Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

Performance as at 28th February 2019

	1m	FYTD	1yr	2yr p.a.	Inception p.a.#
Fund^	**5.9%**	**-4.2%**	**-6.5%**	**4.7%**	**10.4%**
*Benchmark**	*6.8%*	*-1.6%*	*3.5%*	*11.8%*	*10.1%*
Value added	-0.9%	-2.6%	-10.0%	-7.1%	0.3%
*Microcap Index ** *	*4.8%*	*-10.9%*	*-14.2%*	*1.1%*	*4.3%*

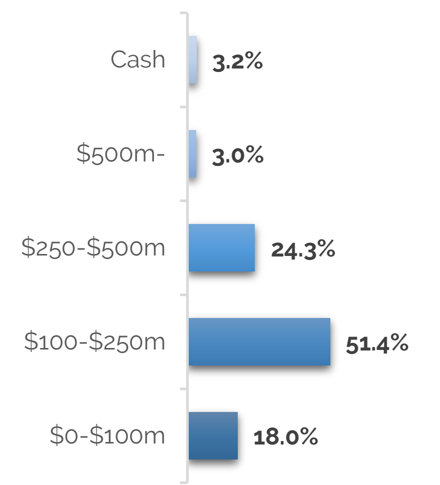
^ Spheria Australian Microcap Fund. Returns of the Fund are net of applicable fees, costs and taxes
* Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.
** Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.
# Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance.

Top 5 Holdings

Company Name	% Portfolio
City Chic Collective	5.9
Vita Group Ltd	5.0
Class Limited	4.8
A2B Australia Ltd	4.4
Pacific Smiles Grp	3.4
Top 5	**23.5**

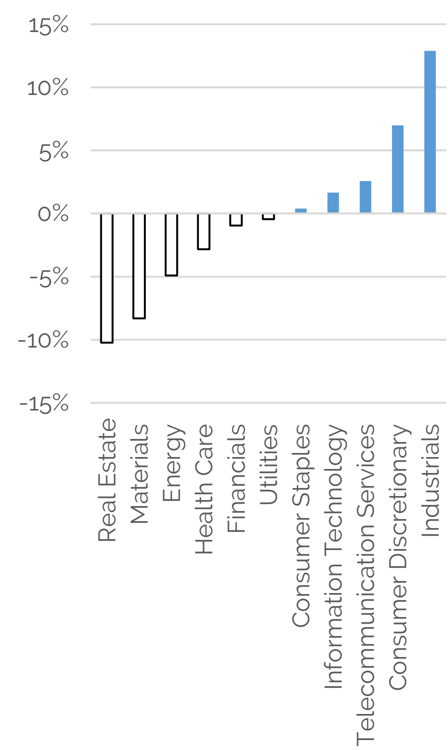
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Commentary

The Spheria Australian Microcap Fund increased 5.9% in February, underperforming the Benchmark which gained 6.8%. The fund underperformed its benchmark by 10% for the year ending 28th February 2019 which was disappointing but outperformed the S&P ASX Emerging Companies Accumulation index by nearly 8% – illustrating how poorly the microcap universe has fared over that time frame.

The market correction that occurred in the December quarter was mostly recouped in January and February with the S&P ASX Small Ordinaries Accumulation index bouncing over 16% from its low point. The sharp lift in February was due to a better than expected profit reporting season - expectations were extremely depressed. Ridiculously, stocks that were very highly rated going into results that delivered in-line or better (assessed against some metric that was rarely the actual profit) were re-rated even more aggressively. We suspect this reflects the growth in quantitative based strategies that are tuned to earnings momentum without a valuation overlay, and in general a market that is fixated with earnings upgrades and downgrades with little to no regard for absolute valuation. These share price movements were exaggerated by short covering, we suspect many hedge funds were shorting on heightened macro-economic fears in December and into reporting season.

Despite swimming against the "momentum" tide we generated a reasonably solid performance for the month across our key strategies. Positively, the companies we own are for the most part performing well (i.e. from a business perspective) based on the reported results and are trading at relatively low multiples, which affords us protection if the bubble does burst at the more highly rated end.

The top three share price performers (including dividends) for the month of February were:

City Chic Collective (CCX, +42%)
CCX is a specialty apparel retailer that caters for the Plus size female customer. It delivered a strong 1H19 result with 9.6% comparative sales growth and EBIT growth > 20%. The business has carved out a leading position in this vertical, and there is significant runway domestically and

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offshore. Despite a stellar share price recovery, the company remains relatively cheap (10x EBIT) versus some of its more highly rated peers. CCX has 375k active customers and its online sales are 40% of total sales. The balance sheet had $36m of cash as at the 31 December 2018 report date.

Vita Group (VTG, +33%)
VTG operates 100+ stores for Telstra. It delivered a strong result with revenue growing 14% and EBIT 27%. VTG has engineered a return to growth under a tougher remuneration model implemented by Telstra a couple of years ago. The key being the cross-sell of its home brand accessory product (Sprout) that is now about $50m of sales. Two years ago, this was less than $30m. The gross margins for Sprout are very high, such that we believe it represents a large proportion of VTG's earnings, which means VTG is less exposed to any prospective remuneration changes. Despite a strong share price recovery, the company remains extremely cheap (5x EBIT). There is a headwind in FY20 with the loss of $11m of high margin revenue from Telstra, however, we think the arrival of 5G and the growth in Sprout will more than compensate.

Fiducian (FID, +29%)
FID is a financial services company that owns advisory firms that utilise the core platform services –i.e. a vertically integrated model. The Royal Commission was expected to ban vertical integration, inexplicably this was not the case. As a result, FID rallied strongly in February. Remarkably, FID trades very cheaply at only 9x EBIT and has net cash of about $15m. The greatest threat to the business is probably macro factors, given the sensitivity of the earnings to sharemarkets.

The bottom three share price performers (including dividends) were:

Maxitrans (MXI, -28%)
MXI manufactures high quality specialty trailers for the heavy transport (trucking) market in Australia and New Zealand. It is also a leading trailer parts distributor for repairs and maintenance. MXI reported a weak 1H result with EBIT falling 50%, although cycling a strong 1H18 which included a lucrative Coles contract. The outlook is challenging given slowing demand due to drought conditions impacting agricultural markets and slowing east coast markets particularly housing. These conditions have contributed to a slowing of new trailer registrations. Management has not executed well on the cost side and capital allocation decisions have been questionable. We believe there is strategic value in the business given its strong market positions, and there is value in a breakup scenario.

Tempo (TPP, -23%)
TPP is a contracting business focussed on asset management, maintenance and construction services across telecommunications, resources, power and industrial as well as commercial sectors. Whilst the company reported a loss, the company is now winning work and cash flow is beginning to improve with free cash flow in the December half year approaching breakeven after cash burn in the June half of >$4m (Note TPP reports on a calendar year basis). Furthermore, revenue has grown from $6m in 1H17 to $26m in 2H18. The company should begin to make money at a run rate of $55-60m pa of revenue, which looks not far off. The company has $5m of cash in the bank, so is probably able to organically fund growth in its order book, however, additional capital would accelerate growth.

CTI Logistics (CLX, -13%)
CLX provides transport and logistics services with exposure skewed towards Western Australia. The first half result was weak with underlying EBIT falling 9%. The earnings fall understating the actual weakness given the acquisition of Jayde Transport, which made a full contribution in the latest period. The company witnessed a sharp deterioration in the WA economy leading into Christmas, which is a peak activity period. A number of clients did shutdown early and reduced expenditure. This was felt across retail, industrial and SME's. Transport businesses are very sensitive to volumes and therefore economic activity. We believe WA will pick-up given the significant capital expenditures earmarked for the next 2-3 years by the major miners, particularly iron ore.

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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