Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 30th April 2019

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund ^	**4.7%**	**6.1%**	**10.9%**	**15.6%**	**13.1%**
*Benchmark**	*3.5%*	*2.0%*	*5.5%*	*10.8%*	*10.7%*
Value added	1.2%	4.1%	5.4%	4.8%	2.3%

^ Spheria Opportunities Fund. Returns of the Fund are net of applicable fees, costs and taxes.

* Benchmark is the S&P/ASX Mid-Small Accumulation Index.

Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2010. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
Crown Resorts Ltd	5.8
Navitas Limited	5.4
Coca-Cola Amatil	4.5
TABCORP Holdings	4.3
Bega Cheese Ltd	4.0
Top 5	**24.0**

Source: Spheria Asset Management

Commentary

The Spheria Opportunities Fund returned 4.7% in April outperforming the Benchmark which increased 3.5%. For the year ending 30th April 2019 the Fund returned 10.9% outperforming its benchmark by 5.4%.

The market continued its merry way in April with the S&P ASX Mid-Smalls Accumulation index rallying 3.5%. The momentum trade back on like there was never even a hiccup with a seemingly endless supply of capital pursuing "Uber"-popular companies with little regard to valuation – in fact many of these companies will never actually make a profit! Somehow despite our valuation-based methodology we managed to outperform the benchmark in April. The portfolio's performance buoyed by takeover activity and speculation in Duluxgroup (DLX, +32%), Healius (HLS, +19%) and Crown Resorts (CWN, +15%).

DLX was the subject of a takeover proposal from Nippon Paint in April at a substantial premium to its trading history. This came out of the blue with none of the usual press speculation that invariably precedes most takeovers. We have been a long-term shareholder in DLX, attracted to its strong market position (> 50% market share in Australia and New Zealand) in decorative paint market in retail and trade. It has always been highly cash generative and has delivered a stable Return on Invested Capital (ROIC) of around 28% since it was demerged from Orica nearly 10 years ago. We also view the paint industry as relatively defensive with very little cyclicality exhibited historically in developed markets. Given DLX is more exposed to renovation/maintenance spend versus new housing development we expected its cyclicality to be even less pronounced than its peers. Recent investments in manufacturing were also likely to drive greater cost efficiency out of its manufacturing base. We always thought Nippon Paint would attempt to re-enter the market via acquisition given it tried to organically enter the market nearly ten years ago by importing paint from Singapore and gaining some shelf space at Bunnings. This failed miserably highlighting the strength of DLX in the market, and the only way to enter the market on any meaningful basis being to acquire DLX given Taubmans and Wattyl are spoken for. We are happy with the price (18x EV/EBIT, 25x PE) and believe there is only a remote possibility of an interloper given the premium being paid.

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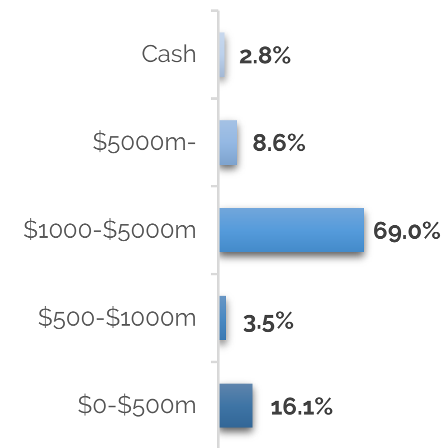
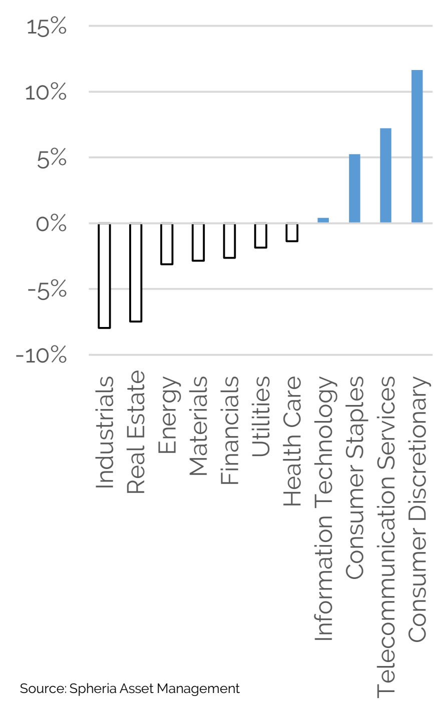
Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

HLS (formerly Primary Healthcare) we started buying last year in the high $3's and ended up averaging down into the low $2 range during a series of negative profit updates. The share price having rallied recently on the back of a takeover approach from its major shareholder (Jangho) and repeated speculation that other party/s are interested in acquiring the company. HLS has fallen on harder times with numerous legacy issues to deal with, mostly a function of previous management teams and a GP model that never appeared sustainable. Management have now reset the businesses and we believe there is significant value in the pathology operations which are strategic given it is the second largest operator in Australia and now represents most of the groups valuation (>80%). Apart from pathology we believe there is strategic appeal in the diagnostic imaging business with consolidation in that market likely to involve HLS divesting components of the division, which are an unnatural fit with the broader group. This would likely create significant value for HLS shareholders.

In a left field surprise, it was revealed in the press that CWN was the subject of takeover interest from Wynn Resorts with an offer of A$14.75, a significant premium to recent trading history. We first entered CWN in September last year on valuation grounds. We felt the market was obsessed with short term macro-economic challenges rather than the long term irreplicable nature of the casino portfolio. There is also risk around pre-sales and potentially settlements of the Barangaroo high-rise apartments which has weighed on the share price. However, we note that conservatively valuing the Barangaroo development at book value we believe the remaining portfolio (mainly Crown in Melbourne and Burswood in Perth) still only trading on 12x EV/EBIT at current prices. On a long-term view, we believe book value for Barangaroo is significantly undervaluing the asset given its location and the likelihood it takes significant share from its nearby competitor. Whilst Wynn walked away after the deal was leaked to the press, we would not be surprised if they come back at a later point or if the talks flush out another buyer for CWN given the valuation equation. In any case, we are a happy long-term shareholder in CWN given the attractive valuation and the highly cash generative and defensible nature of the assets.

Overall, we are happy with recent performance but note that performance can be fleeting. More importantly for us we believe we are finding solid long-term investment opportunities where the risk-reward profile is skewed in our favour. We continue to avoid pockets of extreme over-exuberance where market valuations are deeply concerning. This should protect us in a potentially more hostile investment climate and weaker economic conditions which are becoming increasingly evident.

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	Spheria Opportunities Fund
Benchmark (universe)	S&P/ASX Mid-Small Accumulation Index
Investment objective	The Fund aims to outperform the S&P/ASX Mid-Small Accumulation Index over the medium to long term
Investing universe	Primarily listed companies outside the top 50 ASX listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation
Distributions	Half yearly
Fees	0.99% p.a. management fee & 15% performance fee of the Fund's excess return versus its benchmark, net of the management fee
Cash	• Up to 20% cash • Typically 5% - 10%
Expected turnover	30-40%
Style	Long only, risk aware
APIR	WHT0025AU
Minimum Investment	$25,000