Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Spheria ASSET MANAGEMENT

Performance as at 31st July 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	**-1.2%**	**-17.9%**	**-13.3%**	**3.0%**	**5.3%**
*Benchmark**	*1.7%*	*-9.0%*	*-5.1%*	*6.9%*	*7.3%*
Value added	-2.9%	-9.0%	-8.2%	-3.9%	-2.0%

^ 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.

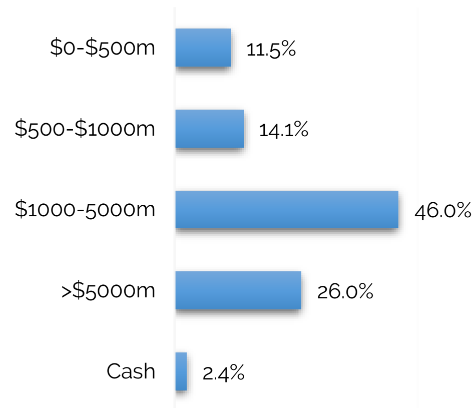
Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2010. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
Als Ltd	5.6
City Chic Collective	5.1
Crown Resorts Ltd	4.6
Orora Limited	4.0
Tpg Telecom Limited.	3.9
Top 5	**23.1**

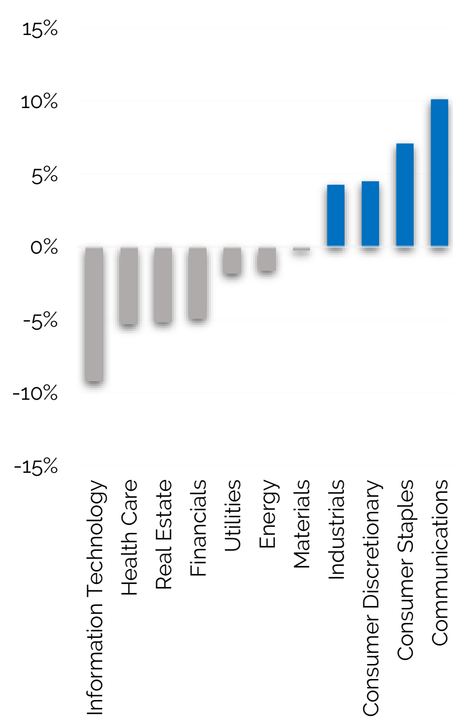
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

Spheria Opportunities Fund returned –1.2% (after fees) in July, underperforming it's benchmark by 2.9%.

Markets

Share markets continue to be driven by macro thematics with little regard for fundamentals and anything resembling valuations. It is a combination of circus and casino at the smaller end of the market with many speculative names burning cash in bewildering sums gaining huge audiences that are drunk on the euphoria of prodigious paper gains. Our process means we are unlikely to own such concept stocks and as such it has been a very unrewarding period with our names currying very little favour relative to their respective benchmarks, even our genuine growth names have in most cases lagged this hi-octane rally. We are confident in our approach and note early indications from the August reporting season augur well for much better performance in future periods. In a rational market we believe our performance will be a significant differentiator given the unwarranted unpopularity bordering on antipathy for some of key holdings, which belies how well they are performing as businesses and the valuation risk-reward which seems heavily skewed in their favour.

Major contributors for the month:

ALS (ALQ) was the largest contributor to performance after providing better than expected forward earnings guidance at its AGM. We believe ALQ has a difficult to replicate global franchise with leading market shares in gold and environmental testing. The past 6-12 months has been a difficult patch, due to issues with its coal testing divison and COVID-19 impacting non-mining volumes. It is well placed to benefit from gold exploration spend due to a higher gold price and the likelihood that testing volumes increase dramatically as gold miners invariably recycle cash flows in the pursuit of increased gold reserves/resources. Furthermore, there should be a recovery in other key divisions from the COVID-19 lockdown induced downturn. ALQ has reset its cost base and so the recovery to the bottom line might be more significant than just mean reversion.

City Chic (CCX) performed well during the month as it continues its bounce back from the March selloff. Just over two years ago the company was on

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the brink of insolvency and has since been one of the best performers in the Australia share market. It illustrates the potential payoff in our portfolios given we have an abundance of such companies that are seriously unpopular but have great characteristics' which are currently being overlooked. During the month we increased our holding in CCX via an institutional raising at a discount to fund the potential acquisition of Catherine's online operations (USA +size female brand). Ascena Retail the parent company having filed for Chapter 11 bankruptcy. CCX is well positioned for further acquisitions of this nature to enable it to dominate this space in the USA and potentially on a global basis. It appears to have little major competition for assets given the fragility of many operators due to their store networks which are currently a millstone around their neck as COVID-19 accelerates structural change and delivers insolvencies.

Major detractors for the month:

The largest detractor for July was **Adbri (ABC)** which announced the loss of a major lime contract ($70m of revenue pa) from Alumina (AWC). This was a material profit contributor (~20% of EBITA) to the group and was disappointing given AWC will instead import lime which is not without risk. In addition, it is unlikely the imported contract is on sustainable commercial terms. We believe the contract has a 3-year term and will begin 1st July 2021. Whilst this is a major earnings setback, we note ABC's earnings have fallen about $100m in last two years due primarily to cyclical pressures and some competition in key markets. Any reversion to normal cyclical levels and an abatement of competition (due to a lower AUD) will more than offset the loss of the lime contract, which may revert back to ABC when the contract ends or earlier if it cannot be fulfilled contractually.

Monadelphous (MND) was also a large detractor in July for little obvious reason. We believe MND will be a major beneficiary from increased iron ore spend given it is one of very few mining construction companies in WA that can deliver large projects at the quality levels required by the big miners. It also will generate from any increase more broadly in mining capex in WA which seems likely given strength in commodity prices driven by the insatiable demand from China. With a pristine balance sheet, strong cash flows and a great reputation, we believe MND is well placed to win above its natural market share, particularly given the withdrawal of meaningful competitors like CIMIC and Downer.

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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
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Minimum Investment	$25,000