

Performance as at 31 December 2023

	1 Month	3 Months	1 Year	3 Years p.a.	4 Years p.a.	Inception p.a. ¹
Fund ²	5.1%	6.7%	16.0%	6.4%	10.1%	11.8%
Benchmark ³	6.5%	6.4%	15.0%	7.2%	6.8%	7.8%
Difference	-1.4%	0.3%	0.9%	-0.7%	3.3%	4.0%

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 the 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).

Please note the strategy of the Fund changed effective 1 October 2022. The Spheria Global Opportunities Fund was previously known as the Spheria Global Microcap Fund which targeted global listed microcap companies (companies with a market capitalisation of US\$1 billion and below at time of purchase).



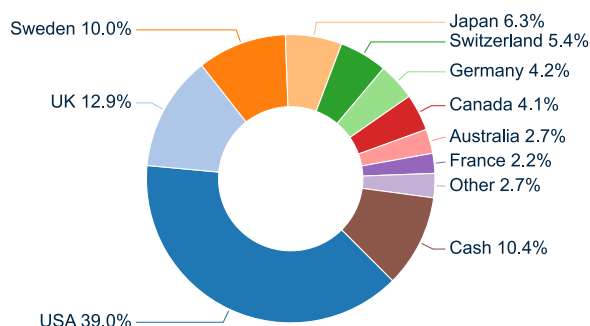
Overall Commentary

The Spheria Global Opportunities Fund returned +5.1% (after fees) during the month of December, underperforming the MSCI World Small Cap Index by 1.4%.

Top 5 Holdings

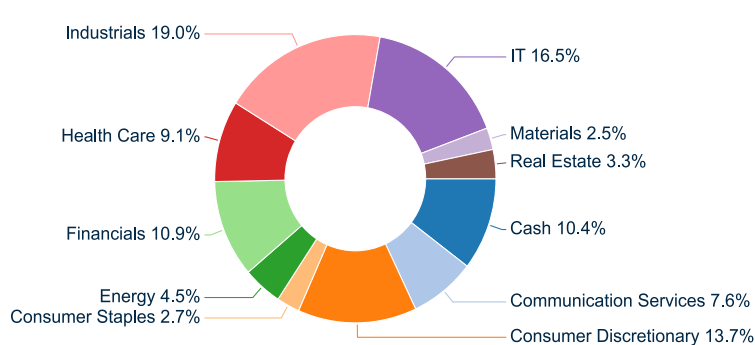
Company Name	% Portfolio
Napco Security Technologies Inc	3.6
Accelleron Industries AG	3.5
Zillow Group Inc	3.3
Intertek Group PLC	3.1
Zuken Inc	2.9
Top 5	16.4

Regional Exposure



Source: Spheria Asset Management

Sector Exposure



Source: Spheria Asset Management

Markets

December was a strong month for markets globally. Whilst corporate activity had taken a backseat during the latter part of the year, it came back with a vengeance in December. M&A roared back to life across many geographies particularly late in the month. Globally M&A volumes had seen their worst year since 2012 by volume and 2013 by value. February 2023 was the nadir of M&A deals, except for the Covid period of April/ May 2020. Whilst the Global Opportunities Fund was not the beneficiary of any takeovers, we have had plenty in the past 4.8 years of the Fund's existence and we expect this will remain a theme going forward given our focus on strongly cash generating companies with decent balance sheets and compelling valuations.

What drove this appears to have been the confluence of several factors – firstly valuations had fallen to levels that were generally more appealing in smaller cap stocks, secondly there is now a building consensus that interest rates are likely to have peaked in the US and not far off their peak in Australia. We support this view on the basis that the remarkable events around Covid ended up being a co-ordinated super inflationary event which has since been unwound. The monetary tightening globally, including higher interest rates along with the re-opening of economies has seen excess liquidity drained from global economies and production bottlenecks unwind. Supply chains have largely normalised. In China we are seeing deflation – yes you read that correctly – deflation with consumer prices down 0.5% YoY and producer prices (the prices manufacturers broadly charge for goods) down 3% YoY.

Consumers are struggling in many geographies with consumer discretionary names reporting very tough trading environments, however, house prices remain strong and unemployment relatively low across the globe. These are confusing signals for the Central Banks (including our own RBA) to interpret. Nonetheless we would expect an easing bias late in 2024 assuming inflation rates continue to trend down – which we think likely. This backdrop should be relatively kind to small cap investors. Small caps have lagged large caps over the past two years (smalls1 have underperformed by 7% and micros^ by 19% vs. the MSCI large cap accumulation index to 31 December 2023). The December rally in small caps was largely mirrored by large caps meaning the underlying performance gap remains. An easing interest rate environment during 2024 should be a relatively supportive environment for small and micro caps.

Major Contributors to Performance

Zillow Group (ZG.US, +37%), Vista Group International (VGL.NZ, +21%) and MIPS (MIPS.SS, +21%). Detractors were Zuken Inc (6947.JP, -3%), Biogaia (Biog.SS, -4%) and Fielmann Group AG (FIE.GY, -1%)

Zillow Group (ZG.US) is the largest real estate portal in the US with a majority share of US property searches and leads and the stock rose 37% in December. ZG has had a tough year in terms of revenue and profit, despite strongly outperforming the industry. In the US the real estate portal model is based on sales leads to real estate agents as opposed to vendors paying to upgrade their property listings. The latter is a vastly superior model since the listing becomes the key part of the selling process and vendors are eager to make sure their properties are seen by the widest possible audiences. In the US the Realtors association has set up a national system of MLS's (Multiple Listing Services) which effectively have a monopoly on the initial listing of the property. This serves somewhat to level the playing field and means the economics of property portals are inferior to similar portals in Australia for instance. A key driver of ZG's revenue is the number of housing transactions which have dropped to under 4m units over 2023 from a peak of more than 6m in late calendar 2021. With high mortgage rates in the US, it has been unattractive for owners to move house as generally home loans can't be ported from old house to new houses, meaning owners who locked in low rates are incentivized not to move. As the Fed turns to talk of rate cuts, however, the prospects for property owners and the inclination to move improve. This change in outlook over the month saw investors return to ZG's register. ZG has substantial net cash on the balance sheet of US\$1.7bn after accounting for their convertible debt, is buying its stock back and trades on sub 20x ev/ebit based on recovered earnings in 2 years' time.

Vista Group International (VGL.NZ) is the largest provider of ERP software (financial systems) to the Cinema market globally with a market share above 50% outside of China. As we have detailed in previous monthlies, VGL is well underway now in its transition from on premise software to a SAAS style business model. As customers flip from on premise to SAAS the revenue per customer rises significantly (VGL earns a "hosting" fee as well as the upfront and maintenance typical of a software license) – a multiple increase of typically 3-5x. Over December, VGL announced that the SAAS strategy had continued to gain traction as several clients including Pathe Cinemas (the largest chain in the EU), Major Cineplex (SE Asian based client) and Cinepolis (Spanish operations) all signed 3–5-year contracts to use

Vista Cloud. Costs continue to be managed down with the business soon likely to re-establish strong cash flows. VGL remains one of the cheapest SAAS style businesses in A/NZ with a strong position in its industry niche and trades on EV/Sales of around 2.5x.

Detractors from Performance

Zuken (6947.JP) declined very modestly over the month detracting from performance in a rising market. Zuken is one the leading players in the PCB (printed circuit board) market selling software tools for circuit board design and automation. With a strong position in Japan as well as a growing presence in the EU and US, the business is well positioned to grow earnings. Despite consistently delivering strong cash flows and double-digit earnings growth, Zuken trades below 10x FY 24 EV/EBIT.

Biogaia (BIOG.SS) was also down modestly in a rising market. BIOG continues to innovate and impress in the gut health space. BIOG as a reminder is one of the leading independent pro-biotic producers in the world. BIOG's primary competitors are divisions within larger healthcare companies and to a lesser degree smaller regional players. What is unique about BIOG is that they take a scientific – almost medical – approach to the development of pro-biotics. With the microbiome being considered one of the newest organs and vital to understanding human health we think BIOG remains well positioned for strong growth in intrinsic value. Due to its reasonably strong growth outlook BIOG trades on around 19x forward EBIT. BIOG has a strong net cash balance sheet.

Outlook & Strategy Going Forward

Fairly evidently, we are constructive on smaller companies in 2024. Whilst it's true that – to paraphrase Buffett – you should never ask a small-cap manager if it's time to buy small caps – we still think it's about the right time to buy small caps. Just as many investors moved capital into the relative safety of larger liquid and less economically sensitive names during uncertain times, so too will they likely return to the smaller end of the market in search of higher returns when rates normalize, and confidence recovers. We would also like to note, with sadness and gratitude the passing of Charlie Munger who died in late November just shy of his 100th birthday. Charlie was the slightly lesser known of the Buffett/ Munger duo but undoubtedly an equal intellectual contributor to the investment advice and wisdom that has emanated forth from Berkshire Hathaway. Many of our investment team were drawn to investing after reading some of the intelligent and humorous advice from Buffett and Munger. We are grateful for his intellectual curiosity, humility, and generosity of spirit in sharing his wisdom and life outlook with us. Thank-you Charlie.

Platform Availability List

The Spheria Global Opportunities fund is available on the below platforms. Platforms provide investors with consolidated and centralised reporting (including administration, tax, and distribution) by bundling together a range of managed funds as one single product. If the fund is not available on your preferred platform, please contact us. Please check with your platform for minimum investment requirements and fees.

[Asgard](#)[HUB24](#)[Netwealth \(IDPS only\)](#)[Praemium](#)[BT Panorama](#)[Macquarie Wrap](#)

Sphera 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

Fund Ratings



Contact Us

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](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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