

NovaPort Smaller Companies Fund

Quarterly report - December 2021

Performance ¹	1 month %	Quarter %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a	15 years % p.a	Inception % p.a ²
Fund return (net)	4.24	5.05	16.16	14.62	7.92	11.60	9.10	13.22
Growth return	3.56	4.36	11.44	11.27	4.33	7.31	3.17	5.31
Distribution	0.68	0.69	4.71	3.35	3.60	4.29	5.93	7.91
S&P/ASX Small Ordinaries Accumulation Index	1.41	2.03	16.90	15.71	11.17	7.97	3.40	8.16
Active return ³	2.82	3.01	-0.74	-1.09	-3.25	3.63	5.70	5.06

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	95.07	80-100
Cash	4.93	0-20

Top 5 active positions	Fund weight %	Index weight %	Active weight %
Ebos Group Ltd	4.31	0.00	4.31
Estia Health Ltd	4.00	0.19	3.80
Gold Road Resources Ltd	3.94	0.49	3.45
Kathmandu Holdings Ltd	3.31	0.00	3.31
HT&E Ltd	3.16	0.00	3.16

Fund facts	
Inception date	31 December 2002
Fund size	\$290.0M
APIR code	HOW0016AU

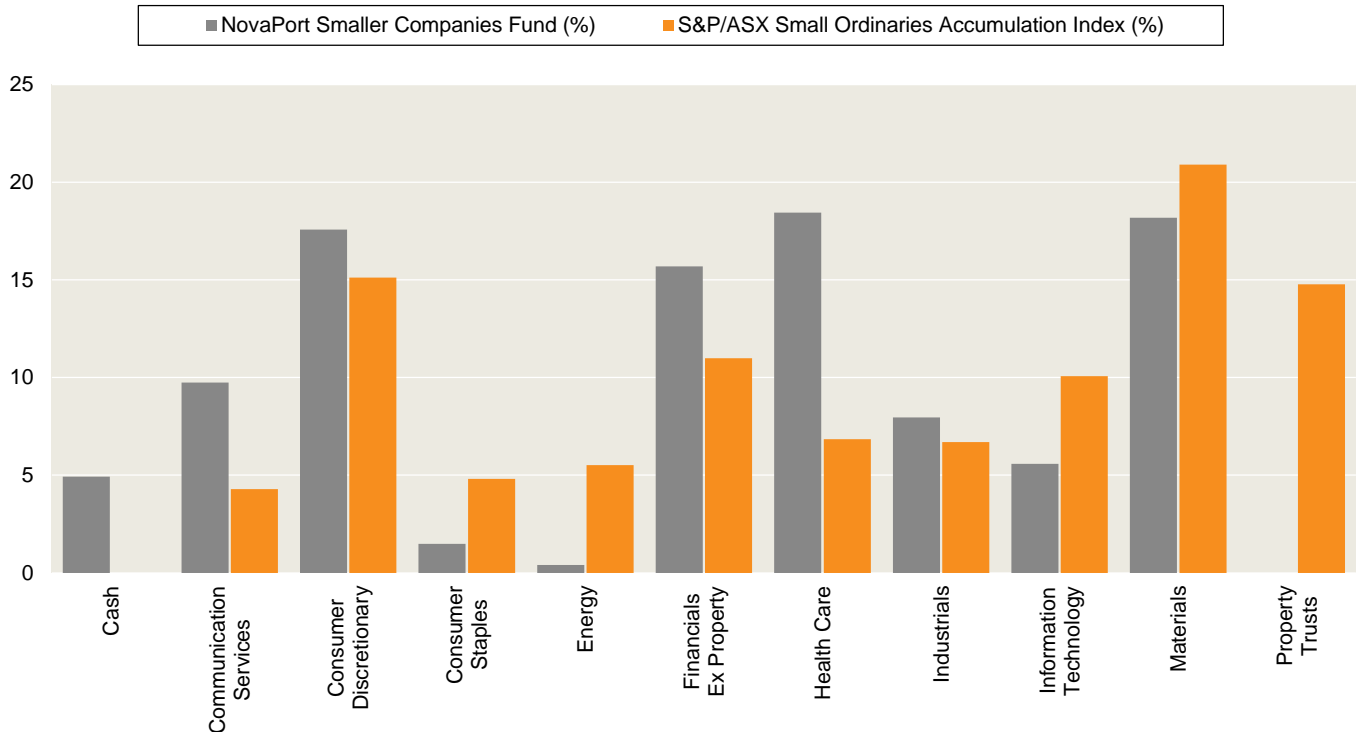
Fees	
Entry fee	Nil
2020-2021 ICR	1.00%
Management fee ¹	0.90% p.a.
Performance fee ²	20% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Fund's Performance Benchmark (the daily return of the S&P/ASX Small Ordinaries Accumulation Index). The performance fee is capped at 2.00% p.a.
Buy/sell spread	+0.30% / -0.30%

Data Source: Fidante Partners Limited, 31 December 2021.

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



Data Source: Fidante Partners Limited, 31 December 2021.

Market overview

Resource stocks drove smaller companies higher in December amid ongoing pandemic-related disruption and a looming policy pivot from the US Federal Reserve.

The ASX Small Ordinaries (Accumulation) Index rose 1.4% last month, capping a 2% gain for the December quarter.

China's balancing act between economic growth and an overheating property sector saw iron ore prices whipsaw, while oil markets were roiled by the Omicron variant and its potential impact on travel.

Despite the volatility in commodities, small resources stocks rallied 3.5% in December, posting a very strong 14.2% gain for the quarter.

Battery metals miners (lithium and nickel) were the key standouts on strong commodity prices and growing conviction in rapid adoption of electronic vehicles.

Small industrial companies lagged, gaining just 0.8% for the month and falling 1.2% for the quarter.

A strong Australian economy remains supportive for sales, but spiking shipping and logistics costs, and emerging labour shortages, are key productivity and margin risks heading into the February reporting season.

Australia's transition to life with COVID-19 circulating through the community also presents a new test for consumer behaviour and may impact businesses linked to mobility and social interaction.

The key development for global markets was the US Federal Reserve's shift in focus to combat persistently high US inflation.

The world's most important central bank signalled an end to its ultra-easy policies, with a near-term taper of asset purchases and sooner-than-expected interest rate hikes.

Yields on US 10-year bonds, the global rate benchmark, began to climb in response, with corresponding pressure on expensive and unprofitable technology stocks.

Despite the shift in yields, valuation dispersions remain extremely wide in the US and Australia, with expensive 'long-duration' afforded much higher multiples than the broader market.

Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +2.03% for the quarter. The fund outperformed the market and delivered a +5.05% return over the quarter.



Performance of key securities

Key contributors

Security name	Sector	Active weight %	Value added %
Gold Road Resources Ltd	Materials	3.45	0.87
Nick Scali Ltd	Consumer Discretionary	2.75	0.76
Independence Group NL	Materials	2.68	0.74

Data Source: Fidante Partners Limited, 31 December 2021.

Gold Road Resources Ltd

Gold Road benefited from a material increase in ore reserves at its Gruyere JV. Continued strength in the Australian dollar gold price also contributed to positive sentiment towards quality, long life, domestic gold producers. The company also abandoned its bid to acquire Apollo, which dispelled lingering uncertainty about the proposal.

Nick Scali Ltd

Nick Scali has performed strongly in the wake of its highly accretive acquisition of furniture peer Plush. The deal should be a strong driver of earnings growth notwithstanding some uncertainty around elevated demand levels and supply chain disruption.

Independence Group NL

Independence Group has benefited from strong investor interest in miners producing commodities such as lithium and nickel, required for making the batteries needed to meet the growing demand for electric vehicles.

Key detractors

Security name	Sector	Active weight %	Value added %
Pilbara Minerals Ltd	Materials	0.00	-0.43
Universal Store Holdings Ltd	Consumer Discretionary	2.48	-0.41
Chalice Mining Ltd	Materials	-1.07	-0.34

Data Source: Fidante Partners Limited, 31 December 2021.

Pilbara Minerals Ltd

Not held by the fund.

Universal Store Holdings Ltd

As has been the case for several retailers, Universal's share price has weakened recently with the Omicron wave disrupting a buoyant post Delta re-opening trend. Not only are customers expected to reduce in store visits as well as dampen online spend (given lack of fiscal stimulus this time around), supply chains have also been impacted which is expected to increase costs in the short term.

Chalice Mining Ltd

Not held by the fund.

For further information, please contact:

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This material has been prepared by NovaPort Capital Pty Ltd (ABN 88 140 833 656, AFSL 385329) NovaPort, the investment manager of the NovaPort Smaller Companies Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (**Challenger Group**) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Alphinity and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Alphinity and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.

