

Performance as at 30th June 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	-1.8%	-16.0%	-12.3%	3.4%	4.2%
<i>Benchmark*</i>	-2.0%	-9.2%	-5.7%	6.1%	5.1%
Value added	0.2%	-6.8%	-6.6%	-2.7%	-0.8%

^ Spheria Australian Smaller Companies Fund. Returns of the Fund are net of applicable fees, costs and taxes.

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

Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2005. Past performance is not a reliable indicator of future performance.

Commentary

The Fund returned -1.8% (after fees) in June, outperforming its benchmark by 0.2%.

Markets

Global markets rose again over June, albeit at a less torrid pace than the previous month. While the month saw a significant re-acceleration in COVID-19 transmission rates in the U.S. and a consequent reversal by many U.S. States of their premature re-openings (with the benefit of hindsight), investors looked through these developments to push the S&P500 to within 8.5% of its pre-COVID highs and the NASDAQ to all-time highs. We believe the enthusiasm for stocks is being driven by a realisation that interest rates are likely to remain at depressed levels for an extended period of time and that Governments will have an incentive to essentially monetise some of their COVID-19 induced debt rather than raise taxes during a recovery from the pandemic.

Locally, the Australian broader markets were led up by the banks as they partially reversed a significant period of underperformance on better sentiment towards expected credit losses in the economy albeit the small ordinaries index struggled to keep up. Value cyclicals began the month well but faded as fears of a second wave both internationally and within Victoria built. Momentum stocks, particularly those of a more conceptual nature (i.e. they don't earn a profit) performed strongly as speculative activity by retail participants in the market appeared to hit a new high. The market continued to see capital raisings both by companies hit by COVID-19 (E.g. Qantas, Vicinity, Challenger, Super Retail Group, Investec Australia Property Fund, Arena REIT, APN Convenience Retail, Sky City, Red Hill Education, Viva Leisure) and by tech stocks taking advantage of historically high valuations to do blank cheque raises (E.g. Kogan, Temple & Webster, Openpay). Additionally, gold stocks were very active funding raisings for further exploration spending given the strong performance of the underlying metal and stocks within the sector. The market saw the re-emergence of corporate activity with Infigen (IFN) receiving two separate takeover offers, two gold explorers / developers receiving offers (Cardinal - CDV and Exore - ERX) and Cromwell (CMW) and Opticomm (OPC) receiving offers.

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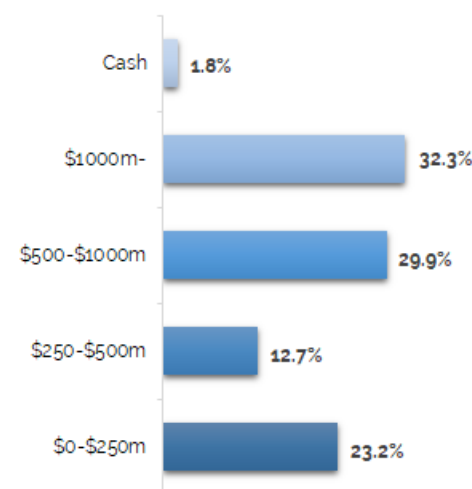
Top 5 Holdings

Company Name	% Portfolio
Adbri Limited	4.7
Breville Group Ltd	4.4
City Chic Collective	4.1
Monadelphous Group	3.7
Class Limited	3.7

Top 5 **20.6**

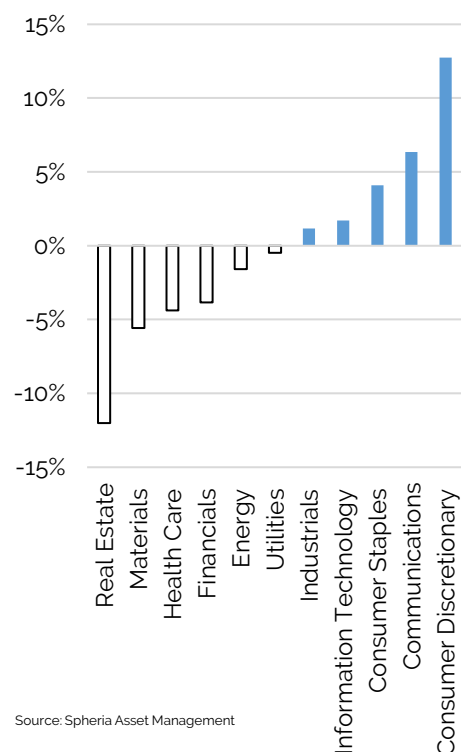
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Fund Performance

During the month of June we added to Corporate Travel (CTD), AP Eagers (APE) and Vista Group (VGL). These positions were funded with selling in Adbri (ABC), Platinum (PTM), Blackmores (BKL) and Appen Group (APX).

Major contributors to performance were stocks that we owned including Adbri (ABC), Healius (HLS) and Beacon Lighting (BLX). HLS saw a re-rating post the sale of its troublesome Medical Centres and Dental business for \$500m of enterprise value. This represents 13x EBIT and was a commendable result considering the capital and management intensity of the business. More pertinently it substantially deleverages HLS and allows them to focus on their strong pathology and imaging franchises. BLX had a strong trading update as consumers flocked to stores to undertake DIY projects during COVID-19 restrictions.

Detractors for June included Bega Cheese (BGA), Mortgage Choice (MOC) and Fisher & Paykel (FPH – not owned). Bega continued to retrace during the month following strong outperformance during the COVID-19 drawdown as investors appeared to use it as a funding source for other positions and in part due to negative sentiment from the catastrophic unwinding of Freedom Foods (FNP – Not owned).

Mortgage Choice appeared to fall on concerns about the sustainability of currently strong levels of application volumes to mortgage brokers. Fisher and Paykel further re-rated following accelerating global COVID-19 cases given it is a COVID-19 beneficiary in its hospital ventilator business.

Outlook

While the market has experienced a meaningful recovery from its lows the manager sees the almost historic levels of multiple divergence as providing some exceptional investment opportunities for those prepared to look through short term earnings uncertainty and/or go against the grain. Equity recapitalisation activity continues to present opportunities for active managers to establish positions in quality companies that have seen cashflow impacted by COVID-19. Additionally, there remain a surprising number of companies that continue to operate profitably and generate cash but that remain on highly depressed multiples, particularly towards the smaller end of the market cap spectrum. On the other hand the manager is increasingly concerned about a narrow subset of very highly rated companies (almost invariably with no track record of free cash generation) that appear to have become completely disconnected from fundamentals, particularly in the technology, fintech and biotech sectors. The manager continues to see better opportunities for relative performance in discovering unpopular but strongly cash generative businesses on attractive through the cycle multiples. While revenue and margins in some of these companies may take some time to recover from the impacts of COVID-19 the manager believes they represent better risk-reward opportunities on balance.

Spheria Australian Smaller Companies Fund

ARSN 117 083 762 APIR WHT0008AU



	Spheria Australian Smaller Companies Fund	Platform availability
Benchmark (universe)	S&P/ASX Small Ordinaries Accumulation Index	ASGARD
Investment objective	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.	BT Panorama
Investing universe	Primarily listed companies outside the top 100 ASX listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation	BT Wrap
Distributions	Half yearly	First Wrap
Fees	1.10% p.a. management fee & 20% performance fee of the Fund's excess return versus its benchmark, net of the management fee.	HUB24
Cash	<ul style="list-style-type: none"> Up to 20% cash Typically 5% - 10% 	IOOF Portfolio Service
Expected PA turnover	30-40%	Macquarie Wrap
Style	Long only	mFund
APIR	WHT0008AU	MLC Wrap / Navigator
Minimum Investment	\$25,000	Netwealth
		One Vue
		uXchange

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