Spheria
EMERGING COMPANIES

ANNUAL REPORT 2020

SPHERIA EMERGING COMPANIES LIMITED
ACN 621 402 588

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ANNUAL REPORT

For the year ended 30 June 2020

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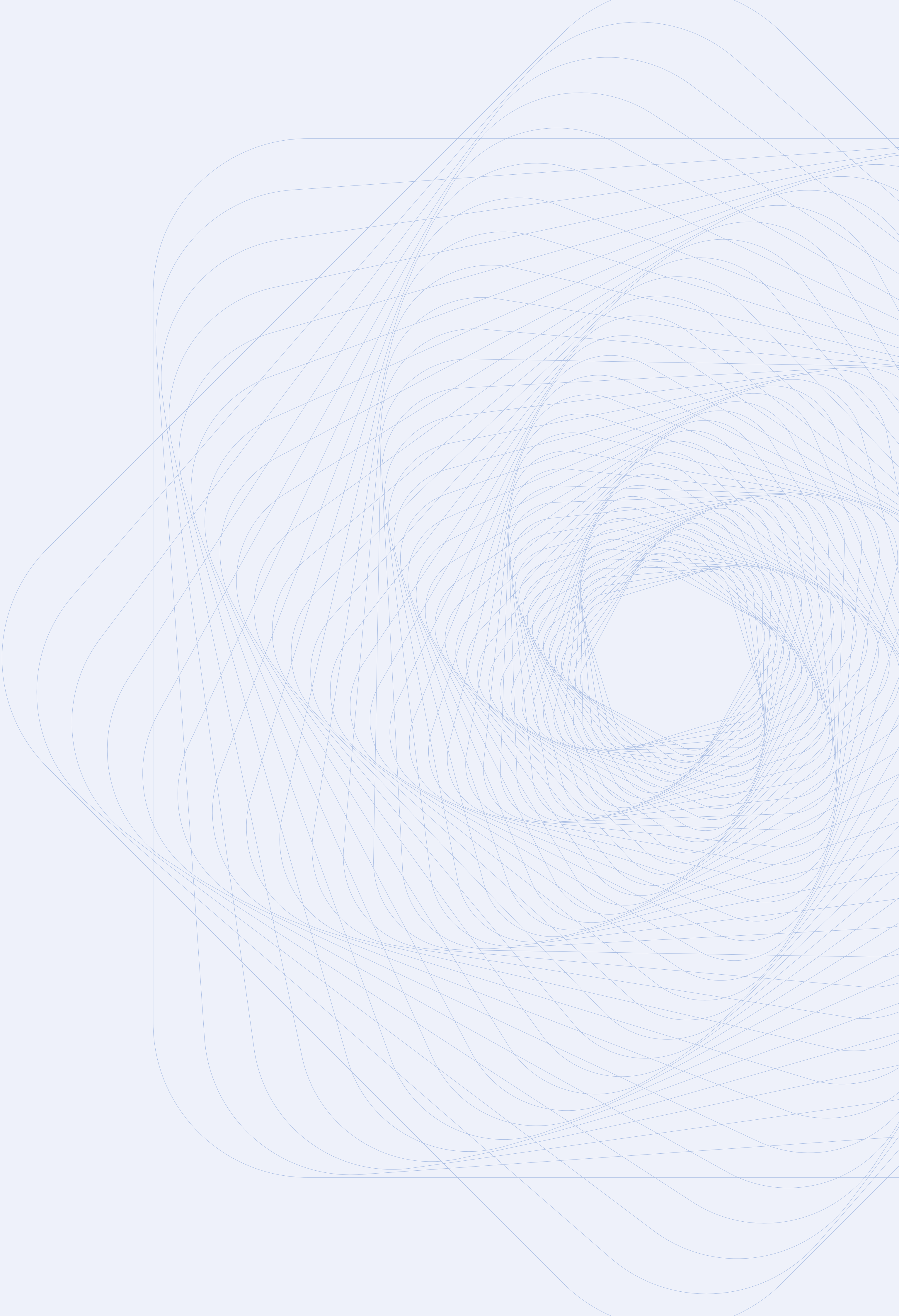
CORPORATE GOVERNANCE

The Company's corporate governance statement is available on the Company's website at https://www.spheria.com.au/spheria-emerging-companies-limited/ under the Corporate Documents section.

01.

GLOSSARY

Term	Meaning
Administrator	Pinnacle as the provider of various administration support services to the Company.
Annual General Meeting	the annual general meeting of the Company.
ASX	Australian Securities Exchange.
Benchmark	S&P/ASX Small Ordinaries Accumulation Index.
Board	board of Directors.
Company	Spheria Emerging Companies Limited (ACN 621 402 588).
Company Performance	the performance of the Company inclusive of portfolio performance after fees, taking into account all other expenses paid and tax on earnings (including on realised gains / losses but excluding any provision for tax on unrealised gains / losses and capitalised issue cost related balances), adjusted for dividends paid by the Company.
Company Secretary	company secretary of the Company.
Corporations Act	the Corporations Act 2001 (Cth).
Director	director of the Company.
GST	has the meaning given in the A New Tax System (Goods and Services Tax) Act 1999 (Cth).
Investment Management Agreement	the investment management agreement dated 10 October 2017 between the Company and the Manager.
Manager	Spheria Asset Management Pty Limited (ACN 611 081 326).
NTA	net tangible assets.
Pinnacle	Pinnacle Investment Management Limited (ACN 109 659 109).
Services Agreement	the services agreement dated 10 October 2017 between the Company and Pinnacle.
TSR Performance	a measure of the change in the share price and dividends paid during the period, excluding the value of any franking credits which are paid to shareholders.



02.

CHAIRMAN'S LETTER

DEAR FELLOW SHAREHOLDERS,

On behalf of your Board, I am pleased to present the results of the Company for the year ended 30 June 2020.

The Company was established to provide shareholders with exposure to an actively managed portfolio of Australian and New Zealand smaller companies that generate solid and predictable cash flows. The Company's appointed investment manager, Spheria Asset Management Pty Ltd (the Manager), believes free cash flow drives valuations in the medium- to long-term with risk assessment a critical overlay.

The Manager has an experienced team that has witnessed various investment cycles. The team currently comprises nine investment professionals with approaching 100 years of combined experience and expertise across different markets and small cap securities.

The investment objective of the Company over each full investment cycle (typically 3-5 years) is to generate total returns greater than the S&P/ASX Small Ordinaries Accumulation Index and provide investors with capital growth by investing predominantly in listed entities within the S&P/ASX Small Ordinaries Index.

The Company's investment process is well positioned to endure the current market volatility resulting from the COVID-19 pandemic, however the economic consequences of the pandemic have impacted the Company's profitability this financial year. The Company has made a loss after income tax of $10,813,000 for the year compared to profit in the prior year of $3,228,000. It is still too soon to predict the longer-term economic impacts of the pandemic, but the Board is monitoring events closely and will continue to manage the Company's capital appropriately to the prevailing economic conditions.

DIVIDENDS

During the year the Company has continued to fulfil its aim to pay fully franked dividends from the portfolio income at least annually, subject to available profits, cash flow and franking credits. The Company paid dividends totalling 7.0 cents during the year, comprising a 2019 final dividend of 4.0 cents per share paid on 20 September 2019, followed by an interim dividend of 3.0 cents per share on 20 March 2020.

Additionally, we are pleased to announce a fully franked final dividend of 2.5 cents per share for the 2020 financial year payable to shareholders on 23 September 2020 with a record date of 9 September 2020. The franking credit balance at 30 June 2020 is $5.38m before payment of the final dividend and after allowing for refund of current tax assets.

PERFORMANCE

We consider that it is useful to report performance from three different perspectives:

1. Firstly, to show how the investment portfolio has performed after deducting management fees and performance fees (if applicable) paid to it compared to the relevant benchmark. We refer to this as the **Manager Performance**. The relevant benchmark used is the S&P/ASX Smaller Companies Accumulation Index which is also used to calculate any Manager performance fees;
2. Secondly, to show how the Company has performed which, in addition to portfolio performance after fees mentioned above, also accounts for all other expenses paid and tax on earnings (including on realised gains but excluding any provision for tax on unrealised gains and capitalised issue cost related balances). We refer to this as the **Company Performance**. Company performance is adjusted for dividends paid by the Company but does not include the value of franking credits held by the Company; and
3. Finally, to show the **Total Shareholder Return or TSR Performance**, which measures the change in the share price adjusted for any dividends paid during the period. The TSR Performance does not include the value of any franking credits when they are paid to shareholders. The TSR Performance can be an important measure as often the share market can trade at a premium or discount to the NTA.

The results of each of these measures for the year to 30 June 2020 are outlined below:

Manager Performance	- 12.3%
Portfolio Benchmark	- 5.7%
Manager Out-Performance	- 6.6%
Company Performance	- 12.0%
TSR Performance	- 23.2%

While the past financial year has been a challenging one, the Manager believes its fundamental based approach is well placed to meet the Company's investment objectives over the full investment cycle. Further information regarding the impact of COVID-19 on the Company's portfolio and the approach of the Manager to the resultant market volatility can be found in the Manager's report which follows this letter.

The TSR performance is reflective of the discount that currently exists between the Company's NTA per share and its share price. The Board has continued to take steps during the year to address the discount, including the implementation and subsequent extension of the on-market share buy-back (refer below), the commencement of daily NTA per share announcements, and ongoing shareholder engagement activities.

ON-MARKET SHARE BUY-BACK

On 1 July 2019 the Company commenced an on-market share buy-back of up to $5 million worth of ordinary shares through to 30 June 2020, at the prevailing market share price, where the share price discount to net tangible assets (NTA) per share exceeds 10%. This was introduced as a pro-active measure to assist with addressing the Company's shares trading at a discount to NTA.

On 31 March the Company increased the $5 million limit under the buy-back to $7.5 million worth of ordinary shares, and on 1 July 2020 the Company extended the period of the buy-back to 30 September 2020.

During the year ended 30 June 2020, 4,379,150 shares had been purchased under the buy-back for total consideration of $6,718,000. A further 576,830 shares have been purchased since period end for consideration of $782,000, bringing the total shares purchased under the buy-back to 4,955,980 for total consideration of $7,500,000.

Thank you for your continued support of the Company.

Yours sincerely

Jonathan Trollip

Jonathan Trollip, Chairman
Sydney, 31 August 2020

03. INVESTMENT MANAGER'S REPORT

Spheria Emerging Companies Limited (the Company) has appointed Spheria Asset Management Pty Ltd (the Manager) as the investment manager of the Company's portfolio.

MANAGER

The Manager is a fundamental investor with a focus on smaller and micro companies, which can provide higher returns in the long term than their larger peers. At the date of this report the Manager has approximately A$1.2bn across its strategies.

The Manager is majority owned by its team with nearly 100 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 PHILOSOPHY

The Manager aims to grow shareholder wealth over the long-term by generating absolute returns in excess of the Benchmark, at below market levels of risk. The Manager believes the sharemarket can be inefficient particularly within the small- and micro-cap segment, providing opportunities to purchase companies where the prevailing share price is at a discount to the present value of the prospective free cash flow. The Manager seeks to take advantage of the market's tendency for irrational behaviour, identify investments that offer a high margin of safety and build portfolios with a capital preservation focus. Assessing risk is fundamental to the Manager's philosophy.

INVESTMENT STRATEGY

The Manager's investment strategy is to invest in a select number of small- and micro-cap companies listed in Australia and New Zealand that the Manager considers to be attractively valued. The valuation process involves defining a sustainable and predictable free cash flow stream that a business can produce and discounting to present at an appropriate rate of return. Predicting future cash flows is based on a number of factors including industry dynamics/structure, historical financial information and return on invested capital. Purchasing businesses that produce positive free cash flow (after all capital expenditures) mitigates risk but the Manager also assesses financial strength based on debt levels including all off-balance sheet leases. Qualitative risk factors are also important including an assessment of the industry cycle and fixed cost operating leverage inherent in the business.

Being a fundamental investor, the Manager does not target a cash weighting, however, in the unlikely event there is a lack of valuation opportunity within the universe, the portfolio can hold up to a maximum of 20% cash. The majority of the portfolio is invested in companies where the Manager believes quantitative and qualitative risks are relatively low, these are defined as 'core' holdings. The Manager can invest in higher risk businesses defined as 'satellite' holdings, but the specific weightings are lower, with the aggregate exposure to satellites limited to a minority of the portfolio.

The investment process seeks to add value through buying smaller companies using qualitative fundamental analysis married within a quantitative framework.

COVID-19 IMPACT

The Manager has a well-defined business continuity plan (BCP) and policies consistent with the BCP were utilised from mid-March when the COVID-19 pandemic looked to be potentially placing staff and business operations at risk. The team had the choice of working remotely for over 6 weeks with daily calls between team members to continue communication. Our systems have been enabled to move to the cloud and the use of MS Teams and Zoom calls enabled continued analytical coverage of the Company's investments. The Manager is and remains a well-capitalised business and even at the market depths in late March team morale remained solid.

PERFORMANCE AND OUTLOOK

The investment portfolio decreased 12.3% for the twelve-month period ending 30 June 2020, underperforming the S&P/ASX Small Ordinaries Accumulation Index by 6.6%. The past twelve months have been dominated by the impact and reaction to COVID-19 and the subsequent actions of many Central Banks globally. Governments and Central Banks have acted to protect economies and preserve jobs whilst seeking to protect their citizens from the worst impacts of COVID-19. This has entailed substantial government stimulus in Australia and further rate cuts coupled with so-called unconventional monetary policy (the purchasing of Australian Government Bonds by the Reserve Bank of Australia).

The fallout from the COVID-19 lockdowns has been felt unevenly across the economy with the Tourism and Leisure and property sectors experiencing the most negative effects. Consumer spending has received a temporary boost from Job keeper, early access to Superannuation savings and a substitution away from banned services like travel. On the business level too the effects here have varied with some businesses qualifying for Job Keeper gaining a reduction in costs whilst others have failed to qualify for this benefit. In short the impacts have created a lot of "noise'' in the numbers and investors should be careful about over-capitalising these shorter term trends when we expect a degree of normalising to occur once semi-normal societal movement recommences.

We continue to hold steadfastly to the view that cash flows determine the underlying value of a business and thus the underlying company share prices. Nevertheless in the shorter term other investment mantras appear to have held sway with an abundance of liquidity and a cut in rates spurring momentum and high growth stocks to even loftier heights. Whilst our intention has always been to remain open to so called growth and value stocks we try to adhere to a philosophy underpinned by valuation which hasn't found favour in the shorter term.

The three largest contributors to portfolio performance during the year were City Chic (CCX), Breville Group (BRG) and Pendal Group (PDL) while the three largest detractors that we owned were Seven West Media (SWM), A2B Australia (A2B), and Monadelphous (MND).

MARKET OUTLOOK

Markets have been dominated by the actions of Central banks and Government macro-economic policies to alleviate the worst economic impacts of COVID-19. Whilst markets have recovered from the low point in late March, many sectors have lagged the recovery and continue to offer reasonable long term opportunities in our view. These include travel related shares, tourism and leisure stocks and the more cyclical areas of the economy. In addition, the relative absence of corporate activity has left many smaller market cap shares behind in the rally. Many of these are trading on incredibly depressed cash flow multiples and are likely to be the beneficiary of corporate activity if the market continues to ignore their prospects.

Matthew Booker, Portfolio Manager
Spheria Asset Management Limited
31 August 2020

Marcus Burns, Portfolio Manager
Spheria Asset Management Limited
31 August 2020

04. DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Company for the year ended 30 June 2020.

The Company is a company limited by shares and is incorporated in Australia.

DIRECTORS

The following persons held office as Directors during the year or since the end of the year and up to the date of this report, unless otherwise stated:

Jonathan Trollip, Chairman

Lorraine Berends

Adrian Whittingham

Alex Ihlenfeldt, Alternate Director

PRINCIPAL ACTIVITIES

The principal activity of the Company is to provide shareholders the opportunity to invest in an actively managed equities portfolio that provides exposure to Australian small-cap securities. There have been no significant changes in the nature of these activities during the year.

REVIEW OF OPERATIONS

The Company offers investors access to an actively managed portfolio, predominantly comprised of Australian small-cap securities, which aims to outperform its Benchmark S&P/ASX Small Ordinaries Accumulation Index over each full investment cycle, which the Company's Manager considers to typically be 3 to 5 years. The investment strategy aims to provide total returns in excess of the Benchmark, and capital growth.

Activities for the year ended 30 June 2020 resulted in an operating loss before tax of $16,795,000 and an operating loss after tax of $10,813,000. This compares to an operating profit before tax of $2,239,000 and an operating profit after tax of $3,228,000 in the prior corresponding period.

The outbreak of the COVID-19 pandemic has led to extreme volatility in equities markets, which impacts the value of the Company's assets. Governments have introduced significant fiscal stimulus, but it is still too soon to predict the longer-term economic impacts of the pandemic. The Directors are monitoring the evolution of the situation closely. The Company is actively monitoring its service providers to ensure its continued operational effectiveness, and is also closely monitoring its investment policies, strategies, investment flows, performance and liquidity during this period.

Further information regarding the Company's operations and financial performance during the year can be found in the Chairman's letter and Investment manager's report at pages 6 to 9.

DIVIDENDS

During the year the Company paid the following dividends to shareholders:

- Final dividend for financial year ended 30 June 2019 of 4.0 cents per fully paid ordinary share paid on 20 September 2019 - fully franked at 30%
- Interim dividend for financial year ended 30 June 2020 of 3.0 cents per fully paid ordinary share paid on 20 March 2020 - fully franked at 30%

The Board has resolved to pay a fully franked final dividend for the financial year ended 30 June 2020 of 2.5 cents per share payable on 23 September 2020 with a record date of 9 September 2020.

OPTIONS

The Company has not issued any options over ordinary shares.

ON-MARKET SHARE BUY-BACK

On 1 July 2019 the Company commenced an on-market share buy-back of up to $5 million worth of ordinary shares through to 30 June 2020, at the prevailing market share price, where the share price discount to net tangible assets (NTA) per share exceeds 10%.

On 31 March the Company increased the $5 million limit under the buy-back to $7.5 million worth of ordinary shares, and on 1 July 2020 the Company extended the period of the buy-back to 30 September 2020.

During the year ended 30 June 2020, 4,379,150 shares had been purchased under the buy-back for total consideration of $6,718,000. A further 576,830 shares have been purchased since period end for consideration of $782,000, bringing the total shares purchased under the buy-back to 4,955,980 for total consideration of $7,500,000.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The impact of the COVID-19 pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, on the Company of the pandemic after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel and business restrictions and any economic stimulus that may be provided by Governments.

Apart from this and the items disclosed in note 19 to the financial statements on page 41, no matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company will continue to pursue its investment objectives for the long term benefit of shareholders.

ENVIRONMENTAL REGULATION

The Company is not affected by any significant environmental regulation in respect of its operations.

To the extent that any environmental regulations may have an incidental impact on the Company's operations, the Directors are not aware of any breach by the Company of those regulations.

INFORMATION ON DIRECTORS

JONATHAN TROLLIP, CHAIRMAN

Experience and expertise
Jonathan Trollip is a non-executive director with over 34 years of commercial, corporate, governance, legal and transaction experience. Prior to becoming a professional non-executive director, he worked as a principal of Meridian International Capital Limited for over 20 years, and before that, he was a Partner with law firm Herbert Smith Freehills. In the philanthropy area, he is chairman of Science for Wildlife Limited and a director of The Watarrka Foundation and the Pinnacle Charitable Foundation. Jonathan has a B.Arts, post graduate degrees in Economics and Law and is a Fellow of the Australian Institute of Company Directors.

Other current directorships
Jonathan Trollip is the independent chairman of ASX listed Antipodes Global Investment Company Limited, Future Generation Investment Company Limited, Plato Income Maximiser Limited, and Global Value Fund Limited (listed investment companies). He is also a non-executive director of ASX listed Propel Funeral Partners Limited and of Kore Potash PLC (ASX, AIM and JSE listed).

Former directorships in last 3 years
Jonathan Trollip was formerly non-executive chairman of Spicers Limited until 16 July 2019.

Special responsibilities
Chairman of the Board.

Interests in shares and options
Details of Jonathan Trollip's interests in shares of the Company are included in the Remuneration Report.

Interests in contracts
Jonathan Trollip has no interests in contracts of the Company.

LORRAINE BERENDS

Experience and expertise
Lorraine Berends has worked in the financial services industry for over 40 years and possesses extensive experience in both investment management and superannuation. Before moving to a non-executive career in 2014, she worked for 15 years with US-based investment manager Marvin & Palmer Associates. Lorraine contributed extensively to industry associations throughout her executive career, serving on the boards of the Investment Management Consultants Association (IMCA australia, now the CIMA Society of Australia) for 13 years (7 as Chair) and the Association of Superannuation Funds Australia (ASFA) for 12 years (3 as Chair). Lorraine has been awarded Life Membership of both IMCA australia and ASFA.

Lorraine holds a BSc from Monash University, is a Fellow of the Actuaries Institute and a Fellow of ASFA.

Other current directorships
Lorraine Berends is an independent director of Plato Income Maximiser Limited, Antipodes Global Investment Company Limited and Hearts and Minds Investments Limited (listed investment companies), an independent non-executive director of Pinnacle Investment Management Group Limited and a company-appointed director of Qantas Superannuation Limited.

Former directorships in last 3 years
Lorraine Berends has not held any other directorships of listed companies within the last 3 years.

Interests in shares and options
Details of Lorraine Berends interests in shares of the Company are included in the Remuneration Report.

Interests in contracts
Lorraine Berends has no interests in contracts of the Company.

ADRIAN WHITTINGHAM

Experience and expertise
Adrian Whittingham is an executive director of Pinnacle and is responsible for manager acquisition and research as well as having a primary focus of building relationships with asset consultants, institutional investors and financial advisors on behalf of Pinnacle's specialist investment managers in Australia and offshore.

Prior to joining Pinnacle in 2008, Adrian was Director, Head of Retail Sales with Schroder Investment Management in Sydney, from 2002 to April 2008. At Schroders, Adrian was responsible for leading the business's direction and engagement with researchers, consultants, dealer groups and private clients. Prior to Schroders, Adrian spent 8 years at Zurich in product, research and business development roles.

Adrian has a Bachelor of Business from Charles Sturt University as well as qualifications from FINSIA and Deakin University.

Other current directorships
Adrian Whittingham is an executive director of Pinnacle Investment Management Group Limited (ASX: PNI), Pinnacle, Pinnacle Funds Services Limited and Pinnacle Services Administration Pty Limited. He is also a non-executive director of the Manager, Firetrail Investments Pty Limited, Spheria Services Pty Limited, Longwave Capital Partners Pty Ltd and Coolabah Capital Investments Pty Limited.

Former directorships in last 3 years
Adrian Whittingham has not held any other directorships of listed companies within the last 3 years.

Interests in shares and options
Details of Adrian Whittingham's interests in shares of the Company are included in the Remuneration Report.

Interests in contracts
Details of Adrian Whittingham's interests in contracts of the Company are included in the Remuneration Report.

ALEX IHLENFELDT, ALTERNATE DIRECTOR

Experience and expertise
Alex Ihlenfeldt holds the position of Chief Operating Officer of Pinnacle and serves as a director on a number of Pinnacle affiliate boards, listed investment companies and both Cayman and UCITS investment entities. He has over 25 years financial services experience in both Australia and South Africa. Alex was intimately involved in the establishment of Pinnacle and each of its affiliates. His responsibilities include the provision of the infrastructure services and support required by the Pinnacle Group.

Alex has a Bachelor of Commerce (Hons) and is a member of the Institute of Chartered Accountants Australia and New Zealand as well as a Fellow of the Australian Institute of Company Directors.

Other current directorships
Alex Ihlenfeldt is a non-independent director of Plato Income Maximiser Limited and Antipodes Global Investment Company Limited (listed investment companies), and is a director of Plato Investment Management Limited, Solaris Investment Management Limited, Antipodes Partners Limited, Antipodes Partners Holdings Limited, Antipodes Partners Services Limited, Antipodes Partners (UK) Limited, Riparian Capital Partners Pty Ltd, Aikya Investment Management Limited, Aikya Investment Management AU Pty Ltd and Pinnacle Charitable Foundation Ltd and alternate director of Foray Enterprises Pty Limited, Resolution Capital Limited and Firetrail Investments Pty Limited.

Alex is also an executive director of Pinnacle; Pinnacle Services Administration Pty Limited; Pinnacle Fund Services Limited and Pinnacle RE Services Limited.

Former directorships in last 3 years
Alex Ihlenfeldt has not held any other directorships of listed companies within the last 3 years.

Interests in shares and options
Details of Alex Ihlenfeldt's interests in shares of the Company are included in the Remuneration Report.

Interests in contracts
Details of Alex Ihlenfeldt's interests in contracts of the Company are included in the Remuneration Report.

MEETINGS OF DIRECTORS

The number of Board meetings held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

Director	Board meetings attended	Board meetings eligible to attend
Jonathan Trollip	4	4
Lorraine Berends	4	4
Adrian Whittingham	4	4
Alex Ihlenfeldt	4	4

COMPANY SECRETARY

During the 2020 financial year, the role of Company Secretary was performed by Calvin Kwok. Calvin is also Chief Legal, Risk and Compliance Officer and company secretary of Pinnacle Investment Management Group Limited and company secretary of Plato Income Maximiser Limited and Antipodes Global Investment Company Limited with prior experience at Herbert Smith Freehills, UBS Global Asset Management and Deutsche Bank. He holds a Master of Applied Finance, a Graduate Diploma of Applied Corporate Governance, Bachelor of Laws and a Bachelor of Commerce.

REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each Director of Spheria Emerging Companies Limited in accordance with the Corporations Act. The Company Secretary is remunerated under a service agreement with Pinnacle.

Details of remuneration

The Board from time to time determines the remuneration of Directors within the maximum amount approved by shareholders at the Annual General Meeting. Directors are not entitled to any other remuneration from the Company.

Fees and payments to Directors reflect the demands that are made on them and their responsibilities. The performance of directors is reviewed annually. The Board determines the remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced directors.

The maximum total pooled remuneration of the Directors has been set at $250,000 per annum. Directors do not receive bonuses nor are they issued options on securities as part of their remuneration. Directors' fees cover all main Board activities.

The following tables show details of the remuneration received by the Directors for the current financial year.

	Short-term employee benefits		Post-employment benefits			
	Salary and fees		Superannuation		Total	
Director	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Jonathan Trollip	$36,530	$36,530	$3,470	$3,470	$40,000	$40,000
Lorraine Berends	$27,397	$27,397	$2,603	$2,603	$30,000	$30,000
Adrian Whittinham	$ -	$ -	$ -	$ -	$ -	$ -
Alex Ihlenfeldt	$ -	$ -	$ -	$ -	$ -	$ -
Total Director remuneration	**$63,927**	**$63,927**	**$6,073**	**$6,073**	**$70,000**	**$70,000**

The Company has no employees and therefore does not have a remuneration policy for employees.

The Directors are the only people considered to be key management personnel of the Company.

Directors' remuneration is not directly linked to the Company's performance.

The following table outlines key elements of the Company's financial performance since incorporation:

	2020	2019	2018 *
Operating profit / (loss) after tax ($'000)	(10,813)	3,228	7,096
Dividends per share (cents per share)	5.5	6.0	4.0
Closing Pre-tax NTA ($)	1.731	2.043	2.102
Closing Share Price ($)	1.29	1.76	1.945

* inception of the investment portfolio occurred 30 November 2017.

Director-related entity remuneration

All transactions with related entities are made on normal commercial terms and conditions.

Adrian Whittingham, who is a Director, is also a director of the Manager.

Adrian Whittingham and Alex Ihlenfeldt are also directors of Pinnacle, which provides various administration support services to the Company in accordance with the Services Agreement.

The fees payable to the Manager and the Administrator are listed below:

Management fee

In its capacity as investment manager, the Manager is entitled to be paid, and the Company must pay to the Manager, a management fee payable monthly in arrears equivalent to 1% per annum (exclusive of GST) of the value of the Company's portfolio calculated on the last business day of each month.

For the year ended 30 June 2020, the Manager was entitled to be paid management fees (exclusive of GST) of $1,241,970 (2019: $1,373,809).

As at 30 June 2020, the remaining balance payable to the Manager (exclusive of GST) was $87,196 (2019: $113,894).

Performance fee

In further consideration for the performance of its duties as investment manager of the Company's portfolio, the Manager may be entitled to be paid a performance fee equal to 20% of any portfolio out-performance in excess of the Benchmark. Full details of the terms of the performance fee calculation are disclosed in note 16 to the financial statements.

For the year ended 30 June 2020, in its capacity as investment manager, the Manager earned performance fees (exclusive of GST) of $nil (2019: $943,205). Any performance fees are offset against the reimbursement right receivable from the Manager for the Company's offer costs relating to its listing on the ASX, as outlined below.

Reimbursement right receivable

The Company is able to recoup from fees earned by the Manager the offer costs relating to the listing of the Company on the ASX. Under the Investment Management Agreement, the Manager has agreed to:

a. forego performance fees from the date of listing until the end of the first four full calendar years from listing (i.e. by 31 December 2021) or until such time as the Company has recouped all of the offer costs (whichever is earlier); and

b. if the offer costs are not fully recouped during the first four full calendar years after listing (i.e. by 31 December 2021), the Manager will forego management fees that accrue after this time (i.e. in respect of the period commencing 1 January 2022) until the Company has recouped all of the offer costs. The Manager will be entitled to receive performance fees during this period.

The offer costs incurred in relation to the listing were $3,915,360, and the value of the reimbursement right receivable at the start of the reporting period was $2,803,271. No performance fees were crystallised and expensed during the current period so that the balance of reimbursement right receivable at balance date is $2,803,271.

Service fee

The Company has entered into a Services Agreement with Pinnacle for the provision of the following administration support services:

- Middle office portfolio administration;
- Finance, tax and reporting and administration;
- Investor relations; and
- Legal counsel and company secretarial.

For the year ended 30 June 2020 the Administrator was paid a fee (exclusive of GST) of $81,689 (period ended 30 June 2019: $81,060).

As at 30 June 2020, the balance payable to the Administrator was $20,656 (30 June 2019: $19,828).

Contracts

Other than as stated above, no Director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related company with the Director or with a firm of which they are a member or with a company in which they have substantial financial interest since the inception of the Company.

Equity instrument disclosures relating to directors

During the financial year and as at the date of this report, the Directors and their related parties held the following interests in the Company:

Ordinary shares held					
Director	**Opening Balance 1 July**	**Acquisitions**	**Disposals**	**Closing Balance 30 June**	**Balance at date of this report**
Jonathan Trollip*	77,300	-	-	77,300	77,300
Lorraine Berends*	25,000	-	-	25,000	25,000
Adrian Whittingham*	25,000	-	-	25,000	25,000
Alex Ihlenfeldt*	25,001	-	-	25,001	25,001
Total shares held*	**152,301**	**-**	**-**	**152,301**	**152,301**

*Held through direct and indirect interests.

Directors and their related parties acquired shares in the Company on the same terms and conditions available to other shareholders.

The Directors have not been granted options over unissued shares or interests in shares of the Company as part of their remuneration during or since the end of the financial year.

END OF REMUNERATION REPORT

INSURANCE AND INDEMNIFICATION OF OFFICERS AND AUDITORS

During or since the end of the financial year, the Company has given an indemnity and paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director, other than conduct involving a wilful breach of duty in relation to the Company or the improper use by the Directors of their position.

Details of the amount of the premium paid in respect of the insurance policies are not disclosed as the Company is prevented from doing so under the terms of its contract.

No indemnities have been given or insurance premiums paid during or since the end of the financial year, for any person who is or has been an auditor of the Company.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, or for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act.

NON-AUDIT SERVICES

During the year Pitcher Partners, the Company's auditor, performed other services in addition to their statutory duties for the Company as disclosed in note 15 to the financial statements.

The Board is satisfied that the provision of other services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied that the services disclosed in note 15 did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to the auditor independence in accordance with the APES 110 Code of Ethics for Professional Accountants (including Independence Standards) set by the Accounting Professional and Ethical Standards Board.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 18.

ROUNDING OF AMOUNTS

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial statements have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

This report is made in accordance with a resolution of the Directors.

Jonathan Trollip

Jonathan Trollip, Chairman
Sydney, 31 August 2020

05.

AUDITOR'S INDEPENDENCE DECLARATION

PITCHER PARTNERS

Level 16, Tower 2 Darling Park
201 Sussex Street
Sydney NSW 2000

Postal Address
GPO Box 1615
Sydney NSW 2001

p. +61 2 9221 2099
e. sydneypartners@pitcher.com.au

Auditor's Independence Declaration
To the Directors of Spheria Emerging Companies Limited
ABN 84 621 402 588

In relation to the independent audit of Spheria Emerging Companies Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief there have been:

(i) no contraventions of the auditor's independence requirements of the *Corporations Act 2001*; and

(ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards).*

S M Whiddett
Partner

Pitcher Partners
Sydney

31 August 2020

06. FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year to 30 June 2020

	Note	30 June 2020 $'000	30 June 2019 $'000
Investment (loss) / income			
Interest income received		48	140
Dividends received		3,718	6,008
(Losses) on financial instruments held at fair value through profit and loss	4	(18,794)	(972)
Total investment (loss) / income		**(15,028)**	**5,176**
Expenses			
Management fees		1,242	1,374
Performance fees		-	943
Brokerage costs		89	218
ASX and share registry fees		117	99
Professional fees		69	70
Director fees		70	70
Other expenses		180	163
Total expenses		**1,767**	**2,937**
(Loss) / profit before income tax		**(16,795)**	**2,239**
Income tax benefit	5	(5,982)	(989)
Net (loss) / profit after income tax for the period		**(10,813)**	**3,228**
Other comprehensive income net of tax		-	-
Total comprehensive (loss) / income for the period attributable to shareholders		**(10,813)**	**3,228**
Earnings per share for (loss) / profit attributable to ordinary equity holders of the Company		**Cents**	**Cents**
Basic earnings per share	18	(16.8)	4.9
Diluted earnings per share	18	(16.8)	4.9

The above statement of profit or loss and other comprehensive income should be read in conjunction with the notes to the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	30 June 2020 $'000	30 June 2019 $'000
Assets			
Cash and cash equivalents	6	1,970	19,342
Trade and other receivables	7	3,109	2,866
Financial assets at fair value through profit or loss	8	103,207	115,529
Current tax assets		513	-
Deferred tax assets	9	10,191	4,180
Total assets		**118,990**	**141,917**
Liabilities			
Trade and other payables	10	1,176	584
Current tax liabilities		-	1,473
Deferred tax liabilities	9	870	841
Total liabilities		**2,046**	**2,898**
Net assets		**116,944**	**139,019**
Shareholders' equity			
Issued capital	11	125,957	132,675
Profits reserve	12	12,237	10,215
Accumulated losses		(21,250)	(3,871)
Total equity		**116,944**	**139,019**

The above statement of financial position should be read in conjunction with the notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Note	Issued capital $'000	Profits reserve $'000	Accumulated Losses $'000	Total $'000
Year ended 30 June 2019					
Balance as at 1 July 2018		**132,675**	**7,096**	**-**	**139,771**
Total comprehensive income					
Profit for the period		-	-	3,228	**3,228**
Other comprehensive income		-	-	-	**-**
Total comprehensive income		**-**	**-**	**3,228**	**3,228**
Transfer between reserves					
Transfer to profit reserve	12	-	7,099	(7,099)	**-**
Total transfer between reserves		**-**	**7,099**	**(7,099)**	**-**
Transactions with owners in their capacity as owners					
Dividends paid	13	-	(3,980)	-	**(3,980)**
Total transactions with owners in their capacity as owners		**-**	**(3,980)**	**-**	**(3,980)**
Balance as at 30 June 2019		**132,675**	**10,215**	**(3,871)**	**139,019**
Year ended 30 June 2020					
Total comprehensive loss					
Loss for the period		-	-	(10,813)	**(10,813)**
Other comprehensive income		-	-	-	**-**
Total comprehensive loss		**-**	**-**	**(10,813)**	**(10,813)**
Transfer between reserves					
Transfer to profit reserve	12	-	6,566	(6,566)	**-**
Total transfer between reserves		**-**	**6,566**	**(6,566)**	**-**
Transactions with owners in their capacity as owners					
Purchase of shares under on-market share buy-back	11	(6,718)	-	-	**(6,718)**
Dividends paid	13	-	(4,544)	-	**(4,544)**
Total transactions with owners in their capacity as owners		**(6,718)**	**(4,544)**	**-**	**(11,252)**
Balance as at 30 June 2020		**125,957**	**12,237**	**(21,250)**	**116,944**

The above statement of changes in equity should be read in conjunction with the notes to the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Note	30 June 2020 $'000	30 June 2019 $'000
Cash flows from operating activities			
Proceeds from sale of investments		33,292	75,872
Payment for investments		(39,369)	(70,649)
Interest received		48	140
Dividends received		3,622	6,008
Payments to suppliers		(1,717)	(1,797)
Income taxes paid		(1,986)	(3,388)
Net cash (used in) / provided by operating activities		**(6,110)**	**6,186**
Cash flows from financing activities			
Purchase of shares under on-market share buy-back	11	(6,718)	-
Dividends paid to shareholders	13	(4,544)	(3,980)
Net cash used in financing activities		**(11,262)**	**(3,980)**
Net (decrease) / increase in cash and cash equivalents		**(17,372)**	**2,206**
Cash assets at beginning of the financial period		19,342	17,136
Cash assets at the end of the financial period	**6**	**1,970**	**19,342**

The above statement of cash flows should be read in conjunction with the notes to the financial statements.

07.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were authorised for issue on 31 August 2020 by the Board.

Basis of preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board. The Company is a 'for-profit' entity for financial reporting purposes under Australian Accounting Standards.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, except for the measurement at fair value of selected financial assets and financial liabilities.

The financial statements of the Company also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the Directors' report and in the financial statements have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Significant accounting policies

Significant accounting policies adopted in the preparation of the financial statements are presented below. Other than the implementation of new accounting standards noted in 1(p) below, the accounting policies adopted are consistent with the previous year, unless stated otherwise:

a. Investments

1. Classification
   The category of financial assets and financial liabilities comprises:

   Financial assets designated at fair value through profit and loss

   These include financial assets that are held for trading and may be sold, such as investments in listed equity securities, and their fair value changes are recorded in profit and loss.

2. Recognition and measurement

   Financial assets at fair value through profit and loss are recognised initially at fair value, including transaction costs on trade date at which the Company becomes party to the contractual provisions of the instrument. Subsequent to initial recognition, all financial assets held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of profit or loss.

3. Derecognition

   Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

4. Valuation

   All investments are classified and measured at fair value. Shares that are listed or traded on an exchange are fair valued using last sale prices, as at the close of business on the day the shares are being valued.

   If a quoted market price is not available on a recognised security exchange, the fair value of the instruments are estimated using valuation techniques, which include the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

b. Fair value measurement

When a financial asset is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either in the principal market, or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset, assuming they act in their economic best interests. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets measured on a recurring basis at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Further information regarding fair value measurements is provided in note 3.

c. Income and expenditure

Net gains/(losses) on financial instruments held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at year end and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend income.

Dividend income relating to exchange-traded equity instruments is recognised in the statement of profit or loss on the ex-dividend date.

Interest income is recognised as it accrues, using the effective interest method of the instrument calculated at the acquisition date.

All expenses, including performance fees and investment management fees, are recognised in the statement of profit or loss on an accruals basis.

d. Foreign currency translation

Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates (the 'functional currency'). This is the Australian dollar, which reflects the currency of the economy in which the Company competes for funds and is regulated. The Australian dollar is also the Company's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the statement of profit or loss on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

e. Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

The Company may incur withholding tax imposed by certain countries on investment income. Such income will be recorded net of withholding tax in profit or loss.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted for each jurisdiction.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date.

Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and deferred tax liabilities can be presented as a net balance in the statement of financial position when:

- the Company has a legally enforceable right to offset its current tax assets and current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

f. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, unless GST incurred is not recoverable from the Australian Taxation Office. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

g. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

h. Trade and other receivables

Trade and other receivables are measured at amortised cost and relate to outstanding settlements as well as accrued income in relation to interest and dividends receivable. Trade receivables are generally due for settlement within 30 days. Details regarding the accounting policy for the impairment of receivables is provided at note(1)(o).

i. Reimbursement right

The Company's right to be reimbursed for the offer costs of its listing on the ASX under its agreement with the Manager (refer notes 7 and 16) is included as a receivable asset within the statement of financial position at amortised cost. Fees foregone by the Manager under the agreement are recognised as a reduction in the receivable asset as they are expensed.

j. Trade and other payables

These amounts represent liabilities for outstanding settlements as well as services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

k. Share capital

Ordinary shares are classified as equity.

l. Profits reserve

A profits reserve has been created representing an amount allocated from retained earnings that is preserved for future dividend payments.

m. Earnings per share

1. Basic earnings per share

   Basic earnings per share is calculated by dividing:

   - the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares;
   - by the weighted average number of ordinary shares outstanding during the financial year adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2. Diluted earnings per share

   Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

   - the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
   - the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares (e.g. options on issue and in the money).

n. Operating segments

The Company's investment activities are its only reportable segment. The Company operates from one geographic location, being Australia.

o. Critical accounting estimates and judgements

The preparation of financial statements requires the use of estimates and judgements which affect the reported amounts of assets and liabilities of the Company. These estimates and judgements are constantly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Income taxes

The Company is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. The Company estimates its income taxes based on the Company's understanding of tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Further information regarding the Company's income tax expense / (benefit) is provided in note 5.

The Company can recognise deferred tax assets relating to carried forward tax losses and deductible timing differences to the extent that it is considered probable that there will be future taxable profits relating to the same taxation authority against which the carried forward tax losses and deductible timing differences will be utilised. Further information regarding the Company's deferred tax assets are provided at note 9.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group of receivables. These assumptions can include historical collection rates, and any forward-looking information that is available including potential impacts of the COVID-19 pandemic. The allowance for expected credit losses is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

p. New and revised accounting requirements applicable to the current year reporting period

The Company has adopted AASB 16 Leases from 1 July 2019. Further information is detailed below. A number of other new and revised standards are effective from 1 July 2019 but they do not have a material effect on the Company's financial statements.

AASB 16 Leases

AASB 16 Leases, effective from 1 July 2019, has the impact that almost all leases be recognised on the balance sheet, as the distinction between operating and finance leases is removed. As the Company does not have any operating or finance leases, this standard does not have a material impact on the Company.

q. New and revised accounting requirements not yet mandatory or early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Company. It is not expected that these new standards and interpretations will have a material impact on the entity in future reporting periods.

NOTE 2 FINANCIAL RISK MANAGEMENT

a. Objectives, strategies, policies and processes

The Company's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Board has implemented a risk management framework to mitigate these risks. This includes consideration of compliance and risk management reporting on a quarterly basis to monitor compliance and evaluate risk, and regular reporting from the Manager to ensure ongoing compliance with the investment strategy and investment guidelines.

The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of price risks.

b. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established parameters and investment strategies.

The market risk disclosures are prepared on the basis of the Company's direct investments and not on a look-through basis for investments held by the Company.

The sensitivity of the Company's net assets attributable to shareholders (and net operating profit/(loss)) to price risk and interest rate risk is measured by the reasonably possible movements approach. This approach has regard to a number of factors, including the historical correlation of the Company's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Company invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

i. Price risk

Equity price risk is the risk that the fair value of equities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity price risk exposure arises from the Company's investment portfolio. The investments are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Manager manages price risk through diversification and a careful selection of securities within specified limits set by the Board.

The Company's overall market positions are monitored on a daily basis by the Manager and are considered at least quarterly by the Board.

At 30 June 2020, the overall market exposures were as follows:

	30 June 2020 $'000	30 June 2019 $'000
Financial assets at fair value through profit or loss	103,207	115,529
Overall exposure	103,207	115,529

At 30 June 2020, if the equity prices had increased by +/- 15% with all other variables held constant, the movement in net assets attributable to shareholders (and net operating profit/(loss)) would be approximately +/- $10,837,000 (2019: +/- $12,131,000).

ii. Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company may from time to time hold assets denominated in New Zealand dollars, rather than the Australian dollar, which is the functional currency. It is therefore exposed to foreign exchange risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates.

At 30 June 2020 and 30 June 2019, all assets held were denominated in Australian dollars and there were no assets denominated in foreign currencies. As a result, there was limited exposure to foreign exchange risk at balance date.

iii. Cash flow and fair value interest rate risk

The majority of the Company's financial assets and liabilities are non interest-bearing. Any interest-bearing financial assets and interest-bearing financial liabilities either mature or reprice in the short-term, no longer than twelve months. As a result, the Company is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

c. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company holds no collateral as security or any other credit enhancements. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets of the Company which include cash, trade and other receivables. At balance date none of these assets were impaired, nor past due but not impaired.

The Company's cash balances are held with a counterparty that has a credit rating of AA- (as determined by Standard and Poor's (S&P)). The clearing and depository operations of the Company's security transactions are mainly concentrated with one counterparty which has a credit rating of AA- with S&P.

The Company's right to be reimbursed for the offer costs of its listing on the ASX under its agreement with the Manager (refer notes 7 and 16) is included as a receivable asset within the statement of financial position. The carrying value of this receivable is $2,803,000 (2019: $2,803,000). There were no other material concentrations of credit risk at 30 June 2020.

d. Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. This risk is controlled through the Company's investment in financial instruments, which under normal market conditions are readily convertible to cash, as they are listed on Australian and New Zealand exchanges. In addition, the Company maintains sufficient cash and cash equivalents to meet normal operating requirements. The Manager and Administrator monitor the Company's liquidity position on a daily basis.

Maturity analysis for financial liabilities

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month $'000	1 month to 1 year $'000	More than 1 year $'000	Total
At 30 June 2020				
Accruals	189	-	-	189
Due to brokers	983	-	-	983
Other payables	4	-	-	4
Total financial liabilities	**1,176**	**-**	**-**	**1,176**
At 30 June 2019				
Trade creditors	146	-	-	146
Accruals	65	-	-	65
Due to brokers	369	-	-	369
Other payables	4	-	-	4
Total financial liabilities	**584**	**-**	**-**	**584**

NOTE 3 FAIR VALUE MEASUREMENTS

The Company measures and recognises its financial assets at fair value through profit or loss (FVTPL) on a recurring basis.

Fair value hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

a. quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

b. inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Recognised fair value measurements

The following table presents the Company's assets measured and recognised at fair value at 30 June 2020.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 June 2020				
Financial Assets				
Financial assets at fair value through profit and loss				
Australian listed equity securities	103,207	-	-	103,207
Total assets	**103,207**	**-**	**-**	**103,207**
At 30 June 2019				
Financial Assets				
Financial assets at fair value through profit and loss				
Australian listed equity securities	115,529	-	-	115,529
Total assets	**115,529**	**-**	**-**	**115,529**

There were no liabilities measured at fair value at 30 June 2020 (2019: $nil).

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets has been based on the closing quoted last prices at the end of the reporting year, excluding transaction costs.

There were no transfers between levels for recurring fair value measurements during the year.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The carrying amounts of all financial instruments other than those measured at fair value on a recurring basis are considered to represent a reasonable approximation of their fair values.

NOTE 4 LOSSES ON FINANCIAL INSTRUMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

	2020 $'000	2019 $'000
Losses on financial instruments held at fair value through profit and loss comprise:		
Realised (losses) / gains on financial instruments	(2,915)	9,299
Unrealised losses on financial instruments	(15,879)	(10,271)
Losses on financial instruments held at fair value through profit and loss	**(18,794)**	**(972)**

NOTE 5 INCOME TAX BENEFIT

	2020 $'000	2019 $'000
a. Income tax benefit		
Current tax (benefit) / expense	(1,450)	2,163
Deferred tax benefit (refer note 9)	(4,532)	(3,152)
Total income tax benefit	**(5,982)**	**(989)**
Deferred income tax benefit included in total income tax benefit comprises:		
Increase in deferred tax assets	(4,561)	(2,869)
Increase / (decrease) in deferred tax liabilities	29	(283)
	(4,532)	**(3,152)**
b. Reconciliation of income tax expense to prima facie tax payable		
(Loss) / profit before income tax expense	(16,795)	2,239
Tax at the Australian tax rate of 30%	**(5,038)**	**672**
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax credits	(944)	(1,646)
Prior period adjustments	-	(15)
Income tax benefit	**(5,982)**	**(989)**

NOTE 6 CASH AND CASH EQUIVALENTS

	30 June 2020 $'000	30 June 2019 $'000
Cash at bank – investment portfolio	1,685	17,343
Cash at bank – operating account	285	1,999
Total cash and cash equivalents	**1,970**	**19,342**

The weighted average interest rate for cash as at 30 June 2020 is 0.08% (30 June 2019: 0.76%).

NOTE 7 TRADE AND OTHER RECEIVABLES

	30 June 2020 $'000	30 June 2019 $'000
Reimbursement right receivable	2,803	2,803
Receivable from broker	138	-
Dividends receivable	96	-
GST receivable	40	35
Other receivables	32	28
Total trade and other receivables	**3,109**	**2,866**

The reimbursement right receivable represents the outstanding balance of issue costs to be recouped from the Manager under the Investment Management Agreement (refer note 16 for further details).

Collectibility of trade and other receivables is reviewed on an ongoing basis in accordance with the expected credit loss ('ECL') model (refer note 1(o)). The ECL assessment at 30 June 2020 has resulted in an immaterial credit loss and no impairment allowance has been recognised by the Company. Further information regarding credit risk of the Company is provided at note 2(c).

NOTE 8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 $'000	30 June 2019 $'000
Financial assets at fair value through profit or loss:		
Australian listed equity securities	103,207	115,529
Financial assets at fair value through profit or loss	**103,207**	**115,529**

NOTE 9 DEFERRED TAX ASSETS / LIABILITIES

	30 June 2020 $'000	30 June 2019 $'000
a. Deferred tax assets		
The deferred tax assets balance comprises temporary differences attributable to:		
Accruals	18	16
Unrealised losses on investments	8,234	3,460
Issue costs	489	704
Income tax losses	1,450	-
Deferred tax assets	**10,191**	**4,180**
The overall movement in deferred tax asset accounts is as follows:		
Opening balance	4,180	1,311
Credited directly to profit or loss	4,561	2,869
Income tax losses	1,450	
Closing balance	**10,191**	**4,180**
The movement in deferred tax assets for each temporary difference during the year is as follows:		
i. Accruals		
Opening balance	16	15
Credited directly to profit or loss	2	1
Closing balance	**18**	**16**
ii. Unrealised losses		
Opening balance	3,460	357
Credited directly to profit or loss	4,774	3,103
Closing balance	**8,234**	**3,460**
iii. Issue costs		
Opening balance	704	939
(Charged) to profit or loss	(215)	(235)
Closing balance	**489**	**704**
iv. Income tax losses		
Opening balance	-	-
Increase in income tax losses	1,450	-
Closing balance	**1,450**	**-**

A deferred tax asset for income tax losses has been recognised on the basis it is considered probable that there will be sufficient taxable profits against which to recover the losses in future years.

	30 June 2020 $'000	30 June 2019 $'000
b. Deferred tax liabilities		
The deferred tax liabilities balance comprises temporary differences attributable to:		
Dividends receivable	29	-
Reimbursement right receivable	841	841
Deferred tax liabilities	**870**	**841**
The overall movement in deferred tax liability accounts is as follows:		
Opening balance	841	1,124
Charged / (credited) directly to profit or loss	29	(283)
Closing balance	**870**	**841**
The movement in deferred tax liability for each temporary difference during the year is as follows:		
i. Dividends receivable		
Opening balance	-	-
Charged directly to profit or loss	29	-
Closing balance	**29**	**-**
ii. Reimbursement right receivable		
Opening balance	841	1,124
(Credited) directly to profit or loss	-	(283)
Closing balance	**841**	**841**
c. Net deferred tax assets adjusted for deferred tax liabilities	**9,321**	**3,339**

NOTE 10 TRADE AND OTHER PAYABLES

	30 June 2020 $'000	30 June 2019 $'000
Trade creditors	-	146
Accrued expenses	189	65
Due to broker	983	369
Other payables	4	4
Total trade and other payables	**1,176**	**584**

Trade and other payables primarily relate to outstanding settlements and are usually paid within 30 days of recognition.

NOTE 11 ISSUED CAPITAL

a. Share capital

	2020 Number	2020 $'000	2019 Number	2019 $'000
Fully paid ordinary shares	61,958,396	125,957	66,337,546	132,675
Total share capital	**61,958,396**	**125,957**	**66,337,546**	**132,675**

The Company does not have an authorised capital value or par value in respect of its issued shares.

b. Movements in ordinary share capital

Date	Details	Number of shares	Price	Total $'000
1 July 2018	Opening balance	66,337,546		132,675
July 2018 – June 2019	Nil movement	-		-
30 June 2019	**Balance**	**66,337,546**		**132,675**
1 July 2019	Opening balance	66,337,546		132,675
July 2019 – June 2020	Purchase of ordinary shares under on-market share buy-back (refer (d) below)	(4,379,150)		(6,718)
30 June 2020	**Balance**	**61,958,396**		**125,957**

c. Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

d. On-market share buy-back

On 1 July 2019 the Company commenced an on-market share buy-back of up to $5 million worth of ordinary shares through to 30 June 2020, at the prevailing market share price, where the share price discount to net tangible assets (NTA) per share exceeds 10%. On 31 March 2020, the Company increased the $5 million limit under the buy-back to $7.5 million worth of ordinary shares, and on 1 July 2020 the Company extended the period of the buy-back to 30 September 2020.

During the period ended 30 June 2019, 4,379,150 shares had been purchased under the buy-back for total consideration of $6,718,000.

Since period end, a further 576,830 shares have been purchased under the buy-back for total consideration of $782,000.

e. Capital Management

The Company's objective in managing its capital is to satisfy its aim to provide shareholders with total return in excess of the Company's Benchmark and capital growth over each investment cycle. The Company considers its capital to be its issued capital, reserves and accumulated retained earnings.

The Company's capital will fluctuate with market conditions. The Company can manage its capital through the level of dividends paid to shareholders, the issue of shares or the use of share buy-backs.

The Company is an ASX listed investment company and is subject to ASX listing rule requirements.

NOTE 12 RESERVES

	30 June 2020 $'000	30 June 2019 $'000
Opening balance – Profits reserve	10,215	7,096
Transfer of profits from profit and loss	6,566	7,099
Dividends paid	(4,544)	(3,980)
Closing balance - Profits reserve	**12,237**	**10,215**

A profits reserve has been created representing an amount allocated from retained earnings that is preserved for future dividend payments.

NOTE 13 DIVIDENDS

a. Dividends paid

During the year ended 30 June 2020 the Company paid the following dividends:

	2020 $'000	2019 $'000
Final dividend for financial year ended 30 June 2019 of $0.04 per fully paid ordinary share paid on 20 September 2019 - fully franked at 30% (2019: $0.04 paid on 21 September 2018)	2,628	2,654
Interim dividend for financial year ended 30 June 2020 of $0.03 per fully paid ordinary share paid on 20 March 2020 - fully franked at 30% (2019: $0.02 paid on 20 March 2019)	1,916	1,326
Total dividends paid	**4,544**	**3,980**

b. Dividends not recognised at the end of the year

The Board has resolved to pay a fully franked final dividend for the financial year ended 30 June 2020 of 2.5 cents per share (2019: 4.0 cents per share) payable on 23 September 2020, with a record date of 9 September 2020.

Based on the number of issued shares at 30 June 2020, the aggregate amount of dividend payable but not recognised as a liability at year end, is $1,549,000 (2019: $2,654,000). This amount will decrease by the number of ordinary shares cancelled under the on-market share buy-back between balance date and the dividend record date.

c. Dividend franking account

The balance of the Company's dividend franking account at 30 June 2020 was $5,892,000 (2019: $4,496,000). The balance of the franking account available for dividends paid in subsequent financial years, when adjusted for franking debits / credits that will arise from current tax receivable / payable, is $5,380,000 (2019: $5,969,000).

The franking debit that will arise from the payment of the dividend not recognised at the end of the reporting period, based on the number of issued shares at 30 June 2020, is $664,000 (2019: $1,137,000).

NOTE 14 KEY MANAGEMENT PERSONNEL DISCLOSURES

a. Key management personnel compensation

	2020 $	2019 $
Short-term employment benefits	63,927	63,927
Post-employment benefits	6,073	6,073
Total remuneration	**70,000**	**70,000**

Detailed remuneration disclosures are provided in the remuneration report on pages 14 to 16.

b. Equity instrument disclosures relating to key management personnel

The number of shares in the Company held during the financial year by each Director, including their related parties, are set out below. There were no shares granted during the financial year as compensation.

Ordinary shares held

Director	Year	Opening Balance	Acquisitions	Disposals	Closing Balance
Jonathan Trollip*	2020	77,300	-	-	77,300
	2019	50,000	27,300	-	77,300
Lorraine Berends*	2020	25,000	-	-	25,000
	2019	25,000	-	-	25,000
Adrian Whittingham*	2020	25,000	-	-	25,000
	2019	25,000	-	-	25,000
Alex Ihlenfeldt*	2020	25,001	-	-	25,001
	2019	25,001	-	-	25,001
Total shares held*	**2020**	**152,301**	**-**	**-**	**152,301**
Total shares held*	**2019**	**125,001**	**27,300**	**-**	**152,301**

* Held through direct and indirect interests

Directors and their related parties acquired shares in the Company on the same terms and conditions available to other shareholders.

NOTE 15 REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditor, its related practices and non-related audit firms:

a. Audit and other assurance services

	2020 $	2019 $
Audit services – Pitcher Partners		
Audit of financial statements	57,768	59,805
Total remuneration for audit and other assurance services	**57,768**	**59,805**

b. Non-audit services

	2020 $	2019 $
Taxation services – Pitcher Partners		
Tax compliance services	11,143	10,497
Total remuneration for tax compliance services	**11,143**	**10,497**
Total remuneration paid to auditors of the Company	**68,911**	**70,302**

The Board oversees the relationship with the Company's external auditors. The Board reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit-related tax compliance services provided by the audit firm, to ensure that they do not compromise independence.

NOTE 16 RELATED PARTY TRANSACTIONS

All transactions with related parties were made on normal commercial terms and conditions and at market rates.

a. Investment Management Agreement

Adrian Whittingham, who is a Director, is also a director of the Manager.

The Company appointed the Manager to act as investment manager of the Company's portfolio under the Investment Management Agreement.

Under the Investment Management Agreement, the Manager must:

1. invest money constituted in or available to the Company's portfolio, including money received as a consequence of disposal of investments or any dividend or other distribution received;
2. retain investments; and
3. realise or dispose of investments.

The initial term of the Investment Management Agreement is 10 years, which will be automatically extended for successive five year periods at the end of the initial term and each subsequent term thereafter, unless terminated earlier. The Company may remove the Manager and terminate the agreement after the expiration of the initial term if the shareholders resolve by ordinary resolution that the Manager should be removed as investment manager of the Company's portfolio, on delivery of three months' prior written notice.

The associated fees payable to the Manager are listed below:

Management fee

In its capacity as investment manager, the Manager is entitled to receive a management fee of 1% per annum (exclusive of GST) of the value of the Company's portfolio calculated daily and paid at the end of each month in arrears.

For the year ended 30 June 2020, the Manager was entitled to be paid management fees (exclusive of GST) of $1,241,970 (2019: $1,373,809).

As at 30 June 2020, the remaining balance payable to the Manager (exclusive of GST) was $87,196 (2019: $113,894).

Performance fee

In return for the performance of its duties as investment manager of the Company's portfolio, the Manager is entitled to be paid by the Company a fee equal to 20% (plus GST) of the portfolio's outperformance relative to the Benchmark. The performance fee for each performance calculation period (initially, the period commencing on the date of allotment of shares under the IPO to 31 December 2017, and thereafter each 6-month period ending on 30 June or 31 December) is calculated subject to the recoupment of prior underperformance.

For the year ended 30 June 2020, in its capacity as investment manager, the Manager earned performance fees (exclusive of GST) of $nil (2019: $943,205). Any performance fees are offset against the reimbursement right receivable from the Manager for the Company's offer costs relating to its listing on the ASX, as outlined below.

Reimbursement right receivable

The Company is able to recoup from fees earned by the Manager the offer costs relating to the listing of the Company on the ASX. The Manager has agreed to:

a. forego performance fees from the date of listing until the end of the first four full calendar years from listing (i.e. by 31 December 2021) or until such time as the Company has recouped all of the offer costs (whichever is earlier); and

b. if the offer costs are not fully recouped during the first four full calendar years after listing (i.e. by 31 December 2021), the Manager will forego management fees that accrue after this time (i.e. in respect of the period commencing 1 January 2022) until the Company has recouped all of the offer costs. The Manager will be entitled to receive performance fees during this period.

Any outstanding Offer costs will be borne by the Company if the Investment Management Agreement is terminated before the Offer costs have been recouped in full.

The offer costs incurred in relation to the listing were $3,915,360, and the value of the reimbursement right receivable at the start of the reporting period was $2,803,271. No performance fees were crystallised and expensed during the current period so that the balance of reimbursement right receivable at balance date is $2,803,271.

b. Services Agreement

Adrian Whittingham, who is a Director, and Alex Ihlenfeldt, who is an Alternate Director, are also directors of Pinnacle, the Administrator.

The Company has entered into a Services Agreement with Pinnacle for the provision of the following administration support services:

- Middle office portfolio administration;
- Finance, tax and reporting and administration; and
- Legal counsel and company secretarial.

The Company is required to pay Pinnacle a service fee quarterly in arrears for the provision of the services calculated as follows:

1. in respect of the first financial year to 30 June 2018 – $70,000 (exclusive of GST) (Base Retainer); and
2. in respect of each subsequent financial year – the Base Retainer calculated for the immediately preceding financial year indexed by 3%.

For the year ended 30 June 2020 the Administrator was paid a fee (exclusive of GST) of $81,689 (year ended 30 June 2019: $81,060).

As at 30 June 2020, the balance payable to the Administrator was $20,656 (30 June 2019: $19,828).

NOTE 17 RECONCILIATION OF (LOSS) / PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2020 $'000	2019 $'000
(Loss) / profit for the period	**(10,813)**	**3,228**
Unrealised losses on market value movement	15,912	10,341
Changes in operating assets / liabilities		
(Increase) / decrease in trade and other receivables	(243)	927
Increase in investments	(3,590)	(3,461)
Increase in deferred tax assets	(6,011)	(2,869)
Increase / (decrease) in trade and other payables	592	(472)
Decrease in provision for income taxes payable	(1,986)	(1,225)
Increase / (decrease) in deferred tax liabilities	29	(283)
Net cash (outflow)/inflow from operating activities	**(6,110)**	**6,186**

NOTE 18 EARNINGS PER SHARE

	2020 $'000	2019 $'000
a. Earnings used in the calculation of basic and diluted earnings per share		
(Loss)/profit from continuing operations attributable to the owners of the Company	(10,813)	3,228
b. Basic earnings per share	**Cents**	**Cents**
(Loss)/profit from continuing operations attributable to the owners of the Company	(16.8)	4.9
c. Diluted earnings per share	**Cents**	**Cents**
(Loss)/profit from continuing operations attributable to the owners of the Company	(16.8)	4.9
d. Weighted average number of ordinary shares used in the calculation of earnings per share	**Number**	**Number**
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	64,221,286	66,337,546

NOTE 19 SUBSEQUENT EVENTS

The impact of the COVID-19 pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, on the Company of the pandemic after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel and business restrictions and any economic stimulus that may be provided by Governments.

Apart from the above, the dividend resolved to be paid subsequent to balance date as disclosed in note 13(b), and the buy-back of shares since period end disclosed in note 11(d), no matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

NOTE 20 CONTINGENCIES AND COMMITMENTS

The Company has no known contingent assets or liabilities nor material commitments as at 30 June 2020.

NOTE 21 INVESTMENT PORTFOLIO

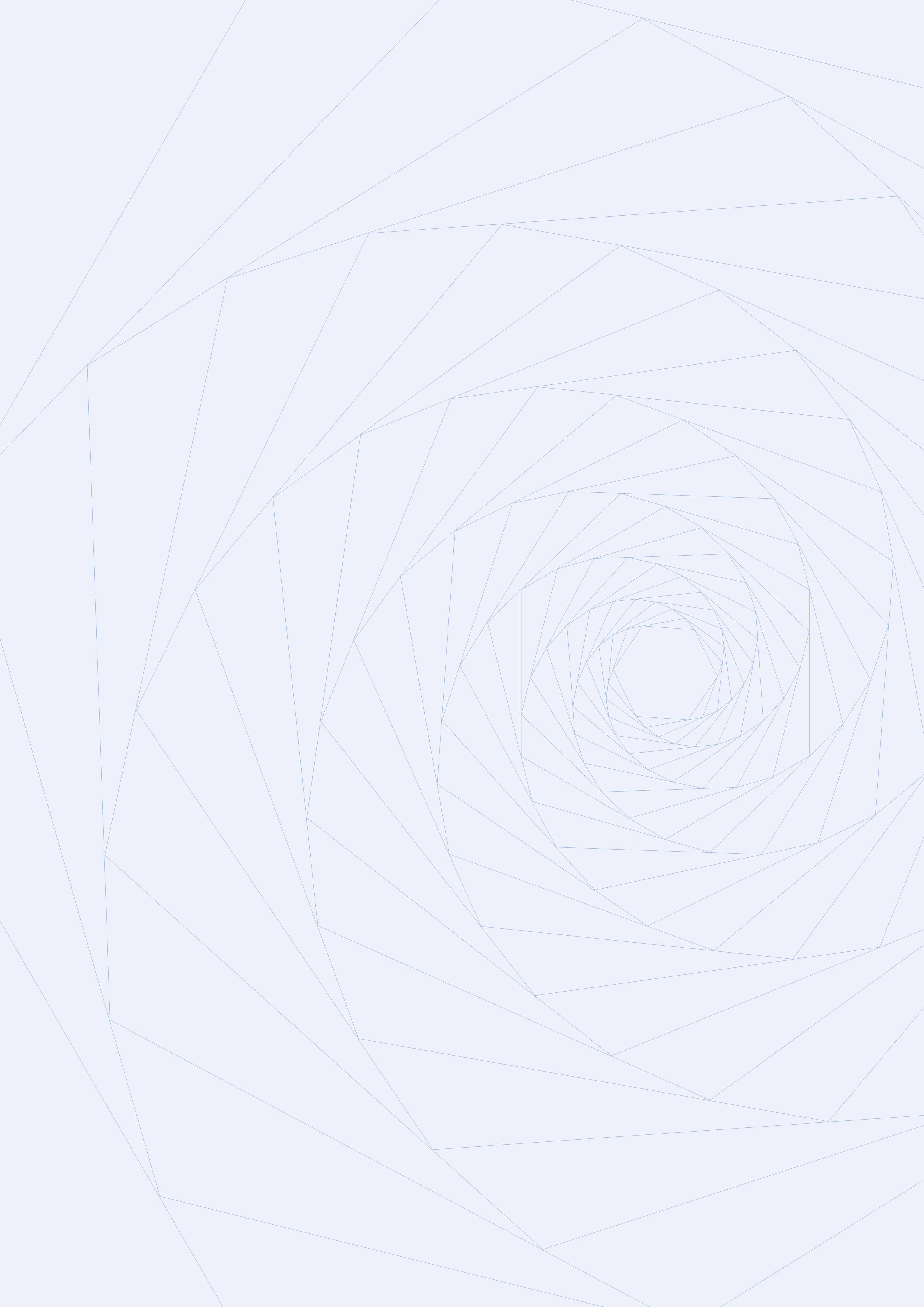
The Company's investment portfolio at balance date was as follows (investments are listed equities unless otherwise shown):

Denominated Currency / Security	30 June 2020 Quantity Number	30 June 2020 AUD Fair Value $'000
Australia		
A2B Australia Limited	2,922,583	2,367
Adbri Limited	1,534,415	4,879
Ainsworth Game Technology Limited	3,015,247	1,236
Asaleo Care Limited	3,424,069	3,475
Auckland International Airport Limited	372,584	2,295
AP Eagers Limited	204,438	1,380
Appen Limited	41,176	1,397
Bapcor Limited	415,090	2,449
Bega Cheese Limited	711,590	3,167
Blackmores Limited	47,708	3,719
Beacon Lighting Group Limited	2,481,328	2,618
Breville Group Limited	189,343	4,309
City Chic Collective Limited	1,475,549	4,279
Class Limited	3,225,560	4,306
Charter Hall Social Infrastructure REIT	501,207	1,178
Corporate Travel Management Limited	262,910	2,548
Event Hospitality and Entertainment Ltd	123,372	1,038
Fletcher Building Limited	1,106,808	3,819
G8 Education Limited	1,439,678	1,274
Gr Engineering Services Limited	2,027,187	1,460
Geopacific Resources Ltd	1,571,241	613
GTN Limited	386,079	158
G.U.D. Holdings Limited	67,143	773
Healius Limited	1,168,325	3,563
Ht&E Limited	3,234,989	3,850
Horizon Oil Limited	19,172,228	1,170
Idp Education Limited	12,329	191
Isentia Group Limited	6,444,646	934

Denominated Currency / Security	30 June 2020 Quantity Number	30 June 2020 AUD Fair Value $'000
Mount Gibson Iron Limited	3,177,310	1,938
Monadelphous Group Limited	309,814	3,352
Mortgage Choice Limited	3,880,596	2,522
MMA Offshore Limited	4,142,166	269
OFX Group Limited	847,390	1,191
Pendal Group Limited	204,358	1,220
Premier Investments Limited	166,204	2,867
Platinum Asset Management Limited	591,501	2,206
Ridley Corporation Limited	1,487,934	1,079
Reckon Limited	1,306,209	872
Sims Limited	515,153	4,085
Sigma Healthcare Limited	4,270,865	2,669
Skycity Entertainment Group Limited	244,466	545
Superloop Limited	1,795,897	1,778
Supply Network Limited	133,092	556
Seven West Media Limited	12,483,427	1,136
Technology One Limited	336,819	2,961
Vista Group International Limited	1,174,516	1,621
Village Roadshow Limited	1,515,560	3,258
Vita Group Limited	2,732,335	2,637
Total Value – Equities		**103,207**
Reconciliation to Total Investment Portfolio:		**$'000**
Equities		103,207
Cash deposits (note 6)		1,685
Dividends receivable (note 7)		96
Receivable from broker (note 7)		138
Due to broker (note 10)		(983)
Total Investment Portfolio		**104,143**

The total number of securities transactions entered into during the reporting period was 430 (2019: 819).

The total brokerage paid during the reporting period was $82,000 (2019: $218,000).



08.

DIRECTORS' DECLARATION

The Directors declare that:

a. the financial statements and notes as set out on pages 20 to 43 are in accordance with the Corporations Act, including:

   1. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   2. giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the year ended on that date.

b. in the Directors' opinion there are reasonable grounds to believe that Spheria Emerging Companies Limited will be able to pay its debts as and when they become due and payable.

c. note 1(a) confirms that the financial statements also comply with International Financial Reporting standards as issued by the International Accounting Standards Board; and

The Directors have been given the declarations required by section 295A of the Corporations Act.

This declaration is made in accordance with a resolution of the Directors.

Jonathan Trollip

Jonathan Trollip, Chairman

Sydney, 31 August 2020

09.

INDEPENDENT AUDITOR'S REPORT

Pitcher Partners

Level 16, Tower 2 Darling Park
201 Sussex Street
Sydney NSW 2000

Postal Address
GPO Box 1615
Sydney NSW 2001

p. +61 2 9221 2099
e. sydneypartners@pitcher.com.au

Independent Auditor's Report
To the Members of Spheria Emerging Companies Limited
ABN 84 621 402 588

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Spheria Emerging Companies Limited ("the Company"), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Spheria Emerging Companies Limited is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards) (*"the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be on the same terms if given to the Directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Existence and Valuation of Financial Assets ***Refer to Note 8: Financial Instruments at fair value through profit or loss***	
We focused our audit effort on the existence and valuation of the Company's financial instruments ("investments") as they are its largest assets and represent the most significant driver of the Company's Net Tangible Assets and Profit. Investments consist of listed Australian securities. Investments are valued by multiplying the quantity held by the respective market price.	Our procedures included, amongst others: ▪ Obtaining an understanding of the investment management processes and controls; ▪ Reviewing and evaluating the independent audit report on the design and operating effectiveness of internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the Custodian; ▪ Making enquiries as to whether there have been any changes to these controls or their effectiveness from the periods to which the audit reports relate; and ▪ Obtaining confirmations of the investment holdings directly from the Custodian; ▪ Assessing the Company's valuation of individual investment holdings using independent sources; ▪ Evaluating the accounting treatment of revaluations of financial assets for current/deferred tax and unrealised gains or losses; and ▪ Assessing the adequacy of disclosures in the financial statements.
Accuracy and Completeness of Management and Performance Fees ***Refer to Note 10: Trade and other payables and Note 16: Related party transactions***	
We focused our audit effort on the accuracy, completeness and existence of management and performance fees as they are significant expenses of the Company and their calculation requires adjustments for specified events as well as for key inputs. Specified events include company dividends, tax payments, capital raisings, capital reductions and other relevant expenses. Key inputs include the value of the portfolio, the performance of the relevant comparable benchmark and application of the correct fee percentage in accordance with the Investment Management Agreement between the Company and the Manager. In addition, to their quantum, as these transactions are made with related parties, there are additional inherent risks associated with these transactions, including the potential for these transactions to be made on terms and conditions more favourable than if they had been with an independent third-party.	Our procedures included, amongst others: ▪ Obtaining an understanding of and evaluating the processes and controls for calculating the management and performance fees; ▪ Making enquiries with the Investment Manager and those charged with governance with respect to any significant events during the period and associated adjustments made as a result, in addition to reviewing ASX announcements and Board meeting minutes; ▪ Testing of adjustments such as company dividends, tax payments, capital raisings, capital reductions as well as any other relevant expenses used in the calculation of management and performance fees; ▪ Testing of key inputs including the value of the portfolio, the performance of the relevant comparable benchmark and application of the correct fee percentage in accordance with our understanding of the Investment Management Agreement; and ▪ Assessing the adequacy of disclosures made in the financial statements.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

PITCHER PARTNERS

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 16 of the Directors' Report for the year ended 30 June 2020. In our opinion, the Remuneration Report of Spheria Emerging Companies Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

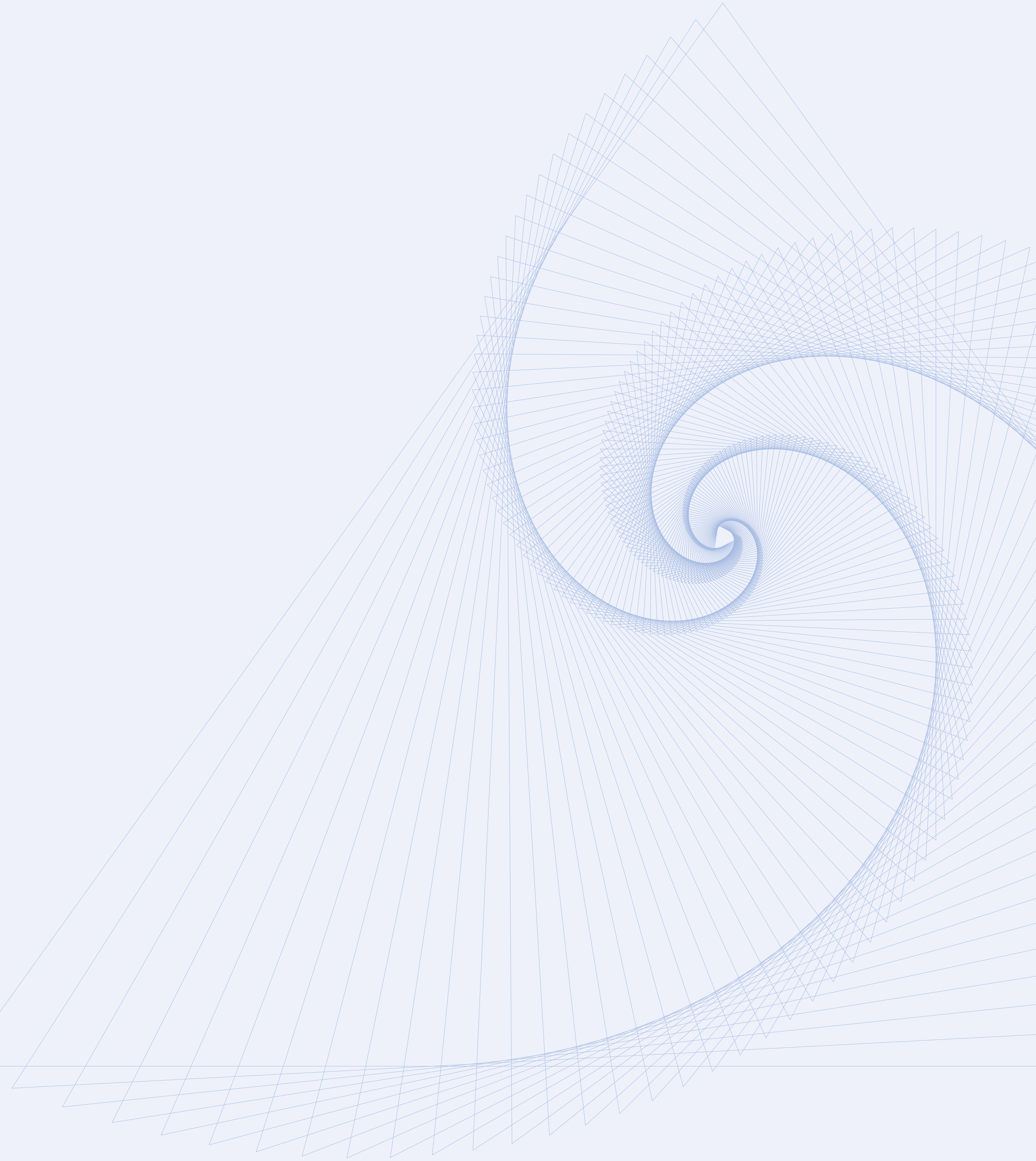
S M Whiddett

S M Whiddett
Partner

Pitcher Partners

Pitcher Partners
Sydney

31 August 2020



10. SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 28 August 2020.

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report, is listed below.

DISTRIBUTION OF EQUITY SECURITIES AND OPTION HOLDERS

Analysis of numbers of equity security holders by size of holding:

Holding	Number of shareholders	Shares	Percentage
1 – 1,000	164	73,738	0.12%
1,001 – 5,000	951	3,376,971	5.50%
5,001 – 10,000	661	5,441,547	8.87%
10,001 – 100,000	1,323	33,430,963	54.46%
100,001 and over	45	19,058,347	31.05%
Total	**3,144**	**61,381,566**	**100%**
Holdings less than a marketable parcel (less than $500)	**58**	**3,203**	**0.005%**

There are no options on issue by the Company.

EQUITY SECURITY HOLDERS

The Company's twenty largest quoted equity security holders are:

Name	Number held	Percentage of shares issued
NAVIGATOR AUSTRALIA LTD	3,376,201	5.50%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,801,831	2.94%
CUSTODIAL SERVICES LIMITED	1,482,589	2.42%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,447,073	2.36%
NETWEALTH INVESTMENTS LIMITED	1,166,692	1.90%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	964,130	1.57%
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	915,731	1.49%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	808,875	1.32%
BNP PARIBAS NOMS PTY LTD	552,888	0.90%
SPHERIA ASSET MANAGEMENT PTY LIMITED	515,688	0.84%
SANHARD PTY LIMITED	324,000	0.53%
PERPETUAL CORPORATE TRUST LTD	317,566	0.52%
MR DOMINIC PAUL MCCORMICK	300,000	0.49%
NETWEALTH INVESTMENTS LIMITED	294,346	0.48%
MACOUN FAMILY SUPER PTY LTD	250,000	0.41%
BOND STREET CUSTODIANS LIMITED	250,000	0.41%
AVANTEOS INVESTMENTS LIMITED	250,000	0.41%
BOND STREET CUSTODIANS LIMITED	250,000	0.41%
SIBEW PTY LTD	228,114	0.37%
SARGON CT PTY LTD	209,356	0.34%
T Q L INVESTMENTS PTY LTD	200,000	0.33%
MR DOMINIC PAUL MCCORMICK & MRS ELIZABETH MCCORMICK & MS MELINDA LUM	200,000	0.33%
BNP PARIBAS NOMS(NZ) LTD	200,000	0.33%
MR DAVID COOPER & MS ADRIENNE WITTEMAN	154,414	0.25%
MACOUN FAMILY SUPER PTY LTD	152,450	0.25%
Total	16,611,944	27.06%
Total remaining holders balance	44,769,622	72.94%

VOTING RIGHTS

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

STOCK EXCHANGE LISTING

Quotation has been granted for all of the ordinary shares of the Company on all member exchanges of the ASX.

UNQUOTED SECURITIES

There are no unquoted shares.

SECURITIES SUBJECT TO VOLUNTARY ESCROW

There are no securities subject to voluntary escrow.

NET TANGIBLE ASSET BACKING PER SHARE

	30 June 2020	30 June 2019
Net tangible asset backing per ordinary security – including tax provided on realised gains only *	$1.731	$2.043
Net tangible asset backing per ordinary security – including tax provided on realised gains and unrealised gains *	$1.864	$2.096

* Net of DTA relating to capitalised issue cost related balances and income tax losses.

Further information regarding items that impact the movement in NTA during the year including portfolio performance (net of management fees), dividends paid, and capital management initiatives are provided in the Chairman's letter and Investment Manager's report at pages 6 to 9.

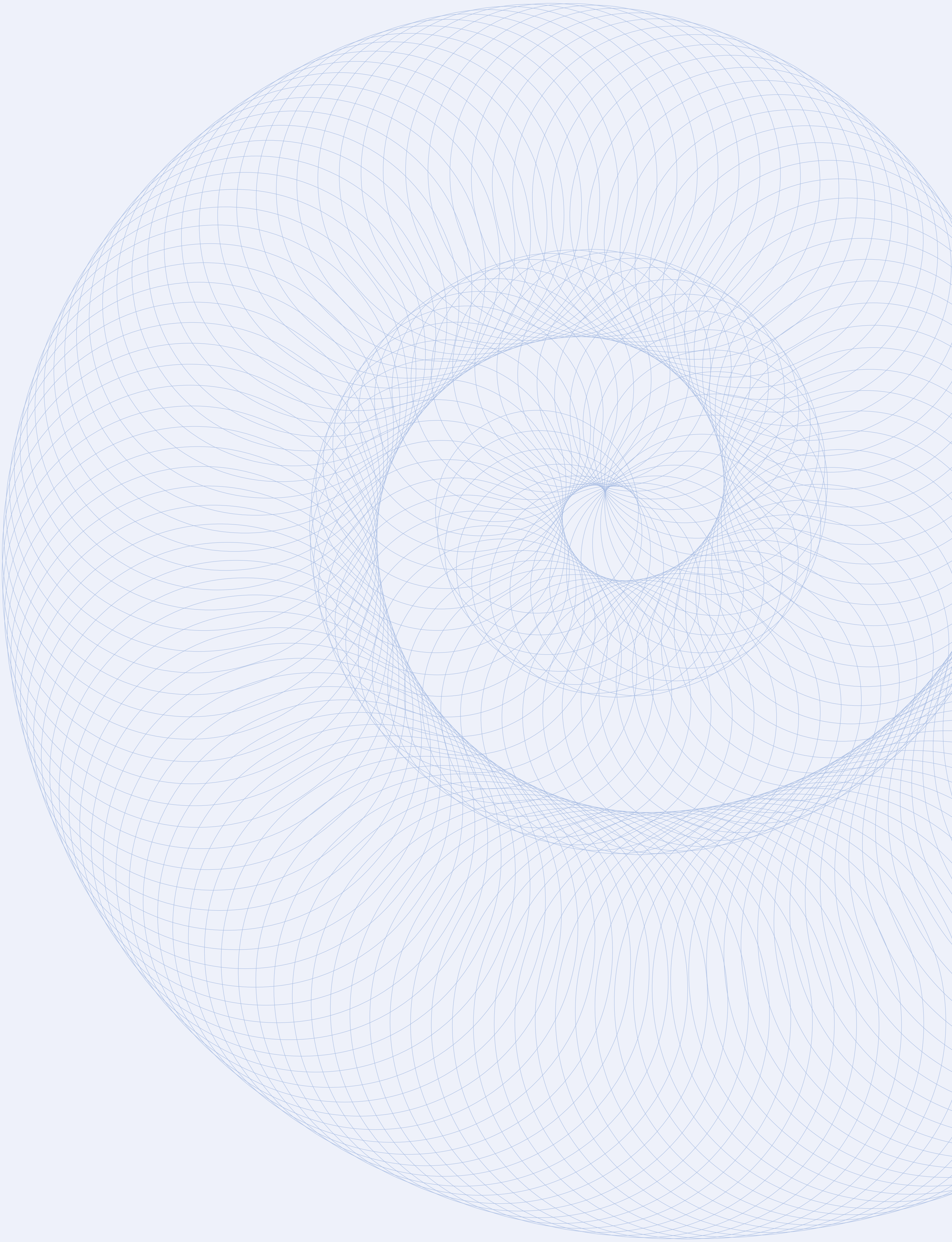
ON MARKET BUY-BACK

On 1 July 2019 the Company commenced an on-market share buy-back of up to $5 million worth of ordinary shares through to 30 June 2020, at the prevailing market share price, where the share price discount to net tangible assets (NTA) per share exceeds 10%. On 31 March the Company increased the $5 million limit under the buy-back to $7.5 million worth of ordinary shares, and on 1 July 2020 the Company extended the period of the buy-back to 30 September 2020.

As at 31 August 2020, 4,955,980 shares have been purchased under the buy-back for total consideration of $7,500,000.

WORKING CAPITAL

In accordance with ASX Listing Rule 4.10.19, between the date of admission to the official list of ASX and 30 June 2020, the Company has used its working capital in a way consistent with its business objective.



11.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Jonathan Trollip, Chairman (appointed 12 September 2017)

Lorraine Berends (appointed 12 September 2017)

Adrian Whittingham (appointed 30 August 2017)

Alex Ihlenfeldt, Alternate Director (appointed 14 September 2017)

SECRETARY

Calvin Kwok

MANAGER

Spheria Asset Management Pty Limited
ACN 611 081 326
Level 35
60 Margaret Street
SYDNEY NSW 2000

Fax: +61 (0) 2 8970 7799
Toll Free: 1300 010 311

ASX CODE

SEC - Ordinary Shares

LAWYERS

Mont Lawyers
Suite 18, 50 Stanley Street
Darlinghurst NSW 2010

Tel: +61 (0) 2 9059 8113
www.montlawyers.com

AUDITORS

Pitcher Partners
Level 16, Tower 2 Darling Park
201 Sussex Street
Sydney NSW 2000

Tel: +61 (0) 2 9221 2099
Fax: +61 (0) 2 9223 1762
www.pitcher.com.au

SHARE REGISTER

Automic Pty Limited
Level 5, 126 Phillip Street
Sydney NSW 2000

Toll Free: 1300 288 664
International: +61 (0) 2 9698 5414
www.automic.com.au

REGISTERED OFFICE

Level 35, 60 Margaret Street
Sydney NSW 2000

Tel: 1300 010 311

PRINCIPAL PLACE OF BUSINESS

Level 35, 60 Margaret Street
Sydney NSW 2000

Tel: 1300 010 311

WEBSITE

http://www.spheria.com.au/spheria-emerging-companies-limited/

WE CONTINUE TO HOLD STEADFASTLY TO THE VIEW THAT CASH FLOWS DETERMINE THE UNDERLYING VALUE OF A BUSINESS AND THUS EVENTUALLY THE COMPANY'S SHARE PRICE

Spheria
EMERGING COMPANIES

ANNUAL REPORT 2020