Spheria Opportunities Fund

ARSN 144 032 431 | APIR WHT0025AU | mFund SPM03

Performance as at 28th February 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[3]
Fund[1]	2.9%	-0.1%	17.4%	13.0%	13.0%	12.4%
Benchmark[2]	-0.2%	-6.4%	9.1%	10.4%	10.7%	10.2%
Difference	3.0%	6.3%	8.3%	2.7%	2.4%	2.2%

1 Spheria Opportunities Fund. Returns of the Fund are net of applicable fees, costs and taxes.
2 Benchmark is the S&P/ASX Mid-Small Accumulation Index.
3 Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2010. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.

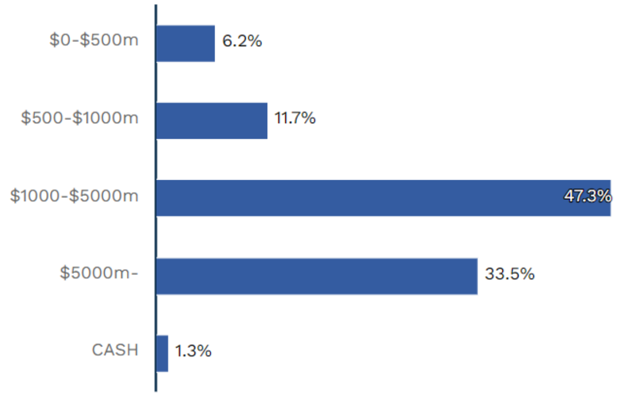
Overall Commentary

The Spheria Opportunities Fund returned 2.9% (after fees) during the month of February, outperforming the S&P ASX Mid-Small Accumulation Index by 3.0%.

Top 5 Holdings

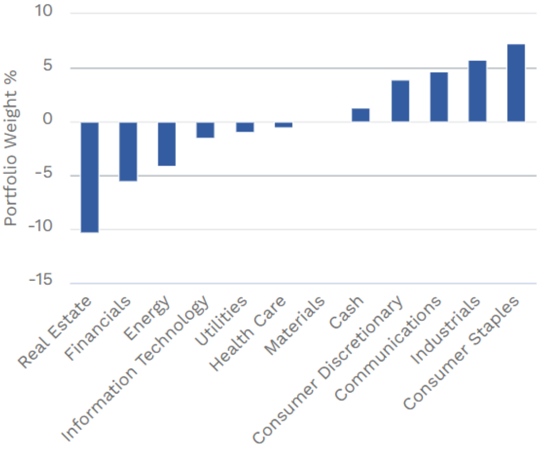
Company Name	% Portfolio
Alumina Limited	6.0
The A2 Milk Company Limited	5.0
Atlas Arteria	5.0
Incitec Pivot Limited	4.6
Orora Limited	4.3
Top 5	**24.9**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

The local small and midcap indices were broadly flat over February, despite the index increasing early in the month before falling mid-month due to conflict in the Ukraine. Countries reacted by imposing sanctions on many of Russia's key exports, with the intention of causing significant financial distress to the country. As a result, commodity prices, particularly oil rallied strongly over the back half of the month and continued into March, as markets feared the sanctions imposed would impact global supply of crude oil, for which Russia is second largest producer in the world. In March, oil surpassed US$120 per barrel, topping a 14-year record, last seen in 2008 prior to the GFC. This coupled with the already strong inflationary numbers, is providing further fuel to the inflationary outlook. Despite the potential near term hesitation from Central banks to raise interest rates, as they evaluate the short-term implications of the Ukraine situation, we expect rates will rise and rise considerably to curb inflationary pressures. This was reaffirmed in the February reporting season; with many companies reiterating the rising cost pressures many businesses are experiencing due to strong demand and supply side constraints.

Major Contributors for the Month

Monadelphous (MND.ASX) rallied 26% over February. MND reported its 1H22 results in February which beat expectations, with the Company's Maintenance and Industrial Services division achieving a record half of sales. Overall profitability rebounded strongly after being heavily affected by government restrictions that constrained the supply of labour in the WA market. With restrictions now being eased, we believe the worst of it is behind them. In addition, the business has strong industry tailwinds, with elevated levels of demand for its core services due to buoyant commodity prices. We continue to like the business as MND has one of the best sector performance histories – executional excellence, consistent cash flow and a conservative management team. The business currently has a net cash balance sheet ($175m net cash) and is trading on an EV/EBIT of around 10 x FY23.

Invocare (IVC.ASX) rose 16% over the month, strongly outperforming the market. The company reported its full year 2021 result in February, which rebounded strongly after being affected in CY20 by government restrictions. IVC operates funeral and memorial services across Australia, New Zealand, and Singapore. The company is most of its way through a significant refurbishment program that will enable it to sustain or even increase market share. Counterintuitively, excess deaths in Australia have trended negatively for the last two years despite a pandemic. Unfortunately, we believe a return to normal levels will benefit industry participants including IVC. Trends in excess death rates overseas lend support to this thesis.

Alumina (AWC.ASX) increased 5% in February on the back of rising Aluminum prices in January and February on the back of rising tensions in the Ukraine. Russia produces about 6% of the world's Aluminum and global supplies were already tight before the Ukraine conflict. Rusal, Russia's largest smelter also relies on Alumina supply from a key refinery in the Ukraine. This has placed significant short term upward pressure on the global price of Alumina for which AWC is a significant beneficiary. We believe these issues are potentially short term, nevertheless as a low-cost producer of Alumina with long reserve life, we believe AWC can generate returns greater than its cost of capital for the long term.

Major Detractors for the Month

Evolution Mining (EVN.ASX – Not Owned) rallied strongly in February as with most of the gold sector. The sector benefiting from a rally in gold prices due to the usual "flight to safety" when there is volatility including geopolitical events including war. We find it difficult to invest in the gold sector due to the speculative nature of gold and lack of fundamental demand for the commodity.

Lynas Rare Earths (LYC.ASX – Not Owned) increased 14% on the back of rallying commodity prices including rare earths. Rare earth supply is dominated by China which has been caught up in geopolitical issues. Lynas will be a beneficiary of any shortages in supply given its operations are based in Malaysia.

Bega Cheese (BGA.ASX) share price declined 8% after a solid 1H22 result was overshadowed by temporary logistic issues and upward pressure on farm gate milk prices, which is a key input for many of its products. Passing the increased costs on is an issue across its portfolio whereby some branded products have pricing power like Vegemite versus milk powders which are influenced by global demand and supply. There is also a lag before price increases can be effected across its portfolio of branded product.

Outlook & Strategy

The market has entered a period of uncertainty with the prospect of rising interest rates and a conflict in Ukraine which is exacerbating many of the concerns around inflation and commodity price pressures. Despite the volatility we believe our focus on valuations and sound balance sheets is likely to continue to see the portfolio perform well over the medium term. With the pullback in markets over recent times, valuations are becoming more appealing in many names that were previously fully valued.

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 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

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Fund Ratings

RECOMMENDED

Further Information

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

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