

# Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU



## Performance as at 31<sup>st</sup> January 2019

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
<b>Fund<sup>^</sup></b>	<b>1.7%</b>	<b>-9.6%</b>	<b>-13.8%</b>	<b>2.8%</b>	<b>8.4%</b>
Benchmark*	5.6%	-7.9%	-3.1%	8.9%	7.8%
Value added	-3.9%	-1.7%	-10.7%	-6.1%	0.6%
Microcap Index **	4.2%	-15.0%	-18.2%	-2.3%	2.6%

<sup>^</sup> 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.

## Top 5 Holdings

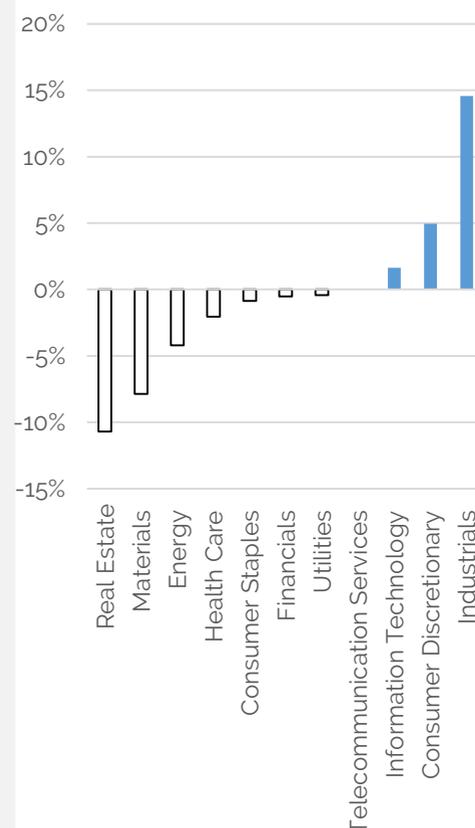
Company Name	% Portfolio
A2B Australia Ltd	4.9
Class Limited	4.5
Vita Group Ltd	4.4
City Chic coll.	4.2
Pacific Smiles Grp	3.7

**Top 5 21.7**

## Market Cap Bands



## Active Sector Exposure



## Commentary

The Spheria Australian Microcap Fund increased 1.7% in January, underperforming the Benchmark by 3.9%.

The S&P ASX Small Ordinaries Accumulation index returned a very strong 5.6% in January, in sympathy with global markets. Markets returned to a risk-on stance after commentary from the Fed suggested they were "listening to the markets" and were likely to hike only a further two times this year. Additionally, the Fed Chairman was quoted as saying he "wouldn't hesitate" to adjust the pace of the Fed's balance sheet contraction. Within the benchmark – growth and momentum style names led the charge – after having been sold off heavily in the final quarter of 2018. Paradoxically we think we are heading into a pretty weak reporting season. The Australian economy has undoubtedly slowed and the cyclical side of the economy – retailers, housing related stocks and media – have all come under pressure.

The smaller companies segment has continued to see fairly vigorous takeover activity over the past few months. The microcaps at the lower end of the market cap spectrum, however, have been relatively devoid of activity. This is also evidenced by the underperformance of the S&P ASX Emerging Companies Accumulation Index (Microcaps) which has lagged the Smaller Companies index by 15.1% over the twelve months to end January 2019. Valuations have become substantially more appealing with our Microcap Fund trading on valuations which are 15-20% cheaper than the Smaller Companies fund. Based on our experience of running both funds over time we would expect there to be some significant catch up of the microcap/smaller capitalisation stocks to close this extended valuation gap.

Shares that contributed positively to Fund performance in January were Mt Gibson (MGX.ASX) – up 21%, Horizon Oil (HZN.ASX) – up 20% and Vita Group (VTG.ASX) up 10%. MGX has performed strongly on the back of a strong rise in the Iron Ore price and is close to completing the re-opening of its Koolan Island iron ore mine after the pit wall collapse of 2014. Its high-grade Iron Ore achieves a premium to spot prices due to the low impurities. The Oil price rebounded in January which attracted investor interest in Horizon Oil. Finally, VTG bounced with the news that TPG Telecom has stopped the rollout of its mobile networks due to the Federal Government's ban on 5G Huawei equipment. Huawei was of course the lead supplier TPG was relying on to provide much of the small cell technology. This should mean less

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competition for Telstra and thus VTG's retail operations.

Most of the relative negative contributions in January came from shares the Fund didn't and couldn't own. Beach Energy (BPT.ASX), Afterpay (APT.ASX) and Wisetech (WTC.ASX) all rose over 20% during the month. Many of these names carry significant weightings in the Smaller Companies index – against which we are benchmarked – but are well outside of the market cap limits imposed on our investment universe. A2B (A2B.ASX; Formerly named Cabcharge) declined 7% over the month and GBST (GBT.ASX) fell 14% - both on limited news flow. There is a general antipathy towards the microcap universe at the moment which seems aberrational compared to the relative fervour a handful of larger tech names are attracting. As long as these businesses continue to generate good cashflows and can either re-deploy capital in their core operations or buyback their outstanding shares on issue – shareholders in these names will be accreting longer term investment returns.

The market rally in January saw the momentum and growth style names broadly re-rate to levels they were at prior to the sell-off in October last year. We are finding good valuation support in other areas of the market particularly the microcap and smaller cap segments of the market. We have generally observed these gaps close over time as equity investors, Corporates and Private equity capital gets attracted down the cap spectrum on account of the relatively more attractive returns. The highly cyclical segments of the market have taken a beating over the past six months and these too offer the potential for superior returns in the medium term.

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Spheria Australian Microcap Fund		Platform availability
Benchmark (universe)	S&P/ASX Small Ordinaries Accumulation Index	ASGARD
Investment objective	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.	BT Panorama
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	BT Wrap
Distributions	Annually	HUB24
Fees	1.35% p.a. management fee & 20% performance fee of the Fund's excess return versus its benchmark, net of the management fee	IOOF Portfolio Service
Cash	<ul style="list-style-type: none"> <li>Up to 20% cash</li> <li>Typically 5% - 10%</li> </ul>	Macquarie Wrap
Expected turnover	20-40%	mFund
Style	Long only	MLC Wrap / Navigator
APIR	WHT0066AU	Netwealth
Minimum Initial Investment	\$100,000	One Vue
		uXchange

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