

Performance as at 31st March 2022

	1 Month	3 Months	1 Year	2 Years p.a. ³	Inception p.a. ³
Fund ¹	-4.0%	-11.5%	1.4%	23.8%	15.6%
Benchmark ²	-1.6%	-9.6%	-2.4%	32.3%	13.1%
Difference	-2.3%	-1.8%	3.8%	-8.5%	2.5%

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.

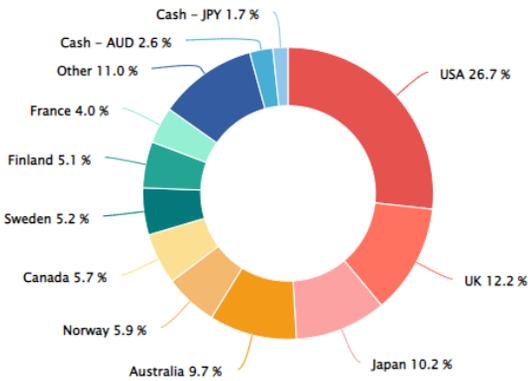
³ Inception date is 1 March 2019. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.



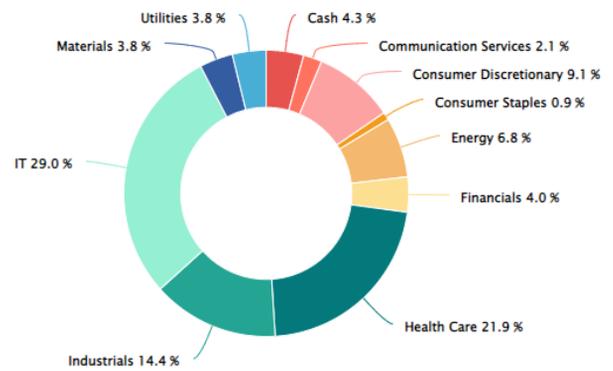
Overall Commentary

The Spheria Global Microcap Fund returned -4.0% (after fees) during the month of March, underperforming the MSCI World Microcap Index by 2.3%.

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	676	20.4	4.4	3.0	-0.8	103.6
World Micro	179	-3.6	1.1	2.5	1.0	65.9
World Smalls	2,291	10.0	3.3	2.0	2.0	72.9
S&P500	83,016	14.1	4.0	1.3	0.8	92.4
Nasdaq	6,793	12.5	3.2	0.7	0.2	93.8

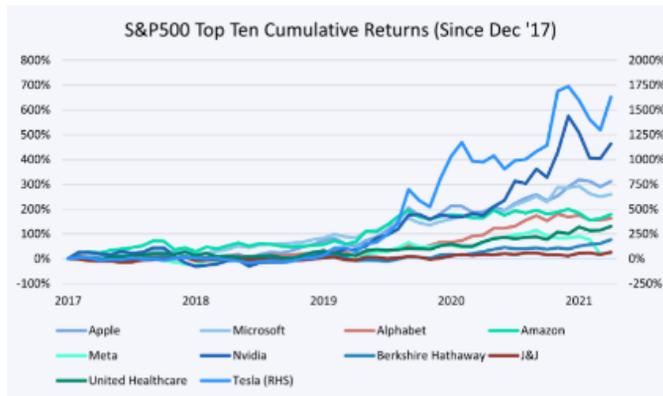
EPS= Earnings per Share, FCF = Free Cash Flow, Negative Net Debt / EBITDA figures show a debt free, or net cash balance sheet.

Further Commentary

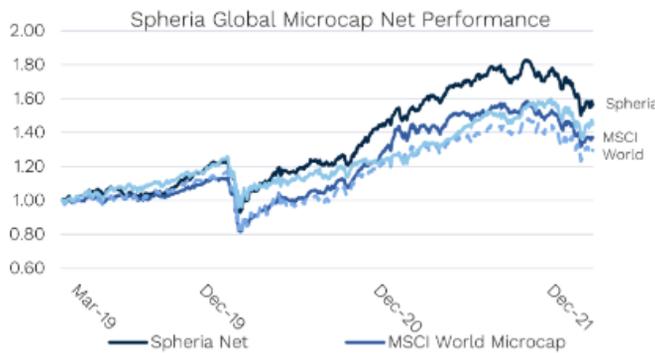
To use a well-worn sporting cliché, March was a month of two halves. The first part saw a continuation of January and February; growth was out of favour, and companies without earnings were jettisoned. However, markets rarely move in a straight line, and even these stock pariahs found friends in the second half of the month. Our favourite measure of these “concept stocks” (great story, no earnings) is the Goldman Sachs Profitless Tech Index which by the end of March had rallied 33% off its recent lows on the 14th of March.

When measured against a benchmark full of such concept stocks, the Fund could not keep pace and underperformed by 2.3% in March after fees. Large caps have again picked up the baton of market leader (down only 0.7% in March).

While microcaps are pricing in a rapidly slowing economy, large cap investors continue to shrug off any such risk and remain sanguine about the Central Bank Cartel removing quantitative easing. Don't worry; I'm sure the spurt of performance in megacaps since COVID is purely fundamental and in no way driven by the Cartel's ridiculous quantitative easing (if the sarcasm isn't dripping off the page, you're reading it wrong).



Since inception the Fund has returned 15.6% p/a after fees. This compares to the MSCI World Microcap return of 10.7%, the MSCI World Small Cap return of 8.7% p/a and the MSCI World (large cap) return of 12.7% p/a.



Markets

Throughout March, commodities remained the most precious of, well, commodities. The energy sector in microcaps was up 8.8% in AUD, and materials rose 7.0%. Those countries with exposure fared best, Australia up 9.9%, Norway up 5.6% and Canada up 2.4%. Meanwhile, countries relying on commodity imports such as Hong Kong (-6.6%), Japan (-5.3%) and the UK (-5.3%) were the laggards.

There are double benefits for investors in commodity producing nations. Not only are such countries rich in resource stocks, but also enjoy a strengthening currency. The AUDUSD had ground higher to just shy of 75c at the end of March. Given the rise we have seen in commodity prices, we could have expected more from the AUD. Investors perhaps are fearful that the Reserve Bank of Australia may be relatively slow to raise interest rates, resulting in capital flight away from Australia. However, the Central Bank Cartel acts in unison, and such fear is likely unfounded.

The Bank of Japan (BOJ) is the one exception, but this is a central bank that has been doing its own thing for some time and appears to be a serial dissenter. By thumbing its nose at the Cartel, the Yen has been crushed, falling from 115 USDJPY at the start of March to 128 USDJPY as at the time of writing. This is just what the BOJ wants, importing a smidgeon of inflation and providing a competitive edge to Japan's enormous export economy.

Our portfolio remains light such Japanese export stocks, having initiated on and passed on a few of them. The Yen's weakness in itself is not a reason to buy Japanese stocks, but our analysts' bottom-up fundamental analysis has been redirected to this part of the world. After many years of underperformance for equity investors, Japan is now a relatively small part of most world indices and hence portfolios. At some point soon, we expect investors will lament not owning more in the land of the rising sun.

Fund Performance

MADER (MAD.AU)

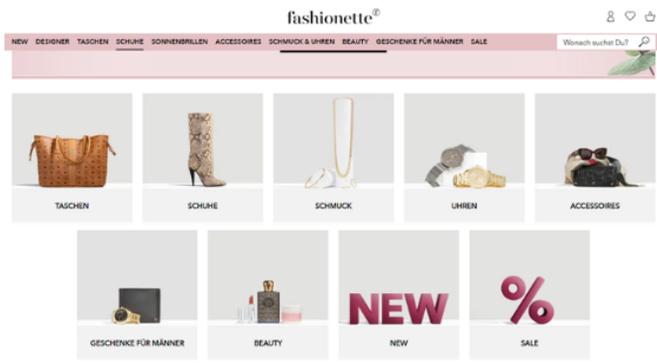
Mader was the Fund's top contributing stock in March. The company has built a strong presence as the first mover in the non-OEM maintenance of mobile mining equipment. This is equivalent to a car owner taking their car to a local mechanic for superior service and price, rather than the dealership mechanic.

The Fund continues to hold a sizable position in the company, confident in management's ability to export its model into other geographies which is not being captured in the current share price.

FASHIONETTE (FSNT.GR)

This German online retailer was the Fund's top detractor in March. The company has performed poorly since listing and owning the stock is a contrarian call. As a reminder, the Fund seeks to blend investment types, including contrarian calls, in order to reduce volatility and protect investor capital. Since inception, the Fund's annualised monthly standard deviation is 14.0% compared to the benchmark of 17.9%.

Fashionette sells premium fashion accessories online with a substantial market share in German speaking countries. Unique to Fashionette is that it does so in a profitable manner, whereas its competitors are loss-making. Despite earning a return, Fashionette is able to drive more traffic to its site than larger listed peer, and loss making company, My Theresa.



Source: fashionette.de

We were drawn to the company's Spheria characteristics (free cash flow conversion, lowly geared, high returns) and our analysis identified that the share price was implying rock-bottom expectations. While the industry is competitive, growth is strong, particularly in higher-end accessories.

Missteps around transitioning logistics suppliers shortly after listing had dented sentiment, and this explained why the stock was so unloved (important to know since if you don't know who the patsy is, then you're most likely the patsy).

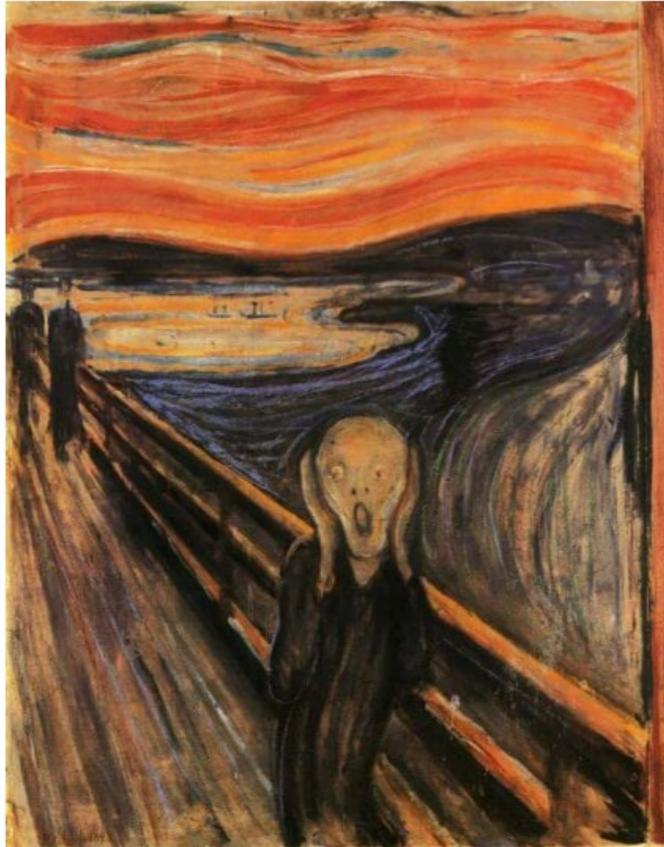
However, in March, sentiment took a further dive as the CEO resigned unexpectedly, and is due to step down by September 2022. CEO's do not typically resign when everything is going swimmingly well. Furthermore, a new CEO may reevaluate the merit of staying profitable while competitors remain unencumbered by such a restriction.

Nevertheless, recent results show the thesis remains on track, and we are managing risk by maintaining a relatively small weight in the stock given the heightened risk of buying such a small and an unloved company.

The company expects 16%-21% revenue growth in FY22 and adjusted EBITDA of €5 to €7.5m. Not bad for a market capitalisation of only US\$46m (the smallest company in the Fund). Delivering such a result will surely convince the market that the stock is worth more than the current share price. Longer term there is further upside from private label products, the launch of a beauty range, and capturing synergies from a recent acquisition.

Outlook

With March now behind us, the Fund marked its three-year anniversary. Since its inception on 1 March 2019 the Fund has navigated the uncertainty of the Trump administration in the US, a China-US Tariff War, a global pandemic, and significant military conflict. This baptism of fire has tested us, but our deepest navel gazing came not when these shocks were rattling markets, but when euphoria and risk-taking were at their most extreme. As investors, we treat the Fund's capital as our own and ensure it is protected and able to grow through the cycle. And so, when investors abandoned valuation and risk constraints in pursuit of growth and momentum, and this trend continued relentlessly for many years, fundamental investors such as ourselves resembled the famous artwork below.

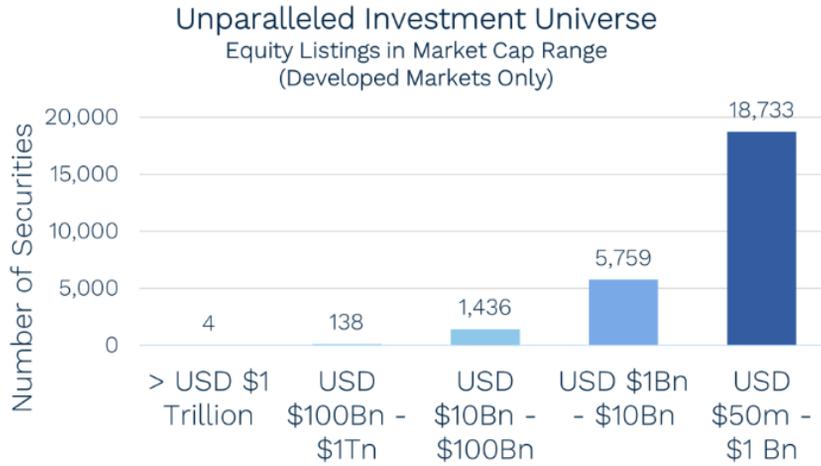


Source: edvardmunch.org

However, Mr Market is a reliable teacher and gave investors a gentle rap across the knuckles in January and February. Those that have abandoned valuation discipline and risk management were caught out. Our sense is this period was just Mr Market's mid-semester test, and the final exam is still to come.

During the course of the Fund's history our conviction in the asset class of Global Microcaps has grown substantially. We struggle to find a metric or characteristic whereby small-cap companies are superior to microcaps. Relative to large caps, there is no contest. Global Microcaps have outperformed over the long-run, providing investors with a microcap return premium for those with the means to access it.

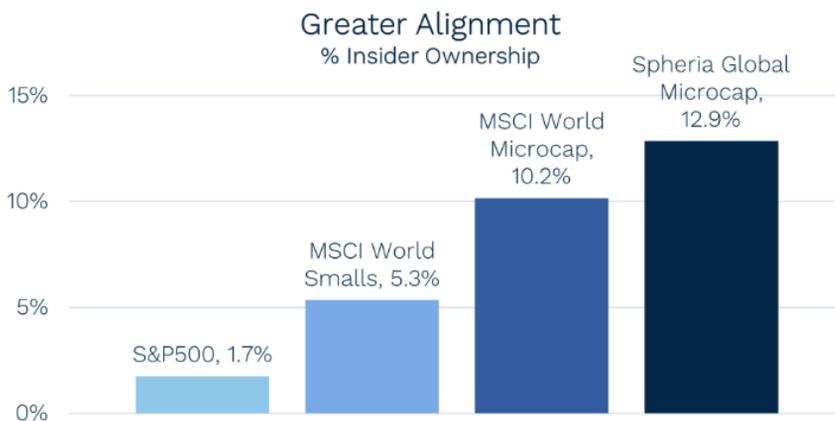
If we could leave you with three charts to highlight the power of the asset class; they are:



Source: Spheria, Bloomberg



Source: Spheria, Bloomberg



Source: Spheria, Bloomberg, MSCI

While we are marking three years for the Fund, allow me to say thank you to the Spheria investment team with whom it is a privilege and pleasure to work with each day. Thanks also go to the management of Spheria and Pinnacle, who had the foresight to bring this unique product to Australian investors. Finally, we would also like to thank the Fund's investors, many whom we know personally, for their continued support and interest in the Fund. We look forward to marking many more milestones together.

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

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Link to the [Product Disclosure Statement](#)

Link to the [Target Market Determination](#)

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