

# NovaPort Microcap Fund

## Quarterly report - June 2021

Performance <sup>1</sup>	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	15 years % p.a	Inception % p.a <sup>2</sup>
Fund return (net)	1.66	3.96	42.51	6.98	11.12	10.45	9.56	10.14
Growth return	-11.09	-9.07	23.90	0.62	6.84	7.61	5.38	5.40
Distribution	12.74	13.03	18.61	6.36	4.28	2.83	4.18	4.73
S&P/ASX Small Ordinaries Accumulation Index	3.08	8.50	33.23	8.59	11.24	5.99	4.37	5.40
Active return <sup>3</sup>	-1.42	-4.54	9.29	-1.61	-0.12	4.46	5.19	4.73

**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 22 March 2005

<sup>3</sup> Numbers may not add due to rounding

### Investment objective

The Fund aims to outperform its benchmark over rolling seven-year periods through the investment in a diversified portfolio of micro-cap Australian companies.

### 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 seven years

Asset allocation	Actual %	Range %
Security	81.94	80-100
Cash	18.06	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Think Childcare Ltd	6.93	0.00	6.93
Mincor Resources NI	4.10	0.00	4.10
GR Engineering Services Ltd	3.98	0.00	3.98
Monash IVF Group Limited	3.92	0.00	3.92
Rhipe Ltd	3.61	0.00	3.61

### Fund facts

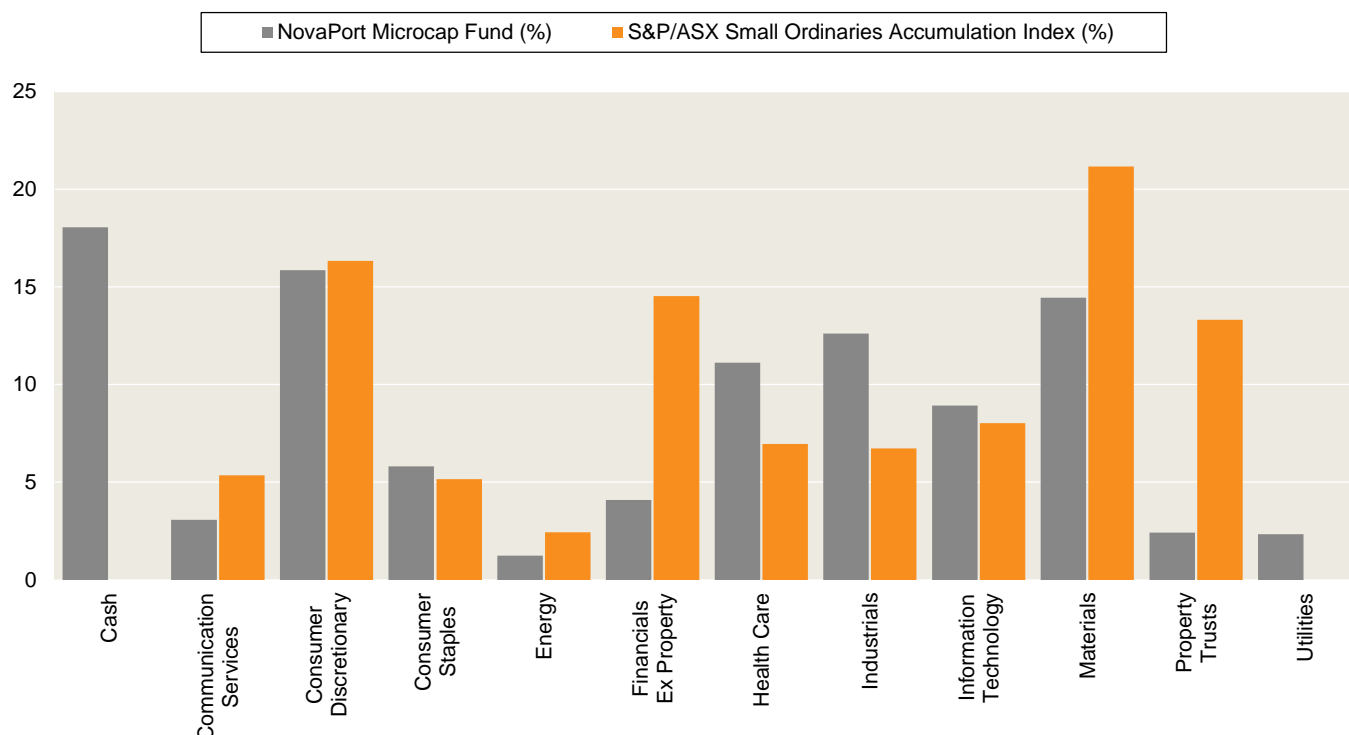
Inception date	22 March 2005
Fund size	\$92.2M
APIR code	HOW0027AU

### Fees

Entry fee	Nil
2016-2017 ICR	2.16%
Management fee	1.50%
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).
Buy/sell spread	+0.30% / -0.30%

Data Source: Fidante Partners Limited, 30 June 2021.

## Sector exposure



Data Source: Fidante Partners Limited, 30 June 2021.

## Market overview

Australian shares hit a record high last month on the back of a booming economy and synchronised global stimulus efforts. The ASX Small Ordinaries (Accumulation) Index rose 3.1% in June, closing out a very strong 8.5% quarterly gain for the smaller companies' index.

The combination of extremely accommodative monetary policy and sustained fiscal stimulus has created a very strong outlook for corporate profits. Earnings expectations for Australian businesses have been increasing in the lead-up to August reporting and the number of downgrades has been well below average.

Domestic economic strength has been clear in building approvals, house prices, retail sales, car sales, and the rapid improvement in employment. This promising environment exists despite ongoing COVID-19 outbreaks, restrictions to activities like aviation and sporting events, and sporadic lockdowns in Australia and offshore.

Global vaccination rates are strong and suggest developed economies in the northern hemisphere should be fully reopened by Christmas. Australia's vaccine rollout has lagged other wealthy countries, but full reopening remains a relatively near-term prospect that should give the economy its next leg up.

Alongside this supportive backdrop for cyclical stocks, investors have been weighing the outlook for interest rates and the appropriate discount rate for growth stocks. US 10-year bonds – a key pricing benchmark for assets globally – rallied in June, supporting a rebound in the higher valuation technology and healthcare sectors that are more vulnerable to higher discount rates.

Markets appear to have accepted the US Federal Reserve's view that high inflation will be temporary and the path to higher interest rates will be very gradual. However, inflation and monetary policy settings remain key potential risks for the market going forward.

Notwithstanding last month's rally in technology and healthcare names, materials, energy, and financials were the strongest sectors for the June Quarter. Small resources stocks were up 13.6% for the three months ended 30 June, while small industrials gained 7.3%.

## Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +8.50% for the quarter. The fund underperformed the market and delivered a +3.96% return over the quarter.

## Performance of key securities

### Key contributors

Security name	Sector	Active weight %	Value added %
Think Childcare Ltd	Consumer Discretionary	6.93	1.82
Rhipe Ltd	Information Technology	3.61	0.70
GR Engineering Services Ltd	Materials	3.98	0.49

Data Source: Fidante Partners Limited, 30 June 2021.



## Think Childcare Ltd

Think's share price climb over the last financial year, including the June quarter, was partly due to improving economic conditions post last year's rolling lockdowns (especially across Melbourne) but mostly due to a competitive bidding process which saw Busy Bees increase its indicative bid by 52% in early April to current share price levels.

## Rhipe Ltd

Rhipe's share price appreciation over the quarter reflected a positive April trading update, highlighting a continuation of revenue growth trends experienced over the first six months of the year. June quarter share price performance precedes a takeover event announced in early July which has seen the price increase further post financial year end.

## GR Engineering Services Ltd

Recent contract wins and generally buoyant industry conditions for the resources sector has underpinned an improved outlook for earnings over the medium term.

## Key detractors

Security name	Sector	Active weight %	Value added %
Viva Leisure Ltd	Consumer Discretionary	2.06	-1.66
Countplus Ltd	Industrials	1.47	-0.84
Good Drinks Australia Ltd	Consumer Staples	2.58	-0.72

Data Source: Fidante Partners Limited, 30 June 2021.

## Viva Leisure Ltd

While trends in membership numbers have been positive across the board and the company continues to grow in a post COVID-19 environment, the share price was adversely impacted in May with news emerging of a draft statement of claim by a number of its Plus Fitness brand franchisees regarding the agreement between the two parties. While franchisee revenue contributes less than 10% of total group sales, we continue to monitor the situation and acknowledge uncertainty may weigh on the stock in the short term.

## Countplus Ltd

Countplus delivered a management presentation towards the end of June which did not contain any significant new updates. Instead, the company continues to re-align its AFSL licencee business, concentrating on high quality advice firms and delivery of productivity and compliance solutions.

## Good Drinks Australia Ltd

Good Drink's share price was weaker over the quarter despite a positive late April trading update. The decline in share price likely reflects a level of profit taking given shares were up a strong 75% over the six months to the end of March.

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### For further information, please contact:

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