NovaPort Smaller Companies Fund

Monthly report - August 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)	-1.31	1.54	-2.04	3.27	11.72	7.44	13.36
Growth return	-1.31	0.38	-3.94	-2.12	6.91	2.15	4.20
Distribution	0.00	1.17	1.90	5.39	4.81	5.29	9.16
S&P/ASX Small Ordinaries Accumulation Index	2.71	5.12	3.20	5.67	5.72	-1.09	6.60
Active return[3]	-4.02	-3.57	-5.25	-2.40	6.00	8.54	6.76

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

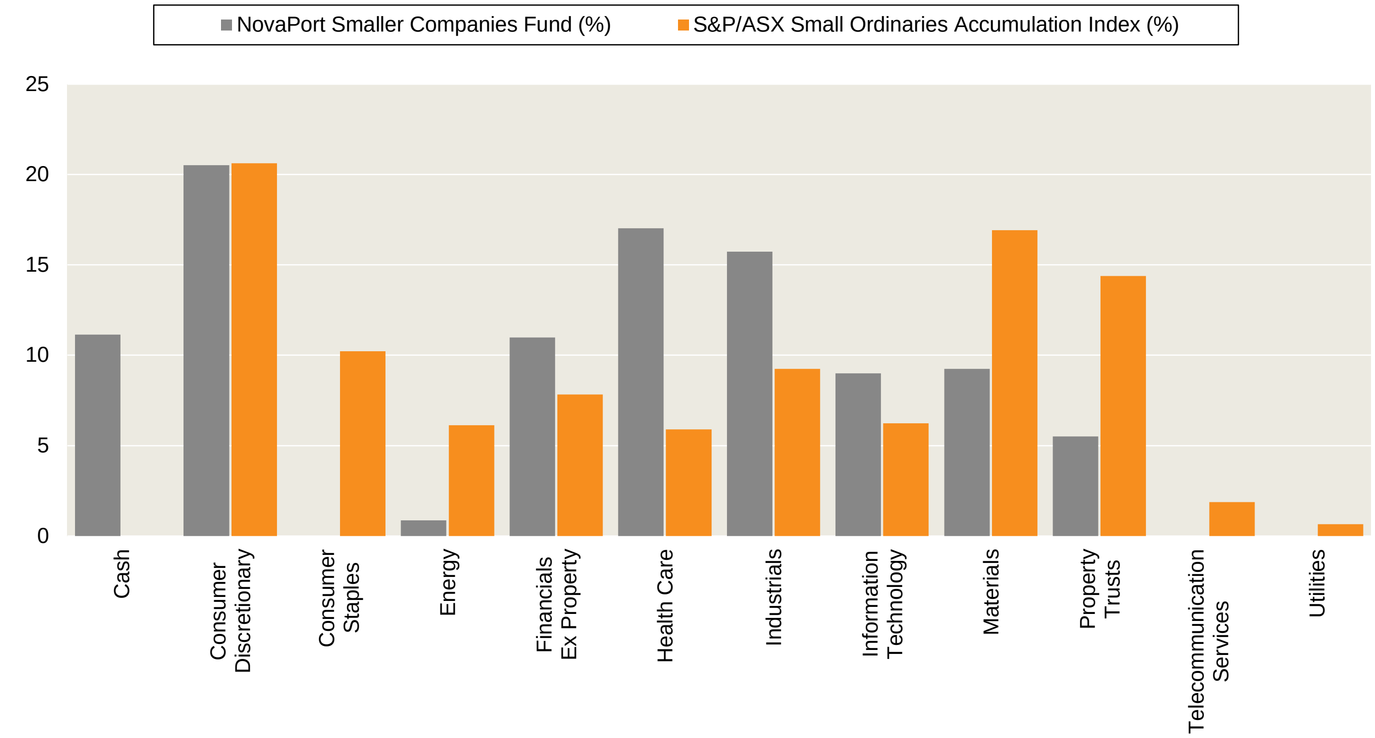
Asset allocation	Actual %	Range %
Security	88.87	80-100
Cash	11.13	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Programmed Maintenance Services Limited	4.52	0.48	4.04
AUB Group Ltd	4.02	0.00	4.02
Credit Corp Group	3.92	0.55	3.37
Ebos Group Ltd	3.29	0.00	3.29
Peet Ltd	3.15	0.00	3.15

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 performed strongly during August, rising 2.7% and substantially outperforming the large companies index. The month saw elevated news flows as most companies reported results for the 2017 financial year. Headline earnings results were generally lacklustre with more downgrades to forecasts than upgrades which contrasted with our more optimistic expectation prior to reporting season. In a number of cases we observed that downgrades were driven by higher expenses (thus weaker margins) than anticipated. These companies highlighted their need for increased expenditure to drive growth initiatives, which makes an interesting change following several years where caution and cost control have been dominant.

Small resources roared during the month, outperforming industrials by 5%. Increased optimism in the outlook for modest, synchronised global growth saw underlying commodity prices rebound and this move was accentuated by a weaker US dollar. Healthcare was the worst performing sector during the month, impacted by stock specific moves as well as persistent concerns surrounding sustainability of government funding growth. Retail and consumer names also underperformed as the market focussed on the currently topical issues of cost of living pressures and household indebtedness.

As the dust settles post reporting season we are looking for those opportunities where the market may have become overly excited or concerned about transient issues. We see the growing investment plans of companies as well as governments providing a solid foundation for growth in the near and medium terms.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +2.71% for August. The fund underperformed the market and delivered a -1.31% return over August.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Mayne Pharma Group Ltd	Health Care	-0.60	0.28
Western Areas Limited	Materials	2.76	0.27
Cleanaway Waste Management Ltd	Industrials	3.05	0.20

Mayne Pharma Group Ltd

Not held in the portfolio

Western Areas Limited

At their recent results Western Area's management again delivered strong operational performance on key metrics such as safety, operating costs and production volumes. From an oversold position the share price has recovered alongside improving commodity prices. Also encouraging is the gradual progress which continues to be made on growth initiatives.

Cleanaway Waste Management Ltd

Over the past two years, CWY management has done a remarkable job in resetting the company's cost base, structuring operations and returning the business to earnings and free cash flow growth. Investment in infrastructure, setting the business up for sustained returns over the long term, and recent contract wins are indications of the momentum in the business against relatively benign operating conditions. Cleanaway maintains a network of prized assets and licences across the country capable of generating a meaningful return over the medium term.

Key detractors

Security name	Sector	Active weight %	Value added %
iSelect Ltd	Consumer Discretionary	2.35	-0.53
HT&E Ltd	Consumer Discretionary	2.73	-0.50
Japara Healthcare Ltd	Health Care	1.90	-0.45

iSelect Ltd

While ISU reported an FY17 result that was in line with guidance it did not meet the markets lofty expectations which were at or above the top end of guidance resulting in a sell-off of the stock. That said, we believe the result reflected a reinvestment in long-term growth rather than a systemic weakness with the model.

We continue to see upside in iSelect across several areas: the likelihood of increased churn in the Telco space as NBN rollout intensifies; energy price inflation driving customer churn; the potential for an interest rate tightening cycle driving an increase in its fledgling home loan business; and its ability to add further verticals. While the growth in the Telco and Energy space is likely to be at lower margin than the traditional Health base of the business, iSelect's opening of a South African call centre and increased ability to process transactions online from end-to-end will allow revenue growth without significant margin disruption.

HT&E Ltd

At their AGM, HT&E highlighted that they expected sales from their radio networks for the first half to be weaker than the previous year, and this was evident at the recently reported result. Second half earnings comparisons are less challenging and the company has seen some improvement in ratings as well as invested in greater sales capability to turn this around.

Japara Healthcare Ltd

In an environment of tightening government funding across the aged care sector and underlying wage inflation the sector suffered a deterioration in sentiment during reporting season. That said, both of these trends have been well publicised and while they are not without merit the sector provides necessary services to a population with growing needs and rising standards, creating a policy tension between service delivery and funding efficiency.

For further information, please contact:

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