

# NovaPort Wholesale Microcap Fund

## Quarterly report - March 2017

Performance <sup>1</sup>	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	Inception % p.a <sup>2</sup>
Fund return (net)	0.35	-0.02	20.76	8.65	11.03	5.81	10.24
Growth return	0.35	-0.02	19.02	7.36	10.01	2.40	5.53
Distribution	0.00	0.00	1.74	1.29	1.03	3.41	4.71
S&P/ASX Small Ordinaries Accumulation Index	2.66	1.46	13.67	6.44	2.28	-0.83	3.34
Active return <sup>3</sup>	-2.31	-1.48	7.09	2.21	8.75	6.64	6.90

**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 22 March 2005

<sup>3</sup> Numbers may not add due to rounding

### Investment objective

The Fund aims to outperform its benchmark over rolling seven-year periods through the investment in a diversified portfolio of micro-cap Australian companies.

### 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 seven years

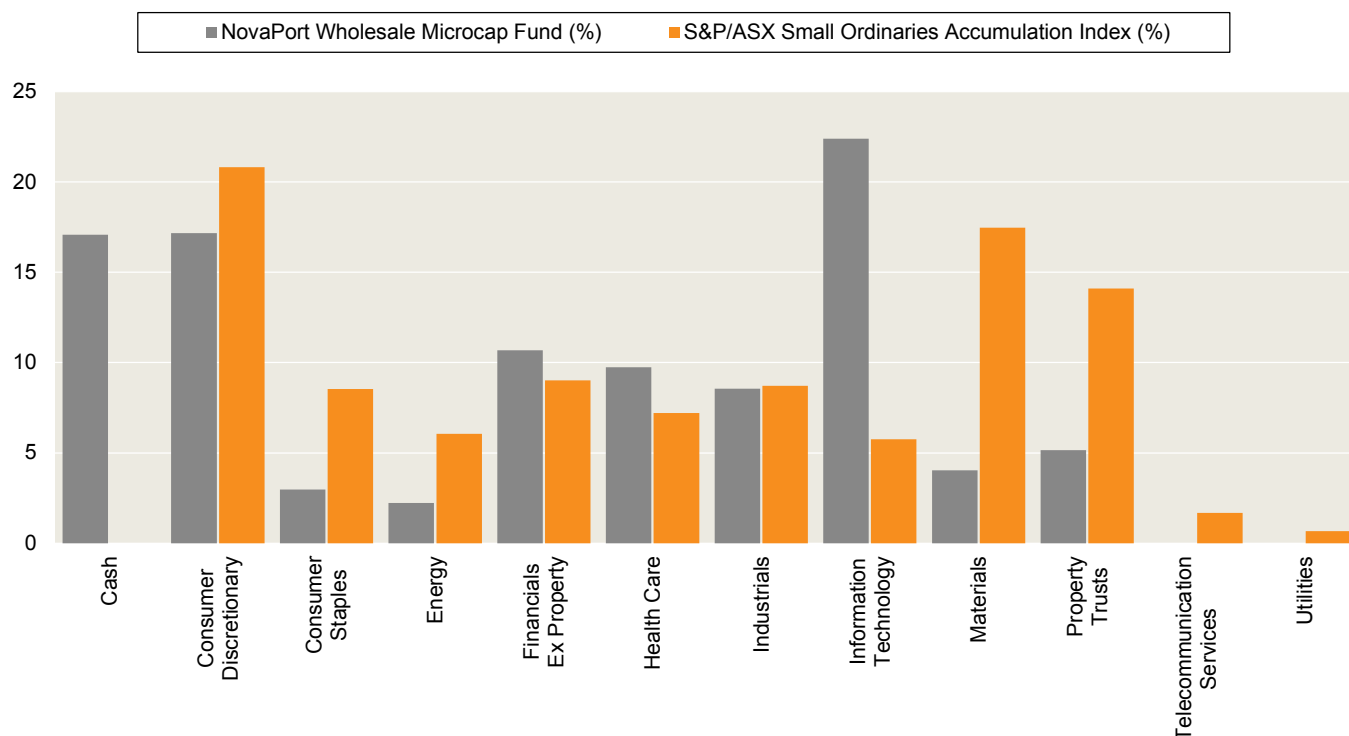
Asset allocation	Actual %	Range %
Security	82.92	60-100
Cash	17.08	0-40

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Fiducian Group Ltd	5.66	0.00	5.66
Data No.3 Limited	4.29	0.00	4.29
Codan Limited	3.92	0.00	3.92
Skydive the Beach Group Ltd	3.81	0.00	3.81
Somnomed Limited	3.79	0.00	3.79

Fund facts	
Inception date	22 March 2005
Fund size	\$49.9M
APIR code	HOW0027AU

Fees	
Entry fee	Nil
2014-2015 ICR	2.26%
Management fee	1.50%
Performance fee	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).
Buy/sell spread	+0.30% / -0.30%

## Sector exposure



## Market overview

The Small Ordinaries Index recovered some of its decline over the final three months of 2016 to record a 1.43% gain for the March quarter. The increase was driven by the industrials sector which finished up 1.97% while the miners declined 1.7%, although it's worth noting this weaker resources performance followed a very strong 59.47% return over calendar 2016. In fact, last year was the best annual performance for the miners since 2009.

The key events for the quarter included the inauguration of Donald Trump' as 45th president, increasing acknowledgement globally that US interest rates are recommencing their upward trajectory after last year's hiatus and earnings reporting season for the December half.

Earnings reports generally validated the view the Australian economy is performing relatively well with housing construction solid while the resources sector continues to come down from what were exceptionally strong mining related construction levels over previous years. Importantly, earnings revisions were neutral to positive with enough evidence to suggest we are now at the bottom of the earnings cycle and excluding any unforeseen (probably global) events are likely to see profits underpinned over the medium term by lower interest rates, substantial infrastructure plans for the east coast and stabilising commodity prices. While generally positive, political uncertainty and elevated household debt are current risk factors that should be considered as well as the geopolitical landscape as the Trump administration navigates its first year.

The significant derating of high multiple stocks which impacted the market over the December half last year petered to a certain extent over the March quarter notwithstanding some further de-rate on stocks that missed expectations or offered relatively subdued guidance rendering a premium multiple unsustainable.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +1.46% for the quarter. The fund underperformed the market and delivered a -0.02% return over the quarter.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
NZME Ltd	Consumer Discretionary	3.57	1.26
Fiducian Group Ltd	Financials Ex Property	5.66	0.69
GR Engineering Services Ltd	Materials	2.73	0.47

### NZME Ltd

News flow regarding the proposed merger between NZME and Fairfax New Zealand continues to drive the share price with the New Zealand Commerce Commission now expected to hand down its final decision in early May. The company received a boost in late February with the announcement by Southern Cross Media confirming its interest in NZME's radio assets.



## Fiducian Group Ltd

Fiducian's share price continued its strong growth trajectory on the back of its quality management team's delivery of growth at its recent results release. We are attracted by FID's proven financial advice model, independent position in a rapidly changing industry landscape, inorganic growth potential and a business model that is agnostic across the wealth management value chain.

## GR Engineering Services Ltd

GR Engineering's first half result was generally in line with expectations and justified the market's high regard for management. Strong profitability, balance sheet conservatism and positive outlook for earnings over the medium term (based on recent wins and tendering opportunities) augur well for the longer term.

## Key detractors

Security name	Sector	Active weight %	Value added %
Gage Roads Brewing Co	Consumer Staples	2.97	-0.87
Somnomed Limited	Health Care	3.79	-0.76
Orotongroup Limited	Consumer Discretionary	1.90	-0.68

## Gage Roads Brewing Co

While Gage Roads posted a solid interim result the share price weakened over the March quarter although we note its price doubled in just three months to January following a company restructuring that enables the company to transition from predominantly third party contract brewer to higher margin boutique manufacturer of its own brand.

## Somnomed Limited

Reported a very strong interim result with double digit growth in group revenues and nearly 60% increase in earnings before depreciation and tax. The company also released positive guidance for the current six month period. While the stock has weakened recently we note its share price appreciated by nearly 50% between April and the end of 2016 suggesting some profit taking over the March quarter.

## Orotongroup Limited

Oroton's strategy to reduce discounting to support margins is a positive for the longer term but in the meantime the adverse impact on sales growth is impacting earnings and affecting investor sentiment. Unfavourable exchange rate conditions have also impacted margins in the short term. Longer term the company should benefit on better ranged product as well as watch and jewellery categories which have been reintroduced to stores.

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### For further information, please contact:

**Fidante Partners Investor Services** | 13 51 53 | email: [info@fidante.com.au](mailto:info@fidante.com.au) | website: [www.fidante.com.au](http://www.fidante.com.au)

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