

NovaPort Wholesale Smaller Companies Fund

Quarterly report - March 2015

Performance #	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Inception % p.a.
Fund return	7.65	9.96	18.17	12.93	12.16	16.44
Growth return	7.60	6.37	15.47	10.16	1.38	6.73
Distribution return	0.05	3.60	2.70	2.77	10.78	9.71
S&P/ASX Small Ordinaries Accumulation Index	7.30	2.30	-1.72	-0.30	2.72	6.85
Active return [^]	0.35	7.66	19.89	13.23	9.44	9.60

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 31 March 2015 (%)	Range (%)
Security	86.90	80-100
Cash	13.10	0-20

Top 5 active positions as at 31 March 2015	Fund weight (%)	Index weight (%)	Active weight (%)
Fisher & Paykel Healthcare Corporation Limited	5.16	0.44	4.72
Peet Ltd	3.31	0.00	3.31
CSR Limited	3.22	0.00	3.22
Japara Healthcare Ltd	3.63	0.57	3.06
Mystate Ltd	2.66	0.00	2.66

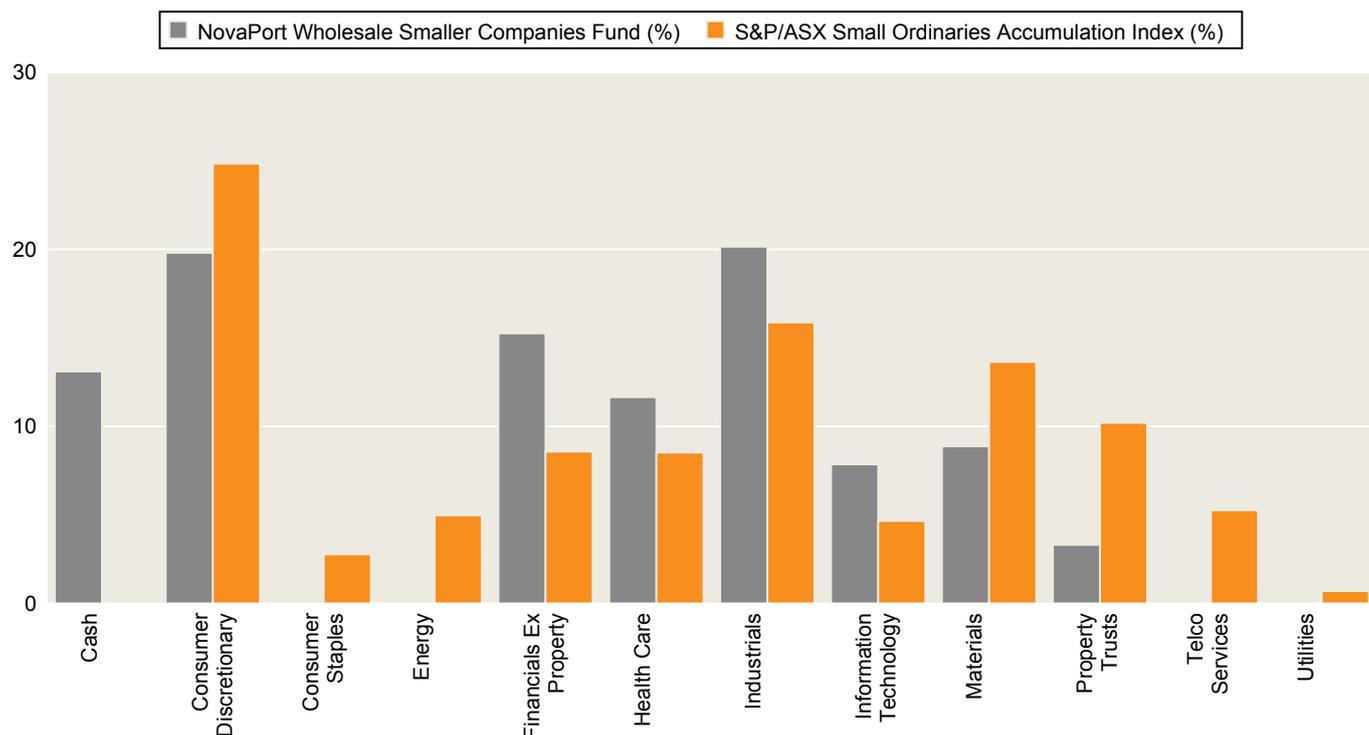
Fund facts	
Inception date	31 December 2002
Fund size	\$163.3M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2013-2014 ICR	2.59%
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 31 March 2015



Market overview

The Small Ordinaries Accumulation Index bounced back over the March quarter to finish up 7.30% making it easily the best quarter since September 2013 (which finished up 14.89%). Unlike recent quarters, the disparity between the industrials and resources sectors was not as material with the former up 7.52% and the miners up 6.33%.

The key event over the quarter was the release of December half results. As highlighted in last month's update, accompanying commentary highlighted subdued conditions across the domestic economy. Following a 25 basis point reduction in February, the Reserve Bank elected to hold rates steady in March. However, the likelihood remains rates will decline further from current levels given generally weaker economic conditions.

Including revisions over March, forecast earnings for the remainder of the financial year are lower than expectations at the beginning of the quarter which is not unusual as we move through the financial year. However, while downgrades have exceeded upgrades, the net impact on total market earnings has not been as negative as more recent reporting periods. This suggests we are moving along the bottom of the earnings cycle. Earnings multiples remain elevated implying the market is prepared to look through a subdued profit environment for now given the expectation that lower interest rates, a weaker Australian dollar, increased resources production (as opposed to construction) and strong housing construction activity will contribute to improved earnings growth moving into 2016.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +7.30% for the quarter. The fund outperformed the market and delivered a +7.65% return over the quarter.

Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Chandler Macleod Limited	Industrials	2.01	0.87
Japara Healthcare Ltd	Health Care	3.06	0.64
Saracen Mineral Holdings Ltd	Materials	1.52	0.62

Chandler Macleod Limited

Recruit, a Japanese information services and human resources company, acquired all the shares of Chandler Macleod for cash at a substantial premium. The company was delisted on 31 March following completion of the takeover.



Japara Healthcare Ltd

Despite several regulatory changes since its listing, Japara confirmed its FY15 prospectus guidance. The company further benefitted from increased confidence in the sector - due to the additional clarity generated by the listing of two further aged care stocks in the December half 2014 (EHE & REG). Japara Healthcare continues to deliver on its organic and acquisitive growth strategy while generating strong cashflows. The company is positioned to benefit from two ongoing macro drivers within the aged care sector: the recent changes to the regulatory framework and an ageing population.

Saracen Mineral Holdings Ltd

In March Saracen announced board approval for the development of the 100% owned Thunderbox gold operation. Funding is covered by existing cash reserves and cashflow generation from its existing Carosue Dam operations. With Thunderbox in production, the company will be a 300koz per annum gold producer elevating its status as a mid-tier gold miner that carries a track record of good cost control, a solid balance sheet management and strong cash generation.

Key detractors

Security name	Sector	Active weight %	Value added %
Kathmandu Holdings Ltd	Consumer Discretionary	1.25	-0.82
Austbrokers Holdings Ltd	Financials Ex Property	2.52	-0.68
Northern Star Resources Ltd	Materials	-1.12	-0.40

Kathmandu Holdings Ltd

Kathmandu's recent operational performance has been disappointing prompting material downgrades to expectations. While warmer weather and weak consumer confidence have had an adverse impact, the reduction in reported gross margin has largely been the result of excessive discounting in order to clear excess inventory. The build-up was due to underperforming supply chain management as well as difficulties in selling apparel in segments beyond its core winter based specialty.

Austbrokers Holdings Ltd

Austbrokers released a downgrade to earnings expectations in January citing reduced broker earnings from substantial premium rate reductions (up to 30% in some segments of the industry). The impact was exacerbated by certain renewal dates moving from the December half to the current half thereby reducing first half earnings. While some of the impact of these negatives was offset by higher client and policy numbers, management commented that full year earnings would likely fall in the 0%-5% growth range on FY14 versus previous expectations of 5%-10% growth.

Northern Star Resources Ltd

Not held by the fund.

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