

Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU



Performance as at 31st July 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund^	3.4%	-20.3%	-15.6%	-2.5%	3.7%
Benchmark*	1.4%	-10.9%	-8.5%	6.5%	6.3%
Value added	2.0%	-9.3%	-7.1%	-9.0%	-2.6%
Microcap Index **	6.9%	-7.9%	-3.1%	6.8%	6.1%

^ Spheria Australian Microcap Fund. Returns of the Fund are net of applicable fees, costs and taxes

* Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

** Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.

Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
City Chic Collective	4.9
Class Limited	4.3
Supply Network	4.2
Mortgage Choice Ltd	4.1
Vita Group Ltd	4.0

Top 5 **21.5**

Source: Spheria Asset Management

Commentary

Spheria Australian Microcap Fund returned 3.4% (after fees) in July, outperforming its benchmark by 2.0%.

Markets

Share markets continue to be driven by macro thematic with little regard for fundamentals and anything resembling valuations. It is a combination of circus and casino at the smaller end of the market with many speculative names burning cash in bewildering sums gaining huge audiences that are drunk on the euphoria of prodigious paper gains. Our process means we are unlikely to own such concept stocks and as such it has been a very unrewarding period with our names carrying very little favour relative to their respective benchmarks, even our genuine growth names have in most cases lagged this hi-octane rally. We are confident in our approach and note early indications from the August reporting season augur well for much better performance in future periods. In a rational market we believe our performance will be a significant differentiator given the unwarranted unpopularity bordering on antipathy for some of key holdings, which belies how well they are performing as businesses and the valuation risk-reward which seems heavily skewed in their favour.

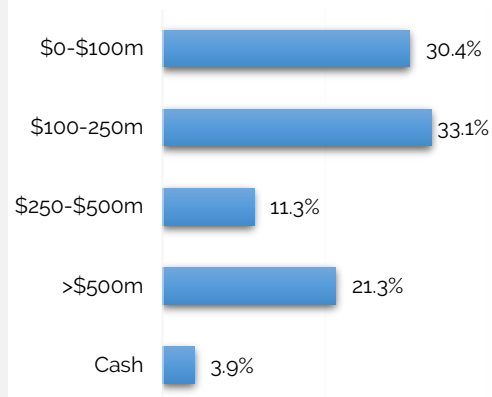
Major contributors for the month:

City Chic (CCX) was again the largest contributor to performance during the month as it continues to bounce back from the March selloff. Just over two years ago the company was on the brink of insolvency and has since been one of the best performers in the Australia share market. It illustrates the potential payoff in our portfolios given we have an abundance of such companies that are seriously unpopular but have great characteristics' which are currently being overlooked. During the month we increased our holding in CCX via an institutional raising at a discount to fund the potential acquisition of Catherine's online operations (USA +size female brand). Ascena Retail the parent company having filed for Chapter 11 bankruptcy.

CCX is well positioned for further acquisitions of this nature to enable it to dominate this space in the USA and potentially on a global basis. It appears

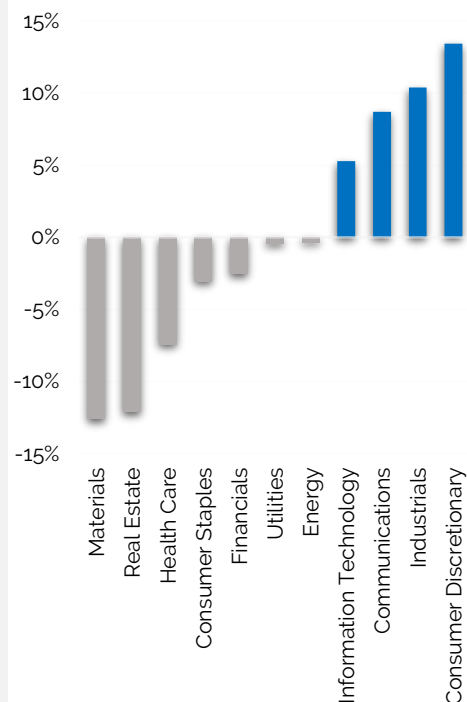
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Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

to have little major competition for assets given the fragility of many operators due to their store networks which are currently a millstone around their neck as COVID-19 accelerates structural change and delivers insolvencies.

The next two meaningful contributors to performance were **Geopacific Resources (GPR)** and **Nitro Software (NTO)** – both owned. GPR is a gold miner that we believe is one of the most inexpensive in the world based on reserves and economics in respect of extraction/processing. NTO is a disrupter to Adobe Acrobat that charges a lot less and has a product that we believe is commensurate or potentially better than the real product.

Major detractors for the month:

The key detractors for the month were **Global Traffic Networks (GTN)** and **Mineral Resources (MIN)** – GTN owned. GTN has premium radio inventory being the prime-time traffic reports for key radio networks in Australia, Canada and Brazil. Obviously, COVID-19 has impacted the advertising markets which has hammered revenue and profitability for GTN in these key markets. This is likely to bounce back significantly as advertising markets recover as economies reopen. It has been proven that traffic reports still resonate psychologically with listeners and audiences for radio continue to grow despite competing technologies. MIN has benefited from a high iron ore pricing given its direct exposure to iron ore mining and tolling. We did not own it during the period as too large for this product, highlighting the difficulty we have in beating a benchmark where we cannot own over 80% of its constituent due to size.

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	Spheria Australian Microcap Fund	Platform availability
Benchmark (universe)	S&P/ASX Small Ordinaries Accumulation Index	ASGARD
Investment objective	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.	BT Panorama
Investing universe	Primarily listed companies outside the top ASX 250 listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation	BT Wrap
Distributions	Annually	HUB24
Fees	1.35% p.a. management fee & 20% performance fee of the Fund's excess return versus its benchmark, net of the management fee	IOOF Portfolio Service
Cash	<ul style="list-style-type: none"> Up to 20% cash Typically 5% - 10% 	Macquarie Wrap
Expected turnover	20-40%	mFund
Style	Long only	MLC Wrap / Navigator
APIR	WHT0066AU	Netwealth
Minimum Initial Investment	\$100,000	One Vue
		uXchange

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