Spheria Australian Smaller Companies Fund

ARSN 117 083 762 APIR WHT0008AU

Performance as at 31st May 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund ^	**7.3%**	**-15.2%**	**-12.5%**	**5.6%**	**4.8%**
*Benchmark**	*10.6%*	*-7.7%*	*-2.9%*	*7.5%*	*5.7%*
Value added	-3.3%	-7.5%	-9.6%	-1.9%	-0.9%

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

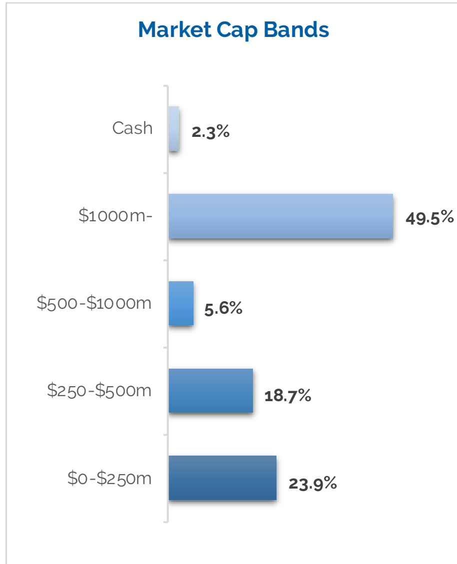
* Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

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.

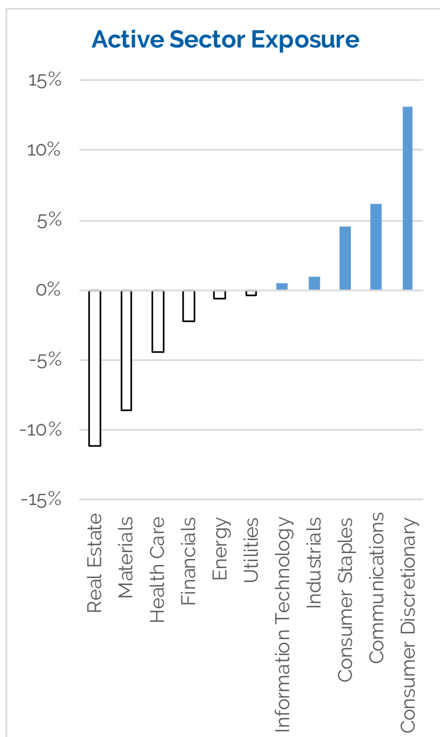
Top 5 Holdings

Company Name	% Portfolio
Breville Group Ltd	4.4
Adbri Limited	4.3
Bega Cheese Ltd	4.3
City Chic Collective	4.1
Class Limited	3.8
Top 5	**21.0**

Source: Spheria Asset Management



Source: Spheria Asset Management



Source: Spheria Asset Management

Commentary

The Fund returned 7.3% (after fees) in May, underperforming it's benchmark by 3.3%.

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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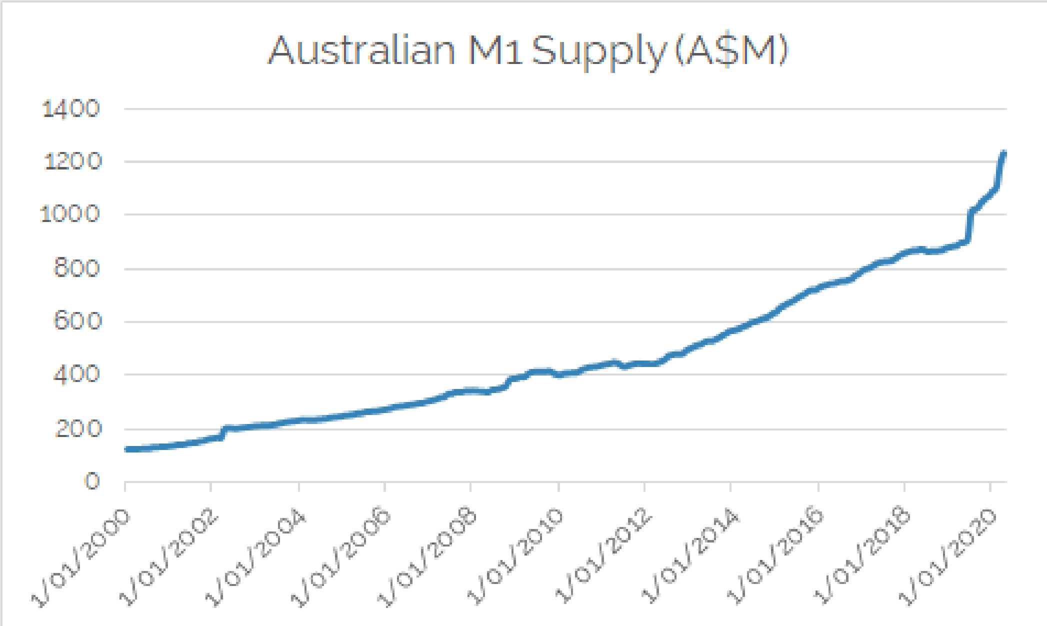

Source: Bloomberg

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. These included Breville Group (BRG.ASX), Blackmores (BKL.ASX) and we initiated a position in Charter Hall Social Infrastructure (CQE.ASX).

Breville Group raised around $101m during May despite reporting extremely robust trading over the Covid 19 closure period. BRG appears to have continued to trade well through the shutdown period as consumers purchase small home appliances. March and April revenues rose 24.9% and 20.9% respectively as consumers continued to turn to Breville appliances. Despite the net cash balance sheet, management took the view it would be prudent to raise capital to pre-empt any potential working capital outflows over their typically working capital intensive Christmas period at the end of the year.

CQE is a property trust with a portfolio of 391 childcare centres and a development pipeline of approximately 30 new centres across Australia/ New Zealand. CQE raised approximately $115m via a placement to de-gear their balance sheet and put them in a position to potentially acquire sites at more attractive prices. CQE has the attraction of a long lease profile and triple net leases which exposes the REIT to less maintenance capex than many in the REIT space.

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 continue 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.

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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 Smaller Companies Fund
Benchmark (universe)	S&P/ASX Small Ordinaries Accumulation Index
Investment objective	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.
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
Distributions	Half yearly
Fees	1.10% p.a. management fee & 20% 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
APIR	WHT0008AU
Minimum Investment	$25,000

Platform availability
ASGARD
BT Panorama
BT Wrap
First Wrap
HUB24
IOOF Portfolio Service
Macquarie Wrap
mFund
MLC Wrap / Navigator
Netwealth
One Vue
uXchange