Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 31st August 2021

	1m	6m	1yr	3yr p.a.	5yr p.a.	Inception p.a.#
Fund ^	**5.2%**	**14.4%**	**42.0%**	**10.9%**	**12.7%**	**13.1%**
*Benchmark**	*4.4%*	*17.0%*	*30.2%*	*11.3%*	*12.1%*	*12.8%*
Value added	0.8%	-2.6%	11.8%	-0.4%	0.6%	0.3%

^ 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. All p.a. returns are annualised.

\# 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.

Commentary

The Spheria Opportunities Fund returned 5.2% (after fees) during the month of August, outperforming the ASX Mid-Small Accumulation Index by 0.8%.

Markets

Markets locally rose strongly over August adding yet further to the stunning recovery in the small/mid-market since the lows seen in late February 2020. Performance was relatively broad based but biased to sectors enjoying strong sentiment with significant gains seen in battery materials names, biotechs and fintechs but also solid performance in REITS, many COVID-19 re-opening plays and several under-owned names that had high short interest. Gold exposures significantly underperformed as the equities followed the gold price down after a "flash crash" early in the month on fears of U.S. Federal Reserve QE tapering but failed to rise as the gold price recovered the entirety of the loss later in the month. Iron ore exposures were also significant underperformers during the month as the benchmark for iron ore fell a further 20% during the month after rolling over from record highs in July.

Retail exposures that had traded well through COVID-19 on share of wallet gains as services spending was diverted to goods spending, were amongst the laggards as the market turned its names to those who might benefit from re-opening. Companies reporting disappointing results or outlook not directly relating to COVID-19 were unsurprisingly punished with Electro Optical Systems (EOS.ASX), Starpharma (SPL.ASX), AMA Group (AMA.ASX), Synlait (SM1.ASX), Bravura Solution Ltd (BVS.ASX), Paradigm Bio (PAR.ASX), Mesoblast (MSB.ASX) and Altium (ALU.ASX) all down more than 10% for the month.

The Fund outperformed due to an overweight to re-opening names, an underweight to gold and long positions in several stocks that saw earnings upgrades (e.g. Austin Engineering) and in some cases shorts capitulating (Blackmores).

While the Fund has performed reasonably well on a relative and absolute basis and we continue to find opportunities for rotation that tick our boxes on cashflow, balance sheet strength and valuation we remain concerned about speculative excess in certain areas of the market. High momentum names

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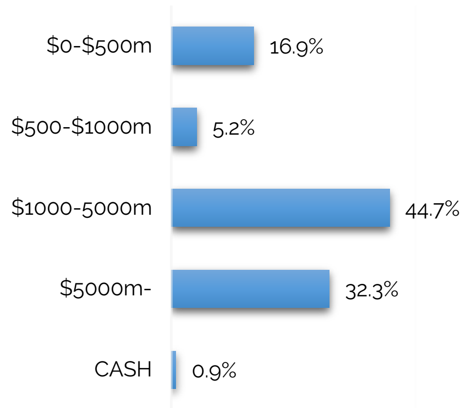
Top 5 Holdings

Company Name	% Portfolio
Orora Limited	6.5
Blackmores Limited	5.7
Atlas Arteria	4.3
Seven West Media Ltd	4.2
Incitec Pivot	4.2
Top 5	**24.8**

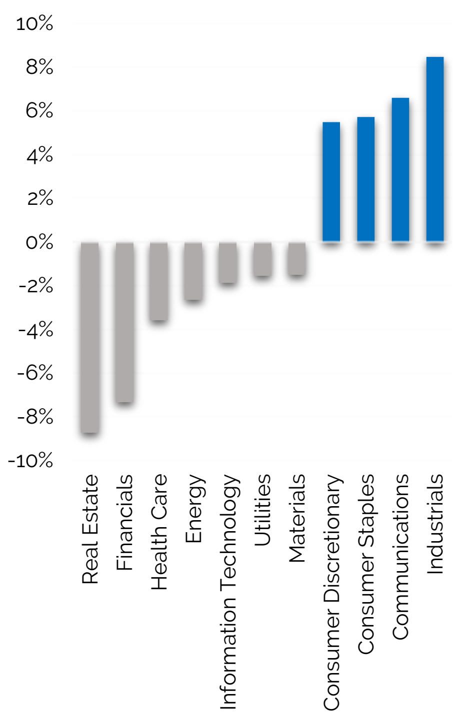
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

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exposed to popular thematics in the battery materials, fintech and biotech names in particular appear to have become completely detached from any semblance of intrinsic value. We will continue to avoid these names and instead focus our attention on the quiet achievers that generate solid cashflows at decent valuations and are being ignored by the crowd. We believe the market remains conducive to elevated levels of M&A activity that have historically buoyed our returns given our preference for undervalued, cash generative businesses with underleveraged balance sheets sees our portfolio companies being the target of this activity more commonly than the average index constituent.

Major Contributors for the Month

Blackmores (BKL.ASX) was the largest contributor as the stock soared 37% on the back of a much-improved result from last year's depressed base and the confident issuance of outer year (FY24) revenue and margin targets. While Blackmores looks expensive optically on near term earnings, we like the new management's strategic initiatives to take costs out of the business and simultaneously grow topline sales and see good prospects for such growth in South-East Asia and pet care products in particular.

City Chic (CCX.ASX) contributed after rallying 15% as the multinational omni-channel retailer of plus sized fashion delivered a strong result and provided commentary that suggested the business continued to see healthy growth in like for like sales despite the impacts of the pandemic on its Australian store network. The business appears to be well positioned for continued strong organic earnings growth as it cross sells SKUs across its multinational network of online branded websites. Additionally, the possibility remains for more accretive deals to put its net cash balance sheet to work. Having said that however, the c25x EV/EBIT multiple now extrapolates a fair degree of success and has seen us take some profits to fund other opportunities.

Class (CL1.ASX) contributed after delivering a marginally better than expected result that saw it return 16% after it had badly lagged the market since delivering an inline 1H21 result. We still see the specialist provider of cloud-based accounting, investment reporting, document and corporate compliance software as well placed to deliver double digit earnings growth and continue to believe it screens well compared to other software exposures.

Major Detractors for the Month

Orora (ORA.ASX) was the largest detractor as the stock returned –5% against a very strong benchmark performance despite posting a result that appeared to be modestly ahead of consensus expectations. The stock had run hard into results season from an oversold base, and it appears market participants took profit to chase momentum elsewhere. We believe the business screens well with an EV/ EBIT of only 12x for a high ROIC duopoly business in Australian beverage packaging (with above WACC investment opportunities in cans and where returns from the glass business are artificially depressed from the transient impacts of the Chinese wine tariffs) and a U.S. packaging business that is now firmly on the recovery path but well off the margin levels management are targeting.

Domino's Pizza Enterprises (DMP.ASX) detracted as it returned 35% during the month following delivery of a strong result. Whilst the business has undoubtedly performed well, we believe it has been a material beneficiary of the pandemic (the stock is up c165% since the pre COVID-19 peak of the market on 20th February 2020) as people shift consumption to delivery and takeout away from dine in meals and other forms of hospitality due to government health restrictions and caution about catching COVID-19. At 64x forward PE and with the potential for outer year estimates to be negatively revised if we are correct about the impact of the pandemic however, we see better value elsewhere.

Wisetech Global (WTC.ASX) detracted as it soared an incredible 57% during the month following the delivery of a strong result that saw roughly double-digit outer year EPS revisions. Once again, we believe the business (a SaaS provider of logistics software to freight forwarders) to have been a material beneficiary of the pandemic as global

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goods consumption as a percentage of GDP soared to levels not seen for decades as consumers shifted expenditures away from services towards durable goods in particular. The addition of COVID-19 induced bottlenecks in goods production and shipping and distribution infrastructure has provided a very supportive macro backdrop for the company. Having returned c170% since the pre-COVID-19 peak of the market in February 2020 and being on over 100x forward PE however we see downside risk building when the global economy re-enters a more normal environment where services once again become the driver of global GDP growth.

Outlook & Strategy

While we never seriously doubted that humanity would find a way through the challenges of COVID-19, we are even more firmly of the view that the Australian economy will see out the delta outbreaks in New South Wales and Victoria with vaccination rates rising rapidly and the international experience suggesting that the current crop of vaccines are sufficient to keep morbidity at acceptable levels (even if booster doses like those being rolled out in Israel are eventually required). Our philosophy of buying cash generative business models, with solid balance sheets and returns and sensible valuations remains unchanged despite the challenges of managing money against a benchmark increasingly driven by retail, quantitative and index investors. We feel conditions remain conducive to high levels of corporate activity given plentiful liquidity, procyclical boards and record levels of private equity dry powder. We believe this will continue to present a tailwind for our returns given our predilection for undervalued, cash generative businesses with modestly or underleveraged balance sheets. We will continue to avoid names trading well above their intrinsic value and stick with our disciplined investment approach that is driven by valuation fundamentals.

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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