SPHERIA ASSET MANAGEMENT

Spheria Opportunities Fund

ARSN 114 032 431 | APIR WHT0025AU | mFund SPM03

Performance as 31 January 2023

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[1]
Fund[2]	6.5%	5.8%	0.0%	7.7%	7.5%	10.1%
Benchmark[3]	6.3%	6.8%	2.3%	6.5%	7.2%	9.1%
Difference	0.2%	-1.0%	-2.3%	1.1%	0.4%	1.0%

[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.

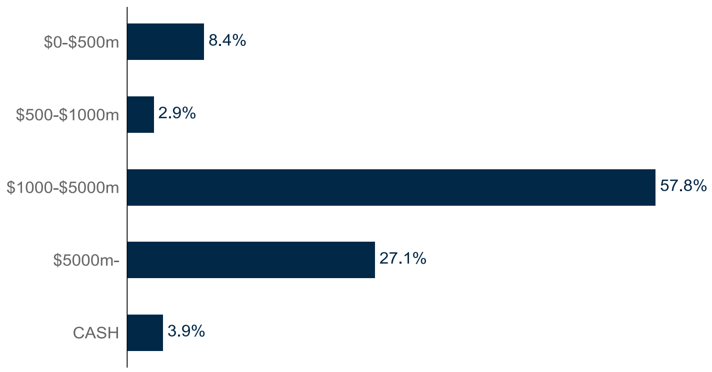
Overall Commentary

The Spheria Opportunities Fund returned 6.5% (after fees) during the month of January, outperforming the S&P/ASX Mid-Small Accumulation Index by 0.2%.

Top 5 Holdings

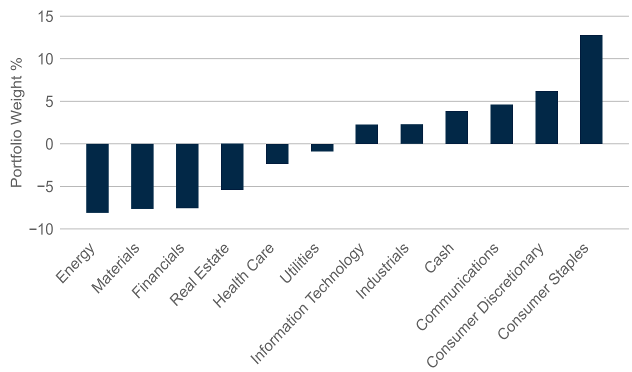
Company Name	% Portfolio
The A2 Milk Company Limited	5.8
Alumina Limited	4.9
Metcash Limited	4.8
ALS Limited	4.4
Blackmores Limited	4.0
Top 5	**23.9**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

The Small Ordinaries and the Mid-Small indices rose coincidentally 6.3% over January recouping some of the losses felt in calendar year 2022. Whilst smaller companies were most sold off last year (falling almost 18% over 2022 vs. the ASX 100 which was actually up 2.3%), the bounce in markets has so far been uniformly felt across both large and small company indices. Last year saw a confluence of negative events – the re-emergence of inflation, rapid interest rate increases and a war in Ukraine/Russia which caused uneven spikes in commodities and energy. We can only hope that calendar year 2023 is a brighter year for markets and the world in general.

We are often asked by our clients to take out and polish our crystal balls and to 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 stockmarket is a forecasting machine itself. It consistently updates share prices based on the average investor's perception of a company's particular future and so much of what people think will happen (at least in next 12-18 months) is sort of baked into the current price. Our job is to assess whether we think the 'baked in' view is more or less likely than the average market participant 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 from 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 (50% of our top 10 holdings are typically 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 on less risk.

Major Contributors to Performance

Over the month the largest contributors to performance were Blackmores (BKL.ASX, +21.4%), Breville Group (BRG.ASX, +23.2%) and Reliance Worldwide (RWC.ASX, +18.6%).

Blackmores (BKL.ASX) – share price rose 21% in January on no new news. We believe the strong share price performance is a combination of news of China reopening and consumer discretionary names rallying strongly in January. The Chinese market in FY22 made up 22% of BKL's revenue and we expect easing of restrictions will be supportive for growth in that region. We have discussed our thesis for Blackmores in prior commentaries. Their margins continue to remain below that of some of their peers with what we believe is less brand presence. An increase in margins from their current levels to high teens could mean a significant increase of their current earnings. The company has over $80m of net cash and trades on an EV/EBIT multiple of 20x using a low double digit EBIT margin.

Major Detractors from Performance

The largest detractors over the month were A2 Milk (A2M.ASX, -0.9%), Incitec Pivot (IPL.ASX, -8.5%) and not owning Whitehaven Coal (WHC.ASX, +19.3%)

Incitec Pivot (IPL.ASX) – fell 8.5% in January on no company specific news. IPL has been a strong contributor to the Fund over the last year benefiting from record fertilizer and ammonia prices. However, a weaker share price performance in January reflects declines in European gas prices following a warmer winter and a weaker demand backdrop. As the key input into ammonia production, the previous dislocation in global gas markets benefited IPL given import parity pricing with European gas as the marginal feedstock. The unwinding of this dynamic, along with some USD strengthening, places downward pressure to IPL's nearterm earnings outlook. We factor a normalisation in long-term gas and ammonia prices into our forecasts and continue to see reasonable value in IPL in that context trading on 9-10x normalised EV/EBIT.

Outlook & Strategy Going Forward

The broader market was due for some kind of “bounce” after the strong selling and general panic of 2022. Whilst January has provided some relief to that selling, there still remains a relative opportunity in small cap stocks which are still well below their level of a year ago. From our bottom-up perspective there remains pockets of strong opportunity in parts of the market. The forthcoming results season is likely to provide some interesting opportunities for portfolio rotation despite a more cautious macroeconomic outlook.

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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