Spheria Australian Microcap Fund

ARSN 611 819 651 APIR WHT0066AU

Performance as at 31st October 2020

	1m	6m	1yr	3yr p.a.	Inception p.a.#
Fund^	**6.2%**	**35.7%**	**-1.2%**	**4.3%**	**8.8%**
*Benchmark**	*0.5%*	*15.1%*	*-2.4%*	*4.6%*	*7.1%*
Value added	5.7%	20.6%	1.2%	-0.3%	1.8%
*Microcap Index ***	*1.3%*	*41.5%*	*6.4%*	*8.3%*	*9.1%*

^ Spheria Australian Microcap Fund. Returns of the Fund are net of applicable fees, costs and taxes

* Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

** Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.

Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance.

Commentary

The Spheria Australian Microcap Fund performed strongly over October, returning 6.2% after fees and outperforming its Benchmark by 5.7%.

Markets

The portfolio has rebounded strongly in the last three months (+14%) and six months (+21%), yet we believe there remains tremendous scope for even greater returns in the next few years as the economy recovers from a lockdown induced recession and a flood of cheap money seeks out mispriced securities for which the Australian sharemarket currently has an abundance, especially when working down the market cap spectrum. Our portfolios are literally littered with businesses that are performing well when considering the economic backdrop or are in a strong recovery phase and yet are trading on depressed valuations that would have been unfathomable only a few years ago in an even higher interest rate environment. Just like past cycles we believe this is a temporary phenomenon and our clients will be greatly rewarded as cash flows and valuations are enduring while speculation is fleeting. If our recent performance trends are any indicator the rotation from speculation to valuation is upon us.

As the great investor Warren Buffett once said "Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble."

Major contributors to performance were:

Supply Network (SNL.ASX)

The SNL share price surged 22% in October after delivering a strong result in late August. It is a quiet achiever, in fact it is the largest provider of aftermarket parts to the commercial vehicle market (mainly trucks), similar to Repco's position in the Australian auto part market. With high returns on capital, strong cash flow generation and a long track record of solid organic growth, we expect this company to keep chugging along.

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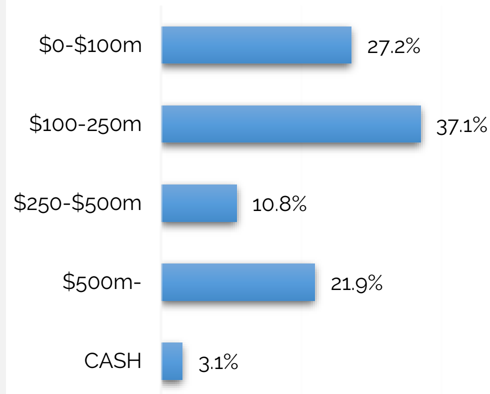
Top 5 Holdings

Company Name	% Portfolio
Mortgage Choice Ltd	5.3
Class Ltd	4.7
A2B Australia Ltd	4.4
Supply Network	4.2
HT&E Ltd	3.6
Top 5	**22.2**

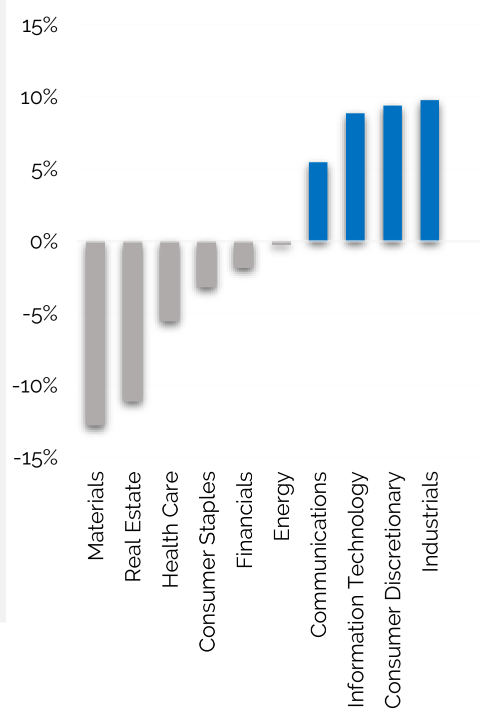
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Contact us 1300 010 311 distribution@pinnacleinvestment.com.au www.spheria.com.au

NZME (NZM.ASX)

The NZM share price gained 24% in October and has nearly tripled from its COVID lows. Instead of dwelling on the obvious negatives, the market now appears to have embraced the numerous positive aspects including but not limited to NZM being the clear second in digital property classifieds in NZ, the strong cash flow generation out of its core traditional media businesses, significantly reduced debt levels and strong audience metrics for its key masthead the New Zealand Herald. We believe NZM is on a similar recovery and subsequent growth path to the one taken by Fairfax (FXJ) several years ago, however, we believe returns could be superior given the stronger franchise value in NZ and a less demanding valuation to begin with.

Capral (CAA.ASX)

CAA rallied 26% during October after posting a better-than-expected profit result in August. The share price was buoyed late in the month by a significant profit upgrade due to much stronger housing and industrial demand and a move by customers away from cheaper imported aluminum extrusion product to Australian made. The company is now seeing the full benefit of the restructure of its Bremer park factory and lease; and will be in a much strong balance sheet position allowing it to reconsider capital management options including dividends and potential acquisitions.

Major detractors to performance were:

City Chic Collective (CCX.ASX)

The CCX share price fell 10% in October as more heat came out of the valuation after being gazumped on the acquisition of the eCommerce assets of Catherines in September. To be fair, CCX has done the heavy lifting for our performance in recent years, so some respite is a healthy dynamic and has allowed us to opportunistically add to the position in November as the retracement in share price continued. We feel the medium to long term strategy is intact and the management team can deliver strong organic growth, in any case.

A2B Australia (A2B.ASX)

A2B (formerly Cabcharge) fell 6% during October on no news. Relaxing of COVID restrictions will clearly lead to volume recovery for the taxi industry in time. The issue is more timing particularly in relation to tourism and corporate travel. In the meantime, A2B has been advancing its technology and should increase its market share as many competing taxi networks will not have the same access to capital. A2B is sitting on $25m of surplus cash and owns valuable property in Sydney's east that could be worth in excess of $50m. There is only upside risk from these levels in our view, with the market heavily discounting A2B's earnings potential at current levels.

Horizon Oil (HZN.ASX)

HZN fell 10% during October on the back of announcing the sale of its PNG asset portfolio for a token sum. This was a disappointing end to the PNG saga, and we think the buyers of the asset who have taken a long-term view will probably make off like bandits. From a positive lens, there was very little if anything factored into the share price of HZN for the PNG assets and the balance sheet is in rude health such that there is an investment case for HZN based purely on an oil price recovery scenario.

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	Spheria Australian Microcap Fund
Benchmark (universe)	S&P/ASX Small Ordinaries Accumulation Index
Investment objective	The Fund 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
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	$100,000

Platform availability
ASGARD
BT Panorama
BT Wrap
HUB24
IOOF Portfolio Service
Macquarie Wrap
mFund
MLC Wrap / Navigator
Netwealth
One Vue
uXchange