

# Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU



## Performance as at 31<sup>st</sup> May 2021

	1m	6m	1yr	3yr p.a.	Inception p.a.#
<b>Fund ^</b>	<b>-0.4%</b>	<b>12.7%</b>	<b>39.2%</b>	<b>9.5%</b>	<b>11.9%</b>
<i>Benchmark*</i>	0.6%	10.2%	31.9%	9.9%	11.5%
Value added	-1.0%	2.4%	7.3%	-0.4%	0.4%

^ Spheria Opportunities Fund. Returns of the Fund are net of applicable fees, costs and taxes. All p.a returns are annualised.

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

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

## Commentary

The Spheria Opportunities Fund declined 0.4% (after fees) in May, underperforming its benchmark by 1.0%.

## Markets

The Mid-Small Accumulation Index was up fairly modestly over May however the capital markets have kicked into overdrive. Announced M&A deals (many not completed as yet) were amongst the highest levels the ASX has seen in the last 20 years. The IPO market is also experiencing high levels of activity as entrepreneurs and Private Equity seek to hit the exit whilst the IPO window is open. As is often the case however the rush for the exits eventually fatigues the time, patience and interest of the market and a number of recent attempts to list have been pulled as the finely balanced scales between cynicism and opportunism tip back in favour of the former.

The market concerns around inflation remain highly topical. Tomes have been written on whether we will see inflation and if so for how long this rarely seen mythological beast will continue in our midst. Having said that, the conditions for its re-appearance have never been better. The modern-day conjurers (aka the Cabal of the Central Bankers) have been brewing their caldrons for several years now, perfecting the secret herbs and spices, to make a heady cocktail for its re-appearance. It's little wonder then that the combination of this brew plus the super stimulus from Covid 19 is starting to work through the economic system. Short term observable inflation indicators are up hugely – freight rates have doubled, raw material prices are at record levels, consumer demand and confidence is strong, and we are experiencing a number of supply shortages (computer chips, cars, etc.). Covid induced lack of migration is also biting many industries with hospitality and mining in particular struggling to fill job vacancies. Wage pressure in the West is now extreme although when mobility eases there should be some relief for this pressure cooker. For now, the Cabal has managed to persuade markets that they can conjure the inflationary beast and yet keep the longer-term impacts in a convenient bottle.

There were a number of notable downgrades over the month with recently listed Nuix (NXL.ASX) cutting numbers for the third time since listing. Inflationary pressures are building in the labour market in the West with Perenti Global (PRN.ASX) calling out labour impacts thus trimming numbers for their H2 earnings followed by Costa Group (CGC.ASX) who called out the

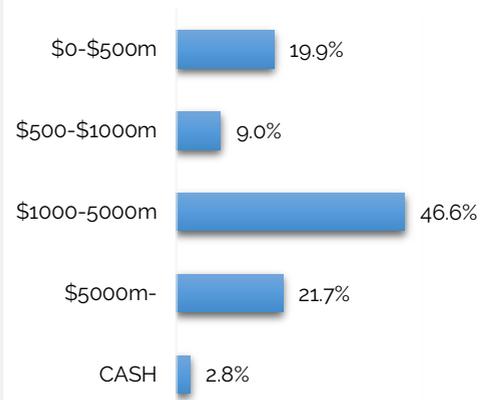
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## Top 5 Holdings

Company Name	% Portfolio
Orora Limited	4.8
Als Ltd	4.8
Crown Resorts Ltd	4.6
Fletcher Building	4.3
Incitec Pivot	4.3
<b>Top 5</b>	<b>22.9</b>

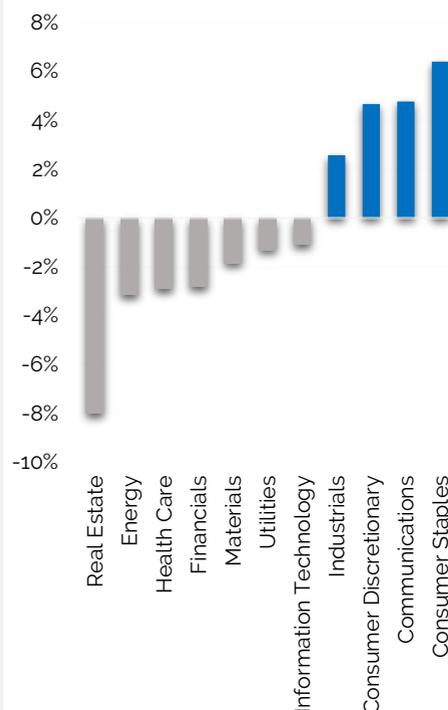
Source: Spheria Asset Management

## Market Cap Bands



Source: Spheria Asset Management

## Active Sector Exposure



Source: Spheria Asset Management

lack of temporary fruit picking labour as having a major impact on margins. None of these stocks are owned by the Fund. Whilst we believe these impacts will be relatively short-lived, we need to see some sort of consistent approach by State Governments to modest Covid 19 outbreaks and the re-opening of Australia's borders to help abate the upward forces in wage rates driven by short term squeezes.

## Major Contributors for the Month

Major contributors to performance over the month were **ALS Ltd (ALQ.ASX)** which rose 17% over the month on the back of a strong second half result. Encouragingly the group – which has taken market share in the mineral testing area globally – has started to see a strong re-bounce in exploration testing. Around 75% of their minerals testing business is related to Gold and Copper exploration which are both showing strong rebounds. S&P who provide global aggregated data on mineral exploration are forecasting a 20% increase in global spend over 2021 however, we expect this number will prove conservative if exploration spending returns to even its mid cycle levels. Other contributors were **Class ltd (CL1.ASX)**, up 9% over the month and **Crown Ltd (CWN.ASX)**, which rose 5%.

Detractors included **Seven West Media (SWM.ASX)** which declined 16% over the month on limited news flow. The announcement in late May that Nine Entertainment Co (NEC.ASX) had also reached an agreement with Facebook and Google for content sharing worth in the vicinity of \$30-40m pa continues to give us confidence that earnings are likely to materially recover in FY21 and FY22 with a substantial improvement in the balance sheet. Longer term media consolidation in Australia remains the most likely scenario. **Monadelphous Group (MND.ASX)** declined 22% over May on the markets continued concerns that the acute labour shortage in WA would crimp margins and stifle MND's ability to bid for new projects. Whilst both concerns have some validity, we think they are shorter term in nature. The re-opening of Australia's domestic travel borders followed by the eventual international border re-opening should alleviate labour cost pressures. Meanwhile record commodity prices which have spurred resource shares to their highs, will very likely lead to increased exploration, resource M&A and new capital projects. At less than 10x EV/EBIT, we believe MND is attractive. **Incitec Pivot (IPL.ASX)** fell 14% over the month on a relatively weak first half result caused by production issues at one of its sites. Whilst this is disappointing to us, we believe the opportunity before the company to materially improve its operational consistency provides a material opportunity for investors along with the extremely positive backdrop of global fertilizer prices.

## Outlook & Strategy

Little over the past few months has allayed our concerns that parts of the market are over-extended. Retail investors have rushed back into the market with fervour. This has pushed areas – especially in microcaps – to levels that are hard to justify on fundamentals. Oddly however there remain pockets of market where there is complete investor disinterest chiefly in areas where there are temporary earnings lags or there is a perception that the sectors are not high growth or disruptive. Should inflationary forces return on a more permanent basis longer term interest rates may continue to rise. We continue to believe adhering to a valuation discipline with this backdrop is the best way to serve our investors over the cycle.

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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"><li>• Up to 20% cash</li><li>• Typically 5% - 10%</li></ul>
Expected turnover	30-40%
Style	Long only, risk aware
APIR	WHT0025AU
Minimum Investment	\$25,000

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