

Performance as at 31st October 2021

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a ³
Fund ¹	6.0%	14.4%	65.3%	21.5%	16.4%	17.5%
Benchmark ²	0.9%	3.7%	31.0%	13.5%	11.5%	11.1%
Difference	5.0%	10.7%	34.3%	8.0%	4.9%	6.4%
Microcap Index ^a	4.2%	20.4%	60.3%	29.3%	15.5%	17.1%

¹ Sphera 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.



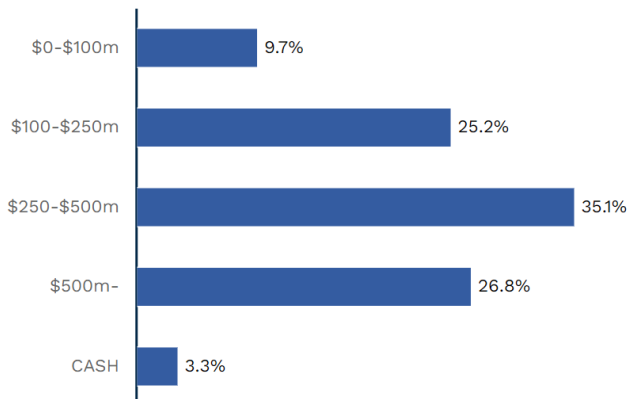
Overall Commentary

The Sphera Australian Microcap Fund returned 6.0% (after fees) during the month of October, outperforming the ASX Small Ordinaries Accumulation Index by 5.0%.

Top 5 Holdings

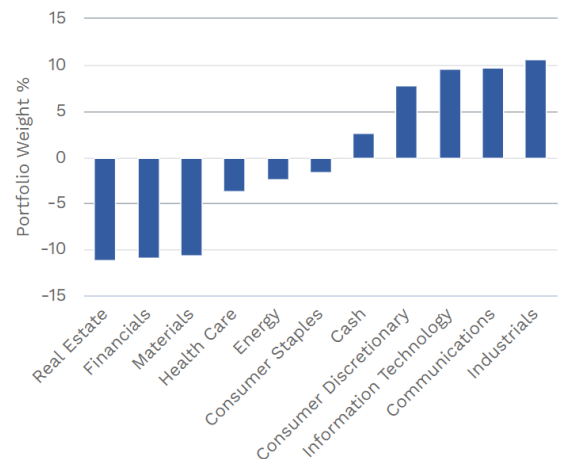
Company Name	% Portfolio
Class Limited	6.7
Vista Group International Limited	4.8
Mader Group Limited	4.3
Michael Hill International Limited	4.2
Supply Network Limited	4.2
Top 5	24.1

Market Cap Bands



Source: Sphera Asset Management

Active Sector Exposure



Source: Sphera Asset Management

Markets

The local small and midcap indices were modestly higher over the month as market participants looked through increasing noise around inflation and the implications for monetary policy. This was despite some rather wild moves in shorter dated debt – the local three-year bond yield rose a staggering 90bps over the month for instance – as markets began pricing in the inevitability of some rate rises by Central Banks given the inflation being seen globally. Unsurprisingly, there was significant dispersion in performance during the month. Gold equities significantly outperformed as market participants finally went bargain hunting in the space following material underperformance in prior months. This more positive sentiment was helped by a US dollar gold price that rose 1.5% over the month despite the back up in bond yields as long-term real interest rates (as measured by 10-year US Treasury inflation protected security yields) went deeper into negative territory. Battery material names again meaningfully outperformed as benchmark lithium, nickel and cobalt prices surged higher.

Amongst the losers during the month were coal stocks as the benchmark Newcastle thermal coal price halved during October following Chinese Government intervention in the market to stem rampant speculation and hoarding. These were joined by a motley crew of stocks that put out disappointing updates or had negative newsflow during the month (e.g., Marley Spoon (MMM.ASX, -44%), Strike Energy (STK.ASX, -36%), EML Payments (EML.ASX, -27%), Starpharma (SPL.ASX, -20%), Codan (CDA.ASX, -20%) and PointsBet Holdings (PBH.ASX, -19%). Concerningly there were several companies that cited rising input costs as a reason for forecast margin contraction (e.g., Pact Group (PGH.ASX) and Marley Spoon (MMM.ASX).

M&A activity was once again fairly elevated during the month with HUB24 (HUB.ASX) bidding for Class (CL1.ASX) at a 72% premium to last, Senex (SXY.ASX) receiving an approach from POSCO International of South Korea and Gold Road (GOR.ASX) and Ramelius (RMS.ASX) engaging in a bidding war for gold junior Apollo Consolidated (AOP.ASX).

The Fund outperformed due to an overweight to Class (CL1.ASX) and low multiple media, consumer discretionary and mining service names which were re-rated during the month, alongside underweights to several large index constituents that put out disappointing updates during the month.

Major Contributors for the Month

Class (CL1.ASX) was the largest contributor after returning 70% during the month upon entering into an agreed scheme of arrangement which will see it purchased by HUB24 (HUB.ASX) for a combination of cash and scrip. We had been perplexed at the unwillingness of the market to reward Class for re-invigorating the business in recent times and so are not entirely surprised that a corporate has instead recognised the value in the franchise.

Mader Group (MAD.ASX) contributed after rising another 22% during the month after capturing the market's attention with its strong FY21 result and confident FY22 outlook. We continue to like the founder-led provider of outsourced plant maintenance to the mining industry given its capital light business model (ROIC was 36% in FY21) and potential for strong earnings growth from its entry into North America.

HT&E (HT1.ASX) contributed as the stock rose 18% after settling a tax dispute with the ATO that the latter first raised in an assessment in 2018. Whilst the settlement will see a cash payment of \$20.3m to the ATO and the ATO keep a \$50.7m deposit paid earlier by HT&E, we and evidently most of the market had assumed the company would need to pay the full \$195m of the assessment (\$102.5m in tax claimed, \$49m of penalties and interest of \$43m). HT&E also disposed of its holding in Ooh Media (OML.ASX) acquired during the pandemic for \$49m, banking a tidy \$31m profit. Post period end HT&E entered into an agreement to purchase the second largest regional radio broadcaster in the country. The deal is materially EPS accretive due to the leveraging of the balance sheet but we think the business only needs to deliver a fraction of its estimated \$20m in revenue synergies to also be value accretive.

Major Detractors for the Month

SG Fleet (SGF.ASX) was the largest detractor after retracing 15% during the month. We continue to see the firm as well placed to participate in the recovery of the novated lease market (impacted by COVID-19 and vehicle supply constraints) and believe it should be able to extract meaningful synergies from its recent acquisition of Leaseplan. Trading on roughly 11x one year forward earnings, the stock appears inexpensive for its earnings growth trajectory.

Liontown Resources (LTR.ASX – not owned) detracted as the Western Australian project developer of lithium spodumene soared 32% over the month to trade at a market capitalisation (and EV) of over A\$3.6bn. We struggle to reconcile the valuation given the company has had to assume a highly optimistic US\$1,392 per tonne 10-year weighted spodumene price to generate its recently released A\$4.2bn NPV8 for its flagship Kathleen Valley project and aims to be in production in the first half of CY2024. We note current mineral producers and developers in Western Australia continue to report strong cost inflation due to COVID-19 induced labour shortages and sharply higher steel and energy prices. We are generally cautious the lithium sector as previous cycles have shown spodumene producers have responded to incentive pricing much faster than market forecasters have anticipated, albeit typically with higher capex and opex costs than investors expected. Additionally, we now see some risk to the aggressive demand growth forecasts for lithium-ion batteries widely relied on by the industry given battery producers are now raising prices materially to account for surging cathode, anode, energy, and labour costs. For instance, BYD of China raised prices 20% only last week. Further, we see a risk that this commodity price cycle in lithium could help firmly establish sodium ion batteries in the energy storage market in particular given surging spot lithium carbonate and hydroxide prices. We note that the world's number one battery producer CATL, recently demonstrated a commercial sodium ion battery with impressive energy density and cycle life. They touted the chemistry's strong cold weather capacity performance and very rapid charging capability as enabling hybrid lithium ion/sodium ion battery packs for EV applications also.

Vista Group (VGL.ASX) detracted as the stock retraced 6% following a strong performance over September. We continue to like the world leading cinema ERP software provider as market evidence suggests that cinemas are recovering strongly from their COVID-19 induced slump. Further, the much worried about day and date cinema and streaming releases done so far appear to have been dismal commercial failures as they allowed pirates instant access to high quality copies of films. Over the medium term the recent launch of Vista Cloud in August should offer the group opportunities to further expand its market share and significantly increase its recurring revenue streams as it converts customers' current on-premise capex and opex budgets into subscription revenue for a hosted solution. VGL trades on a fraction of the revenue multiples of many of its software peers, has a strongly net cash balance sheet and should return to robust profitability in the coming year.

Outlook & Strategy

The market is at an interesting inflection point with rising costs pressuring business models without real pricing power and the prospect of rising interest rates (at least nominal rates) potentially leading to a market less willing to back cash burning concept stocks. While the COVID-19 pandemic is not over, the continued rollout of vaccines and the development of effective anti-virals makes us more confident that services will trend back towards their historical share of consumption and GDP. We therefore remain constructive towards sectors hurt by the pandemic and wary of capitalising profits that have been boosted above a sustainable baseline by COVID-19 induced behaviours. While we would expect to see higher rates at some time in the not-too-distant future, boards are emboldened, balance sheets are flush with cash and both equity and debt capital remains cheap and readily available. We therefore expect continued elevated M&A activity that has historically buoyed our returns given our preference for cash generative business models that are typically both undervalued and underleveraged. There are pockets of the market (particularly exposed to popular thematic) that appear well and truly overheated, with the battery materials space in particular looking frothy. We will continue to avoid these areas. Pleasingly we continue to be presented with opportunities for rotation into names that tick our boxes on cashflow, balance sheet strength and valuation.

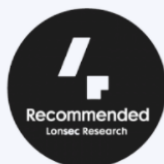
Platform Availability List

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	Praemium
Asgard	HUB24	MLC Wrap	Premium Choice
BT Panorama	IOOF Portfolio Service	Netwealth	Wealth02 uXchange
BT Wrap	IOOF Pursuit	OneVue	
DPM	Macquarie Wrap	PowerWrap	

Sphera 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

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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