

## Performance as at 31 March 2023

|                             | 1 Month | 3 Months | 1 Year | 3 Years p.a. | 5 Years p.a. | Inception p.a. <sup>1</sup> |
|-----------------------------|---------|----------|--------|--------------|--------------|-----------------------------|
| Fund <sup>2</sup>           | 0.8%    | 3.3%     | -7.5%  | 35.6%        | 11.4%        | 13.1%                       |
| Benchmark <sup>3</sup>      | -0.7%   | 1.9%     | -13.2% | 13.2%        | 3.9%         | 6.0%                        |
| Difference                  | 1.6%    | 1.4%     | 5.7%   | 22.4%        | 7.5%         | 7.1%                        |
| Microcap Index <sup>a</sup> | -0.3%   | 2.4%     | -20.9% | 33.0%        | 9.1%         | 10.2%                       |

<sup>1</sup> Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.

<sup>2</sup> Sphera Australian Microcap Fund. Returns of the Fund are net of applicable fees, costs, and taxes.

<sup>3</sup> Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

<sup>a</sup> Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.



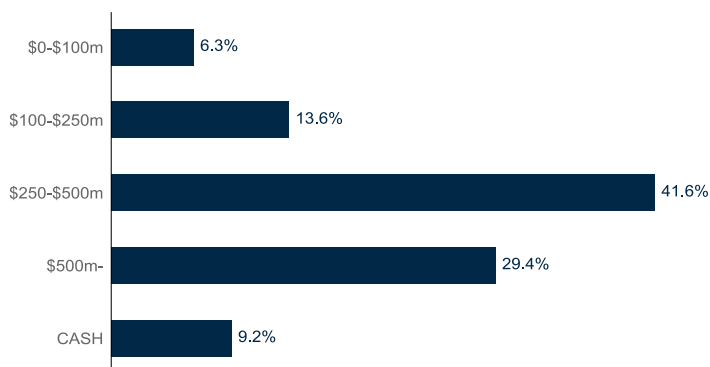
### Overall Commentary

The Sphera Australian Microcap Fund returned 0.8% (after fees) during the month of March, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 1.6%.

## Top 5 Holdings

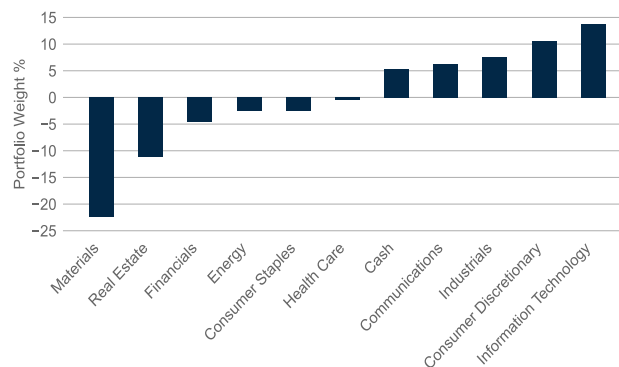
| Company Name                      | % Portfolio |
|-----------------------------------|-------------|
| Supply Network Limited            | 4.4         |
| Appen Limited                     | 4.4         |
| Mader Group Limited               | 4.3         |
| Bravura Solutions Limited         | 4.3         |
| Vista Group International Limited | 4.2         |
| <b>Top 5</b>                      | <b>21.5</b> |

## Market Cap Bands



Source: Sphera Asset Management

## Active Sector Exposure



Source: Sphera Asset Management

## Markets

The small-cap and mid-small indices both fell again over March on account of concerns around the economy and the possibility of financial contagion after three US banks – led by Silicon Valley Bank - failed. The decline in the Australian Dollar and a sense that interest rates may be close to peaking looks to have prompted a re-emergence in corporate activity. Invocare (IVC.ASX) received a bid early in the month from private equity group TPG, followed later in the month by Liontown Resources (LTR.ASX) and then United Malt Group (UMG.ASX). Corporate activity is hard to predict, however we expect to see more as private equity and trade buyers capitalise on weak share price performance and attractive valuations. Whilst not an explicit consideration in our investment process, our focus on strong cash flow businesses with attractive balance sheets and valuations means that we tend to be outsized beneficiaries during periods of elevated M&A activity.

### Major Contributors to Performance

Over the month the largest contributors to performance were Appen (APX.ASX, +22%), Vita Group (VTG.ASX, +62%) and Regis Healthcare (REG.ASX, +26%).

**Vita Group (VTG.ASX)** – share price rallied 62% in March after the company entered a Scheme Implementation Agreement (SIA) with Practice Management. Under the SIA Practice Management will acquire 100% of the issued shares of Vita Group for \$0.06255 cash and will allow VTG to pay a fully franked dividend of up to \$0.06425 per VTG share subject to the scheme being approved. The total value to VTG shareholders will be up to \$0.1268 per VTG (before the benefit of any franking credits) which represents a 59% premium to the undisturbed closing price. We sold some of our holding into the bid and since month end, we have exited the position.

### Major Detractors from Performance

The largest detractors were **not owning** Liontown Resources (LTR.ASX, +90%), and overweight positions in Praemium (PPS.ASX, -13%) and Bravura Solutions (BVS.ASX, -42%).

**Liontown Resources (LTR.ASX)** – share price rose almost 90% in March, after the company received a takeover bid at the end of the month. Albemarle Corporation (Albemarle) is seeking to acquire 100% of the shares of LTR at a price of \$2.50, a 64% premium to the prior day's closing price. The mandate does not own LTR and hence it was a detractor from returns over the month. We have discussed our views on lithium over the last year as prices moved exponentially higher in 2022 on expectations of a multi-year supply deficit. We strongly believed that such prices were unsustainable, and this proved correct as pricing subsequently collapsed from a peak of US\$80,000/t (lithium carbonate) to approximately US\$30,000 at the time of writing. Many of the lithium names (particularly the explorers and developers) came under intense selling pressure as a result, which clearly piqued Albermarle's interest. Whilst the bid hurts relative performance, we continue to remain disciplined in our investment approach and use mid-cycle (long-term) lithium price assumptions to value these companies.

### Outlook & Strategy Going Forward

Smaller companies tend to get sold off more aggressively in downturns and risk-off markets. The past year has seen a large demarcation in performance between the larger cap index and smaller caps, domestically. As sentiment shifts, small caps have historically outperformed large caps as risk / return profiles adjust. The fact private equity and corporates are back active in the market indicates that value has truly emerged and is being snapped up by opportunistic and well-funded acquirors. We are starting to see investors attempting to predict where the next bid will come from with interest returning to names including Bega Cheese (BGA.ASX), Blackmores (BKL.ASX) and Iress (IRE.ASX). There are many uncertainties economically speaking but looking ahead over the next 12 months, we feel we are well positioned given our focus on fundamentals and cash generative businesses.

## 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

|                             |                                |                               |                                   |
|-----------------------------|--------------------------------|-------------------------------|-----------------------------------|
| <a href="#">Aegis</a>       | <a href="#">FNZ Group</a>      | <a href="#">MLC Navigator</a> | <a href="#">PowerWrap</a>         |
| <a href="#">Asgard</a>      | <a href="#">HUB24</a>          | <a href="#">MLC Wrap</a>      | <a href="#">Praemium</a>          |
| <a href="#">BT Panorama</a> | <a href="#">IOOF eXpand</a>    | <a href="#">Netwealth</a>     | <a href="#">Premium Choice</a>    |
| <a href="#">DPM</a>         | <a href="#">Macquarie Wrap</a> | <a href="#">OneVue</a>        | <a href="#">Wealth02 uXchange</a> |

| Spheria Australian Microcap Fund |  |
|----------------------------------|--|
| Benchmark                        | S&P/ASX Small Ordinaries Accumulation Index  |
| Investment Objective             | The Funds 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   |

## Fund Ratings



## Fund Ratings

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311 or email [distribution@pinnacleinvestment.com](mailto:distribution@pinnacleinvestment.com)

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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](mailto:service@pinnacleinvestment.com)

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