Spheria Global Opportunities Fund

ARSN 627 330 287 | APIR WHT6704AU

Performance as 31 December 2022

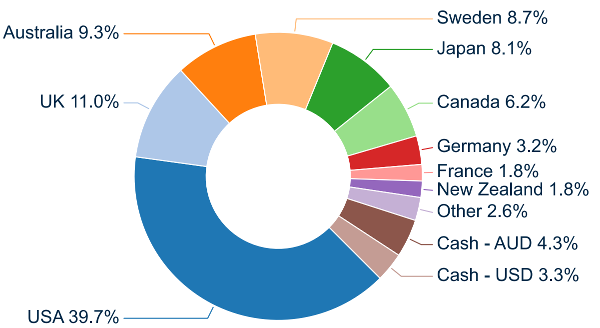
	1 Month	3 Months	1 Year	3 Years p.a.	Inception p.a[1]
Fund[2]	-1.4%	9.0%	-16.7%	7.9%	10.6%
Benchmark[3]	-5.1%	4.1%	-14.7%	2.5%	4.2%
Difference	3.7%	4.9%	-2.0%	5.4%	6.4%

[1] Inception date is 01 March 2019. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.
[2] Spheria Global Opportunities Fund. Returns of the Fund are net of applicable fees, costs, and taxes.
[3] Benchmark is MSCI World Small Cap Index (net in AUD) for all periods. Please note that the Benchmark from inception to 30 June 2021 was the MSCI Kokusai Microcap Index (net in AUD) and from 1 July 2021 to 30 September 2022 was the MSCI World Microcap Index (net in AUD).

Overall Commentary

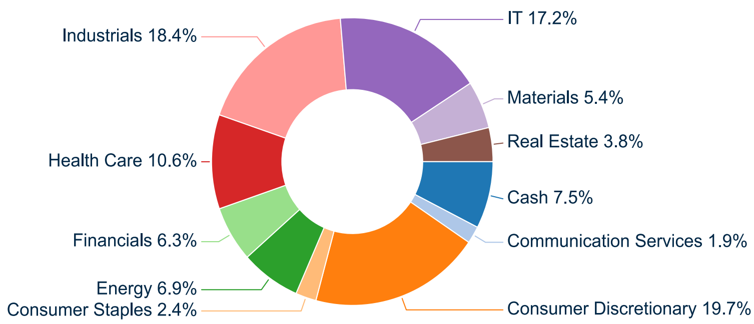
The Spheria Global Opportunities Fund returned -1.4% (after fees) during the month of December, outperforming the MSCI World Microcap Index by 3.7%.

Regional Exposure



Source: Spheria Asset Management

Sector Exposure



Source: Spheria Asset Management

Markets

The benchmark fell 5.1% in December erasing most of the large gains made in November. A perfect storm of negative macro-economic factors continues to pummel asset prices with market participants praying for relief from Central Banks that are fixated with reining in rampant inflation (which they created mind you) by snuffing demand. Monetary policy is a blunt instrument – it will work in time – and we are beginning to see the impacts in the real world with a number of companies in various sectors downgrading profit expectations in the last few months. With a lot of negativity baked into valuations particularly at the “value” end of the market we feel the risk reward scenario is favourably skewed for long term investors, particularly if interest rates have peaked which feels likely given the unprecedented nature of the tightening in terms of speed and overall magnitude of increases relative to already high levels of household debt.

Major Contributors to Performance

Positive performance contributions from companies owned included:

Johnson Outdoor (JOUT.US) – gained 15% after reporting its full year results. Sales and earnings of the fishing and outdoor supplier beat analyst expectations as supply chain disruptions eased and sales exceeded market expectations. Johnson has a healthy backlog of orders providing good revenue visibility, and margin resilience owing to reduced raw material costs. We continue to like the 5th generation family-owned outdoor company, whose brands are recognised for their high quality and customer loyalty. The company is trading on 3.9x EV/ EBIT and sitting on US$130m of cash (20% of market cap).

Ferguson Enterprises (FERG.US) – gained 8% after reporting quarterly results. As the leading value-added distributor in North America for plumbing & waterworks, it continues to outperform the broader industry due to its superior network and focus on service quality. Ferguson operates 1.7k branches and 10 National Distribution Centres putting them within 60 miles of 95% of the US population. The company’s focus on service quality and gross profit should see resilient earnings in a downturn and outperform peers. We like the industry dynamics of a fragmented competitive landscape and the existing management team have a strong track record of accretive M&A, providing a long runway for growth. The company is trading on 10x mid-cycle EV/EBIT, is repurchasing shares, and continues to widen its moat as it out-grows the industry.

Nitro Software (NTO.ASX) – gained 5% outperforming the broader market as the bidding war between Alludo and Potentia carried over to December. We have discussed NTO in several commentaries after the company received proposals at $1.58 and later $1.80 from Potentia, followed by a $2 Board recommended offer from Alludo (a software company owned by KKR) in November. In December, Potentia matched the $2 bid, however, this was quickly countered by Alludo with an increase to $2.15. Post month end, both parties have lodged applications to the Takeover Panel alleging shortcomings in the opposite camp’s takeover offers. The share price is trading at a slight premium to the highest bid from Alludo on the expectation that Potentia raises its offer to $2.15 or higher thus escalating the battle for control.

Major Detractors from Performance

Zillow Group (Z.US) – decreased 16% in December, after rallying 18% in the prior month and again reminding investors to be mindful of monthly performance numbers. The current 30-year mortgage rate sits at 6.5%, below the recent peak and more than double the level of a year ago. Zillow is the market leading US real estate portal, with 3x the number of daily app users to the no.2 competitor Redfin. Despite its market leadership, it is yet too meaningful monetize the quality of leads it passes onto its broker agent customers. Highlighting this, 2 of 3 home buyers shop using Zillow and yet only 5% of all homes transact via the site. This ‘leaky funnel’ (as management calls it) represents an untapped opportunity for the company. Additional buyer services and tools for the agents (tour bookings, mortgages etc) that address pain points should help to plug those ‘leaks’. Whilst success is not assured, the risk/reward equation for the market leading real estate portal is attractive at these levels. The company is trading on 4.5x revenue (for context, REA Group is on 11x), 8x mid-cycle EBIT and sitting on US$1.8b of cash and repurchasing shares.

Expeditors (EXPD.US) – decreased 12% in December, after rallying 14% in the prior month. The global logistics and freight forwarding specialist has been tasked with navigating the supply chain bottlenecks that have plagued the world for much of the past two years. The company is cycling a period of elevated pricing and volumes across each of its air, ocean and customs brokerage divisions, meaning profits will revert down to more sustainable levels. Against this backdrop, the company's uniquely aligned staff compensation practices add a cushioning layer for shareholders and incentivises its workforce to maintain and continue to grow market share. Whilst the freight forwarding industry has low capital barriers to entry, scale and reputation are important. On these measures, Expeditors has few peers and today operates in over 100 countries, providing customers with a seamless worldwide network through which its products are transported. Our conviction is supported by a strong operating culture, disciplined capital allocation (read no M&A), and an attractive valuation at <10x EBIT, US$2b of cash, paying a dividend, and repurchasing shares.

GoPro (GPRO.US) – decreased 10% in December as recession fears weighed on the consumer outlook. The recent sell-off across many consumer names presented an opportunity to initiate a position in GoPro, which until recently hadn't had valuation support. We continue to like the company fundamentals (net cash, growing market, founder involvement) and believe that the medium-term outlook for the business is positive. GoPro has shifted from a hardware only business, to a hardware + subscription + service model. The beauty of this is higher sustainable annual recurring revenue, promoting customer stickiness and ultimately margin growth. At 6x EV/EBIT, we believe that the market is ascribing no value for this transition, making it a compelling investment in a market leader with strong brand recognition and a net cash balance sheet.

Outlook & Strategy Going Forward

We are highly constructive on valuations for the companies in our portfolio and for the majority their financial strength, where there is balance sheet risk, we believe the position size appropriate given the range of scenarios. These factors provide us comfort that we are in a strong position to navigate a complex and an extremely challenging economic environment.

Platform Availability List

If a fund is not available on your preferred platform, please contact us. Please check with your platform for minimum investment requirements and fees

BT Panorama
HUB24
Macquarie Wrap
Netwealth
Praemium

Spheria Global Opportunities Fund	
Benchmark	MSCI World Small Cap Index
Investment Objective	Outperform the MSCI World Small Cap Index in AUD (Net) over the long term
Investing Universe	Global listed small cap and microcap companies with a market capitalisation equal to or lower than the market capitalisation of the largest issuer in the MSCI Global Small Cap Index at the time of purchase
Holdings	Generally 30-80 stocks
Distributions	Annually
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
Expected Turnover	20% - 40%
Style	Long only
APIR	WHT6704AU
Minimum Initial Investment	$25,000

Spheria Global Opportunities Fund

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Fund Ratings

Fund Ratings

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311

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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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