

# NovaPort Wholesale Smaller Companies Fund

## Monthly report - November 2015

Performance #	1 month %	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Inception % p.a.
Fund return	-0.75	1.48	3.33	12.51	12.77	11.16	15.19
Growth return	-0.75	1.35	-4.40	7.65	8.60	0.87	5.50
Distribution return	-	0.13	7.73	4.86	4.17	10.29	9.69
S&P/ASX Small Ordinaries Accumulation Index	0.02	6.56	6.50	1.47	-1.93	1.19	6.38
Active return <sup>^</sup>	-0.77	-5.08	-3.18	11.04	14.69	9.97	8.81

### 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.

<sup>^</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	As at 30 November 2015 (%)	Range (%)
Security	92.42	80-100
Cash	7.58	0-20

Top 5 active positions as at 30 November 2015	Fund weight (%)	Index weight (%)	Active weight (%)
Flexigroup Ltd	4.53	0.62	3.91
Japara Healthcare Ltd	4.49	0.68	3.81
Fisher & Paykel Healthcare Corporation Limited	4.25	0.50	3.75
Ebos Group Ltd	3.72	0.00	3.72
SAI Global Limited	4.31	0.74	3.58

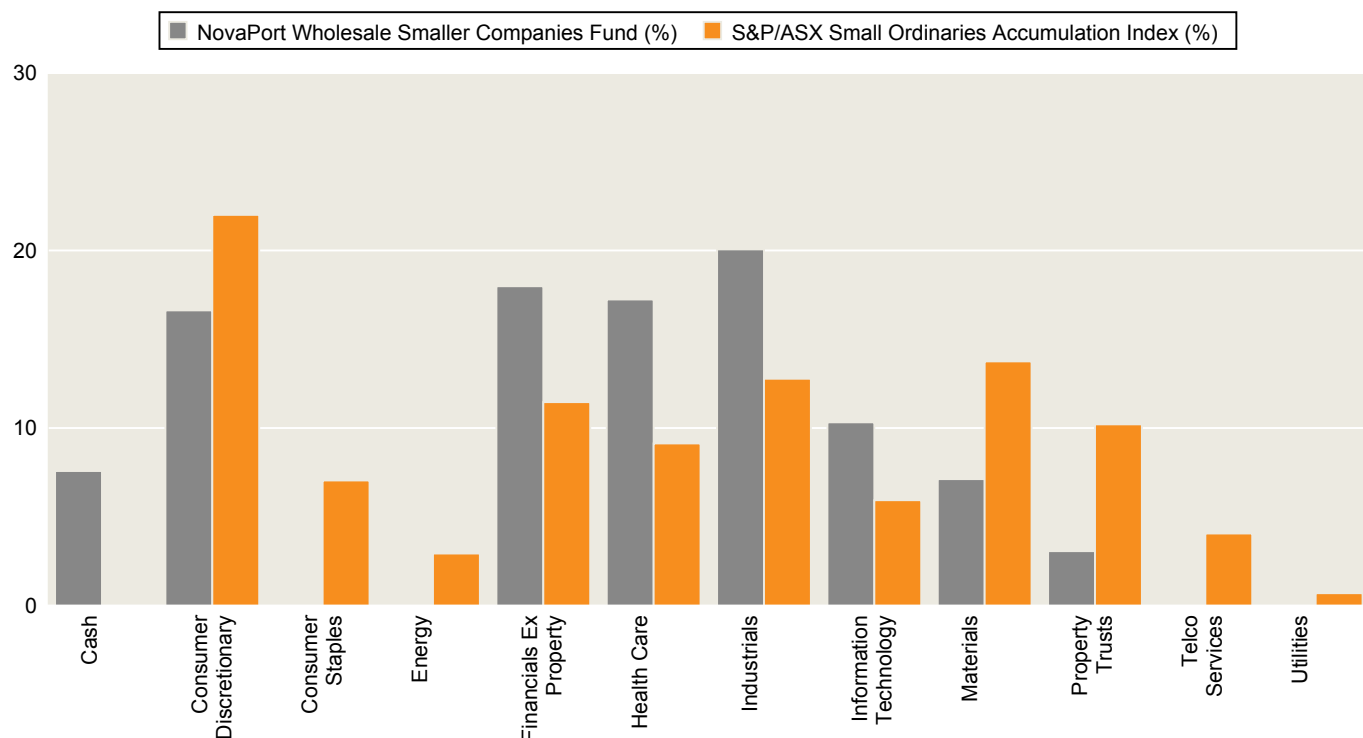
Fund facts	
Inception date	31 December 2002
Fund size	\$192.5M
APIR code	HOW0016AU

Fees	
Entry fee	Nil
2014-2015 ICR	1.58%
Management fee*	0.90% p.a.
Performance fee <sup>^</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%

\* 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>^</sup> The performance fee was introduced from 1 October 2011

## Sector exposure as at 30 November 2015



### Market overview

The S&P Small Ordinaries Accumulation Index held steady over November with a gain of only 0.02%. As has been the case for a while now, the aggregate performance masks a material divergence between the industrials and miners with the former up 1.87% and resources down 11.7%. Despite monthly volatility over 2015, the index is up 4.49 for the year to date. While not a noticeable performance in itself, the smaller companies market is on track to report a positive calendar year return for the first time since 2012 – and only its second positive calendar year return since 2010.

From a global perspective, markets appear to have accepted the US Federal Reserve is set to begin the normalisation of interest rates from unprecedented low levels. However, unlike previous experience, markets aren't throwing a "taper tantrum" this time. This may well suggest a realignment in sentiment from increasing rates being viewed as a negative to a more positive perspective which acknowledges rates are heading up for a "good" reason. That is, the US economy is finally growing at a rate that can handle an increase in rates from unsustainably low levels.

As largely expected, the RBA held rates steady in Australia, and given what activity indicators suggest, while economic activity is not particularly strong, the transition continues from mining related economic activity to other sectors with housing construction the stand out. This stance is also supported to some extent by the fact some of the mining capital expenditure downturn is being offset with increased production as projects come on line (albeit at low commodity prices). Company specific news flow was largely limited to annual general meeting updates. Similar to commentary over October, it remains the case that in a low growth economy the market is divided between those companies with growth opportunities for various reasons, including international expansion, new products or structural advantage and cyclical exposures which continue to wait for the tailwinds of an improving economic outlook.

### Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +0.02% for November. The fund underperformed the market and delivered a -0.75% return over November.

### Performance of key securities

#### Key contributors

Security name	Sector	Active weight %	Value added %
Credit Corp Group	Industrials	3.44	0.36
Mystate Ltd	Financials Ex Property	3.40	0.31
Japara Healthcare Ltd	Health Care	3.81	0.31



## Credit Corp Group

Credit Corp share recovered after management reaffirmed earnings guidance at their Annual General Meeting. The company also highlighted that it anticipates better results from its loss making US business, driven by improved collection efficiency and the potential for increased volumes. Finally the company announced that it had renewed its bank funding facilities.

## Mystate Ltd

Mystate has continued to drive good volume growth in its core mortgage lending business. The company is also benefiting from improved competitive dynamics in its market place. At the same time Mystate continues to invest in technology and systems which will enable it to provide improved customer services and transaction efficiencies which we expect to drive greater shareholder returns.

## Japara Healthcare Ltd

The Aged Care sector continues to benefit under the Living Longer, Living Better regulatory changes - growth is internally funded by incoming resident's refundable accommodation deposits. The company is positioned to benefit from growing demand for Aged Care services and an associated trend for consolidation of the sector. We note, the financial performance of the Aged Care sector is substantially influenced by Federal Government policy and budget proposals.

## Key detractors

Security name	Sector	Active weight %	Value added %
GWA Group Ltd	Industrials	2.23	-0.75
Flexigroup Ltd	Financials Ex Property	3.91	-0.41
Village Roadshow Limited	Consumer Discretionary	3.01	-0.37

## GWA Group Ltd

While demand conditions are positive and are highly likely to remain so over 2016, the company released an AGM update highlighting the adverse impact of a weaker Australian dollar on cost of imported products and the expected lag in margin recovery through price increases and expansion in product range given benefits from these initiatives take time to flow through.

## Flexigroup Ltd

The company's shares posted a strong performance in October with the announcement of the acquisition of the Fisher and Paykel consumer finance business and reaffirmation of its earnings guidance. The company launched an entitlement offer to fund the acquisition, and we believe the recent share price weakness reflects some profit taking following the settlement of this offer.

## Village Roadshow Limited

After a near 50% gain in price since March, November saw some profit taking in Village Roadshow shares. The AGM commentary highlighted cinema trading ahead of expectations for the year to date and Queensland theme parks in line. Some of the positive news however, was offset by a weaker performance in the film distribution segment and slower than expected start to the year at the Sydney's Wet 'n' Wild theme park.

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