

Spheria Australian Microcap Fund

ARSN 611 819 651

**Interim report - for the half-year ended
31 December 2019**

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The interim financial report does not include all the notes of the type normally included in the annual financial report. Accordingly, this interim financial report should be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made in respect of the Spheria Australian Microcap Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This interim financial report covers the Spheria Australian Microcap Fund as an individual entity.

The Responsible Entity of the Spheria Australian Microcap Fund is Pinnacle Fund Services Limited (ABN 29 082 494 362). The Responsible Entity's registered office is Level 19, 307 Queen Street, Brisbane, QLD, 4000.

Directors' report

The directors of Pinnacle Fund Services Limited, the responsible entity ("Responsible Entity") of the Spheria Australian Microcap Fund ("the Fund"), present their report together with the interim financial report of the Fund for the half-year ended 31 December 2019.

Principal activities

The Fund is a registered managed investment fund domiciled in Australia.

The Fund is an actively managed portfolio, investing in a broad range of small companies predominantly from Australia with the objective of specifically seeking out highly quality securities where the present value of future free cash flows can be reasonably ascertained and the security is trading at discount to its intrinsic value, subject to certain risk criteria.

The objective of the Fund is to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term by investing predominantly in listed companies which are outside the top 250 ASX listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation.

Spheria Asset Management Pty Limited is the Investment Manager of the Fund.

The Fund did not have any employees during the half-year.

Directors

The following persons held office as directors of Pinnacle Fund Services Limited during the half-year or since the end of the half-year and up to the date of this report:

Mr I Macoun
Mr A Ihlenfeldt
Mr C Kwok
Mr A Whittingham (appointed 5 August 2019)
Mr T O'Callaghan (resigned 5 August 2019)

The Responsible Entity also has a Compliance Committee consisting of one non-independent person and three independent persons. The committee's role is to oversee the compliance requirements of the Fund operated by the Responsible Entity.

Review and results of operations

There have been no significant changes to the operations of the Fund since the previous financial period. The Fund continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Fund.

The performance of the Fund, as represented by the results of its operations, was as follows:

	Half-year ended	
	31 December	31 December
	2019	2018
	\$'000	\$'000
Net operating profit/(loss) before finance costs attributable to unitholders	<u>8,518</u>	<u>(10,089)</u>

Distributions

No distribution was paid/payable in the current and comparative half-year reporting periods.

Directors' report (continued)

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial half-year.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial periods, or
- (ii) the results of those operations in future financial periods, or
- (iii) the state of affairs of the Fund in future financial periods.

Rounding of amounts to the nearest thousand dollars

Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors.



Mr A Ihlenfeldt
Director

Brisbane
11 March 2020



Auditor's Independence Declaration

As lead auditor for the review of Spheria Australian Microcap Fund for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'Craig Thomason', with a long horizontal flourish extending to the right.

Craig Thomason
Partner
PricewaterhouseCoopers

Sydney
11 March 2020

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Spheria Australian Microcap Fund
Statement of comprehensive income
For the half-year ended 31 December 2019

Statement of comprehensive income

	Half-year ended	
	31 December 2019	31 December 2018
	\$'000	\$'000
Investment income		
Interest Income from financial assets at amortised cost	8	50
Dividend/Trust distribution income	1,427	1,662
Net gains/(losses) on financial instruments at fair value through profit or loss	7,660	(11,067)
Net gains/(losses) on foreign exchange	3	7
Total net investment income/(loss)	9,098	(9,348)
Expenses		
Management fees	537	656
Transaction costs	43	85
Total operating expenses	580	741
Operating profit/(loss) for the half-year	8,518	(10,089)
Other comprehensive income	-	-
Total comprehensive income for the half-year	8,518	(10,089)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Spheria Australian Microcap Fund
Statement of financial position
As at 31 December 2019

Statement of financial position

		As at	
		31 December	30 June
	Notes	2019	2019
		\$'000	\$'000
Assets			
Cash and cash equivalents		1,605	5,684
Receivables		20	150
Financial assets at fair value through profit or loss	3	74,991	77,176
Total assets		76,616	83,010
Liabilities			
Distributions payable		-	6,289
Payables		105	692
Total liabilities		105	6,981
Net assets attributable to unitholders - equity	2	76,511	76,029

The above statement of financial position should be read in conjunction with the accompanying notes.

Spheria Australian Microcap Fund
Statement of changes in equity
For the half-year ended 31 December 2019

Statement of changes in equity

	Notes	Half-year ended	
		31 December 2019	31 December 2018
		\$'000	\$'000
Total equity at the beginning of the half-year	2	<u>76,029</u>	<u>92,044</u>
Comprehensive income for the half-year			
Profit/(loss) for the half-year		8,518	(10,089)
Other comprehensive income for the half-year		<u>-</u>	<u>-</u>
Total comprehensive income for the half-year		8,518	(10,089)
Transactions with unitholders			
Applications	2	4,328	9,700
Redemptions	2	(13,635)	(7,789)
Units issued upon reinvestment of distributions	2	1,271	2,234
Distributions paid and payable	2	<u>-</u>	<u>-</u>
Total transactions with unitholders		<u>(8,036)</u>	<u>4,145</u>
 Total equity at the end of the half-year		 <u>76,511</u>	 <u>86,100</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Spheria Australian Microcap Fund
Statement of cash flows
For the half-year ended 31 December 2019

Statement of cash flows

	Half-year ended	
	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities		
Proceeds from sale of financial instruments at fair value through profit or loss	23,134	29,125
Purchase of financial instruments at fair value through profit or loss	(13,075)	(29,552)
Transaction costs on financial instruments at fair value through profit or loss	(43)	(85)
Dividend/Trust distribution received	1,333	1,616
Interest received	8	50
Management fees paid	(534)	(668)
RITC received/(paid)	2	3
Net cash inflow/(outflow) from operating activities	10,825	489
Cash flows from financing activities		
Proceeds from applications by unitholders	4,339	9,745
Payments for redemptions by unitholders	(14,225)	(7,851)
Distributions paid	(5,018)	(8,146)
Net cash inflow/(outflow) from financing activities	(14,904)	(6,252)
Net increase/(decrease) in cash and cash equivalents	(4,079)	(5,763)
Cash and cash equivalents at the beginning of the half-year	5,684	11,954
Cash and cash equivalents at the end of the half-year	1,605	6,191
Non-cash financing activities	1,271	2,234

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the interim financial statements

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1 Basis of preparation of interim financial statements

This interim report for the half-year ended 31 December 2019 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made in respect of the Spheria Australian Microcap Fund ("the Fund") during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim report was authorised for issue by the directors on 6 March 2020. The directors of Pinnacle Fund Services Limited ("the Responsible Entity") have the power to amend and reissue the interim report.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Fund's annual financial report for the year ended 30 June 2019. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

There are no standards that are not yet effective and that are expected to have a material impact on the Fund in the prior periods or will affect the current or future reporting periods and on foreseeable future transactions.

2 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the half-year were as follows:

	As at			
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	No. '000	No. '000	\$'000	\$'000
Balance as at 1 July	71,736	77,343	76,029	92,044
Applications	2,520	8,080	4,328	9,700
Redemptions	(10,876)	(6,561)	(13,635)	(7,789)
Units issued upon reinvestment of distributions	1,199	1,862	1,271	2,234
Distributions paid and payable	-	-	-	-
Profit/(loss) for the half-year	-	-	8,518	(10,089)
Closing balance	64,579	80,724	76,511	86,100

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

3 Financial assets at fair value through profit or loss

	As at	
	31 December 2019 \$'000	30 June 2019 \$'000
Financial assets of fair value through profit or loss		
Listed equities	74,104	75,466
Listed unit trusts	-	822
Unlisted equities	887	888
Total financial assets at fair value through profit or loss	74,991	77,176

4 Fair value measurements

The Fund measures and recognises the below financial assets and liabilities at fair value through profit or loss on a recurring basis.

Fair value hierarchy

Classification of financial assets and financial liabilities

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

4 Fair value measurements (continued)

Fair value hierarchy (continued)

Classification of financial assets and financial liabilities (continued)

The tables below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2019 and 30 June 2019.

As at 31 December 2019

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Listed equities	74,104	-	-	74,104
Unlisted equities	-	887	-	887
Total financial assets at fair value through profit or loss	74,104	887	-	74,991

As at 30 June 2019

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Listed equities	75,466	-	-	75,466
Listed unit trusts	822	-	-	822
Unlisted equities	-	888	-	888
Total financial assets at fair value through profit or loss	76,288	888	-	77,176

The fair value of financial instruments traded in active markets (listed equities and listed unit trusts) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Fund is the current last price. These instruments are included in level 1.

Transfers between levels

There were no transfers between levels for the half-year ended 31 December 2019 or the year ended 30 June 2019.

5 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund as at 31 December 2019 or on the results and cash flows of the Fund for the half-year ended on that date.

6 Contingent assets and liabilities and commitments

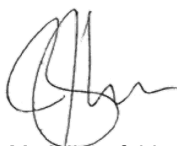
There were no outstanding contingent assets, liabilities or commitments as at 31 December 2019 and 30 June 2019.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the interim financial report and notes set out on pages 5 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Mr A. Ihlenfeldt
Director

Brisbane
11 March 2020



Independent auditor's review report to the unitholders of Spheria Australian Microcap Fund

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Spheria Australian Microcap Fund (the Registered Scheme) which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors of the Responsible Entity's declaration.

Directors of the Responsible Entity's responsibility for the half-year financial report

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Registered Scheme's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Spheria Australian Microcap Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Spheria Australian Microcap Fund is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Registered Scheme's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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A handwritten signature in black ink, appearing to read 'Craig Thomason', with a long horizontal flourish extending to the right.

Craig Thomason
Partner

Sydney
11 March 2020