Spheria Australian Smaller Companies Fund

ARSN 117 083 762 | APIR WHT0008AU | mFund SPM02

Performance as at 30 September 2023

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[1]
Fund[2]	-4.3%	-3.6%	5.7%	8.2%	4.5%	7.4%
Benchmark[3]	-4.0%	-1.9%	6.8%	2.6%	1.6%	4.6%
Difference	-0.2%	-1.6%	-1.2%	5.6%	2.9%	2.8%

[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.

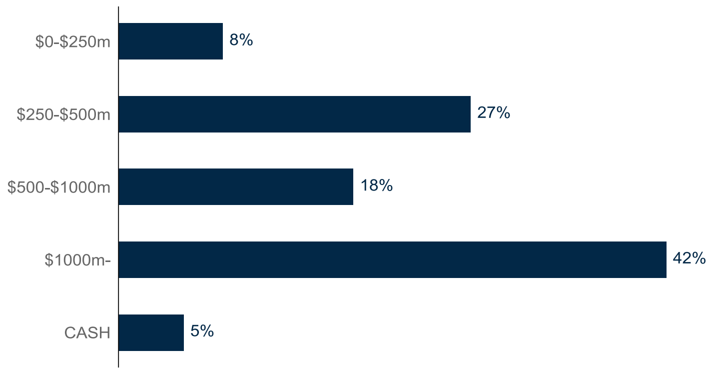
Overall Commentary

The Fund returned -4.3% (after fees) for the month of September, underperforming the S&P-ASX Small Ordinaries Accumulation Index by 0.2%.

Top 5 Holdings

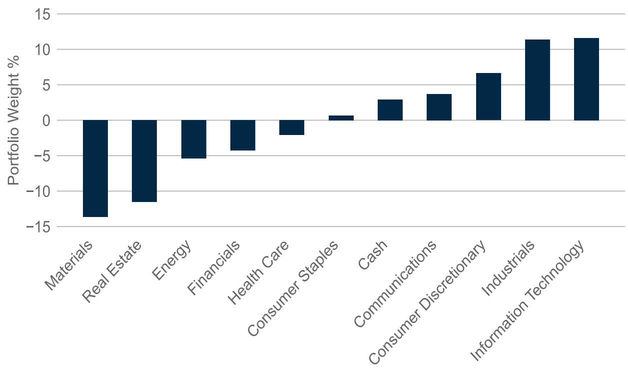
Company Name	% Portfolio
IRESS Limited	5.2
Link Administration Holdings Limited	4.3
Adbri Limited	3.6
Deterra Royalties Limited	3.6
Bega Cheese Limited	3.6
Top 5	**20.3**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

Many parts of the sharemarket especially the smaller company end have entered something resembling the "Twilight Zone" where unusual phenomena are so frequent that nothing really surprises us anymore. Case in point being the extreme disconnect in valuations between "growth" and "value" companies where the definition of each is simply a gauge of popularity or unpopularity in the case of value. Money is also clearly exiting the smaller end whether it be a flight to safety or industry funds exiting mandates given the marginal incremental contribution to performance given their increased size. The selling in certain names and the lack of risk appetite has meant extremely large drawdowns for anything resembling a negative earnings delta. This has been accentuated in anything that has debt regardless of whether the company's cash flow can support that debt. We have been caught in several of these situations across the portfolios and even when this equation has been addressed via capital raisings and/or asset sales the stigma has continued to weigh on the company's valuation and share price despite the sharp reduction in risk. Interestingly, earlier in the year we entered Bravura Solutions (BVS) a little early, only for it to have a near death experience where we were a key party to a significant recapitalisation at 40c. Subsequent to the raise the company inexplicably traded down to 29c. Since that time, we were heavily involved in re-working the board and ultimately the senior management team and the BVS share price has more than doubled from the bottom to trade in excess of 70c (at the time of writing). We feel several of our names are in a similar position but are still early in that recovery cycle.

Major Contributors to Performance

Over the month the largest contributors to performance were from overweight positions in Horizon Oil (HZN.ASX, +35bps), Link Administration (LNK.ASX, +31bps), and Deterra Royalties (DRR.ASX, +28bps).

Horizon Oil (HZN.ASX) share price rose over 12% in September on the back of a strengthening oil price. For those not familiar with HZN, it has substantial interests in two conventional oil fields. The larger one being in the Beibu Gulf (off China) which has produced around 10k barrels of oil per day (bopd) on a gross basis for the last ten years and is forecast to do so for at least a further six years. The other being Maari that is off New Zealand and has produced around 5k bopd which has at least another 4 years of production at or around these levels. When we first acquired our position in HZN about 7 years ago it was trading around 4c and facing numerous issues including too much debt and serious corruption allegations in respect of its PNG gas assets, which were subsequently divested. It is now trading at 18c and has returned over $150m (9.5cps) of cash to shareholders over the last three years.

Link Administration (LNK.ASX) gained 3% over the month. We bought into LNK late last calendar year after a significant retracement in the share price due primarily to several legal proceedings relating to its Funds Solutions (LFSL) division in the UK. With this now on the path to full resolution due to divestment of LFSL and a scheme which will provide compensation to those clients affected, the business is now left with two core divisions being Link Market Services (share registry and employee share plans) and Retirement & Superannuation Solutions (RSS) which provides administration services to large superannuation funds. Both businesses are large players in their industry verticals with Link Market Services the second largest player in Australia and NZ, third in the UK and second in India, whilst RSS is the largest administrator in the industry fund space in Australia. Unfortunately, at the end of June RSS lost a large client (HESTA) representing ~10% of divisional revenue to Growsuper. This raised the specter of further larger client losses and routed the share price in July and August, with some relief in September. We believe the market has massively overreacted to this news given the complexity of transitioning a large account is akin to moving a "Big 4 bank to a new software platform" as one industry expert opined. We think it is more likely that the major clients will try to extract better terms from RSS on renewal. Also, there is no guarantee the HESTA transition is successful given Growsuper is having to scale from a relatively low base to over 1 million accounts with this contract.

Major Detractors from Performance

The largest detractors from performance included overweight positions in Bega Cheese (BGA.ASX, -46bps), Star Entertainment Group (SGR.ASX, -44bps), and Appen (APX.ASX, -28bps).

Bega (BGA.ASX) share price continued to fall in September, down 16% over the month after a relatively weak result in August. We have written about Bega in a number of recent commentaries surrounding issues that have plagued the company and the industry including labour supply shortages, inflationary pressures and the supply/demand dynamics within the milk industry. Unfortunately, export prices for milk powders and cheeses have continued to decline impacting the commodity side of the business. This has further impacted sentiment albeit we believe it is cyclical in nature and will recover at some point with some sign in recent weeks of an improvement in pricing. Positively, the business has transitioned away from being a bulk dairy business, into predominately branded with 85% of group sales having some degree of pricing power. Further cost reductions and an improvement in export prices will improve the outlook for the business as will a reduction in industry milk processing capacity which also seems to be occurring with Saputo rationalising its manufacturing footprint in Australia.

Star Entertainment Group (SGR.ASX) share price declined by 34% over the month after a deeply discounted capital raising that was to some extent pre-empted by the market. After raising $750m to pay off higher cost debt and refinance its debt facilities, the company is in a better position to navigate a confluence of unknown and expected liabilities, with the most pressing unknown being the AUSTRAC penalty which has weighed heavily on the share price since Crown announced it would pay $450m in May 2023. We expect an agreement likely to be announced in November with the size of the penalty - to an extent - reflecting affordability given SGR's ability to pay remains somewhat constrained given it is unable to raise additional capital from equity or debt markets which have been fully tapped, in our opinion. Like Crown we expect the penalty to be payable on an instalment basis to help manage group cash flows. With this out of the way and NSW gaming levies decided the only other major outstanding liabilities of note are in relation to the Queens Wharf development. We believe these are manageable in the short to medium term, with long-term prospects of a favourable resolution reasonably strong, in our view. Generally, these distressed points in a company's lifecycle are when the greatest returns are made particularly when the underlying assets are well positioned.

Outlook & Strategy Going Forward

We feel our portfolio is well balanced between companies that are trading and executing well and are relatively popular and those that are in the throes of turnaround or recovering from a challenging experience. Given past experiences, we feel that the good companies where valuations are very compressed (IRE, LNK, SGR, BGA) trading at share prices that feel very uncomfortable is where the most returns tend to be had. In the meantime, our performance is being supported by businesses like SNL, MAD, DRR, HZN that are trading well from an economic perspective and are not ridiculously expensive.

Platform Availability List

The Spheria Australian Smaller Companies Fund is available on the below Platforms. Platforms provide with consolidated and centralised reporting (including administration, tax, and distribution) by bundling together a range of managed funds as one single product. If the 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
- DASH
- DPM
- Freedom of Choice
- HUB24
- Insignia Expand
- Insignia Financial Wrap
- IOOF Portfolio Service
- Macquarie Wrap
- Mason Stevens
- mFund
- MLC Navigator
- MLC Wrap
- Netwealth
- OneVue
- PowerWrap (IDPS only)
- Praemium
- Premium Choice

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

Spheria Australian Smaller Companies Fund

ARSN 117 083 762 | APIR WHT0008AU | mFund SPM02

Fund Ratings

Contact Us

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

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 – March 2023) 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/regulatory-guidelines/.

Lonsec Disclaimer: The Lonsec rating (assigned as follows: Spheria Australian Smaller Companies Fund September 2023) 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/.