Spheria Global Opportunities Fund

ARSN 627 330 287 | APIR WHT6704AU

Performance as 30 November 2022

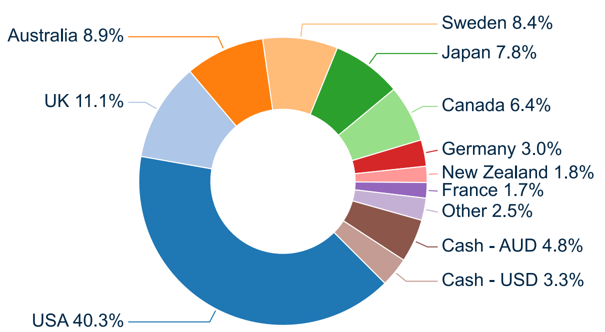
	1 Month	3 Months	1 Year	3 Years p.a.	Inception p.a[1]
Fund[2]	2.1%	6.4%	-14.4%	9.4%	11.2%
Benchmark[3]	1.1%	4.7%	-9.1%	4.1%	5.8%
Difference	1.0%	1.7%	-5.2%	5.2%	5.5%

[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

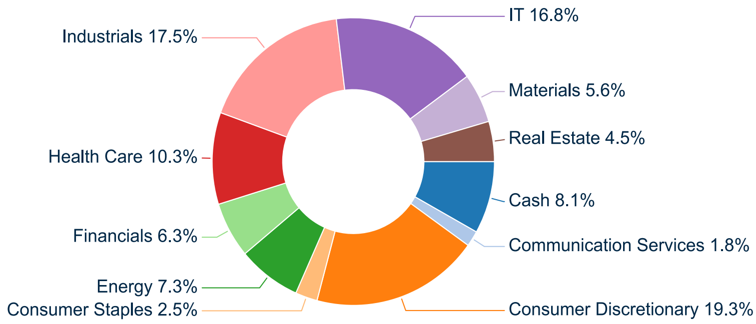
The Spheria Global Opportunities Fund returned 2.1% (after fees) during the month of November, outperforming the MSCI World Microcap Index by 1.0%.

Regional Exposure



Source: Spheria Asset Management

Sector Exposure



Source: Spheria Asset Management

Markets

November was a strong month for share markets globally with the MSCI World Small Cap Index up a solid 1.1% in A$ terms. Other markets were up more sharply with notable performances from the Eurostoxx up 9.1% and the Hang Seng leading the charge with a 21.5% rebound in A$ terms. The rebound appears to be largely driven by 10-year bond yields falling on the back of generally reducing pressures on inflation. We have been suggesting that there were many forces likely to drive inflation down including falling commodity prices, an unwind of the extreme pressure on goods trade (driven by the Covid surge followed by massive overstocking in the retail system globally) which in turn was driving down shipping and production costs in Asia. This has started to manifest in reported numbers which has got people thinking about when the current rates cycle may peak – possibly sooner and at a lower peak than previously thought.

Our sense is that the real economy will continue to slow in reaction to rate rises and some decisions around energy supply which are now causing system wide price increases. Pressures are being felt along the value chain with companies warning about margin pressures and deferrals in top line spending. In some cases, this is causing outsized reactions in share prices which is presenting us with opportunities in the small cap space. Whereas we were in a market where people would pay any price to OWN certain stocks, we have shifted to a market in which some people will ACCEPT any price NOT to own certain stocks. This flip in view can create opportunities for longer term and more fundamentally based investors.

Major Contributors to Performance

Zillow Group (Z.US) – increased 18% in November, partially recovering after a difficult year in which the stock has suffered amid a deteriorating US housing market. The current 30-year mortgage rate sits at 6.5%, below the recent peak of just over 7% and more than double the level of a year ago when it sat below 3%. Zillow is the market leading US real estate portal, with 3x the number of daily app users of the nearest competitor Redfin. Despite its market leadership, there remains a significant untapped opportunity to monetize the platform by further enhancing the quality of the leads that it passes onto its broker agent customers (and charging accordingly for making their job easier). Highlighting this is the fact that 2 out of every 3 home buyers shop using Zillow, yet just 5% of all homes transact via the site. This 'leaky funnel' (as management calls it) represents a big opportunity for the company and shareholders. Additional buyer services and tools for the agents (tour bookings, mortgages etc) that address pain points should, in time, 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 is sitting on $1.8b of cash with which its been buying back stock.

Zynex Inc (ZYXI.US) – Increased 15% in the month as the market continues to reward the company's consistent revenue and profit growth. Zynex manufactures and markets medical devices that electrical stimulation to treat chronic and acute pain, as well as activate and exercise muscles for rehabilitative purposes. The company focuses on small, portable, and battery-operated devices for home use, with its market leading NexWave electrotherapy product offering patients a safe alternative to opioids for pain management. This is a compelling value proposition for the patient and has been a great investment for the fund, in large part due to the two largest players in the space being forced out of the market in 2015-16 after they were found to be defrauding Medicare and mis-selling their products. This paved the way for Zynex to grow into the 'white space' that resulted, as management has focused on driving increased sales productivity to the medical professionals that prescribe the devices. Despite strong execution and increasing sales team effectiveness, we reduced our holding in Zynex during the month on the back of recent outperformance and an increasing reliance on its potentially lucrative but unproven R&D product pipeline to justify the current share price.

Expeditors (EXPD.US) – climbed 14% over the month after reporting a Q3 that was ahead of market expectations. As a global logistics and freight forwarding specialist, Expeditors has been tasked with helping its customers navigate the supply chain bottlenecks that have plagued the world for much of the past 2yrs. The company is cycling a period of elevated pricing and volumes across each of its air, ocean and customs brokerage divisions, meaning that profits will inevitably settle back down to more sustainable levels. Against this, the company's uniquely aligned staff compensation practices (key execs receive base salaries of $100k pa) add a cushioning layer for shareholders and incentivize its workforce to maintain and grow market share in the post pandemic era. Whilst the freight forwarding industry has low capital barriers to entry, it is an industry in which scale and reputation count for a lot. On these measures Expeditors has few peers, having opened with a single location in Seattle back in 1979. Today it operates in more than 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, $2b of cash, paying a dividend, and buying back its own stock.

Major Detractors from Performance

Mitek Systems (MITK.US) – declined 14% in November. Mitek dominates the north American mobile check deposit solutions market and is using this declining but cash generative business (along with its technology and relationships with banking customers) to fund growth into the large and growing ID verification market. Mitek's mobile deposit solution is used by thousands of bank customers to enable individuals to digitally capture an image of the check and securely facilitate its deposit online through the bank's app. Identity verification and authentication technologies and services help banks, financial services organizations and the world's leading marketplaces and sharing platforms to verify an individual's identity during digital transactions, allowing them to reduce risk and meet regulatory requirements. We see modest upside at the current valuation, with the prospects of the business largely a function of the rate of decline in the legacy check business and the company's ability to scale up in ID verification.

Napco Security Technologies (NSSC.US) – declined 11% in November despite reporting a strong Q1 result in which revenue increased 27%. Napco is a manufacturer of security products & related technology for intrusion, fire, video, wireless, access control and door locking systems. Its products are sold and installed by third party dealers into the commercial, industrial, institutional, residential and government end markets. Napco's competitive advantage derives from its strong culture of innovation 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 stock is not outright cheap on earnings multiples but is very well placed benefit from a number of 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.

Universal Store Holdings (UNI.AU) – declined 6% in November as the market continued to digest the company's $50m purchase of Thrills in the prior month. Thrills is a well-known brand in the casual youth flagship segment, selling both men's and women's products to numerous retailers including Universal. Universal intends to help grow the Thrills business nationally, both through the retailer channel and direct-to-consumer, where significant scope for growth exists. The group issued a positive trading update late in the month, with a 40% increase in sales (excluding Thrills) for the 21-week period to 20th November 2022. Whilst a weaker macro backdrop in 2023 appears likely to challenge consumers the world over, we continue to believe that Universal's youth segment will be relatively insulated. We also take comfort from the company's net cash balance sheet and attractive valuation, which we estimate at 6x FY23 EBIT.

Outlook & Strategy Going Forward

The move in markets over the past few months reflects a fairly dramatic shift in sentiment around mid-term interest rates. Whilst we are broadly of the view that inflation will be tamed, we harbour some concerns over the short to medium term around the real economy. Companies are laying off staff, energy costs are rising and interest rates are starting to bite. Against this, investor skittishness is providing sporadic and to us, highly attractive, investment opportunities which suits our style of investing. Lastly, Private Equity firms are clearly on the hustings having raised substantial sums of money (for which they earn no fees until said capital is deployed). As rates find a level and if opportunities continue to present themselves our sense is that several of our cash generative and reasonable to lowly geared companies may find themselves in the crosshairs of these investors.

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 Micro Cap Index
Investment Objective	Outperform the MSCI World Micro Cap Index in AUD (Net) over the long term
Investing Universe	Global listed microcap equities predominantly in developed markets with a market capitalisation of US$1.0bn and below at time of purchase
Holdings	Generally 30-80 stocks
Distributions	Annually
Fees	1.35% 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

ARSN 627 330 287 | APIR WHT6704AU

Fund Ratings

Fund Ratings

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

Disclaimer

This communication is prepared by Spheria Asset Management Pty Limited ('Spheria') (ABN 42 611 081 326, Corporate Authorised Representative No. 1240979) as the investment manager of the Spheria Australian Microcap Fund (ARSN 611 819 651) (the 'Fund'). Pinnacle Fund Services Limited ('PFSL') (ABN 29 082 494 362, AFSL 238371) is the product issuer of the Funds. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') (ABN 22 100 325 184). The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

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

This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance. Unless otherwise specified, all amounts are in Australian Dollars (AUD).
Whilst Spheria, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Spheria, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.
Any opinions and forecasts reflect the judgment and assumptions of Spheria and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future. Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Spheria. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.
This may contain the trade names or trademarks of various third parties, and if so, any such use is solely for illustrative purposes only. All product and company names are trademarks™ or registered® trademarks of their respective holders. Use of them does not imply any affiliation with, endorsement by, or association of any kind between them and Spheria.

Zenith Disclaimer: The Zenith Investment Partners ('Zenith') (ABN 27 103 132 672, AFSL 226872) rating (assigned Spheria Australian Microcap Fund – February 2022) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at https://www.zenithpartners.com.au/our-solutions/investment-research/fund-research-regulatory-guidelines/.

Lonsec Disclaimer: The Lonsec rating (assigned as follows: Spheria Australian Microcap Fund October 2021) presented in this document is published by Lonsec Research Pty Ltd ('Lonsec') (ABN 11 151 658 561, AFSL 421445). The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial products. Past performance information is for illustrative purposes only and is not indicative of future performance. They are not a recommendation to purchase, sell or hold Affiliate Name products, and you should seek independent financial advice before investing in these products. The Ratings are subject to change without notice and Lonsec assumes no obligation to update the relevant documents following publication. Lonsec receives a fee from the Fund Manager for researching the products using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: https://www.lonsec.com.au/investment-product-ratings/.