

NovaPort Wholesale Smaller Companies Fund

Quarterly report - September 2016

Performance #	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Inception % p.a.
Fund return	15.93	25.37	9.50	16.16	12.02	15.71
Growth return	15.54	17.83	3.24	10.95	4.24	6.07
Distribution return	0.40	7.53	6.27	5.21	7.78	9.64
S&P/ASX Small Ordinaries Accumulation Index	8.50	29.16	7.07	5.26	1.43	7.43
Active return [^]	7.43	-3.80	2.43	10.90	10.59	8.28

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 30 September 2016 (%)	Range (%)
Security	92.00	80-100
Cash	8.00	0-20

Top 5 active positions as at 30 September 2016	Fund weight (%)	Index weight (%)	Active weight (%)
Ebos Group Ltd	4.33	0.00	4.33
Credit Corp Group	4.53	0.57	3.96
AUB Group Ltd	3.84	0.00	3.84
Servcorp Limited	3.28	0.00	3.28
SAI Global Limited	3.88	0.64	3.24

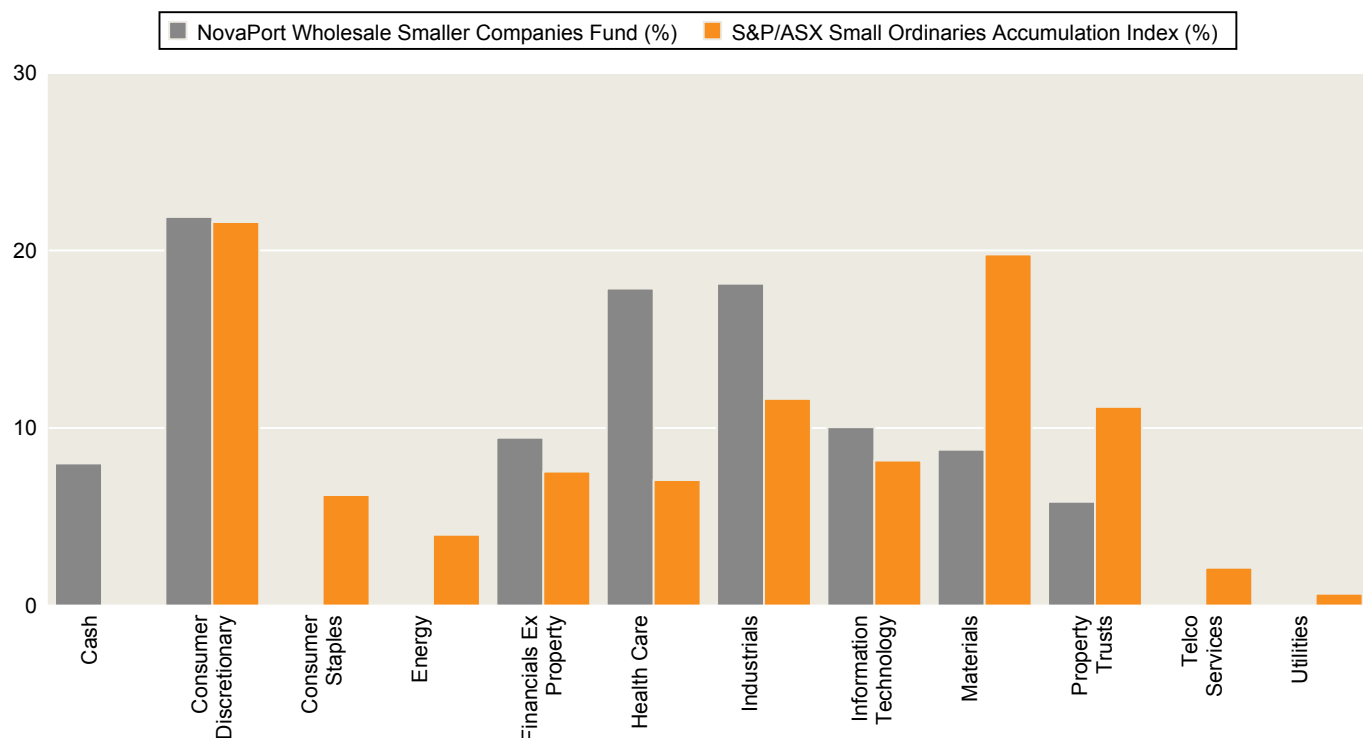
Fund facts	
Inception date	31 December 2002
Fund size	\$230.4M
APIR code	HOW0016AU

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 30 September 2016



Market overview

The Small Ordinaries Accumulation Index posted a strong 8.50% return for the September quarter bringing the rolling one year performance to 29.16%. Industrials and resources contributed to the quarterly performance with both sectors up 8.52% and 8.15% respectively.

As discussed in our August update, the key event over the quarter was the release of 30 June earnings reports. To recap, results were generally in line with expectations (notwithstanding the usual hits and misses) with forecasts for the current financial year largely intact. Management commentary would suggest underlying conditions for the economy are relatively solid. Consumer and business confidence levels are supported by strong housing construction related activity as well as low interest rates, petrol prices and unemployment level. The absence of inflationary pressures across the broader economy saw the Reserve Bank cut interest rates by a further 25 basis points in August which will serve to keep the Australian dollar competitive thereby supporting import competing sectors.

Apart from economic and financial conditions, a key driver of share prices over the quarter was increased investor interest in lower priced value stocks at the expense of premium growth companies. This dynamic was reflected across capital markets globally with the prospect of higher interest rates (or at least the end of aggressive monetary stimulus driving down rates) prompting a switch from defensives, long duration growth stocks and bond type yield proxies (e.g. utilities, telecommunications companies and property trusts) into cyclical companies that have largely been ignored over the last 18 months.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +8.50% for the quarter. The fund outperformed the market and delivered a +15.93% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Credit Corp Group	Industrials	3.96	1.74
Nanosonic Limited	Health Care	2.89	1.07
GWA Group Ltd	Industrials	3.05	0.93



Credit Corp Group

Credit Corp continues to benefit from positive market sentiment following a well received full year result. The competitive environment in both its Australian and US markets appears to be favourable, with few signs of excess capacity indicating margins should be sustainable. Growth drivers for the company will be scaling up its US operations and improving profitability associated with the maturing of its Australian lending division.

Nanosonic Limited

On the back of a record quarter of sales of its trophon high level disinfection units, with an especially pleasing result in the all-important US market, Nanosonic generated its maiden profit in FY16. The company's appeal (validated by July's quarterly update) lies primarily in its global opportunity to expand sales materially over the years ahead thereby, building on its already dominant position in Australia.

GWA Group Ltd

GWA's share price increased by nearly 100% over August alone with release of its full year result highlighting good cost control, volume growth, solid cash flow and balance sheet metrics. Activity in restoration and renovations market is holding up and the year ahead will see housing construction hold up at near record levels.

Key detractors

Security name	Sector	Active weight %	Value added %
APN News & Media Limited	Consumer Discretionary	2.68	-0.85
Japara Healthcare Ltd	Health Care	1.77	-0.69
Whitehaven Coal Ltd	Energy	-0.95	-0.59

APN News & Media Limited

APN reported a messy first half result, impacted by substantial changes to the business (demerger of NZME) and costs associated with its capital raising. The company highlighted some weakness in advertising markets coinciding with the federal election which saw the share price weaken.

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.

Whitehaven Coal Ltd

Not held by the fund.

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