Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 31st January 2019

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund ^	**4.4%**	**-5.0%**	**-3.2%**	**10.9%**	**9.5%**
*Benchmark**	*5.0%*	*-6.9%*	*-3.1%*	*8.8%*	*7.9%*
Value added	-0.6%	1.8%	-0.1%	2.1%	1.6%

^ Spheria Opportunities Fund. Returns of the Fund are net of applicable fees, costs and taxes.

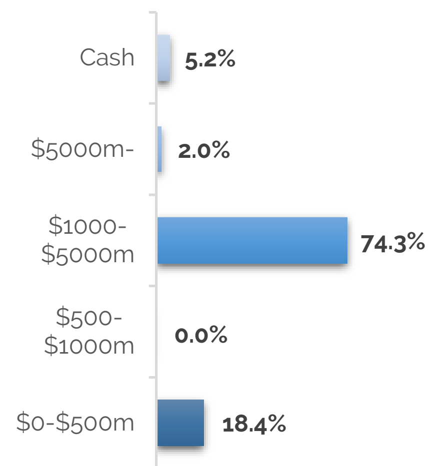
* Benchmark is the S&P/ASX Mid-Small Accumulation Index.

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.

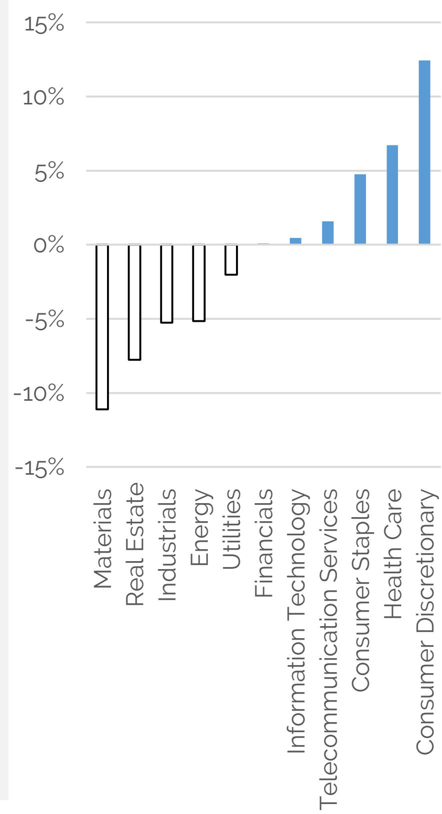
Top 5 Holdings

Company Name	% Portfolio
Healthscope Ltd.	6.2
Navitas Limited	6.0
Bega Cheese Ltd	5.5
Fletcher Building	4.8
Trade Me Group	4.2
Top 5	**26.8**

Market Cap Bands



Active Sector Exposure



Commentary

The Spheria Australian Opportunities Fund increased 4.4% post fees in January, underperforming the Benchmark by 0.6%.

The S&P ASX Mid-Small Accumulation index returned a very strong 5.0% in January, in sympathy with global markets. Markets returned to a risk-on stance after commentary from the Fed suggested they were "listening to the markets" and were likely to hike only a further two times this year. Additionally, the Fed Chairman was quoted as saying he "wouldn't hesitate" to adjust the pace of the Fed's balance sheet contraction. Within the benchmark – growth and momentum style names led the charge – after having been sold off heavily in the final quarter of 2018. Paradoxically, we think we are heading into a fairly weak reporting season. The Australian economy has undoubtedly slowed and the cyclical side of the economy – retailers, housing related stocks and media - have all come under pressure.

The mid-small cap segment has continued to see vigorous takeover activity with the Opportunities Fund seeing the benefits from two of these in January. Early in the month Healius (HLS.ASX) – formerly Primary Healthcare – received an unsolicited takeover offer from Jangho group at $3.25 a share. The Board rejected the offer as being too low, which we agree with. We suspect given the strategic nature of the assets (second largest Australian pathology operator) that it will attract the interest of other parties. The takeover attempt another indicator that the public market is not recognising the long term value of many strategic assets, particularly in the healthcare sector. The BGH Consortium (consisting of the Navitas founder, BGH Capital and Australian Super) also raised its original offer for Navitas (NVT.ASX) from $5.50 to $5.825 and received the blessing of the Board as a result. To date M&A activity has been confined to the larger end of the small cap spectrum, which has left many smaller and micro companies trading at very low multiples relative to the market and their historical levels.

Other strong contributors to the Fund were Invocare (IVC.ASX) – up 18%, Technology One (TNE.ASX) up 13% and Resmed (RMD.ASX – not owned) which declined 18% after a disappointing quarterly report. IVC recovered in January after a torrid year in 2018, which saw a reduction in death rates following a very benign flu season (regrettably for the broader community a factor that is likely to prove temporary). IVC is also in the middle of a

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major revamp of its sites with a $200m investment. Unfortunately, this refurbishment is accompanied by a short-term reduction in volumes. While these factors have hurt near term earnings and the share price, they have also provided the Fund the opportunity to acquire a remarkably consistent business and an enviable generator of free cash flow (93% average cash flow conversion over the last 14 years). TNE continued its rebound after last year's first half share price sell off. A greater recognition of the strengths of shifting to a SaaS style business model, and greater confidence in the medium-term sustainability of Technology One's growth plans has seen a continued re-rate of the shares. RMD's shares declined in January on the back of a downgraded profit outlook and disappointment related to the earnings trajectory of its recent software acquisitions.

Most of the negative relative contributions in January came from shares the Fund didn't own. Beach Energy (BPT.ASX – not owned) rose 33%, A2 Milk (A2M.ASX – not owned) rose 17% and Bluescope Steel (BSL.ASX – not owned) rose 13.5% We haven't found these shares to be attractive to the Fund on account of either valuation or lack of consistent cash flow generation. Platinum Asset Management (PTM.ASX) declined 7% as the market extrapolated recent underperformance of its funds. This has been the second bout of poor relative performance for the manager in the last three years. There is some risk it loses support of consultants and clients, particularly given the major team change last year. In saying that investment performance for any fund manager does wax and wane. PTM's bet on Asian sharemarkets and its underweight to the USA, although intuitive (from our perspective), has not panned out to date. We share the medium to long term view that Asia (particularly China) is the better relative investment. We therefore believe it is simply a matter of time before PTM finds its investment performance groove again, but we understand the short to medium term risk from potential client outflows could compromise that equation.

The market rally in January saw the momentum and growth style names broadly re-rate to levels they were at prior to the sell-off in October last year. Having said this, there are now some interesting opportunities opening up in the highly cyclical segments of the mid and small cap market that have taken a beating over the past six months. We think there is scope for good returns in the medium term in some of these names. The Fund's ability to invest a portion of its holdings in the smaller end of the market cap spectrum should serve investors well as there are some opportunities also opening up at the lower end of the market cap spectrum.

	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	• Up to 20% cash • Typically 5% - 10%
Expected turnover	30-40%
Style	Long only, risk aware
APIR	WHT0025AU
Minimum Investment	$25,000

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