Spheria Global Microcap Fund

ARSN 627 330 287 APIR WHT6704AU

Performance as at 31st January 2021

	1 Month	3 Months	1 Year	Inception#
Fund^	1.7%	19.9%	18.7%	21.1%
*Benchmark**	6.9%	28.0%	21.8%	16.7%
Value added	-5.2%	-8.1%	-3.1%	4.4%

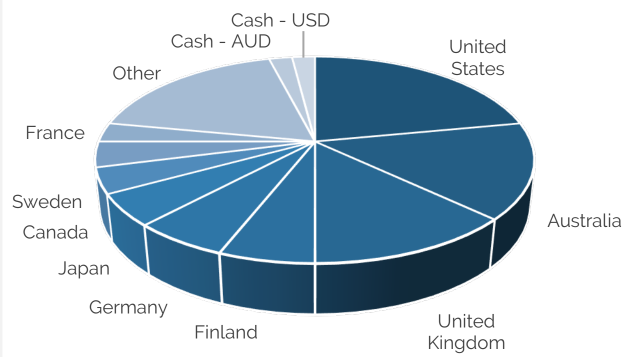
^ Spheria Global Microcap Fund. Returns of the Fund are net of applicable fees, costs and taxes
* Benchmark is the MSCI Kokusai (World ex Japan) Microcap Index in AUD (Net).
# Inception date is 1 March 2019. Returns are per annum.
Past performance is not a reliable indicator of future performance.

Top 5 Holdings

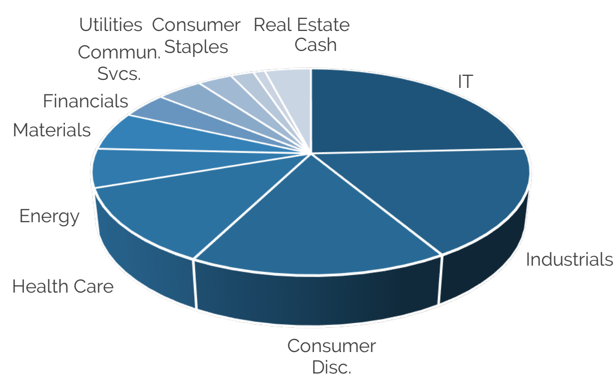
Company Name	% Portfolio
Computer Modelling (Canada)	3.7%
Fjordkraft (Norway)	3.3%
Poletowin Pitcrew (Japan)	3.3%
Inogen (USA)	3.0%
Steelcase (USA)	2.9%
Top 5	**16.2%**

Source: Spheria Asset Management

Regional Exposure by Revenue



Source: Spheria Asset Management



Source: Spheria Asset Management

Commentary

The MSCI Kokusai (Ex-Japan) Microcap Index has not had a negative return since March 2020, and January was the third strongest return for the Index since we launched the Fund. Given our conservative investment approach, the portfolio's holdings could not keep up. The Index returned 6.9%, while the Fund managed 1.7% after fees. Since inception the Fund has returned 21.1% p/a after fees, outperforming the Index by 4.4% p/a.

Markets

Health Care was the best performing sector in the microcap Index, up 14.5% in January. The pace of innovation in healthcare remains unrivalled, making this is an exciting sector globally. There are several microcap stocks that we can see over time potentially gravitating to large-cap status. Nevertheless, that in itself is not an investment process and valuation (factoring in the risk of delivering) prohibits us from owning some of these highly coveted companies. In particular, we continue to closely follow two European healthcare companies we would love to own at the right price. Many people think us fools for being so pedantic about companies with such bright prospects. Is that not what professional fund managers are paid to do?

Spheria's investment process is not top-down or macro, but we like to lean against sentiment into unloved areas of the market with fundamental valuation support. Few areas were as unloved as the energy sector last year, refusing to participate in the positive news of improved economic activity and expectations for a vaccine roll-out. However, in less than three months, WTI is up 55% and oil has nearly reached its pre-Covid price once again. As such we have begun leaning the other way and taking profits in one of the Fund's oil exposed companies. As is often the case, sentiment can turn quickly, and we are well equipped to exploit this since fundamental analysis is the foundation of our process.

Continued on the next page…

Real Estate (+0.4%) and Financials (+2.4%) lagged. We are underweight these sectors in a meaningful way, yet this was not enough to make a large difference to the Fund's relative performance.

The U.S. microcap market outperformed all other share markets by a large margin, up 13.8% in AUD. The next best market was Germany which managed a relatively modest return of 8.1%. We remain underweight the U.S. market as we see superior value elsewhere.

The U.S. is the Fund's largest country allocation but still represents only 21% of the Fund. Unlike other parts of the equity market, that nation does not dominate microcaps (and a reminder that the U.S. is only 24.8% of global GDP).

The Fund has been underweight the U.S. since its inception, sometimes close to our 20% risk limit. This positioning is very much a result of bottom-up stock selection, which has found better risk-reward opportunities in other markets. In past monthlies, we have demonstrated a material gap in valuation multiples for various sectors between the U.S. and the rest of the world. Despite stretched valuations and a weaker U.S. dollar, since August 2020 the U.S. microcap market is up 50.2% in AUD, compared to the Index return of 35.9%.

The underweight to the U.S. has been detrimental to the Fund's recent relative performance. We see the ability to allocate capital anywhere worldwide, based on where we observe the best risk-return, as a key advantage of the Fund. We are investing over a 3-5 year period. So the outperformance of the U.S. market over a short time frame does not deter us from our objective of scouring the world for the best risk-return and largely disregarding benchmark weights.

Our bottom-up analysis suggests that the U.S., Scandinavia and Switzerland look relatively expensive for microcaps at a country level. While Japan, Italy and the U.K. currently provide the best value. This valuation disparity didn't save Italy (-1.1%), which in January was the second worst-performing market after Norway (-3.5%).

Fund Performance

Core Laboratories

The Fund's best performing stock this month was Computer Modelling Group, which if you recall was last month's largest detractor. Another example of how a sound investment process, discipline and staying the course are more important than chasing share prices. The second-largest contributor was also an energy exposed position, Core Laboratories.

Core Laboratories is not a new company and has not been a microcap for long. It is a fallen angel, having once been capitalised at US$9.7 billion and reaching US$216 share price. The Fund purchased into the stock at an average price below US$18. While the oil cycle has experienced a particularly harsh downturn, our approach of valuing stocks at forecast mid-cycle earnings identified a high-quality asset trading at bargain prices.

Core Laboratories is the global leader in reservoir description (laboratory-based analysis) and production enhancement services to optimise reservoir performance. While its customers are in the business of extracting commodities, Core Laboratories is anything but with an impressive array of proprietary and patented technology. This technology allows the company to earn high returns and produce strong free cash flow in all but the very worst industry downturn.

Continued on the next page...

Source: Core Laboratories

Furthermore, management's focus is aligned with ours, setting forward three tenets to run the company:

1) Maximise free cash flow
2) Maximise return on invested capital
3) Return excess capital to our shareholders.

The stock's key drawback is its leverage, which at such depressed levels of earnings is excessive. However, our analysis of liquidity and debt maturities gave us comfort and management has proven its determination to pay the debt down with free cash flow.

With the stock close to double where the Fund bought it after only a few months, we have reduced our position size accordingly, but remain shareholders in the company.

Fjordkraft

Fjordkraft has been one of the Fund's top holdings for some time. Formed in 2001, the company is the leading electricity retailer in Norway. Fjordkraft is purely an electricity retailer and does not own the generation, transmission or distribution assets. This structure has been a recipe for disaster in some markets. Despite best efforts to hedge, retailers can get caught short when power prices spike significantly. However, with Norway's large hydropower system (half of Europe's hydro-reservoirs), such spikes are relatively subdued since hydro can be instantaneously brought on. 75% of the nation's production capacity is flexible, taking advantage of and blunting any spikes in power prices.

Source: Smart Water Magazine

Continued on the next page...

Secondly, there are regulatory tailwinds supporting retailers. Legislation which came into effect 1 January 2021 requires legal and functional unbundling of Distribution System Operators (DSOs) from other operations. Thus, electricity retailers will be the only player in the electricity value chain with an end-customer relationship. In the past, there was a risk that cross-subsidisation may have taken place between distribution and retailing. This regulatory change has spurred the industry to consolidate. Some distributors have had to split out their retailing operations for the first time, exposing the inefficiencies of sub-scale operations. Fjordkraft is participating in this consolidation. The acquisitions act to improve the industry's structure and Fjordkraft benefits from the cost synergies of combining these businesses which operate large administrative centres.

After some solid performance through covid and into September, the company has lagged the broader microcap market over the past few months. It is not surprising that this high quality and low-risk company has been shunned in the latest round of risk-taking by market participants. Nevertheless, with valuation support, a strong balance sheet, and improving industry structure, our Fund remains contently invested.

Outlook – It's a Small World After All

The performance of the global microcap market from the March lows is nothing short of spectacular. To find a stronger performance period, we would have to go back to 2010, when coming out of the GFC, the Index returned 98% in USD from February 2009 to February 2010. Such strong performance is not a total surprise, since there is a long track record of the microcap segment outperforming its larger peers during a market bounce or improving economic backdrop.

The microcap segment's strong performance has meant that the Spheria Global Microcap Fund has comfortably outperformed both the MSCI World Small Cap and MSCI World Large Cap indices after fees. However, being measured against the MSCI Kokusai Microcap Index has been more challenging, especially since August.

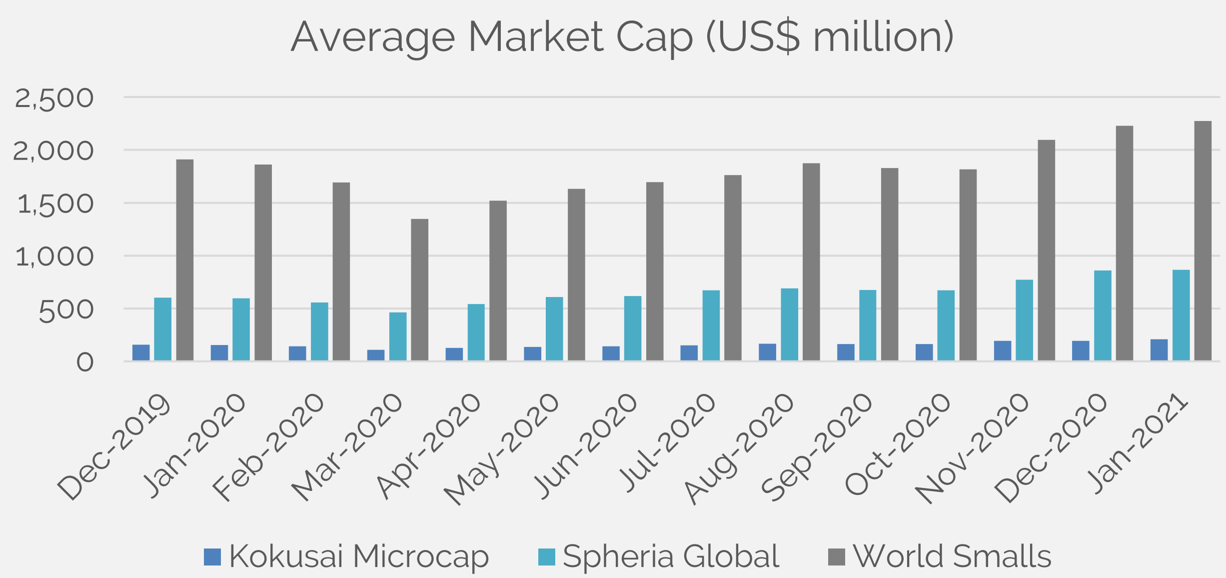
Given our conservative approach to investing, the Fund has a low beta of 0.67, and lower volatility than the index. The downside to this lower risk is that during short bursts of exceptionally strong market performance, no amount of alpha from stock selection is enough to compensate for the Fund's low beta. This conservatism is a hallmark of our Fund and the primary reason we have lagged this firm market.

A secondary reason the Fund has appeared flat-footed of late is because of the market's large discrepancy in performance by company size. The Spheria Global Microcap Fund invests in companies with a market capitalisation predominantly below US$1 billion. Our objective is to find high-quality companies and acquire them at a reasonable price, conscious of risk, before the wider market discovers them. Our view is that once our holdings are widely covered and our thesis has played out, it is time to hand them off to other asset managers specialising in larger companies. We expect that in exiting these successful investments, the average size of the Fund's holdings will remain around US$500-700 million, firmly in microcap territory.

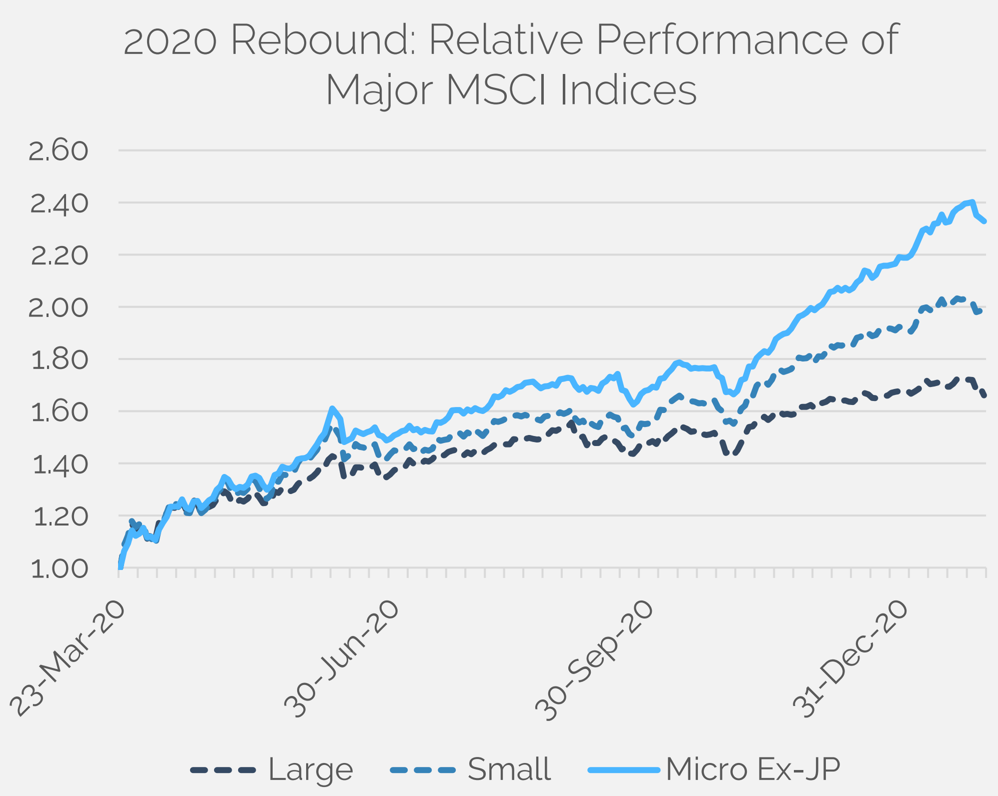
However, with the uncertainty of Covid we have been hesitant to leave the safety of companies we know well and that are performing well. Secondly, our perception is that the price of risk is much too cheap this late in the cycle, and hence we have felt that sticking with slightly larger and more established companies was the prudent course of action for our investors.

The chart below shows the Fund's average market capitalisation compared to the MSCI Kokusai Microcap (Ex-Japan) and MSCI World Small Cap indices. The Fund typically has a size bias greater than the Microcap index since our process ignores many smaller penny-dreadful concept stocks. In recent months though this has widened. The Fund's average market cap has increased from US$464 million at the end of March to US$864 million at the end of January. Our holdings are still well below the average small-cap stock, which has a market capitalisation of US$2.3 billion.

Continued on the next page...



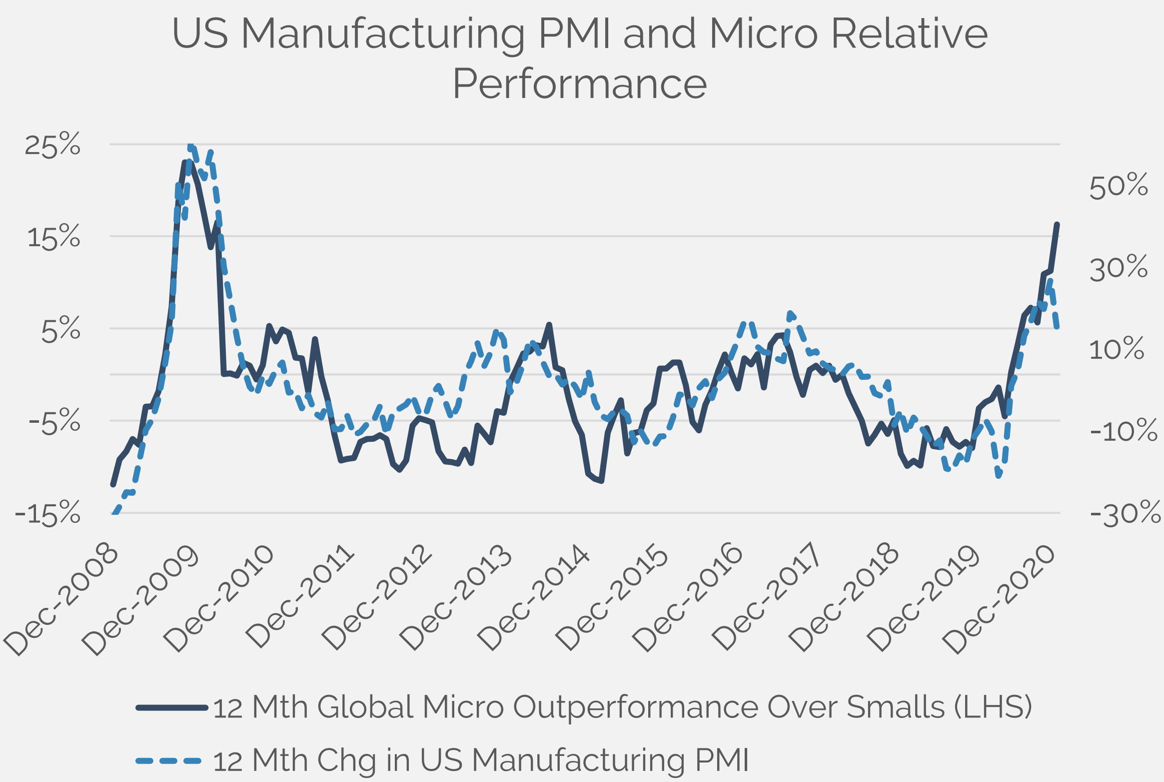
Given the outperformance of companies at the small end of the market, our bias towards larger companies has been detrimental to short term relative performance. The chart below shows the recent gap between the Kokusai Microcap index and the small and large-cap index. Since the beginning of August the Kokusai Microcap index has outperformed the MSCI World Smalls by 15.2% and MSCI World Large by 27.5%.



Continued on the next page...

With size being such a driver of relative performance in recent months, it is no surprise that the Fund's performance, like its relative size, finds itself some way between the Microcap Kokusai and MSCI World Small Cap index.

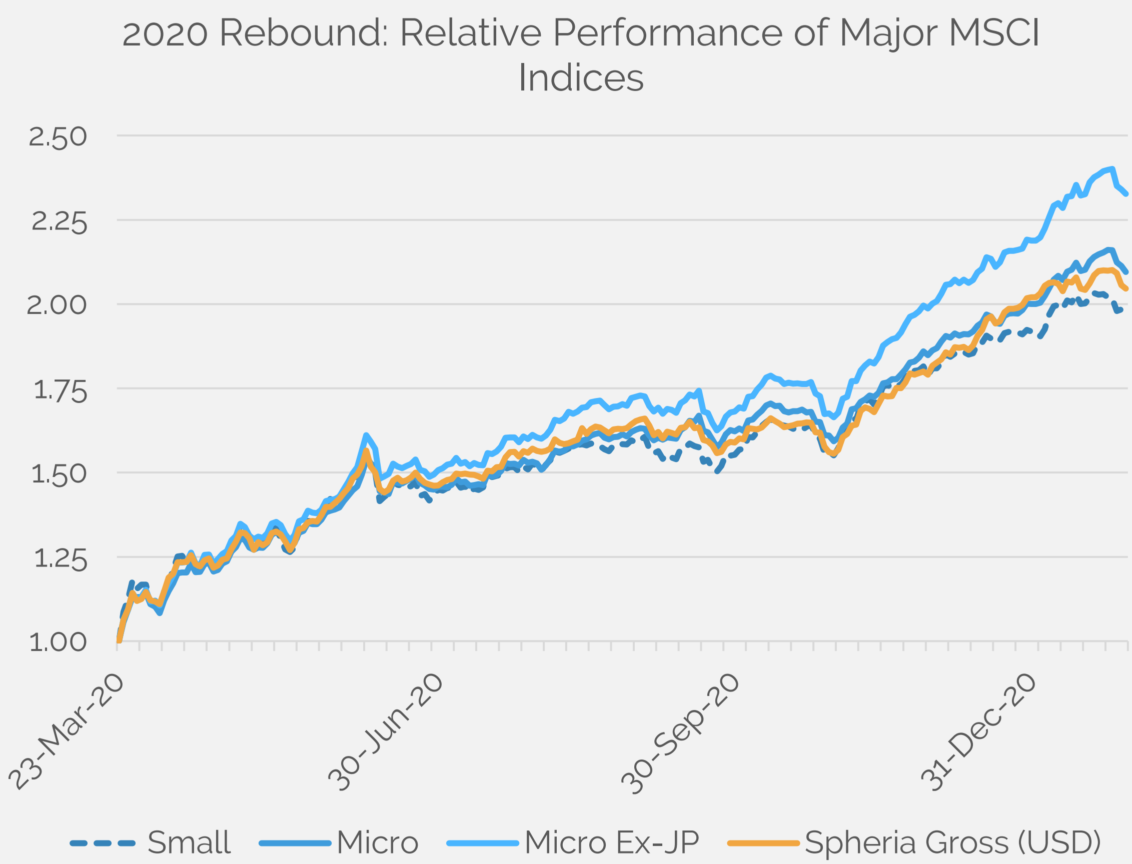
For now, we intend to stay the course. In our view, the pace of outperformance of these smallest of microcaps has largely played out. The outperformance of these stocks is highest when the pace of economic acceleration is at its greatest. Given the largest jump in activity data is now behind us, the rate of outperformance of these smaller microcaps is likely to wane.



Continued on the next page...

Finally, it is worth touching on the benchmark we have chosen for the Fund. The MSCI Microcap Kokusai is not a widely followed benchmark, and indeed some investors are curious about the thinking that went into choosing it. Our view was that the MSCI Microcap Index had too large a weight to Japan (currently 21.6%, down from 26% and the largest country in the Index at the inception of the Fund). While we think Japan presently offers good value and is home to some excellent companies with management equipped to operate in a low growth and inflation environment, investing in Japan can be relatively tricky due to language and cultural barriers. Such a considerable weight to Japan may also deter some investors who are not as comfortable with investing in Japan as they are in the U.S. for instance.

Nevertheless, we would like to highlight that we have chosen ourselves a relatively difficult benchmark. Given Japan's low beta, it has under-performed materially in this strong market. With Japan's exclusion from the benchmark, the Kokusai Index has outperformed its wider Microcap Index by 23.2% since the March lows



1. Spheria Gross in USD is the unit price, adding back fees and converting to USD. It is for indicative purposes only.

For any investors that prefer to benchmark us against an alternative index, please be our guest. We are confident the Spheria Global Microcap Fund positioned well to generate strong risk-adjusted returns for our investors through the economic cycle.

	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