

## SEC Half-Year Results FY2019

### Highlights:

1HFY19 loss	Company NTA Performance <sup>1</sup>	Interim dividend	Annualised yield
\$9.2m	-10.7% (+2.0% to benchmark)	2.0c	3.5% <sup>2</sup>

- 2.0% outperformance vs S&P/ASX Small Ordinaries Accumulation index (Benchmark) - Company NTA performance of -10.7% vs Benchmark -12.7%
- Interim dividend of 2.0 cents per share (fully franked)
- Shareholder conference call on the Company's investment portfolio

Spheria Emerging Companies Limited (ASX:SEC or the **Company**) recorded an operating loss of \$9.2 million for the first half of financial year 2019 (1HFY19), reflecting weaker market conditions and a difficult December quarter. Despite the challenging conditions, the Company outperformed its benchmark by 2% during the period - its NTA declined by 10.7% when adjusted for dividends paid, compared to a decrease of 12.7% in the Benchmark.

### Interim dividend

The Board has resolved to pay a fully franked interim dividend of 2.0 cents per share. The interim dividend will be paid to SEC shareholders on 20 March 2019 with a record date of 6 March 2019. When combined with the final FY18 dividend of 4 cents per share paid in September 2018, this equates to an annualised dividend yield of 3.5%<sup>2</sup> or a grossed-up yield including franking of 5.0%<sup>2</sup>. The Company's intention is to pay a dividend to shareholders at least annually, subject to available profits, cash flow and franking credits.

Dividend ex-date	Record date	Payment date
5 March 2019	6 March 2019	20 March 2019

### Conference call on results and portfolio

The Board invites shareholders to our upcoming shareholder conference call on 1<sup>st</sup> March 2019 at 11:00am (Sydney time). The call will provide an update on the Company's investment portfolio by Matthew Booker and Marcus Burns, the portfolio managers of Spheria Asset Management Pty Ltd (the **Manager**). Dial in details are provided below.

### Dial in details:

Within Australia: 1300 254 398  
Outside Australia: +613 9034 4181

<sup>1</sup> Calculated as movement in Company's pre-tax NTA, which includes tax on realised gains and other earnings, but excludes any provision for tax on unrealised gains, assuming the reinvestment of any dividends paid by the Company.

<sup>2</sup> Share price as at 18 February 2019 of \$1.72.

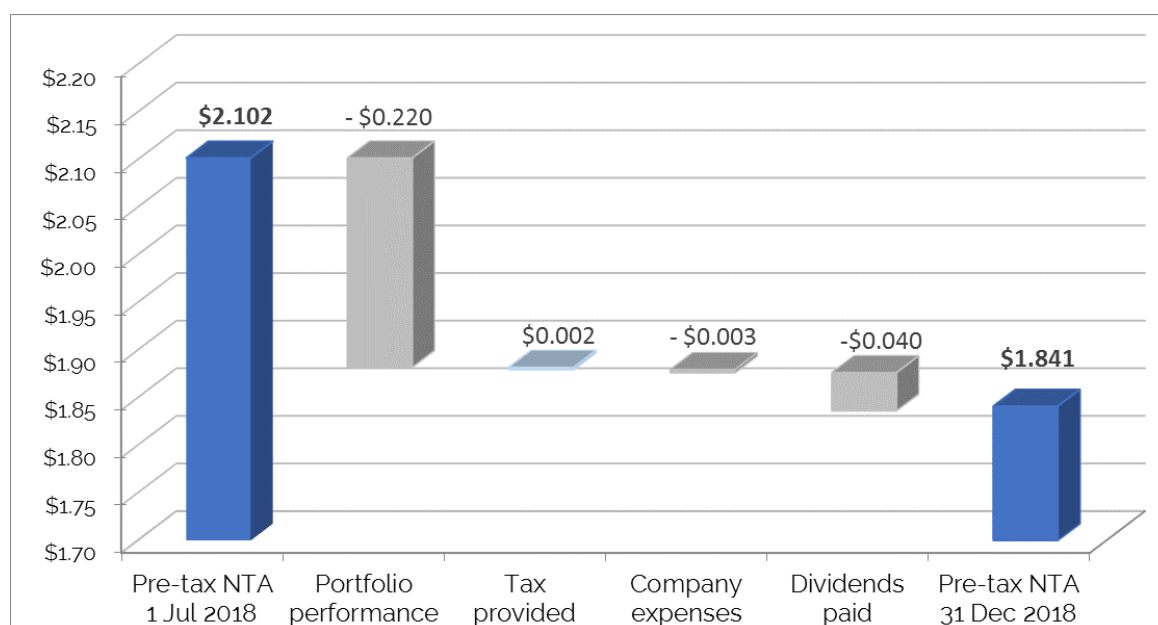
### Discount to NTA

SEC shares are trading at a 12.0%<sup>2</sup> discount to the 8 February 2019 pre-tax NTA (\$1.954 per share). The discount had closed substantially through the December quarter but a stronger market return to date in calendar 2019 (that has increased the NTA) with low volume traded (that has caused little movement in the share price) has widened the discount again. It is expected that our plans to increase shareholder communications and investor roadshows will help to reduce this discount.

Spheria Asset Management Pty Ltd purchased \$528k worth of shares in SEC over the period and is committed to being a long term investor in the company.

### Additional shareholder information

#### NTA performance breakdown for 1HFY2019



#### Portfolio performance as at 31 December 2018

	Since 1 July 2018
Company*	(10.7)%
Portfolio**	(10.5)%
Benchmark***	(12.7)%
Portfolio Outperformance	+ 2.2%

\*Calculated as movement in Company's pre-tax NTA, which includes tax on realised gains and other earnings, but excludes any provisions for tax on unrealised gains, assuming the reinvestment of any dividends paid by the Company.

\*\*Shows how the portfolio, for which the Manager is responsible, has performed after deducting management fees, costs and taxes and performance fees (if applicable).

\*\*\* S&P/ASX Small Ordinaries Accumulation Index.

### **Portfolio performance**

The investment portfolio declined 10.5% for the half-year, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 2.2%. Global markets fell precipitously in the half year with losses accelerating in the December quarter. The share prices of Australian smaller companies were particularly hard hit on concerns with respect to the domestic economy, and the revelation that many market darlings are trading on valuations that are unsustainable. The portfolio performed reasonably on a relative basis bolstered by takeovers of several key positions including Navitas, Trade Me, Greencross and Sigma Health.

### **Market outlook**

The Board is pleased with the Manager's investment performance since listing given the difficult market environment. The market correction has presented the Manager significant valuation opportunities. The takeover activity thematic is expected to continue given high levels of liquidity in the hands of private equity. This dynamic favours the Manager's investment style given the process is predicated on investing in businesses that generate strong and sustainable free cash flow with a valuation overlay. Regardless of takeover activity, the portfolio is well positioned from a valuation perspective and is diversified across attractive sectors.

### **About Spheria Asset Management Pty Ltd (Manager)**

Spheria Asset Management Pty Ltd is a fundamental-based investment management firm with a bottom-up focus, specialising in small- and micro-cap companies, which can provide higher returns in the long term than their larger peers.

The Manager is majority owned by its team with over 60 years of combined investment experience. The Manager's performance culture is underpinned by sensible incentives, a focused offering and the outsourcing of non-investment functions to minority partner Pinnacle Investment Management Group Limited.

Calvin Kwok  
Company Secretary  
19 February 2019

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