

# NovaPort Wholesale Smaller Companies 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)	2.67	-2.40	12.68	6.34	12.53	8.54	14.70
Growth return	2.51	-2.55	6.11	0.34	7.89	1.98	5.38
Distribution	0.16	0.15	6.56	6.00	4.64	6.56	9.32
S&P/ASX Small Ordinaries Accumulation Index	2.66	1.46	13.67	6.44	2.28	-0.83	7.09
Active return <sup>3</sup>	0.01	-3.86	-0.99	-0.10	10.25	9.38	7.61

**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	88.28	80-100
Cash	11.72	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
AUB Group Ltd	4.43	0.00	4.43
Ebos Group Ltd	3.80	0.00	3.80
APN News & Media Limited	4.11	0.46	3.65
Credit Corp Group	4.09	0.53	3.57
Peet Ltd	3.25	0.00	3.25

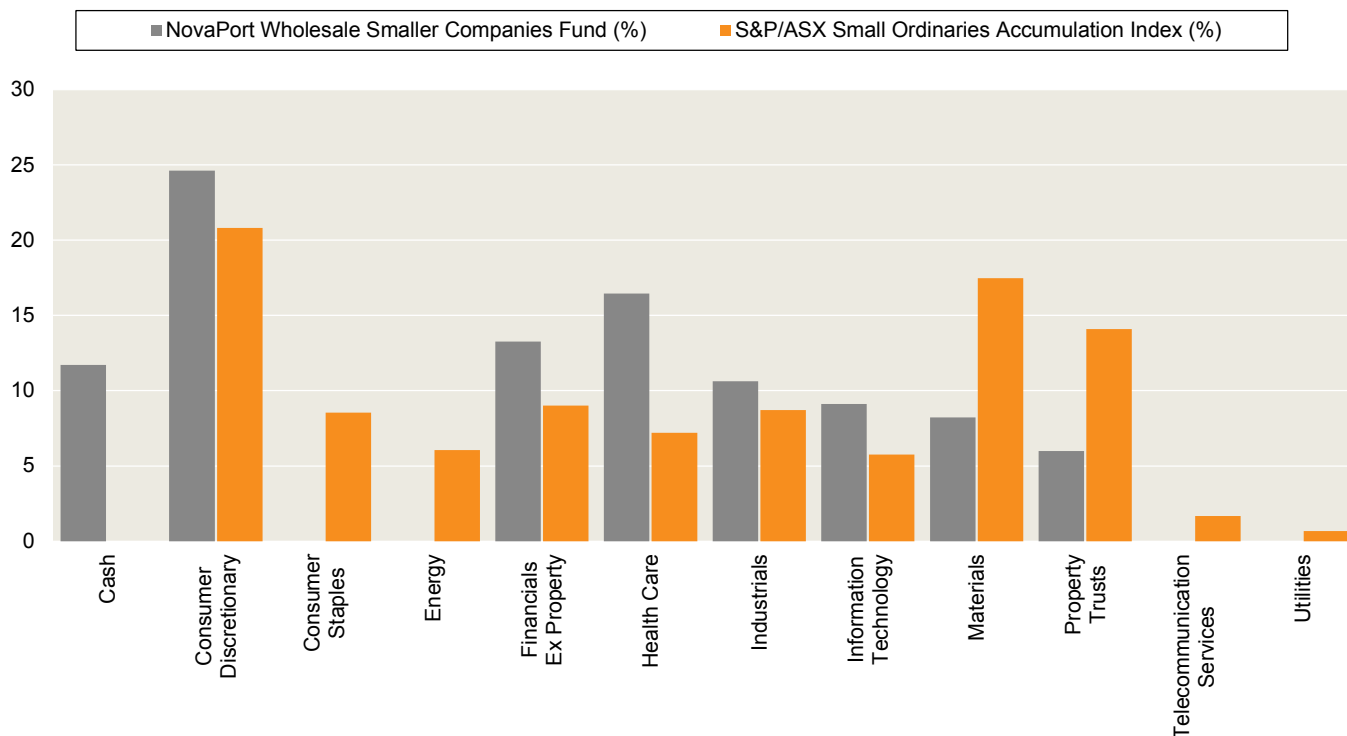
Fund facts	
Inception date	31 December 2002
Fund size	\$240.8M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2014-2015 ICR	1.58%
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 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 -2.40% return over the quarter.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Peet Ltd	Property Trusts	3.25	0.55
AUB Group Ltd	Financials Ex Property	4.43	0.40
Fletcher Building Limited	Materials	-0.79	0.31



## Peet Ltd

PPC's 1H17 results were solid, and the business is well positioned for growth into the 2H and FY18. With a large, diversified land bank at a good cost base, PPC is under no pressure to restock, implying management can continue focusing on price, margin and cash flow. Growth is being driven by PPC's significant exposure to development corridors on the east coast, where there is still evidence of volume and price appreciation. Following a change of state government in W.A. the company is starting to see signs the weakness in the local market is bottoming, if not yet improving.

## AUB Group Ltd

AUB Group's share price has reacted positively to several anecdotal instances of the premium rate cycle starting to tighten. Following an extended period of substantial premium rate reductions across its insurance product offering AUB Group has now started to see "evidence of premium rate increases in certain areas and for certain risks...", signalling the commencement of a tightening rates cycle in the medium term.

## Fletcher Building Limited

Not held by the fund.

## Key detractors

Security name	Sector	Active weight %	Value added %
Servcorp Limited	Property Trusts	2.56	-0.74
Western Areas Limited	Materials	2.26	-0.74
Retail Food Group Ltd	Consumer Discretionary	1.59	-0.50

## Servcorp Limited

Servcorp surprised the market with a downgrade to earnings released in late January highlighting a marked deterioration in operating conditions over the December quarter. Disappointing performance in the US and South East Asia operations in particular where raised as issues by management. Nevertheless, Servcorp remains well positioned as a provider of serviced office infrastructure and is expected to do well in an improving global economy.

## Western Areas Limited

Western Area's share price declined materially in January on the unexpected announcement by the Indonesian government easing a ban on nickel ore exports. While the quantum of the increase to global supply is yet to be determined, the news of more volume has diminished the investment thesis for producers highly leveraged to the nickel prices such as Western Areas.

## Retail Food Group Ltd

Retail Food Groups share price was negatively impacted by sector wide negative press regarding companies operating franchise models during the quarter. The share price retraced some of the recent gains it had experienced on the back of its earnings per share accretive acquisition of Hudson Pacific with concerns rising about the short term ability to meet its earnings guidance for FY17. We note that, since its listing in June 2006, the company has a proven track record of growing earnings through acquisition. However the increasing scale of acquisitions continue to add complexity and integration risk to the company.

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### For further information, please contact:

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