

Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU



Performance as at 31st May 2019

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund ^	-1.5%	4.5%	5.1%	15.4%	12.1%
<i>Benchmark*</i>	-0.9%	1.1%	2.7%	10.6%	10.0%
<i>Value added</i>	-0.6%	3.4%	2.4%	4.9%	2.0%

^ 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	5.6
Coca-Cola Amatil	5.0
Adelaide Brighton	4.9
Navitas Limited	4.5
TABCORP Holdings Ltd	4.1

Top 5 **24.2**

Source: Spheria Asset Management

Commentary

The Spheria Opportunities Fund returned -1.5% for the month of May underperforming the Benchmark which decreased 0.9%. For the year ending 31st of May 2019, the Fund returned 5.1% net of fees outperforming the benchmark by 2.4%.

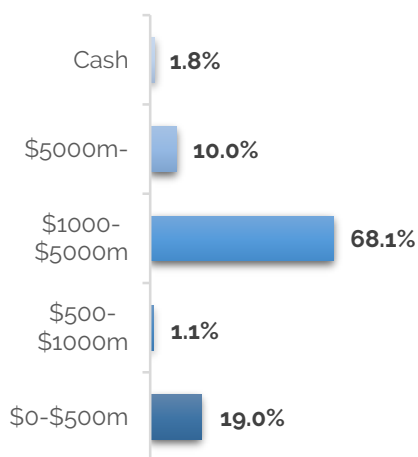
The market, as is often the case in May, paused for breath as it digested the strong performance of the previous month and a plethora of local and global machinations. Locally we had the outcome of the Federal election which provided some much needed certainty to the local outlook and a more stable view on taxes and other regulatory changes which would have been brought in by the Labor Party. Globally the tariff war between the US and China increased in intensity whilst Central Banks around the world started back on an interest rate easing bias.

The certainty around Australia's domestic economy strengthened significantly after the election result and this saw a number of cyclical and housing related stocks rebound over May. One of the chief contributors to the Fund was Mortgage Choice (MOC.ASX). Whilst MOC is far from the largest holding in the fund it does demonstrate the ability of the Opportunities Fund to selectively invest down the market cap spectrum. MOC in many ways typifies to us the anatomy of a good investment. What is the anatomy of a good investment? We think they share several traits - firstly they generate good cashflows. These don't necessarily need to be non-cyclical but it helps if the cycles aren't too extreme and there is some predictability to the earnings and cashflows of the company. Secondly the business generates strong returns on capital (or is capital light), thirdly it operates with reasonable margins and fourthly it has a strong management team (who instil operational excellence and who understand their role in capital allocation). Other important factors we like to see include a reasonable length of listed operating history since this enables us to better assess the business cycles, competition, cashflow generation and capital allocation. Lastly, we like to be able to invest in all of the above at a share price materially under what we think the business is worth.

MOC operates as a franchise operator for mortgage brokers. This means it is capital light and has an enviable record of cash generation (98% cash conversion for the past 10 years) coupled with a net cash balance sheet. Operating margins are typically in the mid to high teens - albeit they are likely

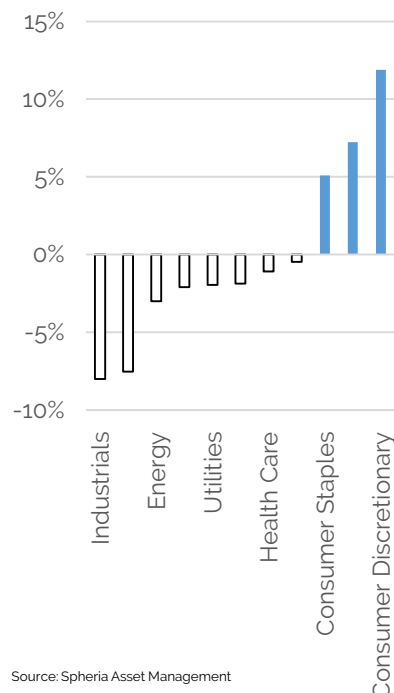
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Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

to be low double digit this fiscal year. Finally, although there is a reasonably new executive team at MOC they have already acted to improve commission structures for franchisees (lowering profitability but extending duration and making it more attractive proposition for new franchisees) and continue to pay out substantial dividends. We were also able to buy these shares at a material discount to our assessed valuation of the business. Sentiment had been so negative in fact that we were able to add to our position for less than our assessed fair value of the trail book alone, meaning that we were getting paid to invest in a stream of earnings MOC was already entitled to (MOC earns commissions on mortgages written in the current year plus is entitled to trail commissions from already written mortgages which are still in force). MOC hit a low of 80c just before the election in Mid-May and has since risen almost 50% to close the month at \$1.19.

The Fund also saw strong performance from Coca Cola Amatil (CCL.ASX) which rose 8%, a rebound in Flight Centre (FLT.ASX) up 14% and Realestate.com.au (REA.ASX) which rose 11%.

On the other side of the ledger Class Ltd (CL1.ASX) declined 24% on limited news flow (having performed strongly from the beginning of the year). The Coalition retaining Government should have provided some certainty with respect to SMSF investors' entitlement to franking credit refunds and thus share price support for CL1 given what we feel is an attractive valuation. An onslaught of negative commentary on SMSFs (from competitors including industry funds and platforms) has slowed overall industry growth however and impacted sentiment. We still believe over time SMSF's to be a strong proposition for clients wanting control over their superannuation particularly as the cost of managing SMSFs continues to fall due in part to the automated software technology that Class provides. It is possible that the large number of transitions we are seeing through the small cap market at the moment is having some impact on CL1 which isn't reflective of its outlook. Technology One (TNE.ASX) declined 18% during May after delivering an inline first half result. TNE however had performed very strongly since its weak first half in 2018 and it is safe to assume the market had expected more. Lastly, Janus Henderson Group (JHG.ASX) declined 14% over the month on the back of a disappointing q1 result which in turn was driven by higher than expected FUM outflows.

The disparities in valuations between the popular and unpopular stocks at present continue to offer compelling opportunities, we feel. Whilst most global equity markets appear to be awash with liquidity we have been around investing markets long enough to understand that conditions can and do change periodically. Given that the timing of these types of events are usually entirely unknown we believe our investors remain best served by our continued bottom up investment focus. The constant waxing and waning of investors moods will offer opportunities for us to invest funds appropriately for our clients.

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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	<ul style="list-style-type: none">• Up to 20% cash• Typically 5% - 10%
Expected turnover	30-40%
Style	Long only, risk aware
APIR	WHT0025AU
Minimum Investment	\$25,000

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