Performance as at 31st December 2019

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund^	**-0.2%**	**11.8%**	**20.3%**	**8.9%**	**11.2%**
*Benchmark**	*-0.3%*	*3.9%*	*21.4%*	*10.0%*	*9.9%*
Value added	0.1%	7.9%	-1.1%	-1.1%	1.4%
*Microcap Index ***	*-2.0%*	*9.9%*	*30.9%*	*7.2%*	*8.6%*

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

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

** Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.

Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance.

Commentary

Spheria Australian Microcap Fund returned -0.2% (after fees) in December, outperforming it's benchmark by 0.1%.

The market continues to be driven by highly speculative forces due to synchronised monetary stimulus provided by very accommodating central banks. During the quarter, the Fed increased its balance sheet to counter short term funding spikes in the US repo market. This alleviated stress in the overnight lending market but has also fed asset price strength particularly in global sharemarkets. The rise of passive and quantitative strategies has resulted in less efficient markets in which participants are exploiting a lack of qualitative analysis. We think this may end badly for clients invested in these types of strategies. Many of the companies that have had meteoric rises lack substance and therefore durability or are simply duplicit in nature, making it a very challenging market to outperform when you are fundamentally based.

Major contributors to performance in December were:

- Napier Port Holdings (NPH.NZ) – which rallied 24% in December. NPH is a relatively new addition to the portfolio after listing in August 2019. We acquired it in the IPO and added to the position early on the first day of trading. It is the fourth largest port in New Zealand, by container volumes. It services the Hawke's Bay and surrounding regions with the main cargo being timber log exports into Asian market, primarily China. We expect the company to generate a decent return on its wharf expansion that will reduce congestion and allow it to handle larger vessels. NPH produced a solid maiden result in November that has underpinned the share price performance recently.

- Vita Group (VTG.ASX) – gained 12% during the month, recovering from a rather inexplicable sell-off. It would appear the company is trading well with its white-label accessories – Sprout – growing at a rapid clip, which should provide a cushion against well flagged changes in its remuneration contract with Telstra. Further, the emergence of new handset brands (e.g. OPPO) that are comparable to (if not better than) the high-profile brands, has significantly improved the economics of handset sales to VTG.

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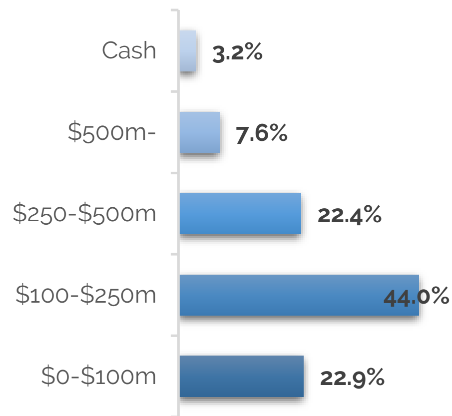
Top 5 Holdings

Company Name	% Portfolio
Class Limited	6.8
City Chic Collective	5.4
Mortgage Choice Ltd	4.6
Asaleo Care Limited	4.1
Ht&E Limited	4.1
Top 5	**24.9**

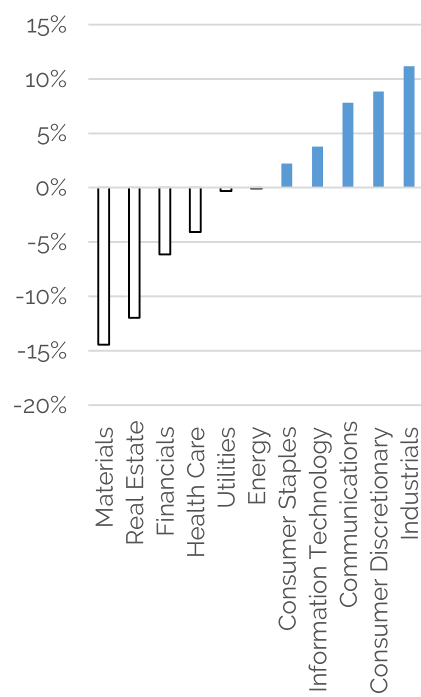
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

- We also believe that VTG will generate a positive return in the medium term from its growing investment in Clear Complexions (skin care solutions) which is again constructive for its earnings profile. Trading on only 5x EBIT (or free cash flow), it would appear the risk-reward is skewed to the upside.

- GTN (GTN.ASX) – bounced 19% after a better than expected profit update illustrating an improved trend in earnings. Whilst some of the weakness has been radio advertising market related, poor sales productivity has been an issue that now appears to have been addressed.

Major detractors to performance in December were:

- Class (CL1.ASX) – which retraced 11% on little news flow after a significant surge in the share price over the last few months. With growth now stabilising at reasonable levels in the core SMSF product and the near-term entry (June) into the family trust market, we believe the long-term outlook is very promising. Whilst the increased spend on building a tax engine for family trusts has degraded short term earnings, we believe the payoff could be significant given our enquiries indicate that incumbent products have not been purposefully designed and are therefore ripe for displacement.

- Mortgage Choice (MOC.ASX) – like CL1, fell 10% in December on little new news. The outlook for the housing market has demonstrably improved since May 2019 due to monetary stimulus, a relaxation of APRA lending standards and the removal of the threat of Labor's proposed changes to CGT and negative gearing policies. MOC is currently enjoying a significantly improved macro environment after a sharp downturn in approvals that was quantitatively worse than the GFC during calendar 2018 and the first half of 2019. We also believe recruitment will be easier for MOC given improved commercial arrangements implemented last financial year and a benign regulatory environment where the existential threat to mortgage brokers posed by the Hayne Commission recommendations is now firmly off the table, which had been a huge deterrent for anyone pondering entering the industry.

- City Chic (CCX.ASX) – tickled down 7% in December, after a mammoth run over the last 18 months. The domestic business continues to trade well, the acquisition of Avenues e-commerce in the USA should catapult it to another level in what is a much larger market. Given the success achieved in Australia from a low base and the early organic wins in the USA, it remains a very backable long term story, in our view and is trading on reasonable valuation multiple versus some of its highly rated peers like Lovisa that are further down the global expansion path.

We remain cautious on the outlook given the lofty valuations ascribed to companies that either generate very little profit or are deliberately burning cash with no obvious path to profitability, this is a dangerous game, in our view. We prefer to buy companies that have sound market positions that generate predictable and durable cash flow, and that have relatively attractive valuations. We are still finding opportunities on this front, that we believe will generate solid returns for our clients at relatively lower risk.

Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

	Spheria Australian Microcap Fund
Benchmark (universe)	S&P/ASX Small Ordinaries Accumulation Index
Investment objective	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.
Investing universe	Primarily listed companies outside the top ASX 250 listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation
Distributions	Annually
Fees	1.35% p.a. management fee & 20% 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	20-40%
Style	Long only
APIR	WHT0066AU
Minimum Initial Investment	$100,000

Platform availability
ASGARD
BT Panorama
BT Wrap
HUB24
IOOF Portfolio Service
Macquarie Wrap
mFund
MLC Wrap / Navigator
Netwealth
One Vue
uXchange