

NovaPort Smaller Companies Fund

Monthly report - January 2019

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)	6.13	2.31	-2.30	6.81	5.66	14.35	10.96	13.31
Growth return	6.13	0.02	-7.34	1.95	0.41	10.07	2.00	4.60
Distribution	0.00	2.29	5.05	4.86	5.25	4.28	8.96	8.71
S&P/ASX Small Ordinaries Accumulation Index	5.56	0.78	-3.06	11.31	7.37	7.97	5.66	7.12
Active return ³	0.56	1.53	0.76	-4.50	-1.71	6.38	5.30	6.18

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	89.63	80-100
Cash	10.37	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Credit Corp Group	4.53	0.59	3.93
AUB Group Ltd	3.75	0.00	3.75
Regis Healthcare Ltd	3.84	0.23	3.61
Worleyparsons LTD	3.54	0.00	3.54
Cleanaway Waste Management Ltd	3.47	0.00	3.47

Fund facts

Inception date	31 December 2002
Fund size	\$261.9M
APIR code	HOW0016AU

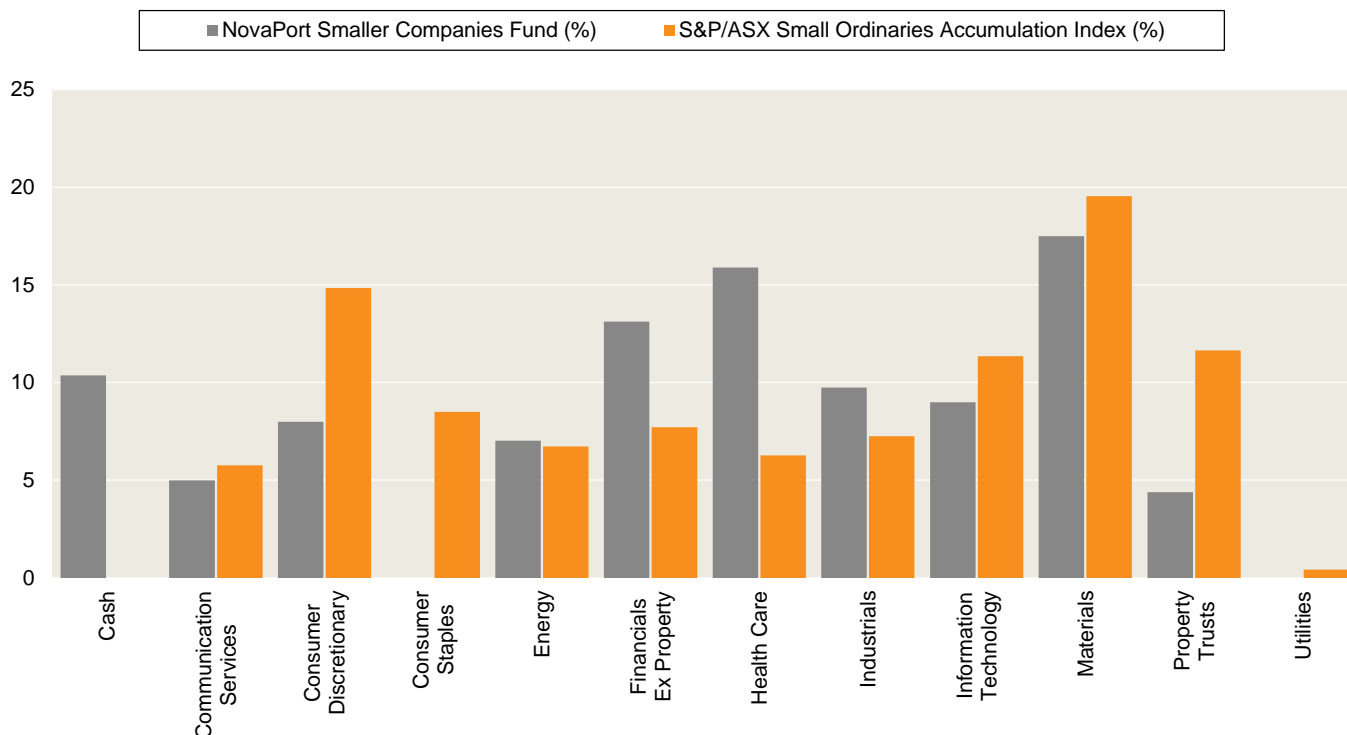
Fees

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%

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



Market overview

After four consecutive down months generating a cumulative 14% decline since August, the Small Ordinaries Index (Accumulation) bounced back in January with a 5.56% increase. Both industrials and the miners contributed materially up 4.85% and 8.13% respectively. The IT sector was the strongest performer up 13.5% followed closely by Energy stocks up 13.2%. Utilities and the consumer staples posted the weakest returns down 3.2% and 1.5% respectively.

Key events over January impacting the market were both local and global. The key driver from a global macro perspective was the US Federal Reserve's about face in guidance from last year's hawkish tone insisting balance sheet reduction or liquidity withdrawal from capital markets was on "auto pilot" to a very dovish stance in January that interest rate increases are on hold indefinitely. The "capitulation" was attributable to a range of factors including a slowing US economy as fiscal stimulus fades and the economic cycle matures, Brexit fears, a slower China and Europe and a potential trade war between the world's two largest economies. Market commentary that there is simply too much debt in the system to handle interest rates any higher than where they are now also came to the fore over January. With a renewed declaration of accommodative monetary policy it's no surprise equity markets rallied globally and also puts into context the strong performance of smaller companies locally. This is especially the case when you see top index drivers in January included highly priced technology stocks which, as long duration investments, tend to perform strongly in a declining or lower interest rate environment.

Locally, investors were preoccupied with news flow from the retail sector as a guide to the health of the broader economy. On that front the news flow was patchy varying from company to company but by enlarge negative from a sector perspective. Concerns are increasing regarding consumer confidence and willingness to spend in an environment of high consumer debt, negligible income growth and declining house prices. With a similar decline in business confidence there is a general sense investing locally will be with a back drop of a flat or weaker underlying economy compared to last year. What decides the outcome will largely depend on what has a bigger influence out of how far house prices fall from here, unemployment remaining low and wages finally starting to show some decent growth. In the meantime, a Federal election this half is unlikely to engender any certainty.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +5.56% for January. The fund outperformed the market and delivered a +6.13% return over January.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Worleyparsons LTD	Energy	3.54	0.51
Costa Group Holdings Ltd	Consumer Staples	-1.01	0.44
Credit Corp Group	Financials Ex Property	3.93	0.42



Worleyparsons LTD

Worleyparsons share price suffered following a significant capital raising associated with the Jacobs acquisition. The market has had some time to digest this capital raising which has seen the share price recover somewhat. The Jacobs acquisition provides the business with greater capability and diversity, in particular exposure to the large chemicals sector.

Costa Group Holdings Ltd

Not held by the fund.

Credit Corp Group

Credit Corp released its earnings, revealing continued strong performance in its Australian lending business and US debt collection business. The company is deploying profits generating from its Australian collections business into these areas where it sees scope for growth at attractive returns.

Key detractors

Security name	Sector	Active weight %	Value added %
Kathmandu Holdings Ltd	Consumer Discretionary	3.47	-0.76
AUB Group Ltd	Financials Ex Property	3.75	-0.43
Beach Energy Limited	Energy	-1.80	-0.40

Kathmandu Holdings Ltd

Kathmandu issued an earnings update in the first week of January highlighting a trading performance below expectations over Christmas. While foot traffic volumes were lower than expected, the company elected not to pull the pricing lever (ie, engage in heavy discounting to boost sales) instead preferring to maintain gross margins and importantly preserve brand equity. While the bottom line outcome was disappointing, we were pleased to see margins higher over the half.

AUB Group Ltd

AUB Group stock was sold off over January on concerns that the Financial Services Royal Commission report would bring into question the company's revenue from trail commissions. The final report was tabled on the 4th of February and these concerns were shown to be unfounded.

Beach Energy Limited

Not held by the fund.

For further information, please contact:

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