Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Spheria ASSET MANAGEMENT

Performance as at 30st June 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	**0.1%**	**-15.3%**	**-10.6%**	**4.7%**	**5.7%**
*Benchmark**	*1.4%*	*-6.9%*	*-2.3%*	*6.1%*	*7.0%*
Value added	-1.3%	-8.5%	-8.2%	-1.4%	-1.3%

^ 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.

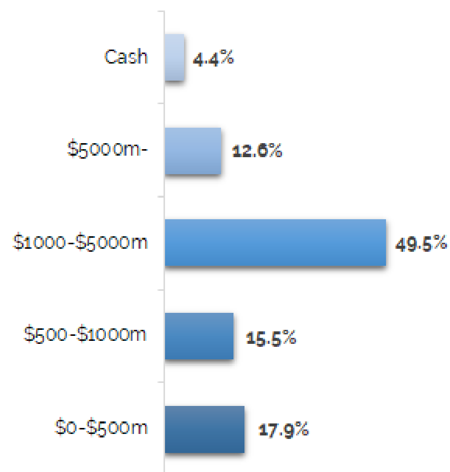
Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2010. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
ALS Ltd	4.8
Crown Resorts Ltd	4.6
TABCORP Holdings Ltd	4.6
Orora Limited	4.2
TPG Telecom	4.1
Top 5	**22.3**

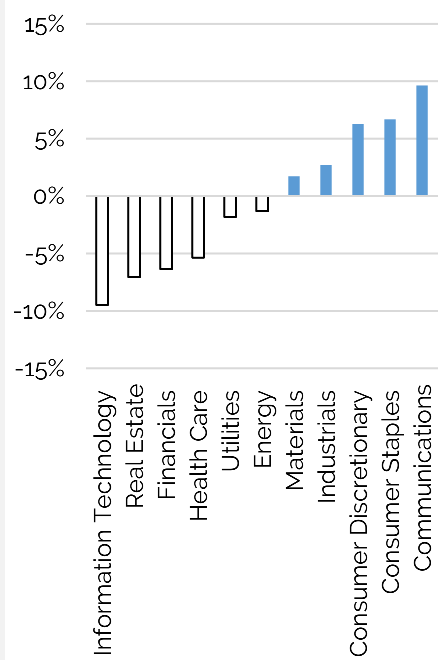
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

The Spheria Opportunities Fund returned 0.1% (after fees) in June, underperforming it's benchmark by -1.3%.

Markets

Markets rose again over June, albeit at a less torrid pace than the previous month. While the month saw a significant re-acceleration in COVID-19 transmission rates in the U.S. and a consequent reversal by many U.S. States of their premature re-openings (with the benefit of hindsight), investors looked through these developments to push the S&P500 to within 8.5% of its pre-COVID highs and the NASDAQ to all-time highs. We believe the enthusiasm for stocks is being driven by a realisation that interest rates are likely to remain at depressed levels for an extended period of time and that Governments will have an incentive to essentially monetise some of their COVID-19 induced debt through inflation rather than raise taxes during a recovery from the pandemic.

Locally, the Australian market was led up by the banks as they partially reversed a significant period of underperformance on better sentiment towards expected credit losses in the economy. Value cyclicals began the month well but faded as fears of a second wave both internationally and within Victoria built. Momentum stocks, particularly those of a more conceptual nature (I.e. they don't earn a profit) performed strongly as speculative activity by retail participants in the market appeared to hit a new high. The market continued to see capital raisings both by companies hit by COVID-19 (E.g. Qantas, Vicinity, Challenger, Super Retail Group, Investec Australia Property Fund, Arena REIT, APN Convenience Retail, Sky City, Red Hill Education, Viva Leisure) and by tech stocks taking advantage of historically high valuations to do blank cheque raises (E.g. Kogan, Temple & Webster, Openpay). Additionally, gold stocks were very active funding raisings for further exploration spending given the strong performance of the underlying metal and stocks within the sector. The market saw the re-emergence of corporate activity with Infigen (IFN) receiving two separate takeover offers, two gold explorers / developers receiving offers (Cardinal – CDV and Exore -ERX) and Cromwell (CMW) and Opticomm (OPC) receiving offers.

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Fund Performance

During the month the Fund exited WHC.ASX following its relative outperformance on resilient thermal coal prices earlier in the quarter and BOQ.ASX following its strong outperformance of the bank index. The Fund also reduced its weighting in FLT.ASX and BKL.ASX following solid relative performance in these names. The Fund added to its ALQ.ASX position following price weakness and our view that the outlook for mineral testing volumes was being underestimated by the market.

During June we had positive contributions from Healius (HLS), Adbri (ABC) and TPG Telecom (TPM.ASX). HLS saw a re-rating post the sale of its troublesome Medical Centres and Dental business for $500m of enterprise value. This represents 13x EBIT and was a commendable result considering the capital and management intensity of the business. More pertinently it substantially deleverages HLS and allows them to focus on their strong pathology and imaging franchises.

TPM performed strongly as it completed its long-delayed merger with the Hutchinson Vodafone mobile network in Australia. Investors re-rated the business as they appeared to focus on the potential for synergistic growth that the merged entity has available to it.

Detractors to performance for June included an underweight position to Afterpay (APT) and overweight positions in Bega Cheese (BGA) and Mortgage Choice (MOC).

BGA continued to retrace during the month following strong outperformance during the COVID-19 drawdown as investors appeared to use it as a funding source for other positions and in part due to negative sentiment from the catastrophic unwinding of Freedom Foods (FNP – Not owned). MOC appeared to fall on concerns about the sustainability of currently strong levels of application volumes to mortgage brokers which are being supported by elevated refinancing activity.

APT continued to re-rate to ever more extreme valuation metrics during the month as investors chased momentum stocks. While we are impressed by the rapid transaction volume growth the business is generating we remain skeptical of the company's ability to maintain transaction margins in the face of a proliferation of new entrants to the space, particularly with the likelihood that regulatory reforms are unlikely to be beneficial for buy now pay later players. Additionally, we see meaningful credit risks inherent to a rapidly growing consumer finance business that do not appear to be factored into the valuation.

Outlook

While the market has experienced a meaningful recovery from its lows, we see the manager the almost historic levels of multiple divergence as providing some exceptional investment opportunities for those prepared to look through short term earnings uncertainty and/or go against the grain. Equity recapitalisation activity continues to present opportunities for active managers to establish positions in quality companies that have seen cashflow impacted by COVID-19. Additionally, there remain a surprising number of companies that continue to operate profitably and generate cash but that remain on highly depressed multiples, particularly towards the smaller end of the market cap spectrum. On the other hand the manager is increasingly concerned about a narrow subset of very highly rated companies (almost invariably with no track record of free cash generation) that appear to have become completely disconnected from fundamentals, particularly in the technology, fintech and biotech sectors. The manager continues to see better opportunities for relative performance in discovering unpopular but strongly cash generative businesses on attractive through the cycle multiples. While revenue and margins in some of these companies may take some time to recover from the impacts of COVID-19 the manager believes they represent better risk-reward opportunities on balance

	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 PA turnover	30-40%
Style	Long only, risk aware
APIR	WHT0025AU
Minimum Investment	$25,000