

NovaPort Smaller Companies Fund

Monthly report - October 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)	1.04	2.49	20.50	7.61	7.31	10.65	10.43	13.78
Growth return	1.04	2.40	14.54	3.45	1.92	6.50	1.45	5.23
Distribution	0.00	0.09	5.96	4.16	5.39	4.16	8.98	8.55
S&P/ASX Small Ordinaries Accumulation Index	-0.50	-1.84	14.41	10.39	9.62	4.62	5.07	7.60
Active return ³	1.54	4.33	6.09	-2.78	-2.31	6.03	5.36	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	89.71	80-100
Cash	10.29	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Credit Corp Group	5.19	0.85	4.34
Kathmandu Holdings Ltd	3.86	0.00	3.86
Regis Healthcare Ltd	3.87	0.22	3.66
AUB Group Ltd	3.90	0.46	3.44
Independence Group NL	4.94	1.51	3.43

Fund facts

Inception date	31 December 2002
Fund size	\$290.4M
APIR code	HOW0016AU

Fees

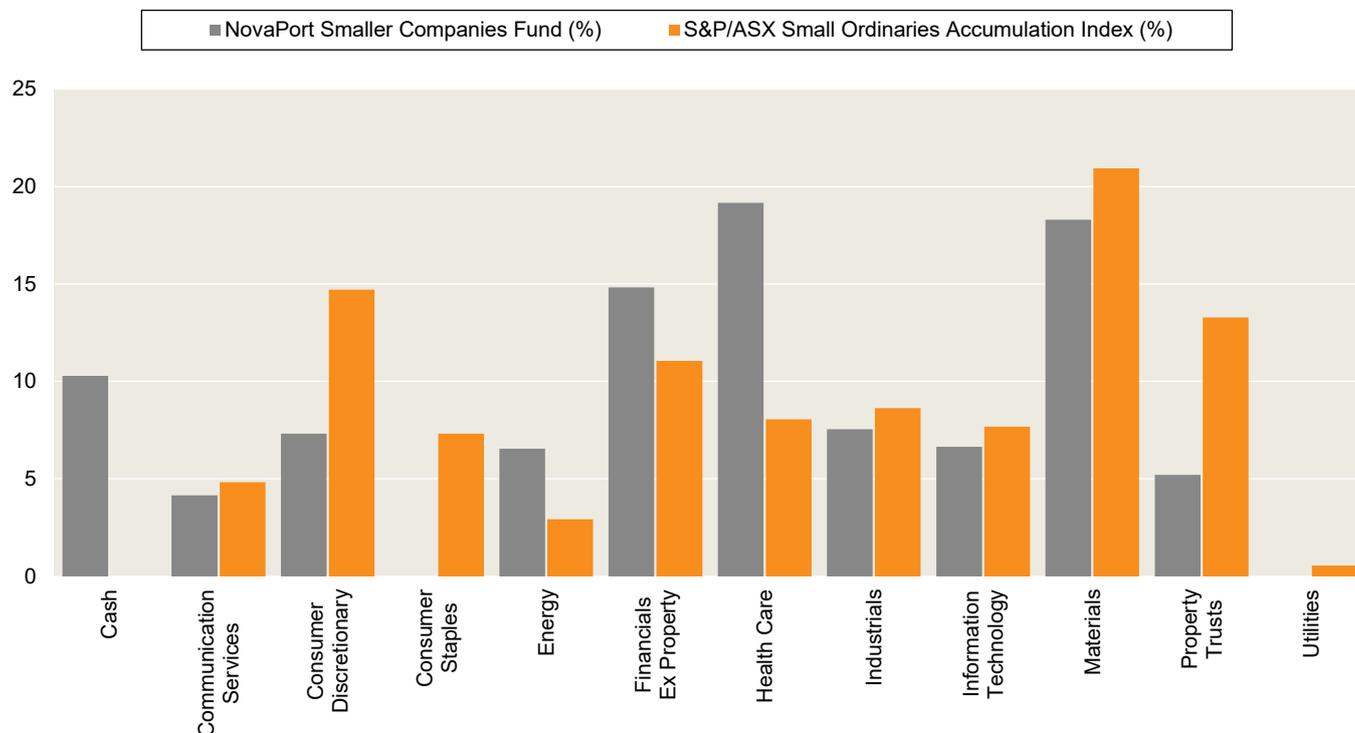
Entry fee	Nil
2017-2018 ICR	0.90%
Management fee ¹	0.90% p.a.
Performance fee ²	20% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Fund's Performance Benchmark (the daily return of the S&P/ASX Small Ordinaries Accumulation Index). The performance 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

Data source: Fidante Partners Limited, 31 October 2019.

Sector exposure



Data source: Fidante Partners Limited, 31 October 2019.

Market overview

The Small Ordinaries Index (Accumulation) finished down 0.50% for the month giving up some of the 3.11% gain achieved over the September quarter. Industrials and resources companies contributed almost equally to the overall decline down -0.51% and -0.49% respectively.

Market highlights over the month included interest rate cuts by the Reserve Bank of Australia (RBA) in early October and the US Federal Reserve at the end the month, both by 0.25%. Key macro events that have occupied investor's minds this year generally fell on the positive side of the ledger in October with some early noises of potential trade agreement between the US and China and no major Brexit accident in the lead up to the last day of the month.

In Australia, economic news flow has been mixed and this was reflected in annual general meeting updates provided by a range of companies over October. While house prices have stabilised and are showing some growth, some of the early signs of a recovery (flagged by companies over reporting season) underpinned by the election result, tax handouts and interest rate cuts seem to have dissipated. Companies like Southern Cross Media (radio and TV) and Nick Scali (furniture) both downgraded earnings expectations last month citing weaker consumer sentiment. As such, a key focus for the rest of the annual general meeting (AGM) season and the lead up to Christmas trading will be to what extent some of the upside from positive macro factors highlighted above is still to come or any upside has been overwhelmed by consumers spooked by the connotations of cutting interest rates to such low levels.

From a market perspective, much has been spoken about the rotation out of highly priced growth stocks to more cyclical or value-based exposures. However, to what extent that is a genuine cyclical rotation, or a temporary switch remains to be seen with movements in long term interest rates expected to play a key role.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -0.50% for October. The fund outperformed the market and delivered a +1.04% return over October.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Regis Healthcare Ltd	Health Care	3.66	0.39
Kathmandu Holdings Ltd	Consumer Discretionary	3.86	0.33
Estia Health Ltd	Health Care	2.83	0.25

Data source: Fidante Partners Limited, 31 October 2019.

Regis Healthcare Ltd

The aged care stocks saw an increased level of interest during the month as signs that the negative headwinds, while not necessarily abating in the short term, are unlikely to get significantly worse. The interim report from the Royal Commission into the sector was released at month end and is showing some sign posts to a more stable regulatory environment, albeit the exact path and timing will not be known until the release of the full findings in November 2020.



Kathmandu Holdings Ltd

Following on from the 35% share price rally over the September quarter, Kathmandu's share price edged higher again in October this time on the news the company had entered an agreement to acquire iconic Australian surf/summer apparel brand, Rip Curl. The transaction was well received given it is substantial in size and provides material diversification from what has historically been a huge reliance on cold weather conditions and relatively small sales windows to generate expected revenues.

Estia Health Ltd

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Key detractors

Security name	Sector	Active weight %	Value added %
Southern Cross Media Group	Communication Services	1.48	-0.74
Gold Road Resources Ltd	Materials	3.36	-0.31
HT&E Ltd	Communication Services	2.15	-0.25

Data source: Fidante Partners Limited, 31 October 2019.

Southern Cross Media Group

The share price fell materially in October on the release of a trading update which highlighted soft conditions for advertising spend given a still weak consumer despite some positive macro factors emerging recently (in particular the improvement in the housing market).

Gold Road Resources Ltd

Gold Road's Gruyere project attained commercial production at the end of September, a crucial milestone in derisking the project. That said, negative movements in the gold price weighed on the share price during the month.

HT&E Ltd

HT&E's share price fell due to reports of weak advertising sales performance for the media sector. The company is supported by a strong balance sheet, sound operational focus and continued ratings performance.

For further information, please contact:

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