Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 28th February 2019

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund ^	**5.8%**	**0.5%**	**4.9%**	**13.1%**	**11.6%**
*Benchmark**	*5.8%*	*-1.4%*	*2.1%*	*11.1%*	*10.0%*
Value added	0.0%	1.9%	2.8%	1.9%	1.6%

^ 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.

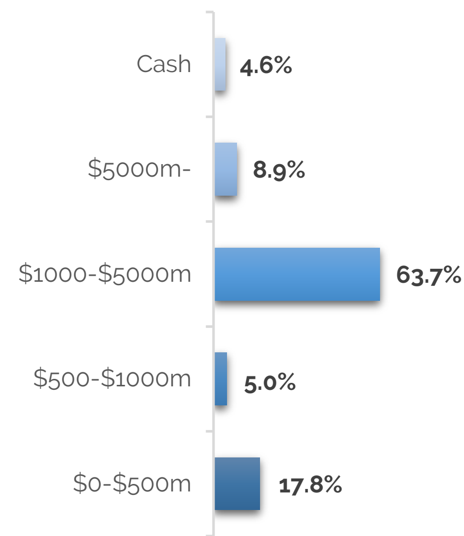
\# Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2010. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
Navitas Limited	5.7
TABCORP Holdings	4.4
Janus Henderson	4.3
Coca-Cola Amatil	4.3
Platinum Asset	4.1
Top 5	**22.8**

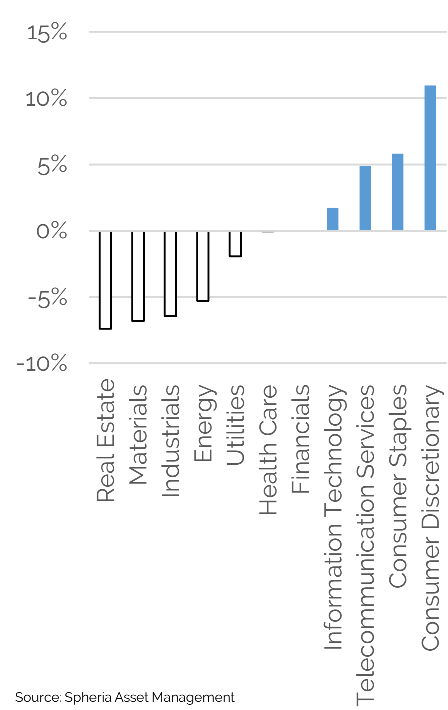
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

The Spheria Opportunities Fund increased 5.8% in February, performing in line with the Benchmark which also gained 5.8%. The fund outperformed its Benchmark by 2.8% for the year ending 28th February 2019.

The market correction that occurred in the December quarter was mostly recouped in January and February with the S&P ASX Mid-Small Accumulation index bouncing over 15% from its low point in late December 2018. The sharp lift in February was due to a better than expected profit reporting season - expectations were extremely depressed. Ridiculously, stocks that were very highly rated going into results that delivered in-line or better (assessed against some metric that was rarely actual profit) were re-rated even more aggressively. We suspect this reflects the growth in quantitative based strategies that are tuned to earnings momentum without a valuation overlay, and in general a market that is fixated with earnings upgrades and downgrades with little to no regard for absolute valuation. These share price movements were exaggerated by short covering, we suspect many hedge funds were shorting on heightened fear in December and into profit reporting season.

Despite swimming against the "momentum" tide we generated a reasonably solid performance for the month across our key strategies. Positively, the companies we own are for the most part performing well (i.e. from a business perspective) based on the reported results and are trading at relatively low multiples which affords us some protection if the bubble does burst at the more highly rated end.

The top three share price performers (including dividends) for the month of February were:

Vita Group (VTG, +33%)

VTG operates 100+ stores for Telstra. It delivered a strong result with revenue growing 14% and EBIT 27%. VTG has engineered a return to growth under a tougher remuneration model implemented by Telstra a couple of years ago. The key being the cross-sell of its home brand accessory product (Sprout) that is now about $50m of sales. Two years ago, this was less than $30m. The gross margins for Sprout are very high, such that we believe it represents a large proportion of VTG's earnings, which means VTG is less exposed to any prospective remuneration changes. Despite a strong share price recovery, the company remains extremely cheap (5x

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EBIT). There is a headwind in FY20 with the loss of $11m of high margin revenue from Telstra, however, we think the arrival of 5G and the growth in Sprout will more than compensate.

Platinum Asset Management (PTM, +25%)
PTM is a global asset manager with approximately A$26bn in FUM. The first half underlying result was down but in line with expectations with EBITA falling 11% on an underlying basis. The result was affected by weak equity markets and the absence of performance fees due to weak relative performance over the last year or so. The group has seen moderate retail outflows, and this may further deteriorate, although we note the Chinese sharemarket (Shanghai composite index), which is one of their key exposures has rebounded strongly (21%) calendar year to date, after falling nearly 25% in CY18. Over the long term, the share price of PTM is highly correlated to its FUM, the recent share price decline is the widest discount since April 2017. Interestingly, the recovery from the April 2017 low was furious with the share price doubling in a six-month period, as investment performance for the underlying strategies improved.

Invocare (IVC, +23%)
IVC owns and operates funeral homes, cemeteries and crematoria in Australia, New Zealand and Singapore. The result was weak as expected with EBIT falling 25% due to a much lower industry death rate (benign flu season) and IVC's refurbishment program that has affected site availability. We believe the death rate will unfortunately mean revert in the future, and the refurbishment program should enable IVC to stabilise and potentially grow its market share. IVC has strong metropolitan catchments, which should allow to generate strong returns for the foreseeable future and is expanding (via acquisition) into regional hubs where demographic trends are positive.

The bottom three share price performers (including dividends) were:

Blackmores (BKL, -28%)
Blackmores is a natural health company that develops supplements for humans and animals. The half year result was disappointing given strong sales growth of 13%, somehow translated to negative underlying EBIT growth. We struggle to understand how a company can double its sales in the past 4 years and see EBIT margins fall from 15% to 12%. There is nothing wrong with the market, it is simply an execution issue at BKL. We believe the recent resignation of the CEO is positive. The business clearly needs new leadership/management, and a plan to achieve margins consistent with its peers. We understand Swisse its main competitor generates EBIT margins > 30%. There is clearly upside to BKL if costs are re-aligned with revenue.

Mortgage Choice (MOC, -11%)
MOC is a financial services organisation with its core operation being mortgage broking. It has suffered a string of negative events with the final nail in the coffin being the Hayne Royal Commission recommendation to eliminate mortgage broking commissions. Any rational observer would have been flabbergasted by this outcome given the role brokers play in extracting a better price for the consumer. To make the industry unviable beggars belief given the Big 4 would simply dominate the mortgage market and gouge customers as they did prior to the advent of brokers. Consumers have voted with their feet with 60% of market volumes currently written via a broker. The reason for that is first and foremost they get you a much better interest rate (we can attest to that). The only people recommending against brokers are the Big 4 banks and those people that have never negotiated a mortgage or haven't since 1974. With the government backflipping on the trail commission ban and the Labor party proposing an upfront fee (1.1% or less) paid by the bank, we feel the situation has moved from a worst-case scenario to business as usual. Trading on <7x EBIT with a net cash balance sheet, risks are now heavily skewed to the upside for MOC. Despite negative sentiment toward housing, we suspect industry growth will return particularly given the banks will lend again with the Royal Commission now a wasted chapter in history.

Bega Cheese (BGA, -6%)
BGA is engaged in the processing, manufacturing and distribution of dairy and associated products (including Vegemite) to both Australian and international markets. Like MOC, it has faced a series of negative influences with the primary issue being the impact of the drought on milk supply. This will continue to impact the company during 2019, which means further downward pressure on earnings. The company reported a very weak first half result,

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like many of its agricultural peers. Cash flow was negative due to ramp of milk supply at Koroit, higher farm gate milk prices due to competition for lower supply, and contractual terms which precluded BGA from engaging with Koroit customers until after settlement. The result being a very stretched balance sheet at 31 December 2018, beyond the usual seasonal peak. We believe there will be a significant unwind of inventory in the June half year. The inventory is clean and the company will factor (securitise) some of its sales to bring forward cash flow from powdered milk sales that occur in May/June that are normally received in July/August. Given Fonterra's current financial predicament and Saputo having spent $1.5bn on Australian acquisitions, we think domestic pricing should improve allowing participants to generate an adequate return on capital. Global pricing is also improving due to global milk supply issues. On the spread front, we believe Kraft which debased pricing for Bega's Peanut Butter offering may desist given its market share at <10% would likely be unprofitable. Kraft/Heinz doesn't seem to be in a position to fund loss making lines given its accounting scandal and major profit downgrade which has seen its share price collapse. On a positive note, BGA lifted pricing on Vegemite last year, we believe this lever can be pulled more regularly going forward given the monopolistic nature of the product.

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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