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Company Announcements  
ASX Limited  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

Dear Sir/Madam,

**2019 Spheria Emerging Companies Limited (ASX: SEC) Annual General Meeting – Chairman's Address**

Please find attached a copy of the Chairman's address which will be delivered at the Company's Annual General Meeting today.

Yours sincerely,

**Calvin Kwok**  
Company Secretary

## 2019 Annual General Meeting – Chairman's Address

### [Slide 4 – Overview]

Spheria Emerging Companies Limited, SEC, was established to provide shareholders with exposure to an actively managed Australian and New Zealand small cap equities portfolio.

The Company's investment portfolio is managed by Spheria Asset Management Limited. As Matthew and Marcus will speak to later today in the investment presentation, the Manager believes free cash flow drives valuations in the medium to long term with risk assessment a critical overlay. The Manager identifies smaller companies where the future value of cash flows can be reasonably ascertained and the companies are assessed to be trading at a discount to their intrinsic value.

### [Slide 5 – Investment Objectives]

The Company's investment objectives are to:

- outperform the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, over each full investment cycle (which the Manager considers to be a period of typically 3 to 5 years); and
- provide capital growth (over each investment cycle) and income.

The Company aims to maximise total Shareholder return via a combination of capital growth and income, with the aim of regularly paying fully franked dividends to Shareholders.

### [Slide 6 – Company Details]

As I introduced earlier, our Board of Directors comprises the members who are seated next to me. The table highlights the shares on issue and the NTA as at 25 October 2019.

### [Slide 7 – Dividend]

The Company aims to pay fully franked dividends from the portfolio income at least annually, subject to available profits, cash flow and franking credits. As at 30 September 2019, the Company's profits reserve had a closing balance of approximately 14 cents, and together with its franking account balance, has sufficient reserves to pay fully franked dividends at the current rate over the next two years.

In this regard, the Directors are pleased to note the Company paid its initial dividend of 4 cents per share on 21 September 2018, followed by an interim dividend of 2 cents per share on 20 March 2019. Additionally, as we announced with the 2019 Annual Report, a 4 cents per share fully franked dividend for the 2019 financial year was paid to shareholders on 20 September 2019.

### [Slide 8 – Company Performance]

The annualised NTA Performance for the period from inception to 30 September 2019 was 3.7%. The performance of the Benchmark for the same period was 7.0%.

The Company's annualised total shareholder return or TSR Performance, which measures the change in share price adjusted for any dividends paid, for the same period was -3.6%. The Company's share price was \$1.77 compared to an issue price of \$2.00, with dividends of 10 cents paid during the period.

Based on this share price, SEC shares are trading at a 13% discount to pre-tax NTA.

The Company's performance relative to its objective of beating the ASX small company index has held its ground, having underperformed by about 2% per annum on a like for like basis to the index, despite a small cap index return that has been dominated by growth and technology companies which are not the typical hunting ground for Spheria. Matt and Marcus will provide more colour on this in a short while.

### [Slide 9 – Initiatives to close the discount to NTA]

As I mentioned, SEC shares are trading at a 13% discount to NTA. The Board acknowledges this unsatisfactory position and remains committed to addressing this. It is noted, however, that SEC is not in a unique position and the majority of LICs are currently trading at a material discount. But in spite of

the general LIC market conditions we need to do what we can, and accordingly the Company has implemented several initiatives. These include moving from monthly to weekly NTAs, increasing shareholder communication and investor roadshows, and in August 2019 we instituted an on-market share buy-back after conducting significant research into their effectiveness and after taking account of feedback from shareholders, the buyback as announced was for a period of 12 months and so far approximately \$2.5m or 2.0% of shares on issue have been bought back. We are actively monitoring the effects and outcomes of the buy-back, but it is premature to assess its overall effectiveness.

We will continue to take proactive measures to address the discount to NTA.

**[Slide 10 – Shareholder Engagement]**

In line with our ongoing commitment to shareholders, the Company continues to increase its communication and transparency with shareholders and the broader market. We provide investment videos and insights, dividend updates, weekly NTA announcements, half and full year financial results, all of which are available on the Company's website. We also engage media and present at industry investor conferences regularly. We encourage shareholders to provide their email address via Automic to ensure they are receiving our latest updates and invitations.