

Performance as 31 January 2023

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a ¹
Fund ²	7.4%	4.8%	-3.4%	7.2%	6.1%	9.0%
Benchmark ³	6.6%	7.6%	-4.4%	2.4%	4.4%	6.2%
Difference	0.9%	-2.9%	1.0%	4.8%	1.8%	2.8%

¹ Inception date is 11 July 2016. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.

² Spheria Australian Smaller Companies Fund. Returns of the Fund are net of applicable fees, costs, and taxes.

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



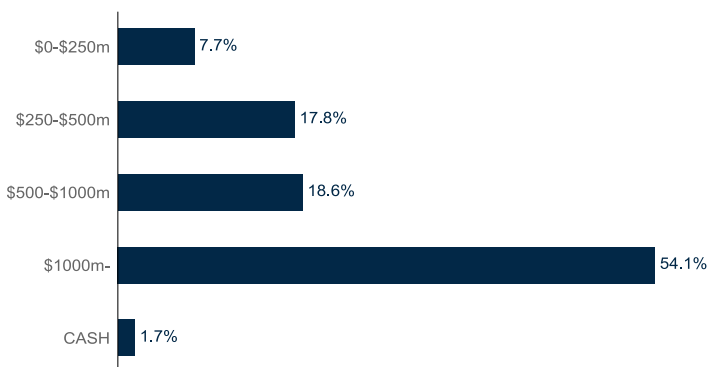
Overall Commentary

The Spheria Australian Smaller Companies Fund returned 7.4% (after fees) during the month of January, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 0.9%.

Top 5 Holdings

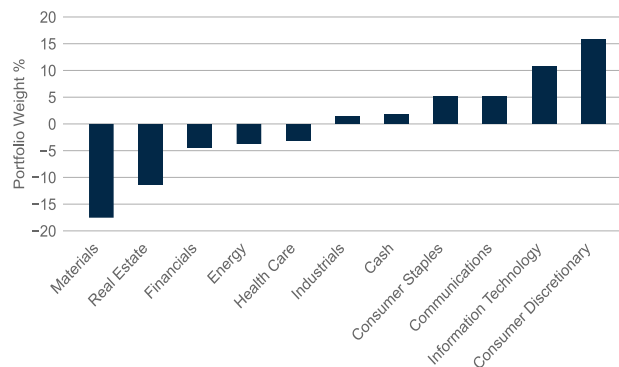
Company Name	% Portfolio
IRESS Limited	5.1
Blackmores Limited	5.0
InvoCare Limited	4.8
Flight Centre Travel Group Limited	4.8
Nitro Software Limited	4.1
Top 5	23.7

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

The Small Ordinaries and the Mid-Small indices rose coincidentally 6.3% over January recouping some of the losses felt in calendar year 2022. Whilst smaller companies were most sold off last year (falling almost 18% over 2022 vs. the ASX 100 which was actually up 2.3%), the bounce in markets has so far been uniformly felt across both large and small company indices. Last year saw a confluence of negative events – the re-emergence of inflation, rapid interest rate increases and a war in Ukraine/Russia which caused uneven spikes in commodities and energy. We can only hope that calendar year 2023 is a brighter year for markets and the world in general.

We are often asked by our clients to take out and polish our crystal balls and to prognosticate on the outlook for 2023 and beyond. I only wish our vision was that clear, but if it were we might be making an alternative living dressed in gypsy clothes! The one thing we feel more certain about however is that even if we had perfect macro foresight – and we certainly do not – that would not correlate highly with investment success! The reason is simple. The stockmarket is a forecasting machine itself. It consistently updates share prices based on the average investor's perception of a company's particular future and so much of what people think will happen (at least in next 12-18 months) is sort of baked into the current price. Our job is to assess whether we think the 'baked in' view is more or less likely than the average market participant and to invest accordingly. In other words, if we could predict the macro environment perfectly, we would not be focusing necessarily on the right things as much of the macro may already be factored into share prices. Our fear of a certain thing happening could be well and truly discounted into those share prices already.

The Spheria team spends most of our time looking at business fundamentals and assessing what has been put into share prices and whether we can opportunistically take a different view from the market. Inefficiencies are a small cap investors bread and butter. The other way we "stress test" our portfolio to reduce risks is to start from a conservative base. Our process is built around looking for businesses with cash flow conversion, strong balance sheets (50% of our top 10 holdings are typically net cash balance sheets – meaning they have no debt) and a supportive valuation. We believe this approach is likely to give our investors the best long-term advantage in outperforming the market whilst taking on less risk.

Major Contributors to Performance

Over the month the largest contributors to performance were Blackmores (BKL.ASX, +21.4%), Breville Group (BRG.ASX, +23.2%) and City Chic Collective (CCX.ASX, +35.8%).

Blackmores (BKL.ASX) – share price rose 21% in January on no new news. We believe the strong share price performance is a combination of news of China reopening and consumer discretionary names rallying strongly in January. The Chinese market in FY22 made up 22% of BKL's revenue and we expect easing of restrictions will be supportive for growth in that region. We have discussed our thesis for Blackmores in prior commentaries. Their margins continue to remain below that of some of their peers with what we believe is less brand presence. An increase in margins from their current levels to high teens could mean a significant increase of their current earnings. The company has over \$80m of net cash and trades on an EV/EBIT multiple of 20x using a low double digit EBIT margin.

Major Detractors from Performance

The largest detractors over the month were Nitro Software (NTO.ASX, -3.6%), Michael Hill International (MHJ.ASX, -4.5%) and Vista Group International (VGL.ASX, -1.5%)

Michael Hill International (MHJ.ASX) – share price fell 4.5%, underperforming the broader market despite providing a positive trading update. During the month MHJ realised their 1H23 trading update where they revealed sales grew almost 12% with 7 fewer stores. Impressively the business has been able to hold margins despite experiencing higher input costs (record diamond prices) and a return of a more promotionally driven retail environment. Consistent with the business philosophy, the company has avoided

heavy discounting to hold margins and maintain their strong brand image. As a reminder, MHJ has impressively grown gross margins by 400 bps over the last two years, the balance sheet remains strong with ~\$96m net cash and is trading on ~5x EV/EBIT.

Outlook & Strategy Going Forward

The broader market was due for some kind of “bounce” after the strong selling and general panic of 2022. Whilst January has provided some relief to that selling, there still remains a relative opportunity in small cap stocks which are still well below their level of a year ago. From our bottom-up perspective there remains pockets of strong opportunity in parts of the market. The forthcoming results season is likely to provide some interesting opportunities for portfolio rotation despite a more cautious macroeconomic outlook.

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

AMP North	HUB24	MLC Navigator	PowerWrap
Asgard	IOOF eXpand	MLC Wrap	Praemium
BT Panorama	IOOF Wrap	MLC Wealth Administration	Premium Choice
CFS FirstWrap	Macquarie Wrap	Netwealth	SimpleWrap
DPM	Mason Stevens	OneVue	Weath02 uXchange
FNZ Group			

Spheria Australian Smaller Companies Fund	
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Investment Objective	Outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term
Investing Universe	Primarily listed companies outside the top ASX 100 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	Half-Yearly
Fees	1.10% 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	30% - 40%
Style	Long only
APIR	WHT0008AU
Minimum Initial Investment	\$25,000

Fund Ratings



Fund Ratings

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311

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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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