Spheria Australian Microcap Fund

ARSN 611 819 651 | APIR WHT0066AU | mFund SPM01

Performance as at 31st March 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[3]
Fund[1]	5.6%	-0.5%	36.5%	23.9%	15.9%	17.0%
Benchmark[2]	5.3%	-4.2%	9.7%	9.6%	9.9%	9.7%
Difference	0.3%	3.7%	26.8%	14.3%	6.0%	7.3%
Microcap Index[a]	10.6%	0.2%	39.6%	28.8%	18.1%	16.6%

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.

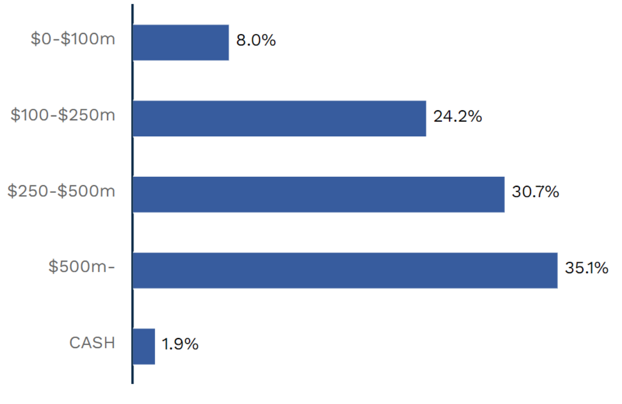
Overall Commentary

The Spheria Australian Microcap Fund returned 5.6% (after fees) during the month of March, outperforming the ASX Small Ordinaries Accumulation Index by 0.3%.

Top 5 Holdings

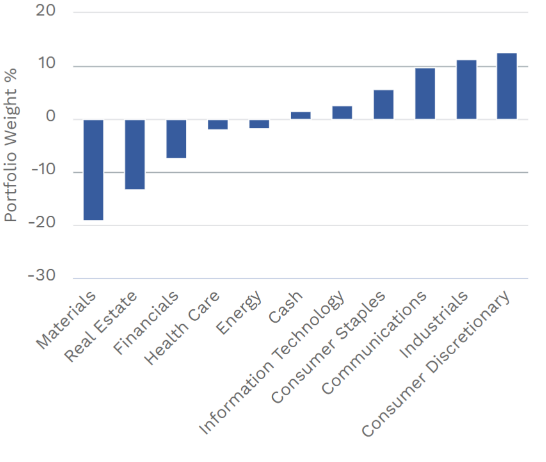
Company Name	% Portfolio
Nzme Limited	6.7
Helloworld Travel Limited	5.3
Ridley Corporation Limited	5.1
Mader Group Limited	5.1
Michael Hill International Limited	4.9
Top 5	**27.0**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

The local small and midcap indices were both up sharply over March, despite global concerns over the war in Ukraine, rising inflationary pressures and disruptions to the global supply chain. Supply chain issues continue to be exacerbated by the war in Ukraine and the Western sanctions imposed on Russia. Investing in these markets is anything but dull!! Energy prices also continue to rise with other commodity prices – Iron Ore and Lithium also continuing to post gains over the month. Lithium prices in particular are being pushed higher by current demand apparently well exceeding mine supply. We think the current lithium price is unsustainable as, whilst demand is strong, the supply constraints are likely to be relatively temporary. A significant number of lithium miners have announced increases in production to try to take advantage of prices which are 3x their peak reached in late 2017.

We typically value businesses on sustainable earnings and are prepared to look through either excessively high or low earnings to help us get a better view of a stock's real value. Sustainable earnings are key though and whilst we have been prepared on occasion to invest in temporarily loss-making business you cannot re-write the laws of economics any more than you can the laws of gravity just because you want to buy an investment story. Sustainable business economics require some anchoring in fundamentals and nothing is more likely to prove this to be the case than a rising interest rate backdrop. As someone wisely once said in order to get the right outcomes you need to measure the right things. The tremendous focus on growth by the market over the past few years has seen the market's focus narrow to areas of marginal economics. If we can add one more user/viewer/ borrower at slightly less than the cost of acquiring them, this will be value enhancing to investors. The problem with such narrow focus is that in many cases companies have been chasing revenue growth to the exclusion of all else. There is no point acquiring a customer/ sales lead if the business is unprofitable and servicing your customers takes time, effort and energy. In one previously vaunted segment of the small cap investment universe, the BNPL sector for instance, bad debt write offs are suddenly seeing a sharp increase and competition at the point of sale is seeing marketing costs (read CAC or customer acquisition costs) rise sharply. This is further eroding already marginal economics to begin with. We will continue to scour through some of these fallen angels but with a keen eye to the long term sustainability of the business model.

Major Contributors for the Month

Mader Group (MAD.ASX) share price gained 43% over the month, after reporting a strong 1H 2022 result. The business is currently experiencing strong tailwinds from the boom in mining maintenance spending. Mader is currently recruiting on the East and West Coast of Australia in order to meet demand. The US business continues to accelerate with revenue growing 66% in 1H vs the pcp. The business has also expanded into Canada, securing its first revenue in the half. The business also launched Mader Energy which is targeting maintenance work in the Oil and Gas industry and also launched a Fixed Plant maintenance team late last year, moving into adjacency industries. Despite the significant increase in share price, the business continues to deliver consistent growth and we believe there is significantly more upside to come with significant growth opportunities in North America and a solid management team to deliver this.

NZME (NZM.ASX) increased 27% in March, continuing the strong momentum from February after they announced their 2021 results. NZM reported a strong CY21 result with strong cash flow generation and the sale of GrabOne seeing the company end the year with a pristine balance sheet with over NZ$13m of net cash. In late March, NZME announced it had signed a letter of intent with Google, setting out key terms for the proposed supply by NZME of news content for Google's News Showcase. This is positive for the company, as they now will be paid by Google for the news content and an agreement with Meta could follow shortly. Despite the continued rally in the share price, we believe there is more runway to go with the share buyback commencing and valuation remaining undemanding.

Vita Group (VTG.ASX) gained over 20% in the month of March, despite reporting a somewhat weak 1H22 result. The business was impacted by COVID lockdowns, which forced the closure of many of their largest clinics between July and October 2021. The business has currently undertaken a major tradition, finalising the divestment of its ICT business to Telstra Corporation. With the sale complete, this disruption is largely behind VTG, and the business can focus on executing growing organically its key brand, Artisan. The CEO provided strong support behind this thesis, purchasing a substantial amount of stock in March, which gives us comfort on the growth outlook for the business. In addition, the business announced a $0.03-$0.06 special dividend, which represents 12% of the current share price, if we assume the midpoint of that range is paid, which is a substantial return to shareholders. With over $40m of cash on the balance sheet, trading at <2x EV/EBIT, we believe the business is significantly underpriced.

Major Detractors for the Month

Vista Group (VGL.ASX) fell 15% over the month after delivering FY 21 results, which were slightly disappointing. VGL has gone through a difficult period with its cinema chain customers facing tough times due to COVID related lockdowns and the postponement of cinema content as movie makers have held back content until audiences return. VGL raised capital during the past 18 months and remains net cash. We believe they are well positioned to benefit from re-opening of cinemas and more importantly see a significant upgrade cycle as customers embrace the new Vista Cloud product.

MaxiParts (MXI.ASX) share price declined 10.8% after reporting its 1H 2022 results. MXI reported 6% growth in sales and 11% growth in underlying profit for the MaxiPARTS segment. They completed the sale of its Trailer business in the half, which has been a drag on the business performance, reporting a loss for the half. We believe the sale of the Trailer solution business is positive and enables the group to focus on its core competency of being a dedicated commercial parts distribution business.

Michael Hill International (MHJ.ASX) share price fell 6.5% in March, despite a strong 1H result. The company reported half year results towards the end of February, which were strong, with sales growth expanding and margins continuing to improve. Since Daniel Bracken took over as CEO at the end of 2018 the business has gone from strength to strength reporting 11 quarters of consecutive positive same store sales growth since FY19 Q3. Over this time he has continued to improve margins through several key initiatives including growing the brand loyalty program to over 1m members, lowering promotions, enhancing the digital experience to drive digital sales and driving productivity within stores. Trading at around 7 x FY22 EV/EBIT and a net cash balance sheet of over NZ$80m we feel the business is still materially under-priced.

Outlook & Strategy

Moves in markets keep things interesting for management teams and investors alike. Our process is based upon trying to be prepared for unforeseeable circumstances, which is why we base our investment decisions on fundamentals like strong balance sheets, good cash flow generation and, importantly, valuation. Valuation has seemingly been a lost art amongst small cap investors over the past 3 years as subnormal interest rates have seen valuations flung to the wind. Popular thematic and disruptive businesses have captured imaginations and – like the sirens in Homer's Odyssey – drawn unwitting investors in. With a backdrop of global rates on the rise and despite additional risks like the war in Ukraine, our sense is that discount rates and inflation will continue to be the dominant market conditions for some time. Strong businesses with a good ability to mitigate inflationary impacts are likely to do relatively well, assuming valuations are not overly high to begin with. The commodity cycle is in full swing, and we would similarly expect this to benefit our exposure to mining service names. We continue to assess our discount rates based on prevailing market conditions, but it would seem wise for smaller company investors to consider a rate environment at least modestly higher than the prevailing 10-year bond yields imply.

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 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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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 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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