

NovaPort Wholesale Smaller Companies Fund

Monthly report - February 2016

Performance #	1 month %	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Inception % p.a.
Fund return	-2.06	-3.49	-8.71	6.40	9.50	10.53	14.57
Growth return	-2.06	-4.65	-15.78	1.86	5.52	0.26	5.01
Distribution return	-	1.16	7.08	4.55	3.98	10.27	9.56
S&P/ASX Small Ordinaries Accumulation Index	0.95	-0.46	-3.56	-1.41	-3.17	0.41	6.22
Active return [^]	-3.01	-3.03	-5.14	7.81	12.67	10.12	8.35

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 29 February 2016 (%)	Range (%)
Security	92.88	80-100
Cash	7.12	0-20

Top 5 active positions as at 29 February 2016	Fund weight (%)	Index weight (%)	Active weight (%)
Ebos Group Ltd	4.81	0.00	4.81
Vocus Communications Ltd	0.00	3.70	-3.70
Servcorp Limited	3.68	0.00	3.68
Credit Corp Group	4.00	0.39	3.62
AUB Group Ltd	3.58	0.00	3.58

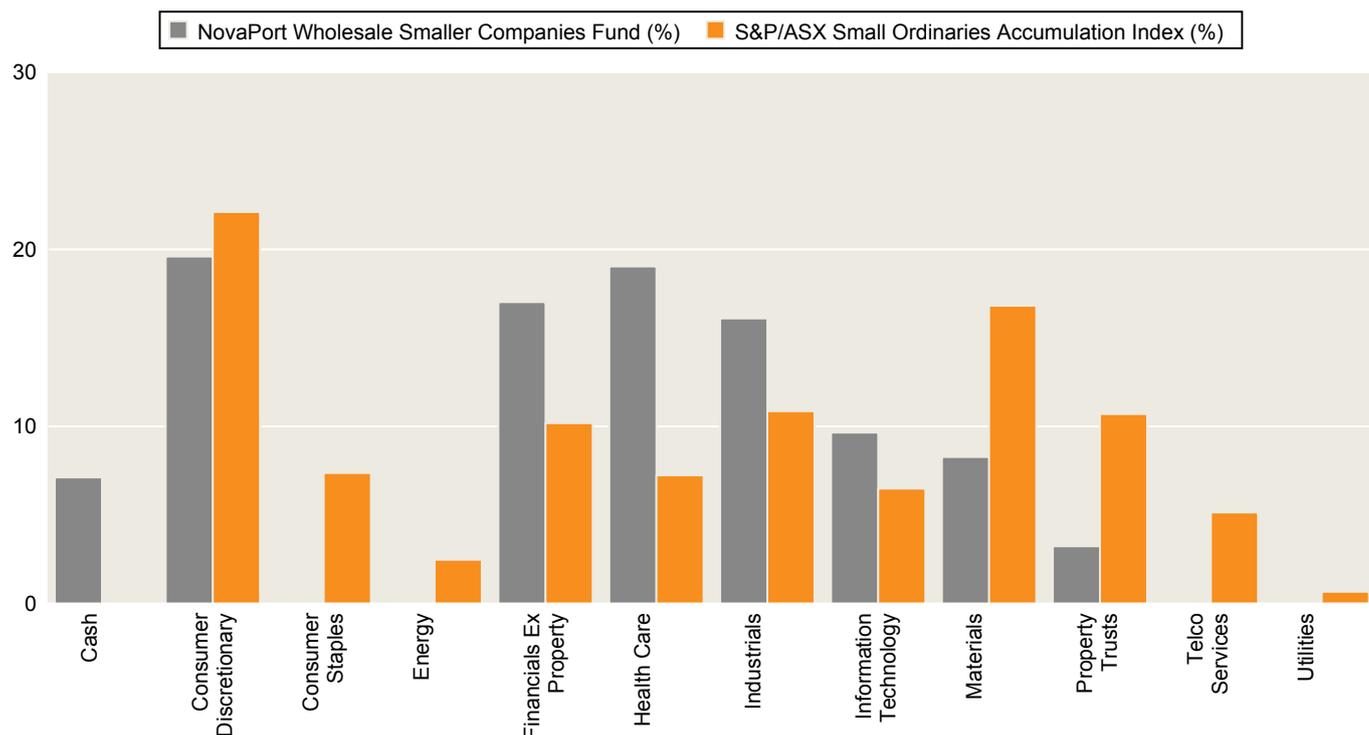
Fund facts	
Inception date	31 December 2002
Fund size	\$188.0M
APIR code	HOW0016AU

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 29 February 2016



Market overview

The S&P/ASX Small Ordinaries Accumulation Index finished up 0.95% for the month of February. However, as has been the case over recent years, the aggregate index result belies significant divergence between the industrial sector and the miners. The small industrials index fell 1.65% over the month while the resources sector finished up 19.4% posting its best monthly performance since July 2013 (up 23.78%).

An emphasis on cost reduction and cash preservation by mining companies as well as investors seeking bargains in a sector trading at 13 year lows prompted accelerated levels of resource stock buying over the month. Meanwhile, increased market volatility since the start of the year, continued downward pressure on interest rates globally (apart from the US) and uncertainty regarding China spurred increased interest in the smaller gold miners which in turn contributed materially to the index for the month.

Locally, investors were preoccupied by earnings results presentations for the first half of the financial year. Overall, reporting season confirmed some trends which companies highlighted during last year's round of annual general meeting updates. Generally companies experienced improved, albeit still moderate, economic conditions as a result of several factors including, lower interest rates, petrol prices, a weaker Australian dollar, the flow on benefits from housing related activity and solid consumer and business sentiment levels.

While outlook statements were generally cautious as expected, profit forecasts for the remainder of the year were downgraded but not by an amount that would alter the view that while economic conditions are by no means buoyant, overall earnings for corporate Australia (excluding the miners) are tracking along the bottom of the earnings cycle.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +0.95% for February. The fund underperformed the market and delivered a -2.06% return over February.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Ebos Group Ltd	Health Care	4.81	0.71
Saracen Mineral Holdings Ltd	Materials	1.50	0.52
APN News & Media Limited	Consumer Discretionary	3.35	0.42



Ebos Group Ltd

The company reported a strong first half result driven by sales volume in the pharmaceutical distribution sector as well as acquisitions. The business continues to generate strong cash flows and distribute franking credits to Australian shareholders.

Saracen Mineral Holdings Ltd

Similar to our commentary last month, Saracen continues to post solid operational results at or above the market's positive expectations as it builds towards a substantial three hundred thousand ounce per annum gold producer. As was the case across the small gold miners in general, the company also enjoyed the tailwind of a rising gold price driven by macro concerns including downward pressure on interest rates globally and broader capital markets volatility.

APN News & Media Limited

APN News and Media reported earnings in line with expectations and continued progress on strengthening its balance sheet. Significantly, the company announced that it would seek to divest its Australian regional newspaper assets. The market responded favourably to the notion that the company would deliver a sharper focus on its stronger performing assets.

Key detractors

Security name	Sector	Active weight %	Value added %
Flexigroup Ltd	Financials Ex Property	3.27	-0.77
Cover-More Group Ltd	Financials Ex Property	2.28	-0.67
Village Roadshow Limited	Consumer Discretionary	2.01	-0.62

Flexigroup Ltd

The company delivered a result in line with market expectations however the market was disappointed by a reduced dividend and an uptick in bad debts. The recent acquisition of Fisher & Paykel's NZ consumer finance business will deliver growth in the second half and the SME and enterprise divisions appear to have stabilised.

Cover-More Group Ltd

Released a result below expectations with higher claims costs crimping profitability in the short term. The market remains cautious while the company continues to negotiate a new pricing arrangement with its key insurance provider in Australia which, if successful, should smooth earnings volatility with gross profit margins showing less variance year to year.

Village Roadshow Limited

Issued a mixed result with profit at the group level coming in below expectations. While the Gold Coast theme parks performed well and the cinema exhibition division is heading towards a record result on the back of higher yielding premium seat theatres and very strong product, the result was adversely impacted by weaker earnings in the film distribution division and another poor summer season at its new Sydney water theme park.

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