Performance as at 30th June 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[3]
Fund[1]	-9.9%	-17.2%	-13.5%	5.5%	8.2%	8.0%
Benchmark[2]	-13.1%	-20.4%	-19.5%	0.4%	5.1%	4.6%
Difference	3.2%	3.2%	6.0%	5.2%	3.1%	3.4%

1 Spheria Australian Smaller Companies Fund. Returns of the Fund are net of applicable fees, costs and taxes.
2 Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.
3 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. All p.a. returns are annualised.

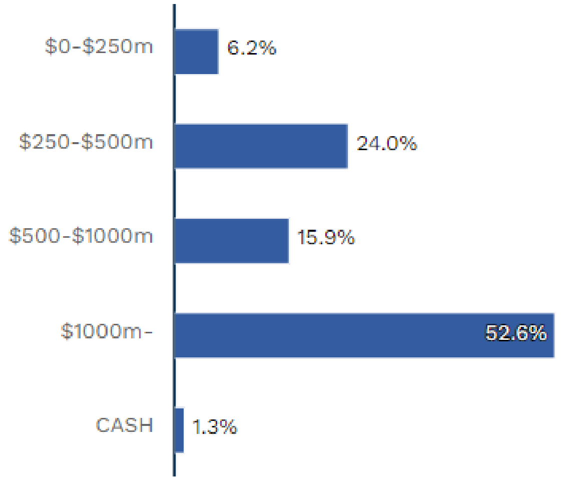
Overall Commentary

The Spheria Australian Smaller Companies Fund returned -9.9% (after fees) during the month of June, outperforming the ASX Small Ordinaries Accumulation Index by 3.2%.

Top 5 Holdings

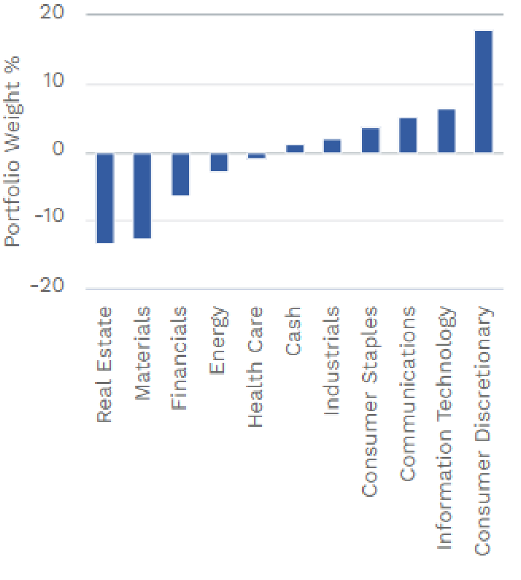
Company Name	% Portfolio
Blackmores Limited	5.9
InvoCare Limited	5.4
Flight Centre Travel Group Limited	5.3
IRESS Limited	5.2
Michael Hill International Limited	4.3
Top 5	**26.1**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

Legendary investor Warren Buffett is famous for saying "Only when the tide goes out do you discover who's been swimming naked."

We think this is an apt analogy of what has played out in the last six months as sharemarkets continued their sell-off into June, as global central banks continued to raise interest rates to counter inflationary pressures thus leading to a reassessment of risk and therein market prices for all asset classes. It's simple economics when demand is too strong relative to supply you get higher prices ("inflation") hence the need for central banks to raise interest rates to curtail demand. Unfortunately, central banks were far too accommodating for too long during the COVID-19 spell and the expectation is they are now likely, as per usual, to over-react the other way for too long. Markets do not like higher interest rates and the level of indebtedness across economies is alarming both in the context of government and households, thus servicing the interest bill will likely crimp demand via higher taxes and lower disposable income. Hence, the broad-based sell-off in sharemarkets and the more pronounced hit to consumer discretionary sectors and long duration assets – particularly those that are cash burning.

We have largely avoided the "cash burning crowd" as our process requires companies to be generating positive free cash flow (after all capital expenditures) or to do so with a high degree of certainty within a five-year time frame. The latter type being a very small component of our overall portfolios. Also, we have avoided companies where valuations were simply absurd – a manifestation of a long bull market and money printing when companies are trading on multiples of >50x and the market glibly thinks it's normal. This has protected our relative performance but is clearly no solace for those focused on absolute returns.

Many of our consumer exposed names have fallen significantly since the start of the year on the portent of weaker spend which has a feeling of inevitability, however, the duration and extent of which is unknown. Regardless, consumer exposed companies we own, in our view, are in a position of relative and absolute strength with respect to balance sheets (mostly net cash) and valuation multiples which were already incredibly low preceding this expected downturn, such that even if earnings halve the multiples will still be absolutely attractive e.g. Michael Hill (MHJ.ASX) would go from a multiple of 4x EV/EBIT to 8x and still have +$100m of net cash.

Major Contributors for the Month

IRESS (IRE.ASX) – rose 10% over the month retracing some of its losses in recent months. IRE is a high-quality software company with significant pricing power in its key verticals. This will allow it to weather cost pressures which are prevailing in the technology sector. It also has strong user loyalty in both the asset management and adviser channels in Australia and the UK, with customer churn rates at just 1.4% p.a. The company has implemented a share buyback ($100m) and is relatively inexpensive at 20x EV/EBIT with low debt levels and strong cash flow generation.

Vista Group International (VGL.ASX) – rallied 10% in June after being heavily sold down on the back of potential weakness in its customer base (being cinemas) and then more broadly with the technology sector sell-off. The company announced at the end of May it had entered into a 10-year agreement to transition an existing major enterprise client in Latin America to its Cloud platform. The deal will involve annual subscription fees for which the company sees a material uplift to revenue and then to earnings as the product scales with new client wins and existing client transitions. VGL is the largest ERP software provider to cinema chains globally with over 50% market share by screen count.

Michael Hill International (MHJ.ASX) – rose slightly over the month in a falling market. MHJ is a stock we have held in the portfolio for several years and continue to like, despite it rallying over 350% from distressed COVID induced lows. The management team is executing well driving further efficiencies in store and enhancing its online offering with the business experiencing eleven quarters of consecutive positive same store growth, despite significant interruptions over the last 2+ years. The company is actively looking for acquisition/s but in the absence of anything that meets its strict economic criteria, we believe a share buyback to be an efficient means of creating shareholder value given the current low trading multiple.

Major Detractors for the Month

Here, There & Everywhere (HT1.ASX) – declined over 26% in June as the media sector came under pressure due to expectations around an advertising recession. However, we do not believe the outlook to be so dire and conversations with management and more broadly suggest advertising spend is holding up well currently, this will change but is more than reflected in the trading multiple, in our opinion. Balance sheet debt is under control at <$100m (vs $70-80m of EBIT) and the company has a 25% stake in Soprano which is highly profitable and growing strongly, whilst its key competitors are cash burning, which we think plays out in Soprano's favour. HT1 is the No.1 rated metro radio network in Australia and recently acquired the largest regional player (Grant Broadcasters), to expand and complete its national presence and grow its digital offering, IHeartRadio.

Bega Cheese (BGA.ASX) – fell 21% in June as cost pressures appear to be weighing considerably on the business. In April 2022 the business revised guidance lower owing to substantial cost headwinds arising from COVID-19 absenteeism, floods in NSW and QLD and farmgate milk prices continuing to rise. Whilst the first two appear to be somewhat one off in nature, the latter has been more challenging to overcome. Farm gate milk prices continue to rise reaching record levels of $9.10/kg in June, being driven by record international dairy prices as well as elevated competition amongst dairy processors. Despite the record levels, Australian milk production remains sluggish with dairy cattle numbers falling as farmers take advantage of high cattle/beef prices. This combination of strong demand and weak supply is being felt by Bega and impacting input costs. To help offset some of the pressures Bega began raising prices late last year and we believe they will raise prices again in July to offset ongoing cost pressures. However, given increased prices lag, the business's earnings are likely to be depressed short term. With the company trading below its long run average EV/EBIT multiple, and the strength of its brands we believe it remains attractive on a look through basis.

HUB 24 (HUB.ASX) – fell 16% in June weighed down by its relatively high trading multiple and the broader market sell off that directly impacts business profitability. In June the company had their annual investor day where they guided to flat flows for the June quarter which was understandably weaker than what the market was expecting and lower than the fourth quarter historically. Despite this the company has done an incredible job over several years winning market share from legacy platform providers who have struggled to keep up with newer platform technology and benefited from shift in the industry from aligned advisers to non-aligned. We expect HUB to continue to win share as market dynamics further play out in its favour and because they are willing to reinvest in price and technology to maintain their competitive edge.

Outlook & Strategy

It's grim for those companies that are burning cash and have little runway to raise money from previously benevolent shareholders, we feel there is a wave of insolvencies coming in this complex. This process though painful will ultimately be a healthy cleanse for the economy and the sharemarket, as many of these so-called "disrupters" were undermining returns for legitimate companies and had never formulated a path to an economic business model but were simply being propped up by cheap money from central banks. Those days feel over.

Whilst the economic backdrop will be difficult for our companies as revenues will be under pressure, we believe they will survive and likely thrive on the other side as the return equation improves – addition by subtraction really. Those investing on macro-economic themes are likely to find it difficult moving forward, we think bottom-up fundamental analysis will again shine and like the dot-com bust and the ensuing recession (shallower than expected in hindsight) it will be those portfolios that are biased to cash flows, solid balance sheets and sensible valuations that will generate the strongest returns for clients.

Platform Availability List

If a fund is not available on your preferred platform, please contact us. Please check with your platform for minimum investment requirements and fees.

- AMP North
- Asgard
- BT Panorama
- CFS FirstWrap
- DPM
- FNZ Group
- HUB24
- IOOF eXpand
- IOOF Wrap
- Macquarie Wrap
- Mason Stevens
- MLC Navigator
- MLC Wrap
- MLC Wealth Administration
- Netwealth
- OneVue
- PowerWrap
- Praemium
- Premium Choice
- SimpleWrap
- Wealth02 uXchange

Spheria Australian Smaller Companies Fund	
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Investment Objective	Outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term
Investing Universe	Primarily listed companies outside the top ASX 100 listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation
Holdings	Generally 20-65 stocks
Distributions	Half-Yearly
Fees	1.10% p.a. Management fee & 20% performance fee of the Fund's excess return versus its benchmark, net of management fee.
Cash	Up to 20% cash, typically 5% - 10%
Expected Turnover	30% - 40%
Style	Long only
APIR	WHT0008AU
Minimum Initial Investment	$25,000

Spheria Australian Smaller Companies Fund

ARSN 117 083 762 | APIR WHT0008AU | mFund SPM02

Fund Ratings

Further Information

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311 or email distribution@pinnacleinvestment.com

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