Spheria Emerging Companies Limited
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ACN 621 402 588

14 December 2020

By Electronic Lodgement

Market Announcements Office
ASX Ltd
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

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

Please find attached a copy of the investment update the month ending 30 November 2020.

For further information, please contact 1300 010 311.

Authorised by:

Calvin Kwok
Company Secretary

ASX: SEC

Investment Update

As at 30th November 2020

Spheria Emerging Companies Limited
ACN 621 402 588

Pre-tax net tangible assets[4]

$2.174

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

6.6%

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share price	$1.86
Inception date	30 November 2017
Listing date	5 December 2017
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Management Fee	1.00% (plus GST) per annum[1]
Performance Fee	20% (plus GST) of the Portfolio's outperformance[2]
Market Capitalisation	$113.9m

[1] calculated daily and paid at the end of each month in arrears
[2] against the Benchmark over each 6-month period subject to a high-water mark mechanism

Commentary

The Company performance for the month of October was 10.8%, while the S&P/ASX Small Ordinaries Accumulation Index increased 10.3%.

MONTHLY COMMENTARY

Early during the month Pfizer made the pivotal announcement that its Covid 19 vaccine had successfully passed trials and was swiftly followed up by further successful vaccine trials from other pharma companies. This provided markets with a well needed shot in the arm – so to speak. The backdrop of a genuine prospect for the world to emerge out the Covid 19 shadow, extremely loose monetary regimes and abundant liquidity were like gasoline being poured on steadily burning bonfire. Investors sought out and bought up heavily oversold Covid 19 victims from Feb/ March and found them in the media and travel and leisure sectors. The market has been fixated with cash burning microcap "stories" in many cases with little in the way of fundamentals to back them up and growth/ momentum fintech type companies – where valuations have been a distant thought for most investors. We see the current rotation as potentially having legs given the relative extremes in both company outlooks and valuations.

Major contributors for the month:

Fletcher Building (FBU) was the lead contributor to the Company gaining 39% during the month on the back of a strong trading update for the first 4 months of the year followed by a strong profit guidance increase towards the end of the month. FBU is seeing the benefit of a recovering housing market in both Australia and New Zealand plus the benefits of streamlining its operations over the recent housing downturns. Since the sale of their Formica division almost two years ago the balance sheet has also been lowly geared putting the business in a good position for a re-bound.

Seven West Media (SWM) rebounded another 54% in November on the back of a strong October. The recovery has been on the back of improving trends in advertising markets and a reduction in SWM's cost base. SWM is on the cusp of selling several assets (eg. Airtasker minority stake and its terrestrial TV transmission towers) that should alleviate the debt load, and it has structurally reduced its cost base which means gearing metrics (debt to earnings) should improve dramatically in the short to medium term, thus dispelling any threat of insolvency.

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Lastly, A2B (A2B.ASX) rose 37% over November as it is perceived as being a beneficiary of social movement. Having Melbourne emerge from lock down has clearly helped the short-term outlook for A2B. Our view remains that this stock is misperceived on many levels. The first being that it is suffering from major disruption by the ridesharing companies (Uber, Didi and Ola). We believe this is misplaced and that ridesharing has grown the overall personal transport market not dramatically reduced the number of cab trips being taken. The second major misperception we believe is that investors feel this is an ex-growth story. Pulling back the curtains a little on the company will reveal a business that has been heavily re-investing in payments and cab-hailing technology. Not only is the present valuation still incredibly supportive but the outlook for the business both here and internationally has hardly been stronger. Despite the re-rating over the month we believe A2B is still only trading on circa 7x recovered ev/ebit.

Major detractors for the month:

Class Ltd (CL1) retraced 11% after a strong rally since they reported their full year FY 20 results on limited newsflow. CL1 remains well position to capitalise on an increased market size following on from their product expansion into Class Trust. The high customer retention rates and the first modest price increase in over 10 years positions the company well over the medium term to perform.

Breville Group (BRG) declined modestly (7%) over November on the back of market rotation out of growthier names into more cyclical and value-oriented names. Breville remains one of only a handful of Australian smaller companies to successfully grow their franchise internationally. With a healthy balance sheet, expansion into several new markets internationally this year (including Mexico, Portugal and Italy) revenue and profit growth should remain strong. We still seem upside to the share's valuation in the medium term as the management team delivers.

Beacon Lighting (BLX) declined modestly over November on limited newsflow. BLX shares had traded strongly out of an oversold position during the worst of the Covid 19 fears and retraced a little over November. BLX remains an appealing investment to us on the grounds of its strong market position in the lighting category and recent decision to expand further into the wholes lighting category where it is under-represented. Management / founders retain a significant stake in the company ensuring their alignment with other shareholders.

Outlook & strategy going forward

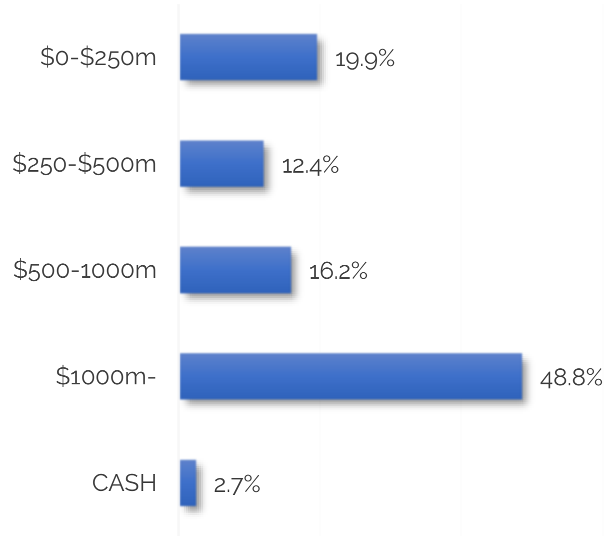
The Company has continued to perform well over the past few months. We believe the strong response by our Government and the RBA has provided ample liquidity and support to both business and consumer confidence which will in turn flow through to the economy. Whilst some sectors of the share market reflect this, we believe there remains ample opportunity in parts which have been left behind and remain attractive on the basis that the economy both here and internationally fully re-open. The additional backdrop of extraordinarily low interest rates also provides an opportunity for Private Equity and Corporates to take advantage of shares which offer compelling cash flows and valuations.

Top 10 Holdings

Company Name	% Portfolio
Fletcher Building	4.3
Class Limited	4.1
Ht&E Limited	3.9
Mortgage Choice Ltd	3.6
Corp Travel Limited	3.5
Adbri Limited	3.5
Blackmores Limited	3.4
A2B Australia Ltd	3.2
City Chic Collective	3.2
Breville Group Ltd	3.1
Top 10	**35.6**

Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Net Tangible Assets (NTA)[3]

Pre-tax NTA[4]	$2.174
Post-tax NTA[5]	$2.170

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

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

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

Performance as at 30th November 2020

	1m	6m	1yr	2yr p.a.	Inception p.a.[6]
Company[7]	10.8%	25.4%	5.1%	9.5%	6.6%
Benchmark[8]	10.3%	14.8%	6.0%	11.2%	6.6%
Outperformance	0.5%	10.6%	-0.9%	-1.7%	0.0%

Past performance is not a reliable indicator of future performance.

[6] Inception date is 30th November 2017

[7] Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, and after Company expenses.

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