

Performance as at 30th April 2022

| | 1 Month | 3 Months | 1 Year | 2 Years p.a. ³ | Inception p.a. ³ |
|------------------------|---------|----------|--------|---------------------------|-----------------------------|
| Fund ¹ | -5.4% | -13.4% | -8.2% | 16.0% | 13.1% |
| Benchmark ² | -2.9% | -8.6% | -7.5% | 25.1% | 11.7% |
| Difference | -2.4% | -4.8% | -0.8% | -9.1% | 1.5% |

¹ Spheria Global Microcap Fund. Returns of the Fund are net of applicable fees, costs and taxes.

² Benchmark is the MSCI World Microcap Index in AUD (Net) from 1 July 2021 and prior to that MSCI Kokusai (World Ex-Japan) Microcap Index in AUD.

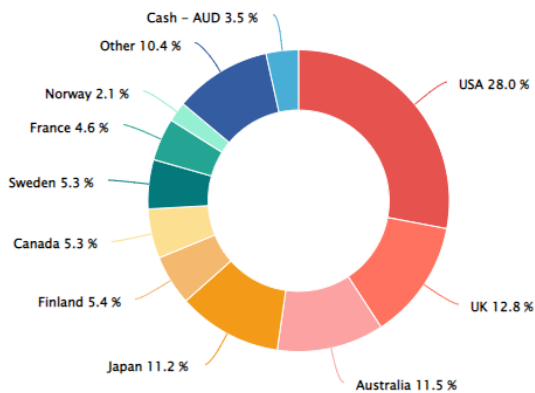
³ Inception date is 1 March 2019. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.



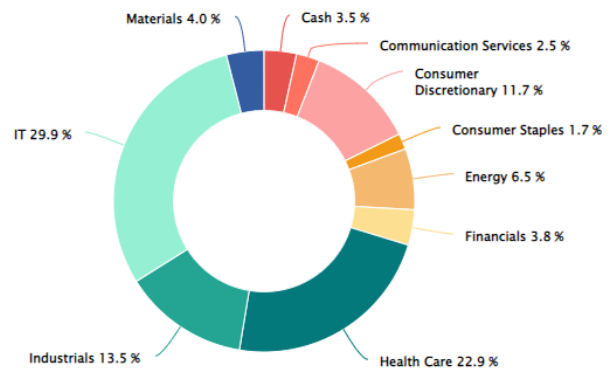
Overall Commentary

The Spheria Global Microcap Fund returned -5.4% (after fees) during the month of April, underperforming the MSCI World Microcap Index by 2.4%.

Regional Exposure



Sector Exposure



Source: Spheria Asset Management

Global Characteristics

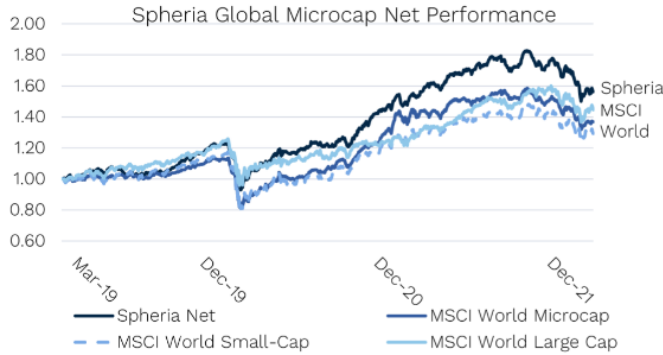
| | Average Mcap (USD) | EPS Growth (%) | Trailing FCF Yield (%) | Dividend Yield (%) | Net Debt / EBITDA | FCF Conversion (%) |
|--------------|--------------------|----------------|------------------------|--------------------|-------------------|--------------------|
| Spheria | 623 | 19.0 | 5.8 | 3.0 | -0.8 | 99.4 |
| World Micro | 166 | -2.3 | 0.8 | 2.7 | 1.0 | 64.5 |
| World Smalls | 2,113 | 11.9 | 3.6 | 2.2 | 1.9 | 72.9 |
| S&P500 | 76,892 | 15.0 | 4.4 | 1.4 | 0.8 | 93.6 |
| Nasdaq | 6,194 | 12.2 | 3.6 | 0.8 | 0.2 | 95.7 |

EPS= Earnings per Share, FCF = Free Cash Flow, Negative Net Debt / EBITDA figures show a debt free, or net cash balance sheet.

Further Commentary

The Fund declined 5.4% after fees in April underperforming the index by 2.4%. As a result of April, the Fund has lost its early outperformance during the formative stages of this correction. We remain confident that our disciplined process will serve investors well in the long term as market rebalances towards companies with valuation and fundamental support.

Since inception the Spheria Global Microcap Fund has returned 13.1% after fees. This is 1.5% p/a better than the benchmark and 1.9% p/a better than the MSCI World Index.



Markets

Healthcare microcaps declined 10.0% in AUD for April, followed by a 5.2% decline in IT. These are the two sectors the Fund is most overweight. However, there is a key distinction here. The Fund is overweight strong free cash flow businesses with valuation support, while the Index is full of cash burning and speculative biotech and technology stocks. So it is no surprise that these sectors should suffer in a growth rout. Albeit, with the economy slowing rapidly, we expect that the company's we own in these sectors will become increasingly sought after.

The US, the epicentre of this cycle's speculative fervour, along with the Nordics which has significant exposure to growth, were the losers in April. Hong Kong, Singapore, Israel and the UK managed positive returns. The UK market has held up well during this sell-off. That market did not participate as enthusiastically in the late 2021 madness, and so has had less to give up.

Fund Performance

AB DYNAMICS (LSE:ABDP)

AB Dynamics (LSE:ABDP), founded by engineer Anthony Best (who still owns 20% of the company) is a specialist in track testing, simulation and testing equipment for automotive manufacturers. This covers both in lab testing, and on track testing.



Source: AB Dynamics

The automotive industry ranks third in global research & development spending (source: American Automotive Policy Council). With renewed competition from the likes of Tesla, we expect the outlook for R&D spending is positive. Auto makers are continually forced to comply with ever increasing safety standards from the various regulators such as the NHTSA in the US and EU directives in Europe. Furthermore, meeting standards is not enough. In such a competitive market manufacturers cannot afford to go to market with a poor Euro NCAP star rating.

AB Dynamics provide the equipment used by testers such as NCAP, and hence in preparing for this, manufacturers must also develop their vehicles with AB Dynamics suite of testing equipment on site. Growth can be spurred by new regulations or new product development by the OEMs. For instance, regulations in 2022 required new vehicles from manufacturers to now include intelligent speed assist, lane change warning and tire pressure monitoring.

However, this tailwind for AB Dynamics was interrupted by COVID which impacted track testing in particular. Operating income fell from £12.6m before COVID to £5m in FY21. The share price has slipped accordingly. The first half of FY22 showed that a recovery is well underway with the company's track testing revenue growing 23%.

We remain confident in our thesis on the company and the quality of the business was highlighted in the half.

- The company also increased its recurring revenue to 41% of revenue from 31%.
- The company has net cash and no debt.
- 116% free cash flow conversion.
- ROIC of 14%.

ELMERA (OSL:ELMRA)

Elmera (OSL:ELMRA) is the new name for Fjordkraft. The company has de-rated significantly from its peak of 23x PE to a current multiple of 7x. Consensus forecasts a dividend yield of 13%. So what could cause the market to turn so fiercely against this company?

The answer is price and earnings momentum. With momentum working so well for so long, the absolute valuation has counted for little due to negative momentum. With the market roaring ahead investors dumped anything going down regardless of its absolute valuation. However, the negative earnings momentum seems to have come to an end with the company recently reporting a strong first quarter result. We therefore believe the company is at an inflection point and shareholders will be duly rewarded from here given the undemanding valuation and strong cash flow generation.

Outlook

The negative sentiment and general weakening of sharemarkets is creating significant opportunity for cash flow and valuation focused investors like ourselves. We are comfortable with our investments as balance sheets are strong and thus in the event of a weaker global economy, they are in position to ride out the downturn and capitalise on opportunities that may present.

Platform Availability List

The Spheria Global Microcap Fund is available on the below Platforms. Please check with your platform for minimum investment requirements and fees.

BT Panorama

HUB24

Macquarie Wrap

Netwealth

Praemium

| Spheria Global Microcap Fund | |
|------------------------------|--|
| Benchmark | MSCI World Micro Cap Index |
| Investment Objective | Outperform the MSCI World Micro Cap Index in AUD (Net) over the long term |
| Investing Universe | Global listed microcap equities predominantly in developed markets with a market capitalisation of US\$1.0bn and below at time of purchase |
| Holdings | Generally 30-80 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 |
| Expected Turnover | 20% - 40% |
| Style | Long only |
| APIR | WHT6704AU |
| 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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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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