SPHERIA ASSET MANAGEMENT

Spheria Global Opportunities Fund

ARSN 627 330 287 | APIR WHT6704AU

Performance as at 30 September 2023

	1 Month	3 Months	1 Year	3 Years p.a.	4 Years p.a.	Inception p.a[1]
Fund[2]	-4.9%	-3.8%	18.5%	10.0%	11.3%	10.9%
Benchmark[3]	-4.9%	-1.4%	13.6%	10.0%	6.5%	6.8%
Difference	0.1%	-2.4%	4.9%	-0.0%	4.8%	4.1%

[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 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).

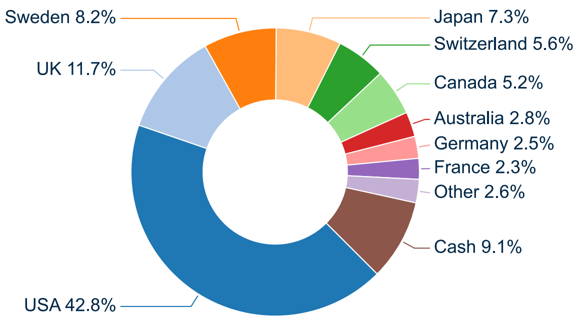
Overall Commentary

Portfolio performance for September was -4.9% (net of fees), outperforming the MSCI World Small Cap Index by +0.1%.

Top 5 Holdings

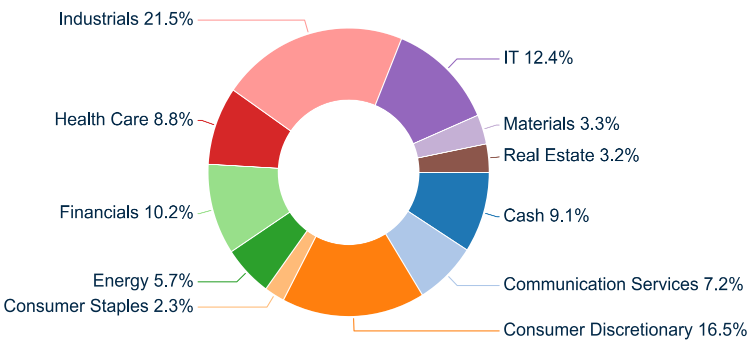
Company Name	% Portfolio
Accelleron Industries AG	4.0
Intertek Group PLC	3.4
Hargreaves Lansdown PLC	3.3
Ferguson PLC	3.3
Zuken Inc	3.2
Top 5	**17.1**

Regional Exposure



Source: Spheria Asset Management

Sector Exposure



Source: Spheria Asset Management

Markets

In the quarter, negative headlines dominated the news, causing a sell-off in bonds and a flight to perceived safety. Not for the first time, questions are being asked about the durability of the Chinese growth, whilst OPEC poured fuel on the inflation fire with surprise production cuts, and a narrowly averted US government shutdown, all culminating in a +100bp increase in long-dated US Treasuries, a USD rally and broad-based equity market weakness.

On a more optimistic note, easing supply chains, Covid-19 cases and deaths continue their decline, productivity enhancing AI use-cases are coming into focus, and whilst valid concerns about the direction of economic growth exist, we observe that it remains comfortably positive in both advanced and emerging markets, and unemployment rates remain near cyclical lows.

Irrespective of the backdrop, we continue to have the luxury of fishing in an incomparably deep pond with >12,000 potential investee companies and minimal sell or buyside coverage. Thus finding good ideas remains largely independent of market gyrations.

Positive contributors to market performance over the quarter were energy, financials and consumer staples with weakness in health care, utilities and information technology.

In the past three months we've made a number of changes to the portfolio. We've trimmed winners, including Zillow (Z.US) and Computer Modelling Group (CMG.CN). We've added to underperformers, including Zuken (6947.JP), MIPS (MIPS.SS) and Napco Securities Technology (NSSC.US). We initiated a number of new positions in businesses where we see valuation support and portfolio diversification benefits, including Fox Factory (FOXF.US) and Crocs (CROX.US) and have exited Go Pro (GPRO.US) and Somero Enterprises (SOM.LN).

The portfolio continues to exhibit positive characteristics versus the benchmark, including a superior ROE, a higher free cash flow yield and materially lower financial leverage. This combination of traits bears the hallmarks of our philosophy, where we aim to provide investors with exposure to high quality, cash generative businesses whilst minimizing exposure to undue risk.

Major Contributors to Performance

The top 3 contributors to the fund's relative performance were Computer Modelling Group (+30%) Accelleron (+12%) and Sapiens International (+11%).

Accelleron (ACLN SW) – rallied 32% in the quarter, following a strong 1H23 result where it reported revenue growth +20%, supported by strong demand from both the merchant marine and gas compression end markets.

Accelleron is the global leader in "off-highway" turbochargers, used in combustion engines to help optimise fuel economy, operating costs, and emissions. They have 50% share of new turbocharger sales in merchant marine and 80% share in gas compression. How did it attain such dominance? Given the mission critical nature of the product, performance and durability are key. To illustrate this point, it's worth considering that merchant marine vessels run ~5k hours pa, almost equivalent to the lifetime of a car and the velocity at the tip of the turbine blade is close to the speed of sound. Accelleron's turbochargers are highly engineered to optimise the trade-off between performance and reliability.

Recent strong operating performance is a function of the strong demand in merchant marine following a period of elevated freight rates during the pandemic. Demand in the gas compression market has been driven by US shale, which has been gearing up to export LNG to Europe who continues to seek out alternatives to Russian gas.

We continue to see supportive trends, specifically in merchant marine. We note that the shipyards are booked solid 2-3yrs in advance, the balance sheets of the major shipping companies are relatively healthy, and the International Maritime Organisation recently stepped up the industry's decarbonisation targets, further increasing the value of a high-quality turbochargers.

Even after a strong quarter Accelleron continues to look very attractive, trading on just 12x EBIT and a minimally geared balance sheet.

Major Detractors from Performance

The bottom 3 contributors were Napco (-33%), Cargurus (-20%), and Concentric AB (-18%).

Cargurus (CARG US) – Issued a delay to 2Q results, causing an adverse share price reaction. The company indicated no material operational or financial reasons for the delay and ultimately reported results at the top end of guidance.

Cargurus started raising prices of its underpriced dealers at the beginning of the year and has since seen a pleasing response with subscribing dealers largely flat whilst 40% of the small number of dealers that did churn, returned to platform after a couple of months. We favour the oligopolistic structure of the industry in which the 3 largest players control 90%+ of the market, with commensurately rational competitive dynamics.

Cargurus remains the leading US Auto classifieds platform eclipsing the next largest player by 70% in terms of dealership numbers, 50% by listing numbers and 30% by unique monthly visits. Leads are the life blood of a dealer, and Cargurus continues to outspend its peers on R&D, aiming to deliver a higher quality lead – one that is lower down the "funnel" and hence more likely to transact.

The wholesale digital platform acquired in 2021 remains a free option at current valuations, as Cargurus rework the business model after a rollercoaster performance since the time of the acquisition.

Cargurus trades on an attractive 16x EBIT for a market-leading portal, has a net cash balance sheet of $360m, and is repurchasing its stock.

Outlook & Strategy Going Forward

Across the fund, 70% of our holdings have net cash balance sheets. Along with our obsessive focus on cash flow, we continue to maintain a portfolio with robust risk characteristics versus the benchmark. Despite this, the fund offers a superior return profile and lower headline earnings multiples than the market.

Watching the macroeconomic prognosticators lurch from one extreme to the other over the past few years has been a useful reminder of the pitfalls of top-down investing. Admittedly one's portfolio would look vastly different if the main question you sought to answer every day was whether the world of interest rates was set for a period of 'lower-for-longer' or 'higher-for-longer'. Troublingly for those macro buffs, over the last 3 years we've seen conventional wisdom do a very precise backflip on this very pivotal question.

Our approach at Spheria continue to focus on the fundamentals namely, cashflow, returns and balance sheet. Keeping our focus sharply on the micro yields better and predictable outcomes for clients, as the actions of businesses and the individuals that influence them are more easily analysed and forecastable than the myriad of inter-related factors that drive the macro.

This latest move down in equity markets has deepened what was already a historically wide performance gap between large and small stocks. Where that spread goes in the near term remains truly unknowable. But if history is any guide, the odds favour a period of small company outperformance in the not-too-distant future.

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		

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

Spheria Global Opportunities Fund

ARSN 627 330 287 | APIR WHT6704AU

Fund Ratings

Contact Us

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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