

**Spheria Emerging Companies Limited**

ACN 621 402 588

**Annual Report**

For the year ended 30 June 2021

## Table of contents

Glossary .....	1
Chairman's letter .....	3
Investment manager's report .....	5
Directors' report.....	7
Auditors Declaration of Independence .....	15
Financial statements .....	16
Notes to the financial statements .....	20
Directors' declaration .....	41
Independent Auditor's report.....	42
Shareholder information .....	47
Corporate directory .....	49

## Corporate governance

The Company's corporate governance statement is available on the Company's website at <https://www.spheria.com.au/spheria-emerging-companies-limited/> under the Corporate Documents section.

## Glossary

Term	Meaning
<b>Administrator</b>	Pinnacle as the provider of various administration support services to the Company.
<b>Annual General Meeting</b>	the annual general meeting of the Company.
<b>ASX</b>	Australian Securities Exchange.
<b>Benchmark</b>	S&P/ASX Small Ordinaries Accumulation Index.
<b>Board</b>	board of Directors.
<b>Company</b>	Spheria Emerging Companies Limited (ACN 621 402 588).
<b>Company Performance</b>	the performance of the Company inclusive of portfolio performance after fees, taking into account all other expenses paid and tax on earnings (including on realised gains / losses but excluding any provision for tax on unrealised gains / losses and capitalised issue cost related balances), adjusted for dividends paid by the Company.
<b>Company Secretary</b>	company secretary of the Company.
<b>Corporations Act</b>	the <i>Corporations Act 2001</i> (Cth).
<b>Director</b>	director of the Company.
<b>GST</b>	has the meaning given in the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
<b>Investment Management Agreement</b>	the investment management agreement dated 10 October 2017 between the Company and the Manager.
<b>Manager</b>	Spheria Asset Management Pty Limited (ACN 611 081 326).
<b>NTA</b>	net tangible assets.

<b>Term</b>	<b>Meaning</b>
<b>Pinnacle</b>	Pinnacle Investment Management Limited (ACN 109 659 109).
<b>Services Agreement</b>	the services agreement dated 10 October 2017 between the Company and Pinnacle.
<b>TSR Performance</b>	a measure of the change in the share price and dividends paid during the period, excluding the value of any franking credits which are paid to shareholders.

## Chairman's letter

Dear fellow shareholders,

On behalf of your Board, I am very pleased to present the excellent results of the Company for the year ended 30 June 2021.

The Company was established to provide shareholders with exposure to an actively managed portfolio of Australian and New Zealand smaller companies that generate solid and predictable cash flows. The Company's appointed investment manager, Spheria Asset Management Pty Ltd (the Manager), believes free cash flow drives valuations in the medium to long term with risk assessment a critical overlay.

The Manager has an experienced team that has witnessed various investment cycles. The team currently comprises 10 investment professionals who are approaching 100 years of combined experience and expertise across different markets and small cap securities.

The investment objective of the Company over each full investment cycle (typically 3-5 years) is to generate total returns greater than the S&P/ASX Small Ordinaries Accumulation Index (the Benchmark) and provide investors with capital growth by investing predominantly in listed entities within the Benchmark.

The Company has performed very strongly during the year returning a profit after income tax of \$40,185,000, compared to the prior year loss of \$10,813,000. The investment portfolio outperformed its benchmark by 22.8% and the Company has increased its dividends paid to shareholders during the year. We remain confident that the Company's investment process is well positioned to endure the market volatility resulting from the ongoing COVID-19 pandemic - the Board is monitoring events closely and will continue to manage the Company's capital appropriately to the prevailing economic conditions.

### Dividends

During the year the Company has continued to fulfil its aim to pay fully franked dividends from the portfolio income at least annually, subject to available profits, cash flow and franking credits. The Company paid dividends totalling 6.0 cents during the year, comprising a 2020 final dividend of 2.5 cents per share paid on 23 September 2020, followed by an interim 2021 dividend of 3.5 cents per share paid on 24 March 2021.

Additionally, we are pleased to announce a fully franked final dividend of 5.0 cents per share for the 2021 financial year payable to shareholders on 22 September 2021 with a record date of 8 September 2021. The franking credit balance at 30 June 2021 is \$5.9m before payment of the final dividend and after allowing for refund of current tax assets.

### Performance

We consider that it is useful to report performance from three different perspectives:

- 1) Firstly, to show how the investment portfolio has performed after deducting management fees and performance fees (if applicable) paid to it compared to the relevant benchmark. We refer to this as the **Manager Performance**. The relevant benchmark used is the S&P/ASX Smaller Companies Accumulation Index which is also used to calculate any Manager performance fees;
- 2) Secondly, to show how the Company has performed which, in addition to portfolio performance after fees mentioned above, also accounts for all other Company expenses paid excluding taxes. We refer to this as the **Company Performance**. Company performance is adjusted for dividends paid by the Company and the impact of the share buy-back, and does not include the value of franking credits held by the Company; and
- 3) Finally, to show the **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. The TSR Performance can be an important measure as often the share market can trade at a premium or discount to the NTA.

The results of each of these measures for the year to 30 June 2021 are outlined below:

<b>Manager Performance</b>	+ 56.0%
Portfolio Benchmark	+ 33.2%
Manager Out-Performance	+ 22.8%

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<b>Company Performance</b>	+ 55.5%
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<b>TSR Performance</b>	+ 92.1%
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Pleasingly, and aided by the strong performance, the discount between the Company's NTA per share and its share price reduced from 25.5%<sup>1</sup> at the start of the year to 7.7%<sup>2</sup> at the close. The Board has also continued to take other steps during the year to address the discount, including the extension of the on-market share buy-back and ongoing shareholder engagement activities.

#### **On-market share buy-back**

On 1 July 2019 the Company commenced an on-market share buy-back as a pro-active measure to assist with addressing the Company's shares trading at a discount to NTA.

During the year ended 30 June 2021, 1,807,763 shares had been purchased under the buy-back for total consideration of \$3,138,000. No further shares have been purchased since year-end, with the total shares purchased under the buy-back now 6,186,913 for total consideration of \$9,855,000.

The buy-back was most recently extended by the Company on 25 February 2021 so that a maximum of 1,500,000 shares were able to be bought back through to 31 December 2021. There are currently 1,480,435 shares remaining to be bought back under this limit through to 31 December 2021.

Thank you for your continued support of the Company.

Yours sincerely



**Jonathan Trollip**  
Chairman  
Sydney  
24 August 2021

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<sup>1</sup> Based on 30 June 2020 share price of \$1.29 and pre-tax NTA of \$1.731

<sup>2</sup> Based on 30 June 2021 share price of \$2.40 and pre-tax NTA of \$2.599

## Investment manager's report

Spheria Emerging Companies Limited (the Company) has appointed Spheria Asset Management Pty Ltd (the Manager) as the investment manager of the Company's portfolio.

### Manager

The Manager is a fundamental investor with a focus on smaller and micro companies, which can provide higher returns in the long term than their larger peers. At the date of this report the Manager has approximately A\$1.5bn across its strategies.

The Manager is majority owned by its team with nearly 100 years of combined investment experience. The Manager's performance culture is underpinned by sensible incentives, a focused offering and the outsourcing of non-investment functions to minority partner Pinnacle.

### Investment Philosophy

The Manager aims to grow shareholder wealth over the long-term by generating absolute returns in excess of the Benchmark, at below market levels of risk. The Manager believes the sharemarket can be inefficient particularly within the small- and micro-cap segment, providing opportunities to purchase companies where the prevailing share price is at a discount to the present value of the prospective free cash flow. The Manager seeks to take advantage of the market's tendency for irrational behaviour, identify investments that offer a high margin of safety and build portfolios with a capital preservation focus. Assessing risk is fundamental to the Manager's philosophy.

### Investment Strategy

The Manager's investment strategy is to invest in a select number of small- and micro-cap companies listed in Australia and New Zealand that the Manager considers to be attractively valued. The valuation process involves defining a sustainable and predictable free cash flow stream that a business can produce and discounting to present at an appropriate rate of return. Predicting future cash flows is based on a number of factors including industry dynamics/structure, historical financial information and return on invested capital. Purchasing businesses that produce positive free cash flow (after all capital expenditures) mitigates risk but the Manager also assesses financial strength based on debt levels including all off-balance sheet leases. Qualitative risk factors are also important including an assessment of the industry cycle and fixed cost operating leverage inherent in the business and relevant ESG considerations.

Being a fundamental investor, the Manager does not target a cash weighting, however, in the unlikely event there is a lack of valuation opportunity within the universe, the portfolio can hold up to a maximum of 20% cash. The majority of the portfolio is invested in companies where the Manager believes quantitative and qualitative risks are relatively low, these are defined as 'core' holdings. The Manager can invest in higher risk businesses defined as 'satellite' holdings, but the specific weightings are lower, with the aggregate exposure to satellites limited to a minority of the portfolio.

The investment process seeks to add value through buying smaller companies using qualitative fundamental analysis married within a quantitative framework.

### COVID-19 Impact

The Manager has a well-defined business continuity plan (BCP) and policies consistent with the BCP were utilised last year and have again been implemented more recently from the end of June 2021 and over July and August when the Delta variant of COVID-19 started to spread around Sydney. The team has largely been working remotely using MS Teams, Zoom and other tools to facilitate communication and continued teamwork. Consistent with the methods used last year, service providers have also pivoted company meetings to a virtual framework. The Manager is and remains a well-capitalised business.

## Performance and Outlook

The investment portfolio increased 56.0% for the twelve-month period ending 30 June 2021, outperforming the Benchmark by 22.8%. The market has been dominated by the recovering outlook globally post the initial reaction to COVID-19 in the first quarter of calendar 2020. The combined actions of central banks and governments have provided massive fiscal and monetary stimulus to economies to pump prime them out of the economic shutdowns imposed to combat the virus's impact.

Many of the most oversold areas of the market recovered the most strongly over the past year. In particular we would highlight consumer discretionary (bricks and mortar retailers), financials (in particular market related stocks) and the tourism and leisure sectors. In addition to being overweight many of these sectors, the company has been the beneficiary of a number of takeovers. These have included Village Roadshow (VRL) (acquired by BGH Capital), Asaleo Care (AHY) (acquired by its parent company Essity), Mortgage Choice (MOC) (acquired by Realestate.com.au) and Isentia (ISD) (scheme of arrangement from Access Intelligence). In an extremely low interest rate environment with recovering board and management confidence we expect M&A to remain a central theme in the smaller company space for some time.

The IPO market has also returned with gusto. IPO's were essentially put on hold during the initial COVID-19 outbreak with company capital raisings taking their place. Since September 2020 however, as market conditions improved we saw the re-emergence of IPO's. As is usually the case the quality is mixed with entrepreneurs and private equity typically keen to take advantage of this liquidity window. We are selective with our participation here and look for businesses where we can see a consistent history of earnings, a strong balance sheet and a sound reason for coming to the market. Since September 2020 we have bought into 4 IPO's out of the 39 IPO's (above \$30m) which have listed – or around one in ten. IPO's occasionally present us with good opportunities to acquire businesses at attractive valuations but our general preference is to invest in listed companies with longer histories.

The three largest contributors to portfolio performance during the year were Seven West Media (SWM), Mortgage Choice (MOC) and Ainsworth Gaming (AGI) while the three largest detractors that we owned were Blackmores (BKL), Monadelphous (MND) and Flight Centre (FLT).

## Market outlook

The major macro themes dominating the market have included the incredible liquidity unleashed by central banks around the world, quantitative easing and fiscal stimulus. Unsurprisingly this has created a surge in equity markets. We remain somewhat cautious about the re-emergence of inflation with all indicators suggesting it is back – the market's only debate is for how long. With a discount rate of 8% built into our valuations we believe the Company's holdings should be well positioned for the potential impact of rising inflation and interest rates. The smaller companies space continues to offer some good opportunities despite the overall strong performance of the market since the nadir reached in late March 2020. We thank our shareholders for their interest in and support of the Company and would welcome your questions and participation in our results and conference calls.



**Matthew Booker**

Portfolio Manager  
Spheria Asset Management Pty Ltd  
24 August 2021



**Marcus Burns**

Portfolio Manager  
Spheria Asset Management Pty Ltd  
24 August 2021



## Directors' report

The Directors present their report together with the financial statements of the Company for the year ended 30 June 2021.

The Company is a company limited by shares and is incorporated in Australia.

### Directors

The following persons held office as directors during the year or since the end of the year and up to the date of this report, unless otherwise stated:

**Jonathan Trollip, Chairman**

**Lorraine Berends**

**Adrian Whittingham**

**Alex Ihlenfeldt, Alternate Director**

### Principal activities

The principal activity of the Company is to provide shareholders the opportunity to invest in an actively managed equities portfolio that provides exposure to Australian small-cap securities. There have been no significant changes in the nature of these activities during the year.

### Review of operations

The Company offers investors access to an actively managed portfolio, predominantly comprised of Australian small-cap securities, which aims to outperform its Benchmark S&P/ASX Small Ordinaries Accumulation Index over each full investment cycle, which the Company's Manager considers to typically be 3 to 5 years. The investment strategy aims to provide total returns in excess of the Benchmark, and capital growth.

Activities for the year ended 30 June 2021 resulted in an operating profit before tax of \$56,458,000 and an operating profit after tax of \$40,185,000. This compares to an operating loss before tax of \$16,795,000 and an operating loss after tax of \$10,813,000 in the prior corresponding period.

Further information regarding the Company's operations and financial performance during the year can be found in the Chairman's letter and Investment manager's report at pages 3 to 6.

### Dividends

During the year the Company paid the following dividends to shareholders:

- Final dividend for financial year ended 30 June 2020 of 2.5 cents per fully paid ordinary share paid on 23 September 2020 - fully franked at 30%
- Interim dividend for financial year ended 30 June 2021 of 3.5 cents per fully paid ordinary share paid on 24 March 2021 - fully franked at 26%

The Board has resolved to pay a fully franked final dividend for the financial year ended 30 June 2021 of 5.0 cents per share payable on 22 September 2021 with a record date of 8 September 2021.

### Options

The Company has not issued any options over ordinary shares.

## **On-market share buy-back**

On 1 July 2019 the Company commenced an on-market share buy-back of up to \$5 million worth of ordinary shares through to 30 June 2020, at the prevailing market share price, where the share price discount to net tangible assets (NTA) per share exceeds 10%. This limit was subsequently increased to \$7.5 million worth of ordinary shares, and the period of the buy-back extended to 30 September 2020. The \$7.5 million limit was reached on 31 July 2020.

On 31 August 2020, the Company announced that it would purchase up to a further 1,576,945 shares, representing the remaining amount of shares at that time available to be bought back under the relevant 10/12 calculation limit, through to 31 December 2020. This date was subsequently extended to 30 June 2021.

On 25 February 2021, the buy-back was updated so that a maximum of 1,500,000 shares were remaining to be bought back through to 31 December 2021.

During the year ended 30 June 2021, 1,807,763 shares had been purchased under the buy-back for total consideration of \$3,138,000. No further shares have been purchased since year-end, with the total shares purchased under the buy-back now 6,186,913 for total consideration of \$9,855,000.

## **Matters subsequent to the end of the financial year**

Apart from the items disclosed in note 19 to the financial statements on page 38, no matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

## **Likely developments and expected results of operations**

The Company will continue to pursue its investment objectives for the long-term benefit of shareholders.

## **Environmental regulation**

The Company is not affected by any significant environmental regulation in respect of its operations.

To the extent that any environmental regulations may have an incidental impact on the Company's operations, the Directors are not aware of any breach by the Company of those regulations.

## **Information on Directors**

### **Jonathan Trollip, Chairman**

#### **Experience and expertise**

Jonathan Trollip is a non-executive director with several years of commercial, corporate, governance, legal and transaction experience. Prior to becoming a professional non-executive director, he worked as a principal of Meridian International Capital Limited, and before that, he was a Partner with law firm Herbert Smith Freehills. In the philanthropy area, he is chairman of Science for Wildlife Limited and a director of The Watarrka Foundation and the Pinnacle Charitable Foundation. Jonathan has a B.Arts, post graduate degrees in Economics and Law and is a Fellow of the Australian Institute of Company Directors.

#### **Other current directorships**

Jonathan Trollip is the independent chairman of ASX listed Antipodes Global Investment Company Limited, Future Generation Investment Company Limited, Plato Income Maximiser Limited, and Global Value Fund Limited (listed investment companies). He is also a non-executive director of ASX listed Propel Funeral Partners Limited, BCAL Diagnostics Limited and of Kore Potash PLC (ASX, AIM and JSE listed).

#### **Former directorships in last 3 years**

Jonathan Trollip was formerly non-executive chairman of Spicers Limited until 16 July 2019.

### **Special responsibilities**

Chairman of the Board.

### **Interests in shares and options**

Details of Jonathan Trollip's interests in shares of the Company are included in the Remuneration Report.

### **Interests in contracts**

Jonathan Trollip has no interests in contracts of the Company.

## **Lorraine Berends**

### **Experience and expertise**

Lorraine Berends has worked in the financial services industry for over 40 years and possesses extensive experience in both investment management and superannuation. Before moving to a non-executive career in 2014, she worked for 15 years with US based investment manager Marvin & Palmer Associates. Lorraine contributed extensively to industry associations throughout her executive career, serving on the boards of the Investment Management Consultants Association (**IMCA Australia**, now the **CIMA Society of Australia**) for 13 years (7 as Chair) and the Association of Superannuation Funds Australia (**ASFA**) for 12 years (3 as Chair). Lorraine has been awarded Life Membership of both CIMA Society and ASFA.

Lorraine holds a BSc from Monash University, is a Fellow of the Actuaries Institute and a Fellow of ASFA.

### **Other current directorships**

Lorraine Berends is an independent director of Plato Income Maximiser Limited, Antipodes Global Investment Company Limited and Hearts and Minds Investments Limited (listed investment companies), an independent non-executive director of Pinnacle Investment Management Group Limited and a company appointed director of Qantas Superannuation Limited.

### **Former directorships in last 3 years**

Lorraine Berends has not held any other directorships of listed companies within the last 3 years.

### **Interests in shares and options**

Details of Lorraine Berends interests in shares of the Company are included in the Remuneration Report.

### **Interests in contracts**

Lorraine Berends has no interests in contracts of the Company.

## **Adrian Whittingham**

### **Experience and expertise**

Adrian Whittingham is an executive director of Pinnacle, heading up Pinnacle's international growth and expansion initiatives.

Prior to joining Pinnacle in 2008, Mr Whittingham was Director, Head of Retail Sales with Schroder Investment Management in Sydney, from 2002 to April 2008. At Schroders, Mr Whittingham was responsible for leading the business's direction and engagement with researchers, consultants, dealer groups and private clients. Prior to Schroders, Mr Whittingham spent 8 years at Zurich in product, research and business development roles.

Adrian has a Bachelor of Business from Charles Sturt University as well as qualifications from FINSIA and Deakin University.

### **Other current directorships**

Adrian Whittingham is an executive director of Pinnacle Investment Management Group Limited (ASX: PNI), Pinnacle, Pinnacle Funds Services Limited and Pinnacle Services Administration Pty Limited. He is also a non-executive director of the Manager, Firetrail Investments Pty Limited, Spheria

Services Pty Limited, Longwave Capital Partners Pty Ltd and Coolabah Capital Investments Pty Limited.

#### **Former directorships in last 3 years**

Adrian Whittingham has not held any other directorships of listed companies within the last 3 years.

#### **Interests in shares and options**

Details of Adrian Whittingham's interests in shares of the Company are included in the Remuneration Report.

#### **Interests in contracts**

Details of Adrian Whittingham's interests in contracts of the Company are included in the Remuneration Report.

#### **Alex Ihlenfeldt**

#### **Experience and expertise**

Alex Ihlenfeldt serves as a director on a number of Pinnacle Affiliate boards, listed investment companies and both Cayman and UCITS investment entities. He has over 25 years financial services experience in both Australia and South Africa. Alex was intimately involved in the establishment of Pinnacle and each of its Affiliates. His responsibilities include the provision of infrastructure services to many of the Pinnacle Affiliates.

Alex has a Bachelor of Commerce (Hons) and is a member of the Institute of Chartered Accountants Australia and New Zealand as well as a Fellow of the Australian Institute of Company Directors.

#### **Other current directorships**

Alex Ihlenfeldt is a non-independent director of Plato Income Maximiser Limited and Antipodes Global Investment Company Limited (listed investment companies), and is a director of Plato Investment Management Limited, Solaris Investment Management Limited, Antipodes Partners (UK) Limited, Riparian Capital Partners Pty Ltd, Aikya Investment Management Limited, and Pinnacle Charitable Foundation Ltd and alternate director of Foray Enterprises Pty Limited, Resolution Capital Limited and Firetrail Investments Pty Limited.

Alex is also an executive director of Pinnacle; Pinnacle Services Administration Pty Limited; Pinnacle Fund Services Limited and Pinnacle RE Services Limited.

#### **Former directorships in last 3 years**

Alex Ihlenfeldt has not held any other directorships of listed companies within the last 3 years.

#### **Interests in shares and options**

Details of Alex Ihlenfeldt's interests in shares of the Company are included in the Remuneration Report.

#### **Interests in contracts**

Details of Alex Ihlenfeldt's interests in contracts of the Company are included in the Remuneration Report.

### **Meetings of Directors**

The number of Board meetings held during the year ended 30 June 2021, and the number of meetings attended by each Director were:

<b>Director</b>	<b>Board meetings attended</b>	<b>Board meetings eligible to attend</b>
<b>Jonathan Trollip</b>	4	4
<b>Lorraine Berends</b>	4	4
<b>Adrian Whittingham</b>	4	4
<b>Alex Ihlenfeldt</b>	4	4

## Company Secretary

During the 2021 financial year, the role of Company Secretary was performed by Calvin Kwok. Calvin is also Chief Legal, Risk & Compliance Officer and company secretary of Pinnacle Investment Management Group Limited and company secretary of Plato Income Maximiser Limited and Antipodes Global Investment Company Limited. Calvin has prior experience at Herbert Smith Freehills, UBS Global Asset Management and Deutsche Bank. He holds a Master of Applied Finance, a Graduate Diploma of Applied Corporate Governance, Bachelor of Laws and a Bachelor of Commerce.

## Remuneration Report (Audited)

This report details the nature and amount of remuneration for each director of Spheria Emerging Companies Limited in accordance with the Corporations Act. The Company Secretary is remunerated under a service agreement with Pinnacle.

### Details of remuneration

The Board from time to time determines the remuneration of Directors within the maximum amount approved by shareholders at the Annual General Meeting. Directors are not entitled to any other remuneration from the Company.

Fees and payments to Directors reflect the demands that are made on them and their responsibilities. The performance of Directors is reviewed annually. The Board determines the remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors.

The maximum total pooled remuneration of the Directors has been set at \$250,000 per annum. Directors do not receive bonuses nor are they issued options on securities as part of their remuneration. Directors' fees cover all main Board activities.

The following tables show details of the remuneration received by the Directors for the current financial year.

Director	Short term employee benefits		Post-employment benefits		Total	
	Salary and fees		Superannuation			
	2021	2020	2021	2020	2021	2020
Jonathan Trollip	\$36,530	\$36,530	\$3,470	\$3,470	\$40,000	\$40,000
Lorraine Berends	\$27,397	\$27,397	\$2,603	\$2,603	\$30,000	\$30,000
Adrian Whittingham	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Alex Ihlenfeldt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total director remuneration</b>	<b>\$63,927</b>	<b>\$63,927</b>	<b>\$6,073</b>	<b>\$6,073</b>	<b>\$70,000</b>	<b>\$70,000</b>

The Company has no employees and therefore does not have a remuneration policy for employees.

The Directors are the only people considered to be key management personnel of the Company.

Directors' remuneration is not directly linked to the Company's performance.

The following table outlines key elements of the Company's financial performance since incorporation:

	2021	2020	2019	2018 *
<b>Operating profit / (loss) after tax (\$)</b>	40,185,000	(10,813,000)	3,228,000	7,096,000
<b>Dividends per share (cents per share)</b>	8.5	5.5	6.0	4.0
<b>Closing Pre-tax NTA (\$)</b>	2.599	1.731	2.043	2.102
<b>Closing Share Price (\$)</b>	2.40	1.29	1.76	1.945
<b>Shares cancelled under on-market buy-back</b>	1,807,763	4,379,150	-	-
<b>Share buy-back consideration (\$)</b>	3,138,000	6,718,000	-	-

\* inception of the investment portfolio occurred 30 November 2017

### **Director related entity remuneration**

All transactions with related entities are made on normal commercial terms and conditions.

Adrian Whittingham, who is a Director, is also a director of the Manager.

Adrian Whittingham and Alex Ihlenfeldt are also directors of Pinnacle, which provides various administration support services to the Company in accordance with the Services Agreement.

The fees payable to the Manager and the Administrator are listed below:

#### **Management fee**

In its capacity as investment manager, the Manager is entitled to be paid, and the Company must pay to the Manager, a management fee payable monthly in arrears equivalent to 1% per annum (exclusive of GST) of the value of the Company's portfolio calculated on the last business day of each month.

For the year ended 30 June 2021, the Manager was entitled to be paid management fees (exclusive of GST) of \$1,348,171 (2020: \$1,241,970).

As at 30 June 2021, the remaining balance payable to the Manager (exclusive of GST) was \$139,443 (2020: \$87,196).

#### **Performance fee**

In further consideration for the performance of its duties as investment manager of the Company's portfolio, the Manager may be entitled to be paid a performance fee equal to 20% of any portfolio out performance in excess of the Benchmark. Full details of the terms of the performance fee calculation are disclosed in note 16 to the financial statements.

For the year ended 30 June 2021, in its capacity as investment manager, the Manager earned performance fees (exclusive of GST) of \$3,070,627 (2020: \$nil). Any performance fees are offset against the reimbursement right receivable from the Manager for the Company's offer costs relating to its listing on the ASX, as outlined below.

#### **Reimbursement right receivable**

The Company is able to recoup from fees earned by the Manager the offer costs relating to the listing of the Company on the ASX. Under the Investment Management Agreement the Manager has agreed to:

- (a) forego performance fees from the date of listing until the end of the first 4 full calendar years from listing (i.e. by 31 December 2021) or until such time as the Company has recouped all of the offer costs (whichever is earlier); and
- (b) if the offer costs are not fully recouped during the first four full calendar years after listing (i.e. by 31 December 2021), the Manager will forego management fees that accrue after this time (i.e. in respect of the period commencing 1 January 2022) until the Company has recouped all of the offer costs. The Manager will be entitled to receive performance fees during this period.

The offer costs incurred in relation to the listing were \$3,915,360, and the value of the reimbursement right receivable at the start of the reporting period was \$2,803,271. Performance fees of \$3,070,627 were crystallised and expensed during the current period so that the balance of reimbursement right receivable at balance date reduced to \$nil, leaving an amount of performance fees payable to the Manager at balance date of \$267,356.

### Service fee

The Company has entered into a Services Agreement with Pinnacle for the provision of the following administration support services:

- Middle office portfolio administration;
- Finance, tax and reporting and administration;
- Investor relations; and
- Legal counsel and company secretarial.

For the year ended 30 June 2021 the Administrator was paid fees (exclusive of GST) of \$96,653 (period ended 30 June 2020: \$81,689).

As at 30 June 2021, the balance payable to the Administrator was \$21,035 (30 June 2020: \$20,656).

### Contracts

Other than as stated above, no Director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related company with the Director or with a firm of which they are a member or with a company in which they have substantial financial interest since the inception of the Company.

### Equity instrument disclosures relating to Directors

During the financial year and as at the date of this report, the Directors and their related parties held the following interests in the Company:

#### Ordinary shares held

Director	Opening Balance 1 July	Acquisitions	Disposals	Closing Balance 30 June	Balance at date of this report
Jonathan Trollip*	77,300	-	-	77,300	77,300
Lorraine Berends*	25,000	25,000	-	50,000	50,000
Adrian Whittingham*	25,000	-	-	25,000	25,000
Alex Ihlenfeldt*	25,001	-	-	25,001	25,001
<b>Total shares held*</b>	<b>152,301</b>	<b>25,000</b>	<b>-</b>	<b>177,301</b>	<b>177,301</b>

\* Held through direct and indirect interests

Directors and their related parties acquired shares in the Company on the same terms and conditions available to other shareholders.

The Directors have not been granted options over unissued shares or interests in shares of the Company as part of their remuneration during or since the end of the financial year.

### End of remuneration report

### Insurance and indemnification of officers and auditors

During or since the end of the financial year, the Company has given an indemnity and paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director, other than conduct involving a wilful breach of duty in relation to the Company or the improper use by the Directors of their position.

Details of the amount of the premium paid in respect of the insurance policies are not disclosed as the Company is prevented from doing so under the terms of its contract.

No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is or has been an auditor of the Company.

## **Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, or for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act.

## **Non-audit services**

During the year Pitcher Partners, the Company's auditor, performed other services in addition to their statutory duties for the Company as disclosed in note 15 to the financial statements.

The Board is satisfied that the provision of other services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied that the services disclosed in note 15 did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to the auditor independence in accordance with the APES 110 Code of Ethics for Professional Accountants (including Independence Standards) set by the Accounting Professional and Ethical Standards Board.


## **Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 15.

## **Rounding of amounts**

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the Directors' report and in the financial statements have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

This report is made in accordance with a resolution of the Directors.



**Jonathan Trollip**

Chairman

Sydney

24 August 2021



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**Auditor's Independence Declaration  
To the Directors of Spheria Emerging Companies Limited  
ABN 84 621 402 588**

In relation to the independent audit of Spheria Emerging Companies Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor's independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.



**S M Whiddett**  
Partner

**Pitcher Partners**  
Sydney

24 August 2021

## Financial statements

### Statement of profit or loss and other comprehensive income

For the year to 30 June 2021

	Note	30 June 2021 \$'000	30 June 2020 \$'000
<b>Investment income / (loss)</b>			
Interest income received		1	48
Dividends received		2,785	3,718
Gains / (losses) on financial instruments held at fair value through profit and loss	4	58,817	(18,794)
<b>Total investment income / (loss)</b>		<b>61,603</b>	<b>(15,028)</b>
<b>Expenses</b>			
Management fees		(1,348)	(1,242)
Performance fees		(3,071)	-
Brokerage costs		(274)	(89)
ASX and share registry fees		(108)	(117)
Professional fees		(71)	(69)
Director fees		(70)	(70)
Other expenses		(203)	(180)
<b>Total expenses</b>		<b>(5,145)</b>	<b>(1,767)</b>
<b>Profit / (loss) before income tax</b>		<b>56,458</b>	<b>(16,795)</b>
Income tax (expense) / benefit	5	(16,273)	5,982
<b>Net profit / (loss) after income tax for the period</b>		<b>40,185</b>	<b>(10,813)</b>
Other comprehensive income net of tax		-	-
<b>Total comprehensive income / (loss) for the period attributable to shareholders</b>		<b>40,185</b>	<b>(10,813)</b>
<b>Earnings per share for profit attributable to ordinary equity holders of the Company</b>			
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	18	66.0	(16.8)
Diluted earnings per share	18	66.0	(16.8)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the notes to the financial statements.

## Statement of financial position

As at 30 June 2021

	Note	30 June 2021 \$'000	30 June 2020 \$'000
<b>Assets</b>			
Cash and cash equivalents	6	3,355	1,970
Trade and other receivables	7	328	3,109
Financial assets at fair value through profit or loss	8	154,265	103,207
Current tax assets		600	513
Deferred tax assets	9	251	10,191
<b>Total assets</b>		<b>158,799</b>	<b>118,990</b>
<b>Liabilities</b>			
Trade and other payables	10	2,181	1,176
Deferred tax liabilities	9	6,266	870
<b>Total liabilities</b>		<b>8,447</b>	<b>2,046</b>
<b>Net assets</b>		<b>150,352</b>	<b>116,944</b>
<b>Shareholders' equity</b>			
Issued capital	11	122,819	125,957
Profits reserve	12	48,783	12,237
Accumulated Losses		(21,250)	(21,250)
<b>Total equity</b>		<b>150,352</b>	<b>116,944</b>

The above statement of financial position should be read in conjunction with the notes to the financial statements.

## Statement of changes in equity

For the year ended 30 June 2021

	Note	Issued capital \$'000	Profits reserve \$'000	Accumulated Losses \$'000	Total \$'000
<b>Year ended 30 June 2020</b>					
<b>Balance as at 1 July 2019</b>		<b>132,675</b>	<b>10,215</b>	<b>(3,871)</b>	<b>139,019</b>
<b>Total comprehensive income</b>					
Loss for the period		-	-	(10,813)	(10,813)
Other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(10,813)</b>	<b>(10,813)</b>
<b>Transfer between reserves</b>					
Transfer to profit reserve	12	-	6,566	(6,566)	-
<b>Total transfer between reserves</b>		<b>-</b>	<b>6,566</b>	<b>(6,566)</b>	<b>-</b>
<b>Transactions with owners in their capacity as owners</b>					
Purchase of shares under on-market share buy-back	11	(6,718)	-	-	(6,718)
Dividends paid	13	-	(4,544)	-	(4,544)
<b>Total transactions with owners in their capacity as owners</b>		<b>(6,718)</b>	<b>(4,544)</b>	<b>-</b>	<b>(11,252)</b>
<b>Balance as at 30 June 2020</b>		<b>125,957</b>	<b>12,237</b>	<b>(21,250)</b>	<b>116,944</b>
<b>Year ended 30 June 2021</b>					
<b>Total comprehensive income</b>					
Profit for the period		-	-	40,185	40,185
Other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>40,185</b>	<b>40,185</b>
<b>Transfer between reserves</b>					
Transfer to profit reserve	12	-	40,185	(40,185)	-
<b>Total transfer between reserves</b>		<b>-</b>	<b>40,185</b>	<b>(40,185)</b>	<b>-</b>
<b>Transactions with owners in their capacity as owners</b>					
Purchase of shares under on-market share buy-back	11	(3,138)	-	-	(3,138)
Dividends paid	13	-	(3,639)	-	(3,639)
<b>Total transactions with owners in their capacity as owners</b>		<b>(3,138)</b>	<b>(3,639)</b>	<b>-</b>	<b>(6,777)</b>
<b>Balance as at 30 June 2021</b>		<b>122,819</b>	<b>48,783</b>	<b>(21,250)</b>	<b>150,352</b>

The above statement of changes in equity should be read in conjunction with the notes to the financial statements.

## Statement of cash flows

For the year ended 30 June 2021

	Note	30 June 2021 \$'000	30 June 2020 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of investments		80,846	33,292
Payment for investments		(72,538)	(39,369)
Interest received		1	48
Dividends received		2,649	3,622
Payments to suppliers		(1,772)	(1,717)
Income taxes paid		(1,024)	(1,986)
<b>Net cash provided by / (used in) operating activities</b>		<b>8,162</b>	<b>(6,110)</b>
<b>Cash flows from financing activities</b>			
Purchase of shares under on-market share buy-back	11	(3,138)	(6,718)
Dividends paid to shareholders	13	(3,639)	(4,544)
<b>Net cash used in financing activities</b>		<b>(6,777)</b>	<b>(11,262)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,385</b>	<b>(17,372)</b>
Cash assets at beginning of the financial period		1,970	19,342
<b>Cash assets at the end of the financial period</b>	<b>6</b>	<b>3,355</b>	<b>1,970</b>

The above statement of cash flows should be read in conjunction with the notes to the financial statements.

## Notes to the financial statements

For the year ended 30 June 2021.

### **Note 1 Summary of significant accounting policies**

The financial statements were authorised for issue on 24 August 2021 by the Board.

#### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with the Corporations Act, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board. The Company is a 'for-profit' entity for financial reporting purposes under Australian Accounting Standards.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, except for the measurement at fair value of selected financial assets and financial liabilities.

The financial statements of the Company also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the Directors' report and in the financial statements have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

#### **Significant accounting policies**

Significant accounting policies adopted in the preparation of the financial statements are presented below. Other than the implementation of new accounting standards noted in 1(p) below, the accounting policies adopted are consistent with the previous year, unless stated otherwise:

##### **(a) Investments**

###### **(i) Classification**

The category of financial assets and financial liabilities comprises financial assets designated at fair value through profit and loss.

This includes financial assets that are held for trading and may be sold, such as investments in listed equity securities, and their fair value changes are recorded in profit and loss.

###### **(ii) Recognition and Measurement**

Financial assets at fair value through profit and loss are recognised initially at fair value, including transaction costs on trade date at which the Company becomes party to the contractual provisions of the instrument. Subsequent to initial recognition, all financial assets held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of profit or loss.

###### **(iii) Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

## **Note 1 Summary of significant accounting policies (continued)**

### **(a) Investments (continued)**

#### **(iv) Valuation**

All investments are classified and measured at fair value. Shares that are listed or traded on an exchange are fair valued using last sale prices, as at the close of business on the day the shares are being valued.

If a quoted market price is not available on a recognised security exchange, the fair value of the instruments are estimated using valuation techniques, which include the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

### **(b) Fair value measurement**

When a financial asset is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either in the principal market, or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset, assuming they act in their economic best interests. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets measured on a recurring basis at fair value are classified into 3 levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Further information regarding fair value measurements is provided in note 3.

### **(c) Income and expenditure**

Net gains / (losses) on financial instruments held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at year end and the fair value at the previous valuation point. Net gains / (losses) do not include interest or dividend income.

Dividend income relating to exchange-traded equity instruments is recognised in the statement of profit or loss on the ex-dividend date.

Interest income is recognised as it accrues, using the effective interest method of the instrument calculated at the acquisition date.

All expenses, including performance fees and investment management fees, are recognised in the statement of profit or loss on an accruals basis.

### **(d) Foreign currency translation**

#### *Functional and presentation currency*

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Company competes for funds and is regulated. The Australian dollar is also the Company's presentation currency.

## **Note 1 Summary of significant accounting policies (continued)**

### **(d) Foreign currency translation (continued)**

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the statement of profit or loss on a net basis within net gains / (losses) on financial instruments held at fair value through profit or loss.

### **(e) Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

The Company may incur withholding tax imposed by certain countries on investment income. Such income will be recorded net of withholding tax in profit or loss.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted for each jurisdiction.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date.

Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and deferred tax liabilities can be presented as a net balance in the statement of financial position when:

- the Company has a legally enforceable right to offset its current tax assets and current tax liabilities; and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

### **(f) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of GST, unless GST incurred is not recoverable from the Australian Taxation Office. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the tax authority are presented as operating cash flows.



## **Note 1 Summary of significant accounting policies (continued)**

### **(g) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **(h) Trade and other receivables**

Trade and other receivables are measured at amortised cost and relate to outstanding settlements as well as accrued income in relation to interest and dividends receivable. Trade receivables are generally due for settlement within 30 days. Details regarding the accounting policy for the impairment of receivables is provided at note(1)(o).

### **(i) Reimbursement right**

The Company's right to be reimbursed for the offer costs of its listing on the ASX under its agreement with the Manager (refer notes 7 and 16) is included as a receivable asset within the statement of financial position at amortised cost. Fees foregone by the Manager under the agreement are recognised as a reduction in the receivable asset as they are expensed.

### **(j) Trade and other payables**

These amounts represent liabilities for outstanding settlements as well as services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(k) Share capital**

Ordinary shares are classified as equity.

### **(l) Profits reserve**

A profits reserve has been created representing an amount allocated from retained earnings that is preserved for future dividend payments.

### **(m) Earnings per share**

#### **(i) Basic earnings per share**

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

#### **(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares (e.g. options on issue and in the money).

### **(n) Operating segments**

The Company's investment activities are its only reportable segment. The Company operates from one geographic location, being Australia.

## **Note 1 Summary of significant accounting policies (continued)**

### **(o) Critical accounting estimates and judgments**

The preparation of financial statements requires the use of estimates and judgments which affect the reported amounts of assets and liabilities of the Company. These estimates and judgments are constantly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Income taxes*

The Company is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. The Company estimates its income taxes based on the Company's understanding of tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made. Further information regarding the Company's income tax expense / (benefit) is provided in note 5.

The Company can recognise deferred tax assets relating to carried forward tax losses and deductible timing differences to the extent that it is considered probable that there will be future taxable profits relating to the same taxation authority against which the carried forward tax losses and deductible timing differences will be utilised. Further information regarding the Company's deferred tax assets are provided at note 9.

#### *Allowance for expected credit losses*

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group of receivables. These assumptions can include historical collection rates, and any forward-looking information that is available including potential impacts of the COVID-19 pandemic. The allowance for expected credit losses is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

### **(p) New and revised accounting requirements applicable to the current year reporting period**

There are no accounting standards, interpretations or amendments to existing standards that were effective from 1 July 2020 that have a material impact on the Company's financial statements.

### **(q) New and revised accounting requirements not yet mandatory or early adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Company. It is not expected that these new standards and interpretations will have a material impact on the entity in future reporting periods.

## **Note 2 Financial risk management**

### **(a) Objectives, strategies, policies and processes**

The Company's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Board has implemented a risk management framework to mitigate these risks. This includes consideration of compliance and risk management reporting on a quarterly basis to monitor compliance and evaluate risk, and regular reporting from the Manager to ensure ongoing compliance with the investment strategy and investment guidelines. During the financial year, the risk management framework for the Company was reviewed.

The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of price risks.

## Note 2 Financial risk management (continued)

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established parameters and investment strategies.

The market risk disclosures are prepared on the basis of the Company's direct investments and not on a look-through basis for investments held by the Company.

The sensitivity of the Company's net assets attributable to shareholders (and net operating profit / (loss)) to price risk and interest rate risk is measured by the reasonably possible movements approach. This approach has regard to a number of factors, including the historical correlation of the Company's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Company invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

#### (i) Price risk

Equity price risk is the risk that the fair value of equities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity price risk exposure arises from the Company's investment portfolio. The investments are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Manager manages price risk through diversification and a careful selection of securities within specified limits set by the Board.

The Company's overall market positions are monitored on a daily basis by the Manager and are considered at least quarterly by the Board.

At 30 June 2021, the overall market exposures were as follows:

	30 June 2021	30 June 2020
	\$'000	\$'000
Financial assets at fair value through profit or loss	154,265	103,207
Overall exposure	<b>154,265</b>	<b>103,207</b>

At 30 June 2021, if the equity prices had changed by +/- 15% with all other variables held constant, the movement in net assets attributable to shareholders (and net operating profit / (loss)) would be approximately +/- \$16,198,000 (2020: +/- \$10,837,000).

#### (ii) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company may from time to time hold assets denominated in New Zealand dollars, rather than the Australian dollar which is the functional currency. It is therefore exposed to foreign exchange risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates.

At 30 June 2021 and 30 June 2020, all assets held were denominated in Australian dollars and there were no assets denominated in foreign currencies. As a result, there was limited exposure to foreign exchange risk at balance date.

## Note 2 Financial risk management (continued)

### (b) Market risk

#### (iii) Cash flow and fair value interest rate risk

The majority of the Company's financial assets and liabilities are non interest-bearing. Any interest-bearing financial assets and interest-bearing financial liabilities either mature or reprice in the short-term, no longer than twelve months. As a result, the Company is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

### (c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company holds no collateral as security or any other credit enhancements. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets of the Company which include cash, trade and other receivables. At balance date none of these assets were impaired, nor past due but not impaired.

The Company's cash balances are held with a counterparty that has a credit rating of AA- (as determined by Standard and Poor's (S&P)). The clearing and depository operations of the Company's security transactions are mainly concentrated with one counterparty which has a credit rating of AA- with S&P.

The Company's right to be reimbursed for the offer costs of its listing on the ASX under its agreement with the Manager (refer notes 7 and 16) is included as a receivable asset within the statement of financial position. The carrying value of this receivable had reduced to \$nil as at 30 June 2021 (2020: \$2,803,000). There were no other material concentrations of credit risk at 30 June 2021.

### (d) Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. This risk is controlled through the Company's investment in financial instruments, which under normal market conditions are readily convertible to cash, as they are listed on Australian and New Zealand exchanges. In addition, the Company maintains sufficient cash and cash equivalents to meet normal operating requirements. The Manager and Administrator monitor the Company's liquidity position on a daily basis.

#### *Maturity analysis for financial liabilities*

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month \$'000	1 month to 1 year \$'000	More than 1 year \$'000	Total
<b>At 30 June 2021</b>				
Trade creditors	27	-	-	27
Accruals	481	-	-	481
Due to brokers	1,664	-	-	1,664
Other payables	9	-	-	9
<b>Total financial liabilities</b>	<b>2,181</b>	<b>-</b>	<b>-</b>	<b>2,181</b>

## Note 2 Financial risk management (continued)

### (d) Liquidity risk (continued)

*Maturity analysis for financial liabilities (continued)*

	Less than 1 month \$'000	1 month to 1 year \$'000	More than 1 year \$'000	Total
<b>At 30 June 2020</b>				
Accruals	189	-	-	189
Due to brokers	983	-	-	983
Other payables	4	-	-	4
<b>Total financial liabilities</b>	<b>1,176</b>	<b>-</b>	<b>-</b>	<b>1,176</b>

## Note 3 Fair value measurements

The Company measures and recognises its financial assets at fair value through profit or loss (FVTPL) on a recurring basis.

### Fair value hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

### Recognised fair value measurements

The following table presents the Company's assets measured and recognised at fair value at 30 June 2021.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>At 30 June 2021</b>				
<b>Financial Assets</b>				
<i>Financial assets at fair value through profit and loss</i>				
Australian listed equity securities	154,265	-	-	<b>154,265</b>
<b>Total assets</b>	<b>154,265</b>	<b>-</b>	<b>-</b>	<b>154,265</b>
<b>At 30 June 2020</b>				
<b>Financial Assets</b>				
<i>Financial assets at fair value through profit and loss</i>				
Australian listed equity securities	103,207	-	-	<b>103,207</b>
<b>Total assets</b>	<b>103,207</b>	<b>-</b>	<b>-</b>	<b>103,207</b>

### Note 3 Fair value measurements (continued)

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets has been based on the closing quoted last prices at the end of the reporting year, excluding transaction costs.

There were no transfers between levels for recurring fair value measurements during the year.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The carrying amounts of all financial instruments other than those measured at fair value on a recurring basis are considered to represent a reasonable approximation of their fair values.

### Note 4 Gains / (losses) on financial instruments held at fair value through profit and loss

	2021 \$'000	2020 \$'000
<b>Gains / (losses) on financial instruments held at fair value through profit and loss comprise:</b>		
Realised gains / (losses) on financial instruments	10,613	(2,915)
Unrealised gains / (losses) on financial instruments	48,204	(15,879)
<b>Gains / (losses) on financial instruments held at fair value through profit and loss</b>	<b>58,817</b>	<b>(18,794)</b>

### Note 5 Income tax expense / (benefit)

	2021 \$'000	2020 \$'000
<b>(a) Income tax expense / (benefit)</b>		
Current tax expense / (benefit)	2,387	(1,450)
Deferred tax expense / (benefit)	13,886	(4,532)
<b>Total income tax expense / (benefit)</b>	<b>16,273</b>	<b>(5,982)</b>
Deferred income tax expense / (benefit) included in total income tax benefit comprises:		
Decrease / (increase) in deferred tax assets	8,490	(4,561)
Increase in deferred tax liabilities	5,396	29
	<b>13,886</b>	<b>(4,532)</b>

## Note 5 Income tax expense / (benefit) (continued)

### (b) Reconciliation of income tax expense to prima facie tax payable

	30 June 2021 \$'000	30 June 2020 \$'000
Profit / (loss) before income tax expense / (benefit)	56,458	(16,795)
<b>Tax at the Australian tax rate of 30%</b>	<b>16,937</b>	<b>(5,038)</b>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax credits	(645)	(944)
Prior period adjustments	(19)	-
<b>Income tax expense / (benefit)</b>	<b>16,273</b>	<b>(5,982)</b>

## Note 6 Cash and cash equivalents

	30 June 2021 \$'000	30 June 2020 \$'000
Cash at bank – investment portfolio	3,194	1,685
Cash at bank – operating account	161	285
<b>Total cash and cash equivalents</b>	<b>3,355</b>	<b>1,970</b>

The weighted average interest rate for cash as at 30 June 2021 is 0.01% (30 June 2020: 0.08%).

## Note 7 Trade and other receivables

	30 June 2021 \$'000	30 June 2020 \$'000
Reimbursement right receivable	-	2,803
Receivable from broker	-	138
Dividends receivable	231	96
GST receivable	54	40
Other receivables	43	32
<b>Total trade and other receivables</b>	<b>328</b>	<b>3,109</b>

The reimbursement right receivable represents the outstanding balance of issue costs to be recouped from the Manager under the Investment Management Agreement (refer note 16 for further details).

Collectibility of trade and other receivables is reviewed on an ongoing basis in accordance with the expected credit loss ('ECL') model (refer note 1(o)). The ECL assessment at 30 June 2021 has resulted in an immaterial credit loss and no impairment allowance has been recognised by the Company. Further information regarding credit risk of the Company is provided at note 2(c).

## Note 8 Financial assets at fair value through profit or loss

	30 June 2021 \$'000	30 June 2020 \$'000
<b>(a) Financial assets at fair value through profit or loss</b>		
Financial assets at fair value through profit or loss:		
Australian listed equity securities	154,265	103,207
<b>Financial assets at fair value through profit or loss</b>	<b>154,265</b>	<b>103,207</b>

## Note 9 Deferred tax assets / liabilities

(a) Deferred tax assets	30 June 2021 \$'000	30 June 2020 \$'000
<b>The deferred tax assets balance comprises temporary differences attributable to:</b>		
Accruals	16	18
Unrealised losses on investments	-	8,234
Issue costs	235	489
Income tax losses	-	1,450
<b>Deferred tax assets</b>	<b>251</b>	<b>10,191</b>
<b>The overall movement in deferred tax asset accounts is as follows:</b>		
Opening balance	10,191	4,180
(Charged) / credited directly to profit or loss	(8,490)	4,561
Income tax losses	(1,450)	1,450
<b>Closing balance</b>	<b>251</b>	<b>10,191</b>
<b>The movement in deferred tax assets for each temporary difference during the year is as follows:</b>		
<b>(i) Accruals</b>		
Opening balance	18	16
(Charged) / credited directly to profit or loss	(2)	2
<b>Closing balance</b>	<b>16</b>	<b>18</b>
<b>(ii) Unrealised losses</b>		
Opening balance	8,234	3,460
(Charged) / credited directly to profit or loss	(8,234)	4,774
<b>Closing balance</b>	<b>-</b>	<b>8,234</b>
<b>(iii) Issue costs</b>		
Opening balance	489	704
(Charged) to profit or loss	(254)	(215)
<b>Closing balance</b>	<b>235</b>	<b>489</b>
<b>(iv) Income tax losses</b>		
Opening balance	1,450	-
(Decrease) / increase in income tax losses	(1,450)	1,450
<b>Closing balance</b>	<b>-</b>	<b>1,450</b>

A deferred tax asset for income tax losses had been recognised in the prior year on the basis it was considered probable that there would be sufficient taxable profits against which to recover the losses in future years. The losses were recouped by taxable profits during the current financial year.



## Note 9 Deferred tax assets / liabilities (continued)

<b>(b) Deferred tax liabilities</b>	<b>30 June 2021 \$'000</b>	<b>30 June 2020 \$'000</b>
The deferred tax liabilities balance comprises temporary differences attributable to:		
Dividends receivable	69	29
Unrealised gains on investments	6,197	-
Reimbursement right receivable	-	841
<b>Deferred tax liabilities</b>	<b>6,266</b>	<b>870</b>
The overall movement in deferred tax liability accounts is as follows:		
Opening balance	870	841
Charged directly to profit or loss	5,396	29
<b>Closing balance</b>	<b>6,266</b>	<b>870</b>
The movement in deferred tax liability for each temporary difference during the year is as follows:		
<b>(i) Dividends receivable</b>		
Opening balance	29	-
Charged directly to profit or loss	40	29
<b>Closing balance</b>	<b>69</b>	<b>29</b>
<b>(ii) Unrealised gains on investments</b>		
Opening balance	-	-
Charged directly to profit or loss	6,197	-
<b>Closing balance</b>	<b>6,197</b>	<b>-</b>
<b>(iii) Reimbursement right receivable</b>		
Opening balance	841	841
(Credited) directly to profit or loss	(841)	-
<b>Closing balance</b>	<b>-</b>	<b>841</b>
<b>Net deferred tax liabilities adjusted for deferred tax assets</b>	<b>6,015</b>	<b>(9,321)</b>

**Note 10 Trade and other payables**

	30 June 2021 \$'000	30 June 2020 \$'000
Trade creditors	27	-
Accrued expenses	481	189
Due to broker	1,664	983
Other payables	9	4
<b>Total trade and other payables</b>	<b>2,181</b>	<b>1,176</b>

Trade and other payables primarily relate to outstanding settlements and are usually paid within 30 days of recognition.

**Note 11 Issued capital****(a) Share capital**

	2021 Number	2021 \$'000	2020 Number	2020 \$'000
Fully paid ordinary shares	60,150,633	122,819	61,958,396	125,957
<b>Total share capital</b>	<b>60,150,633</b>	<b>122,819</b>	<b>61,958,396</b>	<b>125,957</b>

The Company does not have an authorised capital value or par value in respect of its issued shares.

**(b) Movements in ordinary share capital**

Date	Details	Number of shares	Price	Total \$'000
1 July 2019	Opening balance	66,337,546		132,675
July 2019 – June 2020	Purchase of ordinary shares under on-market share buy-back (refer (d) below)	(4,379,150)		(6,718)
<b>30 June 2020</b>	<b>Balance</b>	<b>61,958,396</b>		<b>125,957</b>
1 July 2020	Opening balance	61,958,396		125,957
July 2020 – June 2021	Purchase of ordinary shares under on-market share buy-back (refer (d) below)	(1,807,763)		(3,138)
<b>30 June 2021</b>	<b>Balance</b>	<b>60,150,633</b>		<b>122,819</b>

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

## **Note 11            Issued capital (continued)**

### **(d)            On-market share buy-back**

On 1 July 2019 the Company commenced an on-market share buy-back of up to \$5 million worth of ordinary shares through to 30 June 2020, at the prevailing market share price, where the share price discount to net tangible assets (NTA) per share exceeds 10%. This limit was subsequently increased to \$7.5 million worth of ordinary shares, and the period of the buy-back extended to 30 September 2020. The \$7.5 million limit was reached on 31 July 2020.

On 31 August 2020, the Company announced that it would purchase up to a further 1,576,945 shares, representing the remaining amount of shares at that time available to be bought back under the relevant 10/12 calculation limit, through to 31 December 2020. This date was subsequently extended to 30 June 2021.

On 25 February 2021, the buy-back was updated so that a maximum of 1,500,000 shares were remaining to be bought back through to 31 December 2021.

During the year ended 30 June 2021, 1,807,763 shares had been purchased under the buy-back for total consideration of \$3,138,000. No further shares have been purchased since year-end, with the total shares purchased under the buy-back now 6,186,913 for total consideration of \$9,855,000.

### **(e)            Capital Management**

The Company's objective in managing its capital is to satisfy its aim to provide shareholders with total return in excess of the Company's Benchmark and capital growth over each investment cycle. The Company considers its capital to be its issued capital, reserves and accumulated retained earnings.

The Company's capital will fluctuate with market conditions. The Company can manage its capital through the level of dividends paid to shareholders, the issue of shares or the use of share buy-backs.

The Company is an ASX listed investment Company and is subject to ASX listing rule requirements.

## **Note 12            Reserves**

	<b>30 June 2021</b>	<b>30 June 2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance – profits reserve	12,237	10,215
Transfer of profits from profit and loss	40,185	6,566
Dividends paid	(3,639)	(4,544)
<b>Closing balance - profits reserve</b>	<b>48,783</b>	<b>12,237</b>

A profits reserve has been created representing an amount allocated from retained earnings that is preserved for future dividend payments.

## Note 13 Dividends

### (a) Dividends paid

During the year ended 30 June 2021 the Company paid the following dividends:

	2021 \$'000	2020 \$'000
Final dividend for financial year ended 30 June 2020 of \$0.025 per fully paid ordinary share paid on 23 September 2020 - fully franked at 30% (2020: \$0.04 paid on 20 September 2019)	1,534	2,628
Interim dividend for financial year ended 30 June 2021 of \$0.035 per fully paid ordinary share paid on 24 March 2021 - fully franked at 26% (2020: \$0.03 paid on 20 March 2020)	2,105	1,916
<b>Total dividends paid</b>	<b>3,639</b>	<b>4,544</b>

### (b) Dividends not recognised at the end of the year

The Board has resolved to pay a fully franked final dividend for the financial year ended 30 June 2021 of 5.0 cents per share (2020: 2.5 cents per share) payable on 22 September 2021, with a record date of 8 September 2021.

Based on the number of issued shares at 30 June 2021, the aggregate amount of dividend payable but not recognised as a liability at year end, is \$3,007,532 (2020: \$1,549,000). This amount will decrease by the number of ordinary shares cancelled under the on-market share buy-back, if any, between balance date and the dividend record date.

### (c) Dividend franking account

The balance of the Company's dividend franking account at 30 June 2021 was \$6,543,000 (2020: \$5,892,000). The balance of the franking account available for dividends paid in subsequent financial years, when adjusted for franking debits / credits that will arise from current tax receivable/payable, is \$5,943,000 (2020: \$5,380,000).

The franking debit that will arise from the payment of the dividend not recognised at the end of the reporting period, based on the number of issued shares at 30 June 2021, is \$1,288,942 (2020: \$664,000).

## Note 14 Key management personnel disclosures

### (a) Key management personnel compensation

	2021 \$	2020 \$
Short-term employment benefits	63,927	63,927
Post-employment benefits	6,073	6,073
<b>Total remuneration</b>	<b>70,000</b>	<b>70,000</b>

Detailed remuneration disclosures are provided in the Remuneration Report on pages 11 to 13.

## Note 14 Key management personnel disclosures (continued)

### (b) Equity instrument disclosures relating to key management personnel

The numbers of shares in the Company held during the financial year by each Director, including their related parties, are set out below. There were no shares granted during the financial year as compensation.

#### Ordinary shares held

Director	Year	Opening Balance	Acquisitions	Disposals	Closing Balance
Jonathan Trollip*	2021	77,300	-	-	77,300
	2020	77,300	-	-	77,300
Lorraine Berends*	2021	25,000	25,000	-	50,000
	2020	25,000	-	-	25,000
Adrian Whittingham*	2021	25,000	-	-	25,000
	2020	25,000	-	-	25,000
Alex Ihlenfeldt*	2021	25,001	-	-	25,001
	2020	25,001	-	-	25,001
<b>Total shares held*</b>	<b>2021</b>	<b>152,301</b>	<b>25,000</b>	<b>-</b>	<b>177,301</b>
<b>Total shares held*</b>	<b>2020</b>	<b>152,301</b>	<b>-</b>	<b>-</b>	<b>152,301</b>

\* Held through direct and indirect interests

Directors and their related parties acquired shares in the Company on the same terms and conditions available to other shareholders.

## Note 15 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor, its related practices and non-related audit firms:

### (a) Audit and other assurance services

	2021 \$	2020 \$
<b>Audit services – Pitcher Partners</b>		
Audit of financial statements	56,113	57,768
<b>Total remuneration for audit and other assurance services</b>	<b>56,113</b>	<b>57,768</b>

### (b) Non-audit services

#### Taxation services – Pitcher Partners

Tax compliance services	14,520	11,143
<b>Total remuneration for tax compliance services</b>	<b>14,520</b>	<b>11,143</b>
<b>Total remuneration paid to auditors of the Company</b>	<b>70,633</b>	<b>68,911</b>

The Board oversees the relationship with the Company's external auditors. The Board reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit-related tax compliance services provided by the audit firm, to ensure that they do not compromise independence.

## **Note 16            Related party transactions**

All transactions with related parties were made on normal commercial terms and conditions and at market rates.

### **(a)            Investment Management Agreement**

Adrian Whittingham, who is a Director, is also a director of the Manager.

The Company appointed the Manager to act as investment manager of the Company's portfolio under the Investment Management Agreement.

Under the Investment Management Agreement, the Manager must:

- (i) invest money constituted in or available to the Company's portfolio, including money received as a consequence of disposal of investments or any dividend or other distribution received;
- (ii) retain investments; and
- (iii) realise or dispose of investments.

The initial term of the Investment Management Agreement is 10 years, which will be automatically extended for successive five year periods at the end of the initial term and each subsequent term thereafter, unless terminated earlier. The Company may remove the Manager and terminate the agreement after the expiration of the initial term if the shareholders resolve by ordinary resolution that the Manager should be removed as investment manager of the Company's portfolio, on delivery of three months' prior written notice.

The associated fees payable to the Manager are listed below:

#### **Management fee**

In its capacity as investment manager, the Manager is entitled to receive a management fee of 1% per annum (exclusive of GST) of the value of the Company's portfolio calculated daily and paid at the end of each month in arrears.

For the year ended 30 June 2021, the Manager was entitled to be paid management fees (exclusive of GST) of \$1,348,171 (2020: \$1,241,970).

As at 30 June 2021, the remaining balance payable to the Manager (exclusive of GST) was \$139,443 (2020: \$87,196).

#### **Performance fee**

In return for the performance of its duties as investment manager of the Company's portfolio, the Manager is entitled to be paid by the Company a fee equal to 20% (plus GST) of the portfolio's outperformance relative to the Benchmark. The performance fee for each performance calculation period (initially, the period commencing on the date of allotment of shares under the IPO to 31 December 2017, and thereafter each 6 month period ending on 30 June or 31 December) is calculated subject to the recoupment of prior underperformance.

For the year ended 30 June 2021, in its capacity as investment manager, the Manager earned performance fees (exclusive of GST) of \$3,070,627 (2020: \$nil). Any performance fees are offset against the reimbursement right receivable from the Manager for the Company's offer costs relating to its listing on the ASX, as outlined below.

#### **Reimbursement right receivable**

The Company is able to recoup from fees earned by the Manager the offer costs relating to the listing of the Company on the ASX. The Manager has agreed to:

- (a) forego performance fees from the date of listing until the end of the first 4 full calendar years from listing (i.e. by 31 December 2021) or until such time as the Company has recouped all of the offer costs (whichever is earlier); and
- (b) if the offer costs are not fully recouped during the first four full calendar years after listing (i.e. by 31 December 2021), the Manager will forego management fees that accrue after this time (i.e. in respect of the period commencing 1 January 2022) until the Company has recouped all of the offer costs. The Manager will be entitled to receive performance fees during this period.

## **Note 16            Related party transactions (continued)**

Any outstanding Offer costs will be borne by the Company if the Investment Management Agreement is terminated before the Offer costs have been recouped in full.

The offer costs incurred in relation to the listing were \$3,915,360, and the value of the reimbursement right receivable at the start of the reporting period was \$2,803,271. Performance fees of \$3,070,627 were crystallised and expensed during the current period so that the balance of reimbursement right receivable at balance date reduced to \$nil, leaving an amount of performance fees payable to the Manager at balance date of \$267,356.

### **Services Agreement**

Adrian Whittingham, who is a Director, and Alex Ihlenfeldt, who is an alternate Director, are also directors of Pinnacle, the Administrator.

The Company has entered into a Services Agreement with Pinnacle for the provision of the following administration support services:

- Middle office portfolio administration;
- Finance, tax and reporting and administration; and
- Legal counsel and company secretarial.

The Company is required to pay Pinnacle a service fee quarterly in arrears for the provision of the services calculated as follows:

(1) in respect of the first financial year to 30 June 2018 – \$70,000 (exclusive of GST) (Base Retainer); and

(2) in respect of each subsequent financial year – the Base Retainer calculated for the immediately preceding financial year indexed by 3%.

Fees for additional services, where required by the Company, are agreed between the Company and Pinnacle as needed.

For the year ended 30 June 2021 the Administrator was paid fees (exclusive of GST) of \$96,653 (period ended 30 June 2020: \$81,689).

As at 30 June 2021, the balance payable to the Administrator was \$21,035 (30 June 2020: \$20,656).

## **Note 17            Reconciliation of Profit / (loss) after income tax to net cash inflow from operating activities**

	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit / (loss) for the period</b>	<b>40,185</b>	<b>(10,813)</b>
Unrealised fair value (gains) / losses on investments	(48,101)	15,912
Changes in operating assets / liabilities		
Decrease / (increase) in trade and other receivables	2,781	(243)
Increase in investments	(2,957)	(3,591)
Decrease / (increase) in deferred tax assets	9,940	(6,011)
Increase in trade and other payables	1,006	592
Decrease in provision for income taxes payable	(88)	(1,986)
Increase in deferred tax liabilities	5,396	29
<b>Net cash (outflow) / inflow from operating activities</b>	<b>8,162</b>	<b>(6,111)</b>

## **Note 18      Earnings per share**

<b>(a)      Earnings used in the calculation of basic and diluted earnings per share</b>	<b>2021 \$'000</b>	<b>2020 \$'000</b>
Profit / (loss) from continuing operations attributable to the owners of the Company	40,185	(10,813)
<b>(b)      Basic earnings per share</b>	<b>Cents</b>	<b>Cents</b>
Profit / (loss) from continuing operations attributable to the owners of the Company	66.0	(16.8)
<b>(c)      Diluted earnings per share</b>	<b>Cents</b>	<b>Cents</b>
(Loss) / profit from continuing operations attributable to the owners of the Company	66.0	(16.8)
<b>(d)      Weighted average number of ordinary shares used in the calculation of earnings per share</b>	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	60,841,037	64,221,286

## **Note 19      Subsequent events**

Apart from the dividend resolved to be paid subsequent to balance date as disclosed in note 13(b), and the buy-back of shares since period end disclosed in note 11(d), no matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

## **Note 20      Contingencies and commitments**

The Company has no known contingent assets or liabilities nor material commitments as at 30 June 2021.



## Note 21 Investment portfolio

The Company's investment portfolio at balance date was as follows (investments are listed equities unless otherwise shown):

Denominated Currency / Security	30 June 2021 Quantity Number	30 June 2021 AUD Fair Value \$'000
<b>Australia</b>		
A2B Australia Limited	2,922,583	3,683
Adbri Limited	2,262,852	7,852
Abacus Property Group	893,382	2,814
Ainsworth Game Technology Limited	3,107,757	3,838
Auckland International Airport Limited	312,134	2,110
Bapcor Limited	416,720	3,542
Bega Cheese Limited	853,092	5,025
Blackmores Limited	63,221	4,645
Beacon Lighting Group Limited	171,159	325
Breville Group Limited	159,309	4,765
City Chic Collective Limited	1,053,230	5,782
Class Limited	2,660,631	4,403
Cooper Energy Limited	2,085,524	542
Corporate Travel Management Limited	219,151	4,710
Event Hospitality and Entertainment Ltd	297,965	3,766
Fletcher Building Limited	980,646	6,904
Flight Centre Travel Group Limited	351,104	5,214
GDI Property Group	2,051,227	2,297
Genworth Mortgage Insurance Australia Limited	759,460	1,671
Gr Engineering Services Limited	2,027,187	3,041
Geopacific Resources Ltd	6,687,432	2,056
Gentrack Group Limited	364,679	693
GTN Limited	2,357,186	1,061
Healius Limited	1,368,743	6,337
Ht&E Limited	2,805,921	4,812
Horizon Oil Limited	19,172,228	2,013
IOOF Holdings Limited	1,184,280	5,057
IRESS Limited	405,967	5,241

## Note 21 Investment portfolio (continued)

Denominated Currency / Security	30 June 2021 Quantity Number	30 June 2021 AUD Fair Value \$'000
InvoCare Limited	328,861	3,805
Michael Hill International Limited	4,017,095	3,535
Monadelphous Group Limited	488,079	5,100
Nitro Software Limited	757,478	2,469
Premier Investments Limited	154,204	4,403
Perseus Mining Limited	1,538,596	2,246
Ridley Corporation Limited	1,331,640	1,518
Reckon Limited	1,321,398	1,262
Sigma Healthcare Limited	4,756,197	2,830
Smartgroup Corporation Ltd	351,505	2,594
Supply Network Limited	208,691	1,590
Seven West Media Limited	10,592,625	4,926
Technology One Limited	430,439	4,007
Universal Store Holdings Limited	372,169	2,788
Vista Group International Limited	1,852,568	4,261
Vita Group Limited	2,875,357	2,732
<b>Total Value – Equities</b>		<b>154,265</b>
<b>Reconciliation to Total Investment Portfolio:</b>		<b>\$'000</b>
Equities		154,265
Cash deposits (note 6)		3,194
Dividends receivable (note 7)		231
Due to broker (note 10)		(1,664)
<b>Total Investment Portfolio</b>		<b>156,026</b>

The total number of securities transactions entered into during the reporting period was 1,040 (2020: 430).

The total brokerage paid during the reporting period was \$274,000 (2020: \$89,000).


## Directors' declaration

The Directors declare that:

- (a) the financial statements and notes as set out on pages 16 to 40 are in accordance with the Corporations Act, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's financial position as at 30 June 2021 and of its performance for the year ended on that date.
- (b) in the Directors' opinion there are reasonable grounds to believe that Spheria Emerging Companies Limited will be able to pay its debts as and when they become due and payable.
- (c) note 1(a) confirms that the financial statements also comply with International Financial Reporting standards as issued by the International Accounting Standards Board; and

The Directors have been given the declarations required by section 295A of the Corporations Act.

This declaration is made in accordance with a resolution of the Directors.



**Jonathan Trollip**

Chairman

Sydney

24 August 2021

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**Independent Auditor's Report  
To the Members of Spheria Emerging Companies Limited  
ABN 84 621 402 588**

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report of Spheria Emerging Companies Limited ("the Company"), which comprises the statement of financial position as at 30 June 2021, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Spheria Emerging Companies Limited is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Company's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be on the same terms if given to the Directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Key audit matter</i>	<i>How our audit addressed the matter</i>
<b><i>Existence and Valuation of Financial Assets</i></b> <b><i>Refer to Note 8: Financial Instruments at fair value through profit or loss</i></b>	
<p>We focused our audit effort on the existence and valuation of the Company's financial instruments ("investments") as they are its largest assets and represent the most significant driver of the Company's Net Tangible Assets and Profit.</p> <p>Investments consist of listed Australian securities. Investments are valued by multiplying the quantity held by the respective market price.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>▪ Obtaining an understanding of the design and implementation of the investment management processes and controls;</li> <li>▪ Reviewing and evaluating the independent auditor's report on the design and operating effectiveness of internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the Custodian;</li> <li>▪ Making enquiries with the custodian as to whether there have been any changes to these controls or their effectiveness from the periods to which the auditor's report relate; and</li> <li>▪ Obtaining confirmations of the investment holdings directly from the Custodian;</li> <li>▪ Recalculate the Company's valuation of individual investment holdings using independent sources;</li> <li>▪ Evaluating the accounting treatment of revaluations of financial assets for current/deferred tax and unrealised gains or losses; and</li> <li>▪ Assessing the adequacy of disclosures in the financial statements.</li> </ul>

***Accuracy and Completeness of Management and Performance Fees***

***Refer to Note 10: Trade and other payables and Note 16: Related party transactions***

We focused our audit effort on the accuracy, completeness and existence of management and performance fees as they are significant expenses of the Company and their calculation requires adjustments for specified events as well as for key inputs. Specified events include company dividends, tax payments, capital raisings, capital reductions and other relevant expenses. Key inputs include the value of the portfolio, the performance of the relevant comparable benchmark and application of the correct fee percentage in accordance with the Investment Management Agreement between the Company and the Manager.

In addition, to their quantum, as these transactions are made with related parties, there are additional inherent risks associated with these transactions, including the potential for these transactions to be made on terms and conditions more favourable than if they had been with an independent third-party.

Our procedures included, amongst others:

- Obtaining an understanding of and evaluating the design and implementation of the processes and controls for calculating the management and performance fees;
- Making enquiries with the Investment Manager and those charged with governance with respect to any significant events during the period and associated adjustments made as a result, in addition to reviewing ASX announcements and Board meeting minutes;
- Testing of adjustments such as company dividends, tax payments, capital raisings, capital reductions as well as any other relevant expenses used in the calculation of management and performance fees;
- Testing of key inputs including the value of the portfolio, the performance of the relevant comparable benchmark and application of the correct fee percentage in accordance with our understanding of the Investment Management Agreement; and
- Assessing the adequacy of disclosures made in the financial statements.

***Other Information***

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of the Directors for the Financial Report***

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 11 to 13 of the Directors' Report for the year ended 30 June 2021. In our opinion, the Remuneration Report of Spheria Emerging Companies Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**S M Whiddett**  
Partner

24 August 2021



**Pitcher Partners**  
Sydney



## Shareholder information

The shareholder information set out below was applicable as at 20 August 2021.

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report, is listed below.

### Distribution of equity securities and option holders

Analysis of numbers of equity security holders by size of holding:

Holding	Number of shareholders	Shares	Percentage
1 – 1,000	171	74,723	0.12%
1,001 – 5,000	936	3,258,621	5.42%
5,001 – 10,000	692	5,554,632	9.23%
10,001 – 100,000	1,237	31,054,265	51.63%
100,001 and over	40	20,208,392	33.60%
<b>Total</b>	<b>3,076</b>	<b>60,150,633</b>	<b>100%</b>
<b>Holdings less than a marketable parcel (less than \$500)</b>	<b>56</b>	<b>428</b>	<b>0.001%</b>

There are no options on issue by the Company.

## Equity security holders

The Company's twenty largest quoted equity security holders are:

Name	Number held	Percentage of shares issued
NAVIGATOR AUSTRALIA LTD	3,845,035	6.39%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,633,849	4.38%
NETWEALTH INVESTMENTS LIMITED	1,335,636	2.22%
CITICORP NOMINEES PTY LIMITED	1,019,433	1.69%
CUSTODIAL SERVICES LIMITED	983,144	1.63%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	919,742	1.53%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	871,004	1.45%
BUTTONWOOD NOMINEES PTY LTD	760,712	1.26%
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	743,383	1.24%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	740,233	1.23%
BNP PARIBAS NOMS PTY LTD	535,107	0.89%
SPHERIA ASSET MANAGEMENT PTY LIMITED	515,688	0.86%
SPHERIA ASSET MANAGEMENT PTY LIMITED	508,713	0.85%
BNP PARIBAS NOMS(NZ) LTD	502,108	0.83%
SANHARD PTY LIMITED	324,000	0.54%
MR DAVID COOPER & MS ADRIENNE WITTEMAN	274,414	0.46%
AVANTEOS INVESTMENTS LIMITED	250,000	0.42%
MACOUN FAMILY SUPER PTY LTD	250,000	0.42%
SCANLON CAPITAL INVESTMENTS PTY LTD	231,651	0.39%
SIBEW PTY LTD	228,114	0.38%
PERPETUAL CORPORATE TRUST LTD	209,152	0.35%
<b>Total</b>	<b>17,681,118</b>	<b>29.39%</b>
<b>Total remaining holders balance</b>	<b>42,469,515</b>	<b>70.61%</b>

## Voting rights

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote.

## Stock exchange listing

Quotation has been granted for all of the ordinary shares of the Company on all member exchanges of the ASX.

## Unquoted securities

There are no unquoted shares.

## Securities subject to voluntary escrow

There are no securities subject to voluntary escrow.

## Net Tangible Asset Backing per share

	30 June 2021	30 June 2020
Net tangible asset backing per ordinary security – including tax provided on realised gains only *	\$2.599	\$1.731
Net tangible asset backing per ordinary security – including tax provided on realised gains and unrealised gains *	\$2.496	\$1.864

\* Net of DTA relating to capitalised issue cost related balances and income tax losses.

Further information regarding items that impact the movement in NTA during the year including portfolio performance (net of management fees), dividends paid, and capital management initiatives are provided in the Chairman's letter and Investment manager's report at pages 3 to 6.

## On-market share buy-back

On 1 July 2019, the Company commenced an on-market share buy-back of up to \$5 million worth of ordinary shares through to 30 June 2020, at the prevailing market share price, where the share price discount to net tangible assets (NTA) per share exceeds 10%. This limit was subsequently increased to \$7.5 million worth of ordinary shares, and the period of the buy-back extended to 30 September 2020. The \$7.5 million limit was reached on 31 July 2020.

On 31 August 2020, the Company announced that it would purchase up to a further 1,576,945 shares, representing the remaining amount of shares at that time available to be bought back under the relevant 10/12 calculation limit, through to 31 December 2020. This date was subsequently extended to 30 June 2021.

On 25 February 2021, the buy-back was updated so that a maximum of 1,500,000 shares were remaining to be bought back through to 31 December 2021.

During the year ended 30 June 2021, 1,807,763 shares had been purchased under the buy-back for total consideration of \$3,138,000. No further shares have been purchased since year-end, with the total shares purchased under the buy-back now 6,186,913 for total consideration of \$9,855,000.

## Working Capital

In accordance with ASX Listing Rule 4.10.19, between the date of admission to the official list of ASX and 30 June 2021, the Company has used its working capital in a way consistent with its business objective.

## Corporate directory

### Board of Directors

Jonathan Trollip, Chairman (appointed 12 September 2017)

Lorraine Berends (appointed 12 September 2017)

Adrian Whittingham (appointed 30 August 2017)

Alex Ihlenfeldt, Alternate Director  
(appointed 14 September 2017)

### Company Secretary

Calvin Kwok

### Manager

Spheria Asset Management Pty Limited

ACN 611 081 326

Level 35

60 Margaret Street

SYDNEY NSW 2000

Fax: +61 (0) 2 8970 7799

Toll Free: 1300 010 311

### ASX Code

SEC - Ordinary Shares

### Lawyers

Mont Lawyers

Suite 18, 50 Stanley Street

Darlinghurst NSW 2010

Tel: +61 (0) 2 9059 8113

[www.montlawyers.com](http://www.montlawyers.com)

### Auditors

Pitcher Partners

Level 16, Tower 2 Darling Park

201 Sussex Street

Sydney NSW 2000

Tel: +61 (0) 2 9221 2099

Fax: +61 (0) 2 9223 1762

[www.pitcher.com.au](http://www.pitcher.com.au)

### Share Register

Automic Pty Limited

Level 5, 126 Phillip Street

Sydney NSW 2000

Toll Free: 1300 288 664

International: +61 (0) 2 9698 5414

[www.automic.com.au](http://www.automic.com.au)

### Registered Office

Level 35, 60 Margaret Street

Sydney NSW 2000

Tel: 1300 010 311

### Principal Place of Business

Level 35, 60 Margaret Street

Sydney NSW 2000

Tel: 1300 010 311

### Website Address

<http://www.spheria.com.au/spheria-emerging-companies-limited/>