

# Spheria Emerging Companies Limited (ASX:SEC)

2024 Annual General Meeting

19 November 2024

# Agenda

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

# Chairman's Address

# Chairman's Address

## Investment Objectives

The Company's investment objectives are to:

- outperform the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, over each full investment cycle (which the Manager considers to be a period of typically 3 to 5 years); and
- provide capital growth (over each investment cycle) and income.

The Company aims to generate total Shareholder return via a combination of capital growth and income to regularly pay fully franked dividends to Shareholders.

# Chairman's Address

Objective 1: Outperform the benchmark

## Company Performance<sup>1</sup>

- 1.9% p.a. annualised outperformance from inception to 30 June 2024 (+6.2% p.a. compared to benchmark 4.3% p.a.)
- 2.2% p.a. annualised outperformance from inception to 31 October 2024:

Performance - 31 October 2024	6 months	1 year	3 years p.a.	Inception p.a.
Company	6.8%	33.2%	1.0%	7.4%
Benchmark <sup>2</sup>	5.8%	26.6%	-0.6%	5.2%
Difference	<b>+1.0%</b>	<b>+6.6%</b>	<b>+1.6%</b>	<b>+2.2%</b>

<sup>1</sup> Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, and after Company expenses. Inception date 30 November 2017.

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

# Chairman's Address

Objective 2: Provide Capital Growth and Income

## 1. Company Performance and TSR Performance

Performance	30 June 2024	31 October 2024
Company Performance <sup>1</sup> (since inception)	6.2% p.a.	7.4% p.a.
TSR Performance <sup>2</sup> (since listing date)	5.8% p.a.	6.7% p.a.

## 2. TSR Performance Breakdown

- Share price of \$2.33<sup>3</sup> compared to an IPO issue price of \$2.00
- Dividends of \$0.586 paid by the Company since inception, equivalent to 4.3% p.a.

As at 31 October 2024	1 year	3 years p.a.	Inception p.a.
TSR Performance	37.9%	1.5%	6.7%
- Capital Return	31.9%	-3.8%	2.4%
- Income Return	6.0%	5.3%	4.3%

<sup>1</sup> Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, and after Company expenses. Inception date 30 November 2017

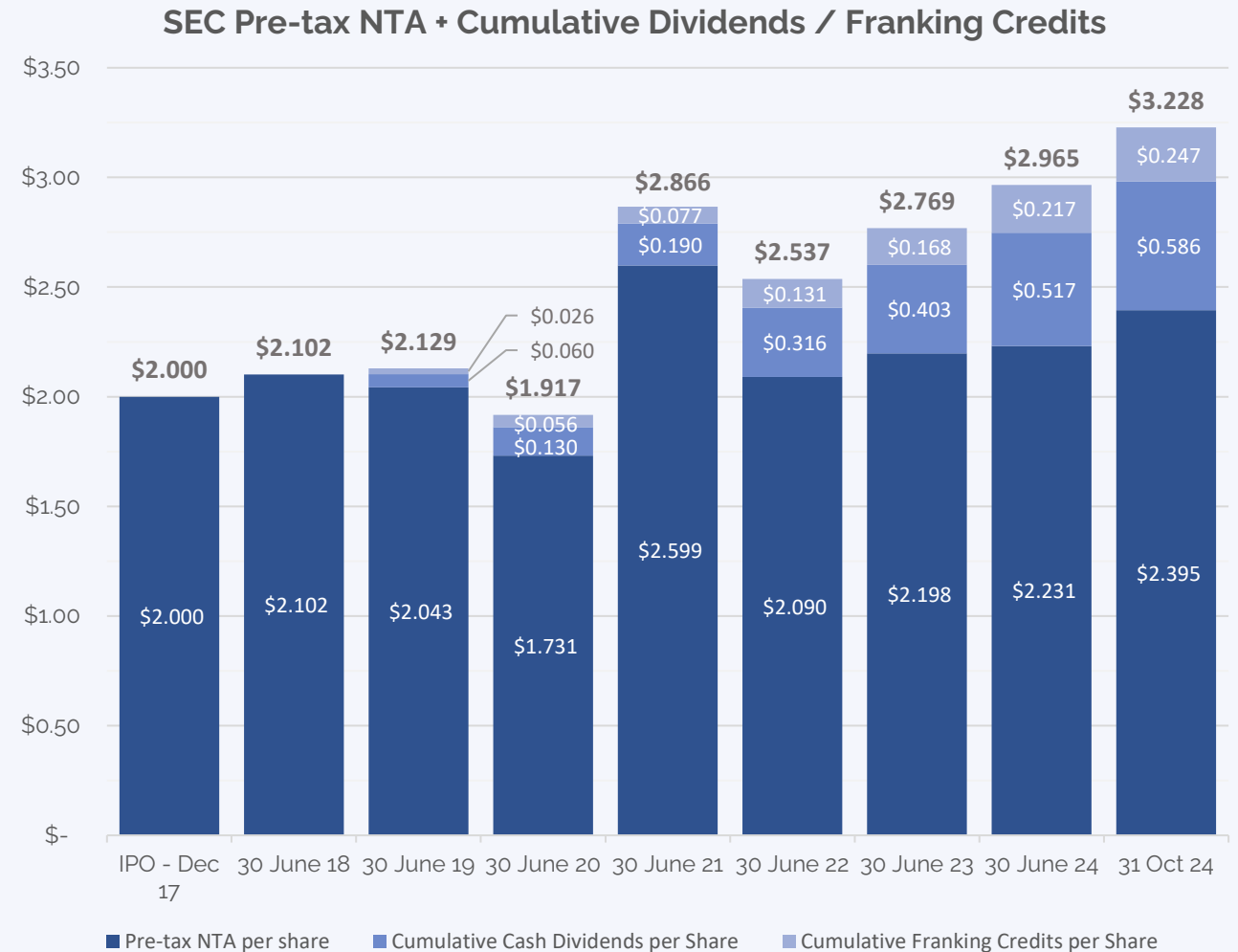
<sup>2</sup> Measured as movement in share price adjusted for dividends paid during the period. Listing date 5 December 2017.

<sup>3</sup> As at 31 October 2024

# Chairman's Address

## Objective 2: Provide Capital Growth and Income

- Looking back since the IPO of the Company until 31 October 2024:
  - Pre-tax NTA is higher than the \$2.00 IPO price, assisted by portfolio outperformance and strong recent returns from Australian small cap shares;
  - Distributed dividends (and franking credits) have been a strong additional driver of shareholder returns over the period and have increased significantly since the Company increased its dividend payout since Q3 2021.



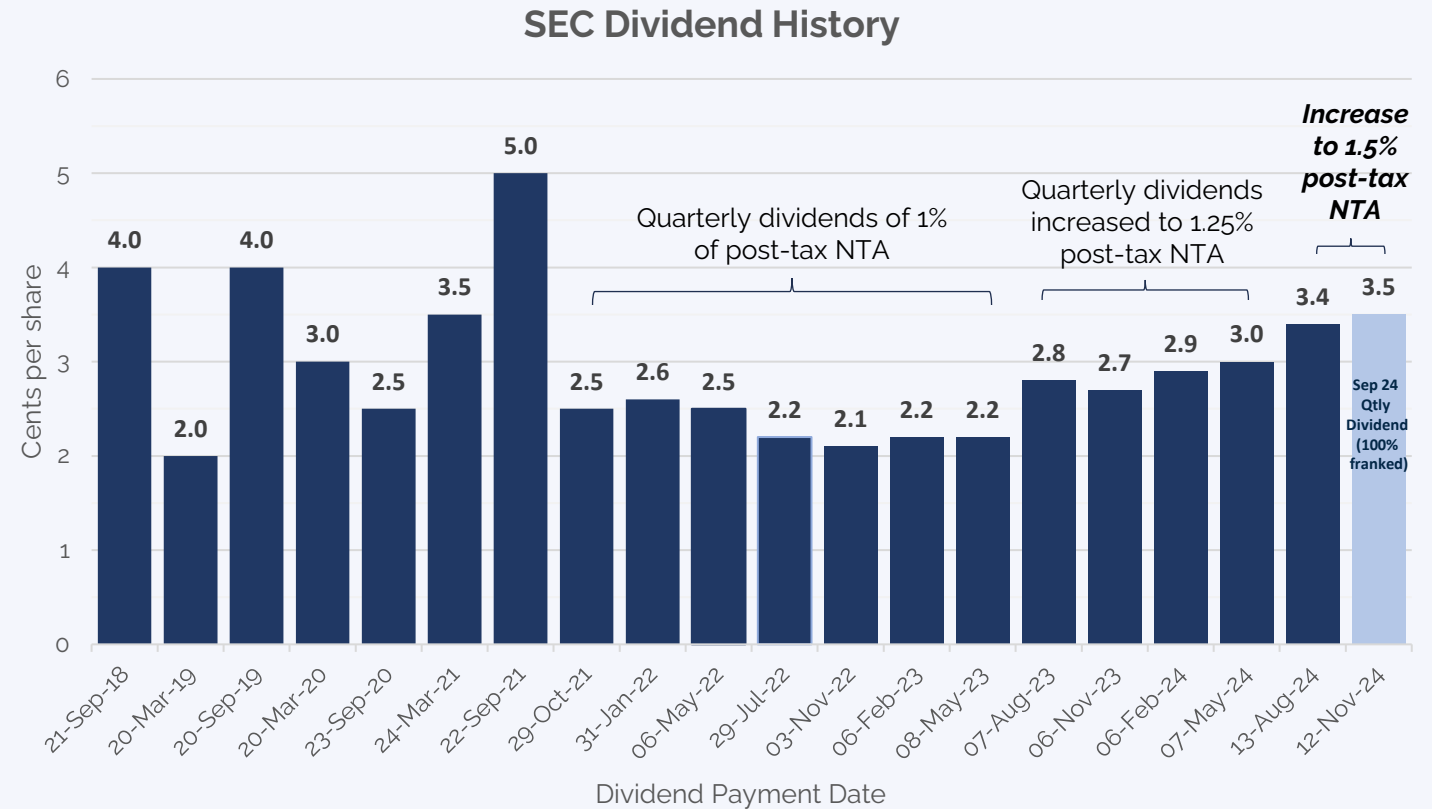
1 Pre-tax NTA per share values are shown as at the dates noted. Dividend and franking credit values represent the cumulative amount of dividends paid by the Company during the period from IPO through to each period end date.

2 A 26% corporate tax rate applied to franking credits for dividends paid during year ended 30 June 2021. A 30% corporate tax rate applied to franking credits for other years.

# Chairman's Address

## Spotlight on Dividends

- Total FY24 quarterly dividends of 12.0 cents per share
- Target dividend yield was increased to 6% of post-tax NTA p.a. (8.6% p.a. including franking) from the June 2024 quarter, paid quarterly at 1.5% of post-tax NTA
- Sept 2024 quarterly dividend of 3.5 cents per share paid recently on 12 November

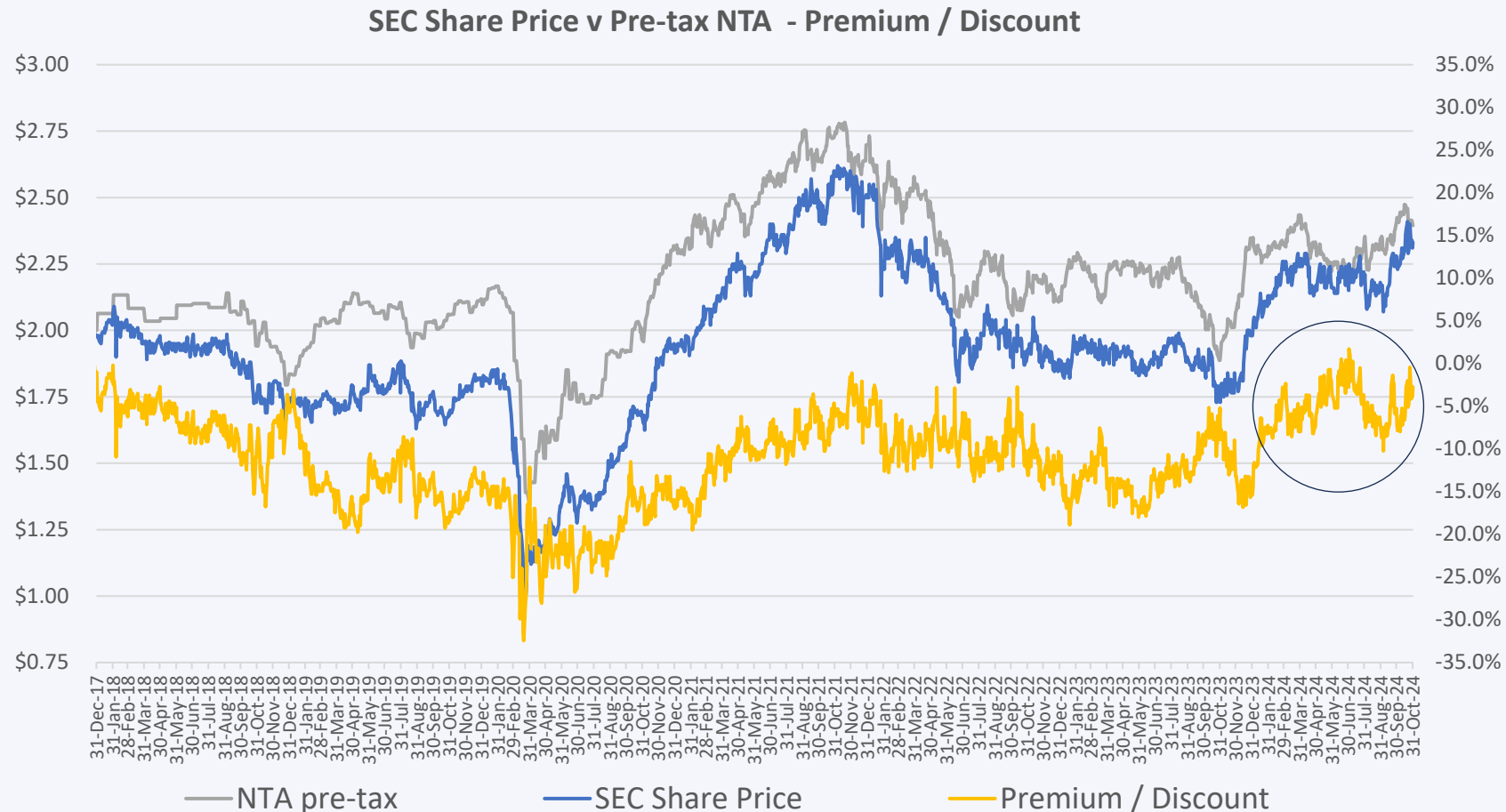




# Chairman's Address

## Improvement in NTA Discount

- NTA discount has narrowed substantially since the start of calendar 2024, when the conditional proposal was announced.
- The measurement period for the conditional proposal has commenced, running from 1 October to 31 December 2024.



Source: Spheria Emerging Companies.

Data to 31 October 2024

# Formal Business

# Formal Business – Financial statements and reports

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Consideration of financial statements and reports

# Formal Business – Resolution 1

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## **Adoption of the Remuneration Report**

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

“That the Remuneration Report of the Company for the financial year ended 30 June 2024 be adopted.”

# Formal Business – Resolution 1 - Proxies

Shares voted

For	2,346,833	84.71%
Open	68,158	2.46%
Against	355,565	12.83%
Abstain	30,206	

# Formal Business – Resolution 2

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## **Re-election of Matt Booker as a director**

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

“That Mr Matt Booker, who retires by rotation in accordance with rule 6.7 of the Company’s Constitution and, being eligible, offers herself for re-election, be re-elected as a director of the Company.”

# Formal Business – Resolution 2 - Proxies

Shares voted

<b>For</b>	2,981,954	90.42%
<b>Open</b>	68,158	2.07%
<b>Against</b>	247,653	7.51%
<b>Abstain</b>	11,000	



# Investment Manager Update

Fundamental investing shines through



# Product Background

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

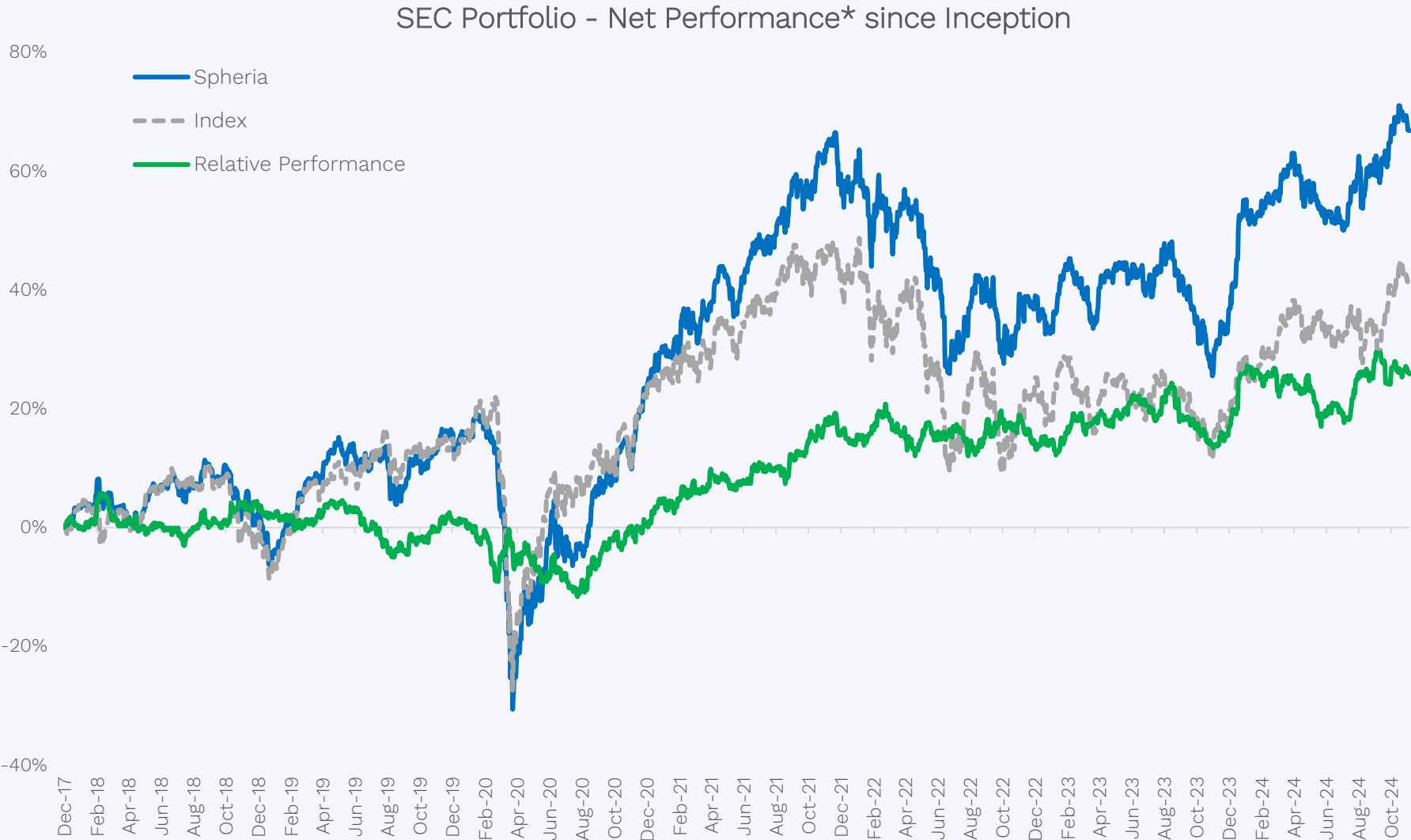
Designed to give investors exposure to:

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

SEC will typically have **20-65 stocks** (currently 50) with a max. active weight of ~5%

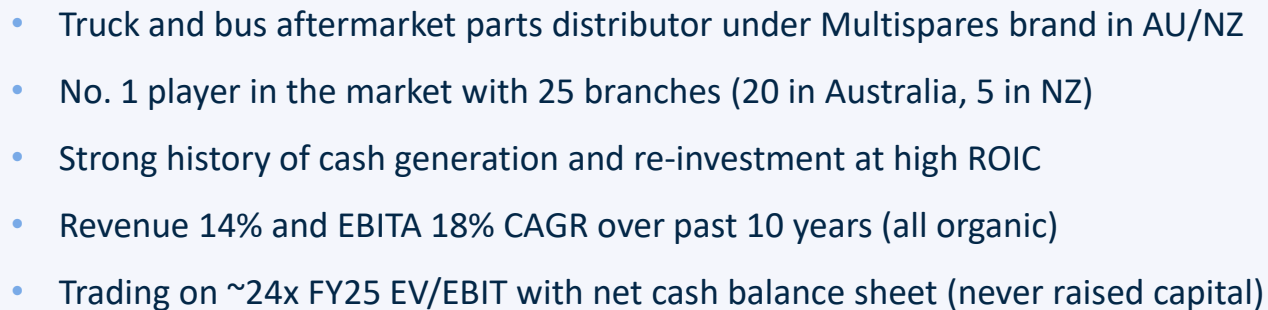
Has consistently paid dividends every 6 months and is now paying quarterly

# Performance – Graphical Illustration



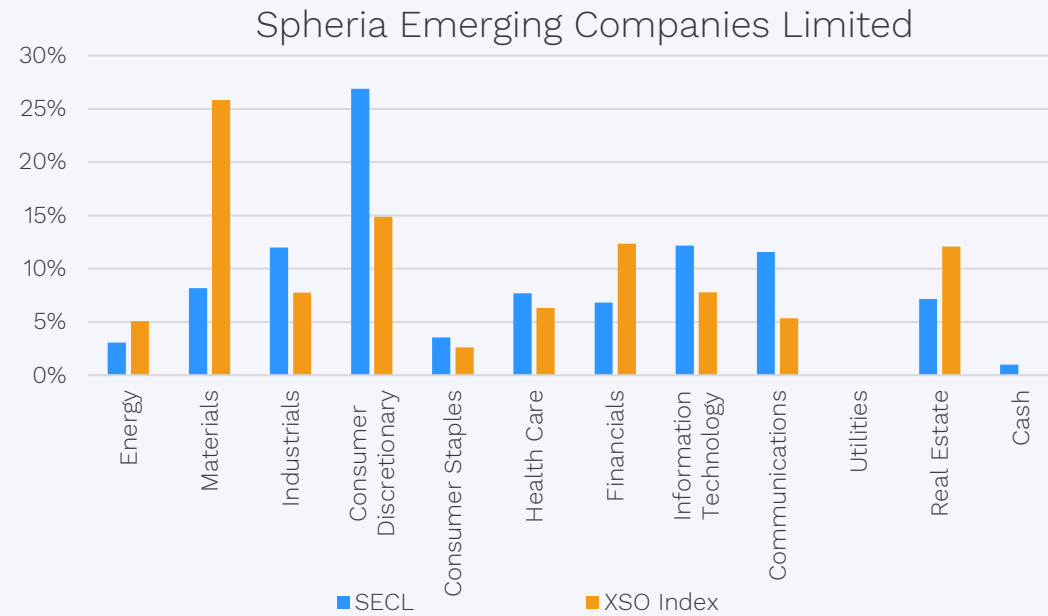
Source: IRESS, Spheria to 31<sup>st</sup> October 2024

## Cash Flow Conversion (EBITA)



# Top 10 Company Holdings and Sector Exposure

Spheria Emerging Companies Limited		
Ticker	Company Name	% Portfolio
SNL	Supply Network	5.5
FBU	Fletcher Building	4.9
IFL	Insignia Financial	4.4
IRE	IRESS Limited	4.1
HLS	Healius	3.8
BGA	Bega Cheese Ltd	3.6
UNI	Universal Store	3.2
SGM	Sims Limited	3.0
TNE	Technology One	2.9
DRR	Deterra	2.7
<b>Top 10</b>		<b>38.2</b>



# Outlook

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- Waves of selling across small cap complex with large industry funds exiting, retail investors deleveraging and hedge funds either reducing beta or shorting
- Compounded by a withdrawal of buying in anything with “warts” particularly earnings weakness whether it is perceived or real and/or companies with debt
- Market repeating past cycles of crowding into "growth" complex for perceived safety
- The valuation dispersion providing a significant opportunity for long term investors
- We are well positioned in a diverse range of companies covering value to growth (at a reasonable price)

# Questions

# Disclaimer

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

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# Thank you for joining us

SEC Shareholder Enquiries

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