Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

Performance as at 31st October 2019

	1m	FYTD	1yr	3yr p.a.	Inception p.a.#
Fund^	**4.0%**	**12.2%**	**9.8%**	**9.3%**	**11.9%**
*Benchmark**	*-0.5%*	*2.6%*	*14.4%*	*10.4%*	*10.0%*
Value added	4.5%	9.6%	-4.6%	-1.1%	2.0%
*Microcap Index ***	*-0.3%*	*13.3%*	*26.7%*	*6.3%*	*10.0%*

^ 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.

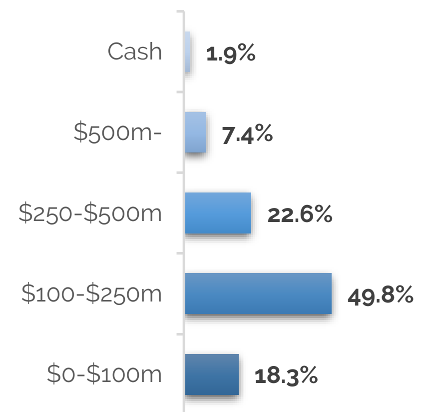
** Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.

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

Top 5 Holdings

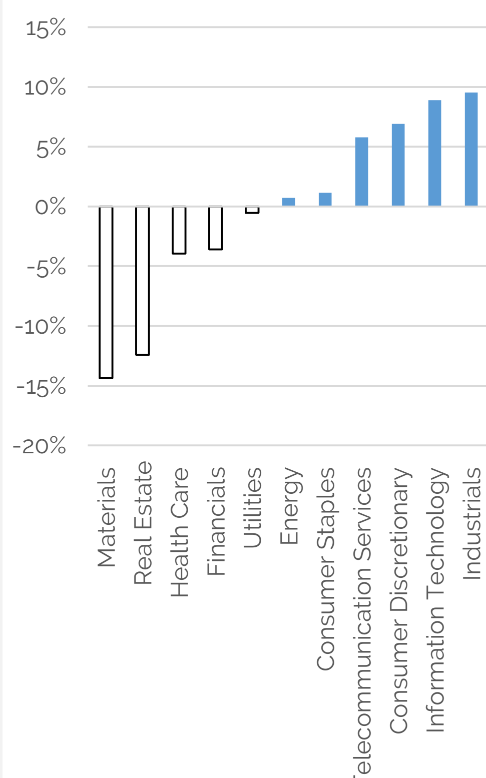
Company Name	% Portfolio
Class Limited	6.4
GBST Holdings..	6.1
City Chic Collective	5.7
Mortgage Choice Ltd	5.1
A2B Australia Ltd	3.9
Top 5	**27.2**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

The Spheria Australian Microcap Fund increased 4.0% for the month, outperforming the Benchmark by 4.5%.

A late stage bull market is characterised by irrational exuberance with speculators growing in numbers and implicitly ignoring fundamental performance measures. When participants lose sight of fundamentals, companies that spin a good story are massively rewarded. Given the scarcity value in the Australian small-microcap universe these kinds of stocks levitate to enormous heights. Eventually the weight of money fatigues given a lack of fundamental support and these top performing stocks begin to drop. We began to witness this trend in October with several high-flying stocks falling significantly. The corollary being that many maligned stocks were beneficiaries from the rotation of capital. This trend clearly benefited the performance of our strategies in October.

Wisetech (WTC) was the most interesting headline in our space last month after a negative research report was the catalyst for a sharp fall in the share price from giddy heights. When you are on 120x PE, you make 34 acquisitions in a few years and your cash flow generation is relatively weak for a software company, there is ammunition aplenty. The distinct lack of consistency in that a negative report needs to be refuted whilst a positive report on a company is never questioned is simply hard to swallow. Why the share price matters so much for any company is also a red flag? If it falls to more palatable levels isn't it better buying it cheaper? Isn't that safer for all those mum and dad investors rather than buying at nose-bleed levels? The proof will be laid to bare in the next few years with the risk reward equation in our view skewed to the downside given the lack of valuation support and a risky acquisition strategy. We liken Wisetech to Computershare's rise in the dotcom boom bust, it may be a good business it may be a sensible strategy, but any missteps and the share price falls can be catastrophic. For those that don't remember, Computershare rallied to 150x PE only to collapse from $10 to $1.35 as the challenges of integrating a myriad of acquisitions in various jurisdiction and different operating environments proved far more difficult than management and investors had contemplated. One learning from the Computershare fall is that valuation does matter, and at its lowest ebb there was a great opportunity to buy a decent business at a reasonable multiple. It's one of the reasons we maintain an open mind when investing in the small cap universe. Share prices movements are merely an entry/exit mechanism, the market can be very inefficient at both extremes.

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WTC - down 33% off its peak to end of October - was not the only company that has seen a significant de-rate with peak to trough declines across the high PE complex including Appen (down 32%), Afterpay (down 23%), Promedicus (down 28%) and Nearmap (down 38%). The multiples being paid for these companies still feel very aggressive particularly given a couple don't even make money (depends on your definition these days) when accounting for items including capitalised costs and share based compensation.

The adage that nothing good happens after midnight can be adapted to the sharemarket in that nothing good tends to happen after 100x (PE). Those that choose to sprint a marathon wearing a blindfold might be in for an exhilarating run but are unlikely to finish the race. We instead have chosen a steady pace in these heady times. We are currently seeing the benefit of this in our strategies, although markets are very fickle and good companies can remain under valued for long periods and heavily promoted companies that hit a pothole can regain favour quickly, particularly when money is cheap and risk-taking a function of ultra-cheap money has been a highly successful strategy for too many years to remember.

The best performers for the month were Donaco (DNA), Class (CL1) and Mortgage Choice (MOC) which rallied 37%, 36% and 25% respectively. All three had been aggressively sold off in recent years yet the businesses continue to generate significant cash flow, have strong balance sheets, strategic merit and were inexplicably cheap prior to recent upward share price movements.

The worst performers in the fund were Wiseways (WWG), Geopacific Resources (GPR) and GTN. GTN being the most noteworthy given its exposure to radio advertising markets which remained weak during the period as evidenced by industry data and a significant profit warning from Southern Cross Media (SXL), a key supplier for GTN.

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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