Spheria Opportunities Fund

ARSN 114 032 431 | APIR WHT0025AU | mFund SPM03

Performance as at 30 June 2024

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[1]
Fund[2]	-1.7%	-2.4%	14.1%	4.3%	7.8%	9.3%
Benchmark[3]	-1.4%	-3.7%	7.9%	1.7%	6.7%	8.0%
Difference	-0.3%	1.3%	6.2%	2.6%	1.1%	1.3%

[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.

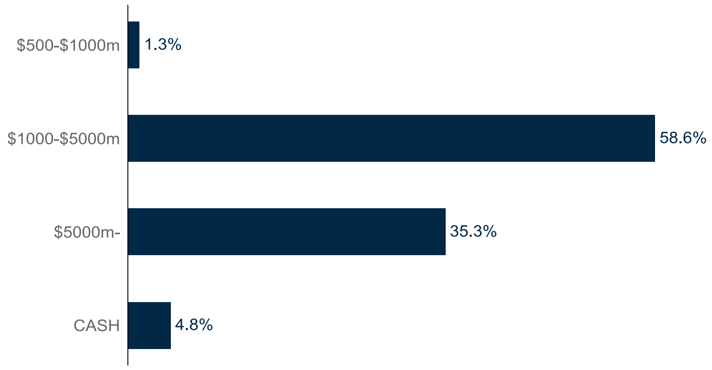
Overall Commentary

The Spheria Opportunities Fund returned -1.7% (after fees) for the month of June, underperforming the S&P-ASX Mid-Small Accumulation Index by 0.3%.

Top 5 Holdings

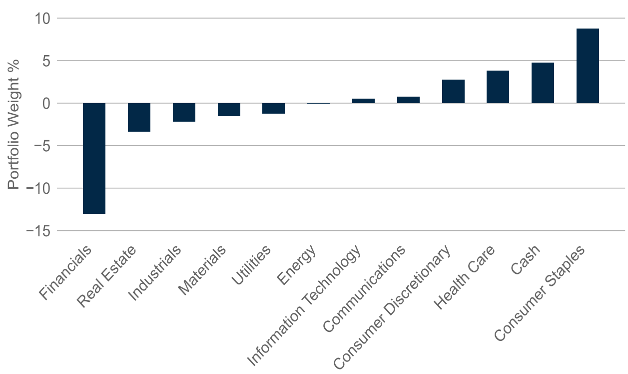
Company Name	% Portfolio
Whitehaven Coal Limited	6.6
The A2 Milk Company Limited	5.2
Ansell Limited	4.7
Charter Hall Group	4.7
Metcash Limited	4.6
Top 5	**25.7**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

Smaller companies continued to drift lower over June with micro caps and smaller companies underperforming large caps. While trying not to turn ourselves into macro economists it was pertinent to note that Canada, the ECB (Eurozone), Switzerland and Sweden all cut interest rates over June by 25bps. Several major countries – the US, UK and Australia all held rates over the month with the US providing its strongest hints yet that rates could come down later in the year. This is relevant because our view is that the Australian economy is rapidly moving into a recession like situation which has been somewhat masked by high immigration and the drawdown of significant personal savings consumers built up during the Covid period. With these buffers now showing signs of exhaustion, we are starting to see companies struggle to grow toplines and maintain cost discipline.

Cost reduction hasn't been a strong skill set amongst Australian corporates and to be fair, hasn't for some time been a core skill requirement. Given a tougher consumer outlook with some wage pressures still evident, now is the time to flex these muscles. Cost reduction, innovation and staff motivation will be key differentiators between how smaller companies execute over the next 12-18 months.

Major Contributors to Performance

Over the month the largest contributors to performance were from overweight positions in Healius (HLS.ASX, +18%), Ansell (ANN.ASX, +9%) and Star Entertainment Group (SGR.ASX, +9%).

Healius (HLS.ASX) share price rose 18% during the month after the company provided a trading update for the 2024 financial year which implied a significant second half improvement in operating performance, with the business expecting to generate $60-65m of underlying EBIT for the full year to 30 June 2024. Improving pathology volumes, a moderating rate of inflation, and a much-needed focus on costs and productivity provide the foundation for continued margin improvement off the 1H24 lows. The imaging business is currently up for sale with interest from multiple parties driving some welcome competitive tension into the process. The sale proceeds will be more than sufficient to leave Healius with a net cash balance sheet. As the 2nd largest player in a consolidated Australian pathology market (top 3 comprise ~70%) we continue to be attracted to the business over the long term and see further material upside to the current share price.

Major Detractors from Performance

The largest detractors from performance included overweight positions in Deterra Royalties (DRR.ASX, - 14%), ***not owing*** Pro Medicus (PME.ASX, +19%) and Alumina (AWC.ASX, -11%).

Deterra Royalties (DRR.ASX) share price fell 14% in June after it announced the acquisition of Trident Royalties. Deterra has agreed to acquire 100% of Trident Royalties for 49p per share, for a cash consideration of ~£144m (A$276m). Trident operates as a diversified mining royalty and streaming company headquartered in the UK. Trident owns a portfolio of 21 royalty agreements (providing exposure to base, precious, bulk and battery metals, including lithium, gold, silver, copper, zinc, mineral sands and iron ore) with 60% of the assets based in Canada, the US or Australia. Trident generated US$11m in royalty and offtake revenues in FY23 with medium term growth potential to > US$40m with the key growth asset being a 1.05% revenue royalty over the Thacker Pass lithium project (which equates to 40% of the purchase value). The acquisition diversifies Deterra's royalty away from iron ore and provides growth beyond BHP's Mining Area C (MAC) asset. To protect the balance sheet Deterra has conservatively cut their payout ratio to a minimum of 50% of NPAT, down from 100%. The cut in the dividend yield as well as weakness in the iron ore spot price has resulted in an overreaction in the share price which makes for a decent buying opportunity with the business trading on 9x EBIT.

Outlook & Strategy Going Forward

As we discussed last month, Australia is lurching toward recession like conditions. Backward looking statistics aren't fully reflecting the toughening labour market conditions nor capturing consumer sentiment. Merely raising prices (as cafés around us want to do) without looking to trim costs where possible is going to see consumers shift their preferences. We are entering a time when better management teams will earn their stripes. We think the upcoming reporting season could be a tough one for smaller companies, however this is likely to somewhat assist Central Banker's moves with respect to interest rates which in turn will go some way to stimulating the recovery in the economy. We believe businesses with strong balance sheets and a proven ability to generate cash are likely to come through market challenges in better shape and we continue to focus on unearthing these types of opportunities.

Platform Availability List

The Spheria Opportunities Fund is available on the below Platforms. Platforms provide 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.

HUB24	mFund	Netwealth	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
Risk	Very high
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

Recommended Lonsec Research

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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