Spheria Global Opportunities Fund

ARSN 627 330 287 | APIR WHT6704AU

Performance as 31 January 2023

	1 Month	3 Months	1 Year	3 Years p.a.	Inception p.a[1]
Fund[2]	5.0%	5.7%	-9.6%	8.2%	11.7%
Benchmark[3]	5.7%	1.3%	-5.4%	3.7%	5.6%
Difference	-0.6%	4.4%	-4.2%	4.5%	6.1%

[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).

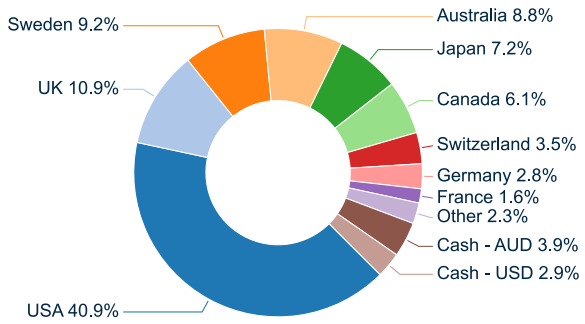
Overall Commentary

The Spheria Global Opportunities Fund returned 5.0% (after fees) during the month of January, underperforming the MSCI World Small Cap Index by 0.6%.

Top 5 Holdings

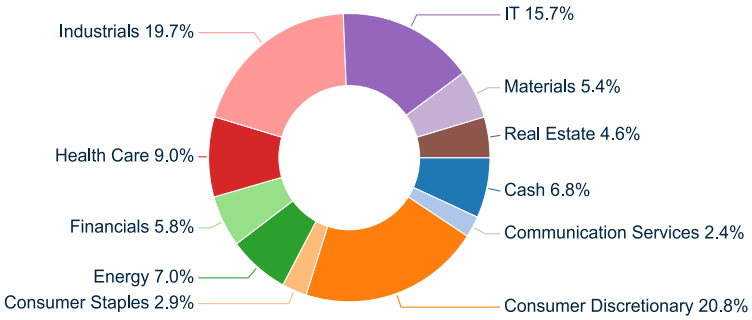
Company Name	% Portfolio
Zillow Group, Inc. - Class C Capital Stock	4.5
Nitro Software Ltd	4.5
Core Laboratories N.V. Common Stock	3.5
BML, INC.	3.5
Computer Modelling Group Ltd.	3.5
Top 5	**19.5**

Regional Exposure



Source: Spheria Asset Management

Sector Exposure



Source: Spheria Asset Management

Markets

Markets reversed December's losses as the 'rates peaking' and 'soft landing' narratives gained increasing ascendance over fears that inflation may remain stubbornly high, forcing central banks to overtighten and push economies into recession. The US market led the way in the small caps universe (+7%), modestly outperforming Europe (+5%) and well ahead of Asia (+2%). Technology names rallied strongly despite a raft of news headlines detailing headcount reductions from big tech, with such announcements viewed through the prism of 'bad news is good news' and seen to be reinforcing the notion that rates are close to peaking. Consumer discretionary also bounced strongly, whilst utilities and Energy were weak, impacted by a softer oil price.

We are often asked by our clients to polish our crystal balls and prognosticate on the outlook for 2023 and beyond. I only wish our vision was that clear, but if it were we might be making an alternative living dressed in gypsy clothes! The one thing we feel more certain about however is that even if we had perfect macro foresight – and we certainly do not – that would not correlate highly with investment success! The reason is simple. The stock market is a forecasting machine itself. It consistently updates share prices based on the average investor's perception of a company's future and much of what people think will happen (at least in next 12-18 months) is baked into the current price. Our job is to assess whether we think the 'baked in' view is more or less likely to transpire and to invest accordingly. In other words, if we could predict the macro environment perfectly, we would not be focusing necessarily on the right things as much of the macro may already be factored into share prices. Our fear of a certain thing happening could be well and truly discounted into those share prices already.

The Spheria team spends most of our time looking at business fundamentals and assessing what has been put into share prices and whether we can opportunistically take a different view to the market. Inefficiencies are a small cap investors bread and butter. The other way we "stress test" our portfolio to reduce risks is to start from a conservative base. Our process is built around looking for businesses with cash flow conversion, strong balance sheets (80% of our portfolio have net cash balance sheets – meaning they have no debt) and a supportive valuation. We believe this approach is likely to give our investors the best long-term advantage in outperforming the market whilst taking less risk.

Major Contributors to Performance

The top 3 contributors to the fund's relative performance were Zillow (+31%), Core Laboratories (+31%) and Burberry Group (+19%).

Burberry (BRBY LN) – "Britishness is an attitude" according to Burberry's recently departed Chief Creative Officer, Ricardo Tisci. Indeed, the attitude towards cyclically exposed retailers was overwhelmingly positive for the month of January, seeing this well-known luxury brand strongly outperform the index. The reopening of China's borders and an easing of Covid restrictions was a driver of sentiment, given sales in this part of the world have been severely impacted by the government's heavy-handed approach to containing the virus. We initiated the fund's overweight in Burberry in mid-CY22 on the basis that efforts to elevate the brand were bearing fruit and was yet to be fully appreciated by the market. Our confidence is underpinned by a highly reputable management team, including CEO Jonathan Akeroyd (previously CEO of Gianni Versace SpA before joining BRBY in Oct-21) and a succession of creative talent, recently headlined by the appointment of new Chief Creative Officer Danie Lee in October last year (ex-Bottega Veneta). This has been a profitable investment for the fund and we remain happy holders given a net cash balance sheet and scope to further narrow the valuation gap with its luxury peers which trade on ~20x EBIT vs BRBY 15x.

Major Detractors from Performance

The bottom 3 contributors were MIPS (-9%), BML (-3%), and Fielmann (-6%). The fund was also impacted by a long tail of small detractors stemming from the broad-based index rally over the month.

Fielmann (FIE GR) – Fielmann declined 7% in January on little news flow trailing both local and global indices over the month. Fielmann is Europe's largest optician, operating a >900 store network across 16 European countries. The company was founded in 1972 by Gunther Fielmann, opening his first store in the small German town of Cuxhaven and later listing in 1994. Today the

company is overseen by the founder's son, Marc Fielmann, and the family retains ownership of >60% of the company. Fielmann is especially strong in its home market of Germany, where it has 50% market share by volume and 20%+ market share by value of the German market whilst operating just 5% of the industry's store base. Similarly dominant positions in Switzerland and Austria position Fielmann as the low-cost producer in eyewear (ie. materially less rent per dollar of revenue), enabling it to offer its high-quality products at significant discounts (up to 70%) to competing brands. We expect near term margin pressures stemming from labour shortages and product mix to eventually give way to continued expansion across the fragmented European market. Fielmann's balance sheet is net cash, its cash flow remains strong, and it trades on a modest 8x mid-cycle EBIT.

Outlook & Strategy Going Forward

As at today, the Global Opportunities Fund offers investors superior upside to valuation, a higher free cash flow yield and exposure to higher returning businesses than the benchmark. In addition, balance sheet gearing for the fund is materially below the benchmark, with 80% of holdings having net cash balance sheets.

Thus in the face of ongoing market volatility, we remain extremely optimistic both on the prospects for the portfolio as it stands today, and on the opportunities that market gyrations will present going forward.

The pond in which we fish is exceedingly deep (~13,000 names) and rich with opportunity.

To that end our focus remains on identifying cash generative businesses with defensible moats and strong balance sheets, an approach that we strongly believe is capable of delivering outperformance in most market conditions.

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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

Fund Ratings

Zenith APPROVED

Fund Ratings

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

Disclaimer

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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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