

Performance as at 31st May 2022

	1 Month	3 Months	1 Year	2 Years p.a. ³	Inception p.a. ³
Fund ¹	-1.8%	-10.8%	-12.4%	11.6%	12.1%
Benchmark ²	-2.1%	-6.5%	-12.2%	20.6%	10.6%
Difference	0.2%	-4.3%	-0.3%	-9.0%	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.

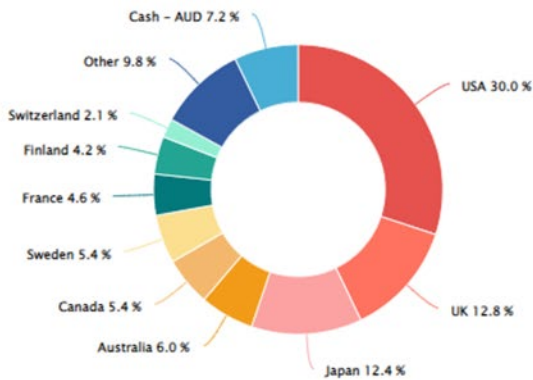
³ Inception date is 1 March 2019. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.



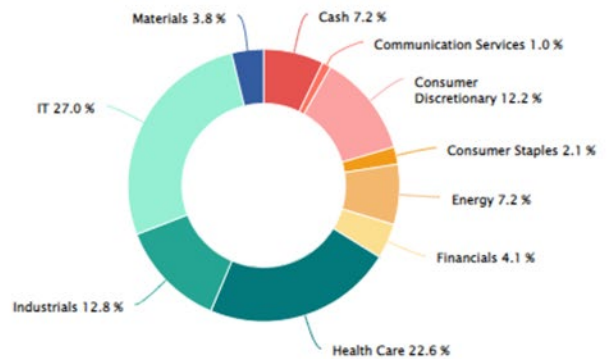
Overall Commentary

The Spheria Global Microcap Fund returned -1.8% (after fees) during the month of May, outperforming the MSCI World Microcap Index by 0.2%.

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	635	5.1	5.8	3.8	-0.8	86.8
World Micro	149	-8.3	0.8	3.0	0.9	64.8
World Smalls	1,929	8.3	3.2	2.5	2.1	70.7
S&P500	69,166	16.8	5.0	1.6	0.9	92.7
Nasdaq	5,473	12.0	4.2	0.9	0.3	95.9

Markets

In contrast to the Australian domestic markets, global markets were much more subdued having fallen faster and earlier in the year by comparison. Most of the key drivers of markets so far this year continued to weigh on the indices with interest rates, inflation, and global commodity prices all in focus. The energy sector was a standout last month, rising 8% over the month, followed by Semiconductors and utilities which also increased during the month (all in AUD terms). Biotech, Household and personal care and materials were the worst sectors in the Global Microcap index.

We view balance sheet gearing as something the market will also increasingly start to focus on. Whilst balance sheets have broadly been repaired over the past few years due to capital increases over Covid and the suspension of dividends, those with gearing will start to feel sharply increasing costs of debt. This, coupled with some potential earnings pressure is something investors will need to watch out for. Businesses which have been frequently returning to the market to raise capital to fund "growth" will likely struggle to raise the money needed to shovel into their hungry cash burning furnaces. This is especially so if their share prices have been sold off sharply as the BNPL sector is now finding out. We don't want to get too pessimistic on the economy and markets however as market rotation and changes in sentiment continually throw up new ideas and we will remain open to attractive investment ideas as sentiment waxes and wanes.

Major Contributors for the Month

Reckon (RKN.ASX) – rallied 47% over May driven by the announcement that they had agreed to sell their Accountants Practice Management business for \$100m. To put this in context APS earned roughly 40% of RKN's EBITDA and the entire EV of RKN prior to the announcement was \$100m. RKN expects to distribute most of the proceeds to shareholders via a special dividend. Post the sale the remaining accounting and legal software businesses is still only trading on around a 5x EV/EBIT with no gearing. Not bad for a cash generative SAAS business with growing revenue.

Zynex Inc (ZYXI.NAS) – rose 13% over the month. ZYXI is a leading non-invasive pain management medical hardware provider in the US with strong market shares in its niche. With several of their major competitors having been forced to shut down after they were issued fines, they have a sizeable market niche to pursue in the US. The business is experiencing high top line growth (revenue grew 29% in Q1 this year with expectations at least 20% growth over the full year). The business is running a net cash balance sheet and trading on around 8x our estimates of forward EV/EBIT. Having just completed a relatively modest share buyback they have recently announced a further buyback.

Cresco Ltd (4674.TKS) – rose 14% over the month after reporting very strong results for FY 2022 (Japan operates with a March year end). Revenue was up 12% and EBIT grew 28% which isn't bad for an IT services business with over US\$100m of net cash on the balance sheet and a forward EBIT multiple of around 7x FY 23.

In addition, **Core Labs** and **Computer Modelling** (both oil related services companies) performed well up 7.4% and 5% respectively on an improving environment for energy cycle related companies. This has been our preferred way to play the energy cycle globally as it removes the risk associated with operating smaller oil and gas companies which are typical constituents in the smaller companies arena.

Major Detractors for the Month

Paysign Inc (PAYS.NAS) – declined 30% over the month as the market sentiment for this business waned. We reviewed our thesis on PAYS and have since exited the position reinvesting the proceeds in higher quality businesses we feel offer more sustainable returns over the medium term.

Other detractors over the month included **AB Dynamics** and **Johnson Outdoor (JOUT.NAS)** which were down 26% and 16% respectively. AB Dynamics is a leading automotive testing business based in the UK with net cash balance sheet and a very strong share in the vehicle testing market. JOUT is a leading outdoor consumer technology and equipment maker with brands such as Humminbird (Marine depth sounders), Minn Kota (electric fishing motors) and Jetboil (camping equipment) and ocean kayak. Johnson is a family run business with an immense cash balance on their balance sheet trading on a mid-single digit EV/EBIT.

Outlook & Strategy

Perhaps unsurprisingly we almost view the current market correction as being a healthy cleansing of the approach people take to investing and capital allocation. We believe the global monetary response by Central Banks to Covid over the past few years has most likely been a dramatic over-response to a self-induced slowdown in world economies. In other words, Central Banks used the same medicine to address a slowing of global growth due to Covid as they used for the Global Financial Crisis which was an entirely different set of circumstances. As we come to terms with a real cost of equity (and debt) more rational and longer-term thinking seems to be the lens the markets are now re-examining investments through. Growth at any price is clearly out and cashflows and valuation are front and centre. We anticipate this environment continuing for some time which should favour our fundamental style to markets.

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

This communication is prepared by Spheria Asset Management Pty Limited ('Spheria') (ABN 42 611 081 326, Corporate Authorised Representative No. 1240979) as the investment manager of the Spheria Global Microcap Fund (ARSN 627 330 287) (the 'Fund'). Pinnacle Fund Services Limited ('PFSL') (ABN 29 082 494 362, AFSL 238371) is the product issuer of the Funds. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') (ABN 22 100 325 184). The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

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

This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance. Unless otherwise specified, all amounts are in Australian Dollars (AUD).

Whilst Spheria, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Spheria, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.

Any opinions and forecasts reflect the judgment and assumptions of Spheria and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future. Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Spheria. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.

This may contain the trade names or trademarks of various third parties, and if so, any such use is solely for illustrative purposes only. All product and company names are trademarks™ or registered® trademarks of their respective holders. Use of them does not imply any affiliation with, endorsement by, or association of any kind between them and Spheria.

Zenith Disclaimer: The Zenith Investment Partners ('Zenith') (ABN 27 103 132 672, AFSL 226872) rating (assigned Spheria Global Microcap Fund – November 2021) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at <https://www.zenithpartners.com.au/our-solutions/investment-research/fund-research-regulatory-guidelines/>.