Spheria Global Microcap Fund

ARSN 627 330 287 APIR WHT6704AU

Spheria ASSET MANAGEMENT

Performance as at 30th April 2021

	1 Month	3 Months	1 Year	2 Years#	Inception#
Fund^	4.6%	11.4%	46.6%	23.8%	24.6%
*Benchmark**	2.4%	13.9%	69.0%	22.7%	21.8%
Value added	2.2%	-2.5%	-22.5%	1.1%	2.8%

^ Spheria Global Microcap Fund. Returns of the Fund are net of applicable fees, costs and taxes
* Benchmark is the MSCI Kokusai (World ex Japan) Microcap Index in AUD (Net).
# Inception date is 1 March 2019. Returns are per annum.
Past performance is not a reliable indicator of future performance.

April delivered yet another positive return for Microcaps. The Kokusai Microcap Index (World Ex-Japan) returned 2.4% in AUD. With the Covid re-opening now largely priced in (and then some in many cases), we expect the pace of Microcap outperformance will wane in the near term (+56% over the MSCI World Index in USD). However, it is too early to expect any underperformance from microcap stocks with economic growth still so strong. In April, the MSCI Microcap Kokusai Index outperformed the large-cap MSCI World Index (Ex-Australia) by 0.3% and the MSCI World Small Cap Index by 1.1%.

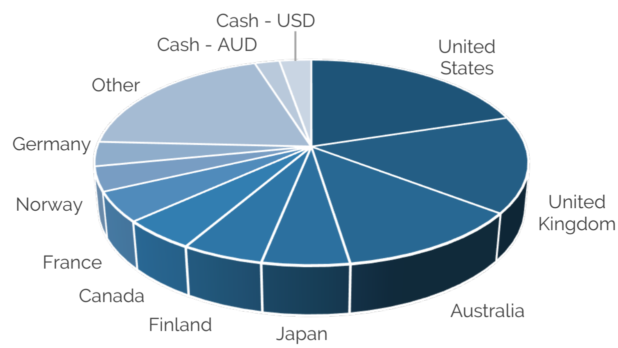
The Fund performed strongly during April, up 4.6% net of fees. Since inception, the Fund has delivered 24.6% p/a net of fees compared to the benchmark return of 21.8% p/a net of fees. Over the same time frame, the MSCI World Index (Ex-Australia) has returned 13.8% p/a.

Continued on the next page...

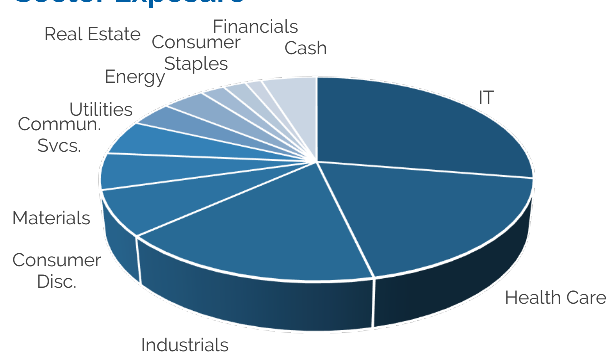
Top 5 Holdings

Company Name	% Portfolio
Fjordkraft (Norway)	3.8%
Inogen (USA)	3.4%
Steelcase (USA)	3.1%
Coltene (Switzerland)	3.0%
Universal (Australia)	2.9%
Top 5	**16.2%**

Regional Exposure



Sector Exposure



Source: Spheria Asset Management

Markets

From October 2020 to February 2021, the US Russell Micro Growth Index appreciated 57.8%. A staggering performance propped up by companies selling a bright future, but with little to show today. As the table below highlights, the Top 10 stocks in the Index are attracting tremendous valuations despite their typical loss-making status.

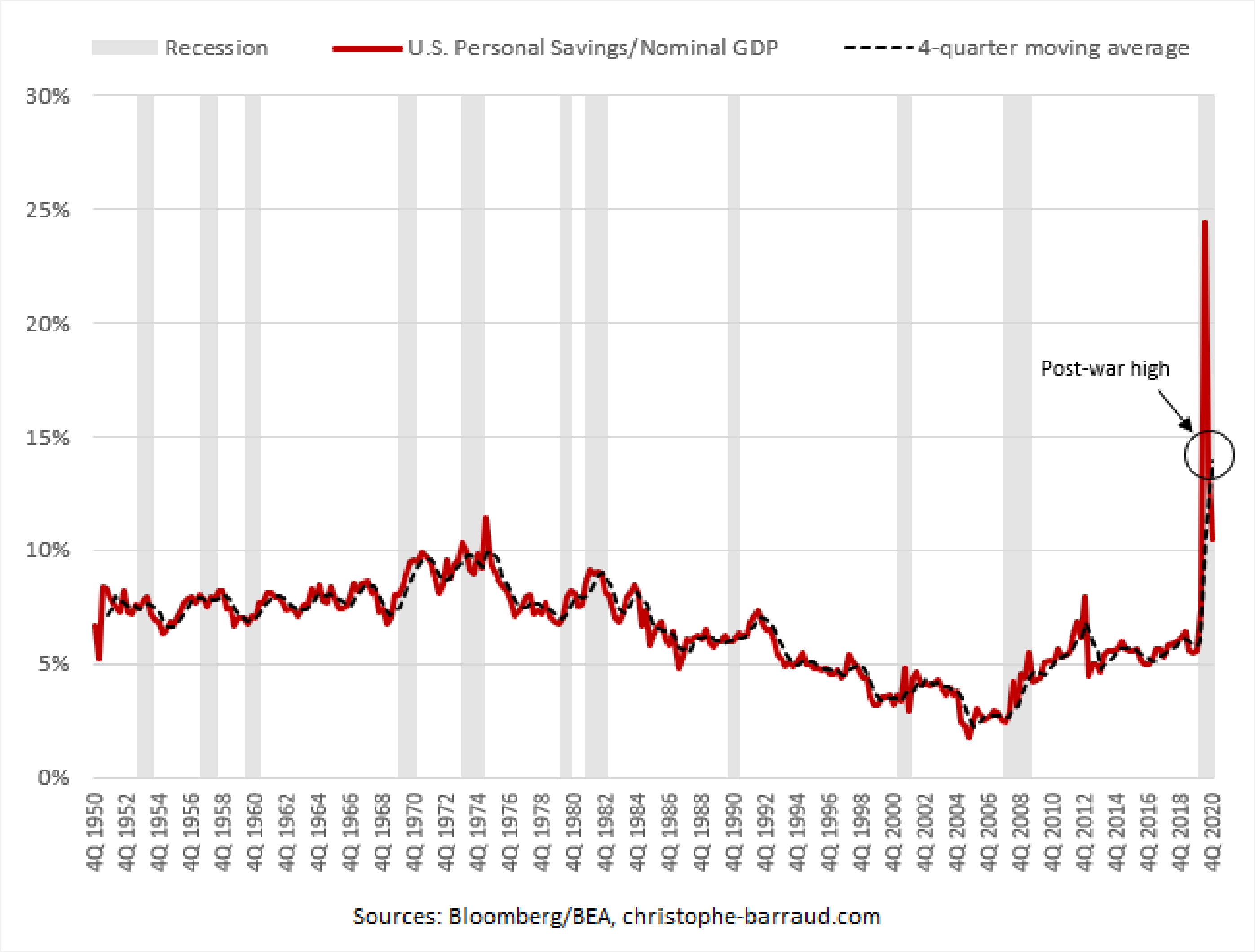
Company	BBG Ticker	Market Value ($USm)	Revenue ($USm)	EBIT (Adj. - $USm)	180 Day Return (USD)
Digital Turbine Inc	APPS US	5,475	139	14	44.8%
Intellia Therapeutics Inc	NTLA US	4,531	58	-137	136.9%
Riot Blockchain Inc	RIOT US	2,814	12	-18	816.4%
Fuelcell Energy Inc	FCEL US	2,557	71	-36	231.8%
Magnite Inc	MGNI US	4,125	222	-39	184.1%
Ultra Clean Holdings Inc	UCTT US	2,105	1,399	135	89.0%
Overstock.Com Inc	OSTK US	3,367	2,550	54	16.3%
Exp World Holdings Inc	EXPI US	4,077	1,798	32	18.3%
Vericel Corp	VCEL US	2,461	124	2	136.2%
Cryoport Inc	CYRX US	2,812	79	-18	34.9%

While the Fund is not benchmarked against the US Russell Micro Indices, they provide a valuable insight into the market's current risk-taking frame of mind, especially since the US is undoubtedly the epicentre of speculative fervour at present. Crypto, SPACs and profitless tech stocks call the US home. This heightened risk-taking flows across the broader US market. It is no surprise that we are heavily underweight the country, seeing better risk-return opportunities in markets such as Japan, the UK, Spain and Italy.

Over the last two months, the pace of US microcap growth names has slowed, with the Russell Microcap Growth Index in decline. Fear of inflation and rising interest rates may be the catalyst people are searching to end growth's supremacy. Still, in reality, history shows this type of froth often collapses under its own weight. As the great Archimedes discovered, create enough bubbles on a surface, and it will sink whatever is floating on it.

More broadly, materials led microcaps higher in April. Inflation pressures across many commodities helped these stocks post impressive returns. Copper the shiniest metal of all. Consumer Discretionary stocks also posted strong returns as Government stimulus continues to find its way into the economy and out of consumers artificially inflated savings piles (see chart on the next page). IT, Energy and Health Care lagged, declining slightly in April.

Continued on the next page...



Reproduced with permission from Christophe Barraud.

Finland, home to three of the Fund's holdings, was the best performing market in microcaps during April. Israel & Sweden also performed strongly. It is such a luxury to search for microcaps in these highly innovative countries, often neglected by large-cap funds. The US lagged the rest of the Index, down 2.5% in AUD.

Continued on the next page...

Fund Performance

Universal Store Holdings

Universal Store Holdings contributed after reporting an exceptionally strong 3Q21 trading update with comparable store sales up 37%. Universal is now lapping six years of double-digit positive like for like sales, yet this impressive youth-oriented retailer continues to go from strength to strength. At 11x FY22 EV/EBIT the stock still looks attractive to us given its exceptional ROIC and strong growth prospects through store rollout and online growth.

Poletowin Pitcrew Holdings

Last month's top contributor was this month's largest detractor. Not that unusual when a Fund focuses on fundamental valuation rather than earnings momentum. The company reported its 4Q21 result (March year-end typical in Japan). As we anticipated, revenue guidance was a strong 12.5% as the company benefits from new gaming platform launches and its international expansion strategy.

However, its guidance for earnings was underwhelming. This guidance reflects a degree of caution as Management budgeted for increased costs such as travel in the eventuality that this resumes earlier than anticipated. There is also a modest US$1m investment in its gaming company, as Poletowin looks to vertically integrate and help customers with more of their graphics and coding development rather than focus solely on its current niche of back-end testing.

Given the strong balance sheet, healthy returns, and cosy industry structure, we remain long-term holders of the company. In the near term, we expect earnings may also surprise as Management proves to be overly cautious regarding its cost budgeting.

Outlook

90% of drivers believe they are better than average. And so it wouldn't surprise us if the same type of survey suggested 90% of Fund Managers thought they are better than average. Hubris, or overconfidence, can be a dangerous trait in a Fund Manager. Most of all, it may result in the Fund Manager taking risks they should avoid.

One of the most widely read and discussed books in financial circles is Thinking, Fast and Slow by Daniel Kahneman. The book is effectively a meta-review of numerous psychology studies exploring people's unconscious bias. Faced with uncertainty, individuals will often give way to their brain's autopilot, or "System 1", making decisions based on intuition and gut feel. System 1 will always try to form a coherent interpretation of the facts, even when one doesn't exist—confusing causation for chance and mixing up irrelevant facts because it helps the "story". Relying on System 1 can make individuals overconfident and prone to error.

The various studies in the field are fascinating and quite frankly frightening. The area of psychology has come a long way, and our understanding of how individuals respond to uncertainty and risk has developed dramatically. There is no doubt that investment banks and companies are exploiting these findings to help sell their wares. Providing a coherent, easy to follow story for Fund Managers means the Fund Manager is less likely to engage their "System 2" – referring to effortful mental activity allocated to tasks such as complex computations.

Many Fund Managers are only too willing to allow their System 1 run the show, confident that their brilliance can see through any shady management and identify any risks on the horizon.

However, the Spheria Global Microcap Fund process incorporates these advances in psychology to reduce the risk of being led down the garden path by Management and reduce downside risk for investors. Specifically, there are three areas where our process differs from the majority of small and microcap managers.

- **Depth not Breadth:** Most global micro and small-cap managers see a large universe to choose from and feel the need to meet with as many companies as possible to find the best opportunities. The fear of missing out

Continued on the next page...

compels them to act this way. We see a universe of stocks with less attention from investors and the sell-side and believe deep fundamental valuation can best exploit this lack of research. You won't see us touting how many companies we meet with, instead, we are selective about the companies we choose to investigate further. It is attractive financial metrics, and that alone, that first attracts us to a stock. Thereby we are guided by the most objective data possible, which is audited financials submitted to a regulatory body such as the SEC – System 2 at work.

- **Control the Management Meeting:** Because of our depth instead of breadth approach, we put the critical step of speaking with Management at the very back-end of our process. By the time we meet with company Management we have scoured the financials, done in-depth industry analysis, and contemplated a myriad of risks to the company. By that stage, we are well enough informed to drive the meeting, thus not leaving ourselves open to Management exploiting our System 1 autopilot.

- **Assess Management on their Track Record:** Assessing Management can be highly subjective (System 1). We also believe that, like football coaches, fund managers tend to put too much emphasis on the CEO, and not enough on the industry, the broader executive committee, and simple good fortune. Don't get us wrong, the CEO and CFO are vital since they dictate the company agenda, and so often the board is putty in their hands. We look for the most objective data possible when assessing Management. These include the past education, career history, management incentive structure, and the company's track record to date. In particular, capital allocation and strategic direction. Red flags include poor acquisitions, churn in the CEO's direct reports, signs of weak systems (like missing guidance repeatedly), and aggressive accounting. Again, we attempt to use as much of our System 2 thought process as possible, rather than relying on our Super Fund Manager Talents (System 1) to assess whether Management is a suitable steward of our investors' capital.

And finally, we must apologise for our false advertising. We label this section "Outlook", but often it is an insight into how we manage your precious capital. The Fund has been running since March 2019, and many of our investors are relatively new to us. From what we can tell, very few fund managers offer a Global Microcap Fund, and hence we have the challenge of championing this fantastic asset class. We also offer a highly differentiated process designed to minimise risk and reward patient capital. Combined, we think the outlook for the Fund's investors over the long run is bright.

Spheria Global Microcap Fund

ARSN 627 330 287 APIR WHT6704AU

	Spheria Global Microcap Fund
Benchmark (universe)	MSCI Kokusai (World ex Japan) Microcap Index in AUD (Net)
Investment objective	The Fund aims to outperform the MSCI Kokusai (World ex Japan) Microcap Index in AUD (Net) over the long term.
Investing universe	Global listed microcap equities predominantly in developed markets with a market capitalisation of US$1.0bn and below at time of purchase.
Distributions	Annually
Fees	1.35% p.a. management fee & 20% performance fee of the Fund's excess return versus its benchmark, net of the management fee.
Cash	Up to 20% cash
Expected turnover	20%-40%
Style	Long only
APIR	WHT6704AU
Minimum Initial Investment	$25,000

Platform availability
HUB24
Macquarie Wrap
Praemium