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By Electronic Lodgement

Market Announcements Office  
ASX Limited  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

Dear Sir/Madam,

**2020 Spheria Emerging Companies Limited (ASX: SEC) Annual General Meeting – Chairman's Address**

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

Authorised by:

**Calvin Kwok**  
Company Secretary

## 2020 Annual General Meeting – Chairman's Address

### [Slide 4 – Overview]

Firstly, I will provide a brief overview of the Company as a quick reminder to our longstanding shareholders but importantly to welcome our new shareholders.

- Spheria Emerging Companies Limited, SEC, was established to provide shareholders with exposure to an actively managed Australian and New Zealand small cap equities portfolio.
- The Company was established with \$132 million of assets at IPO and as at 31 October 2020 had \$120 million of net assets after conducting an on-market buy-back and paying out dividends which has offset the growth in the portfolio of the Company.
- The Company's investment portfolio is managed by Spheria Asset Management Limited. As Marcus Burns will speak about later today in the investment presentation, the Manager believes free cash flow drives valuations in the medium to long term with risk assessment a critical overlay. The Manager identifies smaller companies where the future value of cash flows can be reasonably ascertained and the companies are assessed to be trading at a discount to their intrinsic value.

### [Slide 5 – Investment Objectives]

The Company's investment objectives are to:

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

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

### [Slide 6 – Company Details]

As I mentioned earlier, our Board of Directors comprises the members who are seated next to me and joining me by videoconference. The table highlights the shares on issue and the NTA as at 31 October 2020. Two things are important to note in relation to the Company's NTA:

1. that the post-tax NTA of \$2.023 as at 31 October 2020 was actually higher than the pre-tax NTA of \$1.965 due to the estimated deferred tax assets resulting from unrealised losses caused by the decline in the portfolio's value earlier in February and March of this year. As the market rises, so the gap between pre and post- tax NTA should close.
2. that the balance of franking credits available to the Company for payment of dividends is not reflected in its NTA value. As at 31 October 2020, that figure was 8.2 cents per share.

### [Slide 7 – Dividends]

The Company has paid an interim and final dividend in each of the last two years and continues to aim to pay fully franked dividends from the portfolio income twice a year, subject to available profits, cash flow and franking credits.

The FY20 total dividend of 5.5 cents is equivalent to a 3.3% yield based on the 31 October 2020 share price of \$1.68 or a 4.7% yield grossed up for franking (at 100%).

As at 31 October 2020, the Company's profits reserve had a closing balance of approximately 35.7 cents, and together with its franking account balance, has enabled the Board to make the commitment, announced on 23 November 2020, that our intention is to pay an annual dividend of at least 6 cents a share for FY2021 and FY2022 (100% franked). This is the same level as the full year FY2019 dividend and higher than the 5.5 cents full year dividend for FY2020.

This is subject to any significant negative moves in the market or other more attractive ways to generate returns for shareholders and provided it is permitted by law and within prudent business practice to do so. This is equivalent to a dividend yield of 3.6% (5.1% including 100% franking) based on the 31 October 2020 share price of \$1.68 per share.

#### [Slide 8 – NTA movements since IPO]

We think it is helpful to look at the Company's performance over a longer period. This slide breaks down the change in NTA since the IPO.

- NTA was \$2.00 at IPO
- To the end of 31 October 2020, a period of a little under 3 years
  - Portfolio performance added 19 cents
  - Tax paid or provided for reduced NTA by 7.9 cents
  - Company expenses had a small impact on NTA of 1.9 cents
  - Dividends paid reduced NTA by 15.5 cents
  - The effect of the on-market buy-back was to add 2.8 cents to NTA per share as the shares were purchased at a discount to NTA
- Gives us the closing NTA as at 31 October 2020 of \$1.965

#### [Slide 9 – Company Performance]

Company performance since inception to 31 October 2020 measured by the investment portfolio performance for the period net of fees and Company expenses, was 3.1%. The performance of the benchmark for the same period was 3.3%.

The Company's total shareholder return or TSR Performance, which measures the change in share price adjusted for any dividends paid, for the same period was -2.7%, reflecting the discount to NTA at which SEC currently trades. The Company's share price was \$1.68 compared to an issue price of \$2.00, with dividends of 15.5 cents paid during the period.

Based on this share price, SEC shares as at 31 October 2020 were trading at a 14.5% discount to pre-tax NTA.

Marcus Burns will provide more information on the performance of the portfolio later but I will now address the Company's NTA discount.

#### [Slide 10 – Initiatives to close the discount to NTA]

As I mentioned, SEC shares were trading at a 14.5% discount to NTA at 31 October 2020. The Board acknowledges this is unsatisfactory and remains committed to addressing this. In spite of the general LIC market conditions where many LICs are trading at a discount, we need to do what we can as a Board to narrow the NTA discount. Accordingly, the Company has implemented several initiatives. These include:

- At the start of the 2020 financial year, commencing 1 July 2019, we instituted an on-market share buy-back for an initial amount of \$5 million. Once that was used up, we increased the buyback by a further \$2.5 million on 31 March 2020 to bring the total buy-back authority to \$7.5 million at the time. This buyback authority was then increased a second time on 31 August 2020 at the time of the Company's annual results to take the total buyback capacity to 10% of the Company's shares in issue, including the shares previously purchased. Since 1 July 2019, the Company has bought back \$7.7 million via this on-market buy-back, leaving 1.45 million shares remaining as part of the current buyback authority. The Company will remain opportunistic in the market to buy back shares when they are trading at a wide discount to NTA.
- The buy-back has added 2.8 cents per share to the NTA of the Company.

- As outlined earlier and as announced on 23 November 2020, the Board is committed to pay an annual dividend of at least 6 cents per share in fully franked dividends. This highlights the income benefits to shareholders of the SEC portfolio.
- Moving from monthly to weekly to now daily NTAs, providing full transparency on the value of the Company's portfolio, something especially useful during the volatile markets we have been experiencing.
- Increasing shareholder communication and investor roadshows. More on this later.
- Earlier in the year, we looked at acquisitions to scale up the Company but determined that none of them were in the best interests of shareholders.
- We will continue to consider measures to address the discount to NTA including best practice initiatives from other global LIC markets.

#### **[Slide 11 – Shareholder Engagement]**

In line with our ongoing commitment to shareholders, the Company continues to increase its communication and transparency with investors and the broader market.

- We send out regular emails with investment videos and insights, daily NTA announcements, half and full year financial results, media articles and we regularly present at industry investor conferences.
- We encourage shareholders to provide their email address via Automic to ensure they are receiving our latest updates and invitations as the vast majority of our communications are electronic.