

Performance as at 31st May 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	4.3%	-16.9%	-10.2%	6.1%	5.8%
<i>Benchmark*</i>	9.0%	-9.0%	-1.9%	6.2%	6.8%
Value added	-4.7%	-7.9%	-8.3%	-0.1%	-1.0%

^ 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
Orora Limited	49
Flight Centre Travel	49
TABCORP Holdings Ltd	45
Crown Resorts Ltd	45
Incitec Pivot	43
Top 5	23.1

Source: Spheria Asset Management

Commentary

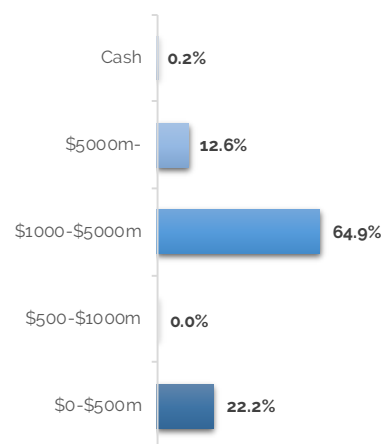
The Spheria Opportunities Fund returned 4.3% (after fees) in May, underperforming its benchmark by 4.7%.

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.

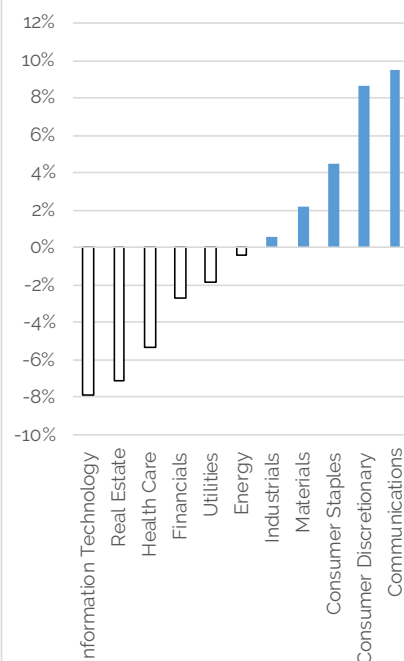
Continued on the next page...

Market Cap Bands

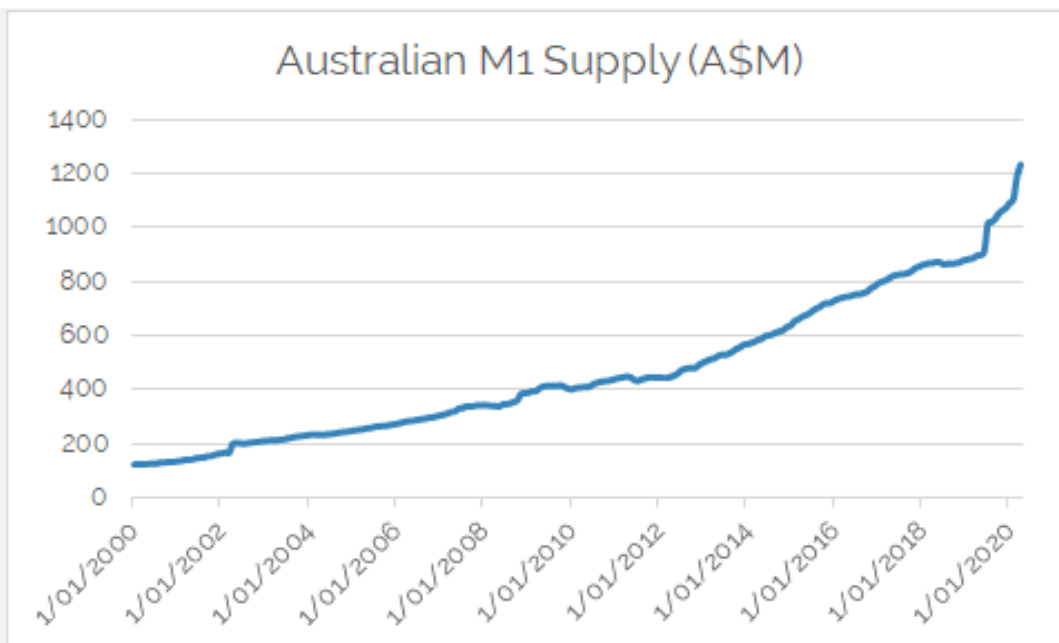


Source: Spheria Asset Management

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.

With capital raisings still being a prominent feature of the market in May we participated in several names where we had an existing shareholding or where we felt it was an attractive entry point into a new position. These included Blackmores (BKL.ASX), Incitec Pivot (IPL.ASX) and Atlas Arteria (ALX.ASX)

Incitec Pivot raised \$600m to de-gear their balance sheet. IPL has one of the best positioned mining explosives businesses in the world in Dyno Nobel, generating steady cashflows and a healthy ROIC out of its North American and Australasian focused franchises. The negative short term is a fertiliser business in Australia that is suffering from nitrogen fertiliser and phosphate based fertilizer prices that are plumbing 10 and 13 year lows respectively and are at or barely above the short run marginal cost of the industry. While painful in terms of short term earnings and cashflows we are confident a growing demand base for these products will eventually see stronger pricing and a return to more appropriate returns for this division.

Blackmores (BKL.ASX) announced a \$92m institutional raise with a follow up SPP of up to \$25m towards the end of May. The primary reason for the raise was to take pressure off the group due their geared balance sheet but also to provide capital for the continued re-investment in brand building across China and the rest of Asia. Blackmores has successfully established the brand in South East Asia over 25 years and is gaining substantial traction in markets like Indonesia.

Atlas Arteria (ALX) owns toll roads in France, Virginia (US) and in Germany which have obviously been impacted short term by the restriction of movements in the EU and US. The company undertook at \$420m raising to partially de-gear the balance sheet at a reasonable discount to their share price which has already come under substantial pressure. We viewed the share price as an attractive entry point into a high quality longer duration infrastructure asset especially in the light of globally low interest rates.

Continued on the next page....

During May we had positive contributions from City Chic (CCX), Flight Centre (FLT) and TPG Telecom (TPM.ASX). CCX and FLT performed strongly on the back of positive sentiment on the economy gradually re-opening and TPM also gave strong performance upon the release of more information relating to the Vodafone merger process. TPM will pay shareholders a dividend pre-merger and spin off their investment in TPG Singapore (named TUAS) to existing holders. Detractors included Afterpay (APT - not owned), Incitec Pivot (IPL) and Evolution Mining (EVN - not owned)

During the month we funded the new positions by reducing existing holdings in Asaleo (AHY), Healius (HLS), Technology One (TNE), Super Retail Group (SUL) and Bega (BGA). Whilst we continue to like and admire many of these businesses, we have been rotating the portfolio to take advantage of more attractive relative valuations.

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.

Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU



	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	<ul style="list-style-type: none">• Up to 20% cash• Typically 5% - 10%
Expected turnover	30-40%
Style	Long only, risk aware
APIR	WHT0025AU
Minimum Investment	\$25,000

This communication has been prepared by Spheria Asset Management Pty Limited ABN 42 611 081 326 ('Spheria'), Corporate Authorised Representative 1240979 of Pinnacle Investment Management Limited (AFSL 322140). Interests in the Spheria Opportunities Fund ARSN 144 032 431 (the 'Fund') are issued by Pinnacle Fund Services Limited (ABN 29 082 494 362 AFSL 238371) the Responsible Entity. The Responsible Entity is not licensed to provide financial product advice. You should consider the Product Disclosure Statement ('PDS') in its entirety before making an investment decision. The current PDS of the Fund can be found at www.spheria.com.au/funds. Spheria is the investment manager of the Fund.

Spheria and Pinnacle Fund Services Limited believe the information contained in this communication is reliable, however, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law, Spheria and Pinnacle Fund Services Limited disclaim all liability to any person relying on the information in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information contained in this communication. This communication is for general information only. The information is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any person considering action on the basis of this communication must seek individual advice relevant to their particular circumstances and investment objectives.

Any opinions or forecasts reflect the judgment and assumptions of Spheria on the basis of information at the date of publication and may later change without notice. Any projections are estimates only and are contingent upon matters outside the control of Spheria and therefore may not be realised in the future. Past performance is not a reliable indicator of future performance.

The information contained in this communication is not to be disclosed in whole or part or used by any other party without the prior written consent of Spheria.