Spheria Opportunities Fund

ARSN 114 032 431 | APIR WHT0025AU | mFund SPM03

Performance as 28 February 2023

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[1]
Fund[2]	-2.0%	0.3%	-4.7%	11.5%	7.6%	9.6%
Benchmark[3]	-3.4%	-1.7%	-1.1%	8.8%	6.3%	8.4%
Difference	1.5%	2.0%	-3.6%	2.8%	1.3%	1.2%

[1] Inception date is 11 July 2016. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.
[2] Spheria Opportunities Fund. Returns of the Fund are net of applicable fees, costs, and taxes.
[3] Benchmark is the S&P/ASX Mid-Small Accumulation Index.

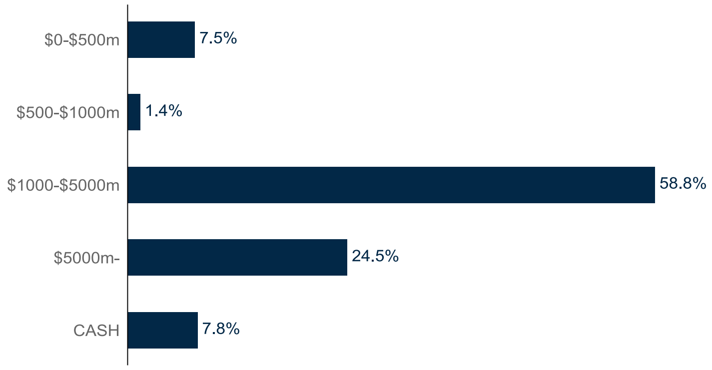
Overall Commentary

The Spheria Opportunities Fund returned -2.0% (after fees) during the month of February, outperforming the S&P/ASX Mid-Small Accumulation Index by 1.5%.

Top 5 Holdings

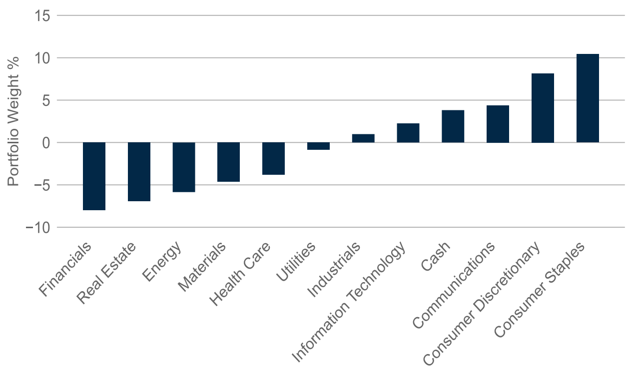
Company Name	% Portfolio
The A2 Milk Company Limited	5.6
Alumina Limited	5.3
ALS Limited	4.4
Flight Centre Travel Group Limited	4.1
Charter Hall Group	4.0
Top 5	**23.4**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

Again, the small to mid-sized end of the market fell more than the larger end with the S&P/ASX 100 index down only 2.4% in February. This trend began at the beginning of last year with the relative underperformance now having extended to greater than 14%.

The reporting season was particularly “bizarre” with share prices hammered on any glint of negativity in a result. To us it feels like the market is becoming even more short term in nature which presents opportunities for those with a long-term investment horizon.

Major Contributors to Performance

Over the month the largest contributors to performance were Orora (ORA.ASX, +19%), Flight Centre Group (FLT.ASX, +19%) and Link Administration Holdings (LNK.ASX, +19%).

Orora (ORA.ASX) – share price rose almost 19% in February post the release of their half yearly results. The business delivered a strong result, with revenue increasing 7% (on a constant currency basis) and EBIT growing over 2%, despite the headwinds of lower glass bottle volumes in Australia, rising inputs costs across the group and a weakening global macro-economic backdrop. North America performed surprisingly well with EBIT growing 10% (on a constant currency basis) largely driven by the performance in their distribution division with margins expanding due to a continued focus on business optimization, customer account profitability management and cost to serve. The share price had sold off over the last six months on concerns about the macro environment particularly the US business due to its significant operating leverage (i.e. heavy lease exposures). China’s re-opening should lead to better export demand for Australian commercial wine bottles, which has been a source of weakness in recent results, and the Australian operations will continue to benefit from the trend away from beer bottles to cans. Whilst the company is not cheap at 14x EV/EBIT, we believe it is one of the best run mid-cap companies with a strong domestic manufacturing business and a much better placed North American division after substantial management improvement in recent years.

Major Detractors from Performance

The largest detractors were InvoCare (IVC.ASX, -18%), Star Entertainment Group (SGR.ASX, -18%) and Blackmores (BKL.ASX, -9%).

Invocare (IVC.ASX) – share price fell around 18% during February with most of the decline being post the release of their CY22 financial result. As we had been anticipating, the business delivered strong top line growth (+12%), benefiting from unusually high excess deaths in key markets, a trend that has been in place for the last 18 months or so. However, the business was unable to convert this into operating leverage with costs rising 13% and capex remaining very elevated. The result was disappointing given the amount of capital that has been invested into the business over the last few years to refurbish funeral homes and upgrade technology to deliver greater efficiency. Whilst some of the cost increases were justifiable given labour market tightness, the inability to recover cost increases via higher prices was more technology and management related, in our opinion. Continued elevated capex (~$70m in CY23) and discussion of “overseas acquisitive” growth rightly spooked the market and exacerbated the share price decline. Despite this we view IVC as a high-quality asset with a difficult to replicate geographic footprint, that has infrastructure like dynamics in a growing market which is duopolistic across many facets of its business and regions. After month end IVC was subject to a sharemarket raid from a private equity group at $12.65 (+40% premium to the last traded price) which acquired a 19.9% holding and put forward a non-binding indicative proposal to acquire all remaining shares at that same price. We believe it is in the shareholders’ best interests to pursue this approach and extract the highest price possible.

Outlook & Strategy Going Forward

Every downturn there seems to be a move toward “perceived” safety with multiples for defensive type companies blowing out to inconceivably high levels, perhaps this to some extent explains the rotation away from small caps to large cap companies. Given the extent of the rotation and demarcation in valuations we believe there is a high probability of making significant returns from the smaller end of the market relative to the larger end in the next few years.

Our relative performance is good, and we are investing for better absolute returns ahead.

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

FNZ Group
HUB24
mFund
Praemium
Macquarie Wrap

Spheria Opportunities Fund	
Benchmark	S&P/ASX Mid-Small Accumulation Index
Investment Objective	Outperform the S&P/ASX Mid-Small Accumulation Index over the medium to long term
Investing Universe	Primarily listed companies outside the top ASX 50 listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation
Holdings	Generally 20-65 stocks
Distributions	Half-Yearly
Fees	0.99% p.a Management fee & 15% performance fee of the Fund’s excess return versus its benchmark, net of the management fee
Cash	Up to 20% cash, typically 5% - 10%
Expected Turnover	30% - 40%
Style	Long only, risk aware
APIR	WHT0025AU
Minimum Initial Investment	$25,000

Fund Ratings

Zenith RECOMMENDED

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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