Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Spheria ASSET MANAGEMENT

Performance as at 28th February 2021

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	**3.3%**	**24.1%**	**24.0%**	**8.9%**	**11.3%**
*Benchmark**	*0.0%*	*11.3%*	*19.2%*	*7.9%*	*10.4%*
Value added	3.3%	12.8%	4.8%	0.9%	0.9%

^ Spheria Opportunities Fund. Returns of the Fund are net of applicable fees, costs and taxes.

* Benchmark is the S&P/ASX Mid-Small Accumulation Index.

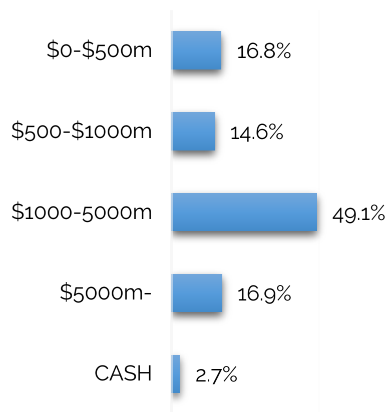
Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2010. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
Orora	4.7
Seven West Media	4.4
Als	4.2
Bega Cheese	4.0
Fletcher Building	4.0
Top 5	**21.2**

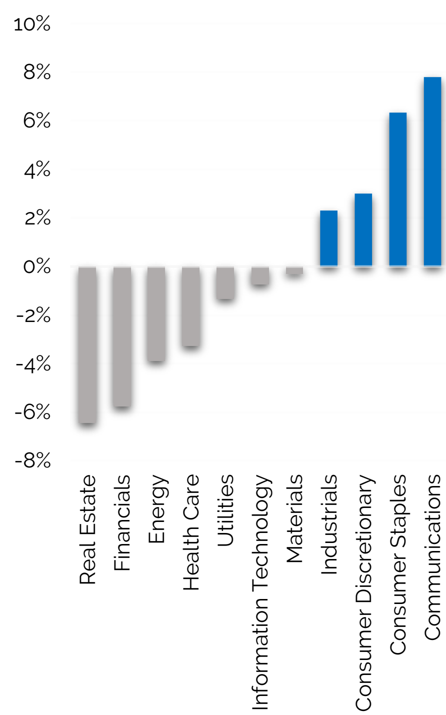
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

Spheria Opportunities Fund returned 3.3% (after fees) in February, outperforming it's benchmark by 3.3%.

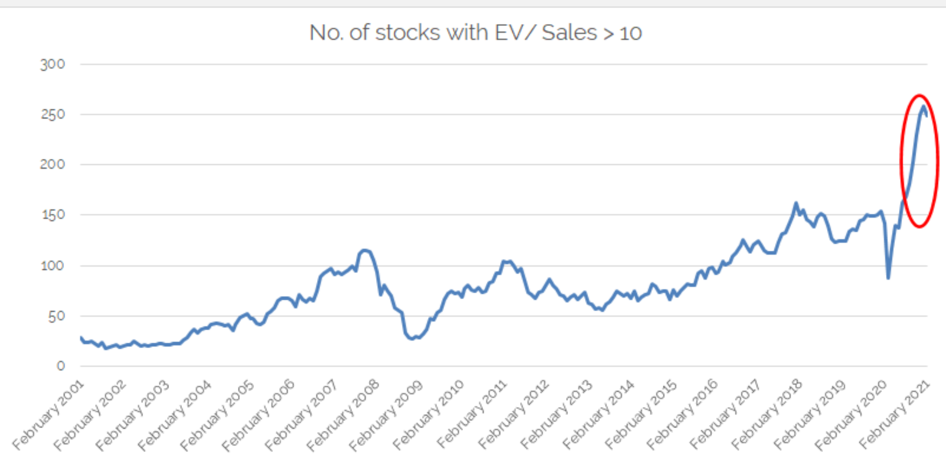
Markets

Markets were higher over the month of February as confidence in a global recovery from the COVID-19 pandemic built with the ongoing rollout of vaccines and amid real world evidence of their efficacy. This manifested itself in higher prices for energy and industrial commodities and related equities. Re-opening trades amongst heavily COVID-19 impacted sectors also tended to perform strongly This confidence was a two-edged sword however as increasingly bullish sentiment on cyclicals saw rising inflation expectations reflected in rapidly rising long term bond rates. This impacted on rate sensitive sectors like REITs, Utilities and some highly valued technology names.

Locally we observed some retrenchment amongst a number of very highly valued names, particularly those that disappointed during the period. Nuix (NXL.ASX, -34%), Kogan (KGN.ASX, -22%), Elmo Software (ELO.ASX, -22%), Temple & Webster (TPW.ASX, -19%), Netwealth (NWL.ASX, -18%), Infomedia (IFM.ASX, -17%), HUB24 (HUB.ASX, -15%) and Electro Optical Systems (EOS.ASX, -14%) for instance demonstrated the risk of buying firms where expectations are sky high.

Despite this retrenchment in some of these momentum names we continue to observe a highly bifurcated market with some very high valuations for names exposed to popular thematics (e.g., battery materials) and names with strong top line growth in the E-Commerce, Fintech and Biotech sectors.

The prevalence of near zero interest rates until very recently has allowed fundamentals to go out the window in the small cap universe locally as the concept of a Cost of Capital became increasingly abstract. We have seen this play out in an increasing number of companies trading on stratospheric revenue multiples as seen in the chart below.



Source: Bloomberg data, ASX stocks with market cap >$50m, <$3.0b and EV/trailing sales multiple >10x.

Typically, these stocks are exposed to favourable thematics (e.g., electric vehicles) or have a great story to tell about a large total addressable market and a business model that *might* provide investors access to said market (aka a "concept stock"). Needless to say, the vast majority of these firms remain unprofitable.

Major Contributors for the Month:

Seven West Media (SWM.ASX) was the largest contributor to performance during the month returning 51%. Seven West Media reported a result well ahead of market expectations as television advertising returned to growth during the 4Q of calendar 2020, the cost base was better controlled than expected and the balance sheet saw material de-leveraging. The business also announced a collaboration with google that should see a material revenue contribution. Seven continues to have upside from the recent improved ratings share translating into revenue share and potential news flow around the divestment of the studios and/or towers. Despite SWM's strong share price recovery it still trades on a mid-single digit EV/EBIT multiple which is well under its nearest listed peer.

Orora (ORA.ASX) contributed positively as it returned 16% over the month following a result that was stronger than the market anticipated. The performance of the U.S. business was a particular stand out as it managed to lift profits y-o-y despite the raging pandemic. We still see Orora as well placed to generate outperformance with a strategically well positioned Australian beverage business benefiting from the shift to more sustainable packaging solutions and a U.S. business rebounding from the pandemic and some management missteps over the past several years. Orora continues to screen attractively with an EBIT multiple relative to market still close to historical lows and a solid balance sheet enabling capital management and a potential return to accretive M&A.

Northern Star (NST.ASX - Not owned) contributed positively as it fell 20% over the month as the gold price continued to struggle on improving sentiment towards cyclicals and in an environment of rising bond yields. Northern Star management are solid operators and the assets world-class, but the stock had become expensive versus its peer set and more recently has struggled to match the very high operational expectations of investors.

Major Detractors for the Month:

Mortgage Choice (MOC.ASX) was the largest detractor as it returned –10% following a softer than expected result. While the growth of cash NPAT adjusted for one off failed M&A costs was a respectable 7%, this appeared to disappoint expectations given the background of strong growth in mortgage originations seen during the half (c20% year on year). We would note however that this growth was primarily driven by refinancing activity rather than new loans for purchases which dragged on the growth of the mortgage book (which drives trail revenue). The book growth was also hurt by the staggering COVID-19 lift in savings rates which saw loan balances paid down and cash held in offset accounts (trail is paid on net balances outstanding). We would expect greater operating leverage to the strong housing finance growth currently being seen to emerge in the 2H21 as these latter two factors abate. At c8.5x annualised EBIT Mortgage Choice still looks lowly priced given the favourable tailwinds being seen in mortgage finance growth.

OZ Minerals (OZL.ASX - not owned) detracted as the stock returned 20% following a 16.5% surge in the USD Copper price on increasingly buoyant demand expectations to close the month at levels not seen in at least 30+ years in in Australian dollar terms. While we see Copper as well placed to benefit from the trend towards electrification, we would note that it is now well above the levels that historically have incentivised new production and substitution by aluminium.

Class (CL1.ASX) dragged on returns as the stock returned –8% over the month. Class purchased Reckon Docs off Reckon Ltd (RKN.ASX) to further build on its position in the documents and corporate compliance space. Despite meaningful accretion from the deal the market appeared to dislike the fact Class' core super product had relatively flat subscriber numbers during the period. We remain comfortable that Class' management team has built a platform for solid earnings growth with the launch of the new adjacent Class Trust product and the entry into the documents and corporate compliance space. At circa 3.3x FY22 revenue and 13x EV/EBIT (annualised 12m forward) for a growing and solidly profitable cloud software business we believe Class remains significantly undervalued.

Continued on the next page…

Strategy and Outlook:

We continue to believe valuation discipline is key to the delivery of sustained outperformance over the long term in equity markets. While it is easy to be distracted by investor exuberance towards sectors benefiting from a popular “thematic” we continue to focus on buying cash generative business models, with a track record of solid returns and at sensible valuations. If this sounds a little repetitive it’s because the process continues to be unchanged. Pleasingly the volatility induced by the heightened activity of retail, passive and quant investors also continues to present us with opportunities to invest in new names with the characteristics that we are after as “Mr Market” discounts unpopular business models to chase the latest thematic or concept stock. While the lift in bond rates during the month saw some air come out of some of the most highly valued stocks in the market, we continue to observe a bifurcation of the market that remains near historic highs amid concerning signs of speculative excess in momentum names. We believe that remaining disciplined in this environment means we stand a good chance of being rewarded with outperformance in a world where observation of fundamentals appears increasingly rare.

Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

	Spheria Opportunities Fund
Benchmark (universe)	S&P/ASX Mid-Small Accumulation Index
Investment objective	The Fund aims to outperform the S&P/ASX Mid-Small Accumulation Index over the medium to long term
Investing universe	Primarily listed companies outside the top 50 ASX listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation
Distributions	Half yearly
Fees	0.99% p.a. management fee & 15% 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	30-40%
Style	Long only, risk aware
APIR	WHT0025AU
Minimum Investment	$25,000