

NovaPort Smaller Companies Fund

Quarterly report - September 2017

Performance ¹	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	Inception % p.a ²
Fund return (net)	-0.27	0.47	-4.01	5.61	11.17	7.33	14.26
Growth return	-0.57	0.16	-6.59	-0.11	6.35	2.84	5.16
Distribution	0.31	0.31	2.58	5.72	4.82	4.49	9.10
S&P/ASX Small Ordinaries Accumulation Index	1.31	4.41	2.98	8.16	5.10	-1.41	7.13
Active return ³	-1.57	-3.94	-6.98	-2.55	6.07	8.73	7.13

Past performance is not a reliable indicator of future performance.

¹ Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

² The inception date for the Fund is 31 December 2002

³ 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	89.09	80-100
Cash	10.91	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Programmed Maintenance Services Limited	4.52	0.47	4.04
AUB Group Ltd	4.04	0.00	4.04
Credit Corp Group	4.19	0.57	3.62
Ebos Group Ltd	3.36	0.00	3.36
Kathmandu Holdings Ltd	3.31	0.00	3.31

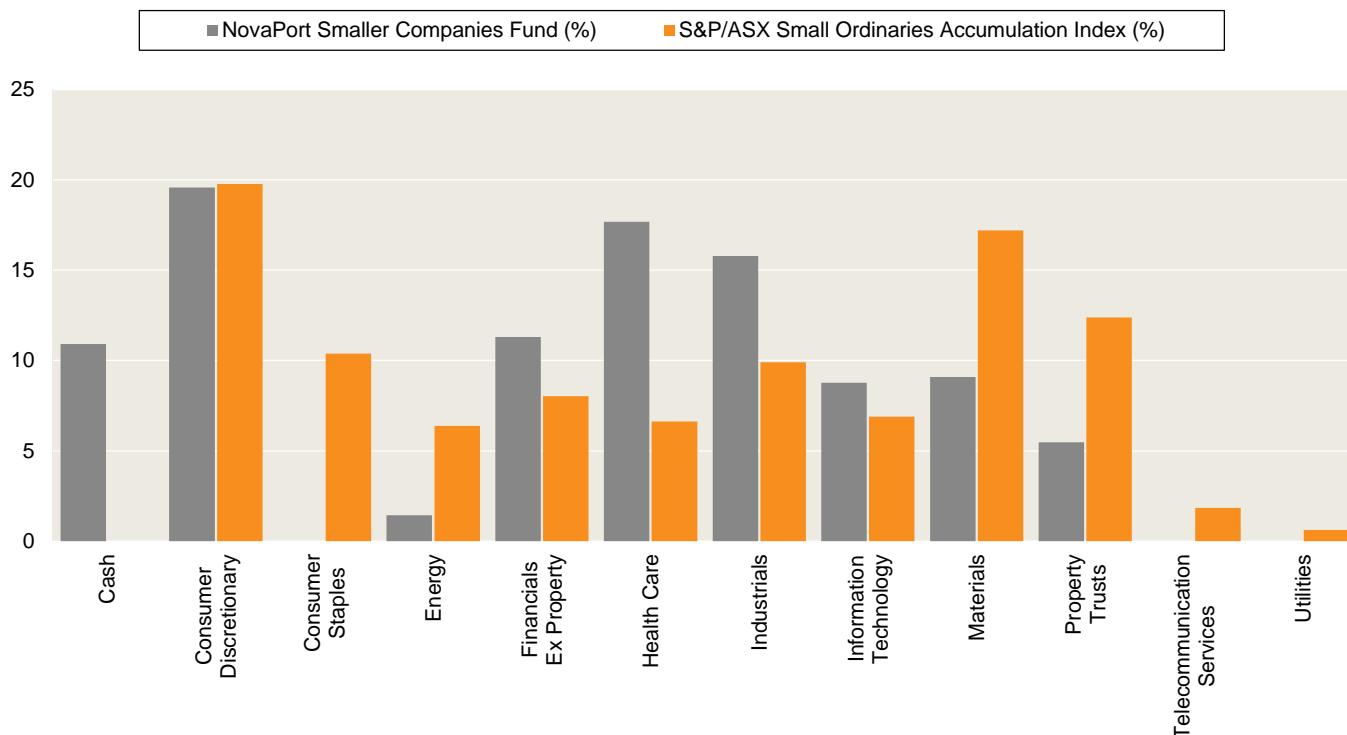
Fund facts	
Inception date	31 December 2002
Fund size	\$261.45M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2015-2016 ICR	0.90%
Management fee ¹	0.90% p.a.
Performance fee ²	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%

¹ 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.

² The performance fee was introduced from 1 October 2011

Sector exposure



Market overview

The Small Ordinaries Accumulation Index finished the September quarter strongly, up 4.41%. While both the industrials and resources segments posted positive returns, the miners were a standout up 12.85% versus 2.51% for non-resources companies.

The key event for the last quarter, as always, was the June half reporting period. While results and accompanying commentary resulted in an overall downgrade to forecast earnings forecasts for the market, the quantum was not enough to markedly change investor perceptions.

If anything, the bull case was supported by companies announcing higher investment spend intentions in the year ahead to fund growth initiatives which reflected positive business sentiment indicators as reported over the months leading into reporting season. This was somewhat of a change from recent reporting seasons where free cash flow was largely put towards debt reduction or higher payout ratios to bolster short term investor support. However, those with a bearish stance were able to point to cyclical companies and consumer related stocks as a source of short term earnings risk due to low inflation, expected drag from high household indebtedness (with the prospect of higher interest rates ahead) and weak income growth.

Overall, the bears continue to drive market returns with lower multiple cyclical stocks (value) lacking appeal given doubts regarding earnings growth in the short term while momentum and higher multiple remain well supported due to the perception growth stocks offer a higher degree of earnings certainty in a broadly weak environment.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +4.41% for the quarter. The fund underperformed the market and delivered a +0.47% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Programmed Maintenance Services Limited	Industrials	4.04	1.50
Mayne Pharma Group Ltd	Health Care	-0.58	0.43
Western Areas Limited	Materials	2.63	0.42

Programmed Maintenance Services Limited

During the quarter the Board of Programmed agreed to an all cash takeover offer from Japanese listed PERSOL at \$3.02/share, a 68% premium to the last closing price of the stock.

Mayne Pharma Group Ltd

Not held by the fund.



Western Areas Limited

Western Areas continues to deliver sound operational performance from its West Australian nickel mines. The company has also invested in growth opportunities including new nickel projects as well as exploring production of higher value nickel mineral projects for the battery sector. Strong nickel demand and reduced mine supply saw the nickel price recover during the quarter.

Key detractors

Security name	Sector	Active weight %	Value added %
a2 Milk Co Ltd	Consumer Staples	-2.67	-0.90
HT&E Ltd	Consumer Discretionary	2.68	-0.83
iSelect Ltd	Consumer Discretionary	2.23	-0.60

a2 Milk Co Ltd

Not held by the fund.

HT&E Ltd

HT&E reported slack revenue growth within its core FM radio business and increased costs as well as the loss of an outdoor advertising contract held by its Adshell subsidiary. This resulted in some downward revisions to market expectations and a negative share price reaction.

iSelect Ltd

The announcement of increased business development spend has adversely impacting sentiment regarding short term earnings prospects which, combined with weak demand in the private health insurance vertical, has weakened iSelect's price recently. However, we note the company is actively buying back shares on market. We continue to remain attracted to ISU's strong cash generation, growing customer reach and ability to access additional verticals.

For further information, please contact:

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