

Performance as at 31st March 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a. ³
Fund ¹	2.6%	-3.3%	13.2%	13.0%	12.6%	12.0%
Benchmark ²	5.3%	-4.2%	9.7%	9.6%	9.9%	9.0%
Difference	-2.6%	0.9%	3.5%	3.3%	2.7%	2.9%

¹ Spheria Australian Smaller Companies Fund. Returns of the Fund are net of applicable fees, costs and taxes.

² Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

³ Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2005. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.



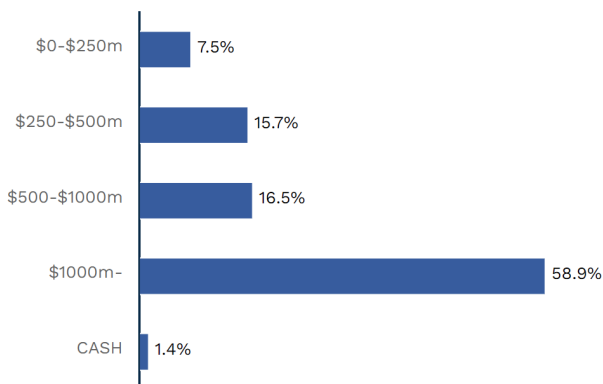
Overall Commentary

The Spheria Australian Smaller Companies Fund returned 2.6% (after fees) during the month of March, underperforming the ASX Small Ordinaries Accumulation Index by 2.6%.

Top 5 Holdings

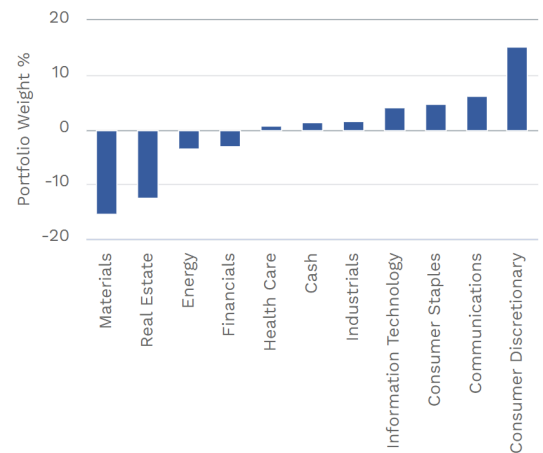
Company Name	% Portfolio
Blackmores Limited	5.2
InvoCare Limited	4.8
Flight Centre Travel Group Limited	4.6
Michael Hill International Limited	3.9
IRESS Limited	3.9
Top 5	22.4

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

The local small and midcap indices were both up sharply over March, despite global concerns over the war in Ukraine, rising inflationary pressures and disruptions to the global supply chain. Supply chain issues continue to be exacerbated by the war in Ukraine and the Western sanctions imposed on Russia. Investing in these markets is anything but dull!! Energy prices also continue to rise with other commodity prices – Iron Ore and Lithium also continuing to post gains over the month. Lithium prices in particular are being pushed higher by current demand apparently well exceeding mine supply. We think the current lithium price is unsustainable as, whilst demand is strong, the supply constraints are likely to be relatively temporary. A significant number of lithium miners have announced increases in production to try to take advantage of prices which are three times their peak reached in late 2017.

We typically value businesses on sustainable earnings and are prepared to look through either excessively high or low earnings to help us get a better view of a stock's real value. Sustainable earnings are key though and whilst we have been prepared on occasion to invest in temporarily loss-making business you cannot re-write the laws of economics any more than you can the laws of gravity just because you want to buy an investment story. Sustainable business economics require some anchoring in fundamentals and nothing is more likely to prove this to be the case than a rising interest rate backdrop. As someone wisely once said in order to get the right outcomes you need to measure the right things. The tremendous focus on growth by the market over the past few years has seen the market's focus narrow to areas of marginal economics. If we can add one more user/viewer/ borrower at slightly less than the cost of acquiring them, this will be value enhancing to investors. The problem with such narrow focus is that in many cases companies have been chasing revenue growth to the exclusion of all else. There is no point acquiring a customer/ sales lead if the business is unprofitable and servicing your customers takes time, effort and energy. In one previously vaunted segment of the small cap investment universe, the BNPL sector for instance, bad debt write offs are suddenly seeing a sharp increase and competition at the point of sale is seeing marketing costs (read CAC or customer acquisition costs) rise sharply. This is further eroding already marginal economics to begin with. We will continue to scour through some of these fallen angels but with a keen eye to the long term sustainability of the business model.

Major Contributors for the Month

Iress Ltd (IRE.ASX) bounced 15% over the month with other technology names. IRE remains a strategically well-placed IT name with incredible user loyalty in both the asset management and adviser channels in Australia and the UK, with customer churn rates at just 1.4% p.a. The company has implemented a share buyback (\$100m) and is on track to meet their 2025 revenue and profit targets. We continue to see IRE as an attractive investment.

Flight Centre (FLT.ASX) rose 12% over the month as the market started to look ahead to the rebound in travel globally. With Australia decisively re-opening borders and much of the rest of the world embracing travel, we believe FLT is well positioned with a much lower cost of doing business to profit strongly from a rebound in both corporate and consumer travel. FLT's cash burn was significantly reduced during the latter half of their H1 result and continues to trend promisingly over the beginning of H2. Travel in the Northern Hemisphere is rebounding strongly, and we believe there are signs travel may over-recover for a period of time as consumers revenge spend on travel. We believe FLT is trading on sub 10x recovered EV/EBIT at current levels and should enjoy a tremendous earning and cashflow recovery as travel rebounds.

NIC (not owned) declined 17% over the month largely, it seems, on aggressive moves in the Nickel price. The LME closed trading in Nickel for 10 days during March as a massive, short squeeze saw the metal trade to over US\$100,000/t. Once trading resumed on March 17th Nickel prices traded down closing the month at around US\$32,000/t. Nickel mining shares saw a volatile trade over the month as prices rose and then subsequently collapsed.

Major Detractors for the Month

Vista Group (VGL.ASX) fell 15% over the month after delivering FY 21 results, which were slightly disappointing. VGL has gone through a difficult period with its cinema chain customers facing tough times due to COVID related lockdowns and the postponement of cinema content as movie makers have held back content until audiences return. VGL raised capital during the past 18 months and remains net cash. We believe they are well positioned to benefit from re-opening of cinemas and more importantly see a significant upgrade cycle as customers embrace the new Vista Cloud product.

Blackmores (BKL.ASX) Blackmores shares fell 8% over the month on limited news flow. BKL has repaired its balance sheet, invested in its own manufacturing facilities, and continues to reinvest in new product development and marketing initiatives all of which will drive longer term shareholder value. BKL's international business (Indonesia and Thailand) continue to power ahead with market share gains in both markets. With further operating leverage and cost savings underpinning the growth investment initiatives we feel BKL is in a good position to compound earnings at around 15% p.a. for the next few years and remains a strategically attractive brand for acquirers.

Invocare (IVC.ASX) declined 6% over the month on limited news flow. IVC is Australia's largest funeral care provider with over a 30% market share. The company has spent the past 2 years investing significant capital to upgrade many of its facilities and to expand into pet cremations and funerals (a new growth area). Unlike many countries internationally, Australia saw its death rate decline over the past 2 years as COVID related deaths remained extremely modest by international standards and the COVID lockdowns saw a dramatic reduction in flu-related deaths. Whilst we clearly don't want to see things return to "normal", it would seem some kind of reversion would be likely with IVC and other industry players likely to see a resumption back up to normal or possibly above-normal industry conditions. IVC's balance sheet is in good shape, the company has historically been a good free cashflow generator and the company has substantial property holdings.



Outlook & Strategy

Moves in markets keep things interesting for management teams and investors alike. Our process is based upon trying to be prepared for unforeseeable circumstances, which is why we base our investment decisions on fundamentals like strong balance sheets, good cash flow generation and, importantly, valuation. Valuation has seemingly been a lost art amongst small cap investors over the past 3 years as subnormal interest rates have seen valuations flung to the wind. Popular thematic and disruptive businesses have captured imaginations and – like the sirens in Homer’s Odyssey – drawn unwitting investors in. With a backdrop of global rates on the rise and despite additional risks like the war in Ukraine, our sense is that discount rates and inflation will continue to be the dominant market conditions for some time. Strong businesses with a good ability to mitigate inflationary impacts are likely to do relatively well, assuming valuations are not overly high to begin with. The commodity cycle is in full swing, and we would similarly expect this to benefit our exposure to mining service names. We continue to assess our discount rates based on prevailing market conditions, but it would seem wise for smaller company investors to consider a rate environment at least modestly higher than the prevailing 10-year bond yields imply.

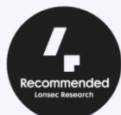
Platform Availability List

If a fund is not available on your preferred platform, please contact us. Please check with your platform for minimum investment requirements and fees.

AMP North	HUB24	MLC Navigator	PowerWrap
Asgard	IOOF eXpand	MLC Wrap	Praemium
BT Panorama	IOOF Wrap	MLC Wealth Administration	Premium Choice
CFS FirstWrap	Macquarie Wrap	Netwealth	SimpleWrap
DPM	Mason Stevens	OneVue	Wealth02 uXchange
FNZ Group			

Sphera Australian Smaller Companies Fund	
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Investment Objective	Outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term
Investing Universe	Primarily listed companies outside the top ASX 100 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	1.10% p.a. Management fee & 20% 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
APIR	WHT0008AU
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

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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