

# NovaPort Wholesale Smaller Companies Fund

## Quarterly report - December 2016

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)	4.02	-2.81	12.73	8.02	15.41	9.69	15.18
Growth return	3.05	-3.73	6.23	1.93	10.38	2.59	5.67
Distribution	0.98	0.91	6.50	6.09	5.02	7.10	9.51
S&P/ASX Small Ordinaries Index	3.61	-2.45	13.18	6.25	4.87	-0.28	7.11
Active return <sup>3</sup>	0.41	-0.36	-0.45	1.78	10.54	9.97	8.07

**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	87.27	80-100
Cash	12.73	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
AUB Group Ltd	3.74	0.00	3.74
Ebos Group Ltd	3.67	0.00	3.67
APN News & Media Limited	4.01	0.49	3.52
Credit Corp Group	4.06	0.56	3.50
Servcorp Limited	3.18	0.00	3.18

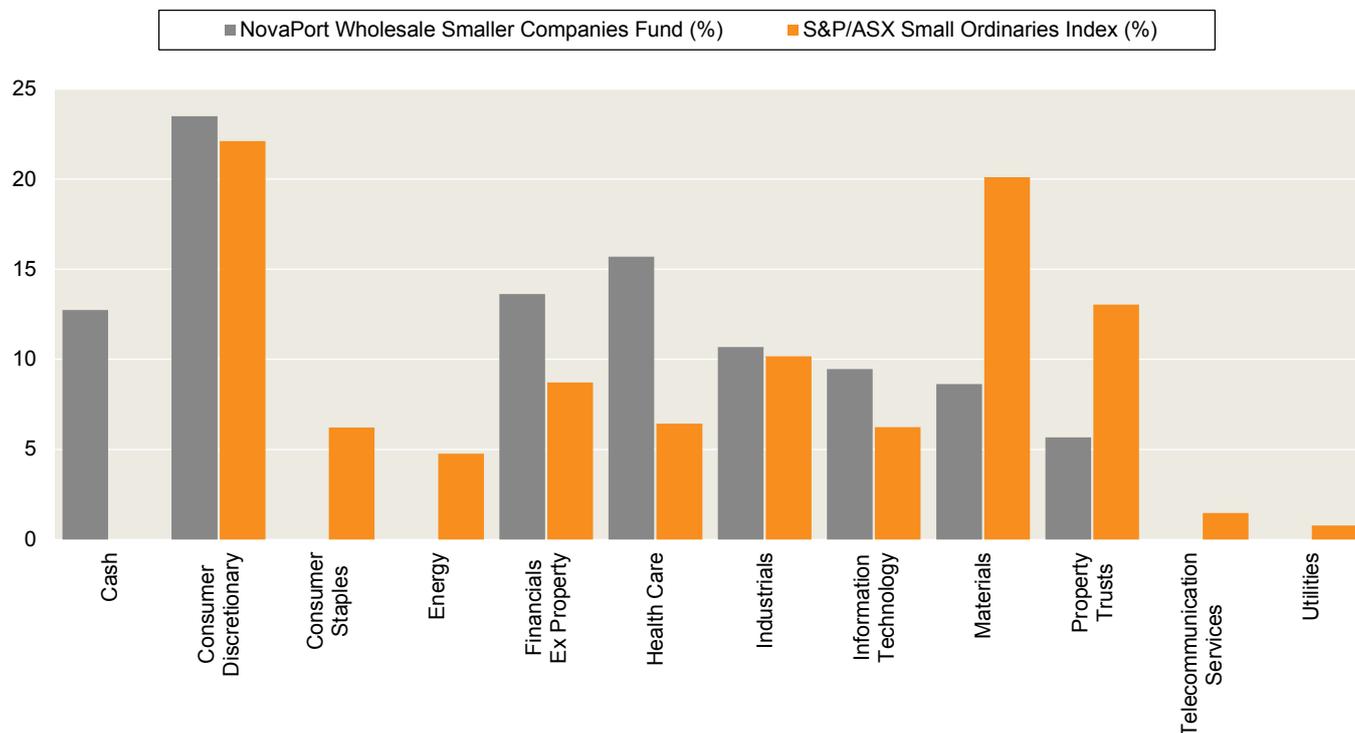
Fund facts	
Inception date	31 December 2002
Fund size	\$236.2M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2015-2016 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 fell 2.45% over the December quarter which was the first down quarter since September 2015. The resources and industrials sectors both contributed to the decline, down 1.70% and 2.63% respectively. Despite a weak quarterly finish to the calendar year the benchmark index finished up 13.18% over 2016 marking the best year for smaller companies since 2010 (up 13.05%).

The December quarter was notable for a number of political and economic events. By far the most topical was the election of Donald Trump despite pundits dismissing prospects for such an outcome over the months leading up to election day. Equity markets worldwide rallied on confirmation of the victory, spurred on by the stimulatory benefits of prospective infrastructure investment programmes, tax cuts and the roll back of regulations imposed over the last few years by the outgoing administration. The other notable event over the quarter was a sharp increase in the 10 year interest rate in the US. While there has been commentary that a Trump victory will be inflationary, debt funded and therefore likely to drive up interest rates we note the US 10 year bond yield had already started rallying in early July reflecting the Federal Reserve's drift from a dovish to more hawkish stance, thereby setting the foundation for a ramp up in rate rises over the medium term.

These macro dynamics influenced the smaller companies market locally with the prospect of higher interest rates (bad for high multiple stocks) and bullish sentiment regarding the US economic outlook combining with generally positive economic conditions here to underpin a continuation of the rotation from highly priced growth companies into what were previously ignored cyclical opportunities. While economic conditions are generally viewed as positive, a weak September quarter Gross Domestic Product report added a cautionary note towards the end of the year. However, whether this is followed by more weakness over the December quarter will be largely dependent on Christmas trading for the retailers and will become clearer towards the end of January.

## Fund performance summary

The S&P/ASX Small Ordinaries Index returned -2.45% for the quarter. The fund underperformed the market and delivered a -2.81% return over the quarter.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Mayne Pharma Group Ltd	Health Care	-1.24	0.52
St Barbara Limited	Materials	-0.67	0.34
Cleanaway Waste Management Ltd	Industrials	2.87	0.33

### Mayne Pharma Group Ltd

Not held by the fund



## St Barbara Limited

Not held by the fund.

## Cleanaway Waste Management Ltd

Having articulated in August 2015 their plans to improve the overall performance of Cleanaway in the new board and management have since demonstrated positive milestones to this end. The successes of the company highlight a new management, unencumbered by balance sheet constraints, focusing on business and margin improvement. That said, Cleanaway has stated it will continue to work to improve and sustain its operational performance and is working towards delivering previously announced ~\$30m of annualised cost savings. All of these factors improved the markets 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 %
Sirtex Medical Limited	Health Care	0.04	-0.43
Sims Metal Management Limited	Materials	-1.38	-0.42
Ten Network Holdings Limited	Consumer Discretionary	0.92	-0.42

## Sirtex Medical Limited

The company's share price was materially impacted in early December with an announcement highlighting lower than expected dose sales largely due to increased competition. Despite lower sales, Sirtex continues to invest for growth which has adversely impacted earnings which are now expected to be flat to down by as much as 12% for the year. The fund no longer holds Sirtex.

## Sims Metal Management Limited

Not held by the fund.

## Ten Network Holdings Limited

Ten's price performance over the December quarter is largely attributable to commentary accompanying the release of its full year results in October highlighting content cost growth which will largely offset the positive impact of very good ratings improvement, gains in market share and revenue growth.

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### For further information, please contact:

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