Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

Performance as at 31st March 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund^	**-28.7%**	**-34.2%**	**-29.3%**	**-8.1%**	**-1.7%**
*Benchmark**	*-22.4%*	*-26.2%*	*-21.0%*	*-1.3%*	*0.0%*
Value added	-6.4%	-8.1%	-8.3%	-6.8%	-1.7%
*Microcap Index ***	*-30.7%*	*-40.4%*	*-28.2%*	*-8.2%*	*-4.7%*

^ 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.

Commentary

The Fund returned –28.7% net of fees for the month of March, underperforming the Small Ordinaries Accumulation Index by 6.4%.

The markets globally continued the sharp correction which began in the middle of February. The market moves were more pronounced locally and the further down the market cap spectrum you went. Faced with an unknown threat in both magnitude and duration, money fled "risk assets" for safety. Despite our investment process – which was forged out of our experiences during the GFC – the Fund fared worse than the market overall which was, candidly, disappointing. Our focus on cash generating businesses and balance sheets no doubt helped in some areas of the portfolio, but we had a few positions in the Retail and Media sectors that were sold off particularly aggressively. Every market crisis is somewhat different in its cause. The impact by sector of COVID-19 is not uniform and the restrictions put in place by governments to reduce the spread of the outbreak have disproportionately impacted near term revenues in these two spaces.

The Smaller Companies index fell 33% until the 23rd of March and then rallied hard into the end of the month, rising 15% to finish down 22% overall. Whether we are seeing a bear market rally or the signs of some bottoming in the market remains to be seen. We have always found it more profitable to try to find strong businesses that can survive any reasonable downturn and buy them at attractive valuations than to try to time the market, which we see as a fraught activity. The stock market is a collective of investors participating with a variety of rapidly changing viewpoints and liquidity needs, so we try to keep our clients' money invested in the best possible frontier of investment opportunities as we see them. The positive news is that for some time we have struggled with the valuations of many of the high-growth companies in the market whose valuations have been stretched sky-high by a continued influx into passive investing. The sell-off hasn't spared these names and we have taken the opportunity to selectively rotate into a number of new positions. Some notable examples here include HUB24 (HUB.ASX) and Ozforex (OFX.ASX).

The other new area opening up to us has been capital raisings. An extensive period of prospective "hibernation" for the economy – more extreme in some parts that others – has brought companies back to the market to raise capital.

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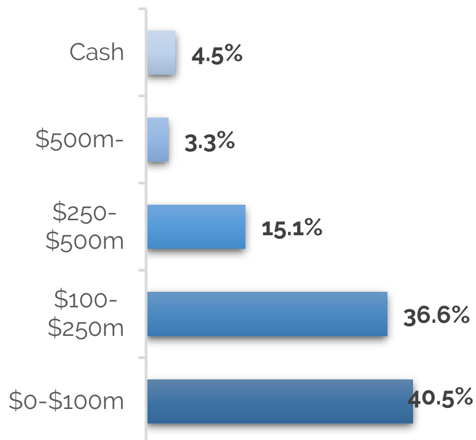
Top 5 Holdings

Company Name	% Portfolio
Class Limited	4.7
Vita Group Ltd	4.4
Mortgage Choice	4.4
Ht&E Limited	4.3
Asaleo Care Limited	4.1
Top 5	**21.9**

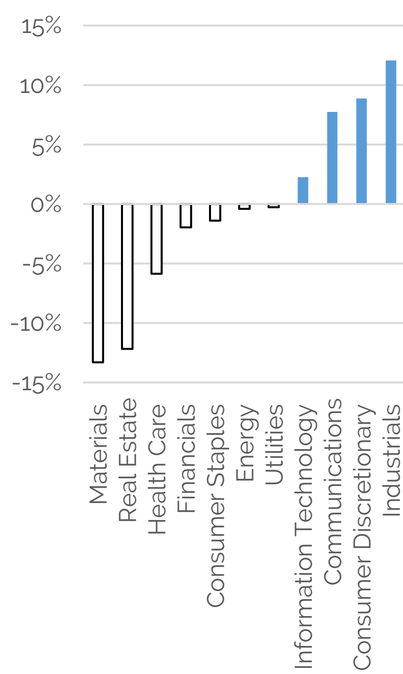
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

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Given the unknown duration of the shutdowns, boards have cautiously raised sizeable amounts of capital - in some cases possibly over-raising - in order to shore up balance sheets. Many of these businesses are experiencing what seem to be sharp but hopefully temporary reductions in their businesses. ASIC has also helpfully raised the placement limits from 15% to 25% of a company's shares outstanding, allowing existing and new shareholders onto the register. We have looked at almost all of the placements – rejecting some on the grounds that even after a raising, the balance sheets still have no net cash, leaving companies to rely upon the latitude of their bankers to fund the operating cash losses. Others, however, appear to have raised sufficient capital at attractive levels. Whilst the preponderance of these has to date been in the Smaller Companies space, we anticipate capital raisings in Microcaps are likely to kick off in earnest as well.

Key contributors to performance over the March quarter were:

Asaleo Care (AHY.ASX), which declined just 3% over the quarter. AHY is a consumer goods company selling its paper-related consumer products both to retail and via B2B channels. Their product lines are seen as defensive, and with consumers hoarding goods, are likely to have been the beneficiary of a short-term pick up in sales. Webjet (WEB.ASX - not owned) declined 71% over the quarter as the government-stipulated bans on travel hurt their topline, forcing the company into an emergency capital raising. AP Eagers (APE.ASX - not owned) declined 69% over the quarter on weak car sales numbers and a very tough trading outlook.

Major detractors were predominately in the Retail and Media space. Seven West Media (SWM.ASX) declined 76% as investors worried about a deteriorating top line with a decent amount of gearing. SWM, whilst undoubtedly cyclical in nature, has significant surplus assets, which it is looking to monetise to reduce the debt level; these include their production studios, property holdings and their infrastructure-like holdings in TV towers. Fisher & Paykel Healthcare (FPH.NZ - not held) rose 37% over the quarter as investors bought into the name. FPH produces medical ventilation equipment for patients (predominately those suffering from sleep apnoea) and is seen as a beneficiary of hospital spending on ventilators. Michael Hill International (MHJ.ASX) declined 63% as discretionary retail stocks got hit on COVID-19 lockdowns and MHJ was sold off along with the sector.

Outlook and strategy going forwards

The market sell-off is providing us with some excellent longer-term investment opportunities. Whilst we are mindful of the unknown impacts of COVID-19 on the economy we are of the view that the crisis is being handled well in Australia and that a 12-month shutdown of the economy will come to be regarded by many as disproportionate to the risks faced by the broader population. We are, for the first time in a while, frankly excited by some of the investment opportunities opening up to us and will continue to rotate the portfolio into new ideas as they present and take advantage of attractive capital raisings.

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	Spheria Australian Microcap Fund
Benchmark (universe)	S&P/ASX Small Ordinaries Accumulation Index
Investment objective	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.
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
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 • Typically 5% - 10%
Expected turnover	20-40%
Style	Long only
APIR	WHT0066AU
Minimum Initial Investment	$100,000

Platform availability
ASGARD
BT Panorama
BT Wrap
HUB24
IOOF Portfolio Service
Macquarie Wrap
mFund
MLC Wrap / Navigator
Netwealth
One Vue
uXchange