Spheria Opportunities Fund

ARSN 144 032 431 APIR WHT0025AU

Performance as at 30th November 2018

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund ^	**-1.0%**	**-3.8%**	**4.8%**	**12.1%**	**10.8%**
*Benchmark**	*-2.6%*	*-8.7%*	*-2.5%*	*9.2%*	*7.6%*
Value added	1.6%	4.9%	7.3%	2.9%	3.2%

^ 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 Limited	8.0
Bega Cheese Ltd	6.3
Navitas Limited	6.0
Platinum Asset	5.2
Fletcher Building	4.5
Top 5	**30.1**

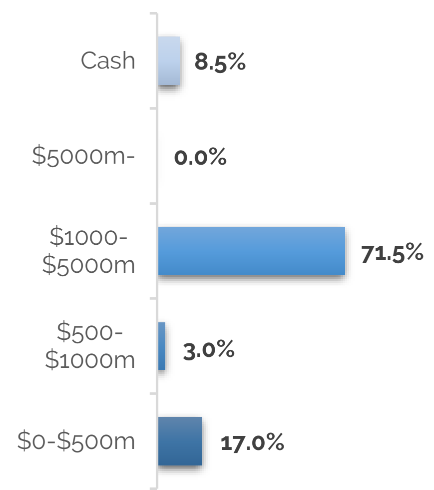
Commentary

The Spheria Opportunities Fund decreased by 1.0% in November still outperforming the Benchmark by 1.6%. For the year ending 30th November 2018, the Fund outperformed by 7.3%.

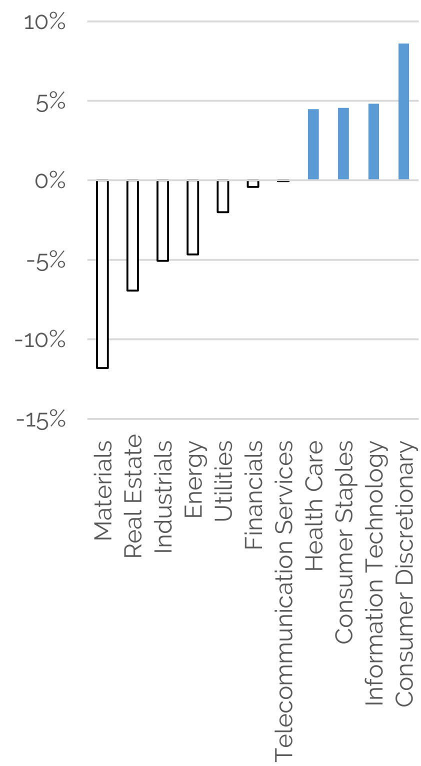
The Mid-Small Accumulation index was off 2.6% in November after its very poor showing in October. November is also a reconciliation point (also called "confession season" by the cognoscenti) as many companies provide a trading update at their AGM's. Overall, it's fair to say these were poor, with the 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 Boral (GWA) down 9%, 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 for the businesses we invest in to generate good cash flow and maintain conservative balance sheet gearing. There have been times in the Mid and small 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 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.

Market Cap Bands



Active Sector Exposure



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 Opportunities Fund continues to be the beneficiary of takeovers with Trade Me (TME.NZ) receiving an indicative, non-binding offer from Apax Partners at NZ$6.40 a share – a 25% premium to the share price at the time. Whilst TME continues to trade at a discount to this indicative offer, the emergence of another suitor in the form of Hellman and Friedman (US based PE firm) should see tension emerge and we are reasonably confident of a final bid being lodged. TME is a great example of an incredibly strong cash generative business which had material upside in its online classifieds business (comprising 60% of its revenue). 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). And lastly, the Fund continues to maintain decent positions in both Navitas (NVT.AX) and Healthscope (HSO) both of which have received takeover approaches. NVT has received an indicative bid from a consortium involving the founder of NVT and Private Equity group BGH. We believe the bid price is materially under our assessment of fair value and is also insufficient in terms of the usual control premium paid by bidders. HSO has already knocked back an indicative offer from the BGH/ Aust Super consortium priced at $2.36. After similarly rejecting an initial indicative proposal from Brookfield Capital Partners at $2.50, the board has granted due diligence to Brookfield to pursue a simultaneous takeover and scheme of arrangement that is cleverly structured to thwart BGH/Aust Super's blocking stake. Under this proposal Brookfield is offering $2.585 per share under a scheme of arrangement while simultaneously offering $2.455 under a takeover (subject to 50% minimum acceptance and the scheme being unsuccessful). The first would see them gain control of the company but could leave the business as a listed entity with minority holders. The second would see it delisted from the exchange.

Detractors over the month included Fletcher Building (FBU.NZ) down 20% on the back of a weaker trading update, Coca Cola Amatil (CCL.AX) down 13% after their strategy day which suggested short term trading had been more challenging than expected and HT&E Ltd (HT1.AX) down 9% on the back of a softening outlook for media spend although our view is that Radio ad spend should be amongst the most defensive sub sector within the media space.

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.

	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