

Performance as 28 February 2023

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a. ¹
Fund ²	-1.9%	-2.1%	-3.1%	20.8%	10.4%	13.1%
Benchmark ³	-3.7%	-1.2%	-8.0%	4.2%	3.6%	6.2%
Difference	1.8%	-0.9%	4.9%	16.5%	6.8%	6.9%
Microcap Index ^a	-4.2%	-1.0%	-12.2%	17.8%	8.4%	10.4%

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.



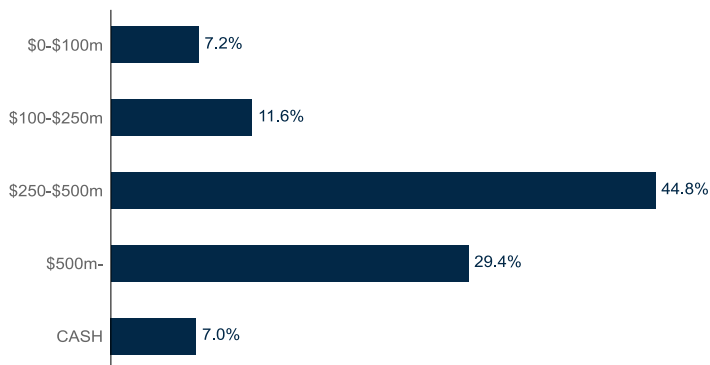
Overall Commentary

The Spheria Australian Microcap Fund returned -1.9% (after fees) during the month of February, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 1.8%.

Top 5 Holdings

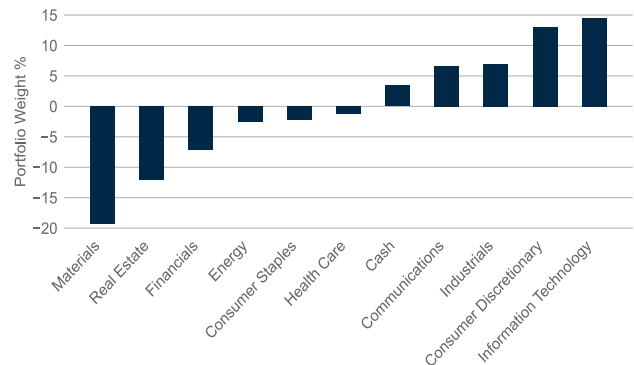
Company Name	% Portfolio
Ht&E Limited	4.4
Nitro Software Limited	4.4
Vista Group International Limited	4.3
Michael Hill International Limited	4.3
Mader Group Limited	4.2
Top 5	21.6

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

Again, the smaller end of the market fell more than the larger end with the S&P/ASX 100 index down only 2.4% in February. This trend began at the beginning of last year with the relative underperformance now having extended to greater than 20%.

The reporting season was particularly “bizarre” with share prices hammered on any glint of negativity in a result. To us it feels like the market is becoming even more short term in nature which presents opportunities for those with a long-term investment horizon.

Major Contributors to Performance

Over the month the largest contributors to performance were Helloworld Travel (HLO.ASX, +25%), A2B Australia (A2B.ASX, +20%) and Horizon Oil (HZN.ASX, +13%).

A2B Australia (A2B.ASX) – share price rose 20% post the release of their first half 2023 result. The business returned to positive operating performance across all metrics versus pcp after being heavily impacted by COVID travel restrictions. Revenue rose 21% and the company reported a \$3.7m profit after several years of losses. Fleet numbers and total fares increased substantially, with fares processed returning to 90% of pre-COVID levels for the six months. In the month of December alone fares returned to 99.8% of pre-COVID levels. Revenue is highly correlated to fares processed and fleet growth. Given the right-sized cost base it is possible that A2B’s earnings will revert to levels above that of pre-COVID levels in the next 6 to 12 months. The business also has significant property assets valued at over \$100m, pre the sale of one asset which was sold in December for \$19m. Post settlement the company will have a net cash balance sheet in excess of \$12m. The business is trading on about ~4x normalised EV/EBIT, excluding the value of the remaining surplus property.

Major Detractors from Performance

The largest detractors over the month were City Chic Collective (CCX.ASX, -28%), Reckon (RKN.ASX, -16%) and Regis Healthcare (GWA.ASX, -16%).

Reckon (RKN.ASX) – share price fell over 15% post the release of their full year result which was lackluster but contained no obvious surprises. Group revenue grew 2% (adjusted for currency) and whilst overall earnings increased modestly, substantial growth capex in respect of the Legal group (practice management software for legal firms) weighed on overall free cash flow generation. This dynamic is likely to continue for several years as the company looks to grow the Legal division from \$10m of revenue to >\$40m. Prospects for the Business group (accounting software) remain modest given a competitive landscape, however, there is prospect of industry consolidation given a tail of sub-scale players outside of Xero and MYOB.

Outlook & Strategy Going Forward

Every downturn there seems to be a move toward “perceived” safety with multiples for defensive type companies blowing out to inconceivably high levels, perhaps this to some extent explains the rotation away from small caps to large cap companies. Given the extent of the rotation and demarcation in valuations we believe there is a high probability of making significant returns from the smaller end of the market relative to the larger end in the next few years.

Our relative performance is good, and we are investing for better absolute returns ahead.

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

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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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