

## Performance as 28 February 2023

	1 Month	3 Months	1 Year	3 Years p.a.	Inception p.a <sup>1</sup>
Fund <sup>2</sup>	2.4%	6.0%	-2.9%	11.5%	12.1%
Benchmark <sup>3</sup>	2.2%	2.4%	-0.8%	6.8%	6.0%
Difference	0.2%	3.6%	-2.0%	4.7%	6.1%

<sup>1</sup> Inception date is 01 March 2019. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.

<sup>2</sup> Spheria Global Opportunities Fund. Returns of the Fund are net of applicable fees, costs, and taxes.

<sup>3</sup> 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).



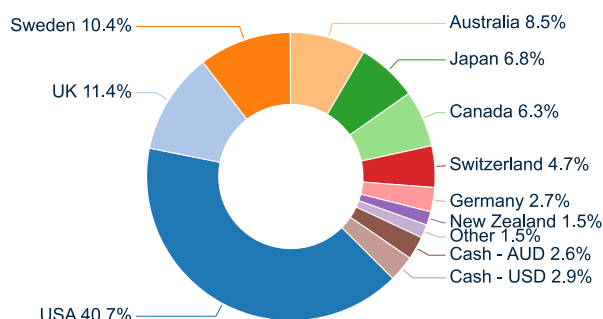
### Overall Commentary

The Spheria Global Opportunities Fund returned 2.4% (after fees) during the month of February, modestly outperforming the MSCI World Small Cap Index by 0.2%.

## Top 5 Holdings

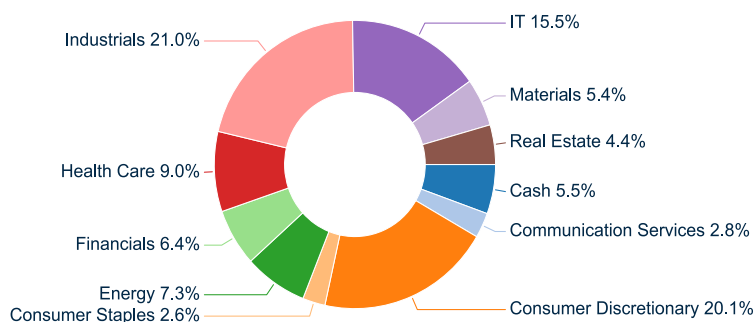
Company Name	% Portfolio
Nitro Software Ltd	4.5
Zillow Group, Inc. - Class C Capital Stock	4.4
Computer Modelling Group Ltd.	3.9
Core Laboratories N.V. Common Stock	3.4
BML, Inc.	3.4
<b>Top 5</b>	<b>19.5</b>

## Regional Exposure



Source: Spheria Asset Management

## Sector Exposure



Source: Spheria Asset Management

## Markets

Markets continued with their recovery in February, albeit at a more modest pace. The march upwards came despite a reversal in some of the headline macro drivers, with an uptick in bond yields following some surprisingly stronger economic data releases through the month. As that data was largely US centric (in particular the US jobs report), Europe unsurprisingly outperformed over the month, followed by the USA and Asia.

Company results dominated our attention during the period, with inflation and hence profit margins in sharp focus. Pleasingly on this measure we had few disappointments in the portfolio, which we attribute to our focus on owning businesses that provide products or services that are of vital importance to their customers. From marine vessel turbochargers that must run efficiently for 5000 hours pa (roughly equivalent to the lifetime of a car) at a velocity close to the speed of sound at the tip of the turbine blade, to Sweden's leading real estate portal. Those are but two examples (Accelleron Industries and Hemnet) of many in the portfolio where, in these instances, technical superiority and strong network effects, translate into pricing power which helps protect margins at a time when others are facing severe challenges.

### Major Contributors to Performance

The top 3 contributors to the fund's relative performance were Computer Modelling Group (+15%), Hemnet (+20%) and MIPS (+25%).

**Hemnet (HEM SS)** – As Sweden's largest real estate portal, Hemnet has greater than 10x the revenue and monthly visitation than its nearest competitor, making it more dominant than the leading portals in the USA, UK, Germany and Australia.

Evidence abounds of how hard it is to dislodge a market leading real estate portal. Like any marketplace, volume begets volume. Indeed the network effects are arguably more powerful for real estate portals than for the average marketplace given that buying a home is one of the most significant financial transactions that the end customer will ever make. This characteristic lend itself to a winner-takes-all/most industry structure, as the cost (perceived or otherwise) of not advertising where the most eyeballs reside can be significant.

Like most of the markets we look at, Swedish home buyers are retreating in the face of higher interest rates, with Hemnet reporting a 10% decline in fourth quarter listing volumes vs the prior corresponding period. Notwithstanding this, listing price increases in excess of 30% are helping to deliver revenue growth and higher margins. This is an unusually stark demonstration of a company exercising its pricing power. For context, Hemnet is relatively early on the journey of monetising its dominance, evidenced by comparatively low listing prices (both in absolute terms and as a percentage of house prices) in comparison to other market leading real estate portals.

With a capable management team, a board populated by ex-Realestate.com.au and ex-Rightmove executives, and its sheer dominance, we remain confident in the long-term prospects of this business.

### Major Detractors to Performance

The bottom 3 contributors were GoPro (-12%), Weis Markets (-7%), and Universal Store Holdings (-7%).

**GoPro (GPRO US)** – GoPro is a business that, to date, has been unable to convert tremendous brand awareness into sustainably strong returns for shareholders. To blame is a proliferation of cheaper competing products and the ever-improving functionality of the smartphone. Management is valiantly searching for a way to differentiate its product, including with a subscription-based model for cloud storage and added functionality, albeit with little success to date.

GoPro experienced a difficult FY22, with profitability impacted materially by foreign currency and broader inflationary pressures. Revenue was down 6%, or 2% in currency adjusted terms. However a weakening trend into year end was clearly evident (GoPro is not alone here, mind you!) with fourth quarter sales down 18%.

Having said all of that, the company continues to act in a shareholder friendly manner, as it utilises excess cash to buy-back stock. And despite its challenges, the stock is extremely cheap, with a market cap of \$790m and a net cash balance sheet to the tune of \$180m. Thus an EV of \$600m for a business generating \$1b pa in sales and a level of brand awareness that most CEO's would die for remains a compelling value proposition in our view.

## **Outlook & Strategy**

In last month's writeup, we alluded to ongoing volatility as the defining feature of today's financial markets. Little has changed at the time of writing, with news of US regional bank failures dominating the airwaves.

Times such as these present both risks and opportunity for investors. Avoiding uncompensated risk is core to our process, which steers us away from excessive leverage, cash burning business models, and non-sensical valuations. Whilst many find today's volatility disorienting, we view it as part of a necessary shakeout whereby the valuations of companies bearing the aforementioned characteristics return to more suitable levels.

The corollary of this is that our focus on cash generative businesses with defensible moats and strong balance sheets should continue to deliver outsized performance for fund investors going forward.

## 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](#)

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



## 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](mailto:service@pinnacleinvestment.com)

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