

Performance as at 30th April 2020

	1 Month	3 Months	1 Year	Inception [#]
Fund[^]	7.7%	-9.7%	4.7%	8.4%
Benchmark[*]	8.5%	-17.9%	-10.9%	-8.1%
Value added	-0.8%	8.2%	15.6%	16.5%

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

^{*} Benchmark is the MSCI Kokusai (World ex Japan) Microcap Index in AUD (Net).

[#] Inception date is 1 March 2019. Returns are per annum.

Past performance is not a reliable indicator of future performance.

The market rallied in April, and as is typical, microcap stocks led the way. In US dollars the MSCI Kokusai Microcap Index rose 16.0% compared to the MSCI World (large caps) up 10.8% and MSCI Small-Caps up 13.3%. However, the Australian dollar leapt with other risk assets and in local currency the index gained a more modest 8.5%. The Spheria Global Microcap Fund slightly lagged the bounce, up 7.7%. Since inception the Fund has returned 8.4% p.a. after fees, bettering the index by 16.5% p.a.

Markets

While markets never rise quite as quickly as they fall, April was an impressive snap-back. Pundits will argue it was the Fed, but the US Federal Reserve opened the taps in March to no avail. Some would argue TINA (There Is No Alternative) is again driving equities higher as expectations grow that US interest rates will turn negative. We would argue there is an alternative, Global Microcaps, but more on that later.

Materials and Energy led the microcap index higher. Although this did not reflect faith in an economic recovery, rather it was uranium and gold leading the sector higher. Energy attracted more bad news as deliverable futures implied a negative oil price for the first time. This kind of negative sentiment attracted investors to the sector. These are brave souls in our view, and we retain exposure to the industry purely through a very high quality and well capitalised oil software company. Healthcare was also strong as many biotech and life science companies promised a COVID solution. They would not be exaggerating their chances of a successful treatment, now would they?

Australia and Canada were the two best performing microcap markets. Canada did not have the same currency tailwind as Australia, but gold and energy stocks helped propel that market higher. The US and UK markets both marginally outperformed despite both those countries flailing efforts to contain the virus. Hong Kong was the worst performing microcap market.

Fund Performance

Our consumer stocks participated in April's rally, particularly our Australian apparel retailer which we added to in March. An underweight to banks was positive as loan default risks rose and yields compressed.

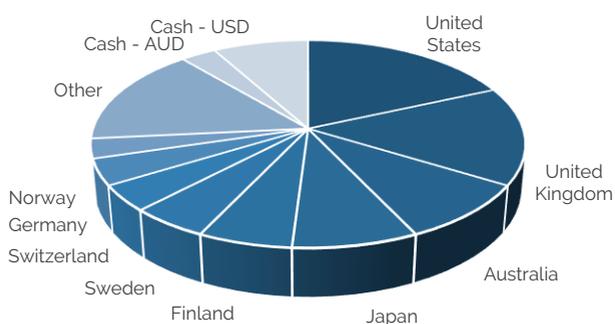
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Top 5 Holdings

Company Name	% Portfolio
Sonos Inc (United States)	3.8%
Poletowin Pitcrew (Japan)	3.5%
Stock Spirit (UK)	3.5%
Fjordkraft (Norway)	3.4%
Johnson Outdoors (USA)	3.3%
Top 5	17.5%

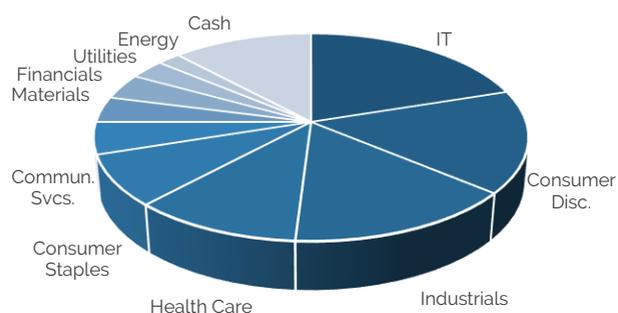
Source: Spheria Asset Management

Regional Exposure



Source: Spheria Asset Management

Sector Exposure



Source: Spheria Asset Management

The Fund has two biotechnology holdings, although we would classify one of them as a quasi-consumer company. While our pure biotech company provided positive returns, we missed out on a general rise in the field given our 8.5% underweight to the industry. We are likely to always be underweight this segment of the market given our focus on free cash flow, a rare attribute in biotech companies who are constantly spending on R&D and clinical trials. A recent large study by MIT concluded that the probability of a drug moving from development stage to FDA registration was 13.8%, and for oncology drugs only 3.4%. Our approach is that we will never invest in a biotech company in the development or clinical trial phase, unless the company is already producing or about to produce free cash flow from an already approved drug, and we are able to buy the "pipeline" at a heavily discounted valuation. For patient investors these opportunities do present themselves from time to time.

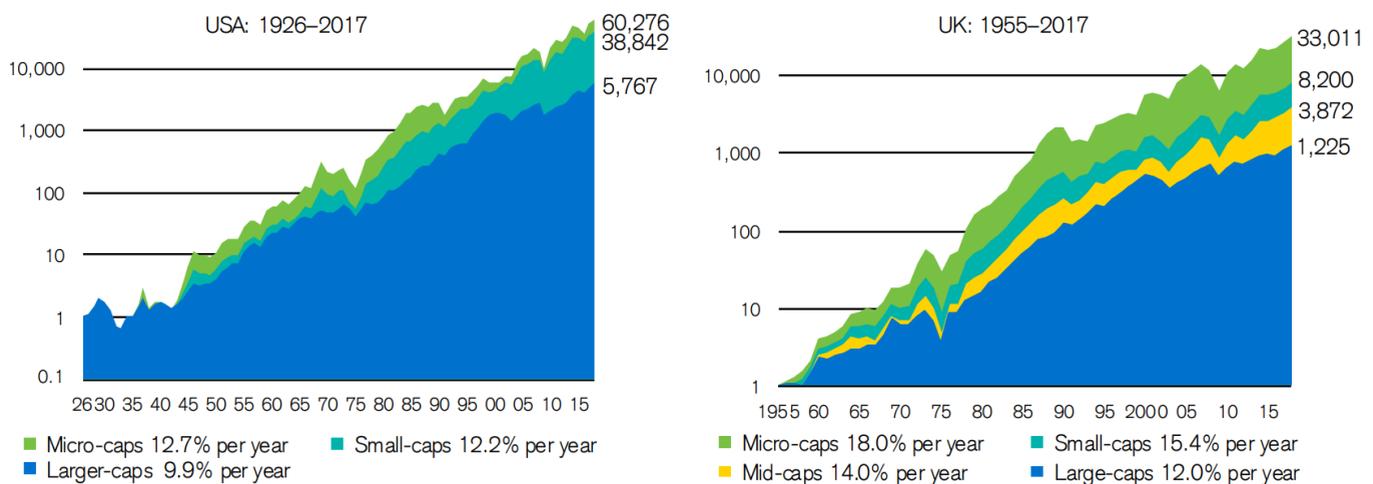
In what has become a recurring theme for the portfolio, our stock selection in the US was positive, but the Fund did not own enough stocks in that market. The underweight to the US market hurt the Fund's relative performance, but a weaker US dollar helped offset this. Nevertheless, our consistent bottom up valuation methodology continues to identify better opportunities elsewhere. Stock selection in Australia and Germany was particularly pleasing. The Fund's new German holding, a near monopoly port operator, surged shortly after we bought in.

The Japanese market lagged the index as is typical in a broadly rising market and a weaker Yen exacerbated this lag. Our largest Japanese holding, a leading gaming software test service company was the largest detractor, but we used the opportunity to add to our holding. Meanwhile, as investors came out of hiding, the Fund's holding in a chain of Japanese pharmacies was neglected by the market. The Fund does not chop and change on daily news flow and our long-term thesis on that stock remains intact.

Outlook

Long-term data shows that Microcaps have historically outperformed other segments of the equity market.

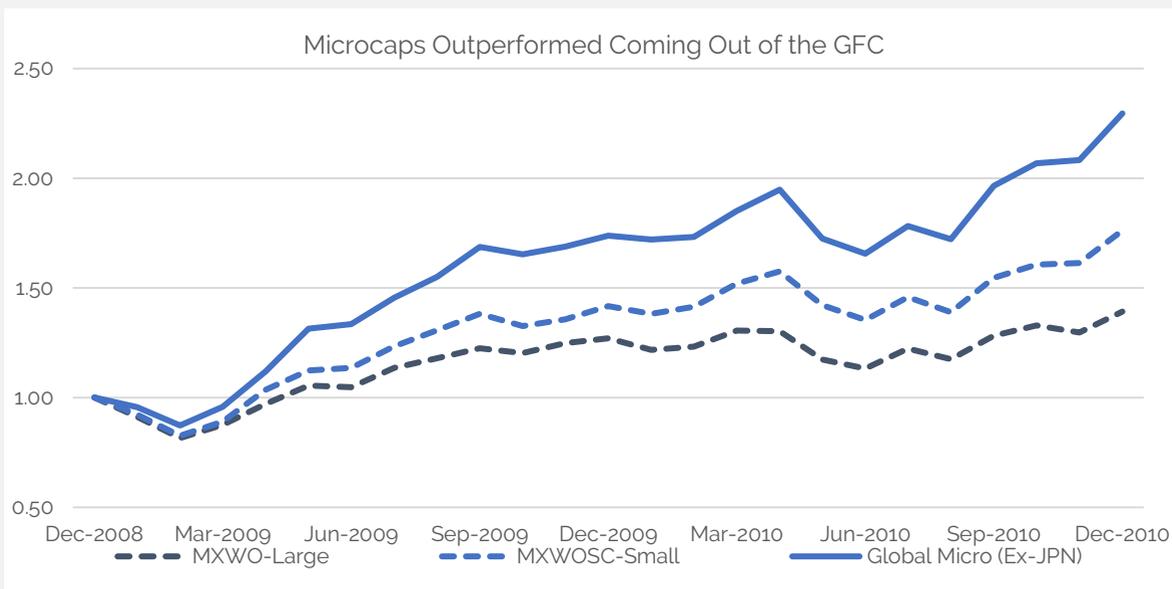
Long-run cumulative performance of stocks in different size bands in the USA and UK



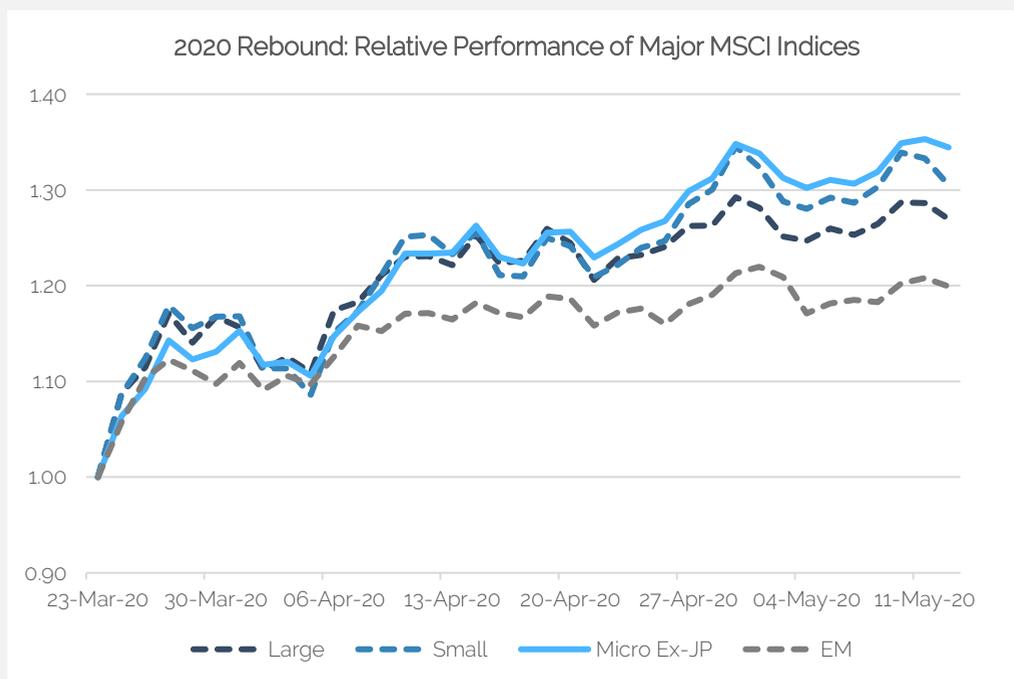
Over a shorter timeframe, microcaps do particularly well in an accelerating economy. This is to be expected as the innovation offered by many of these smaller companies can take a back-seat when the focus is on survival. But as management of larger companies again turn their attention to growth and investment, microcap companies can provide the answer. Sometimes it's an innovative solution larger customers seek, and sometimes it may just be the whole microcap company they acquire to achieve their growth objectives.

The bounce out of the global financial crisis was particularly impressive. During the recovery out of the GFC, microcaps measured in USD, outperformed small-caps by 32% in calendar year 2009 and 8% in calendar year 2010, and outperformed large caps by 47% and 23% respectively.

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So far in 2020 microcaps have followed the script, bouncing from the lows faster than their larger counterparts. The graph below shows the microcap index in \$US has outperformed small-caps by 4% and large caps by 8%. Emerging markets have been the real laggards, underperforming microcaps by 15%.



The outlook remains uncertain in the near term. Many epidemiologists expect a large second wave in the northern hemisphere fall, but caveat that it is still too early to make that prediction with any great conviction. Part of the problem is that viruses are unpredictable, and Governments are not as in control as they like to make out.

Having ensured our portfolio is well placed to endure whatever may come (ample liquidity) our mantra continues to be "stick to your knitting". The Spheria process is well tested through multiple cycles and we remain focused on valuation discipline, and uncovering investments with high free cash flow and conservative financial leverage. We have added one new position so far in May, a dominant player in a niche industry with favourable regulatory tailwinds. Many more companies have been added to the shopping list but that is where they'll stay until the price is right. As I like to remind our analysts on a regular basis, good things come to those who wait.

Spheria Global Microcap Fund

ARSN 627 330 287 APIR WHT6704AU



	Spheria Global Microcap Fund
Benchmark (universe)	MSCI Kokusai (World ex Japan) Microcap Index in AUD (Net)
Investment objective	The Fund aims to outperform the MSCI Kokusai (World ex Japan) Microcap Index in AUD (Net) over the long term.
Investing universe	Global listed microcap equities predominantly in developed markets with a market capitalisation of US\$1.0bn and below at time of purchase.
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
Expected turnover	20%-40%
Style	Long only
APIR	WHT6704AU
Minimum Initial Investment	\$25,000

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