

# Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU



## Performance as at 30th June 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
<b>Fund^</b>	<b>-3.5%</b>	<b>-23.3%</b>	<b>-14.2%</b>	<b>-1.6%</b>	<b>3.0%</b>
<i>Benchmark*</i>	-2.0%	-9.2%	-5.7%	6.1%	6.1%
<b>Value added</b>	<b>-1.6%</b>	<b>-14.1%</b>	<b>-8.6%</b>	<b>-7.7%</b>	<b>-3.1%</b>
<i>Microcap Index **</i>	1.4%	-10.8%	-1.9%	5.5%	4.6%

^ 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	4.4
Class Limited	4.2
Supply Network	4.0
Ht&E Limited	3.9
Mortgage Choice Ltd	3.8

**Top 5** **20.4**

Source: Spheria Asset Management

## Commentary

Spheria Australian Microcap Fund returned -3.5% (after fees) in June, underperforming its benchmark by -1.6%.

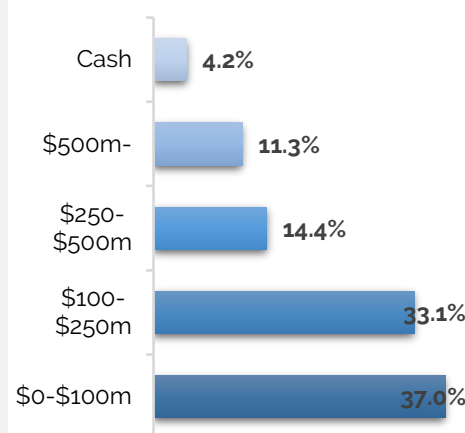
## Markets

Broader global markets rose again over June, albeit at a less torrid pace than the previous month while the Small Ordinaries index struggled to keep up. While the month saw a significant re-acceleration in COVID-19 transmission rates in the U.S. and a consequent reversal by many U.S. States of their premature re-openings (with the benefit of hindsight), investors looked through these developments to push the S&P500 to within 8.5% of its pre-COVID highs and the NASDAQ to all-time highs. We believe the enthusiasm for stocks is being driven by a realisation that interest rates are likely to remain at depressed levels for an extended period of time and that Governments will have an incentive to essentially monetise some of their COVID-19 induced debt rather than raise taxes during a recovery from the pandemic.

Locally, the Australian broader markets were led up by the banks as they partially reversed a significant period of underperformance on better sentiment towards expected credit losses in the economy albeit the small ordinaries struggled to keep up. Value cyclicals began the month well but faded as fears of a second wave both internationally and within Victoria built. Momentum stocks, particularly those of a more conceptual nature (i.e. they don't earn a profit) performed strongly as speculative activity by retail participants in the market appeared to hit a new high. The market continued to see capital raisings both by companies hit by COVID-19 (E.g. Qantas, Vicinity, Challenger, Super Retail Group, Investec Australia Property Fund, Arena REIT, APN Convenience Retail, Sky City, Red Hill Education, Viva Leisure) and by tech stocks taking advantage of historically high valuations to do blank cheque raises (E.g. Kogan, Temple & Webster, Openpay). Additionally, gold stocks were very active funding raisings for further exploration spending given the strong performance of the underlying metal and stocks within the sector. The market saw the re-emergence of corporate activity with Infigen (IFN) receiving two separate takeover offers, two gold explorers / developers receiving offers (Cardinal - CDV and Exore - ERX) and Cromwell (CMW) and Opticomm (OPC) receiving offers

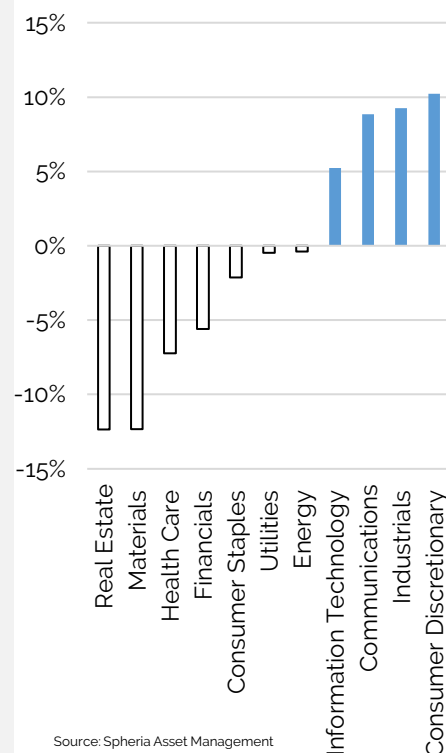
**. Continued on the next page...**

## Market Cap Bands



Source: Spheria Asset Management

## Active Sector Exposure



Source: Spheria Asset Management

## Fund Performance

During June we had positive contributions from NZME (NZME), Capral (CAA) and Exore Resources (ERX.ASX). NZM re-rated from extremely depressed levels after delivering a more optimistic than expected update at its AGM. CAA similarly rallied post delivering an update that revealed solid 1H20 earnings expectations. ERX agreed to be acquired by fellow West African gold player Perseus during the month at a 70% premium to its prevailing share price.

Detractors for June included Mortgage Choice (MOC), GTN Ltd (GTN) and G8 Education (GEM). MOC appeared to fall on concerns about the sustainability of currently strong levels of application volumes to mortgage brokers which are being supported by elevated refinancing activity. GTN fell following the cessation of its agreement with Nine's radio network (formerly Macquarie Radio Network). The market saw this as a potential threat to the network effect of GTN's Australian Traffic Network business. We believe however that the agreement that was terminated had become deeply uneconomic for GTN due to the decline in advertiser demand for Nine's radio franchise. GEM retraced some of its strong performance during May on renewed fears of a 'second wave' of COVID-19 in Australia as infection rates rose in Victoria. During the month the Fund took profit on its GEM position and established a new position in WA gold explorer / developer VAN.

## Outlook

While the market has experienced a meaningful recovery from its lows the manager sees the almost historic levels of multiple divergence as providing some exceptional investment opportunities for those prepared to look through short term earnings uncertainty and/or go against the grain. Equity recapitalisation activity continues to present opportunities for active managers to establish positions in quality companies that have seen cashflow impacted by COVID-19. Additionally, there remain a surprising number of companies that continue to operate profitably and generate cash but that remain on highly depressed multiples. This is particularly the case towards the smaller end of the market cap spectrum and the manager is hopeful that the Fund's positioning in these names should be rewarded with the passage of time. On the other hand the manager is increasingly concerned about a narrow subset of very highly rated companies (almost invariably with no track record of free cash generation) that appear to have become completely disconnected from fundamentals, particularly in the technology, fintech and biotech sectors. The manager continues to see better opportunities for relative performance in discovering unpopular but strongly cash generative businesses on attractive through the cycle multiples. While revenue and margins in some of these companies may take some time to recover from the impacts of COVID-19 the manager believes they represent better risk-reward opportunities on balance.

# Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU



	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"> <li>Up to 20% cash</li> <li>Typically 5% - 10%</li> </ul>	Macquarie Wrap
Expected PA turnover	20-40%	mFund
Style	Long only	MLC Wrap / Navigator
APIR	WHT0066AU	Netwealth
Minimum Initial Investment	\$100,000	One Vue
		uXchange

This communication has been prepared by Spheria Asset Management Pty Limited ABN 42 611 081 326 ('Spheria'), Corporate Authorised Representative 1240979 of Pinnacle Investment Management Limited (AFSL 322140). Interests in the Spheria Australian Microcap Fund ARSN 611 819 651 (the 'Fund') are issued by Pinnacle Fund Services Limited (ABN 29 082 494 362 AFSL 238371), the Responsible Entity. The Responsible Entity is not licensed to provide financial product advice. You should consider the Product Disclosure Statement ('PDS') in its entirety before making an investment decision. The current PDS of the Fund can be found at [www.spheria.com.au/funds](http://www.spheria.com.au/funds). Spheria is the investment manager of the Fund.

Spheria and Pinnacle Fund Services Limited believe the information contained in this communication is reliable, however, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law, Spheria and Pinnacle Fund Services Limited disclaim all liability to any person relying on the information in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information contained in this communication. This communication is for general information only. The information is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any person considering action on the basis of this communication must seek individual advice relevant to their particular circumstances and investment objectives.

Any opinions or forecasts reflect the judgment and assumptions of Spheria on the basis of information at the date of publication and may later change without notice. Any projections are estimates only and are contingent upon matters outside the control of Spheria and therefore may not be realised in the future. Past performance is not a reliable indicator of future performance.

The information contained in this communication is not to be disclosed in whole or part or used by any other party without the prior written consent of Spheria.