Spheria Australian Microcap Fund

ARSN 611 819 651 | APIR WHT0066AU | mFund SPM01

Performance as 31 January 2023

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[1]
Fund[2]	4.4%	2.0%	-0.7%	17.1%	10.3%	13.6%
Benchmark[3]	6.6%	7.6%	-4.4%	2.4%	4.4%	6.9%
Difference	-2.1%	-5.6%	3.7%	14.7%	5.9%	6.7%
Microcap Index[a]	7.2%	6.8%	-10.1%	13.6%	9.3%	11.2%

[1] Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.
[2] Spheria Australian Microcap Fund. Returns of the Fund are net of applicable fees, costs, and taxes.
[3] Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.
[a] Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.

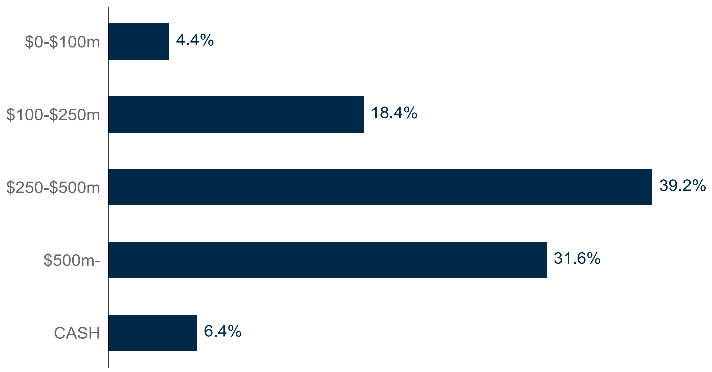
Overall Commentary

The Spheria Australian Microcap Fund returned 4.4% (after fees) during the month of January, underperforming the S&P/ASX Small Ordinaries Accumulation Index by 2.1%.

Top 5 Holdings

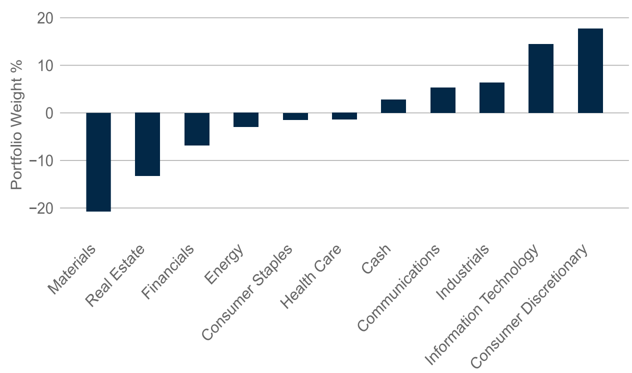
Company Name	% Portfolio
Mader Group Limited	4.4
Nitro Software Limited	4.3
Supply Network Limited	4.3
Michael Hill International Limited	3.9
Appen Limited	3.9
Top 5	**20.9**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

The Small Ordinaries and the Mid-Small indices rose coincidentally 6.3% over January recouping some of the losses felt in calendar year 2022. Whilst smaller companies were most sold off last year (falling almost 18% over 2022 vs. the ASX 100 which was actually up 2.3%), the bounce in markets has so far been uniformly felt across both large and small company indices. Last year saw a confluence of negative events – the re-emergence of inflation, rapid interest rate increases and a war in Ukraine/Russia which caused uneven spikes in commodities and energy. We can only hope that calendar year 2023 is a brighter year for markets and the world in general.

We are often asked by our clients to take out and polish our crystal balls and to prognosticate on the outlook for 2023 and beyond. I only wish our vision was that clear, but if it were we might be making an alternative living dressed in gypsy clothes! The one thing we feel more certain about however is that even if we had perfect macro foresight – and we certainly do not – that would not correlate highly with investment success! The reason is simple. The stockmarket is a forecasting machine itself. It consistently updates share prices based on the average investor’s perception of a company’s particular future and so much of what people think will happen (at least in next 12-18 months) is sort of baked into the current price. Our job is to assess whether we think the ‘baked in’ view is more or less likely than the average market participant and to invest accordingly. In other words, if we could predict the macro environment perfectly, we would not be focusing necessarily on the right things as much of the macro may already be factored into share prices. Our fear of a certain thing happening could be well and truly discounted into those share prices already.

The Spheria team spends most of our time looking at business fundamentals and assessing what has been put into share prices and whether we can opportunistically take a different view from the market. Inefficiencies are a small cap investors bread and butter. The other way we “stress test” our portfolio to reduce risks is to start from a conservative base. Our process is built around looking for businesses with cash flow conversion, strong balance sheets (50% of our top 10 holdings are typically net cash balance sheets – meaning they have no debt) and a supportive valuation. We believe this approach is likely to give our investors the best long-term advantage in outperforming the market whilst taking on less risk.

Major Contributors for the month

Over the month the largest contributors to performance were Helloworld (HLO.ASX, +33.6%), Mader Group (MAD.ASX, +19.0%) and City Chic Collective (CCX.ASX, +35.8%).

Mader Group (MAD.ASX) – rallied 19% in January as the company provided a strong second quarter 2023 update. In line with the momentum over 2022 Mader continued to show exceptional revenue growth with revenue growing 54% over the December quarter. The core Australian business grew 39% and North America an impressive 194% (off a lower base). The business was also able to hold margins despite the current inflationary environment. This quarter was not off a low base and more importantly was entirely organic. Revenue growth over the past 10 years has compounded at an astonishing 30% p.a. Despite the share price performance, MAD has only just tapped the US market potential. The US is 4x the market size of Australia and should allow the business to continue to expand for some years to come. MAD is trading on around 12x FY 24 EBIT based on our estimates.

Major Detractors for the month

The largest detractors over the month were Nitro Software (NTO.ASX, -3.6%), Michael Hill International (MHJ.ASX, -4.5%) and Regis Healthcare (REG.ASX, -7.2%).

Michael Hill International (MHJ.ASX) – share price fell 4.5%, underperforming the broader market despite providing a positive trading update. During the month MHJ realised their 1H23 trading update where they revealed sales grew almost 12% with seven fewer stores. Impressively the business has been able to hold margins despite experiencing higher input costs (record diamond prices) and a return of a more promotionally driven retail environment. Consistent with the business philosophy, the company has avoided heavy discounting to hold margins and maintain their strong brand image. As a reminder, MHJ has impressively grown gross margins by 400 bps over the last two years, the balance sheet remains strong with ~$96m net cash and is trading on ~5x EV/EBIT.

Outlook & Strategy

The broader market was due for some kind of “bounce” after the strong selling and general panic of 2022. Whilst January has provided some relief to that selling, there still remains a relative opportunity in small cap stocks which are still well below their level of a year ago. From our bottom-up perspective there remains pockets of strong opportunity in parts of the market. The forthcoming results season is likely to provide some interesting opportunities for portfolio rotation despite a more cautious macroeconomic outlook.

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

Aegis	FNZ Group	MLC Navigator	PowerWrap
Asgard	HUB24	MLC Wrap	Praemium
BT Panorama	IOOF eXpand	Netwealth	Premium Choice
DPM	Macquarie Wrap	OneVue	Wealth02 uXchange

Spheria Australian Microcap Fund	
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Investment Objective	The Funds 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
Holdings	Generally 20-65 stocks
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	$25,000

Fund Ratings

Fund Ratings

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311

Disclaimer

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Link to the Product Disclosure Statement
Link to the Target Market Determination

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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