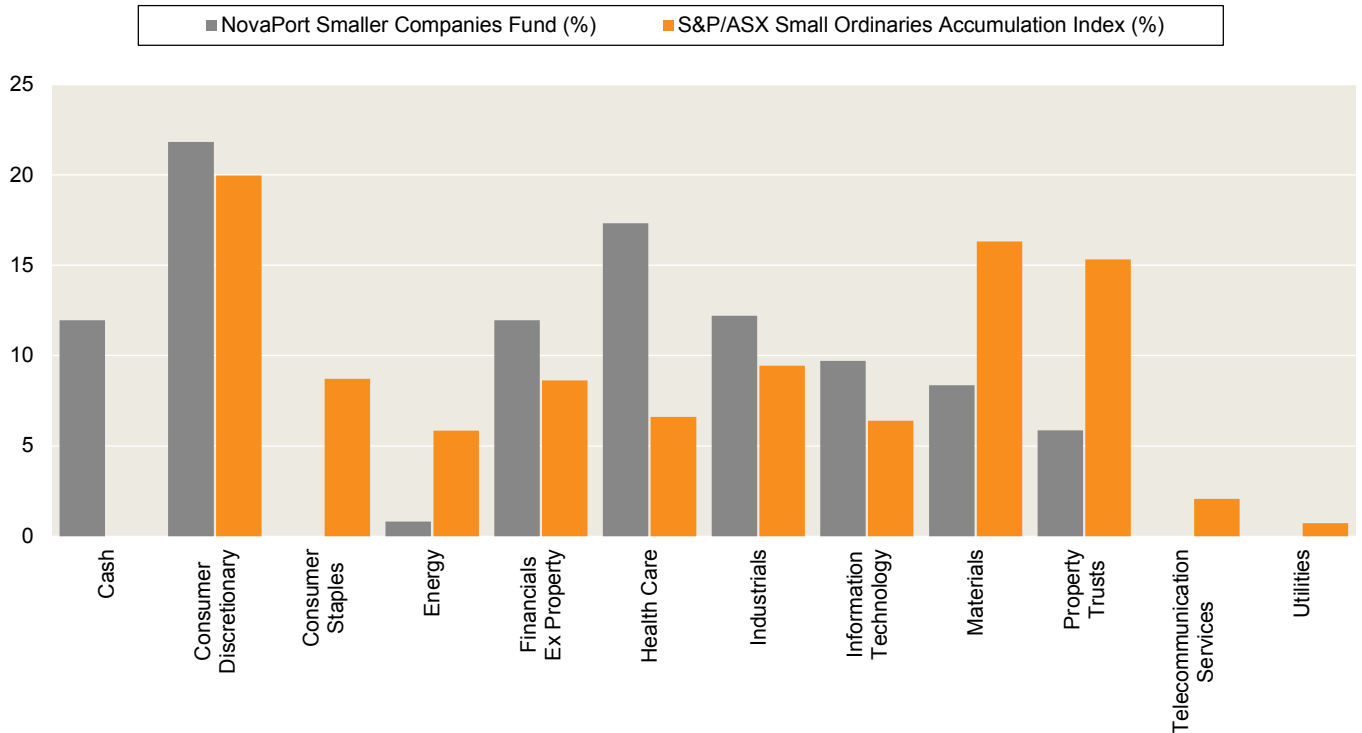
Fund facts

Inception date	13 September 2002
Fund size	\$19.6M
APIR code	HOW0017AU

Fees

Entry fee	Closed to new investments
2015-2016 ICR	2.00%
Management fee	2.00% p.a.
Performance fee	Nil
Buy/sell spread	+0.30% / -0.30%

Sector exposure



Market overview

The Small Ordinaries Accumulation Index declined 2.05% over May. The divergence in performance between resources companies and industrials was notable with miners up 1.63% and the latter down 2.84%.

The industrial segment was impacted by a number of earnings downgrades released by companies over the month. Downgrades at this time of the year are not unusual given financial year end profit can be estimated with more surety and companies are required to inform the market of any material divergence between likely earnings outcomes and consensus estimates. However, the impact this year has been exacerbated by two factors. First, while valuations are not overly stretched it could be argued the market is broadly trading at full value such that any short fall to expectations can have a meaningful impact to price. This is especially so in the case of highly coveted stocks trading on premiums. Second, while house price risk, high underemployment, low income growth, mortgage stress fears on any out of cycle rate rises and historically high household indebtedness did not suddenly emerge as issues in May, the combination of full valuations and earnings downgrades has seen these factors turn sentiment to a much more risk averse setting to the detriment of share prices. The retail sector in particular has borne the brunt of heightened risk aversion with the added issue of Amazon's arrival in Australia adding fuel to the fire.

Upcoming earnings and company update releases for the 30 June six month period will clarify a number of issues including most importantly outlook for next financial year. At this stage business confidence has held up notwithstanding current discussion centred on consumer vulnerability as a potential issue to tip the economy into a recession. To what extent this remains the case coming out of reporting season will be a key focus for investors.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -2.05% for May. The fund outperformed the market and delivered a -0.21% return over May.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
AUB Group Ltd	Financials Ex Property	4.82	0.53
Fisher & Paykel Healthcare Corporation Limited	Health Care	2.82	0.32
Sigma Pharmaceuticals Ltd	Health Care	-0.60	0.30



AUB Group Ltd

AUB Group's share price continued its positive momentum on continued commentary of the commencement of premium rate cycle tightening. Following an extended period of substantial premium rate reductions across its insurance product offering, AUB Group has now started to see "evidence of premium rate increases in certain areas and for certain risks...", signalling the commencement of a tightening rates cycle in the medium term.

Fisher & Paykel Healthcare Corporation Limited

Fisher and Paykel delivered a strong earnings report. The company continues to generate strong double digit sales growth from new business initiatives. The product pipeline remains charged with hardware and consumables generating positive early interest.

Sigma Pharmaceuticals Ltd

Not held in the portfolio.

Key detractors

Security name	Sector	Active weight %	Value added %
Super Retail Group Limited	Consumer Discretionary	2.19	-0.45
Nanosonic Limited	Health Care	1.87	-0.16
Worleyparsons LTD	Energy	-1.51	-0.15

Super Retail Group Limited

Super Retail Group underperformed the market during May. Market sentiment towards retailers has weakened on expectations of elevated competition from online retailer (Amazon) as well as weaker consumer spending forecasts. The company has started to turn around performance from its outdoor leisure brands and continues to reinforce its competitive positioning via investment in supply chain, service delivery and customer experience.

Nanosonic Limited

Nanosonic's share price gave back some of its recent gains on concerns around weaker 2H17 numbers and regulatory uncertainty in the U.S.A. Despite a strong sales rate in 1H17, the company flagged that its numbers were positively impacted by GE restocking in the half which will not re-occur in the second half. Revenue will also likely be impacted in the short term by Nanosonics financing the roll-out of its Trophon unit in the UK, to be offset in the long-term by higher consumable charges. The recent change in U.S. health policy has potential to impact short-term roll-out as hospitals delay capex spend until increased clarity is provided. We do not see the short-term revenue volatility impacting our longer-term outlook for a strong recurring revenue at high margins.

Worleyparsons LTD

Not held in the portfolio.

For further information, please contact:

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