Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

Performance as at 30th April 2019

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund^	**3.6%**	**-0.5%**	**1.7%**	**8.3%**	**11.2%**
*Benchmark**	*4.1%*	*2.3%*	*7.2%*	*12.7%*	*11.0%*
Value added	-0.5%	-2.8%	-5.5%	-4.4%	0.3%
*Microcap Index ***	*4.3%*	*-4.5%*	*-4.8%*	*9.1%*	*6.5%*

^ 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.

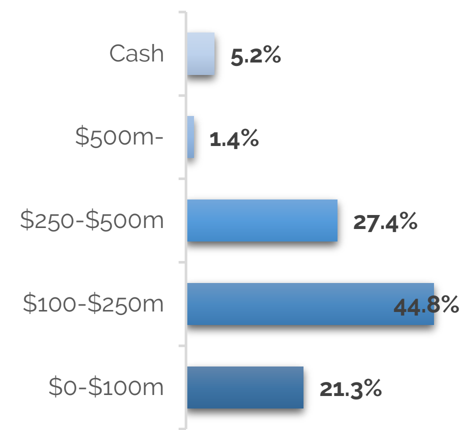
Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
City Chic Collective	5.4
Class Limited	5.1
Vita Group Ltd	4.5
A2B Australia Ltd	4.1
GBST Holdings..	3.8
Top 5	**22.9**

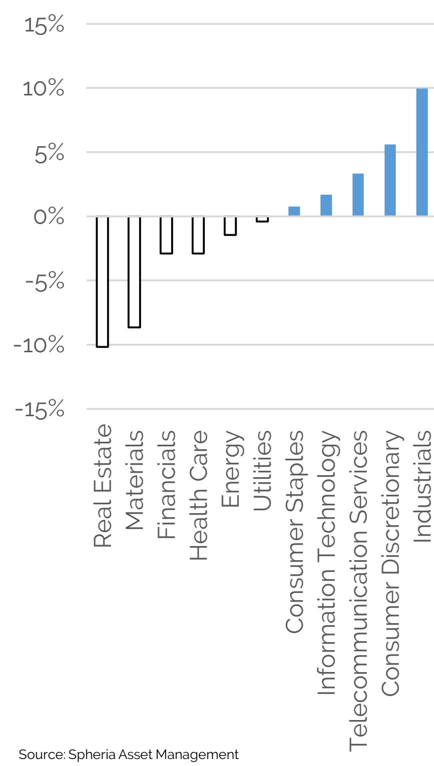
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

The Spheria Australian Microcap Fund returned 3.6% in April underperforming the Benchmark which increased 4.1%. For the year ending 30th April 2019 the fund returned 1.7% underperforming the benchmark by 5.5%.

The market continued its merry way in April with the S&P ASX Small Ordinaries Accumulation index rallying more than 4%. The momentum trade back on like there was never even a hiccup with a seemingly endless supply of capital pursuing "Uber"-popular companies with little regard to valuation – in fact many of these companies will never actually make a profit! We slightly underperformed the benchmark in April which was a little disappointing given there were very few discernible negatives in the portfolio. The primary positive drivers of performance being strong share price moves in Geopacific Resources (GPR, +88% from placement price), GBST (GBT, +32%) and Mount Gibson Iron (MGX, +28%).

We added GPR to the portfolio in early April via a placement (0.085cps) at a significant discount to the last price and at a low point in the share price cycle. GPR's main asset is Woodlark which is a fully permitted gold project situated on an island in Papua New Guinea. The project is robust with the DFS demonstrating a 13-year gold project with over 1Moz at a reasonable grade of 1.12g/t and All-In-Sustaining Cost (AISC) of A$866/oz in the first five years. There is also exploration upside with immediate near-pit resource growth potential. We expect strong cash flow after the initial capex spend ($200m) with a forecast payback period of 2.2years. Given the time line to free cash flow generation, it is only a small (satellite) position in the portfolio but the risk-reward scenario is such that there is distinct possibility of it being a strong contributor to future performance.

GBT is a prime example of the market's antipathy towards any company fallen on hard times. In 2014/15, the market could not get enough of the company with the share price trading to a peak above $6. Fast forward three… nearly four years and the company was wallowing in no-man's land with a share price in the low $1's and shareholders burnt by a valuation that was simply unsustainable. The previous management team having systemically underspent on key software platforms, the catchup spend spooking shareholders that were there for a good time not a long time. The

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attraction for us apart from a much friendlier valuation being the low inherent risk given a strong balance sheet, still healthy cash generation, and the value in being an incumbent provider of complex software. In hindsight it was little surprise that GBT became the target for its main competitor Bravura (BVS), who in April announced an unsolicited proposal to acquire GBT at a material premium to its share price. The disparity in valuation being stark given GBT was trading well below <2x revenue versus BVS at around 5x revenue, with significant synergies likely to accrue in the medium to long term by gradually transitioning clients to a single platform. We believe there is a compelling argument in bringing the two companies together with scale ultimately critical for long term success in what will be an increasingly competitive environment. We hope that common sense prevails, and the parties arrive at a mutually agreeable deal to present to shareholders. We think it nearly an impossible equation for GBT to grant comprehensive due diligence given client confidentiality and the fact that BVS is a key competitor that ultimately could possibly walk away with an information advantage. We believe the synergies from combining the two businesses far outweigh any risk inherent at GBT, particularly given the capital markets business could be sold to a third party and would represent more than half the current enterprise value of GBT. Therefore, BVS would be paying very little for the remainder which is in fact the primary target (i.e. Wealth Management division).

We had a similar experience in MGX, albeit was not a takeover target. It has simply recovered from being abhorred by the market due to a collapse in iron ore prices several years ago and a seawall at its core mine which rendered it seemingly redundant. When we acquired the majority of our holding the share price was trading at a significant discount to its cash backing and the company was loathed due to whispers about its intention with the cash it held. Wonderfully for us the iron ore price recovered, the high cost non-core mines produced cash, an insurance payout on the seawall/business interruption was agreed and the seawall at Koolan Island was rebuilt bringing the core high grade/low cost mine back into operation in a rising iron price environment. Now we are dealing with a good problem in that pretty much everything has gone right for the mining company after a stretch when everything had gone wrong, and the risk/reward scenario has swung from one extreme to the other. On that basis we have reduced our position size and are looking for the next MGX type scenario where the risk reward is heavily skewed in our favour. In hindsight patience probably being our greatest competitive advantage with MGX and more generally with most of our investments.

We are constantly asked which of our strategies is currently the most compelling opportunity. Given recent underperformance in the micro-cap strategy, a distinct lack of interest at the microcap end of the market and relatively attractive valuations - we suspect the Microcap strategy could be set to outperform. We would not be surprised to see more takeover activity in microcaps due to a lack of organic growth prospects for larger companies, and significant idle liquidity in private equity hands which is likely to find its way down the market capitalisation spectrum where valuations have more appeal.

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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