



**Spheria Emerging Companies Limited (Company)**  
**Level 25**  
**Australia Square Tower**  
**264 George Street**  
**Sydney NSW 2000**

Telephone: 1300 010 311  
Email: [invest@pinnacleinvestment.com](mailto:invest@pinnacleinvestment.com)  
ACN 621 402 588

19 July 2024

*By Electronic Lodgement*

Market Announcements Office  
ASX Limited  
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 for the month ending 30 June 2024.

For further information, please contact 1300 010 311.

Authorised by:

Calvin Kwok  
Company Secretary

## Overall Commentary

The Company returned -0.9% (after fees) during the month of June, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 0.5%.

## Company Facts

Investment Manager	Sphera Asset Management Pty Limited
ASX Code	SEC
Share Price	\$2.220
Inception Date	30 November 2017
Listing Date	5 December 2017
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Dividends Paid	Quarterly
Management Fee	1.00% (plus GST) per annum <sup>1</sup>
Performance Fee	20% (plus GST) of the Portfolio's outperformance <sup>2</sup>
Market Capitalisation	\$132.7m

<sup>1</sup> Calculated daily and paid at the end of each month in arrears.

<sup>2</sup> Against the Benchmark over each 6-month period to a high-water mark mechanism

## Performance as at 30 June 2024

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a. <sup>3</sup>
Company <sup>1</sup>	-0.9%	-7.1%	6.9%	0.1%	6.3%	6.2%
Benchmark <sup>2</sup>	-1.4%	-4.5%	9.3%	-1.5%	3.7%	4.3%
Difference	0.5%	-2.6%	-2.4%	1.7%	2.6%	1.8%

<sup>1</sup> 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

<sup>2</sup> Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

<sup>3</sup> Inception date is 30 November 2017. Past performance is not a reliable indicator of future performance. All p.a returns are annualised.

## Net Tangible Assets (NTA)<sup>1</sup>

Pre-Tax NTA<sup>2</sup>

2.231

Post-Tax NTA<sup>3</sup>

2.239

<sup>1</sup> NTA calculations exclude Deferred Tax Assets relating to capitalised issue related balance and income tax losses. These figures are subject to audit.

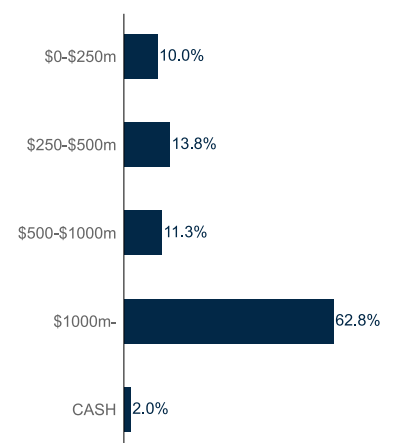
<sup>2</sup> Pre-tax NTA includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses.

<sup>3</sup> Post-tax NTA includes tax on realised and unrealised gains/losses and other earnings.

## Top 10 Holdings

Company Name	% Portfolio
Bega Cheese Limited	5.1
Healius Limited	4.9
Supply Network Limited	4.3
IRESS Limited	4.1
The Star Entertainment Group Limited	3.3
Deterra Royalties Limited	3.2
Breville Group Limited	2.9
GWA Group Limited	2.9
Magellan Financial Group Limited	2.8
Fletcher Building Limited	2.7
<b>Top 10</b>	<b>36.1</b>

## Market Cap Bands



Source: Sphera Asset Management

## Markets

Smaller companies continued to drift lower over June with micro caps and smaller companies under performing large caps. While trying not to turn ourselves into macro economists it was pertinent to note that Canada, the ECB (Eurozone), Switzerland and Sweden all cut interest rates over June by 25bps. Several major countries – the US, UK and Australia all held rates over the month with the US providing its strongest hints yet that rates could come down later in the year. This is relevant because our view is that the Australian economy is rapidly moving into a recession like situation which has been somewhat masked by high immigration and the drawdown of significant personal savings consumers built up during the Covid period. With these buffers now showing signs of exhaustion, we are starting to see companies struggle to grow topline and maintain cost discipline.

Cost reduction hasn't been a strong skill set amongst Australian corporates and to be fair, hasn't for some time been a core skill requirement. Given a tougher consumer outlook with some wage pressures still evident, now is the time to flex these muscles. Cost reduction, innovation and staff motivation will be key differentiators between how smaller companies execute over the next 12-18 months.

### Major Contributors to Performance

Over the month the largest contributors to performance were from overweight positions in Healius (HLS.ASX, +18%), Star Entertainment Group (SGR.ASX, +9%) and Regis Healthcare (REG.ASX, +10%).

**Healius (HLS.ASX)** share price rose 18% during the month after the company provided a trading update for the 2024 financial year which implied a significant second half improvement in operating performance, with the business expecting to generate \$60-65m of underlying EBIT for the full year to 30 June 2024. Improving pathology volumes, a moderating rate of inflation, and a much-needed focus on costs and productivity provide the foundation for continued margin improvement off the 1H24 lows. The imaging business is currently up for sale with interest from multiple parties driving some welcome competitive tension into the process. The sale proceeds will be more than sufficient to leave Healius with a net cash balance sheet. As the 2nd largest player in a consolidated Australian pathology market (top 3 comprise ~70%) we continue to be attracted to the business over the long term and see further material upside to the current share price.

### Major Detractors from Performance

The largest detractors from performance included overweight positions in City Chic Collective (CCX.ASX, -51%), Deterra Royalties (DRR.ASX, -14%), Skycity Entertainment Group (SKC.ASX, -16%).

**City Chic Collective (CCX.ASX)** share price fell over 50% in June after the company announced a capital raise and trading update for the financial year. Trading conditions have remained challenging with sales expected to be down 30% for the 2024 financial year as higher interest rates have significantly impacted consumer spending for CCX's core demographic. As a result, the business has undergone a strategic review to simplify the business and realign the cost base (expecting to strip out \$20.3m of cost). The capital raise of \$23m (\$17.5m underwritten), offered at a 50% discount to the last closing price, will be used to support the balance sheet and re-structure the business after the sale of the UK and US businesses. Post the raise the business will have ~\$10m of cash and a \$10m debt facility available. The recent trading update was disappointing as we had expected trading conditions in the business to have stabilised. With the business now greatly simplified back to the Australian core and a stronger balance sheet we believe the business can cycle through the tough economic environment.

### Outlook & Strategy Going Forward

As we discussed last month, Australia is lurching toward recession like conditions. Backward-looking statistics aren't fully reflecting the toughening labour market conditions nor capturing consumer sentiment. Merely raising prices (as cafés around us want to do) without looking to trim costs where possible is going to see consumers shift their preferences. We are entering a time when better management teams will earn their stripes. We think the upcoming reporting season could be a tough one for smaller companies, however this is likely to somewhat assist Central Banker's moves with respect to interest rates which in turn will go some way to stimulating the recovery in the economy. We believe businesses with strong balance sheets and a proven ability to generate cash are likely to come through market challenges in better shape and we continue to focus on unearthing these types of opportunities.

### Fund Ratings



### Contact Us

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311 or email [distribution@pinnacleinvestment.com](mailto:distribution@pinnacleinvestment.com)

### Disclaimer

Spheria Emerging Companies Limited (the Company, ASX: SEC) is a listed investment company (LIC) that provides investors with access to an actively managed, Australian and New Zealand small and micro companies portfolio, designed for investors seeking capital growth and portfolio diversification. It is a confined capacity investment strategy that identifies smaller companies where the present value of cash flows can be reasonably determined and they are assessed to be trading at a discount to their intrinsic value. The smaller companies universe is more volatile and higher risk. An experienced investment manager in the small company end of the market is paramount to success, for this reason there are only a small number of listed investment companies offering access to a diversified small companies investment portfolio. Spheria Asset Management Pty Ltd (the Manager, Spheria), is the appointed investment manager and is a specialist team with a track record of navigating the higher risk opportunities at the small end of the market.

**Zenith Disclaimer:** The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned February 2024) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at <https://www.zenithpartners.com.au/our-solutions/investment-research/regulatory-guidelines/>.

**Lonsec Disclaimer:** The rating issued (Spheria Emerging Companies Limited rating issued September 2023) is published by Lonsec Research Pty Ltd ('Lonsec') (ABN 11 151 658 561, AFSL 421 445). Ratings are general advice only, and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit [lonsec.com.au](http://lonsec.com.au) for ratings information and to access the full report. © 2022 Lonsec. All rights reserved.