

# NovaPort Smaller Companies Fund

## Monthly report - May 2020

Performance <sup>1</sup>	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	15 years % p.a	Inception % p.a <sup>2</sup>
Fund return (net)	7.41	-10.98	-4.61	2.87	2.93	8.91	9.58	12.40
Growth return	7.41	-11.41	-8.19	-1.18	-2.32	4.79	0.67	4.15
Distribution	0.00	0.43	3.58	4.05	5.24	4.12	8.91	8.25
S&P/ASX Small Ordinaries Accumulation Index	10.59	-1.91	-2.91	7.52	6.58	4.38	4.49	6.95
Active return <sup>3</sup>	-3.18	-9.07	-1.70	-4.65	-3.66	4.53	5.10	5.45

**Past performance is not a reliable indicator of future performance.**

<sup>1</sup> Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

<sup>2</sup> The inception date for the Fund is 31 December 2002

<sup>3</sup> 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	92.65	80-100
Cash	7.35	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Gold Road Resources Ltd	5.89	0.83	5.06
Ebos Group Ltd	3.95	0.00	3.95
AUB Group Ltd	4.12	0.53	3.59
Kathmandu Holdings Ltd	3.22	0.00	3.22
Independence Group NL	4.40	1.25	3.15

Fund facts	
Inception date	31 December 2002
Fund size	\$262.0M
APIR code	HOW0016AU

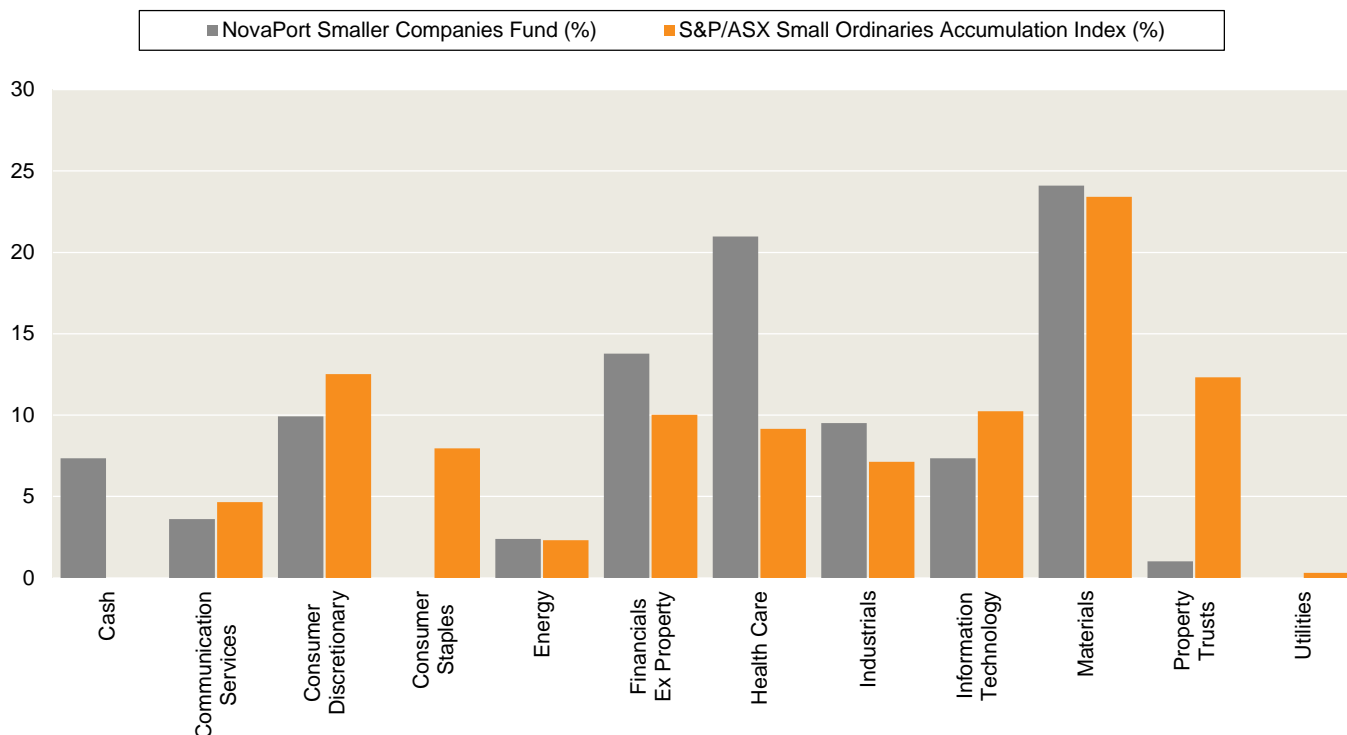
Fees	
Entry fee	Nil
2017-2018 ICR	0.90%
Management fee <sup>1</sup>	0.90% p.a.
Performance fee <sup>2</sup>	20% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Fund's Performance Benchmark (the daily return of the S&P/ASX Small Ordinaries Accumulation Index). The performance fee is capped at 2.00% p.a.
Buy/sell spread	+0.30% / -0.30%

**Data Source: Fidante Partners Limited, 31 May 2020.**

<sup>1</sup> 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.

<sup>2</sup> The performance fee was introduced from 1 October 2011

## Sector exposure



Data Source: Fidante Partners Limited, 31 May 2020.

## Market overview

Australian equities continued their sharp rebound in May against a backdrop of declining COVID-19 infections and an accelerated reopening of the economy. The ASX Small Ordinaries (Accumulation) Index rallied 10.6% last month following the 14.3% surge in April, with small companies outperforming large capitalisation stocks. Resources stocks gained 14.3% while industrials rose 9.6%. By sector, Materials, Financials, Consumer Discretionary, and Technology were strongest. Energy and Consumer Staples lagged. The robust performance comes despite confirmation that Australia is likely headed for its first recession in almost 30 years. Visibility for corporate earnings remains low, however customer activity is increasing rapidly from the lows sparked by government restrictions. April retail sales data was weak and planned private capital expenditures are being revised downwards, suggesting earnings headwinds for some businesses. Although there are pockets of strength within these data points such as home improvement spending and capital investment in the mining sector. Consumer and business confidence remain weak but are improving consistently as the economy returns to normal. The ongoing easing of restrictions and rebounding economic data provide a supportive backdrop for equities, but pressure on corporate earnings and the likely tapering of supportive fiscal and monetary policies are key risks in the months ahead.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +10.59% for May. The fund underperformed the market and delivered a +7.41% return over May.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Kathmandu Holdings Ltd	Consumer Discretionary	3.22	0.57
Southern Cross Media Group	Communication Services	1.17	0.44
Saracen Mineral Holdings Ltd	Materials	1.98	0.22

Data Source: Fidante Partners Limited, 31 May 2020.

### Kathmandu Holdings Ltd

A bolstered balance sheet post a capital raising as well as strong online sales growth and favourable signs regarding foot traffic levels as stores re-open has seen its share price climb from virus related lows in March.

### Southern Cross Media Group

Has received increased investor interest as a cyclical heavily leveraged to a recovery as the economy exits restricted conditions. Southern Cross' earnings are highly leveraged to the upside should declines in advertising spend over FY21 come in lower than recent expectations which assumed a longer lock down period.



## Saracen Mineral Holdings Ltd

While operational performance has been a positive price driver for many years, Saracen, like many gold miners has recently benefited from a very strong USD gold price over the same period the virus has created considerable uncertainty in other equities sectors.

## Key detractors

Security name	Sector	Active weight %	Value added %
Ebos Group Ltd	Health Care	3.95	-0.43
Healius Ltd	Health Care	2.08	-0.36
Cooper Energy Limited	Energy	2.04	-0.32

Data Source: Fidante Partners Limited, 31 May 2020.

## Ebos Group Ltd

EBOS' share price was resilient through the peak of the Coronavirus sell off during March. The company maintains a stable of pharmaceutical wholesaling and health logistics businesses which play essential roles in Australia and New Zealand's healthcare systems. The share price did not benefit from the broader market recover.

## Healius Ltd

Healius's share price did not rally in line with broader markets during May. The board of Healius rejected an opportunistic bid from private equity and we suspect this disappointed some shareholders. We see a basis for criticisms that company could have engaged more constructively with the potential buyer. However the dynamics underlying the company's healthcare businesses are appealing.

## Cooper Energy Limited

Cooper Energy's transformative Sole Gas Project is experiencing delays in commissioning associated with the APA operated gas plant. The company and its partners are continuing to work to optimise the gas production which has improved gradually over time.

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### For further information, please contact:

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