Spheria Australian Microcap Fund

ARSN 611 819 651 | APIR WHT0066AU | mFund SPM01

Performance as at 30th April 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[3]
Fund[1]	-3.3%	2.7%	25.1%	21.1%	15.8%	16.1%
Benchmark[2]	-1.5%	3.7%	2.9%	7.6%	9.6%	9.3%
Difference	-1.8%	-1.0%	22.2%	13.5%	6.2%	6.8%
Microcap Index[a]	-4.3%	3.9%	24.3%	25.1%	18.5%	15.5%

1 Spheria Australian Microcap Fund. Returns of the Fund are net of applicable fees, costs and taxes.
2 Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.
3 Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.
a Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.

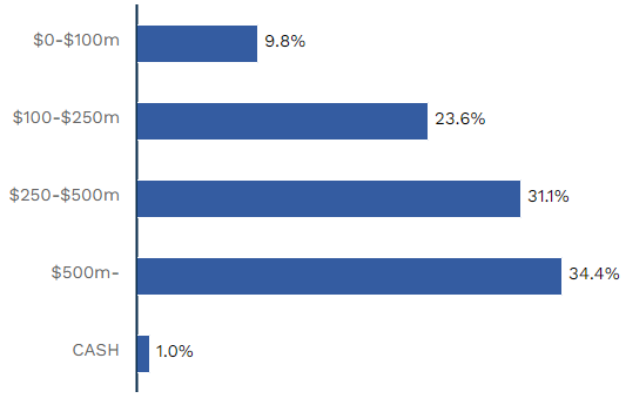
Overall Commentary

The Spheria Australian Microcap Fund returned -3.3% (after fees) during the month of April, underperforming the ASX Small Ordinaries Accumulation Index by 1.8%.

Top 5 Holdings

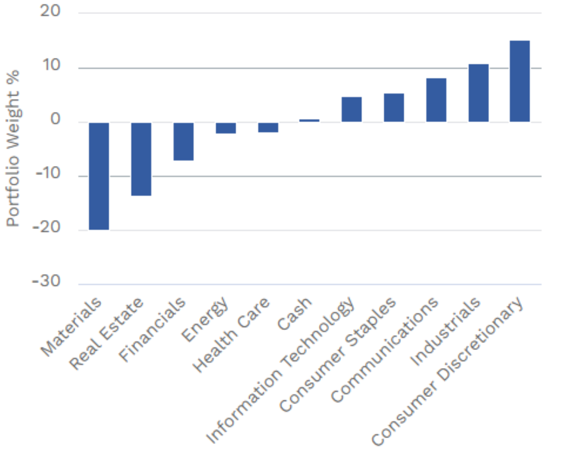
Company Name	% Portfolio
Helloworld Travel Limited	6.0
Nzme Limited	5.7
Ridley Corporation Limited	5.2
Vita Group Limited	5.0
Michael Hill International Limited	4.8
Top 5	**26.7**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

Last month, the energy sector continued to outperform, thermal coal prices escalated with Newcastle prices averaging just over US$300/t for April after bottoming out in 2020 at below US$50/t. This kind of acute rally not witnessed since the GFC when prices spiked to about US$200/t. The rally in commodity prices, both soft and hard, being driven by strong demand due to world economic growth, supply imbalances and some element of speculative behaviour. The rally in thermal coal miners has impacted relative performance as we have no direct exposure in the Fund. Economic sanctions against Russia do not appear to be curtailing the conflict but are causing volatility in commodity prices which is flowing into sharemarkets and contributing to intense inflationary pressures. Central banks lifting interest rates and the bond market rally continue to weigh on long duration assets (i.e high valuations with low or no earnings) and are affecting sentiment towards consumer discretionary sectors, including retailers and housing exposed businesses.

Major Contributors for the Month

Vita Group (VTG.ASX) – gained 43% in April after announcing a significant increase in its forecast final special dividend relating to the sale of its Telstra store network. The increase due to pressure primarily from Spheria and other major shareholders. Post the special dividend, the business will still have approximately $20m of cash on balance sheet, which is enough capital to fund the Artisan business back to profitability and provide ample liquidity to fund greenfield opportunities. In a normal year, Artisan generates about $30m in annual revenue, the current implied market valuation is less than $30m, which feels light in context of the revenue and potential earnings.

Helloworld (HLO.ASX) – returned almost 12% for the month of April, following the broader rally in travel names. Emerging out of what appears to be the final hard lockdowns across most Western countries, travel names have rebounded strongly over the last two months. HLO revealed at the end of March its strongest TTV since COVID-19 in February 2022 and airline bookings are now running at circa 60% of pre-COVID volumes and continuing to climb. We believe this trend is likely to continue to accelerate over the next year, as consumers continue to switch from spending on goods to services, on the back of the pent-up demand for travel, which was brought to a standstill for two years.

Megaport (MP1.ASX, not owned) fell almost 38% in April, driven by a weak Q3 report and the ongoing sell-off in technology names. The business reported soft revenue growth, behind analysts' expectations, seeing the stock fall over 21% on the day. This is a business we have avoided owning, as it is loss-making and has negative operating cash flows, both of which are key pillars to our investment process.

Major Detractors for the Month

NZME (NZM.ASX): fell over 18% in April on no news, after being a top contributor to performance for several years. NZME is a business we like, due its strong cash flow generation and balance sheet with over NZ$13m of net cash. The business has transformed its revenue stream, from purely print to incorporate digital, which is becoming a growing share of its revenue base. The business should also benefit from increased revenue, as a result of a letter of intent signed with Google and Facebook, to be paid for their news content. Trading at <7x EV/EBIT and below our view of its intrinsic value, we believe there is further upside from here.

Here, There & Everywhere (HT1.ASX) – fell 11% over the month, on no obvious news flow. The company delivered a strong CY21 result with the radio advertising market recovering and audience share remaining strong. The business has the No.1 rated metro radio network in Australia and recently acquired the largest regional player, to expand and complete its national presence and grow its digital offering, IHeartRadio. HT1 is inexpensive trading at less than 7x EV/EBITA.

Mader Group (MAD.ASX) – fell 9% over April, despite reporting a strong Q3 result at the end of the month. We have owned MAD since its IPO and the company continues to strongly on an organic basis. Case in point Q3 revenue grew 29% vs the prior corresponding period, with almost 150% growth in its North America division. The weakness in the stock price over April, having rallied almost 200% in the past year. We believe the business still has strong growth prospects particular in the Canadian and US markets, which are significantly less penetrated than Australia and a macro tailwind of infrastructure spend globally.

Outlook & Strategy

The negative sentiment and general weakening of sharemarkets is creating significant opportunity for cash flow and valuation focused investors like ourselves. We are comfortable with our investments as balance sheets are strong and thus in the event of a weaker economy, they are in position to ride out the downturn and capitalise on opportunities that may present.

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
- Asgard
- BT Panorama
- DPM
- FNZ Group
- HUB24
- IOOF eXpand
- Macquarie Wrap
- MLC Navigator
- MLC Wrap
- Netwealth
- OneVue
- PowerWrap
- Praemium
- Premium Choice
- Wealth02 uXchange

Spheria Australian Microcap Fund	
Benchmark	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
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

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ARSN 611 819 651 | APIR WHT0066AU | mFund SPM01

Fund Ratings

Further Information

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

Disclaimer

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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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