

# NovaPort Wholesale Smaller Companies Fund

## Monthly report - August 2015

| Performance #                               | 1 month % | Quarter % | 1 year % | 3 years % p.a. | 5 years % p.a. | 10 years % p.a. | Inception % p.a. |
|---|-----------|-----------|----------|----------------|----------------|-----------------|------------------|
| Fund return                                 | -3.03     | -7.64     | -3.39    | 14.66          | 13.66          | 11.07           | 15.38            |
| Growth return                               | -3.03     | -13.61    | -10.75   | 9.57           | 9.49           | 0.76            | 5.50             |
| Distribution return                         | -         | 5.97      | 7.37     | 5.09           | 4.17           | 10.31           | 9.88             |
| S&P/ASX Small Ordinaries Accumulation Index | -4.87     | -10.89    | -9.62    | 0.38           | -0.72          | 0.88            | 5.98             |
| Active return <sup>^</sup>                  | 1.84      | 3.26      | 6.23     | 14.29          | 14.38          | 10.19           | 9.40             |

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

# Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

<sup>^</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 | As at 31 August 2015 (%) | Range (%) |
|------------------|--------------------------|-----------|
| Security         | 84.81                    | 80-100    |
| Cash             | 15.19                    | 0-20      |

| Top 5 active positions as at 31 August 2015    | Fund weight (%) | Index weight (%) | Active weight (%) |
|--|-----------------|------------------|-------------------|
| Fisher & Paykel Healthcare Corporation Limited | 4.59            | 0.49             | 4.10              |
| SAI Global Limited                             | 4.24            | 0.86             | 3.38              |
| Village Roadshow Limited                       | 3.85            | 0.52             | 3.33              |
| Japara Healthcare Ltd                          | 3.85            | 0.61             | 3.24              |
| Peet Ltd                                       | 3.09            | 0.00             | 3.09              |

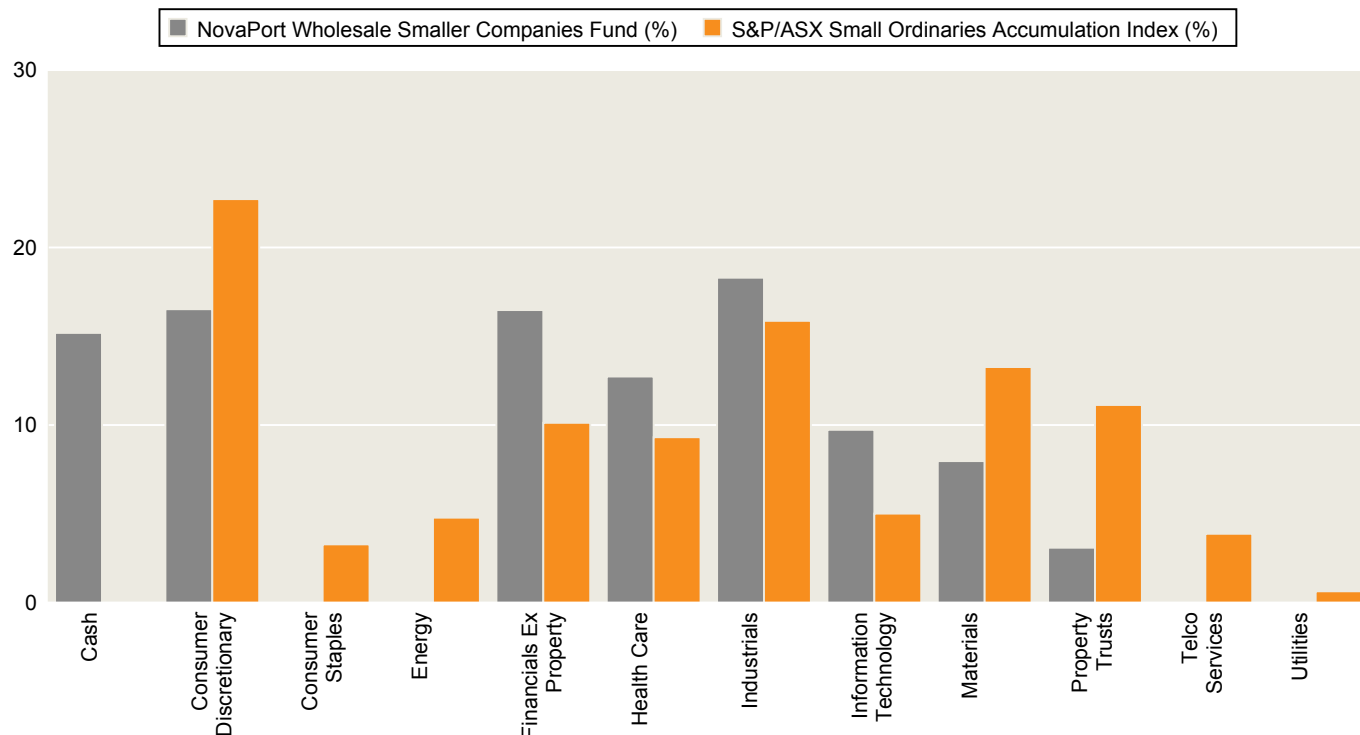
| Fund facts     |                  |
|----------------|------------------|
| Inception date | 31 December 2002 |
| Fund size      | \$181.5M         |
| APIR code      | HOW0016AU        |

| Fees                         |   |
|------------------------------|---|
| Entry fee                    | Nil   |
| 2013-2014 ICR                | 2.59%   |
| Management fee*              | 0.90% p.a.  |
| Performance fee <sup>^</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%   |

\* 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>^</sup> The performance fee was introduced from 1 October 2011

## Sector exposure as at 31 August 2015



### Market overview

Following a rebound in July, the Small Ordinaries Accumulation Index posted a negative month, down 4.87%. This is the worst performance for the index since September last year and now sees the smaller companies sector down 1.46% for the calendar year to date. As has been the case for a long time now, the small miners were the primary drag on the index down 8.32% in August which follows declines of 11.25% and 9% over the months of June and July respectively. Meanwhile, while the monthly moves are not as big, the smaller industrials sector continues its trend of monthly volatility with non-miners down 4.27%

The two key events over August included earnings reports for the six months to June for Australian listed companies as well as significant market volatility as the China stock market collapsed by nearly 27% over just 10 days during August. The US and local share market mirrored this mini collapse to varying degrees.

While the stock market experienced material intra month volatility over reporting season, earnings results posted by smaller companies were on the whole in line with expectations and certainly better than those reported over recent years. Forecasts for the remainder of the current financial year have been lowered. However, the downgrades were not significant and these adjustments followed a relatively benign “confession” season in the lead up to August with the number of companies downgrading prior to reporting season and the degree of downgrades a lot lower than previous years. This would suggest that while upgrades across the board are not imminent, we appear to be moving along the bottom of the earnings cycle.

As expected, while there has been some respite to revenues due to a weaker currency, the miners and mining services companies continue to struggle with lower commodity prices, a potentially weaker than expected China economy and a subdued demand outlook globally. In contrast to the resources sector results from industrials companies highlighted a relatively stable operating environment with some segments showing solid demand. Housing related exposures and some parts of the consumer discretionary sector were highlights as well as some business services companies with the outlook for IT spend probably better than expected prior to reporting season.

### Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -4.87% for August. The fund outperformed the market and delivered a -3.03% return over August.



## Performance of key securities

### Key contributors

| Security name            | Sector                 | Active weight % | Value added % |
|--------------------------|------------------------|-----------------|---------------|
| Servcorp Limited         | Financials Ex Property | 2.76            | 0.41          |
| Village Roadshow Limited | Consumer Discretionary | 3.33            | 0.41          |
| Sirtex Medical Limited   | Health Care            | 2.53            | 0.40          |

#### Servcorp Limited

Servcorp delivered a robust earnings result for FY15. More importantly it highlighted good early success at its new floors in New York and London. The company has carried losses from its US business for a number of years and now appears to be turning this around to a positive contribution.

#### Village Roadshow Limited

While wet weather adversely impacted theme park related earnings on the Gold Coast, very popular film product over the year (including American Sniper and Mad Max Fury Road) saw the cinema exhibition contribute strongly to the group result. In addition, management commentary accompanying the result release pointed to an expected material improvement in theme park earnings as well as another good year ahead for cinema.

#### Sirtex Medical Limited

Following a volatile period in the aftermath of the release of its clinical trial results, Sirtex delivered a robust earnings result which highlighted the strong profitability of its SIR-spheres business. Higher sales volumes resulted in stronger margins, which were also benefited by a weaker AUD.

### Key detractors

| Security name                         | Sector                 | Active weight % | Value added % |
|---------------------------------------|------------------------|-----------------|---------------|
| APN News & Media Limited              | Consumer Discretionary | 2.11            | -0.67         |
| Cash Converters International Limited | Consumer Discretionary | 0.60            | -0.40         |
| CSR Limited                           | Industrials            | 2.42            | -0.34         |

#### APN News & Media Limited

APN reported marginally weaker than expected results, held back by its New Zealand and Hong Kong operations. The radio business accounts for the lion's share of earnings and continues to perform well. The company's print businesses are investing in digital platforms to deliver content to audiences in ways which offer greater advertising revenue opportunities. We believe a successful outcome in this would exceed market expectations.

#### Cash Converters International Limited

The company released a disappointing result in August with the UK posting losses significantly higher than last year as well as a disappointing performance from its local car financing business, Carboodle. These operational issues add to uncertainty with Westpac recently announcing a decision to exit the sector thereby removing an important source of funding and the industry again under review adding risk of amendments to legislation that may further impact the company's profitability in the short term.

#### CSR Limited

The majority of CSR's businesses are benefiting from strong housing construction activity. However the group's share in an Aluminium Smelter exposes it to weaker Aluminium prices. The share price and earnings estimates have reduced as the market factors in falling earnings from this division.

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