Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 31st December 2019

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	**-1.7%**	**5.6%**	**21.9%**	**12.5%**	**11.8%**
*Benchmark**	*-0.9%*	*4.9%*	*21.6%*	*10.7%*	*10.3%*
Value added	-0.8%	0.8%	0.2%	1.8%	1.5%

^ 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	4.8
BlueScope Steel Ltd	4.5
Crown Resorts Ltd	4.5
Flight Centre Travel	4.3
Coca-Cola Amatil	4.3
Top 5	**22.3**

Source: Spheria Asset Management

Commentary

The Spheria Opportunities Fund returned -1.7% (after fees) in December, underperforming it's benchmark by 0.8%.

The market continues to be driven by highly speculative forces due to synchronised monetary stimulus provided by very accommodating central banks. During the quarter, the Fed increased its balance sheet to counter short term funding spikes in the US repo market. This alleviated stress in the overnight lending market but has also fed asset price strength particularly in global sharemarkets. The rise of passive and quantitative strategies has resulted in less efficient markets in which participants are exploiting a lack of qualitative analysis. We think this may end badly for clients invested in these types of strategies. Many of the companies that have had meteoric rises lack substance and therefore durability or are simply duplicit in nature, making it a very challenging market to outperform when you are fundamentally based.

Major contributors to performance in December were:

- Bega Cheese (BGA.ASX) – which rallied 14% after a significant share price decline in the past year. The company has been beset by extreme external factors with the drought impacting milk supply, leading to higher farm gate milk prices which are difficult to pass on given the structure of the domestic grocery channel. The tragic bushfires more recently will further impact milk supply in certain regions. We see Bega as a vital pillar in many of these regional communities and will continue to support them from a capital perspective. We expect it to be a challenging period for the company, but it is nothing compared to the personal toll the drought and bushfires have had on those affected.

- Vita Group (VTG.ASX) – gained 12% during the month, recovering from a rather inexplicable sell-off. It would appear the company is trading well with its white-label accessories – Sprout – growing at a rapid clip, which should provide a cushion against well flagged changes in its remuneration contract with Telstra.

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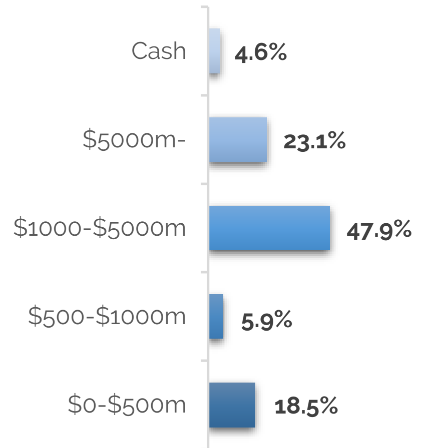
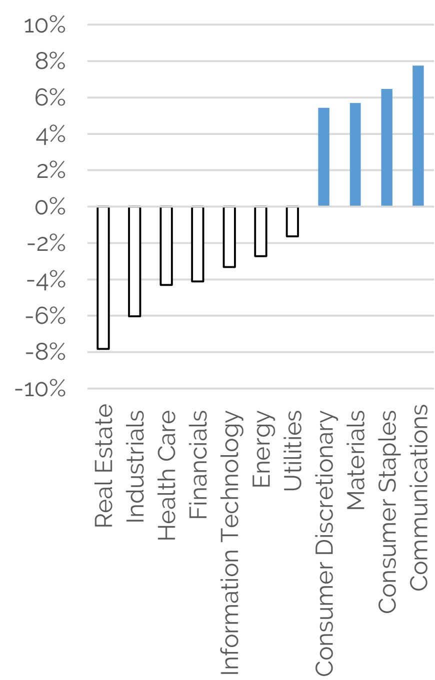
Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

- Further, the emergence of new handset brands (e.g. OPPO) that are comparable to (if not better than) the high-profile brands, has significantly improved the economics of handset sales to VTG. We also believe that VTG will generate a positive return in the medium term from its growing investment in Clear Complexions (skin care solutions) which is again constructive for its earnings profile. Trading on only 5x EBIT (or free cash flow), it would appear the risk-reward is skewed to the upside.

- GTN (GTN.ASX) – bounced 19% after a better than expected profit update illustrating an improved trend in earnings. Whilst some of the weakness has been radio advertising market related, poor sales productivity has been an issue that now appears to have been addressed.

Major detractors to performance in December were:

- Class (CL1.ASX) – which retraced 11% on little news flow after a significant surge in the share price over the last few months. With growth now stabilising at reasonable levels in the core SMSF product and the near-term entry (June) into the family trust market, we believe the long-term outlook is very promising. Whilst the increased spend on building a tax engine for family trusts has degraded short term earnings, we believe the payoff could be significant given our enquiries indicate that incumbent products have not been purposefully designed and are therefore ripe for displacement.

- Mortgage Choice (MOC.ASX) – like CL1, fell 10% in December on little new news. The outlook for the housing market has demonstrably improved since May 2019 due to monetary stimulus, a relaxation of APRA lending standards and the removal of the threat of Labor's proposed changes to CGT and negative gearing policies. MOC is currently enjoying a significantly improved macro environment after a sharp downturn in approvals that was quantitatively worse than the GFC during calendar 2018 and the first half of 2019. We also believe recruitment will be easier for MOC given improved commercial arrangements implemented last financial year and a benign regulatory environment where the existential threat to mortgage brokers posed by the Hayne Commission recommendations is now firmly off the table, which had been a huge deterrent for anyone pondering entering the industry.

- Technology One (TNE.ASX) – declined 10% after a strong rally post its recent profit result. The business continues to grow strongly in its core verticals in Australia with the ability to sell additional modules into existing customers being a key driver of future growth. The company is also gaining traction in the UK but is yet to make a profit, meaning there is no value attributed to that business when using earnings multiple measures. Compared to many of its high-flying brethren, many of which have a limited track record, it looks relatively better value given the quality of earnings, a strong domestic market position and its UK potential.

We remain cautious on the outlook given the lofty valuations ascribed to companies that either generate very little profit or are deliberately burning cash with no obvious path to profitability, this is a dangerous game, in our view. We prefer to buy companies that have sound market positions that generate predictable and durable cash flow, and that have relatively attractive valuations. We are still finding opportunities on this front, that we believe will generate solid returns for our clients at relatively lower risk.

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	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