Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

Performance as at 30th November 2018

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund^	**-4.3%**	**-6.4%**	**-3.9%**	**7.8%**	**10.5%**
*Benchmark**	*-0.4%*	*-8.9%*	*-1.6%*	*8.9%*	*7.8%*
Value added	-3.9%	2.6%	-2.2%	-1.1%	2.7%
*Microcap Index ***	*-2.3%*	*-15.2%*	*-11.7%*	*-0.9%*	*2.7%*

^ 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.

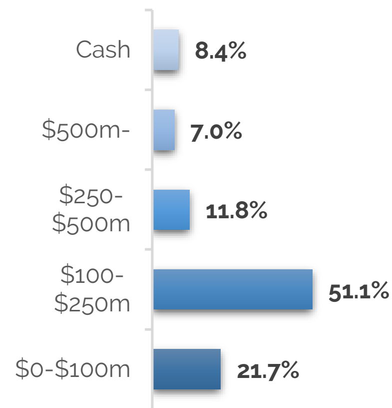
** Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.

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

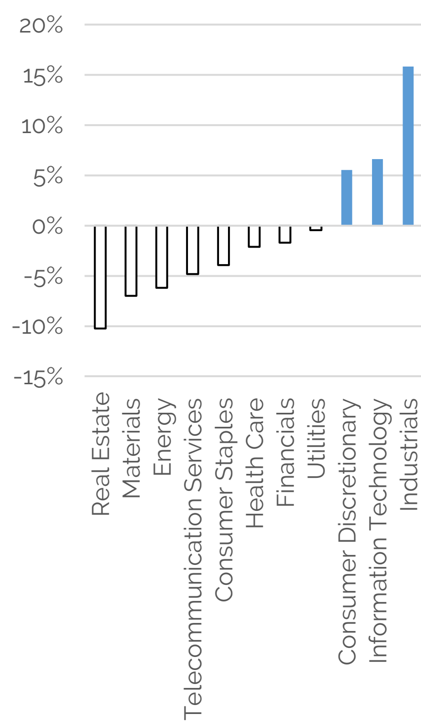
Top 5 Holdings

Company Name	% Portfolio
Class Limited	5.5
A2B Australia Ltd	5.1
City Chic Collect.	4.0
Vita Group Ltd	3.9
Mount Gibson Iron	3.5
Top 5	**21.9**

Market Cap Bands



Active Sector Exposure



Commentary

The Spheria Australian Microcap Fund decreased by 4.3% in November underperforming the Benchmark by 3.9%. For the year ending 30th November 2018, the Fund underperformed by 2.2%.

The Small Ordinaries Accumulation index was off 0.4% in November after its very poor showing in October. November is also a reconciliation point (also called “confession season” by the cognoscenti) as many companies provide a trading update at their AGM’s. Overall it’s fair to say these were poor, with the general experience being one of softening business conditions across most industries. The energy sector was particularly hard hit, falling 12% in sympathy with the declining oil price. Brent Crude fell a further 21% over November after already trading well off its highs in October, as the outlook weakened on both global growth concerns and supply related issues. Construction materials and housing related stocks also struggled with GWA Ltd (GWA) down 5%, Fletcher Building (FBU) off 20% on a weaker Australian housing outlook and Wagners (WGN) down 26%. The outlook for discretionary retailers also looks challenging with many reporting a softening in their Like for Like sales and an outlook which, somewhat optimistically in most cases, hopes for a recovery in second half trading.

At market turning points like these it is important to check in with what investment beliefs you hold true to guide you through what could be more volatile times. We have always tried to run our portfolios along consistent lines irrespective of whether we are in rising or declining equity markets. We believe in a disciplined approach to valuation matters, coupled with a requirement that businesses generate good cash flow and maintain conservative balance sheet gearing. There have been times in the smaller cap market where valuation has not appeared to matter and where fundamentals and share prices have detached materially. So why should valuation matter especially when so much of our market segment appears to be driven by quantitative and passive investors? And why should cash flow valuation techniques be the right way to value equities? The answer to both these questions is that at some point, people exchange cash for stocks and vice versa. Whether they be private equity investors who are seeking funding from banks, or retail investors, they will ultimately be exchanging cash for the scrip they

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wish to buy or sell. Most rational investors will ultimately compare the value of that marginal investment with either keeping cash in the bank or investing in another alternative asset class – in other words what cash returns can they reasonably expect to earn on that invested dollar across asset classes.

It is for this reason that we anchor our investment decisions to cash flow valuations and why we look for businesses whose values we can reasonably ascertain. If, as we suspect could be the case, liquidity in the system reduces then it will be the cash generating companies who can fund themselves through the business cycle who will trade out of it better than others. The Fund had some good contributions from A2B Australia (formerly named Cabcharge; A2B.AX) which rose 7%, from Isentia (ISD.AX) up 35% on a re-affirmed earnings outlook and Vita Group (VTG.AX) which rose 6%. The Fund also owned a position in Greencross Ltd (GXL.AX) which received a takeover via scheme of arrangement from TPG at $5.55 a share (20% premium to the prevailing share price).

Against this, we had a negative contribution from Donaco (DNA.AX) which was a satellite (or smaller weight in the funds) and which was down 47% on a poor trading outlook at its Cambodian operations. DNA runs two Casinos ; One in Cambodia and the other in Vietnam and whilst the business has gone through what can only be described as some unusual times it is and remains strongly cash generative. Based on conservative estimates the shares trade on less than 3x ebit in Fy 19 and well below that on a more normalised year. Whilst the share price has been disappointing to date, we often find some of our best investment wins come from truly contrarian investments. Other negative contributors were Horizon Oil (HZN.AX) down 31% based on the earlier mentioned oil price retracement and Supply Networks (SNL.AX) which remains a fairly illiquid stock and which declined 18%. There was little news to drive the SNL shares as they had announced an inline trading update.

The market backdrop has become decidedly more challenging in view of the tightening credit conditions in Australia which are having a flow on effect on the broader economy. After almost 10 years of very easy liquidity and low interest rates, the market is adapting to a tightening outlook and providing some incredibly good opportunities in pockets. We would anticipate market volatility to remain a feature of the markets for some time as they adjust to tighter liquidity conditions and lower economic growth. In light of this, our focus on valuations and cash flows should continue to see the portfolios perform relatively well and enable us to position for decent longer term returns.

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	Spheria Australian Microcap 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 ASX 250 listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation
Distributions	Annually
Fees	1.35% 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	20-40%
Style	Long only
APIR	WHT0066AU
Minimum Initial Investment	$100,000

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