Spheria Australian Microcap Fund

ARSN 611 819 651 | APIR WHT0066AU | mFund SPM01

Performance as 31 October 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[1]
Fund[2]	6.4%	2.6%	-4.4%	16.0%	12.4%	13.8%
Benchmark[3]	6.5%	-4.9%	-18.3%	1.5%	4.2%	5.9%
Difference	-0.1%	7.5%	13.9%	14.5%	8.2%	7.9%
Microcap Index[a]	2.9%	-5.6%	-19.2%	11.3%	10.5%	10.6%

[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.

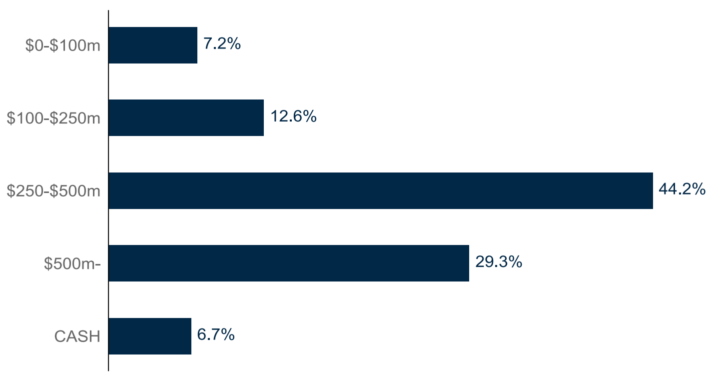
Overall Commentary

The Spheria Australian Microcap Fund returned 6.4% (after fees) during the month of October, slightly underperforming the S&P/ASX Small Ordinaries Accumulation Index by 0.1%.

Top 5 Holdings

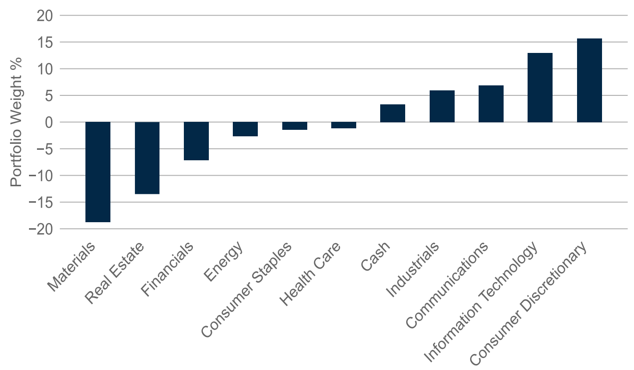
Company Name	% Portfolio
Nitro Software Limited	5.4
Michael Hill International Limited	5.3
Supply Network Limited	4.2
Vista Group International Limited	4.2
Universal Store Holdings Limited	4.2
Top 5	**23.4**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

Sharemarkets rebounded strongly in October, we managed to keep up for the most part. Our performance was aided by a bidding war for Nitro Software (NTO) a key holding in the portfolio. The private equity led acquisition of Nearmap (NEA) in mid-August – at a significant premium - kickstarted a flurry of M&A activity in the tech space, with the aforementioned NTO followed recently by a spate of public to private proposals for Tyro Payments (TYR), Elmo software (ELO), and Readytech (RDY). Interestingly, premiums offered seem unusually generous given the macro backdrop with ELO for example being a 100% premium to the undisturbed share price. It may indicate there is healthy appetite (i.e. multiple parties) for acquisitions in the technology space and perhaps weakness in the Australian dollar is providing greater firepower for acquirers who are mostly USA based. Whether this takeover activity permeates more broadly (outside of the tech sector) will likely be a function of the cost and availability of debt, albeit many corporates are sitting on healthy balance sheets providing flex for M&A and have an imperative to get bigger with organic growth moderating due to weakening macro conditions. Strategic growth may therefore be on the agenda particularly for multi-nationals with majority US dollar denominated earnings.

Major Contributors for the month

Positive performance contributions from companies owned included:

Nitro Software (NTO.ASX) – jumped almost 30% in October and is now up over 80% from its August lows after the business received two takeover proposals during the month. The first from Potentia Capital who increased their initial indicative offer from $1.58 announced in August to $1.80 via a formal takeover offer. The second from Alludo (a software company owned by KKR) at $2 a share. The Nitro board has unanimously supported the Alludo proposal, however, with two genuine buyers there is potential that the battle for control escalates. We continue to remain supportive of the business and despite the increased price, it still may be somewhat opportunistic given the recurring nature of the business's revenue, growth potential, and its well-funded balance sheet.

Praemium (PPS.ASX) – rallied almost 25% in October, post their 1Q23 result as the business experienced strong net inflows despite market volatility. The share price has trended higher since the FY22 result in August when the company revealed a solid earnings base to work from post divestment of their loss-making international division. PPS has also introduced (to align with peers) an interest margin generated off client cash balances held on platform. This will be additive to revenue and earnings and will unlikely lead to churn given it is a market wide practice.

Mader Group (MAD.ASX) – rose almost 21% in October as the company delivered a strong Q123 result with revenue growing almost 50%. North America continued its strong performance with revenue growth of +200% as the business expanded its customer base and increased the volume of work delivered. Pleasingly the core Australian business also grew an impressive 34%, supported by the mining cycle and continued market share gains. On the back of a strong first quarter result management lifted their profit expectations for the year. With its North America operations still in their infancy, we believe there remains substantial upside to earnings and valuation.

Major Detractors for the month

McPherson's (MCP.ASX) – fell over 11% in October on no new news. The business reported a solid FY22 result at the end of August, with earnings growing ahead of sales albeit from a depressed base. With a diversified portfolio and strong growth in the beauty and personal care segment, we feel MCP is well placed to continue to grow both top line and bottom-line earnings, although macro-economic weakness and higher input costs may affect short term earnings. With the business having largely de-geared its balance sheet there is very little financial risk and upside from a valuation perspective given the relatively low trading multiple of ~8x EV/EBIT.

Ainsworth Game Technology (AGI.ASX) – share price declined 4% in October, underperforming the broader market. The group announced a strong FY22 result in late August with the business gaining momentum in North America and Latin America, with total international market revenues increasing 50% vs PCP and recurring revenues up 28%. Australia continues to bounce along the bottom with the group strategy shifting sensibly to those major offshore markets where their penetration is better. The company continues to deliver high value games, with the company having 5 of the top 25 performing games in America. The company generated $45m of free cash flow (before tax) in FY22 and now sits on +$50m of cash (no debt) and has valuable property in Las Vegas (+$50m). It is therefore trading on about 4x EV/EBIT, which seems too cheap for a company that appears to be returning growth under a new management team.

MaxiParts (MXI.ASX) – fell just over 2% in October, underperforming the market which rallied strongly. We have discussed with management over the last several earnings updates initiatives to increase earnings and returns that are currently mediocre relative to peers like SNL. Specific areas of focus include improving store performance, developing better managers through training and development, and delivering targeted revenue synergies from the Truckzone acquisition. MXI is facing shorter term headwinds with cost inflation particularly around wages and leases impacting profitability. We feel there is room for improvement in the medium to long term and this is not reflected in share price with the company trading on ~7x EV/EBIT and having a net cash balance sheet.

Outlook & Strategy

Despite all the negativity, the Australian economy is actually travelling well with strong employment underpinning consumer demand and strength in commodity prices driving capital investment. It is possible bureaucrats in Australia engineer a softer landing than the market is currently suggesting, albeit offshore events may upset that equation. Our meetings with companies suggest that inflationary pressures are abating somewhat. The outlook for interest rate rises may therefore be tempered, which is a key driver of sharemarkets. We think these are reasons to be constructive on the investment outlook particularly given depressed valuations across our portfolio that are imputing a deep recession in many circumstances.

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

This communication is prepared by Spheria Asset Management Pty Limited ('Spheria') (ABN 42 611 081 326, Corporate Authorised Representative No. 1240979) as the investment manager of the Spheria Australian Microcap Fund (ARSN 611 819 651) (the 'Fund'). Pinnacle Fund Services Limited ('PFSL') (ABN 29 082 494 362, AFSL 238371) is the product issuer of the Funds. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') (ABN 22 100 325 184). The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

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

This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance. Unless otherwise specified, all amounts are in Australian Dollars (AUD).
Whilst Spheria, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Spheria, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.
Any opinions and forecasts reflect the judgment and assumptions of Spheria and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future. Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Spheria. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.
This may contain the trade names or trademarks of various third parties, and if so, any such use is solely for illustrative purposes only. All product and company names are trademarks™ or registered® trademarks of their respective holders. Use of them does not imply any affiliation with, endorsement by, or association of any kind between them and Spheria.

Zenith Disclaimer: The Zenith Investment Partners ('Zenith') (ABN 27 103 132 672, AFSL 226872) rating (assigned Spheria Australian Microcap Fund – February 2022) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at https://www.zenithpartners.com.au/our-solutions/investment-research/fund-research-regulatory-guidelines/.

Lonsec Disclaimer: The Lonsec rating (assigned as follows: Spheria Australian Microcap Fund October 2021) presented in this document is published by Lonsec Research Pty Ltd ('Lonsec') (ABN 11 151 658 561, AFSL 421445). The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial products. Past performance information is for illustrative purposes only and is not indicative of future performance. They are not a recommendation to purchase, sell or hold Affiliate Name products, and you should seek independent financial advice before investing in these products. The Ratings are subject to change without notice and Lonsec assumes no obligation to update the relevant documents following publication. Lonsec receives a fee from the Fund Manager for researching the products using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: https://www.lonsec.com.au/investment-product-ratings/.