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2 March 2021

**By Electronic Lodgement**

Market Announcements Office  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000

Dear Shareholder,

**Shareholder webinar reminder and presentation on half-year results**

Please join us this morning from 11.00am to 11.30am (Sydney time AEDT) for a shareholder webinar to hear an update on the Company's results and investment portfolio from Chairman of the Company, Jonathan Trollip and Portfolio Manager of Spheria Asset Management, Marcus Burns.

Shareholders are invited to register for the webinar at the following link:

<https://event.on24.com/eventRegistration/EventLobbyServlet?target-reg30.jsp&referrer=&eventid-3003895&sessionid-1&key-9F5479EDA6970275EF1AEF179E9AB904&regTag-&V2-false&sourcepage-register>

The presentation slides are available below.

Authorised by:

**Calvin Kwok**  
Company Secretary

# Spheria Emerging Companies Limited

ASX: SEC

Half-year FY2021 Results & Portfolio Update

# Agenda

1. SEC Company update
2. Portfolio update
3. Questions

# Half-year FY2021 Highlights

Spheria Emerging Companies (ASX: SEC)

1HFY21 profit	Company performance <sup>1</sup>	Interim dividend	Yield <sup>2</sup>
<b>\$25.6m</b>	<b>+35.3%</b>	<b>3.5c</b>	<b>3.1%</b>

- 1HFY21 net profit after tax of \$25.6m
- Company Performance of +35.3%, +15% compared to benchmark<sup>3</sup>
- Total shareholder return (TSR) of 50.8% for the period<sup>4</sup>
- Interim dividend of 3.5 cents per share (fully franked at 26% tax rate)
- Annual dividend yield 3.1%<sup>2</sup> (4.2% including franking)
- On-market share buy-back adds 0.5c NTA per share for half-year and 2.8 cents from inception to 31 December
- Strong performance since 1 January 2021 with NTA per share up 5.0%<sup>5</sup>

<sup>1</sup> Calculated as investment portfolio performance after management and performance fees and Company expenses, excluding taxes. Company Performance does not include the impact of dividends and taxes paid by the Company and also excludes the accretive impact of the share buy-back on the Company's NTA.

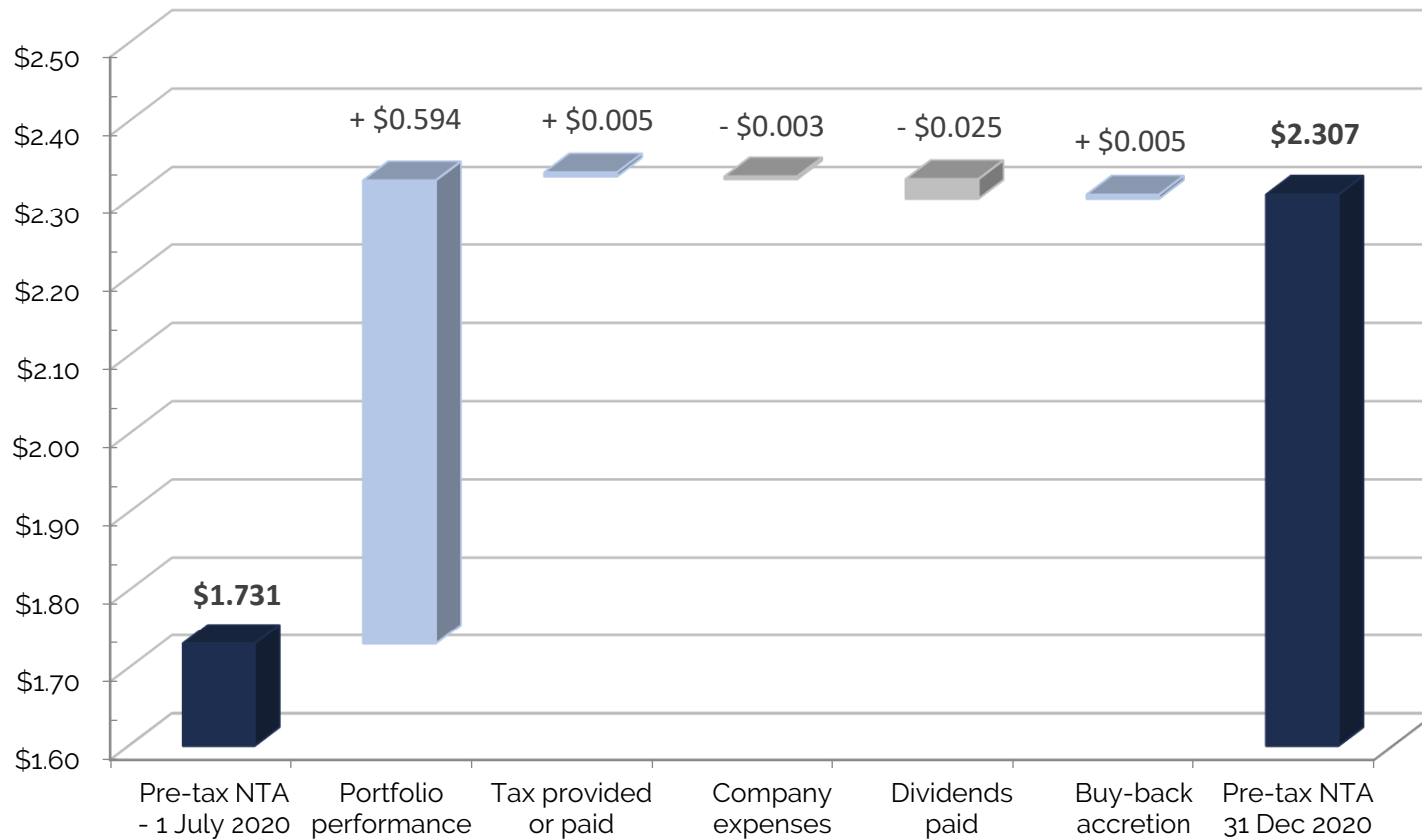
<sup>2</sup> Annualised dividend yield when combined with FY20 final dividend of 2.5 cents per share, calculated on share price as at 31 December 2020 of \$1.915.

<sup>3</sup> S&P/ASX Small Ordinaries Accumulation Index.

<sup>4</sup> 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. Calculated on share price as at 31 December 2020 of \$1.915 and 30 June 2020 of \$1.290.

<sup>5</sup> Based on estimated pre-tax NTA at 25th February 2021 (last published) of \$2.423.

# NTA breakdown for 1HFY21

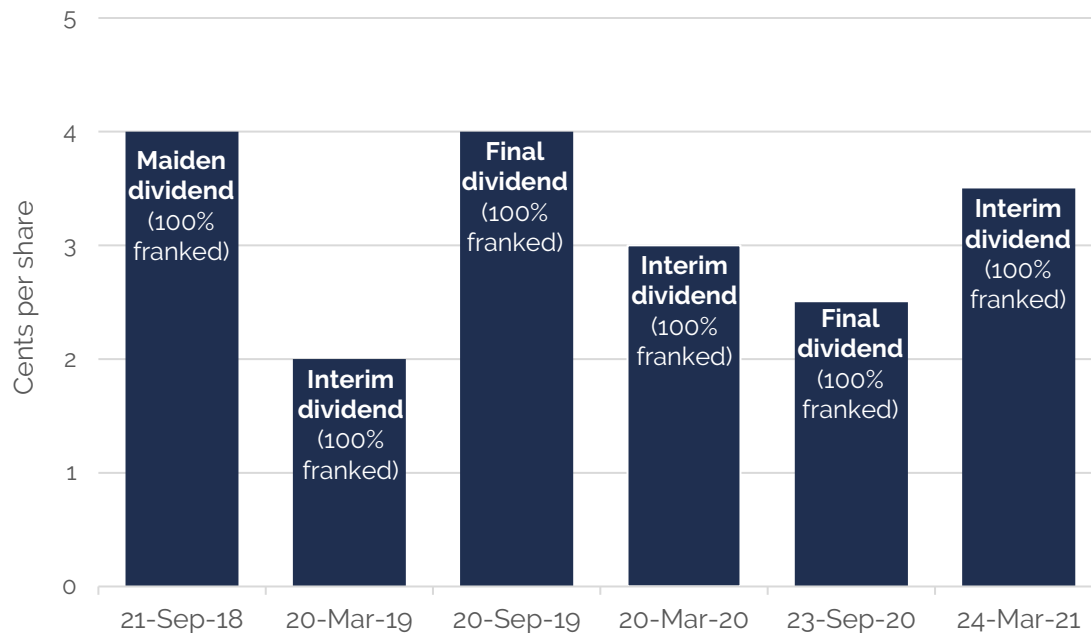


Source: Spheria Emerging Companies

# Dividends

Interim dividend of 3.5 cents per share

**Dividend History**



Source: Spheria Emerging Companies

## 1HFY21 Interim Dividend

Amount	3.5 cents per share
Ex-dividend Date	9 March 2021
Dividend Record Date	10 March 2021
Dividend Payment Date	24 March 2021

# Initiatives to close the discount to NTA

The Board acknowledges the current discount to NTA and is unsatisfactory and remains committed to addressing the discount to NTA through a range of initiatives.

<b>On-market share buy-back</b>	<ul style="list-style-type: none"> <li>• Already executed 6.17m shares (9.3% of the Company) since 1 July 2019.</li> <li>• Buy-back has been <b>accretive to NTA</b>, adding \$0.03 per share to the NTA (to 24 February 2021) by buying shares at an average price of \$1.59 per share, an average discount to NTA of 17.7%.</li> <li>• <b>Refreshing buy-back capacity</b> to a further 1,500,000 shares (2.5% of shares in issue), taking the total buy-back to 11.6% of shares in issue since 1 July 2019.</li> </ul>
<b>Dividend Commitment</b>	<ul style="list-style-type: none"> <li>• Commitment to pay <b>at least 6.0c per share of annual dividends in FY2021 and FY2022</b> (100% franked), highlighting the income generating nature of Company.</li> </ul>
<b>Shareholder engagement</b>	<ul style="list-style-type: none"> <li>• <b>Shareholder communication</b> – more regular insights by the Manager and Company updates by the Board including updates on NTA discount management initiatives and dividend guidance</li> <li>• <b>Transparency</b> – Moved to daily NTA in May 2020 and disclosing the portfolio's Top 10 holdings and weightings on a monthly basis, one of only a handful of ASX LICs to do both</li> </ul>
<b>Other initiatives</b>	<ul style="list-style-type: none"> <li>• <b>Other global best practice initiatives.</b> Continually exploring</li> </ul>



# Performance History

## SEC Portfolio performance

<i>Portfolio Performance as at 31st Jan 2021</i>						
Period	1 month	6 month	1 year	2 year (pa)	Since Inception (pa)	Inception Date
SEC Mandate	-0.5%	35.1%	10.2%	13.3%	8.2%	30/11/2017
S&P/ASX Small Ordinaries Accumulation Index	-0.3%	18.3%	5.4%	11.9%	7.1%	
Outperformance	-0.2%	16.8%	4.8%	1.4%	1.1%	

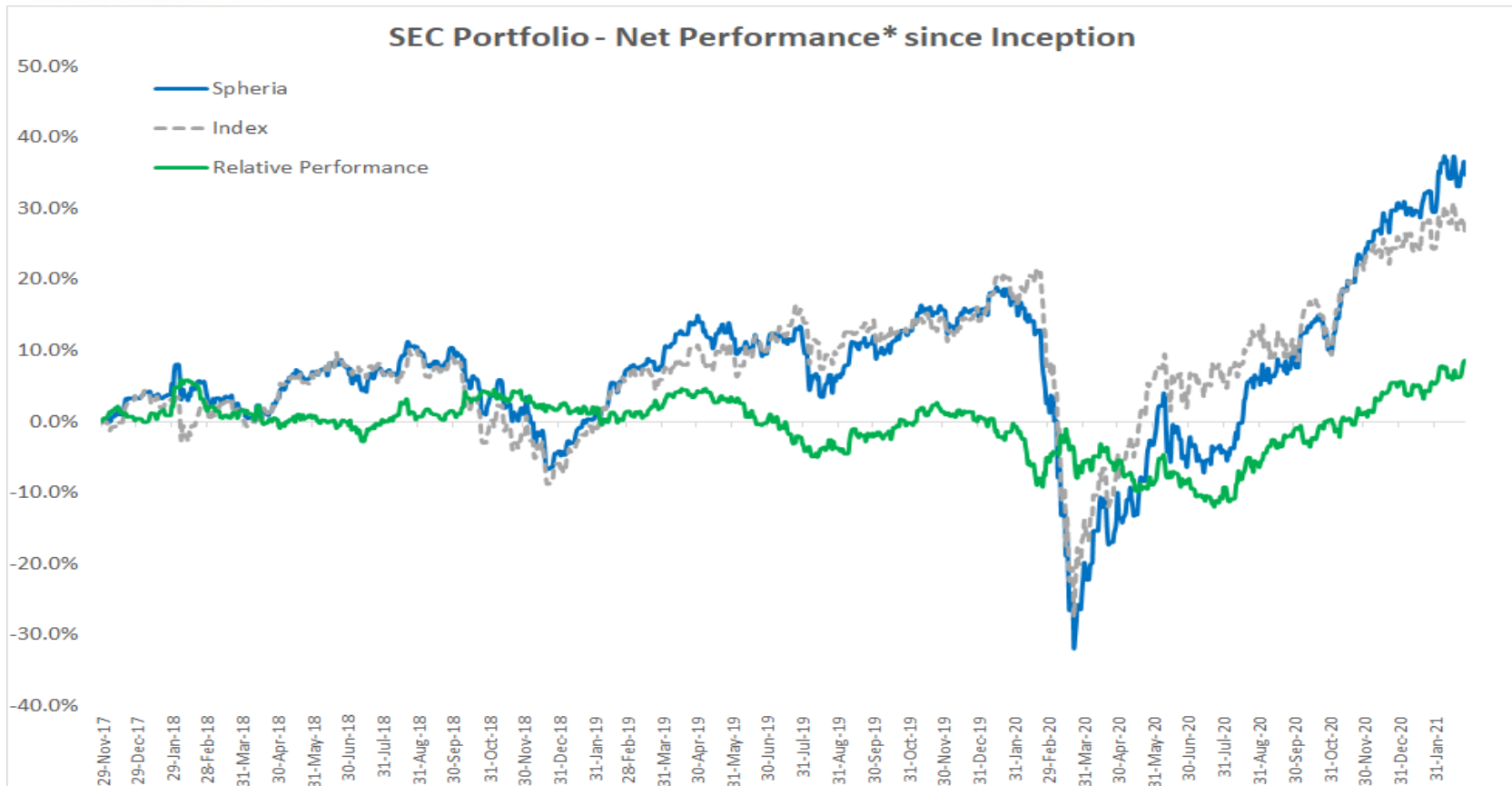
## Company performance

<i>SEC Limited Performance as at 31st Jan 2021</i>						
Period	1 month	6 month	1 year	2 year (pa)	Since Inception (pa)	Inception Date
Company's Performance	-0.5%	33.7%	9.6%	12.9%	8.0%	30/11/2017
Benchmark	-0.3%	18.3%	5.4%	11.9%	7.1%	

Net portfolio performance are net of management fees. Company's performance is calculated as movement in Company's pre-tax NTA, which includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses, adjusted for dividends paid by the Company. The Benchmark is pre-tax, S&P/ASX Small Ordinaries Accumulation Index



# SEC Portfolio Performance

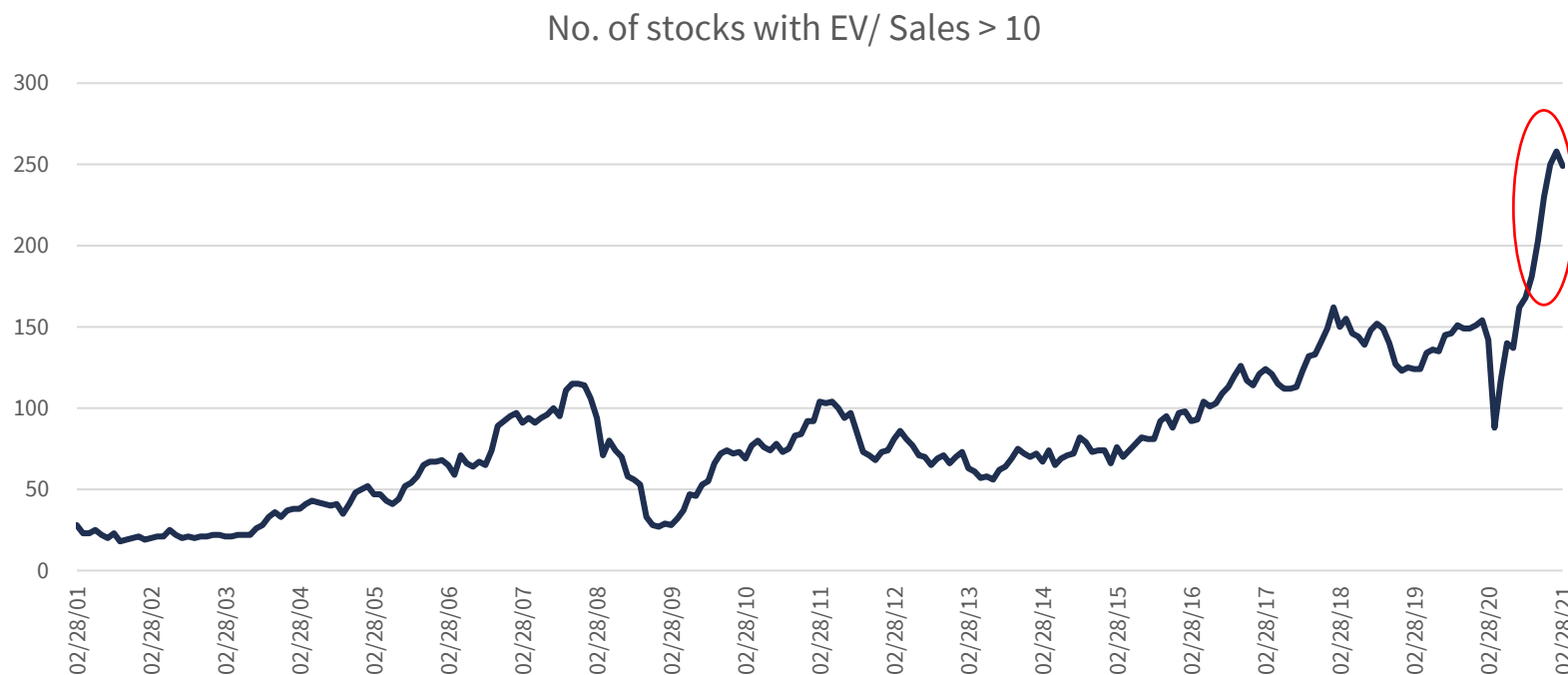


\* Net Portfolio performance = investment performance of mandate after investment management fees but before taxes.

Source: Spheria Asset Management

# Macro Environment drives risk-taking investment

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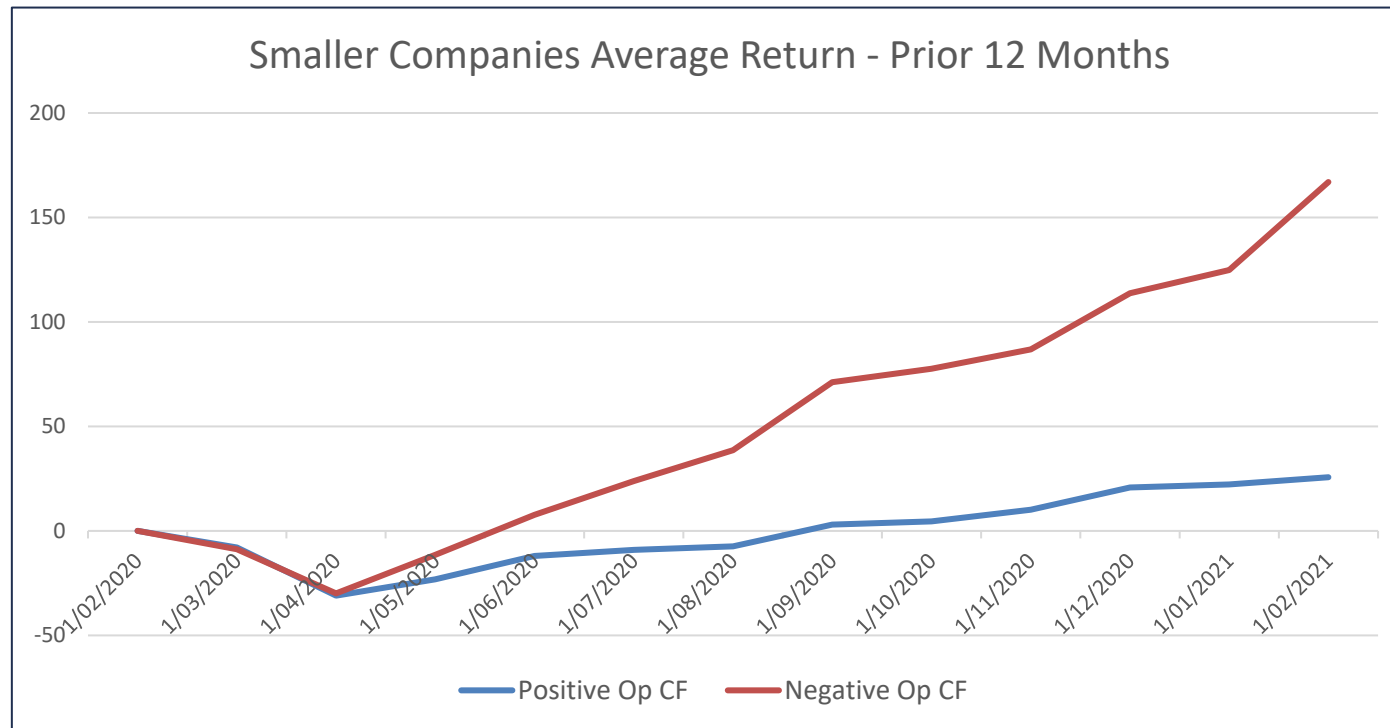


- EV/Sales > 10 is expensive in historical context
- The number of highly rated stocks has hugely expanded since Sept last year

Chart Source: Bloomberg data, ASX stocks with market cap > \$50m, < \$3.0bn and EV/trailing sales multiple over 10x

# Central Bank QE continues to drive unusual outcomes

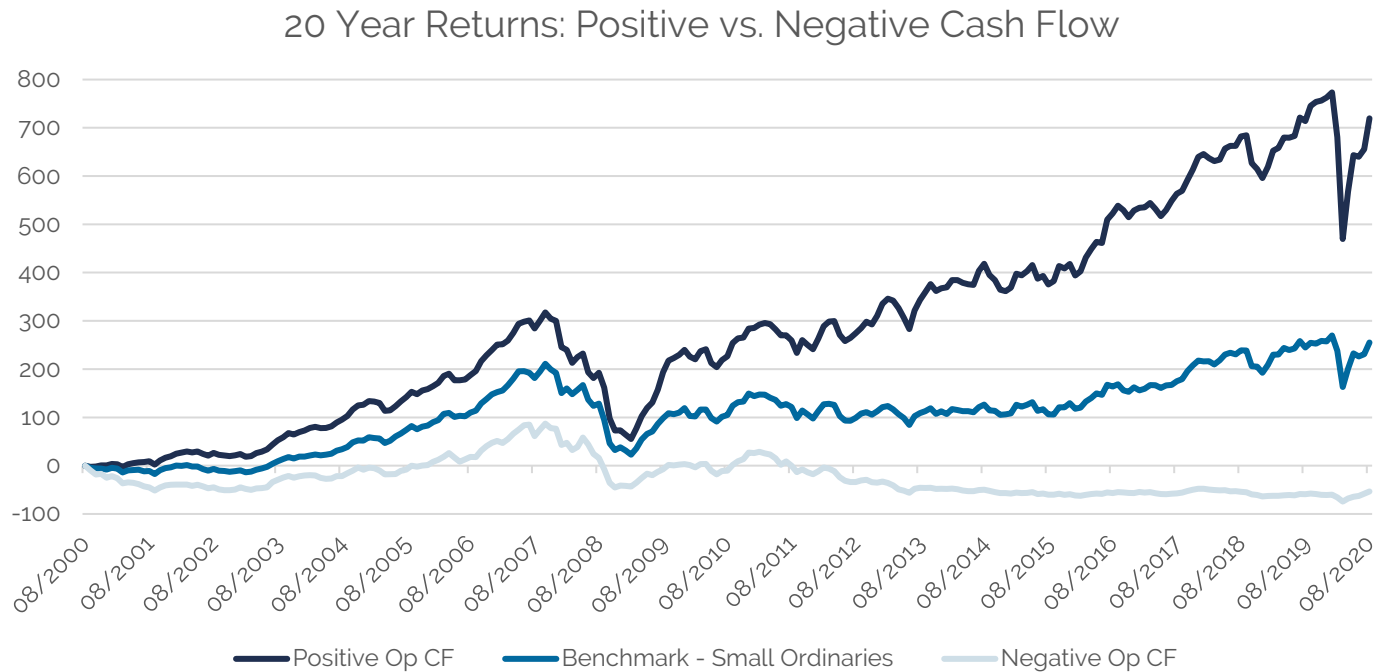
10



- Cash losing businesses have hugely outperformed, a situation we view as unsustainable

*Chart Source: Bloomberg data: simple average return of stocks between (\$50m and 3.0bn market cap divided into positive op cash flow and negative op cash flow over prior 12 months.*

# However When the Weighing Machine Operates



- Back tested portfolio of positive operating cash flow vs. negative operating cash flow companies

Chart Source: Bloomberg data. Back tested returns of stocks between (\$50m and 3.0bn market cap divided into positive op cash flow and negative op cash flow over past 20 years.

# Asaleo Care (ASX:AHY)

## Picking up cashflows on special



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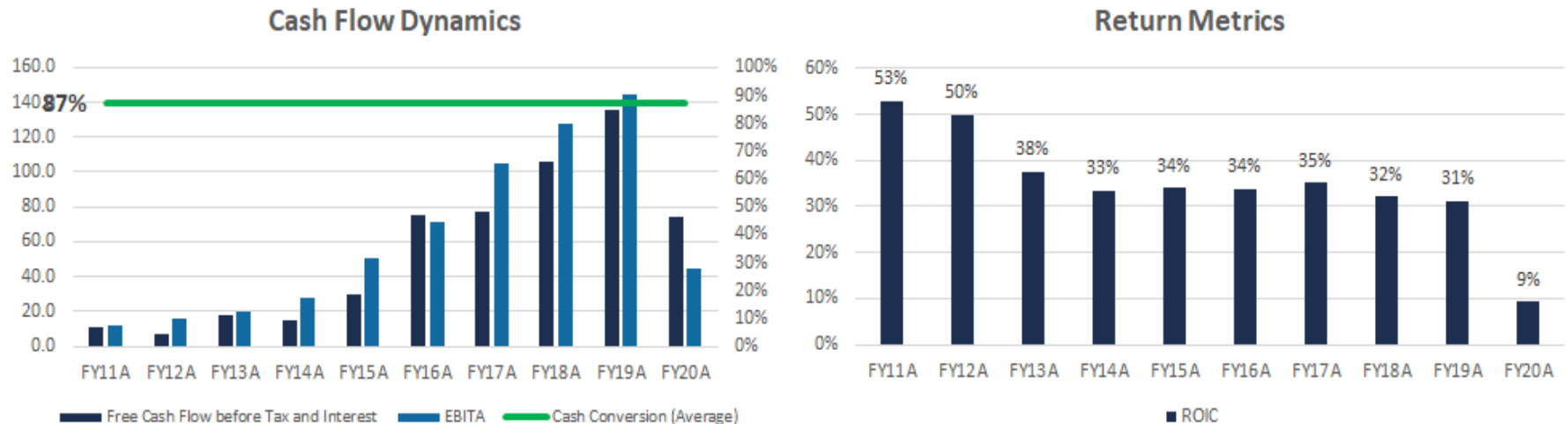
- A market leader in personal care (feminine hygiene and incontinence) in the Australian and NZ retail channels and in the supply of professional hygiene products to business and incontinence products to the healthcare vertical;
- Acquired position following the transformational sale of Asaleo's consumer tissue division in Dec 2018. This delivered the business (3.3 to 2.0x EBITDA) and dramatically improved the quality of the product portfolio;
- AHY was trading at a mere 10x EV/EBIT. Major shareholder Essity appreciated change in the business and ended up making a proposal to acquire the business at a **45% premium to the undisturbed price.**

Source: Spheria Asset Management, IRESS

# Corporate Travel Management (ASX:CTD) Regaining altitude after hitting an airpocket



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- CTD has a strong track record of high ROIC growth with solid cash conversion;
- The pandemic has seen CTD move to a modest loss-making position but the firm continues to enjoy significant net new client wins and has many months of liquidity.
- Executed a transformational M&A deal at rock bottom metrics. Remains well positioned to benefit from travel restrictions being reduced.

Source: Morningstar, IRESS, Spheria.

# Company Positions

## Spheria Emerging Companies as at 31<sup>st</sup> January 2021

Company Name	% Portfolio
Fletcher Building	4.3
Ht&E Limited	3.9
Mortgage Choice Ltd	3.8
Class Limited	3.7
Seven West Media Ltd	3.7
City Chic Collective	3.6
Healius	3.6
Breville Group Ltd	3.5
Asaleo Care Limited	3.5
Adbri Limited	3.0
<b>Top 10</b>	<b>36.8</b>

Source: IRESS



# Questions

A wide-angle photograph of the Aurora Borealis (Northern Lights) over a body of water and mountains. The sky is dark blue and black, filled with numerous stars. The aurora appears as vibrant green and purple curtains of light, flowing across the sky. The horizon shows a dark, silhouetted landscape with mountains and a body of water in the foreground. The overall scene is serene and majestic.

# Disclaimer

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