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ACN 621 402 588

15 March 2021

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 28 February 2021.

For further information, please contact 1300 010 311.

Authorised by:

Calvin Kwok
Company Secretary

ASX: SEC

Investment Update

As at 28th February 2021

Spheria Emerging Companies Limited
ACN 621 402 588

Pre-tax net tangible assets[4]

$2.390

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

9.1%

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share price	$2.04
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	$122.7m

[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 February was 3.9%, while the S&P/ASX Small Ordinaries Accumulation Index returned 1.5%.

Markets

Markets were higher over the month of February as confidence in a global recovery from the COVID-19 pandemic built with the ongoing rollout of vaccines and amid real world evidence of their efficacy. This manifested itself in higher prices for energy and industrial commodities and related equities. Re-opening trades amongst heavily COVID-19 impacted sectors also tended to perform strongly This confidence was a two-edged sword however as increasingly bullish sentiment on cyclicals saw rising inflation expectations reflected in rapidly rising long term bond rates. This impacted on rate sensitive sectors like REITs, Utilities and some highly valued technology names.

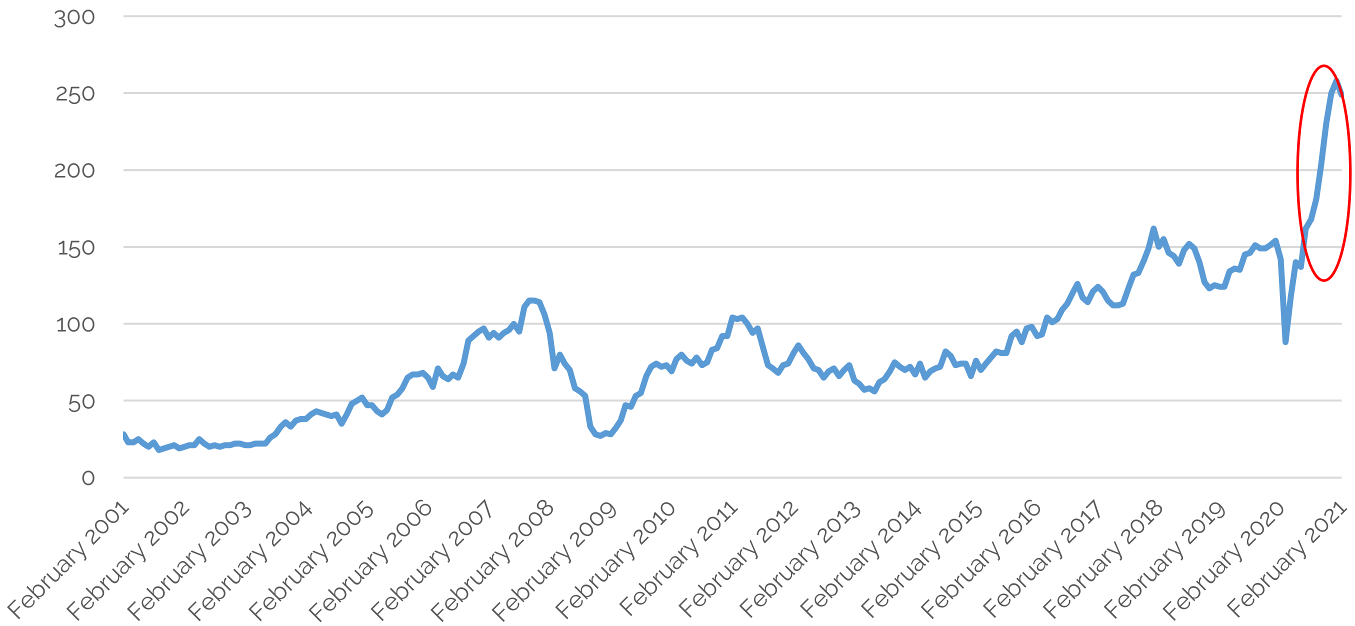
Locally we observed some retrenchment amongst a number of very highly valued names, particularly those that disappointed during the period. Nuix (NXL.ASX, -34%), Kogan (KGN.ASX, -22%), Elmo Software (ELO.ASX, -22%), Temple & Webster (TPW.ASX, -19%), Netwealth (NWL.ASX, -18%), Infomedia (IFM.ASX, -17%), HUB24 (HUB.ASX, -15%) and Electro Optical Systems (EOS.ASX, -14%) for instance demonstrated the risk of buying firms where expectations are sky high.

Despite this retrenchment in some of these momentum names we continue to observe a highly bifurcated market with some very high valuations for names exposed to popular thematics (e.g., battery materials) and names with strong top line growth in the E-Commerce, Fintech and Biotech sectors.

The prevalence of near zero interest rates until very recently has allowed fundamentals to go out the window in the small cap universe locally as the concept of a Cost of Capital became increasingly abstract. We have seen this play out in an increasing number of companies trading on stratospheric revenue multiples as seen in the chart below.

Typically, these stocks are exposed to favourable thematics (e.g., electric vehicles) or have a great story to tell about a large total addressable market and a business model that *might* provide investors access to said market (aka a "concept stock"). Needless to say, the vast majority of these firms remain unprofitable.

No. of stocks with EV/ Sales > 10



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

Major Contributors for the Month:

Seven West Media (SWM.ASX) was the largest contributor to performance during the month returning 51%. Seven West Media reported a result well ahead of market expectations as television advertising returned to growth during the 4Q of calendar 2020, the cost base was better controlled than expected and the balance sheet saw material de-leveraging. The business also announced a collaboration with google that should see a material revenue contribution. Seven continues to have upside from the recent improved ratings share translating into revenue share and potential news flow around the divestment of the studios and/or towers. In spite of SWM's strong share price recovery it still trades on a mid-single digit EV/EBIT multiple which is well under it nearest listed peer.

Corporate Travel Management (CTD.ASX) contributed positively returning 22% over the month. The business posted a respectable result in the circumstances keeping cash burn to a minimum while reporting strong growth in corporate travel accounts. Corporate Travel Management also executed on a transformational acquisition during the half at a very modest multiple on a through the cycle basis. We believe the business is very well placed to return to robust profitability once the western world emerges from travel restrictions imposed due to the pandemic. Importantly the balance sheet is robust with many, many months of liquidity runway at the current modest cash burn levels.

Vista Group (VGL.ASX) added to performance after rising 21% over the month. Vista dominates the market for software into the global cinema exhibition, distribution and production markets. Unsurprisingly the pandemic has had a highly detrimental impact on short term trading as a very significant percentage of global cinema circuits were closed given the social distancing measures by Governments. Despite this Vista managed to keep cash burn to a very modest level. The business has circa 20 months of liquidity runway ahead of it at current burn rates which should significantly improve as the rollout of vaccines in its key market (North America and Europe / UK) see the gradual re-opening of circuits and the release of film content that has been shifted to the right since the pandemic. We see Vista as well placed to return to strong levels of profitability as the pandemic ebbs. At c2.5x historical revenue we also see the business as strongly undervalued on a through the cycle basis.

Major Detractors for the Month:

ZIP Co (Z1P.ASX – not owned) was the largest detractor as it rose another 43% over the month on the back of a result that revealed very strong US top line growth. ZIP is one of many BNPL competitors yet to go through the inflection point of profitability with accounting profits and cashflows still meaningfully negative. While we appreciate the market opportunity in the U.S. is large, we do not see how ZIP's Quadpay will outcompete the likes of Paypal, Afterpay, Klarna and Affirm who all enjoy a very large lead in customer numbers (both merchants and consumers).

Lynas Rare Earth (LYC.ASX – not owned) detracted as it returned another 25% over the month on the back of increasingly exuberant sentiment towards the EV thematic and how this will impact on prices for Lynas' key permanent magnet rare earth output (neodymium-praseodymium (NdPr) oxide). While we see the likelihood of EV and wind turbine demand continuing to be strong (the key end market for this material) we also note that vehicle and turbine makers are spending considerable funds to reduce and / or eliminate the usage of this material through the use of alternate materials and / or technologies (e.g. Low temperature superconducting magnets in the case of turbines, switched reluctance motors in the case of EVs). Further we would note that rare earths are not actually very rare. The massive valuations being ascribed to potential producers is likely to see several raise sufficient capital to move into production over the medium term.

Mortgage Choice (MOC.ASX) detracted as it returned −10% following a softer than expected result. While the growth of cash NPAT adjusted for one off failed M&A costs was a respectable 7%, this appeared to disappoint expectations given the background of strong growth in mortgage originations seen during the half (c20% year on year). We would note however that this growth was primarily driven by refinancing activity rather than new loans for purchases which dragged on the growth of the mortgage book (which drives trail revenue). The book growth was also hurt by the staggering COVID-19 lift in savings rates which saw loan balances paid down and cash held in offset accounts (trail is paid on net balances outstanding). We would expect greater operating leverage to the strong housing finance growth currently being seen to emerge in the 2H21 as these latter two factors abate. At c8.5x annualised EBIT Mortgage Choice still looks lowly priced given the favourable tailwinds being seen in mortgage finance growth.

Strategy and Outlook:

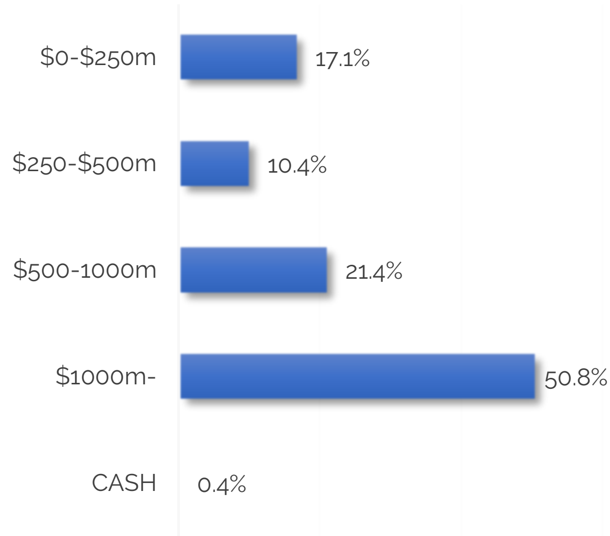
We continue to believe valuation discipline is key to the delivery of sustained outperformance over the long term in equity markets. While it is easy to be distracted by investor exuberance towards sectors benefiting from a popular "thematic" we continue to focus on buying cash generative business models, with a track record of solid returns and at sensible valuations. If this sounds a little repetitive it's because the process continues to be unchanged. Pleasingly the volatility induced by the heightened activity of retail, passive and quant investors also continues to present us with opportunities to invest in new names with the characteristics that we are after as "Mr Market" discounts unpopular business models to chase the latest thematic or concept stock. While the lift in bond rates during the month saw some air come out of some of the most highly valued stocks in the market, we continue to observe a bifurcation of the market that remains near historic highs amid concerning signs of speculative excess in momentum names. We believe that remaining disciplined in this environment means we stand a good chance of being rewarded with outperformance in a world where observation of fundamentals appears increasingly rare.

Top 10 Holdings

Company Name	% Portfolio
Fletcher Building	4.2
Seven West Media Ltd	4.1
Ht&E Limited	3.8
Blackmores Limited	3.6
Healius	3.6
Corp Travel Limited	3.4
Adbri Limited	3.3
Class Limited	3.3
Breville Group Ltd	3.1
City Chic Collective	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]	$2.390
Post-tax NTA[5]	$2.334

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 28th February 2021

	1m	6m	1yr	2yr p.a.	Inception p.a.[6]
Company[7]	3.9%	25.8%	29.8%	11.3%	9.1%
Benchmark[8]	1.5%	12.1%	17.2%	9.1%	7.4%

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