

NovaPort Smaller Companies Fund

Monthly report - February 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)	6.44	10.92	4.28	9.84	6.23	15.31	11.19	13.68
Growth return	6.44	8.44	-1.10	4.83	0.95	10.99	2.20	4.98
Distribution	0.00	2.48	5.38	5.01	5.28	4.32	8.98	8.70
S&P/ASX Small Ordinaries Accumulation Index	6.78	8.01	3.48	13.45	7.74	9.44	6.00	7.52
Active return ³	-0.33	2.92	0.80	-3.61	-1.51	5.87	5.19	6.15

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	90.41	80-100
Cash	9.59	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Cleanaway Waste Management Ltd	3.94	0.00	3.94
AUB Group Ltd	3.85	0.00	3.85
Regis Healthcare Ltd	4.02	0.23	3.79
Credit Corp Group	4.21	0.55	3.66
Worleyparsons LTD	3.59	0.00	3.59

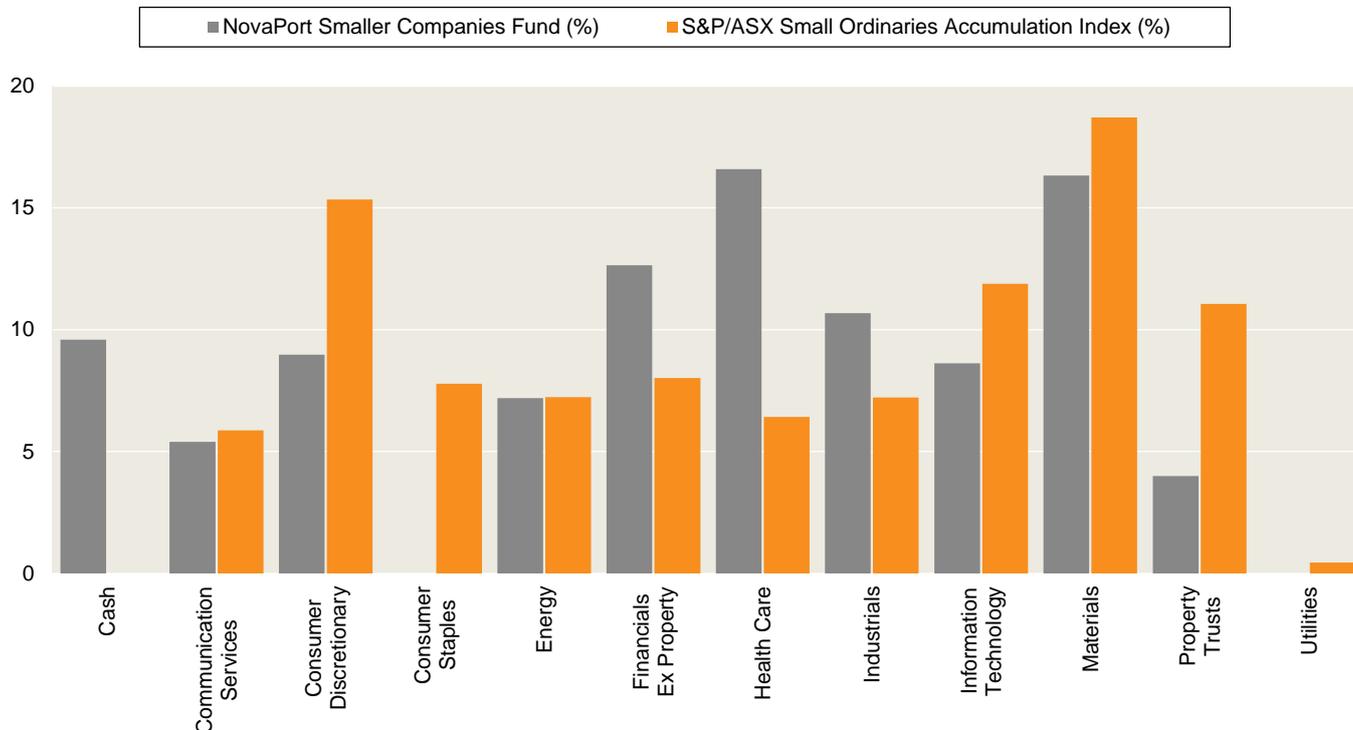
Fund facts	
Inception date	31 December 2002
Fund size	\$277.6M
APIR code	HOW0016AU

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

The Small Ordinaries Index (Accumulation) continued to rally during February, rising by 6.78% driven primarily by a strong resurgence in risk appetite globally and to a lesser extent by what was in aggregate a reasonable (but far from stellar) reporting season. The strongest sectors during the month were Energy, Consumer Discretionary and Information Technology, all rising in excess of 10% during the month. Consumer staples was the only sector to post a negative return in February while Materials also lagged benchmark with a modest, yet positive, return.

Economic data from Europe and China seems to support a more dovish tone on interest rates although robust growth data in the USA provides some resistance to this view. The market continued to celebrate the dovish U-turn of central banks globally as well as signs of a likely resolution to the trade standoff between the USA and China. The fact that the market appears to be so sensitive to statements (no actions required) suggests to us further bouts of volatility cannot be ruled out. Our investment process highlights the need to balance the upside potential of an investment relative to its downside risks and we see a greater abundance of attractive asymmetries in names with lower trailing momentum. This strategy has paid off during periods of volatility.

Reporting season revealed a patchy trading environment for businesses exposed to the domestic economy. Retailers highlighted a more cautious consumer mindset while companies exposed to residential construction warned of a period of weaker activity on the horizon. Technology companies delivered mixed results, some continuing to deliver in excess of market expectations while others barely met forecasts. The sector continues to enjoy lofty valuations and the market has even been willing to overlook negative earnings revisions in IT stocks. We do not believe exorbitant premiums are sustainable for stocks whose earnings forecasts are being lowered. This could create some turbulence for these companies at the next reporting season unless they resume positive earnings revisions.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +6.78% for February. The fund underperformed the market and delivered a +6.44% return over February.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Cleanaway Waste Management Ltd	Industrials	3.94	0.47
Nanosonic Limited	Health Care	2.97	0.46
Webjet Limited	Consumer Discretionary	2.23	0.44



Cleanaway Waste Management Ltd

Cleanaway's half year results exceeded consensus expectations. The yet to be realised synergies from its acquisition of TOX are likely to act as a tailwind for the stock. With the majority of its earning streams being resilient in a potentially uncertain economic environment, the company presents an attractive position in the cycle.

Nanosonic Limited

Nanosonics posted a strong first half 2019 result reflecting higher consumables sales generating a better gross margin and assisted by the timing of operating costs which are now expected to fall in second half. The transition of earnings mix to a more recurring nature as consumables increase underpins the growth trajectory for this company.

Webjet Limited

Webjet reported earnings in line with expectations. Earnings downgrades from UK travel operators had seen some scepticism that the company would be able to meet its guidance. The core Webjet brand in Australia continues to perform well and the wholesale hotel bookings businesses are delivering on the ambitious growth strategy.

Key detractors

Security name	Sector	Active weight %	Value added %
Saracen Mineral Holdings Ltd	Materials	1.85	-0.77
Peet Ltd	Property Trusts	2.32	-0.49
Altium Limited	Information Technology	-2.10	-0.43

Saracen Mineral Holdings Ltd

Saracen's recent results were weaker than market expectations. That said, on a longer term basis the company is reinvesting funds to generate organic production growth and corresponding cashflow.

Peet Ltd

Ongoing concern about the broader health of the Australian residential market has weighed on the Peet share price during the period. The company has demonstrated its ability to manage sales through the cycle and has de-risked the balance sheet to the point that the longer-term prospects remain strong.

Altium Limited

Not held by the fund.

For further information, please contact:

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