Spheria Australian Smaller Companies Fund

ARSN 117 083 762 | APIR WHT0008AU | mFund SPM02

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]	-2.3%	1.9%	-7.4%	10.8%	6.2%	8.5%
Benchmark[3]	-3.7%	-1.2%	-8.0%	4.2%	3.6%	5.6%
Difference	1.4%	3.1%	0.6%	6.6%	2.7%	3.0%

[1] Inception date is 11 July 2016. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.
[2] Spheria Australian Smaller Companies Fund. Returns of the Fund are net of applicable fees, costs, and taxes.
[3] Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

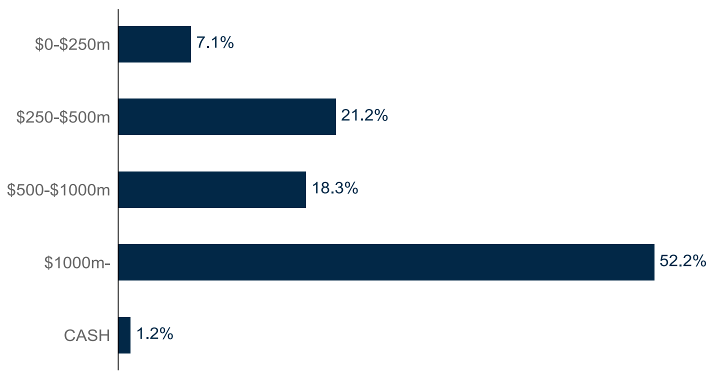
Overall Commentary

The Spheria Australian Smaller Companies Fund returned -2.3% (after fees) during the month of February, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 1.4%.

Top 5 Holdings

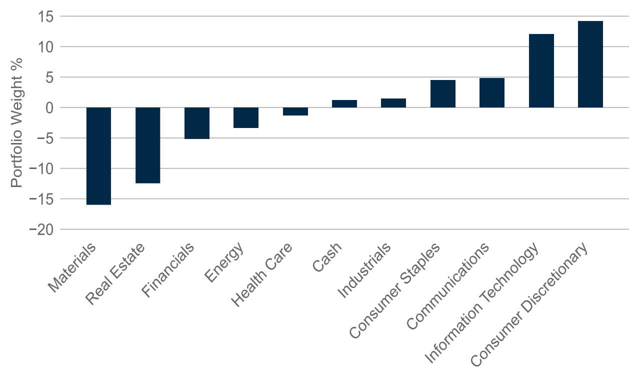
Company Name	% Portfolio
IRESS Limited	4.9
Blackmores Limited	4.5
Nitro Software Limited	4.2
InvoCare Limited	4.0
Breville Group Limited	3.5
Top 5	**21.1**

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 A2B Australia (A2B.ASX, +20%), Helloworld Travel (HLO.ASX, +25%) and Smartgroup Corporation (SIQ.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 were InvoCare (IVC.ASX, -18%), City Chic Collective (CCX.ASX, -28%) and Blackmores (BKL.ASX, -9%).

Invocare (IVC.ASX) – share price fell around 18% during February with most of the decline being post the release of their CY22 financial result. As we had been anticipating, the business delivered strong top line growth (+12%), benefiting from unusually high excess deaths in key markets, a trend that has been in place for the last 18 months or so. However, the business was unable to convert this into operating leverage with costs rising 13% and capex remaining very elevated. The result was disappointing given the amount of capital that has been invested into the business over the last few years to refurbish funeral homes and upgrade technology to deliver greater efficiency. Whilst some of the cost increases were justifiable given labour market tightness, the inability to recover cost increases via higher prices was more technology and management related, in our opinion. Continued elevated capex (~$70m in CY23) and discussion of "overseas acquisitive" growth rightly spooked the market and exacerbated the share price decline. Despite this we view IVC as a high-quality asset with a difficult to replicate geographic footprint, that has infrastructure like dynamics in a growing market which is duopolistic across many facets of its business and regions. After month end IVC was subject to a sharemarket raid from a private equity group at $12.65 (+40% premium to the last traded price) which acquired a 19.9% holding and put forward a non-binding indicative proposal to acquire all remaining shares at that same price. We believe it is in the shareholders' best interests to pursue this approach and extract the highest price possible.

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

- 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
- Weath02 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 the management fee
Cash	Up to 20% cash, typically 5% - 10%
Expected Turnover	30% - 40%
Style	Long only
APIR	WHT0008AU
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 Smaller Companies Fund (ARSN 117 083 762) (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 Smaller Companies 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 Smaller Companies Fund October 2022) 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/.