

Sphera Emerging Companies Limited (ASX:SEC)

2021 Annual General Meeting

30 November 2021

Agenda

1. Chairman's Address
2. Formal Business
3. Investment Update
4. Questions

Chairman's Address

Chairman's Address

Company Overview

The Company

Sphera Emerging Companies Limited (ASX: SEC)

- SEC offers investors access to an actively managed Australian and New Zealand small cap equities portfolio
- IPO on the ASX on 5 December 2017. \$163 million of net assets as at 31 October 2021¹.

The Manager

Sphera Asset Management Limited

- Believes free cash flow drives valuations in the medium to long term with risk assessment a critical overlay
- 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

¹ based on pre-tax NTA as at 31 October 2021 of \$2.71



SPHERIA ASSET
MANAGEMENT
Australian Equities - Small cap



Chairman's Address

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 generate total Shareholder return via a combination of capital growth and income, with the aim of regularly paying fully franked dividends to Shareholders.

Chairman's Address

Company Details

Manager

Spheria Asset Management

Board of Directors

- Jonathan Trollip (Chairman)
- Lorraine Berends
- Matt Booker
- Adrian Whittingham (retirement effective at the conclusion of this AGM)
- Alex Ihlenfeldt (Alternate) (cessation effective at the conclusion of this AGM)

Shares ¹	
<i>Outstanding</i>	60,150,633
<i>Price</i>	\$2.60
<i>Market capitalisation</i>	\$156.4m
NTA ²	
Pre-tax (Which includes tax provided for on realised gains)	\$2.713
Post-tax (Which includes tax provided for on realised and unrealised gains/losses)	\$2.574

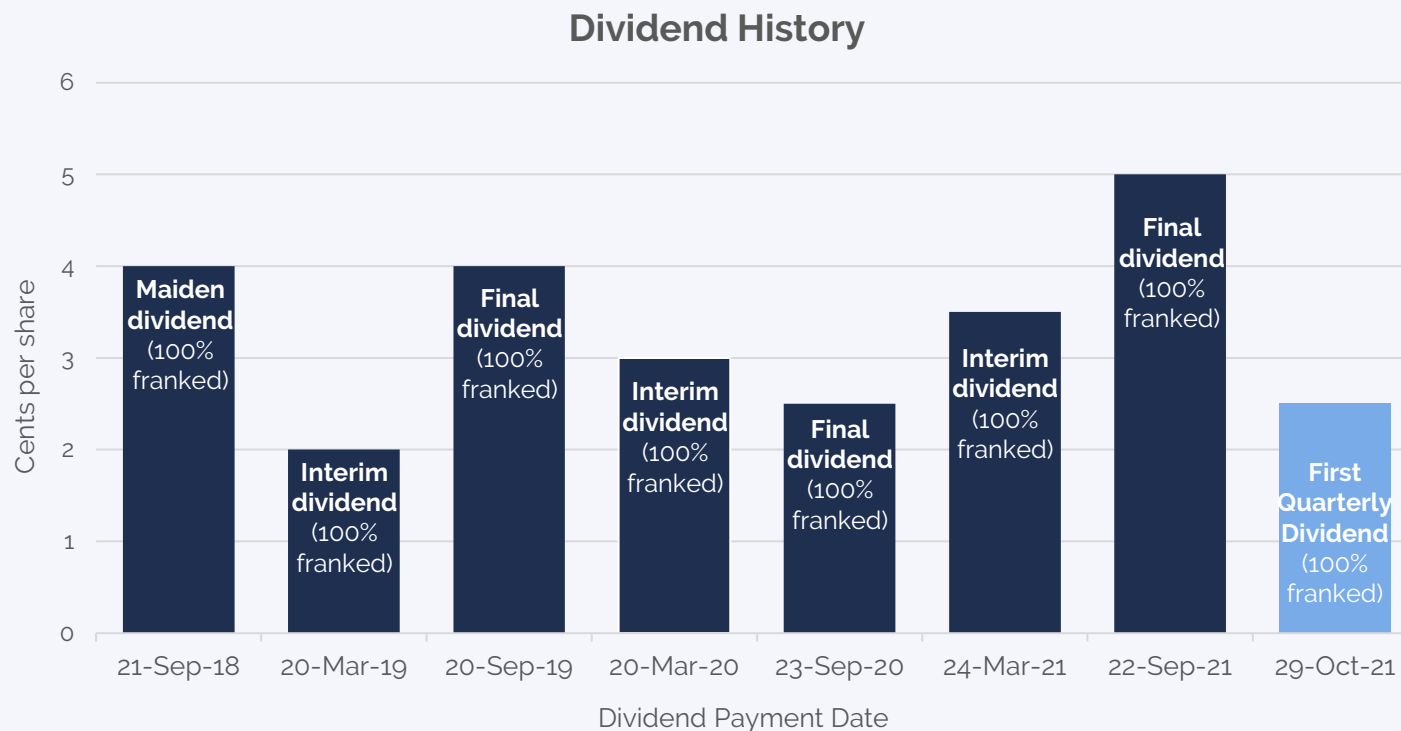
¹ As at 31 October 2021

² As at 31 October 2021, excluding deferred tax assets relating to capitalised issue cost related balances and income tax losses.

Chairman's Address

Dividends

- FY21 annual dividend of 8.5 cents is an increase of 55% on the FY20 annual dividend of 5.5 cents, in recognition of the strong profit for the year.
- New target dividend yield of 4% of NTA p.a. (5.4% including franking), paid quarterly, for FY22.
- First quarterly dividend of 2.5 cents paid on 29 October 2021
- Total dividends since IPO of 26.5 cents per share
- Dividend Reinvestment Plan (DRP) expected to commence for March 2022 dividend



Source: Spheria Emerging Companies.

Chairman's Address

Performance

Company Performance¹

- 12.6% annualised from inception to 31 October 2021

	6 months	1 year	3 years p.a.	Inception p.a.
Company	13.6%	45.9%	15.9%	12.6%
Benchmark ²	7.9%	31.0%	13.5%	9.8%
Difference	5.7%	14.9%	2.3%	2.9%

TSR Performance³

- 10.8% annualised from listing date to 31 October 2021 (share price of \$2.60 compared to an issue price of \$2.00, with dividends of \$0.265 paid by the Company since inception)

NTA discount

- Share price of \$2.60 is a 4.2% discount to pre-tax NTA and a 1.0% premium to post-tax NTA⁴

¹ Calculated as the Company's investment portfolio performance after fees excluding tax on realised gains and unrealised gains/losses and other earnings, and after Company expenses. Inception date 30 November 2017. ² S&P/ASX Small Ordinaries Accumulation Index ³ Measured as movement in share price adjusted for dividends paid during the period ⁴ As at 31 October 2021.

Formal Business

Formal Business – Financial statements and reports

Consideration of financial statements and reports

Formal Business – Resolution 1

Adoption of the Remuneration Report

To consider and, if thought fit, to pass the following resolution:

“That the Remuneration Report of the Company for the financial year ended 30 June 2021 be adopted.”

Formal Business – Resolution 1 - Proxies

Shares voted

For	2,028,581	93.44%
Open	11,000	0.51%
Against	131,500	6.06%
Abstain	17,500	

Formal Business – Resolution 2

Re-election of Matt Booker as a director

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That Mr Matthew Booker, having been appointed to the Board since the last Annual General Meeting of the Company and retiring as a director of the Company in accordance with rule 6.2(b) of the Company’s constitution, be re-elected as a director of the Company.”

Formal Business – Resolution 2 - Proxies

Shares voted

For	2,327,582	99.53%
Open	11,000	0.47%
Against	0	0%
Abstain	0	



Investment Manager Update

Fundamental investing shines through

Product Background

SEC is a listed version of the **Spheria Australian Smaller Companies Fund**

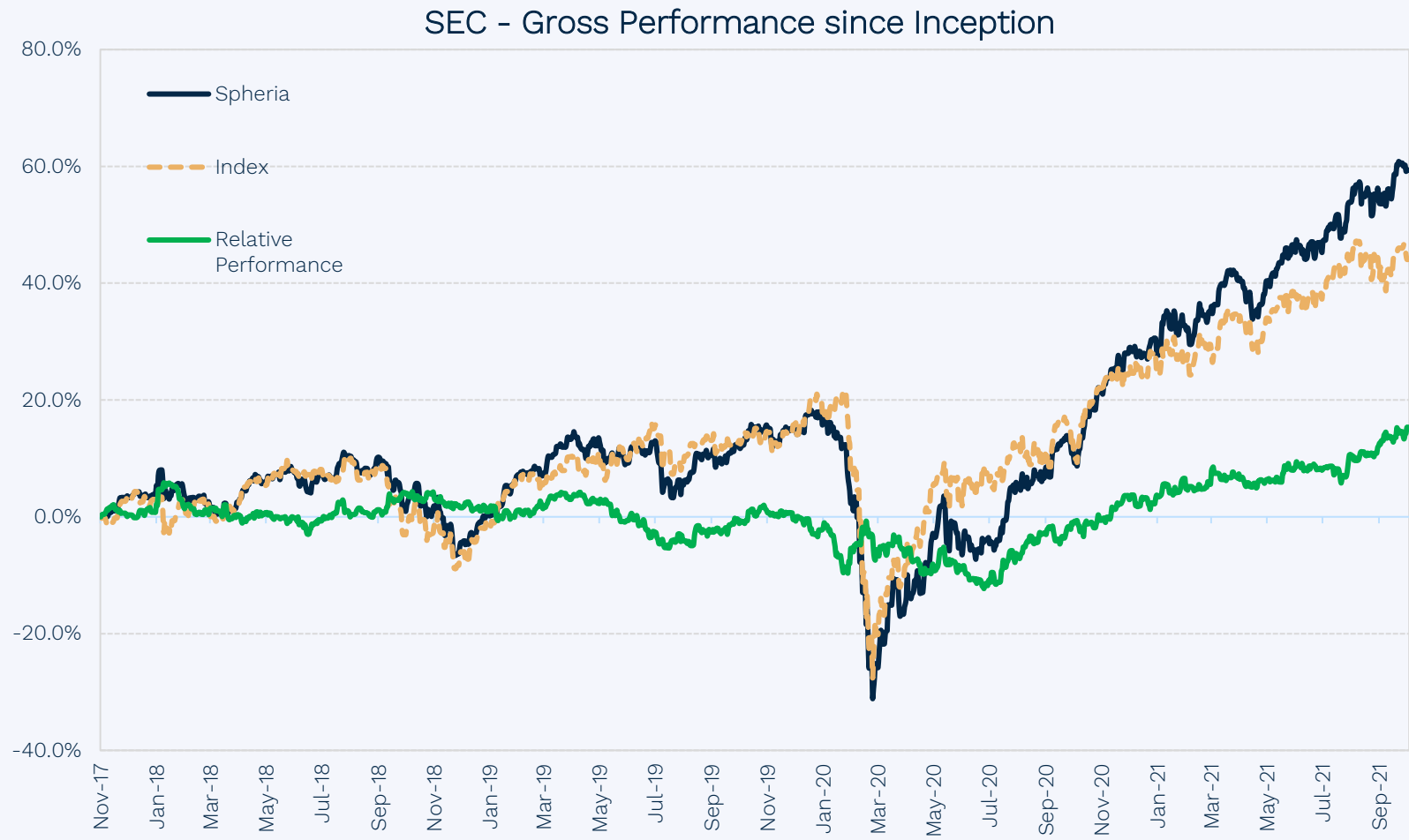
Designed to give investors exposure to:

- **cash generative**
- **lowly geared** smaller companies
- with **supportive valuations**.

SEC will typically have **20-65 stocks** (currently 42) with a max. active weight of ~5%

Has consistently paid dividends every 6 months (since inception) and is now paying quarterly

Performance – Graphical Illustration

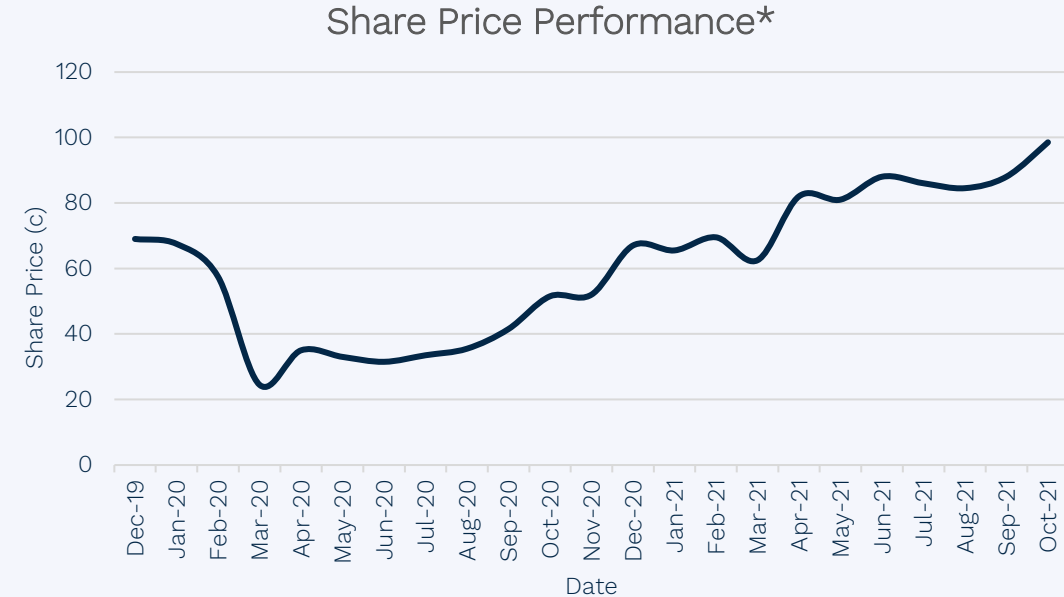
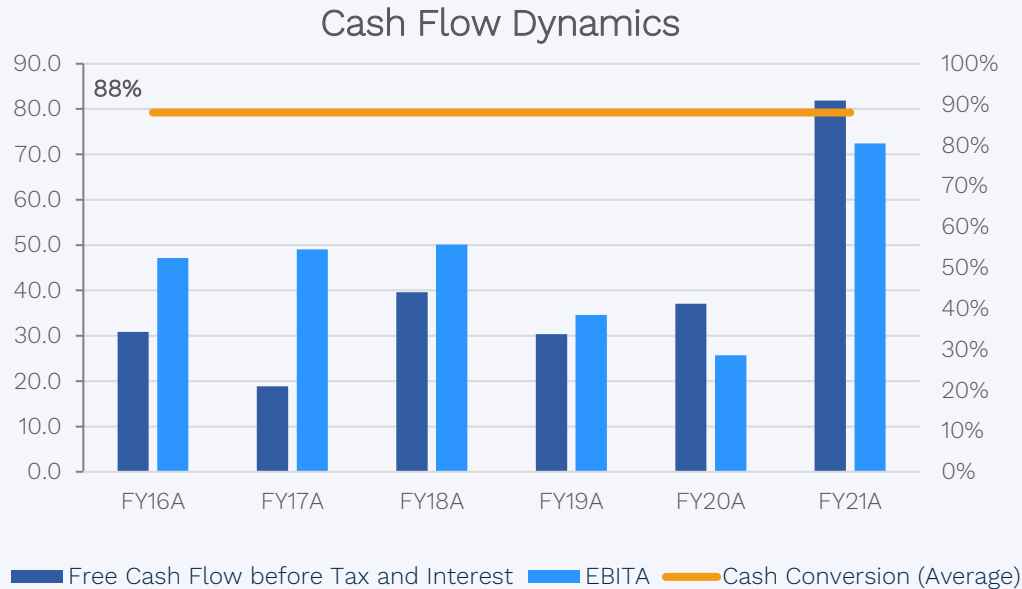


Source: IRESS, Spheria

Investment Process - Michael Hill

(ASX:MHI)

A forgotten gem



- Michael Hill - a leading specialty retailer of fine jewellery in Australia, New Zealand and Canada with 40+ year track record
- Lost its way under prior management, over last two years completely overhauled
- Now well positioned for organic and potential inorganic growth with \$70m of net cash
- Despite share price rally, trading on <6x our best estimate of through the cycle EBIT.

Source: Morningstar, IRESS, Spheria

* Excludes dividends of approximately 6 cents per share during this time frame

Top Positions

Spheria Emerging Companies Ltd as of 31st October 2021

Security	Company Name	% Portfolio
FLT	Flight Centre Travel	5.2
CL1	Class Limited	4.7
IRE	IRESS	3.7
BKL	Blackmores	3.6
VGL	Vista Group	3.6
HT1	Ht&E	3.5
ABC	Adbri	3.5
MND	Monadelphous	3.4
CTD	Corporate Travel	3.2
BGA	Bega Cheese	3.2
Top 10		37.7

Outlook

- The rotation we noted at last year's AGM from “speculation to valuation” continues, this favours traditional fundamental investors like us.
- Rising inflation and interest rates will likely drive volatility and possibly an adjustment in investor behaviour.
- Business models that are not self-funded may find it more difficult to source capital if capital markets tighten up.
- We will continue to exploit market inefficiency in a disciplined manner.

Questions



Thank you for joining us

SEC Shareholder Enquiries

For general information and investment enquiries please contact the Share Registry, Automic.

T: 1300 288 664

E: hello@automic.com.au

For investment enquiries please contact Pinnacle

T: 1300 010 311

E: invest@spheria.com.au

Disclaimer

Note: Past performance is not a reliable indicator of future performance.

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