Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

Spheria ASSET MANAGEMENT

Performance as at 30th November 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund^	**10.8%**	**38.2%**	**9.7%**	**6.5%**	**11.2%**
*Benchmark**	*10.3%*	*14.8%*	*6.0%*	*6.7%*	*9.3%*
Value added	0.5%	23.5%	3.7%	-0.2%	1.9%
*Microcap Index **	*12.9%*	*40.7%*	*21.3%*	*11.2%*	*11.9%*

^ 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
A2B Australia Ltd	5.0
Mortgage Choice Ltd	4.6
Class Limited	4.0
Supply Network	4.0
Ht&E Limited	3.5
Top 5	**21.2**

Source: Spheria Asset Management

Commentary

Spheria Australian Microcap Fund returned 10.8% (after fees) in November, outperforming it's benchmark by 0.5%.

Markets

Early during the month Pfizer made the pivotal announcement that its Covid 19 vaccine had successfully passed trials and was swiftly followed up by further successful vaccine trials from other pharma companies. This provided markets with a well needed shot in the arm – so to speak. The backdrop of a genuine prospect for the world to emerge out the Covid 19 shadow, extremely loose monetary regimes and abundant liquidity were like gasoline being poured on steadily burning bonfire. Investors sought out and bought up heavily oversold Covid 19 victims from Feb/ March and found them in the media and travel and leisure sectors. The market has been fixated with cash burning microcap "stories" in many cases with little in the way of fundamentals to back them up and growth/ momentum fintech type companies – where valuations have been a distant thought for most investors. We see the current rotation as potentially having legs given the relative extremes in both company outlooks and valuations.

Major contributors for the month:

A2B (A2B.ASX) rose 37% over November as it is perceived as being a beneficiary of social movement. Having Melbourne emerge from lock down has clearly helped the short-term outlook for A2B. Our view remains that this stock is misperceived on many levels. The first being that it is suffering from major disruption by the ridesharing companies (Uber, Didi and Ola). We believe this is misplaced and that ridesharing has grown the overall personal transport market not dramatically reduced the number of cab trips being taken. The second major misperception we believe is that investors feel this is an ex-growth story. Pulling back the curtains a little on the company will reveal a business that has been heavily re-investing in payments and cab-hailing technology. Not only is the present valuation still incredibly supportive but the outlook for the business both here and internationally has hardly been stronger. Despite the re-rating over the month we believe A2B is still only trading on circa 7x recovered ev/ebit.

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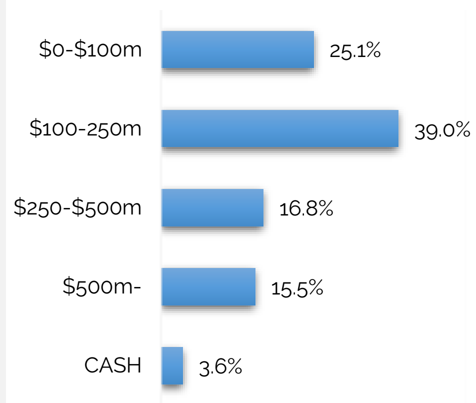
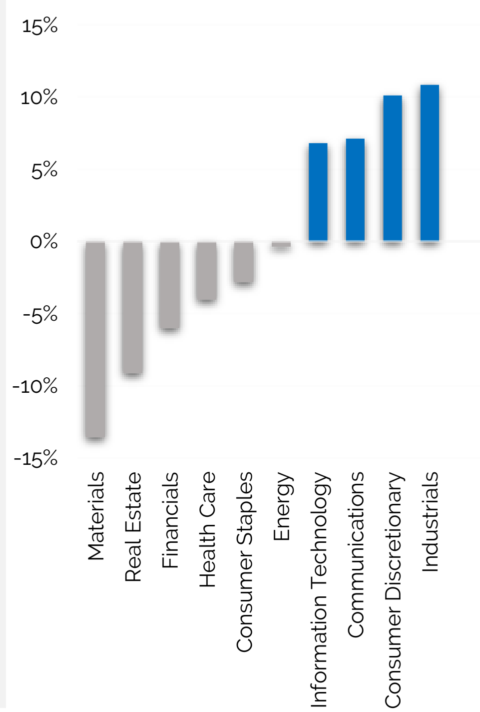
Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Other contributors were Seven West Media (SWM) and Helloworld Travel (HLO). SWM share price rebounded another 54% in November on the back of a strong October. The recovery has been on the back of improving trends in advertising markets and a reduction in SWM's cost base. 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.

Pfizer's November 9th announcement of a successful vaccine trial has proved to be a pivotal moment for stock markets and the travel and leisure sector in particular. HLO was front and centre of the Covid 19 sell off and consequently saw a 77% rebound in its share price over November. HLO was trading on around 4x ev/ebit based on recovered travel volumes in early November and remains attractively priced on our mid cycle assumptions even post the strong bounce it achieved during the month.

Major detractors for the month:

Class Ltd (CL1.ASX) Class retraced 11% after a strong rally since they reported their full year FY 20 results on limited newsflow. CL1 remains well position to capitalise on an increased market size following on from their product expansion into Class Trust. The high customer retention rates and the first modest price increase in over 10 years positions the company well over the medium term to perform.

Supply Network (SNL.ASX) – Supply Network fell 12% over November after rising strongly (+22%) over October. SNL remains one of the leading aftermarket Truck and Bus part specialists in ANZ with a long history of taking share from smaller independents. The business has rolled out locations organically in preference to acquisitions and thus has limited goodwill on its balance sheet and a high return on capital employed. In spite of the strong performance over time SNL still only trades on 13x FY 21 ebit and yields almost 4%.

Nitro Software (NTO.ASX) Nitro is a PDF productivity software provider (competing successfully with Adobe Acrobat) and has recently expanded into the digital signature space. They offer compelling value to corporates as these two are bundled into the one package for an attractive price. Having performed strongly out of an oversold position during Covid the shares declined 9% over November. Whilst NTO is close to breakeven at present, they raised substantial cash reserves during their IPO a year ago and have net cash on the balance sheet of US$44m. We expect the company to earn profits within the next 12months and the shares remain attractive based on our estimates of mid cycle client wins.

Outlook & strategy going forward

The portfolio has continued to perform well over the past few months. We believe the strong response by our Government and the RBA has provided ample liquidity and support to both business and consumer confidence which will in turn flow through to the economy. Whilst some sectors of the share market reflect this, we believe there remains ample opportunity in parts which have been left behind and remain attractive on the basis that the economy both here and internationally fully re-open. The additional backdrop of extraordinarily low interest rates also provides an opportunity for Private Equity and Corporates to take advantage of shares which offer compelling cash flows and valuations.

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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