Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

Spheria ASSET MANAGEMENT

Performance as at 31st March 2019

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund^	**0.3%**	**-4.0%**	**-2.6%**	**4.8%**	**10.2%**
*Benchmark**	*-0.1%*	*-1.8%*	*5.8%*	*10.3%*	*9.7%*
Value added	0.4%	-2.2%	-8.4%	-5.5%	0.4%
*Microcap Index ***	*2.8%*	*-8.4%*	*-8.4%*	*3.7%*	*5.2%*

^ 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.

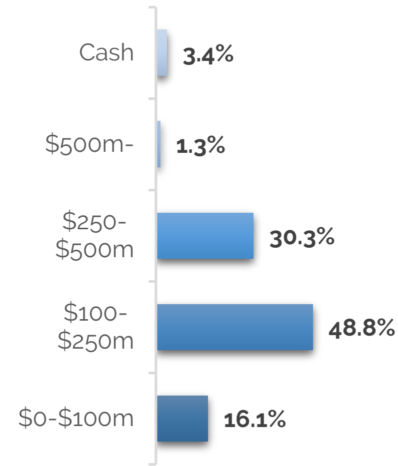
Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
City Chic Collective	6.5
Class Limited	5.6
Vita Group Ltd	4.9
A2B Australia Ltd	4.4
Mortgage Choice Ltd	3.4
Top 5	**24.8**

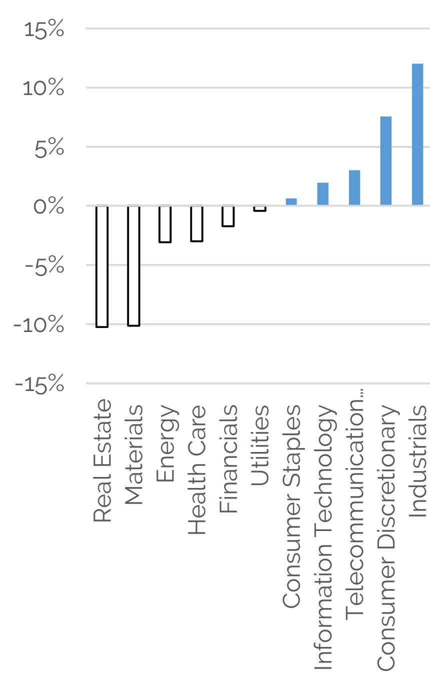
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

The Spheria Australian Microcap Fund returned 0.3% in March outperforming the Benchmark which declined 0.1%. Over the year to 31st March 2019, the fund returned -2.6% - a disappointing outcome relative to the benchmark which increased 5.8%. It should be noted however that the fund outperformed the S&P ASX Emerging Companies Accumulation index by almost 5.8% illustrating the relative outperformance of the smaller cap space over the microcaps.

After the strong bounce in January and February the market had a relatively muted month in March. A lot of the key trends which had emerged over the past 18 months re-asserted themselves over the first few months of the year. These being the continued performance of momentum, the relative underperformance of value investing and with M&A continuing to be a key feature of the markets. Whilst we try not to adhere to any particular investment moniker – viewing both growth and value investing as opportunities - we are strong adherents to cash flow investing. That is, we continue to believe longer term valuations derived from reasonably forecastable cashflows are the best way to invest client's money. Whilst this may mean we have some periods of relative under performance we also believe it enables us to derive the best longer-term investment outcomes for clients with – importantly – lower risk than the overall market.

It is for this reason, not for any philosophical reason per se, that we have no exposure to the so called WAAAX stocks (the acronym for Wisetech, Altium, Appen, Afterpay and Xero). Not to mention the fact that the market caps of these stocks lie well outside the range allowed by the Microcap mandate. Two of these businesses have yet to generate any cashflow (Afterpay and Xero). The others are, in our view, trading at increasingly lofty multiples which make any further re-rating from here a highly risky proposition. It should be stressed here that we are expressing a view on the share prices and what is being imputed into future earnings and cash flows (if they have any) not a negative view on the businesses themselves. Some of these are solid businesses and the innovation and technology they bring to employment in Australia is a good thing. However, you pay a high price for a cheery consensus and right now the consensus is to 'Lets WAAAX lyrical'. The fixation with a segment of the market is not an isolated event of course. There have been numerous times in the past when the market has become fixated by various sector thematics (viz the tech boom in 99/00, Oil stocks

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in the 70's and the Nifty Fifty in the 60's and early 70's) to name but a few. In all cases, when momentum takes over and fundamentals are forgotten, the bubble doesn't tend to end too well.

Areas of the market that have instead caught our attention have been the more cyclical parts of the market which have seen their share prices substantially retrace. We are finding sectors which are exposed to the housing market (retailers, building materials), the auto sector (auto retail and specialty auto suppliers) and other cyclical areas (e.g. discretionary retail and media) are potentially interesting. These sectors have been around for many years and, in contrast to some of the WAAAX stocks, it is relatively easy to see the extent of previous cyclical downturns and calibrate likely mid-cycle earnings. Armed with these facts and the track record of cash flow generation we believe we can selectively invest in the "unwaaaxed" parts of the market and produce better overall returns from these levels.

Over the past 12 months to the end of March we have seen the Smaller Companies index outperform the Emerging Companies (Microcaps) by 14.2%. This divergence has been exacerbated by the momentum following the WAAAX, Fintech and high growth stocks and the low levels of recent M&A activity at the smaller end of the market cap spectrum. Virtually all of the smaller cap M&A has taken place at the larger end of the smaller companies' space viz Navitas (NVT.ASX), Sirtex (SRX.ASX), Trade Me (TME.ASX), MYOB (MYO.ASX), APN Outdoor (APO.ASX) and Fairfax (FFX.ASX) to name some of the major transactions. We view this skew as anomalous and sense there is likely to be a degree of catch up at the smaller end both in terms of underlying investment performance or from increased merger and acquisition activity. In either case we believe the Microcap Fund should be well positioned to benefit from either trend.

	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