Spheria Australian Smaller Companies Fund
ARSN 117 083 762 APIR WHT0008AU

Performance as at 30th April 2019

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund ^	**5.8%**	**7.8%**	**12.3%**	**16.6%**	**12.8%**
*Benchmark**	*4.1%*	*2.3%*	*7.2%*	*12.7%*	*9.6%*
Value added	1.7%	5.6%	5.1%	4.0%	3.2%

^ 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
Navitas Limited	5.6
Bega Cheese Ltd	4.6
Healius	4.5
Platinum Asset	4.4
Fletcher Building	4.4
Top 5	**23.5**

Source: Spheria Asset Management

Commentary

The Spheria Australian Smaller Companies Fund returned 5.8% in April outperforming the Benchmark which increased 4.1%. For the year ending 30th April 2019 the Fund returned 12.3% outperforming its benchmark by 5.1%.

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! Somehow despite our valuation-based methodology we managed to outperform the benchmark in April. The portfolio's performance buoyed by strong share price moves in GBST (GBT, +32%), Mount Gibson Iron (MGX, +28%) and Healius (HLS, +19%).

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 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

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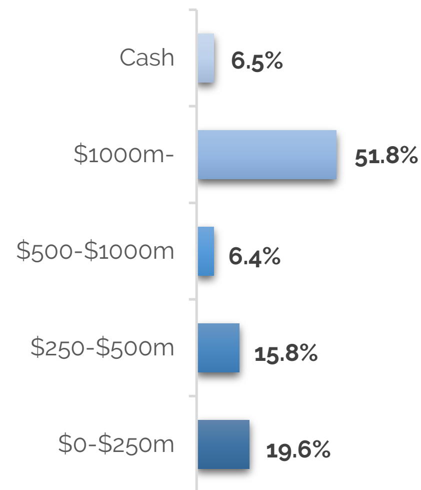
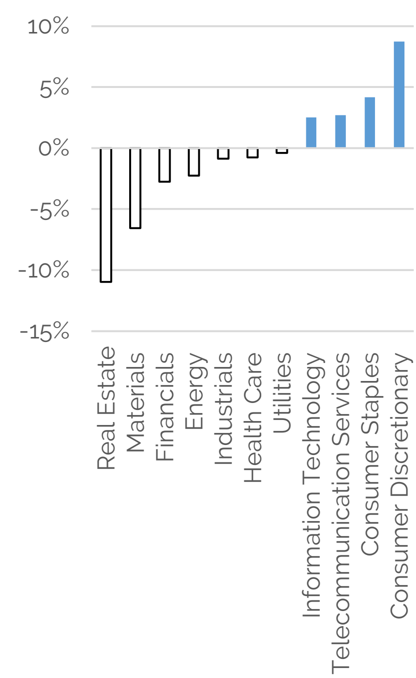
Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

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 similar experiences in MGX and HLS – albeit MGX 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.

HLS (formerly Primary Healthcare) we started buying last year in the high $3's and ended up averaging down into the low $2 range during a series of negative profit updates. The share price having rallied recently on the back of a takeover approach from its major shareholder (Jangho) and repeated speculation that other party/s are interested in acquiring the company. Like the aforementioned investments, HLS has fallen on harder times with numerous legacy issues to deal with mostly a function of previous management teams and a GP model that never appeared sustainable. Management have now reset the businesses and we believe there is significant value in the pathology operations which are strategic given it is the second largest operator in Australia and now represents most of the groups valuation (>80%). Apart from pathology we believe there is strategic appeal in the diagnostic imaging business with consolidation in that market likely to involve HLS divesting components of the division, which are an unnatural fit with the broader group. This would likely create significant value for HLS shareholders.

Overall, we are happy with recent performance but note that performance can be fleeting. More importantly for us we believe we are finding solid long-term investment opportunities where the risk-reward profile is skewed in our favour. We continue to avoid pockets of extreme over-exuberance where market valuations are deeply concerning. This should protect us in a potentially more hostile investment climate and weaker economic conditions which are becoming increasingly evident.

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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