Spheria Australian Smaller Companies Fund

ARSN 117 083 762 | APIR WHT0008AU | mFund SPM02

Performance as at 30 June 2024

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[1]
Fund[2]	-0.7%	-6.9%	8.0%	0.9%	6.9%	8.2%
Benchmark[3]	-1.4%	-4.5%	9.3%	-1.5%	3.7%	5.6%
Difference	0.7%	-2.4%	-1.3%	2.5%	3.2%	2.6%

[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.

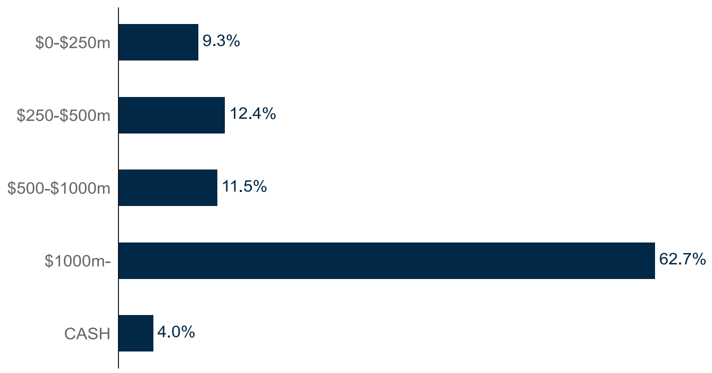
Overall Commentary

The Spheria Australian Smaller Companies Fund returned -0.7% (after fees) for the month of June, outperforming the S&P-ASX Small Ordinaries Accumulation Index by 0.7%

Top 5 Holdings

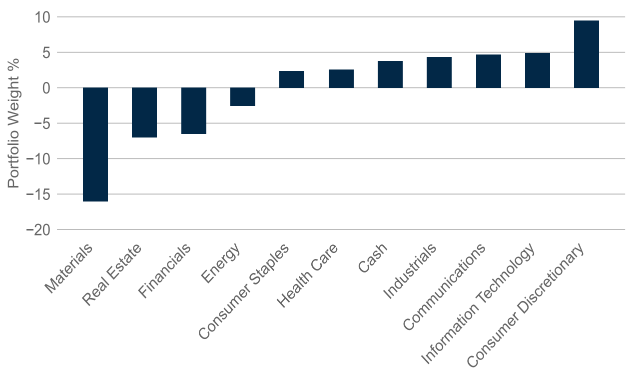
Company Name	% Portfolio
Healius Limited	4.9
Bega Cheese Limited	4.7
Supply Network Limited	4.5
IRESS Limited	4.2
Deterra Royalties Limited	3.1
Top 5	**21.3**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

Smaller companies continued to drift lower over June with micro caps and smaller companies underperforming large caps. While trying not to turn ourselves into macro economists it was pertinent to note that Canada, the ECB (Eurozone), Switzerland and Sweden all cut interest rates over June by 25bps. Several major countries – the US, UK and Australia all held rates over the month with the US providing its strongest hints yet that rates could come down later in the year. This is relevant because our view is that the Australian economy is rapidly moving into a recession like situation which has been somewhat masked by high immigration and the drawdown of significant personal savings consumers built up during the Covid period. With these buffers now showing signs of exhaustion, we are starting to see companies struggle to grow toplines and maintain cost discipline.

Cost reduction hasn't been a strong skill set amongst Australian corporates and to be fair, hasn't for some time been a core skill requirement. Given a tougher consumer outlook with some wage pressures still evident, now is the time to flex these muscles. Cost reduction, innovation and staff motivation will be key differentiators between how smaller companies execute over the next 12-18 months.

Major Contributors to Performance

Over the month the largest contributors to performance were from overweight positions in Healius (HLS.ASX, +18%), Star Entertainment Group (SGR.ASX, +9%) and Regis Healthcare (REG.ASX, +10%).

Healius (HLS.ASX) share price rose 18% during the month after the company provided a trading update for the 2024 financial year which implied a significant second half improvement in operating performance, with the business expecting to generate $60-65m of underlying EBIT for the full year to 30 June 2024. Improving pathology volumes, a moderating rate of inflation, and a much-needed focus on costs and productivity provide the foundation for continued margin improvement off the 1H24 lows. The imaging business is currently up for sale with interest from multiple parties driving some welcome competitive tension into the process. The sale proceeds will be more than sufficient to leave Healius with a net cash balance sheet. As the 2nd largest player in a consolidated Australian pathology market (top 3 comprise ~70%) we continue to be attracted to the business over the long term and see further material upside to the current share price.

Major Detractors from Performance

The largest detractors from performance included overweight positions in City Chic Collective (CCX.ASX, -51%), Deterra Royalties (DRR.ASX, -14%), Skycity Entertainment Group (SKC.ASX, -16%).

City Chic Collective (CCX.ASX) share price fell over 50% in June after the company announced a capital raise and trading update for the financial year. Trading conditions have remained challenging with sales expected to be down 30% for the 2024 financial year as higher interest rates have significantly impacted consumer spending for CCX's core demographic. As a result, the business has undergone a strategic review to simplify the business and realign the cost base (expecting to strip out $20.3m of cost). The capital raise of $23m ($17.5m underwritten), offered at a 50% discount to the last closing price, will be used to support the balance sheet and re-structure the business after the sale of the UK and US businesses. Post the raise the business will have ~$10m of cash and a $10m debt facility available. The recent trading update was disappointing as we had expected trading conditions in the business to have stabilised. With the business now greatly simplified back to the Australian core and a stronger balance sheet we believe the business can cycle through the tough economic environment.

Outlook & Strategy Going Forward

As we discussed last month, Australia is lurching toward recession like conditions. Backward-looking statistics aren't fully reflecting the toughening labour market conditions nor capturing consumer sentiment. Merely raising prices (as cafés around us want to do) without looking to trim costs where possible is going to see consumers shift their preferences. We are entering a time when better management teams will earn their stripes. We think the upcoming reporting season could be a tough one for smaller companies, however this is likely to somewhat assist Central Banker's moves with respect to interest rates which in turn will go some way to stimulating the recovery in the economy. We believe businesses with strong balance sheets and a proven ability to generate cash are likely to come through market challenges in better shape and we continue to focus on unearthing these types of opportunities.

Platform Availability List

The Spheria Australian Smaller Companies Fund is available on the below Platforms. Platforms provide with consolidated and centralised reporting (including administration, tax, and distribution) by bundling together a range of managed funds as one single product. If the fund is not available on your preferred platform, please contact us. Please check with your platform for minimum investment requirements and fees.

- AMP North
- Asgard
- BT Panorama
- Centric
- CFS FirstWrap
- DASH
- Freedom of Choice
- HUB24
- Insignia Expand
- Insignia Financial Wrap
- Macquarie Wrap
- Mason Stevens
- mFund
- Netwealth
- OneVue
- PowerWrap
- Praemium

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
Risk	Very high
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

Zenith HIGHLY RECOMMENDED

Recommended Lonsec Research

Contact Us

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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