SPHERIA ASSET MANAGEMENT

Spheria Opportunities Fund

ARSN 144 032 431 | APIR WHT0025AU | mFund SPM03

Performance as at 30th April 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[3]
Fund[1]	-1.9%	3.6%	11.4%	11.3%	13.0%	12.1%
Benchmark[2]	-1.5%	4.4%	6.6%	10.7%	10.8%	10.7%
Difference	-0.4%	-0.8%	4.8%	0.5%	2.2%	1.4%

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.

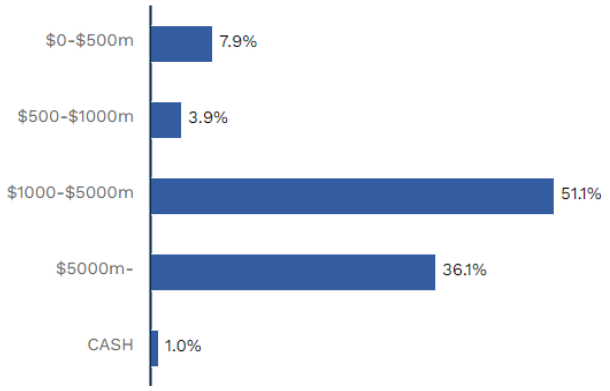
Overall Commentary

The Spheria Opportunities Fund returned -1.9% (after fees) during the month of April, underperforming the S&P ASX Mid-Small Accumulation Index by 0.4%.

Top 5 Holdings

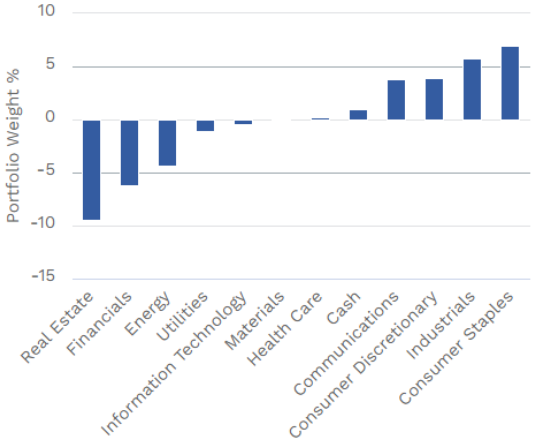
Company Name	% Portfolio
Incitec Pivot Limited	6.9
Alumina Limited	5.5
Atlas Arteria	5.4
The A2 Milk Company Limited	4.9
Flight Centre Travel Group Limited	4.8
Top 5	**27.5**

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

Markets

Last month, the energy sector continued to outperform, thermal coal prices escalated with Newcastle prices averaging just over US$300/t for April after bottoming out in 2020 at below US$50/t. This kind of acute rally not witnessed since the GFC when prices spiked to about US$200/t. The rally in commodity prices, both soft and hard, being driven by strong demand due to world economic growth, supply imbalances and some element of speculative behaviour. The rally in thermal coal miners has impacted relative performance as we have no direct exposure in the Fund. Economic sanctions against Russia do not appear to be curtailing the conflict but are causing volatility in commodity prices which is flowing into sharemarkets and contributing to intense inflationary pressures. Central banks lifting interest rates and the bond market rally continue to weigh on long duration assets (i.e high valuations with low or no earnings) and are affecting sentiment towards consumer discretionary sectors, including retailers and housing exposed businesses.

Major Contributors for the Month

Flight Centre (FLT.ASX) – following the trend in March, FLT rose 15% over the month of April. FLT and other travel companies continue to reveal improving demand for travel, with the corporate travel division now at 76% of pre-COVID levels for the month of March and Leisure around 45% (based on total transactional values). Positively, FLT returned to positive free cash for the month of March, so balance sheet pressure has now abated. Travel in the Northern Hemisphere is rebounding strongly, and we believe there are signs travel may over-recover after two years of restrictions, however, we feel all restrictions must be removed globally for this to come to fruition. Many countries in Europe including the UK have abolished all such COVID restrictions, however, the USA, Asia and Pacific regions continue to lag. We believe FLT is trading on < 10x recovered EV/EBIT at current levels with its cost base reset for structurally higher earnings and returns.

Orora (ORA.ASX) – increased almost 11% over April. ORA was impacted in the last few years by weak volumes due to tariffs in China. However, the business has been able to pivot, seeking out new market opportunities and products including spirit bottles, olive oil bottles and sparkling water bottles, which has now offset 100% of the lost wine export volumes. Earnings have also been supported by the can segment, where ORA has 65% market share, and is expected to grow ahead of GDP over the next few years. The USA business continues to benefit from economic strength in that market. ORA has high returns due to industry structure in Australia and solid growth profile particularly in the can segment.

Atlas Arteria Group (ALX.ASX) – rose over 6% in April, after it released its Q1 update. ALX reported that traffic and toll revenue was up 24% and 22%, respectively, on the back of increased travel coming out of COVID restrictions in France. Despite usage still being below 2019 levels at the group level, we believe the trend is positive as the key asset being the APRR motorway between Paris and Lyon is a critical transport artery in France.

Major Detractors for the Month

A2 Milk (A2M.ASX) fell over 14% in April on the back of declining birth rates, increased competition from domestic brands and well publicised lockdowns in China. We believe the A2M brand remains strong in China and its penetration story has yet to play out which will override market weakness. For example, A2M is in about 25,000 stores in China and will be expanding to 35,000 over the next couple of years. A2M has a strong balance sheet with nearly NZ$700m of cash and is trading at its lowest multiple in many years.

Alumina (AWC.ASX) – shares fell 10% over April. The business has benefited over the last few months, from rising Alumina prices as a result of the conflict between Russia and Ukraine, sending prices to record highs. However, in April, prices retreated, which we believe caused some downward pressure in AWC's share price. Despite this, we like AWC, as it is a low-cost producer of Alumina with long reserve life, and we believe can generate returns greater than its cost of capital for the long term.

Here, There & Everywhere (HT1.ASX) – fell 11% over the month, on no obvious news flow. The company delivered a strong CY21 result with the radio advertising market recovering and audience share remaining strong. The business has the No.1 rated metro radio network in Australia and recently acquired the largest regional player, to expand and complete its national presence and grow its digital offering, IHeartRadio. HT1 is inexpensive trading at less than 7x EV/EBITA.

Outlook & Strategy

The negative sentiment and general weakening of sharemarkets is creating significant opportunity for cash flow and valuation focused investors like ourselves. We are comfortable with our investments as balance sheets are strong and thus in the event of a weaker economy, they are in position to ride out the downturn and capitalise on opportunities that may present.

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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

Zenith RECOMMENDED

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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