Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 30th June 2019

	1m	6m	1yr	2yr p.a.	Inception p.a.#
Fund ^	**0.4%**	**15.4%**	**5.0%**	**13.3%**	**11.9%**
*Benchmark**	*1.8%*	*16.0%*	*2.9%*	*10.6%*	*10.4%*
Value added	-1.3%	-0.6%	2.1%	2.7%	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.

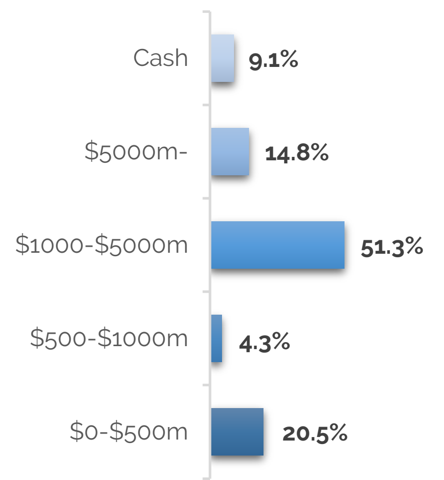
Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2010. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
Crown Resorts Ltd	5.2
Adelaide Brighton	4.5
Coca-Cola Amatil	4.1
BlueScope Steel Ltd	3.9
TABCORP Holdings	3.7
Top 5	**21.3**

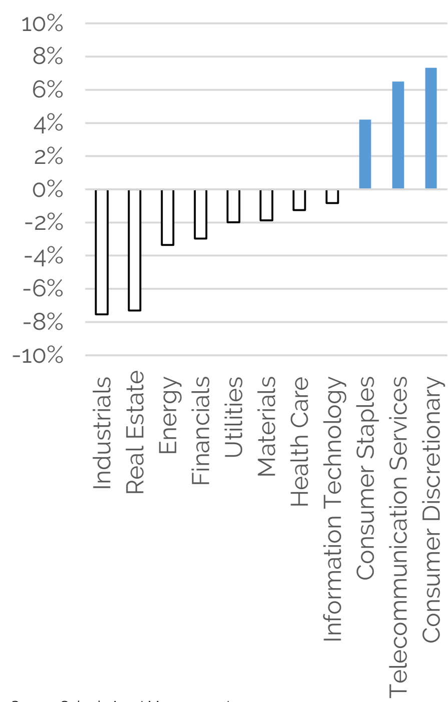
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

The Spheria Opportunities Fund returned 5% for 2019 financial year, outperforming the Benchmark which returned 2.9%.

The market continues to be driven by macro-economic themes with little regard paid to traditional fundamental measures. Continued central bank monetary stimulus stoking tremendous asset bubbles in a variety of "fashionable" sectors including technology, property trusts and gold. Those looking at market averages to discern whether there is overvaluation are missing the point given the bifurcation of the market between the "haves" and "have nots". In many cases the "haves" are not making a profit or very little relative to prodigious market valuations. The "have nots" on the other hand are trading on extremely depressed valuations that are pricing in the bleakest of scenarios, which seem statistically improbable.

The Spheria strategies were trampled like runners at Pamplona during June with the divergence between the two aforementioned camps noticeably widening, accentuated by heavy tax loss selling and large sell portfolio transitions due to several Australian small cap managers folding. The most significant downturn being at the small and microcap end of the market with less selling pressure when working up the market cap spectrum. We feel the smaller end of the market is now the most compelling from a valuation perspective since the GFC. Whilst we cannot forecast the catalyst that will drive a convergence in valuations between the camps, it feels like the winds of change are blowing particularly if the strategic interest in GBST (one of our key holdings) is any kind of gauge. Three months ago, you couldn't give the company away at $1.20, now it is trading at close to $3.60 with three parties registering interest in acquiring the company, the highest indicative offer at $3.65.

The beauty of the Opportunities strategy is we have been able to move the portfolio down the market cap spectrum to take advantage of this valuation anomaly, without taking too much risk. Only 13% of the fund being invested in companies outside of the Top 300 ASX stocks. We are finding good opportunities in companies that possess "GBST like" characteristics, in that they are strategic in nature, inexpensive, produce sustainable cash flow, possess strong balance sheets and for whatever reason cannot curry any favour. These situations as illustrated by GBST can change quickly, with the

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speed and magnitude of the moves always astounding in hindsight. We will keep with our investment process and remain confident on the medium to long term outlook for the businesses comprising the portfolio, and the valuations are such that the rewards should be handsome for the patient investor.

Top 3 Contributors for FY19

Technology One (TNE, owned) – TNE's share price staged a major rally in FY19 with a return including dividends of 88%. The selloff in early FY18 that saw the stock almost hit $4, provided an opportunity to buy into one of the best, if not the best listed technology company in the Australian market at a very reasonable multiple (15x EBIT) when adjusting for its net cash balance sheet. We took some profit as the share price recovered strongly (it hit $9 in May) but retain a core holding as we believe in the long term the business will continue to penetrate its core markets in Australia and the UK, and therefore increase its free cash flow generation.

Navitas (NVT, owned) – NVT returned 33% including dividends in FY19. We entered in the position in recent years at relatively low levels after several major contract losses that impacted group profitability. Again, we thought the market overreacted to these issues providing an opportunity to buy in at relatively attractive multiples. NVT was the subject of a takeover during the period which finalised prior to the end of the financial year. We were comfortable with the final price paid by the private equity consortium given a weakening demand outlook for Chinese students. This may be a structural issue given improving academic reputation of Chinese tertiary institutions and rising geopolitical risks. We commend the board and the senior management team which secured a solid outcome in difficult circumstances.

Trade Me (TME, owned) – TME returned 44% including dividends in FY19. We have owned the company for a number of years given it has always been relatively inexpensive versus its peer set (i.e. REA, SEK, CAR) and yet possesses many of the same characteristics in a smaller market (i.e. NZ) but with similar dominance across the same verticals, with real estate classifieds at a much earlier stage of on-line penetration versus Australia. TME was subject to a takeover in late CY18 which completed in May 2019. This was at a very healthy premium to the prevailing share price, with the acquirers keen on the potential of the real estate portal of TME, which looks like it will be the dominant player. It will be interesting to see how the NZ digital property classifieds market plays out as we believe the second player like Domain (Fairfax) in Australia could also be a lucrative option.

Bottom 3 Contributors for FY19

Bega (BGA, owned) – BGA's share price fell 34% in FY19 including dividends. The drought and ensuing competition for milk supply drove up the price of BGA's largest input cost in its milk processing division. The inability to pass on the full cost particularly in globally traded commodity products (e.g. skim milk powder) essentially crunched profitability and returns. Toward the latter part of the year, end markets began to improve with rising global milk prices. At some point the drought will break and alleviate cost pressures. Furthermore, BGA had a major legal win versus Kraft for the livery usage for its peanut butter product, which should benefit margins and sales in future periods. A modest price increase for Vegemite will also benefit its consumer brand division. We believe that further price increases are more than likely given the strength of the Vegemite brand and the absence of price increases under foreign ownership. Whilst the outlook is improving for BGA and the valuation more attractive on a through the cycle basis, the balance sheet needs further deleveraging which will weigh on dividends and sentiment towards the company.

Class (CL1, owned) – CL1's share price fell 36% over FY19 including dividends. The business de-rated significantly as net account additions slowed due to a more effective incumbent response to CL1's share grab and investor concerns around the SMSF industry mounted given proposed changes to franking credits by the Labor party. The latter proved to be a false alarm given the Liberal government win, however, it did slow industry growth as SMSF fund closures accelerated. This was possibly also driven by the inability to fund gearing of property in SMSF's due to tighter bank controls and the perception that SMSF's with low balances cannot be run economically due to high administration costs. We believe some of these issues are overplayed and that the closure rate will reduce moving forward as the cost of managing an SMSF continues to fall due to the uptake of automated software. The more effective incumbent is real but it is now acting more rationally with a price increase of $10pa on 1st July

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2019. This should allow CL1 to increase price which will significantly benefit the bottom line. We continue to believe the competitor is not making much money due to its greater headcount and lower pricing, and as such pricing in the industry may continue to rise benefiting all participants. The family trust and related adjacencies (that CL1 service using Class Portfolio) represent significant growth for CL1, which is the first mover in this space. There are estimates that the total addressable market for Class Portfolio is greater than the SMSF market. At <4x revenue we continue to see CL1 as offering exceptional upside for a SaaS business.

Fletcher Building (FBU, owned) – FBU's share price fell 26% in FY19 including dividends. The main culprits being losses in its vertical construction business in New Zealand (now cauterised in our view) and continuing issues with the Australian operations, in particular the Tradelink plumbing business. Despite being the second largest plumbing supplier in Australia, Tradelink has always disappointed on the margin front with the downturn in the housing market not helping in recent periods. We believe the positive spin for Tradelink is that on paper it looks "turnaroundable", and if FBU can't do it there would be a line of strategic buyers willing to pay for the potential, with the most obvious acquirer being Bunnings (Wesfarmers). To give some indication of the possible upside FBU earns a 3% return on the $1.8bn of funds employed in Australia versus a 22% return in its $1.7bn NZ building products division. FBU does also face competitive pressures in New Zealand across its building product, concrete and steel divisions. However, its balance sheet is now repaired with the sale of its Formica business and the question now is whether the management team can make a difference, with execution poor under previous senior management teams. Management clearly back themselves though with the recent announcement of a NZ$300m buyback.

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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