Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Spheria ASSET MANAGEMENT

Performance as at 30th November 2019

	1m	FYTD	1yr	3yr p.a.	Inception p.a.#
Fund ^	**3.7%**	**7.5%**	**17.3%**	**13.8%**	**12.7%**
*Benchmark**	*2.9%*	*5.8%*	*19.2%*	*12.4%*	*10.9%*
Value added	0.8%	1.6%	-1.9%	1.3%	1.8%

^ 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	4.9
Crown Resorts Ltd	4.6
Coca-Cola Amatil	4.3
BlueScope Steel Ltd	4.3
Adelaide Brighton	4.2
Top 5	**22.3**

Source: Spheria Asset Management

Commentary

November was a strong month for the Spheria Opportunities Fund which returned 3.7% compared to the Index of 2.9% outperforming by 0.8%. Over the past twelve months the Fund has returned 17.3% underperforming the index by 1.9%.

November greeted small and mid-cap investors with a raft of AGM trading updates. These are one of the few 'reconciliation moments' whereby share prices - which are moved around by a variety of forces and views in between reporting periods - are quickly brought back into line with underlying economic reality. A number of smaller companies had profit warnings including G8 Education (GEM.ASX), AP Eagers (APE.ASX), Nufarm (NUF.ASX), Sims Metal (SGM.ASX), Oceanagold Corp (OGC.ASX), ARQ Group (ARQ.ASX), Monash IVF (MVF.ASX), Flight Centre (FLT.ASX) and Nine Entertainment Group (NEC.ASX). These were due to a variety of reasons but in general the economy remains sluggish and smaller companies are typically more sensitive to changes in the economic outlook than larger companies. On the bright side, the three interest rate cuts seem to have been successful in stimulating house prices with signs of a price turnaround in most of the major cities. This is a good reminder of just how quickly market sentiment can change in any market. For this reason we believe anchoring your investment views to business fundamentals remains the best longer term way of outperforming the broader market through both investment and business cycles.

With the turn in sentiment on housing prices, we have seen a change in perception around the prospects of some of the more cyclical stocks in our portfolio. Building materials had a very strong month in November with Fletcher Building (FBU.ASX) and Adelaide Brighton (ABC.ASX) up 17% and 15% respectively. SIMS Metal (SGM.ASX) rallied 14% despite delivering a profit downgrade – the market clearly learning to look through the short-term gyrations in recycled metals prices and ahead at the earnings potential of SGM. SGM remains a debt free, low cost ferrous (Iron based) and non-ferrous (other metals) metals recycling business with operations across the US and Europe. We believe the shares remain attractively valued based on the large amount of un-geared property value the group holds plus the reasonable growth prospects as it moves into recycling new waste streams like servers from Data Centres.

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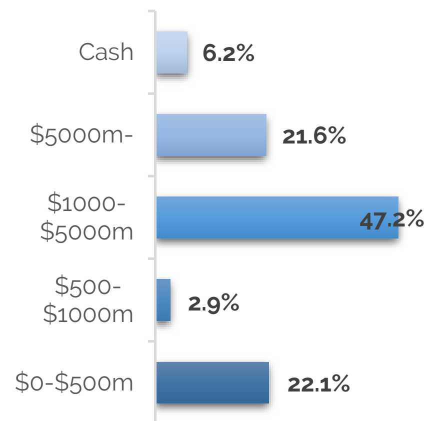
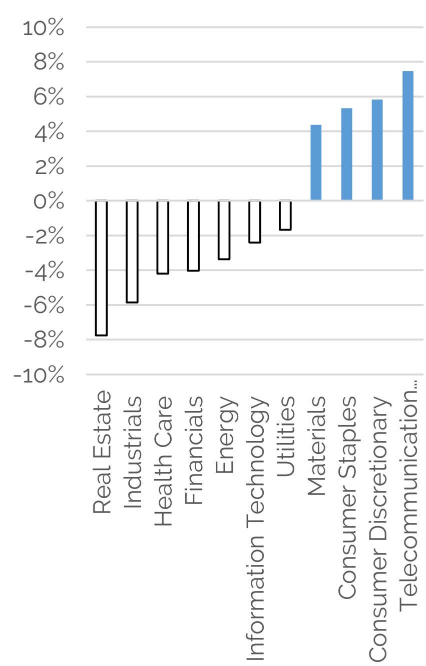
Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

The technology sector also contributed meaningfully to the Fund's performance as Class Ltd (CL1.ASX) continued its recent run of performance and increased a further 17% during November. At their recent AGM update Class outlined its plans to expand their product suite into the family trust market with Class Trust. This will be the third product the group has launched since it was founded on top of their existing SMSF and Class Portfolio products. Technology One (TNE.ASX) reported a strong set of results for their September year end with the share price gaining 25% over November. TNE remains one of our preferred long-term technology investments on the back of its history of strong cash flow generation, high retention of existing customers (at around 99% - not dissimilar to Class's retention rates) and continued product evolution. TNE has successfully shifted around a third of their client base to the Cloud from its traditional on-premise software model and continues to expand its product suite now offering 14 different software modules. TNE's UK business expansion has been a long time coming but they appear to have reached critical mass in that market with around 50 customers (or around 4% of their total customer base) now live on their system.

Stocks that detracted from performance were A2 Milk (A2M.ASX – not owned) up 23%, Xero (XRO.ASX – not owned) up 18%. Xero reported strong first half earnings during the month and rallied on the back of these. Whilst the reported numbers were impressive we feel this is more than captured in the current valuation with the company trading on 16x prospective EV/ Revenue and over 250x ev/ebit. Vita Group (VTG.ASX) declined 12% and Mortgage Choice (MOC.ASX) fell 7% despite the improving sentiment around housing prices across Australia. Our sense is that some of these moves have been driven more by several smaller company fund competitors transitioning out their portfolios than any reflection of the companies' earnings fundamentals. Whilst frustrating we have found these types of transitions short term in nature and can offer opportunities to more patient capital.

We remain of the view that the more cyclical shares and stocks outside the Fintech space still look more attractively valued than many of the momentum names in spite of some of the fairly significant share price retracements. The momentum trade which has carried some of these names into the realms of pure speculation has started to come unstuck over the past few months. The very public decreases in values of many tech 'unicorns' like WeWork and some of the listed plays like Uber and Lyft appear to have caused investors to re-appraise the buy-at-any-price investment strategy which had been working over the past 18 months.

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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
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Minimum Investment	$25,000