

Performance as at 31st August 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a ³
Fund ¹	3.2%	1.0%	-1.0%	10.1%	10.1%	10.6%
Benchmark ²	2.5%	-0.2%	-7.7%	7.9%	9.1%	9.1%
Difference	0.7%	1.2%	6.7%	2.2%	1.0%	1.5%

1 Sphera 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.



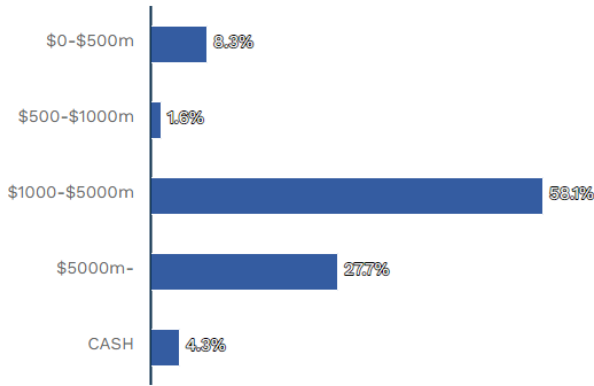
Overall Commentary

The Sphera Opportunities Fund returned 3.2% (after fees) during the month of August, outperforming the S&P/ASX Mid-Small Accumulation Index by 0.7%.

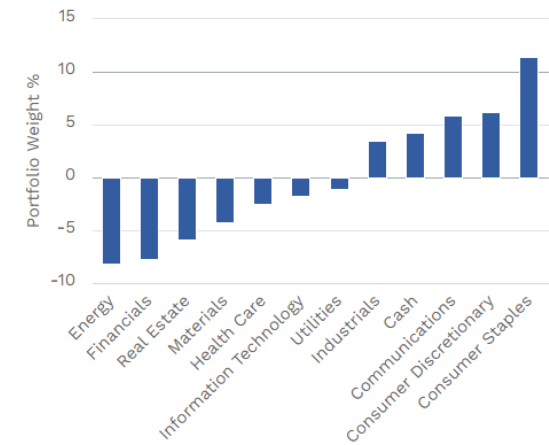
Top 5 Holdings

Company Name	% Portfolio
The A2 Milk Company Limited	6.0
Metcash Limited	5.4
Alumina Limited	5.1
ALS Limited	5.1
REA Group Ltd	5.0
Top 5	26.7

Market Cap Bands



Active Sector Exposure



Source: Sphera Asset Management

Source: Sphera Asset Management

Markets

The Fund performed well in August with results generally better than expected and takeover activity in the beaten-up small cap technology sector broadly reflatting that space. The lithium sector continues to expand which has detracted from relative performance, but we note most of these miners are not producing, and the lithium price feels like it has gotten well ahead of fundamentals – this happened in 2019 as well. On the economic front, the combination of higher mortgage rates, higher fuel prices and rampant inflation has yet to significantly impact consumer spend with countervailing forces of full employment, strong wages growth and solid household balance sheets providing a buffer for now, and household credit still flowing. For what it's worth most of the companies we talk to are trading relatively well and balance sheets afford a solid buffer to ride out the highly anticipated economic downturn.

Major Contributors for the Month

Positive performance contributions from companies owned included:

A2 Milk (A2M.ASX) – rallied by 22% after a stronger than expected FY22 financial result. Sales continued to grow with full year underlying growth of 11% and 2H22 sales up 16%. Margins also are improving from a low base and the company had exceptional cash flow conversion and now has +NZ\$800m of net cash on balance sheet. The group is confident of achieving high single digit revenue growth in FY23 with a further improvement in margins. It also announced a buyback of up to NZ\$150m which we view positively.

Monadelphous (MND.ASX) – share price increased 27% after reporting a solid FY22 financial result in August. The balance sheet is sound with over \$180m of net cash and the outlook for the business remains strong due to relatively high commodity prices. The Maintenance and Industrial services division grew revenues by 19% and now represents over 60% of group revenue. We view this transformation favourably as it is less risky than construction related revenue and more recurring in nature. MND is trading on an EV/EBIT multiple of about 10x.

Insignia Financial (IFL.ASX) – bounced 13% from a low base after a better expected FY22 financial result. Net outflows from their platforms are reducing but from relatively high levels. Like AMP, the company is working through the hangover from the Royal Commission with remediation costs/payments elevated (\$257m in FY22) and integration cost from the merger with MLC +\$100m, this is weighing of free cash flow generation and dampening the amortisation of debt acquired from the MLC acquisition.

Major Detractors for the Month

The main detractors to performance were from companies that we did not own during period with the largest three being mining companies:

OzMinerals (OZL.ASX, Not Owned) – gained 37% during August after BHP lobbed a \$25 takeover for proposal that was rejected by the Board of OZL. OZL has two primary copper mines being Carrapateena and Prominent Hill which are solid long life-low-cost copper mines that are strategically adjacent to BHP's Olympic Dam mine. We were concerned with significant capital expenditure plans to expand and extend production at Carrapateena hence we did not have a position in the company, although we believe it possesses many of the attributes we look for in mining companies.

Pilbara Minerals (PLS.ASX, Not Owned) – increased 32% and is one of the few pure lithium mines listed on exchange that is producing lithium (spodumene) and actually producing significant free cash flow at current very elevated lithium prices. We remain concerned that Australian "hard rock" lithium miners will be the higher marginal cost players in the market and will set the price for lithium in the long term as supply catches up to demand. We therefore feel there are safer and better ways to play the lithium narrative by perhaps investing in the lowest cost producers being brine miners including companies like SQM and Albermarle that will generate strong returns through the cycle.

Whitehaven Coal (WHC.ASX, Not Owned) – share price gained a further 28% in August on back of continued high thermal coal prices. The outlook for thermal coal is intuitively appealing given strong long-term demand from Asian markets and some large European markets restarting coal fired plants due to energy shortages before Winter has even arrived. The transition to renewables – though noble – clearly has not been thought through on a pragmatic basis in many Western countries, leading to potentially dire economic and social consequences. WHC possesses some of highest quality/lowest impurity thermal coal in the world, is relatively low on the marginal cost curve and has long reserve life and is currently trading on less than 3x free cash flow with net \$1bn of cash on balance sheet. Regrettably, not owning WHC has significantly reduced our performance.

Outlook & Strategy

Higher interest rates cleaned out pockets of hyper speculation in the small and mid-cap markets this calendar year, however, there remains over-exuberance with many higher PE names still trading on crazy multiples and the lithium sector continuing its rapid ascent but with very few (if any) of the miners producing yet. Recent M&A activity in bombed out small cap technology names that are losing money including Nearmap and more recently Tyro Payments seems to be reflating that segment of the market. This could be a difficult environment for us to perform on a relative basis particularly if cash burners find favour again. Nonetheless, we think the broader market sell-off presents a great opportunity for longer term alpha generation with valuation multiples pricing in a very dire economic scenario.

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

Fund Ratings



Further Information

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

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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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