Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

Performance as at 30th November 2019

	1m	FYTD	1yr	3yr p.a.	Inception p.a.#
Fund^	**-0.2%**	**12.0%**	**14.5%**	**10.0%**	**11.6%**
*Benchmark**	*1.6%*	*4.2%*	*16.6%*	*11.4%*	*10.2%*
Value added	-1.8%	7.8%	-2.2%	-1.4%	1.4%
*Microcap Index ***	*-1.0%*	*12.2%*	*28.4%*	*8.0%*	*9.4%*

^ 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 declined 0.2% over the month, under-performing the Index by 1.8%. Over the past twelve months the Fund has returned 14.5% underperforming the index by 2.2%.

November greeted smaller company investors with a raft of AGM trading updates. These are one of the few 'reconciliation moments' whereby share prices - which are moved around by a variety of forces and views in between reporting periods - are quickly brought back into line with underlying economic reality. A number of Smaller Companies had profit warnings including G8 Education (GEM.ASX), AP Eagers (APE.ASX), Nufarm (NUF.ASX), Sims Metal (SGM.ASX), Oceanagold Corp (OGC.ASX), ARQ Group (ARQ.ASX), Monash IVF (MVF.ASX) and Nine Entertainment Group (NEC.ASX). These were due to a variety of reasons but in general the economy remains sluggish and smaller companies are typically more sensitive to changes in the economic outlook than larger companies. On the bright side, the three interest rate cuts seem to have been successful in stimulating house prices with signs of a price turnaround in most of the major cities. This is a good reminder of just how quickly market sentiment can change in any market. For this reason we believe anchoring your investment views to business fundamentals remains the best longer term way of outperforming the broader market through both investment and business cycles.

With the turn in sentiment on housing prices, we have seen a change in perception around the prospects of some of the more cyclical stocks in the smaller companies space. Building materials, resource related names and some technology names all rebounded in November as the market re-appraised earnings prospects and valuations were attractive. Stocks held in the Microcap Fund which contributed meaningfully included Class Ltd (CL1.ASX) – up 17%, Austin Engineering (ANG.ASX) – up 14% and Asaleo Care (AHY.ASX) – up 7%. CL1 continued its recent run of performance after their AGM update where they outlined their plans to expand their product suite into the family trust market with Class Trust. This will be the third product the group has launched since it was founded on top of their existing Class Super and Class Portfolio products. Given the total addressable market (TAM) in this space is at least the same size as the SMSF market the stock market greeted this product expansion with aplomb.

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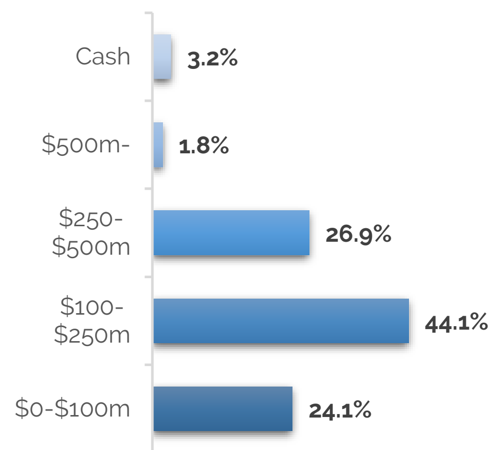
Top 5 Holdings

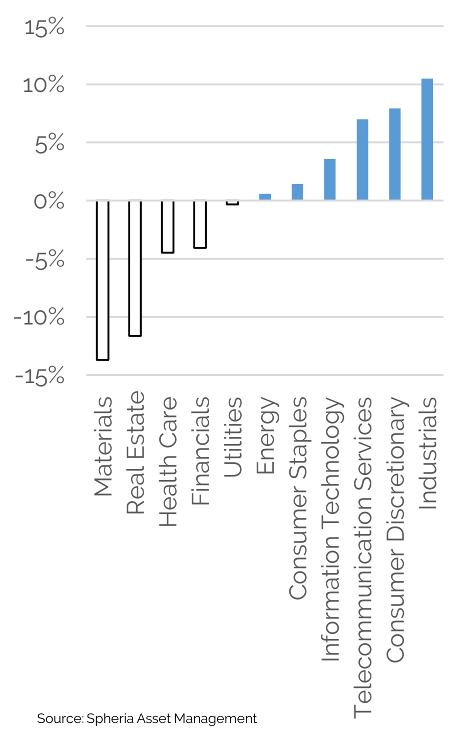
Company Name	% Portfolio
Class Limited	7.7
City Chic Collective	5.8
Mortgage Choice Ltd	5.1
Asaleo Care Limited	4.0
A2B Australia Ltd	4.0
Top 5	**26.6**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

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Austin Engineering (ANG.ASX) is a mining engineering company which produces engineered products for the mining and construction industries. They produce a range of aftermarket Truck bodies, buckets, water tanks and tyre handlers. The group has been closing several of its loss-making international centres and reducing gearing. At their AGM the re-affirmed guidance towards the top end of their previous forecasts of ebitda between A$24-28m. AHY is a B2B and B2C consumer paper products business with brands that include Tena, Tork and Libra. AHY was IPO'd in 2014 but struggled under a high debt load and unsustainably high operating margins. After several years of struggling to hold earnings the group had multiple profit warnings in 2018 culminating in the sale of its Australian Consumer business for $180m (or 10x ebitda). This cleared a lot of the debt overhang and left the business able to focus on its higher quality B2B business and its NZ consumer tissue business. From here we expect the business to move back into reasonable growth and reinstate its dividend going forward.

Stocks that detracted from performance were Geopacific Resources (GPR.ASX) which declined 24% on very limited news. These shares had gained materially over previous months and retraced over November. Vita Group (VTG.ASX) declined 12% and Mortgage Choice (MOC.ASX) fell 7% despite the improving sentiment around housing prices across Australia. Our sense is that some of these moves have been driven more by several smaller company fund competitors transitioning out their portfolios than any reflection of the companies' earnings fundamentals. Whilst frustrating we have found these types of transitions short term in nature and can offer opportunities to more patient capital.

We remain of the view that the smaller cap shares still look more attractively valued than the bigger end of the small cap space in spite of some of the fairly significant share price retracements at the larger end. The momentum trade which has carried some of these names into the realms of pure speculation has started to come unstuck over the past few months. The very public decreases in values of many tech 'unicorns' like WeWork and some of the listed plays like Uber and Lyft appear to have caused investors to re-appraise the buy-at-any-price investment strategy which had been working over the past 18 months.

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	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