

Overall Commentary

The Company's performance for the month of March was 0.2% (after fees) outperforming the S&P/ASX Small Ordinaries Accumulation Index by 1.0%.

Company Facts

Investment Manager	Sphera Asset Management Pty Limited
ASX Code	SEC
Share Price	\$1.89
Inception Date	30 November 2017
Listing Date	5 December 2017
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Dividends Paid	Quarterly
Management Fee	1.00% (plus GST) per annum ¹
Performance Fee	20% (plus GST) of the Portfolio's outperformance ²
Market Capitalisation	\$113.7m

¹ Calculated daily and paid at the end of each month in arrears.

² Against the Benchmark over each 6-month period to a high-water mark mechanism

Performance as at 31 March 2023

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a ³
Company ¹	0.2%	4.8%	-10.3%	20.7%	6.3%	6.2%
Benchmark ²	-0.7%	1.9%	-13.2%	13.2%	3.9%	3.7%
Difference	1.0%	2.9%	2.9%	7.5%	2.4%	2.5%

¹ Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings and after company expenses

² Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

³ Inception date is 30 November 2017. Past performance is not a reliable indicator of future performance. All p.a returns are annualised.

Net Tangible Assets (NTA)¹

Pre-Tax NTA²

2.215

Post-Tax NTA³

2.231

¹ NTA calculations exclude Deferred Tax Assets relating to capitalised issue related balance and income tax losses.

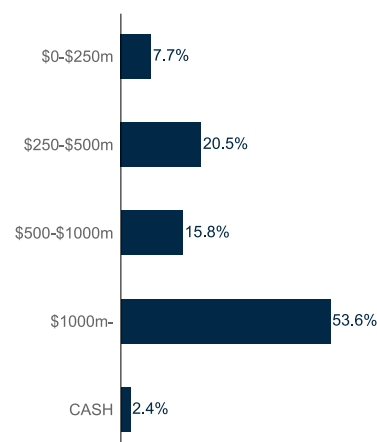
² Pre-tax NTA includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses.

³ Post-tax NTA includes tax on realised and unrealised gains/losses and other earnings.

Top 10 Holdings

Company Name	% Portfolio
IRESS Limited	4.8
Bega Cheese Limited	3.9
Blackmores Limited	3.8
Breville Group Limited	3.5
Technology One Limited	3.4
Insignia Financial Ltd.	3.3
Flight Centre Travel Group Limited	3.3
A2B Australia Limited	3.3
Deterra Royalties Limited	3.2
Supply Network Limited	3.1
Top 10	35.6

Market Cap Bands



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 InvoCare (IVC.ASX, +26%), Regis Healthcare (REG.ASX, +26%) and A2B Australia (A2B.ASX, +12%).

InvoCare (IVC.ASX) – share price rose 26% in March, after the company received a takeover bid (by way of scheme of arrangement) for 100% of the company from TPG Global (TPG). The offer price of \$12.65 was a 41% premium to the last traded price. InvoCare has high-quality assets with a hard-to-replicate geographic footprint. The business has infrastructure like dynamics in a growing and somewhat duopolistic market. On this basis, we feel that the offer does not reflect the fair value of the business and anticipate further upside to the initial bid. IVC is currently trading below the offer price at around \$12 per share (at the time of writing) and offers compelling value at this level.

Major Detractors from Performance

The largest detractors were **not owning** Liontown Resources (LTR.ASX, +90%), an overweight in Insignia Financial (IFL.ASX, -14%) and **not owning** Neuren Pharmaceuticals (NEU.ASX, +84%)

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.

Fund Ratings

 **Zenith**

Fund Ratings

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311 or email distribution@pinnacleinvestment.com

Disclaimer

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