Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 31st January 2021

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	**-0.9%**	**29.0%**	**5.9%**	**6.8%**	**10.7%**
*Benchmark**	*-0.7%*	*18.8%*	*8.2%*	*8.1%*	*10.6%*
Value added	-0.2%	10.2%	-2.3%	-1.3%	0.1%

^ 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.

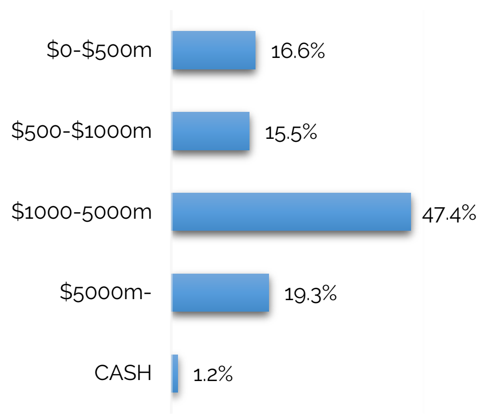
Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2010. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
Als Ltd	4.5
Incitec Pivot	4.3
Orora Limited	4.2
Fletcher Building	3.9
Asaleo Care Limited	3.9
Top 5	**20.7**

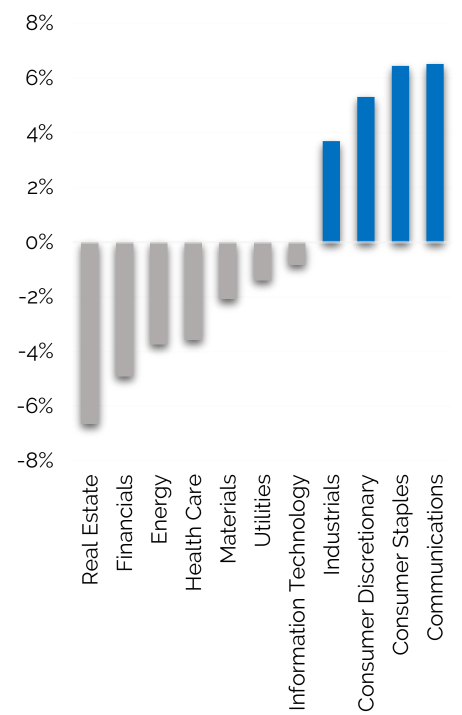
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

Spheria Opportunities Fund returned -0.9% (after fees) in January, marginally underperforming it's benchmark by 0.2%.

Markets

Markets locally were broadly flat in January after a solid increase over the latter half of 2020 including December. January was characterised by some generally positive trading updates from a raft of retailers who continue to see their businesses spurred on by an accommodative economic backdrop and continued crimping of spending in other consumer discretionary areas (namely Tourism and Leisure). The macro environment – despite the uncertainties caused by Covid 19 – is highly supportive of both company earnings (in most sectors) and asset prices. This is likely to continue to lead to upward pressure on stock prices. It is also likely to drive M&A and other corporate activity as we have noted for a while. January did not disappoint here either with a consortium of CPE Capital (formerly Champ Private Equity) and Macquarie Infrastructure and Real Assets (MIRA) emerging for Bingo Industries (BIN.ASX).

Precisely how long we will be in this macro environment is anyone's guess, but the answer appears to boil down to how long Central Bankers can keep playing a double bluff with monetary policy. Whilst there is a lack of the spectre of inflation, effectively printing money remains the key modus operandi of both Central Banks and Governments worldwide. For Governments, this means taking on additional debt comes with little to no (and in some cases negative) cost. Until investors in fixed income come to believe they need higher rates to compensate for long term bond risk, it seems the macro environment is likely to remain extremely accommodative. The alternative is that perhaps the correcting mechanism this time will be social/political as opposed to fiscal or monetary policy. Whilst there has been little consumer price inflation (in the limited way CPI is measured) there certainly has been asset price inflation. This creates additional social divide in a society and could ultimately be the driver of monetary or fiscal reform for example by way of additional taxes.

Major Contributors for the Month

Ainsworth Gaming (AGI.ASX) rose 67% over the month (after returning 52% in December). AGI had not participated at all in more buoyant sentiment towards COVID-19 recovery trades, hitting all-time lows in November 2020.

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Market participants finally began to appreciate that the business has a valuable portfolio of State gaming machine licences in the US and that its solvency is underwritten by land and buildings worth materially more than the historical book value disclosed in the accounts.

Incitec Pivot (IPL.ASX) finally reacted to soaring fertiliser prices worldwide and saw the share price increase by 16%. IPL had consistently produced reasonable earnings from their Dyno Nobel division but has recently struggled with cycle low fertiliser prices globally. Diammonium Phosphate (produced at Phosphate Hill near Mt Isa) pricing for instance hit 13-year lows in early 2020 and was trading well below the industry average short run marginal cost. Strong agricultural product demand and recent environmental policy driven capacity rationalisation in China has recently seen a sharp recovery in prices in IPL's fertiliser outputs. We believe the shares still offer strong upside before they reflect mid cycle commodity prices.

Seven West Media (SWM.ASX) rose 9% and announced the sale of their 18% stake in Airtasker which is seeking to list on the ASX over the next few months. This should provide some material de-gearing to their balance sheet. The cyclical rebound in advertising will also likely see earnings recover in FY2021. Valuation on a recovered earnings basis continues to look compelling.

Major Detractors for the Month

Adbri (ABC.ASX) declined 14% over the month on the back of limited news flow. The backdrop of continued recovery in building approvals and increases in infrastructure spending should continue to be supportive of economic environment for Adbri.

Flight Centre (FLT.ASX) having recovered well off its lows during the second half of calendar 2020, FLT declined 11% in January on some renewed fears of travel restrictions delaying the broader re-starting of travel. FLT has materially cut into their cost base and the business mix has shifted further towards Corporate Travel (up to a third from around 25% of revenue previously). Corporate travel is generally a lower cost to serve than retail and FLT have been making inroads on competitors here. FLT raised $900m last year in April and a further $400m via a convertible in November last year giving them ample liquidity runway for the business to recover. Whilst there have been delays to the recommencement of international travel, there is undoubtedly pen- up demand for travel which we expect to materialise once vaccines have been rolled out here and abroad.

Orora (ORA.ASX) fell 7% during the month on limited news flow. ORA has gone through some dramatic re-shaping of its portfolio over the past 12 months having divested their Australian Fibre business for $1.55bn to Nippon Paper in April 2020. Since then, the group has returned $600m of capital and is currently in the process of buying back 10% of their outstanding shares (currently paused pending the result after completing circa 45% of the buyback). Although ORA has experienced some challenging trading in their US operations driven by COVID-19 over the past year, the business is highly cash generative and is trading on sub 11x forward EV/EBIT.

Outlook

Smaller capitalisation stocks have traditionally been the market segment most prone to M&A activity. We are beginning to see signs of this re-emerging which has tended to play to the portfolio's strength in the past. Capital is also likely to be released to the market via IPO's and founder sell downs which we see as highly likely over the next year or so. Whilst the backdrop of extremely loose monetary policy has driven some areas of the market to speculative excess, there remain others where valuations and fundamentals are supported by cash flow and valuation.

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	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