Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 31st October 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	**2.4%**	**13.7%**	**-6.0%**	**4.9%**	**7.4%**
*Benchmark**	*3.5%*	*20.5%*	*3.6%*	*6.5%*	*8.6%*
Value added	-1.0%	-6.8%	-9.5%	-1.6%	-1.2%

^ 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
Als Ltd	5.3
Crown Resorts Ltd	4.2
Orora Ltd	4.0
Incitec Pivot	3.9
City Chic Collective.	3.7
Top 5	**21.0**

Source: Spheria Asset Management

Commentary

The Spheria Opportunities Fund underperformed in October, returning 2.4% after fees versus its Benchmark which gained 3.5%.

Markets

The portfolio has rebounded in the last three months (+10%) but has struggled against its benchmark in the past year due to the continued re-rating of perceived high growth companies (whether they make money or ever make money is unimportant) in the midcap segment of the market and a jaundiced view toward anything valuation based, this has been compounded by the withdrawal of funds from value managers with concerted selling pressure driving down prices to what we believe are irrational and unsustainable levels. The pendulum will eventually swing the other way and we are well positioned for this, we are beginning to see this rotation in the small and microcap segments of the market and we believe it will graduate up the market cap spectrum in time. Interestingly, recent takeover activity involving Link Market Services (LNK.ASX) and Coca-Cola Amatil (CCL.ASX) – two value type names – might indicate a change is afoot in the mid cap space.

As the great investor Warren Buffett once said "Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble."

Major contributors to performance were:

Seven West Media (SWM.ASX)

SWM share price rebounded 50% in October on the back of improving trends in advertising markets. Though saddled with debt SWM is on the cusp of selling several assets (eg. Airtasker minority stake and its terrestrial TV transmission towers) that should alleviate the debt load, and it has structurally reduced its cost base which means gearing metrics (debt to earnings) should improve dramatically in the short to medium term, thus dispelling any threat of insolvency. In our experience, the recovery from an anticipated insolvency has generally provided supernormal returns to those shareholders willing to stick around.

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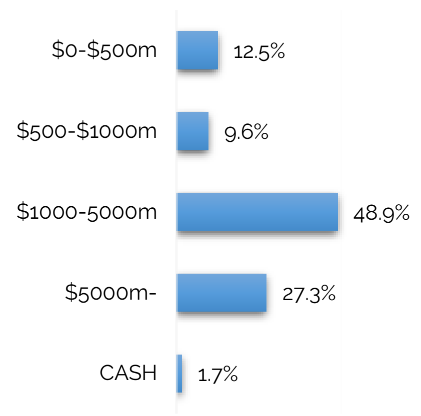
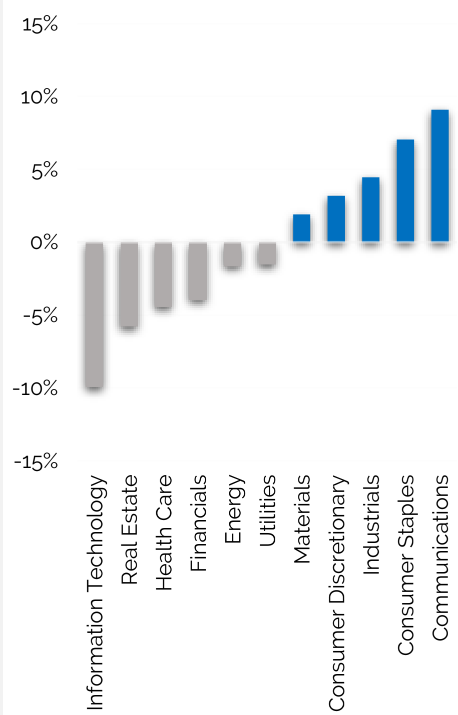
Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Coca-Cola Amatil (CCL.ASX)

CCL surged 31% in October on the back of a takeover from Coca-Cola European Partners (CCEP). In conjunction with the takeover, the company announced a continued improvement in trading conditions with 3Q revenue down only 4.2% versus a decline of 9.2% in the first half of the calendar year. Whilst we believe the offer price of $12.75 per share is somewhat opportunistic, we think there is very little chance of a competing offer. However, there is some potential that CCEP slightly increases its offer to placate institutional shareholders that have voiced their disappointment with the timing and relatively modest premium on offer.

Sims (SGM.ASX)

SGM gained 25% in October after being heavily sold off during COVID as conditions in the scrap markets badly deteriorated. The company reported a very challenged result in August with the saving grace being its balance sheet strength. Given it is a highly cyclical business, we believe the worst is now behind SGM and the business is set for a significant cyclical turnaround. Recent strength in the price of scrap (ferrous and non-ferrous) metals lends support to this view.

Major detractors to performance were:

Afterpay (APT.ASX) – NOT OWNED

We do not own Afterpay as it fails to meet our cash flow and valuation-based approach to investing. It has been a significant detractor from our relative performance for several years. In October it rallied a further 21% and was the largest detractor for the month relative to the benchmark.

Flight Centre Travel Group (FLT.ASX)

FLT fell 18% during the October as some European countries reintroduced lockdowns in an attempt to slow the spread of COVID-19. This is negative for sentiment and from a fundamental perspective pushes out any return to more normalised travel conditions in both the corporate and leisure markets - thus effectively extending the cash burn time frame for FLT. On a positive note, FLT is well capitalized with over $1bn of liquidity as at 30 September 2020 and its cash burn in the month of September was only $40m as revenues were better than expected with group sales tracking at +12% of pre-COVID levels globally. The group has also targeted additional cost reductions of $9m per month that will be achieved by the end of this calendar year. We predict the COVID enforced restructure and subsequent recovery in travel will be a boon for FLT shareholders.

City Chic Collective (CCX.ASX)

The CCX share price fell 10% in October as more heat came out of the valuation after being gazumped on the acquisition of the eCommerce assets of Catherines in September. To be fair, CCX has done the heavy lifting for our performance in recent years, so some respite is a healthy dynamic and has allowed us to opportunistically add to the position in November as the retracement in share price continued. We feel the medium to long term strategy is intact and the management team can deliver strong organic growth, in any case.

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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