

# NovaPort Smaller Companies Fund

## Monthly report - May 2018

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)	0.26	0.68	9.04	4.97	9.04	9.12	13.77	14.13
Growth return	0.26	0.49	6.03	-0.77	4.41	4.65	4.78	5.34
Distribution	0.00	0.19	3.01	5.74	4.63	4.48	9.00	8.79
S&P/ASX Small Ordinaries Accumulation Index	3.70	4.11	25.40	11.53	9.69	1.26	7.78	7.95
Active return <sup>3</sup>	-3.44	-3.43	-16.36	-6.56	-0.65	7.86	5.99	6.18

**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	90.50	80-100
Cash	9.50	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
AUB Group Ltd	4.09	0.00	4.09
HT&E Ltd	4.03	0.33	3.70
Cleanaway Waste Management Ltd	3.65	0.00	3.65
Kathmandu Holdings Ltd	3.51	0.00	3.51
Ebos Group Ltd	3.20	0.00	3.20

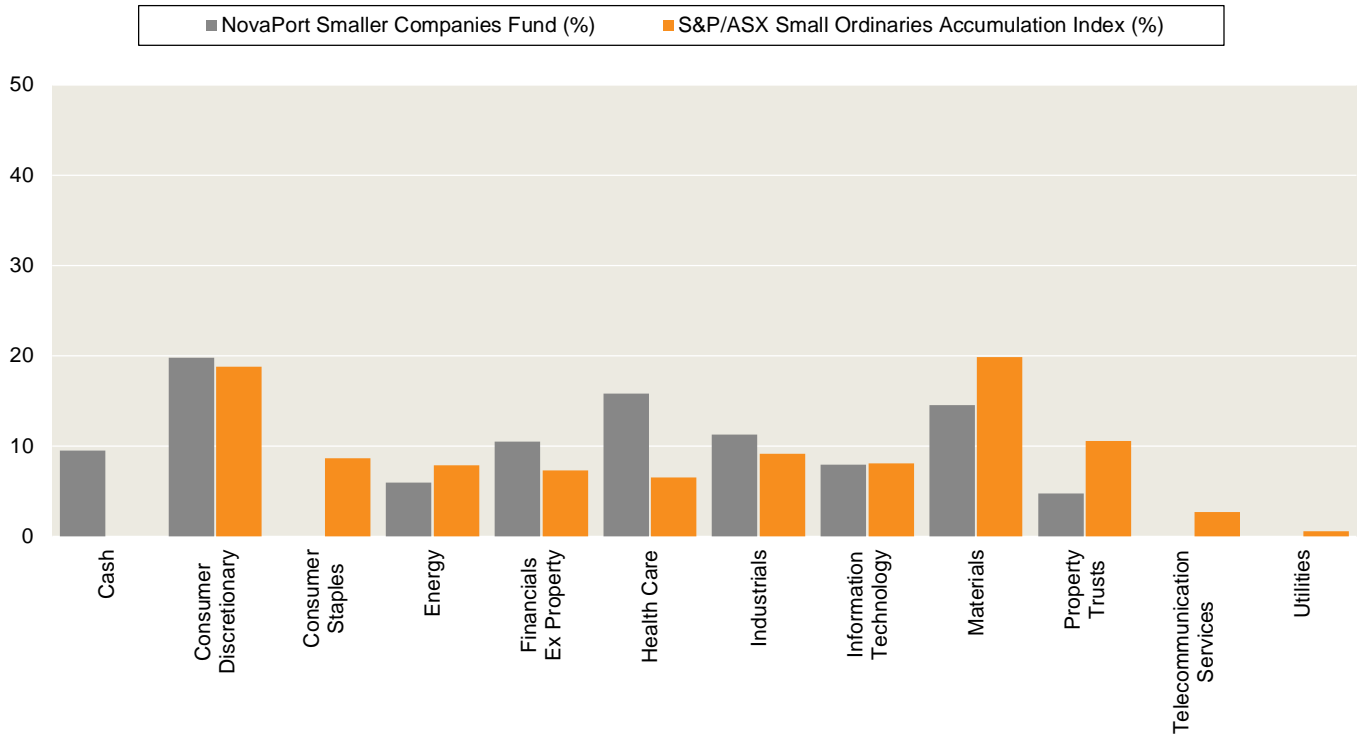
Fund facts	
Inception date	31 December 2002
Fund size	\$290.2M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2016-2017 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%

<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



## Market overview

The Small Ordinaries Index (Accumulation) posted its strongest month for the calendar year to date finishing up 3.7% over May. Industrials and resources stocks contributed equally to the performance with both sub indices up 3.84% and 3.26% respectively.

A key talking point for the final quarter of any financial year is the number of earnings downgrades (and upgrades) announcements by companies, as they gain enough clarity on expected earnings outcomes relative to guidance in the market. While the quarter to date has included a number of downgrades, as is always the case, there have been no particularly new insights regarding the underlying economy. Significant price movements by some larger index stocks impacting index performance were largely driven by stock specific wins and losses rather than broader macro issues.

While industry data continues to point to peak housing construction, infrastructure related spend and some business investment provides confidence that other sectors will take up some of the slack as residential building declines over time. Meanwhile, resource exports continue to gather strength as prior years investment in mining related construction activity begins to bear fruit. A key risk factor continues to be potential weakness in consumer spending now that the savings rate has declined to a level where a hit to confidence will likely see discretionary household expenditure curtailed.

The potential impact on the financial services sector as a result of any royal commission findings into the banking sector was widely discussed over May. With high levels of household indebtedness largely underpinned by bullish house price expectations, any newly introduced limits on lending could dampen broader economic activity and as a result put a dent in what financial year to date has been a solid performance across the domestic economy.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +3.70% for May. The Fund underperformed the market and delivered a +0.26% return over May.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Metcash LTD	Consumer Staples	-1.51	0.44
Super Retail Group Limited	Consumer Discretionary	2.49	0.29
Saracen Mineral Holdings Ltd	Materials	2.43	0.22

### Metcash LTD

Not held by the fund.



## Super Retail Group Limited

Super Retail Group's share price recovered from an oversold position. The company has undertaken a substantial restructuring of its leisure business, closing down stores and rationalising brands. It has also invested in its online retailing capability with redevelopment of its online platform as well as physical retail footprint.

## Saracen Mineral Holdings Ltd

Despite gold price weakness over the last two months Saracen Minerals has continued to perform largely on the back of positive news flow regarding organic expansion prospects for the company as well as generally well received quarterly production updates relative to guidance.

## Key detractors

Security name	Sector	Active weight %	Value added %
Kathmandu Holdings Ltd	Consumer Discretionary	3.51	-0.46
Technology One Limited	Information Technology	2.35	-0.43
Reliance Worldwide Corp Ltd	Industrials	-2.20	-0.42

## Kathmandu Holdings Ltd

Kathmandu's share price weakened over May in the absence of any news flow. Recent updates have been very positive and the announcement in late March to acquire a US retailer was well received. We note weather across the eastern seaboard has been unusually mild (until more recently) which is always a factor to consider for Kathmandu as an outdoor adventure apparel retailer with a speciality in winter clothing.

## Technology One Limited

Released an interim result slightly below expectations which for a high multiple technology stock resulted in a 13% decline in share price over the month. While disappointing, there were no issues raised which concerned us regarding the company's long term prospects, which we view favourably based on the quality of its product offering and capacity to benefit from cloud adoption across its client base.

## Reliance Worldwide Corp Ltd

Not held by the fund.

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### For further information, please contact:

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