

NovaPort Wholesale Smaller Companies Fund

Monthly report - August 2016

Performance #	1 month %	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Inception % p.a.
Fund return	5.21	10.81	18.12	9.85	14.81	12.20	15.57
Growth return	5.21	5.88	11.26	3.65	9.72	4.40	5.91
Distribution return	-	4.94	6.86	6.21	5.09	7.80	9.66
S&P/ASX Small Ordinaries Accumulation Index	-1.56	5.47	26.55	7.12	2.62	1.45	7.36
Active return [^]	6.77	5.35	-8.43	2.74	12.19	10.75	8.21

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.

[^] 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 2016 (%)	Range (%)
Security	92.76	80-100
Cash	7.24	0-20

Top 5 active positions as at 31 August 2016	Fund weight (%)	Index weight (%)	Active weight (%)
Credit Corp Group	5.11	0.54	4.57
Ebos Group Ltd	4.52	0.00	4.52
AUB Group Ltd	3.80	0.00	3.80
GWA Group Ltd	4.05	0.56	3.49
Servcorp Limited	3.38	0.00	3.38

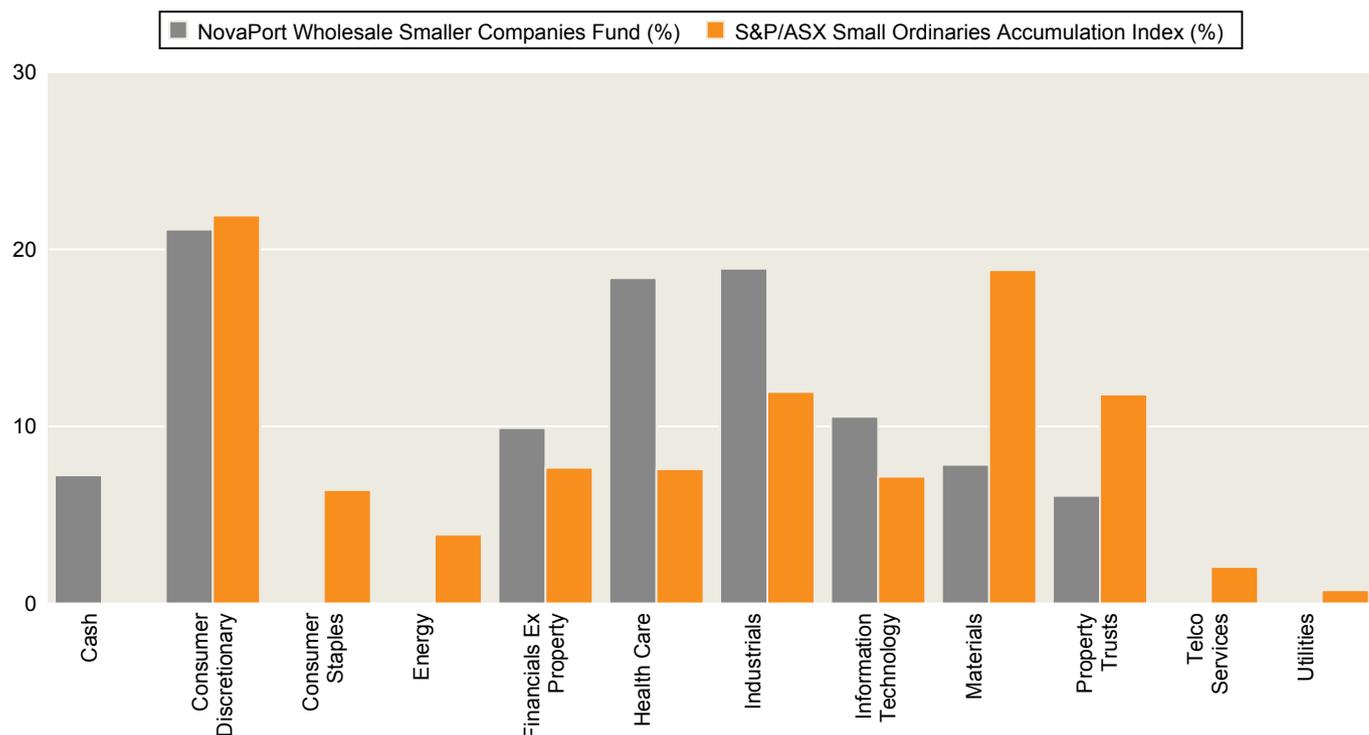
Fund facts	
Inception date	31 December 2002
Fund size	\$222.0M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2014-2015 ICR	1.58%
Management fee*	0.90% p.a.
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). 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.

[^] The performance fee was introduced from 1 October 2011

Sector exposure as at 31 August 2016



Market overview

August featured the 30 June earnings reporting season. The month finished down 1.56% with the smaller resources segment down 6.19% and small industrials companies down 0.52%. While results overall included a range of profits above and below expectations, as is always the case, forecasts for the current financial year were not materially downgraded.

Management commentary regarding the state of the economy largely confirmed expectations leading into August given recent investor briefings and updates over the May to July period. Housing related companies continue to enjoy robust trading conditions given the lag between building approvals and construction activity, the former of which has peaked for this cycle. Consumer discretionary exposures also reported relatively good conditions although, as usual, management execution was a key differentiator. Lastly, IT companies reported relatively buoyant conditions with an evolving technology landscape (e.g., Wi-Fi, mobility, software as a service) adding further impetus for companies to invest in IT capability.

Overall, reports released over August support our view the economy is transitioning from over reliance on mining to more east coast based demand drivers. More interestingly, a key driver of share price performance in August (and July for that matter) was early signs of a shift in investor focus from companies trading on premium multiples to the lower priced value stocks. Some highly rated companies reporting a result short of expectations experienced a significant de-rating, while a number of value stocks reporting results in line were rewarded by a material positive re-rate. This reporting season was just as much about re-calibrating investment multiples as it was about assessing earnings.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -1.56% for August. The fund outperformed the market and delivered a +5.21% return over August.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
GWA Group Ltd	Industrials	3.49	1.10
Credit Corp Group	Industrials	4.57	1.08
Cleanaway Waste Management Ltd	Industrials	2.82	0.77



GWA Group Ltd

GWA was positively re-rated by the market with its result highlighting good cost control, volume growth, solid cash flow and balance sheet metrics. Positive early signs of refreshed product development and more efficient back end logistics underpin earnings as we move through the peak of the residential construction cycle.

Credit Corp Group

Credit Corp's full year result was positively received and the company reiterated its (recently upgraded) FY16 guidance. Robust volumes in both its Australian debt purchasing and consumer lending businesses have continued, and the company has become more confident that its loss making US operations will soon turn around, driven by increased debt purchasing at reasonable prices. As a result, the share price has responded to renewed investor interest.

Cleanaway Waste Management Ltd

In the face of steady, but not overly buoyant, market conditions Cleanaway delivered positive growth during the period. The result demonstrated a new management, unencumbered by balance sheet constraints, focussing on business and margin improvement. The company also provided further certainty around its ability to deliver previously announced ~\$30m of annualised cost savings. All of these factors helped the market gain comfort with the earnings profile for the company and drove a share price re-rating during the period.

Key detractors

Security name	Sector	Active weight %	Value added %
Aconex Ltd	Information Technology	1.75	-0.43
Japara Healthcare Ltd	Health Care	1.93	-0.37
Saracen Mineral Holdings Ltd	Materials	1.19	-0.35

Aconex Ltd

While Aconex's result was below market expectations, the material share price reaction was more reflective of a de-rating in the multiple – which is always a risk for companies trading on a premium investment multiple. Notwithstanding the result and subsequent share price reaction, Aconex remains one of the best exposures for earnings growth driven by international expansion in the smaller companies sector.

Japara Healthcare Ltd

Japara reported earnings a little weaker than we had anticipated, however we believe the markets' primary concerns are about the persistence of federal government funding cuts to the aged care sector. Aged care operators will have some time to adapt to the new resident classification criteria, and will assess the needs and requirements of each new incoming resident individually. The sector provides services to a population with growing needs and rising standards, creating a policy tension between service delivery and funding efficiency.

Saracen Mineral Holdings Ltd

Saracen's share price more than doubled between January and early August with gold stocks rallying on a buoyant underlying commodity price. Notwithstanding the pullback over August the company is now positioned as a well run three hundred thousand ounce per annum gold producer.

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