

NovaPort Smaller Companies Fund

Monthly report - August 2018

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)	3.09	5.61	13.09	9.78	8.23	10.33	12.82	14.28
Growth return	3.09	2.78	8.45	5.14	3.07	6.23	3.85	5.43
Distribution	0.00	2.83	4.64	4.63	5.16	4.10	8.98	8.85
S&P/ASX Small Ordinaries Accumulation Index	2.49	2.53	22.32	16.89	9.18	3.12	6.91	7.99
Active return ³	0.59	3.08	-9.23	-7.12	-0.95	7.21	5.92	6.30

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	90.94	80-100
Cash	9.06	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Kathmandu Holdings Ltd	4.31	0.00	4.31
HT&E Ltd	4.58	0.40	4.18
AUB Group Ltd	4.04	0.00	4.04
Cleanaway Waste Management Ltd	3.70	0.00	3.70
Credit Corp Group	4.22	0.57	3.65

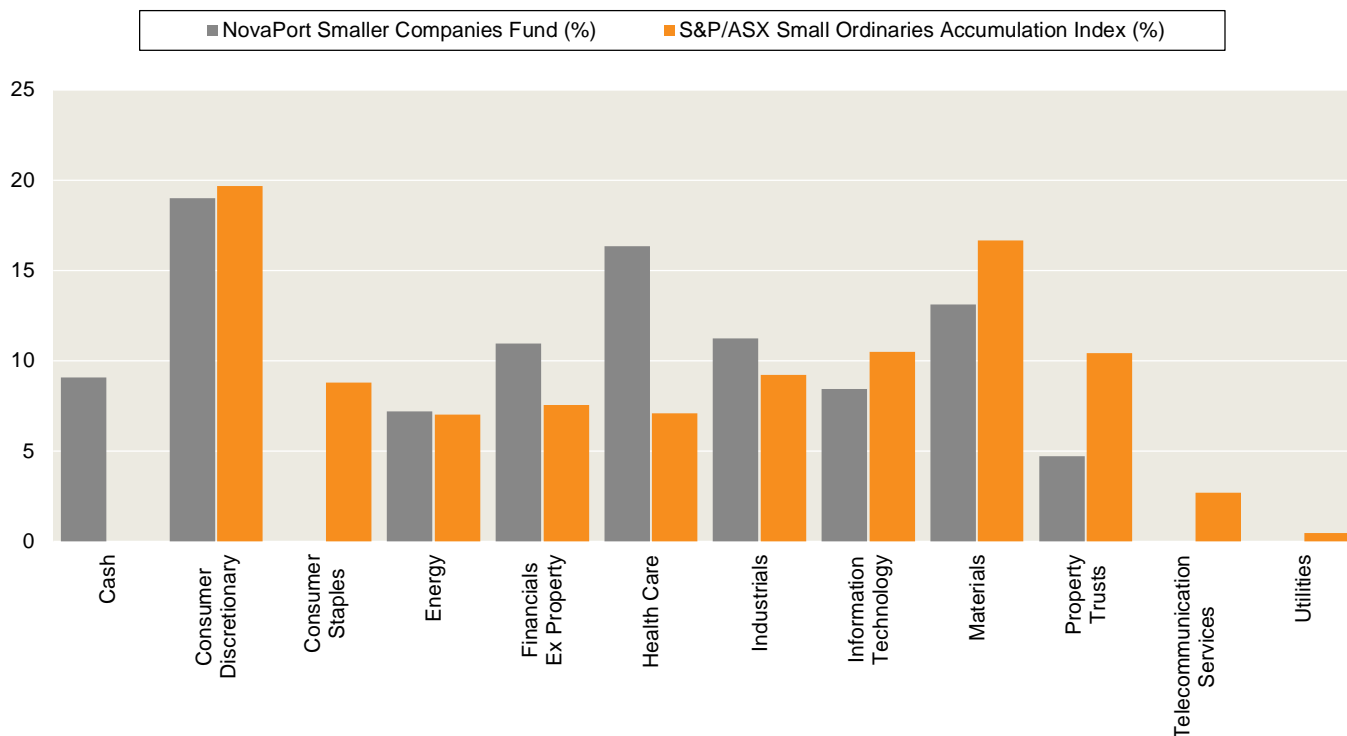
Fund facts	
Inception date	31 December 2002
Fund size	\$298.0M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2016-2017 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 rallied strongly during August, up 2.49% over the month. Industrials substantially outperformed resources and the standout sector was Information Technology, which rallied a spectacular 17% during the month.

Most companies reported their FY18 accounts during August, generating substantial news flow for markets to digest (and trade). As is normally the case most companies had provided updates to the market prior to the results and so there were few surprises in the numbers themselves. Despite this the market delivered some large share price moves during the month. As previously highlighted, the Information Technology sector enjoyed a spectacular reporting season and several (sizeable) companies benefited from share price gains greater than 30% during August alone.

The key surprise of the reporting season was the magnitude of share price moves disproportionate to earnings performance and FY19 guidance revisions. Some of the strongest performing IT companies posted share price gains despite negative revisions to earnings and guidance. It is unclear what drove the IT sector to rally during August, perhaps it was driven by short covering, or by top down allocation decisions of large institutions. What is clear is that the rally was not driven by meaningful outperformance of expectations. The sustainability of a substantial share price rally for companies which only just met (or failed to meet) expectations is questionable.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +2.49% for August. The fund outperformed the market and delivered a +3.09% return over August.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
HT&E Ltd	Consumer Discretionary	4.18	0.67
Webjet Limited	Consumer Discretionary	2.48	0.54
Credit Corp Group	Financials Ex Property	3.65	0.33

HT&E Ltd

HT&E Ltd reported a robust half year result from both its radio and outdoor businesses. In particular the company was able to generate revenue growth from accounts advised by advertising agencies. The small Hong Kong outdoor advertising division also showed signs of recovering having made losses in recent years. With ACCC approval for the sale of its outdoor advertising business to oOh! Media the company will have a simplified business and capacity for significant capital returns to shareholders.



Webjet Limited

Webjet released its accounts for FY2018 in late August, revealing earnings ahead of what the market had expected. While acquisitions have delivered an expected step change to earnings, the company also continues to drive pleasing growth from its eponymous online travel agency business. Future earnings potential is expected to arise as the B2B (wholesale hotel bookings) business matures.

Credit Corp Group

Credit Corp's share price continued to rally after delivering its (well received) earnings results. While earnings and guidance did not provide any surprise to the market the company did provide an encouraging update on the prospects for growth in the medium term. Management highlighted continued opportunities for growth from its US Collection business as well as lending in Australia.

Key detractors

Security name	Sector	Active weight %	Value added %
Western Areas Limited	Materials	2.22	-0.61
ARQ Group Ltd	Information Technology	0.64	-0.48
Altium Limited	Information Technology	-1.64	-0.43

Western Areas Limited

Weaker nickel prices and rising costs have weighed on near term earnings prospects for Western Areas and the share price has fallen. Mining costs are expected to rise as 1) the company increases mine development activity in the coming year and 2) cost inflation re-emerges in line with heightened activity levels in the mining sector. Nickel prices have weakened in response to a stronger US Dollar and global trade tensions.

ARQ Group Ltd

Despite delivering a strong result, ARQ reduced its earnings guidance resulting in share price weakness. The company experienced a decline in sales at its digital marketing agency and the unexpected cancellation of a major contract held by its small business division. While questions about management execution are valid, on a positive note underlying demand for the company's internet and solutions services remains strong.

Altium Limited

Not held by the fund.

For further information, please contact:

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