

Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU



Performance as at 31st May 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund[^]	8.8%	-20.6%	-13.4%	0.8%	4.0%
Benchmark*	10.6%	-7.7%	-2.9%	7.5%	6.8%
Value added	-1.8%	-13.0%	-10.5%	-6.7%	-2.8%
Microcap Index **	13.6%	-13.7%	-3.6%	5.8%	4.3%

[^] Spheria Australian Microcap Fund. Returns of the Fund are net of applicable fees, costs and taxes

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

** Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.

Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
G8 Education Limited	4.7
Mortgage Choice Ltd	4.4
City Chic Collective	4.3
Class Limited	4.2
Vita Group Ltd	4.0
Top 5	21.6

Source: Spheria Asset Management

Commentary

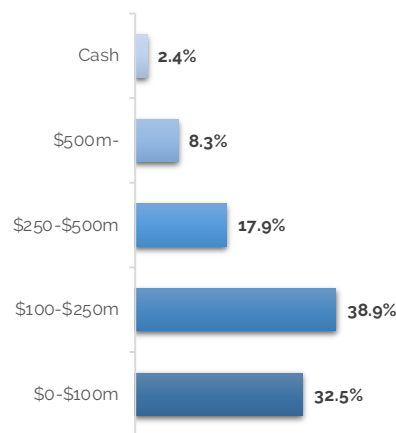
Spheria Australian Microcap Fund returned 8.8% (after fees) in May, underperforming its benchmark by 1.8%.

Markets were again strong in May following on the back of a strong rise in April. Two key reasons appear to be driving this, the first is that the general fear around Covid 19 appears to be abating. Many countries have fortunately, dramatically slowed down infection and death rates from the virus. There is optimism surrounding the re-opening or partial re-opening of many economies. This economic slowdown was, after all, a self-induced economic coma of sorts. The second reason has been the massive economic stimulus supplied by governments in the form of job subsidies and tax forbearance as well as the prodigious amounts of Central Bank liquidity. Governments, no longer hamstrung by the Gold Standard (abolished in the US in 1971), can figuratively speaking 'print money'. The excess money supply introduced by Central Banks has typically resulted in inflation (or devaluation of cash dollars) due to there being a lot more of them for the same sized economy. The concept of paper money not backed by anything real other than a Government's promise to back their currency is called "Fiat" money but bears no relation to the eponymous Italian car company.

Whilst many market commentators have discussed the large amounts of additional liquidity being provided by the US Fed, the Reserve Bank of Australia has actually been increasing the Supply of M1 (the measure of cash or highly liquid assets in the economy) at faster rates. The Australian M1 supply above having grown at 12% compound since 2000 vs. 8% in the US over the same time frame. Over the past year to the end of April 2020 the money supply in Australia is up a whopping 37%. The policy driving this increase in liquidity is aimed at restoring market confidence remembering that the key driver behind the GFC was a lack of confidence in the banking system. Whilst the positive outcomes related to this are designed to keep the wheels of the economy turning (or restarting) the negative outcomes are likely to see a continued debasement in the value of cash or the resumption of inflation.

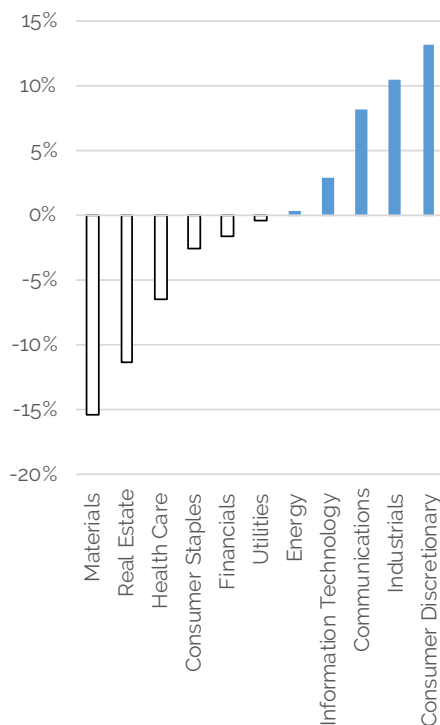
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Market Cap Bands

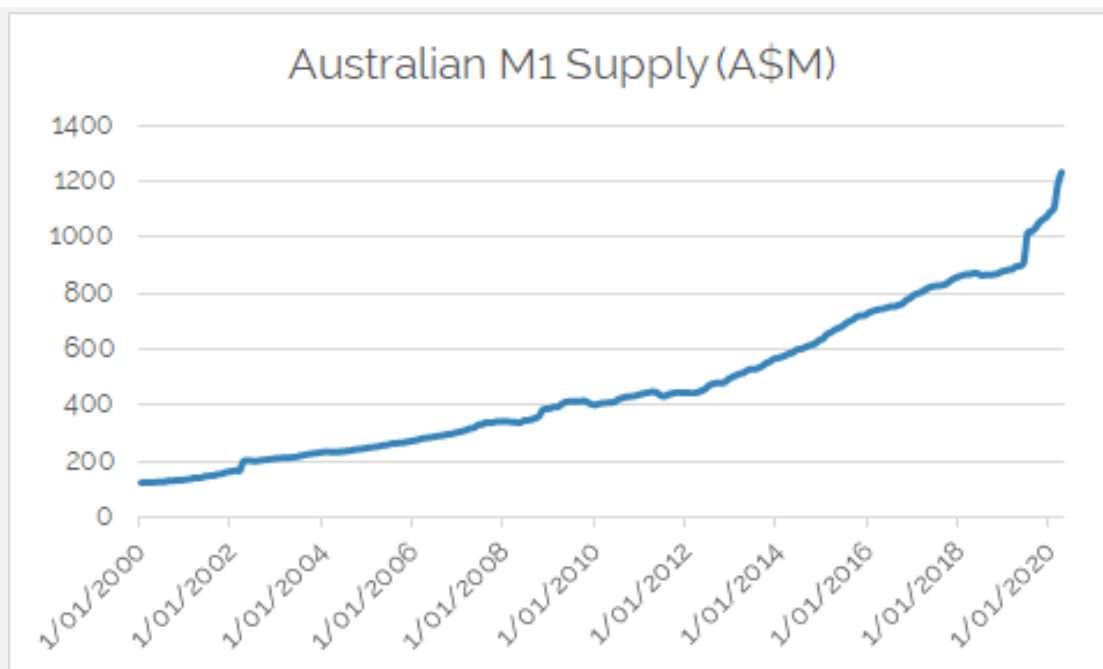


Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management



Source: Bloomberg

The Australian sharemarket has seen a plethora of capital raisings over the past 6-8 weeks with many boards now having shored up their company's balance sheets sufficiently to withstand a lengthy economic slowdown. The irony of course being that the slowdown may well be less pronounced than many had feared. Nonetheless with companies in reasonable shape and the prospect of a broadly re-opening economy valuation seem to be coming back to the fore. We would anticipate a resurgence of corporate and Private Equity activity in small caps with both looking to put abundant liquidity and low interest rates to work in a market with relatively attractive valuations.

Whilst capital raisings were a prominent feature of the market in May the majority of these were in the small cap as opposed to the micro cap space. We saw positive contributions from City Chic (CCX), Horizon Oil (HZN), G8 Education (GEM) and Supply Network (SNL) as the view on Australia's economic recovery out of Covid 19 lockdowns improved. Detractors included many names in the gold sector which the fund can't hold due to market cap restrictions including Saracen (SAR), Regis Resources (RRL) and Cti Logistics (CLX – owned).

Outlook

The market has performed strongly from the bottom which was reached on the 23rd of March this year. There are a few reasons for the market's strong recovery, and we believe the prospects for a reasonable economic recovery are real, albeit we would not be surprised to see it occur in a non-linear fashion. Whilst high growth concept stocks particularly in the fintech space have led the recovery so far, there remains the prospect of a strong rotation into cyclical sectors which offer far greater relative valuation appeal. Sectors which include building materials, consumer discretionary and media. The re-emergence of private equity and corporates on the acquisition path is also likely. With our focus on strongly cash generative businesses with modest gearing we should be the beneficiary of some of this activity looking forward.

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	Spheria Australian Microcap 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 ASX 250 listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation	BT Wrap
Distributions	Annually	HUB24
Fees	1.35% p.a. management fee & 20% performance fee of the Fund's excess return versus its benchmark, net of the management fee	IOOF Portfolio Service
Cash	<ul style="list-style-type: none"> Up to 20% cash Typically 5% - 10% 	Macquarie Wrap
Expected turnover	20-40%	mFund
Style	Long only	MLC Wrap / Navigator
APIR	WHT0066AU	Netwealth
Minimum Initial Investment	\$100,000	One Vue
		uXchange

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