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20 December 2019

By Electronic Lodgement

The Manager
Company Announcements Office
ASX Ltd
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

Spheria Emerging Companies Limited (ASX: SEC) – Monthly Investment Update

Please find attached a copy of the investment update the month ending 30 November 2019.

For further information, please contact 1300 010 311.

Yours faithfully,

Calvin Kwok
Company Secretary

ASX: SEC

Spheria Emerging Companies Limited
ACN 621 402 588

Pre-tax net tangible assets[4]

$2.108

Company[7] performance p.a. (since inception)

5.2%

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share price	$1.77
Inception date	30 November 2017
Listing date	5 December 2017
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Management Fee	1.00% (plus GST) per annum[1]
Performance Fee	20% (plus GST) of the Portfolio's outperformance[2]
Market Capitalisation	$114m

[1] calculated daily and paid at the end of each month in arrears

[2] against the Benchmark over each 6-month period subject to a high-water mark mechanism

Commentary

The Company's pre-tax NTA increased 2.4% in November. This represented outperformance of 1.6% compared to the S&P/ASX Small Ordinaries Accumulation Index.

November greeted smaller company investors with a raft of AGM trading updates. These are one of the few 'reconciliation moments' whereby share prices - which are moved around by a variety of forces and views in between reporting periods - are quickly brought back into line with underlying economic reality. A number of smaller companies had profit warnings including G8 Education (GEM.ASX), AP Eagers (APE.ASX), Nufarm (NUF.ASX), Sims Metal (SGM.ASX), Oceanagold Corp (OGC.ASX), ARQ Group (ARQ.ASX), Monash IVF (MVF.ASX) and Nine Entertainment Group (NEC.ASX). These were due to a variety of reasons but in general the economy remains sluggish and smaller companies are typically more sensitive to changes in the economic outlook than larger companies. On the bright side, the three interest rate cuts seem to have been successful in stimulating house prices with signs of a price turnaround in most of the major cities. This is a good reminder of just how quickly market sentiment can change in any market. For this reason we believe anchoring your investment views to business fundamentals remains the best longer term way of outperforming the broader market through both investment and business cycles.

With the turn in sentiment on housing prices, we have seen a change in perception around the prospects of some of the more cyclical stocks in our portfolio. Building materials had a very strong month in November with Fletcher Building (FBU.ASX) and Adelaide Brighton (ABC.ASX) up 17% and 15% respectively. SIMS Metal (SGM.ASX) rallied 14% despite delivering a profit downgrade – the market clearly learning to look through the short-term gyrations in recycled metals prices and ahead at the earnings potential of SGM. SGM remains a debt free, low cost ferrous (Iron based) and non-ferrous (other metals) metals recycling business with operations across the US and Europe. We believe the shares remain attractively valued based on the large amount of un-geared property value the group holds plus the reasonable growth prospects as it moves into recycling new waste streams like servers from Data Centres.

The technology sector also contributed meaningfully to SEC's performance as Class Ltd (CL1.ASX) continued its recent run of performance and increased a further 17% during November. At their recent AGM update Class outlined its plans to expand their product suite into the family trust market with Class Trust. This will be the third product the group has launched since it was founded on top of their existing SMSF and Class Portfolio products. Technology One (TNE.ASX) reported a strong set of results for their September year end with the share price gaining 25% over November. TNE remains one of our preferred long-term technology investments on the back of its history of strong cash flow generation, high retention of existing customers (at around 99% - not dissimilar to Class's retention rates) and continued product evolution. TNE has successfully shifted around a third of their client base to the Cloud from its traditional on-premise software model and continues to expand its product suite now offering 14 different software modules. TNE's UK business expansion has been a long time coming but they appear to have reached critical mass in that market with around 50 customers (or around 4% of their total customer base) now live on their system.

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Stocks that detracted from performance were Isentia (ISD.ASX) which declined 32% on providing guidance for continuing negative revenue trends whilst reaffirming its earnings outlook. We believe the emphasis on revenue misguided given gross profit dollars are more relevant with the partial harmonisation of copyright costs mitigating the profit impact. The shares had gained materially over previous months and retraced over November. Vita Group (VTG.ASX) declined 12% and Mortgage Choice (MOC.ASX) fell 7% despite the improving sentiment around housing prices across Australia. Our sense is that some of these moves have been driven more by several smaller company fund competitors transitioning out their portfolios than any reflection of the companies' earnings fundamentals. Whilst frustrating we have found these types of transitions short term in nature and can offer opportunities to more patient capital.

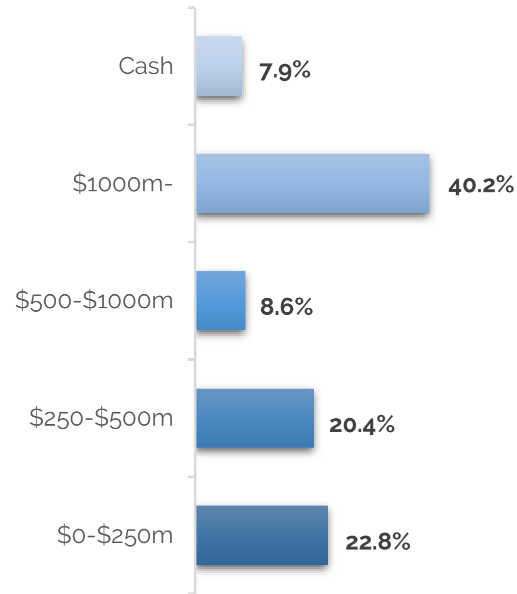
We remain of the view that the smaller cap shares still look more attractively valued than the bigger end of the small cap space in spite of some of the fairly significant share price retracements. The momentum trade which has carried some of these names into the realms of pure speculation has started to come unstuck over the past few months. The very public decreases in values of many tech 'unicorns' like WeWork and some of the listed plays like Uber and Lyft appear to have caused investors to re-appraise the buy-at-any-price investment strategy which had been working over the past 18 months.

Top 5 Holdings

Company Name	% Portfolio
Class Limited	5.6
Adelaide Brighton	4.5
Fletcher Building	4.5
Blackmores Limited	4.4
Technology One	4.2
Top 5	**23.1**

Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Net Tangible Assets (NTA)[3]

Pre-tax NTA[4]	$2.108
Post-tax NTA[5]	$2.149

[3] NTA calculations exclude Deferred Tax Assets relating to capitalised issue cost related balances and income tax losses

[4] Pre-tax NTA includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses

[5] Post-tax NTA includes tax on realised and unrealised gains/losses and other earnings

Performance as at 30th November 2019

	1m	3m	6m	1 yr	Inception p.a.[6]
Company[7]	2.4%	8.2%	2.8%	11.9%	5.2%
Benchmark[8]	1.6%	3.7%	5.1%	16.6%	7.0%

Past performance is not a reliable indicator of future performance.

[6] Inception date is 30th November 2017

[7] Calculated as movement in Company's pre-tax NTA (which includes tax on realised gains/losses and other earnings, but excludes any provision for tax on unrealised gains/losses), assuming the re-investment of any dividends paid by the company

[8] Benchmark is the S&P/ASX Small Ordinaries Accumulation Index

Disclaimer

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