Spheria Opportunities Fund

ARSN 114 032 431 | APIR WHT0025AU | mFund SPM03

Performance as at 30 September 2024

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[1]
Fund[2]	3.9%	11.5%	33.6%	6.3%	9.4%	10.5%
Benchmark[3]	4.0%	8.1%	18.8%	3.1%	7.7%	8.8%
Difference	-0.1%	3.4%	14.9%	3.2%	1.8%	1.6%

[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.

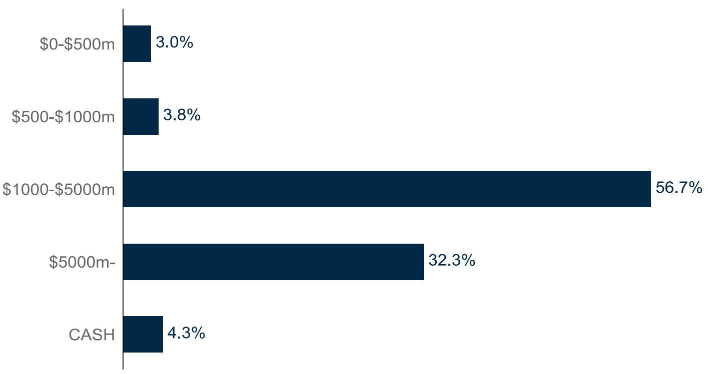
Overall Commentary

The Spheria Opportunities Fund returned 3.9% (after fees) for the month of September, marginally underperforming the S&P-ASX Mid-Small Accumulation Index by 0.1%.

Top 5 Holdings

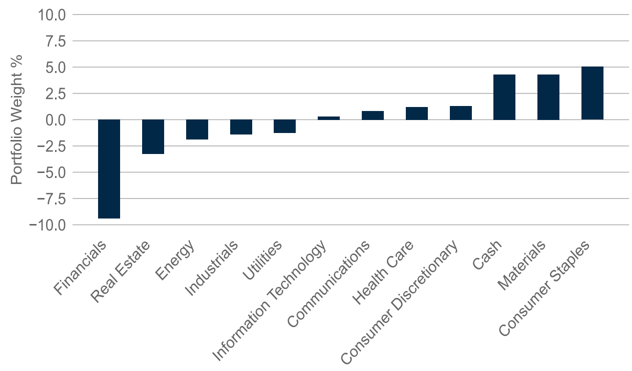
Company Name	% Portfolio
Orora Limited	5.8
Charter Hall Group	4.9
Technology One Limited	4.7
Fletcher Building Limited	4.2
Incitec Pivot Limited	4.2
Top 5	**23.7**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

The sharemarket's momentum continued through September with the weight of money pushing "growth" type stocks to valuations that appear sublimely ridiculous. Resource stocks also rallied strongly after a very challenging quarter. The strategy performed reasonably given these macro considerations, which weighed heavily on other Spheria strategies which are confined to investing outside the S&P ASX 100 index.

Major Contributors to Performance

Over the month the largest contributors to performance were from overweight positions in Iluka (ILU.ASX, +13%), Charter Hall Group (CHC.ASX, +10%) and Insignia (IFL.ASX, +13%).

Charter Hall Group's (CHC.ASX) share price rose 10% during the month. This came after a similarly strong performance in August following the release of its FY24 result that incorporated FY25 guidance that surpassed market forecasts. During September, a CHC-managed fund (the listed CQR) and capital partner (Hostplus) made a bid for the listed Hotel Property Investments (HPI). HPI owns a portfolio of pubs located primarily in Queensland and South Australia. Given the price offered represents a 10% discount to NTA, we believe the bid is unlikely to succeed in its current form. Further, with a portfolio valued at $1.2b, success would only result in a +1.5% increase in CHC's funds under management. The CHC share price rallied strongly nonetheless as the bid potentially signals an inflexion point in what has been a difficult real estate fundraising environment could now be approaching. A 50bps reduction in interest rates by the US Federal Reserve one week following the bid no doubt further added to this sentiment. Whilst CHC is no longer cheap (up over 70% over one year), at 14x EBIT with minimal debt and the potential for cyclical tailwinds in the years ahead, the stock is far from expensive. The fund is underweight the real estate sub-sector and CHC looks relatively attractive in that context.

Major Detractors from Performance

The largest detractors from performance included overweight positions in Star Entertainment Group (SGR.ASX, -34%), ALS (ALQ.ASX, -8%) and Fletcher Building (FBU.ASX, -3.6%).

Star Entertainment Group (SGR.ASX) share price fell 34% in September post the company resuming trading post the release of their delayed FY24 results. There are a significant number of moving parts in respect of SGR's earnings outlook including a weak economy, management's ability to execute on cost-out, introduction of carded gaming and the duration of increased remediation costs. Current earnings are heavily depressed due in large part to elevated remediation and compliance costs such that the group is losing money on an EBITDA basis. There does, however, remain significant value in the group's property assets. On our calculations could be worth anywhere from $700m (24cps) based on value of hotel rooms in isolation up to $2.7bn (94cps) on a replacement cost basis (both after deducting debt and other liabilities). If earnings recover post elevated remediation costs and on a through the cycle basis there is an argument the group could be worth $1bn (or 35cps) or more. Regardless of the potential valuation upside, we have decided to reduce the position size as there remains a high risk of default given expected cash outflows in the short term and uncertainties that surround debt tranche 2 ($100m) which is contingent on a $150m of subordinated debt being raised before the end of December 2024, which best case will be highly dilutive at current share price levels. Unfortunately, the investment has been a poor performer, as we significantly underestimated the extent of regulatory risk and the magnitude of early losses at the QWB project.

Outlook & Strategy Going Forward

The market divergence between "have" and "have not" company valuations has continued to stretch. If something does give in the high multiple space, there could be a very healthy rotation to companies that are more attractive from a valuation perspective. The rate cutting cycle which has begun in earnest offshore could be a catalyst for a shift in fortunes for the domestic market which has been driven by the outperformance/valuations of major banks, large caps and perceived high growth stocks.

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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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