Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 30th April 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	**16.6%**	**-17.3%**	**-15.2%**	**4.3%**	**4.8%**
*Benchmark**	*15.3%*	*-14.0%*	*-10.8%*	*3.1%*	*4.6%*
Value added	1.3%	-3.3%	-4.4%	1.2%	0.2%

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

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

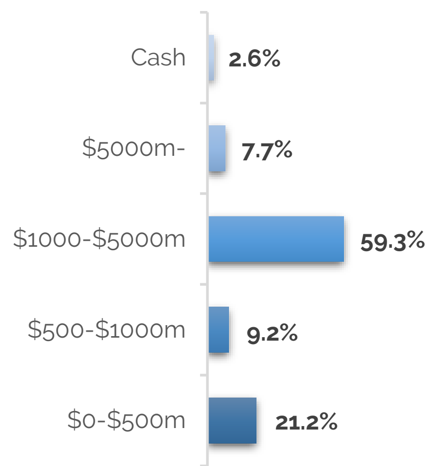
Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2010. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
TABCORP Holdings	5.0
Incitec Pivot	4.9
Crown Resorts Ltd	4.9
Orora Limited	4.3
Flight Centre Travel	4.3
Top 5	**23.3**

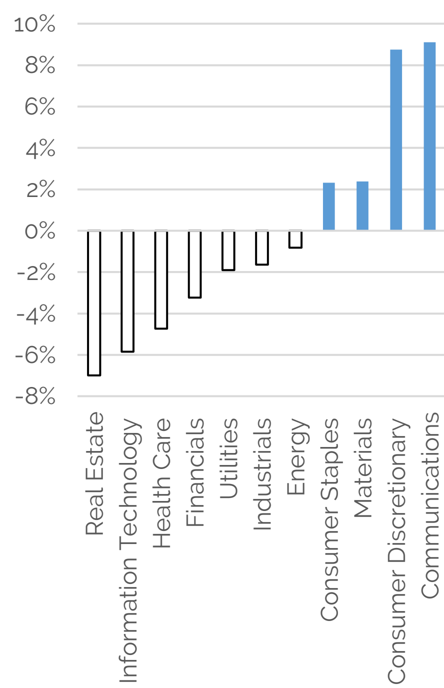
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

The Spheria Opportunities Fund returned 16.6% (after fees) in April, outperforming it's benchmark by 1.3%.

John Maynard Keynes — "When the facts change, I change my mind - what do you do, sir?"

There appears confusion around the difference between the infection rate and the mortality rate from COVID-19. The social distancing measures are aimed at reducing the infection rate in the community but will have no real impact on the actual mortality rate of people infected by the virus (in the absence of treatment advances). The so-called "flattening the curve" essentially bought time by reducing the infection rate, thus alleviating potential pressure on the hospital system based on dire projections that fortunately have not borne out.

Australia's high testing rates per capita mean that our data in respect of the level of infection in the community has greater statistical integrity than many countries where testing has been less widespread. Nonetheless, we are not capturing all the infections given there will be people who were unaware they had COVID-19 and therefore have not been tested i.e. 'asymptomatic'. In effect, any mortality calculation without testing the entire population for COVID-19 and for anti-bodies is overestimating the mortality rate.

Bearing this in mind and based on the Australian statistical data so far, there is substantive evidence (+4600 positive cases) that the actual mortality rate for healthy people under 60 years of age is insignificant. In fact, no person under 40 years of age has died from COVID-19 in Australia despite high levels of infection. Therefore, the mortality rate under 40 years of age is currently zero. There are 13m people in Australia under the age of 40 years of age and nearly 20m people less than 60 years of age - according to ABS statistics - the Australian population is only 25m. A large part of the total population should therefore be able to revert to something close to 'normality' without undue health concerns, and thus we believe consensus is under-estimating the potential pace of re-opening.

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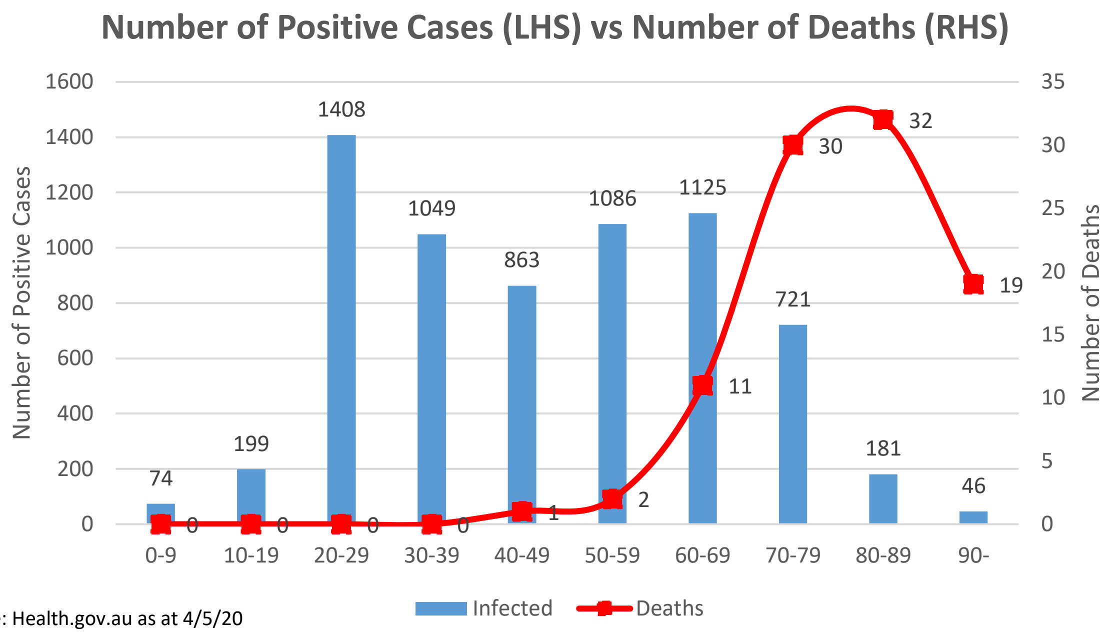

Source: Health.gov.au as at 4/5/20

Back to the infection rate and concerns regarding the “second wave” - well unfortunately this is likely to be a reality given COVID-19 is highly contagious. There will almost certainly be periodic break outs of clusters of cases as the State and Federal Governments move to re-open segments of the economy. This is where the continued strengthening of testing regimes and the uptake of the COVIDSafe app is important to enable health officials to quickly identify the infected and contact trace people who may have been exposed to COVID-19. This should alleviate concerns of exponential case growth in the community. Even in the absence of a vaccine however, we suspect the authorities will find a happy medium that enables most of the sectors impacted by the lockdown to at least partially re-open (albeit likely with modified operating procedures to allow for a modicum of social distancing).

How have we positioned for the re-opening?

As would be expected, when you lockdown most of the population the most impacted sectors were consumer facing in nature or some derivative thereof including media and consumer finance. Whilst short term earnings for companies exposed to the consumer will be diabolical in most instances, it appears a combination of rent relief, bank forbearance and government funding will see many of these companies safely to the other side. Many of these businesses have also taken the opportunity to reset their cost base and recapitalise their balance sheet to ride out an extended downturn with very little forecast revenue in some cases. If the pace of re-opening as we envisage is faster than anticipated, many of the companies will have over-raised thus they will be in an enviable position to return capital to shareholders or deploy capital if returns are adequate.

Portfolio holdings we have initiated that will benefit from the re-opening include:

- **Viva Energy (VEA)** via on-market purchases – As a petrol retailer with 1,300 service stations and as a commercial fuel supplier to industries including airlines, VEA has been hugely impacted by reduced people movement. Having an upstream refining operation (large % fixed cost) with low utilisation will also exacerbate the impact on group profitability. Positively, VEA’s balance sheet is in pristine shape with + $0.5bn of net cash post the sale of shares in VVR (the listed trust that houses VEA’s properties) in late February. Increased car usage and less use of public transport to be followed by domestic and eventually international air travel should deliver a recovery in VEA’s economics.

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- **Atlas Arteria (ALX)** via on-market purchases – ALX's main asset is a 31% shareholding in APRR, an important toll road in France. March traffic was significantly impacted by the progressive lock downs, and other measures imposed by the French Government in response to the COVID-19. As the lockdown eases in France, we expect traffic to recover to more normal levels which see earnings recover to more normal levels. The share price fell from a high of $8.54 early in the year to around $6 now. Given expectation for lower global interest rates we would not be surprised to ALX re-rate to even higher levels when earnings recover.

Portfolio holdings that we have increased that will benefit from re-opening include:

- **Village Roadshow (VRL)** via on-market purchases – VRL owns theme parks on the Gold Coast and Cinemas which are all temporarily closed. We have heard numerous times in the past that Cinemas will be displaced by home entertainment, many years ago it was expected home cinemas/DVDs would spell the end and now it is PVOD. We suspect once the fear recedes in respect of COVID-19 that cinemas will see a recovery particularly given there is a strong theatrical line up that has been delayed for release by studios until later this year when it is expected most cinemas globally will have re-opened. The theme parks could also benefit from greater domestic interest if borders remain shut, that should go some way to replacing lost overseas tourists.
- **Carsales (CAR)** via on-market purchases – lead volumes for CAR fell significantly due to social distancing measures during March and early April. There was an improved trajectory since Easters as people learn to work within the rules. As fear recedes and the economy comes back online then confidence should see buyers return to the market. CAR is seeing very positive trends in South Korea, which is ahead of Australia in respect of its re-opening.

It's very easy at this point the sharemarket cycle to become overtly bearish given the all-pervading negativity perpetuated in the media (the old adage that bad news sells papers) and the obvious impact on many parts of the economy from the lockdown. Instead of dwelling on these obvious negatives, we believe it is time to be constructive and have purposefully positioned the portfolio for a faster paced re-opening, and concomitant economic recovery whilst also introducing several "growth" companies during the downturn that were previously too expensive to even contemplate. The rotation to recovery names from perceived safety, we believe could pay off handsomely in the medium to long term for our portfolios, given the renewed divergence between growth/defensive stock valuations and pretty much everything else.

	Spheria Opportunities Fund
Benchmark (universe)	S&P/ASX Mid-Small Accumulation Index
Investment objective	The Fund aims to outperform the S&P/ASX Mid-Small Accumulation Index over the medium to long term
Investing universe	Primarily listed companies outside the top 50 ASX listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation
Distributions	Half yearly
Fees	0.99% p.a. management fee & 15% 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	30-40%
Style	Long only, risk aware
APIR	WHT0025AU
Minimum Investment	$25,000