Performance as at 31 March 2023

	1 Month	3 Months	1 Year	3 Years p.a.	4 Years p.a.	Inception p.a[1]
Fund[2]	1.3%	8.8%	2.4%	16.2%	12.4%	12.2%
Benchmark[3]	-1.9%	5.6%	1.6%	14.1%	7.6%	7.0%
Difference	3.2%	3.2%	0.8%	2.1%	4.9%	5.2%

[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).

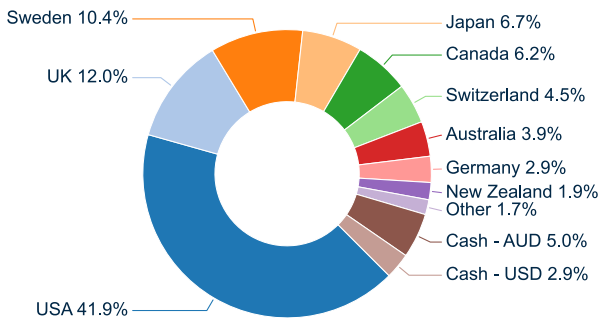
Overall Commentary

The Spheria Global Opportunities Fund returned 1.3% (after fees) during the month of March, strongly outperforming the MSCI World Small Cap Index by 3.2%.

Top 5 Holdings

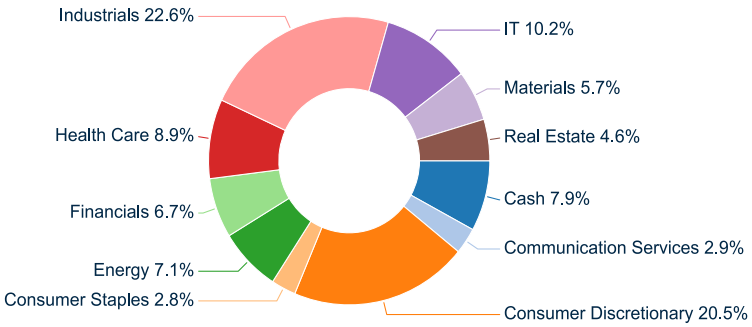
Company Name	% Portfolio
Zillow Group, Inc. - Class C Capital Stock	4.7
Computer Modelling Group Ltd.	4.0
BML, Inc.	3.3
Sonos, Inc. - Common Stock	3.2
Core Laboratories N.V. Common Stock	3.1
Top 5	**18.3**

Regional Exposure



Source: Spheria Asset Management

Sector Exposure



Source: Spheria Asset Management

Markets

The index declined on news of three US regional banks failures – Silicon Valley Bank, Signature Bank and Silvergate Bank – as associated concerns that financial contagion could drag on the global economy. Declines were led by the US (-3.2%), with weakness concentrated in the financial sector, which declined -11.3%.

The fund's underweight to financials was a major positive contributor for the month. Financials comprise 14% of the benchmark. Within financials, banks account for 6%, consisting almost entirely of regional banks (-18% for the month). The fund's zero weighting to regional banks added over 100bps of outperformance.

The fact that we do not own any US regional banks is not an accident and is worth spending a moment on. US regional banks fail to meet our investment criteria on multiple fronts. The US banking market is highly competitive and fragmented, with >4000 FDIC-insured commercial banks as of December 2022. Competitive advantage in banking is typically a function of scale, with lower funding costs and superior unit economics accruing to the larger players in the industry. By definition this places the regional banks at a disadvantage to their larger peers. Softer regulations were an attempt by US regulators to level the playing field. Weaker risk controls (aided by the softer regulatory requirements), rising interest rates, and a concentration of lending activities to cash-strapped segments of the economy (crypto and tech) all contributed to what was a spectacular collapse.

Dependence on regulation to sustain a company's niche can be a fragile moat at the best of times. But leverage ratios in the range of 10 to 20:1 combined with the abovementioned factors gave rise to a particularly poor payoff for investors, in our view.

Major Contributors to Performance

The top 3 contributors to the fund's relative performance were Zillow (+7%), Computer Modelling (+7%) and Napco (+20%).

Napco (NSSC US) – Napco Security Technologies Inc. manufactures electronic security devices, fire detection products, access control systems, and digital lock equipment used in residential, commercial, institutional, and industrial installations.

Napco's competitive advantage derives from its strong culture of innovation (dozens of patents) and obsession with in-house development of end-to-end solutions across the entire value chain (alarms & connectivity, locking, and access control), which translates into superior reliability for the end customer. The business has an 80/20 mix of revenue to commercial/residential end markets, and it sells its products through a worldwide network of wholesale distributors.

A key inflection point for the business occurred 7-8 years ago when Napco seized on the looming decommissioning of the copper phone networks to introduce a recurring revenue product to its suite. Historically the signal from Napco's products (alarm, fire etc) was transmitted through the telecommunication provider's copper networks to a central station, where the appropriate authorities were notified, and the appropriate course of action taken. With the decommissioning of the US copper networks, Napco's cellular radio-capable products now route the signal to the central station via Napco's own Network Operations Centre (NOC). For this service, the company receives a $10-$25/month fee.

Whilst the stock is not outright cheap on earnings multiples, it has strong cash flow and returns, no debt, and continues to be well-placed to benefit from several growth drivers, including the increasing focus on school safety, regulatory mandated fire alarm upgrades, and copper phone line obsolescence, which will help to drive high value recurring revenue for signal transmission over Napco's cellular infrastructure.

Major Detractors from Performance

The bottom 3 contributors were Labrador Iron Ore Royalty Co. (-9%), Biogaia (-7%), and Accelleron Industries (-4%).

Labrador (LIF CN) – Labrador Iron Ore Royalty Corporation generates all of its revenue from its investments in Iron Ore Company of Canada (IOC), a leading North American producer and exporter of premium iron ore pellets and high-grade concentrate. IOC is a joint venture between Rio Tinto (59%), Mitsubishi (26%), and LIF (15.1%). LIF's exposure comes in the form of its 15.1%

equity interest and a 7% revenue royalty. IOC's primary products include standard and low silica acid, flux, and direct reduction pellets, and iron ore concentrate, as well as seaborne iron ore pellets.

LIF reported an in line Q4 & FY22 result during the month, with the only surprise coming from a reduced dividend payout resulting from expectations of elevated F23 capex. This looks to have been a timing issue, with capex deferrals from FY22 causing the discrepancy. Thus, total capex across FY22-23 remains in line with budget (and our modelling assumption), the iron ore price remains firm, and IOC mine production and sales are expected to increase in FY23 as the China zero COVID-19 policy of strict lockdowns is cycled. Further supporting our continued holding in LIF, the company has no debt and a strong return profile by virtue of its economic exposure to a long duration (24yrs), low cost, high quality iron ore mine.

Outlook & Strategy

Across the fund, around 70% of our holdings have net cash balance sheets.

Debt is not inherently 'bad'. Indeed the application of leverage can improve the process of capital allocation across an economy, resulting in a net gain in productive investment. In addition, the benefits and risks of leverage are symmetrical, with the magnification of returns a feature on the positive as well as the negative side of the ledger.

However, it's at the individual company level where the reasons for our scrutiny on the balance sheet come into focus. The benefits of a strong balance sheet can be summarised as follows:

- You can't get 'stopped out' by a cyclical downturn in operations. The only way a company can go broke is if it has debt; and
- Optionality – At or near the bottom of the cycle, this may include the ability to buy over-geared competitors and/or to invest organically in the company's own operations as a means of widening its moat.

Excessive leverage is especially pernicious when coupled with other potential points of failure, such as a weak competitive position and dependence on a 'light-touch' regulatory regime, as was the case with the US regional banks.

Whilst we are not immune from making mistakes – this is ultimately how companies and people grow – our process of focusing on cash generative businesses with strong return profiles and balance sheets is designed to reduce the impact of such losses on performance and thus tilt the playing field in favour of investors in the fund over the long-term.

Spheria Global Opportunities Fund

ARSN 627 330 287 | APIR WHT6704AU

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

Fund Ratings

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311 or email distribution@pinnacleinvestment.com

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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