# Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

## Performance as at 30th November 2020

| | 1m | 6m | 1yr | 3yr p.a. | Inception p.a.# |
|---|---|---|---|---|---|
| **Fund ^** | **13.3%** | **23.5%** | **2.7%** | **8.1%** | **10.3%** |
| *Benchmark** | *8.3%* | *19.6%* | *8.9%* | *8.2%* | *10.4%* |
| Value added | 5.1% | 3.9% | -6.2% | -0.1% | -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 | 4.7 |
| Orora Limited | 4.4 |
| Crown Resorts Ltd | 4.0 |
| Incitec Pivot | 3.8 |
| Fletcher Building | 3.8 |
| **Top 5** | **20.8** |

Source: Spheria Asset Management

## Commentary

Spheria Opportunities Fund returned 13.3% (after fees) in November, outperforming it's benchmark by 5.1%.

**Markets**

Early during the month Pfizer made the pivotal announcement that its Covid 19 vaccine had successfully passed trials and was swiftly followed up by further successful vaccine trials from other pharma companies. This provided markets with a well needed shot in the arm – so to speak. The backdrop of a genuine prospect for the world to emerge out the Covid 19 shadow, extremely loose monetary regimes and abundant liquidity were like gasoline being poured on steadily burning bonfire. Investors sought out and bought up heavily oversold Covid 19 victims from Feb/ March and found them in the media and travel and leisure sectors. The market has been fixated with cash burning microcap "stories" in many cases with little in the way of fundamentals to back them up and growth/ momentum fintech type companies – where valuations have been a distant thought for most investors. We see the current rotation as potentially having legs given the relative extremes in both company outlooks and valuations.

**Major contributors for the month:**

Flight Centre (FLT.ASX) – Pfizer's November 9th announcement of a successful vaccine trial has proved to be a pivotal moment for stock markets and the travel and leisure sector in particular. Flight Centre was front and centre of the Covid 19 sell off and consequently saw a 52% rebound in its share price over November. FLT was trading on low single digit ev/ebit multiples based on recovered travel volumes in early November and remains attractively priced on our mid cycle assumptions. FLT has undertaken a substantial cost saving program and reduced the number of retail outlets – both of which position it more strongly for an earnings rebound as domestic and international travel make their gradual recoveries.

Other contributors were Fletcher Building (FBU) and Village Roadshow (VRL). Fletcher Building gained 39% during the month on the back of a strong trading update for the first 4 months of the year followed by a strong profit guidance increase towards the end of the month.

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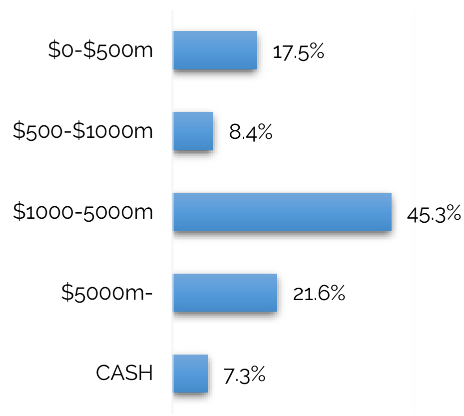
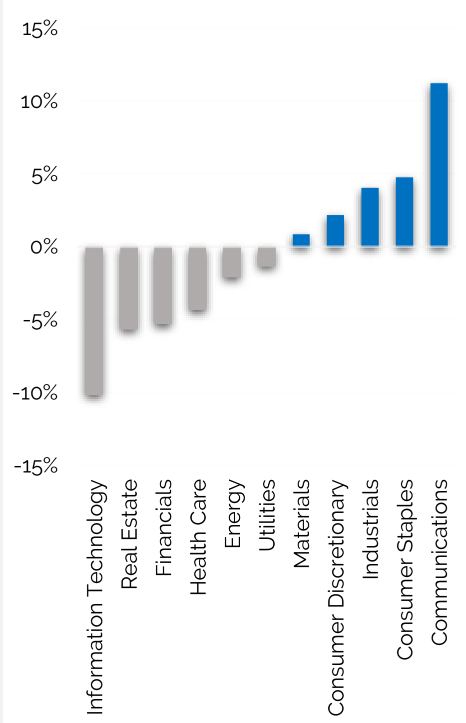
## Market Cap Bands




Source: Spheria Asset Management

## Active Sector Exposure




Source: Spheria Asset Management

**Contact us** 1300 010 311 distribution@pinnacleinvestment.com.au www.spheria.com.au

FBU is seeing the benefit of a recovering housing market in both Australia and New Zealand plus the benefits of streamlining its operations over the recent housing downturns. Since the sale of their Formica division almost two years ago the balance sheet has also been lowly geared putting the business in a good position for a re-bound.

Village Roadshow (VRL.ASX) - After a protracted saga VRL finally got a substantial increase in bid from BGH Private Equity causing the shares to rise 31% over the month. BGH had bid $4.00 for VRL back in January but had walked away from this price as Covid hit the Travel and Leisure sector hard. BGH subsequently re-emerged with two different schemes at a drastically lowered price offering between $2.22 - $2.32 per share. After some negotiations whereby Spheria took a pivotal role in negotiations, BGH came back with a revised offer of $3.00 a share. We were pleased with this outcome both for our investors and VRL shareholders more broadly who lacked the bargaining power to express their discontent at the lower price initially offered.

**Major detractors for the month:**

Class Ltd (CL1.ASX) Class retraced 11% after a strong rally since they reported their full year FY 20 results on limited newsflow. CL1 remains well position to capitalise on an increased market size following on from their product expansion into Class Trust. The high customer retention rates and the first modest price increase in over 10 years positions the company well over the medium term to perform.

Xero Ltd. (XRO.ASX) – NOT OWNED rose 20% – Xero reported half year results which showed a slowdown in topline growth. However offsetting this was a jump in margins – at least in part due to a substantial cut in sales and marketing spend. Despite the backdrop of Covid it should be remembered that there will be a strong correlation between sales and marketing spend and topline growth. The more you spend the more customers you will gather and vice versa. XRO is a very solid business which trades on an excessively high valuation in our view.

Carsales ltd (CAR.ASX) Carsales declined 2% in a strongly rising broader market which caused the relative underperformance. CAR remains a strong domestic tech/ media franchise with strong growth options in international markets in particular Korea via their acquisition of SK Encar which is the leading Korean online car selling platform. We would expect earnings to materially recover in Fy 21 and beyond as car companies re-commence advertising and consumers return to the car market after a pause over the past 2 and a half years.

**Outlook & strategy going forward**

The portfolio has continued to perform well over the past few months. We believe the strong response by our Government and the RBA has provided ample liquidity and support to both business and consumer confidence which will in turn flow through to the economy. Whilst some sectors of the share market reflect this, we believe there remains ample opportunity in parts which have been left behind and remain attractive on the basis that the economy both here and internationally fully re-open. The additional backdrop of extraordinarily low interest rates also provides an opportunity for Private Equity and Corporates to take advantage of shares which offer compelling cash flows and valuations.

| | 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<br>• Typically 5% - 10% |
| Expected turnover | 30-40% |
| Style | Long only, risk aware |
| APIR | WHT0025AU |
| Minimum Investment | $25,000 |