

## SEC Results FY2019

### Highlights

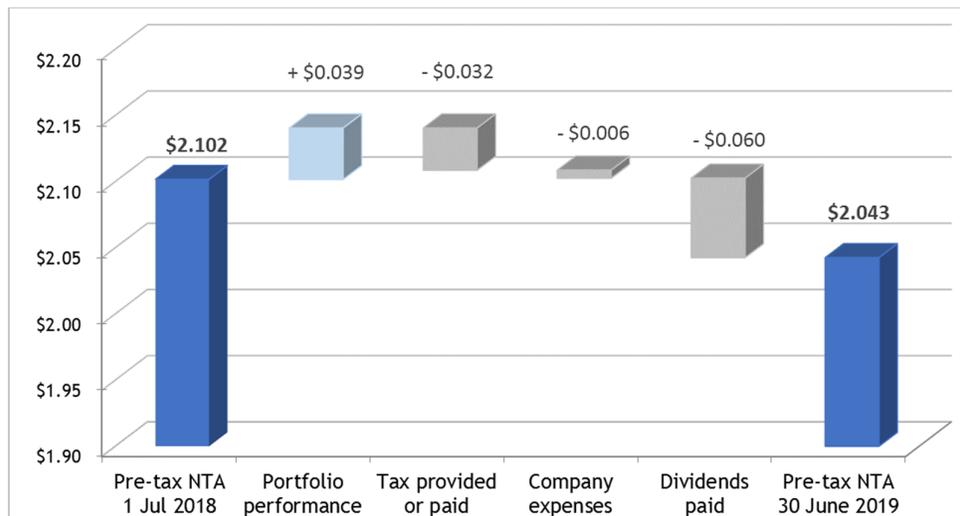
FY19 profit	Company Performance <sup>1</sup>	Final dividend	Yield
\$3.2m	+0.1%	4.0c	3.4% <sup>2</sup>

- 2019 NPAT of \$3.2m
- Final dividend of 4.0 cents per share (fully franked), including interim dividend of 2.0 cents per share (fully franked) taking annual yield to 3.4% (4.9%<sup>2</sup> including franking)
- Company NTA performance of +0.1%, portfolio performance of 1.8% (Benchmark +1.9%)
- On-market share buy-back
- Shareholder conference call on the Company's investment portfolio

Spheria Emerging Companies Limited (ASX:SEC or the Company) recorded an operating profit of \$3.2m for financial year 2019 (FY19), with the Company's NTA increasing 0.1% when adjusted for dividends paid.

The Company's investment portfolio performance (+1.8%) slightly underperformed its benchmark (+1.9%) over the period, which was considered a creditable result given the Manager's fundamental based approach is generally not suited to the market conditions experienced in FY19. Company performance, which includes the impact of tax on realised gains and other earnings of the portfolio, was + 0.1%.

### NTA performance breakdown for FY19



<sup>1</sup> Calculated as movement in Company's pre-tax NTA, which includes tax on realised gains/losses and other earnings, but excludes any provision for tax on unrealised gains/losses, adjusted for dividends paid by the Company.

<sup>2</sup> On share price as at 30 June 2019 of \$1.76

## Final dividend

The Board has resolved to pay a fully franked final dividend of 4.0 cents per share. The final dividend will be paid to SEC shareholders on 20 September 2019 with a record date of 6 September 2019. When combined with the interim FY19 dividend of 2.0 cents per share paid in March 2019, this equates to an annualised dividend yield of 3.4%<sup>2</sup> or a grossed-up yield including franking of 4.9%<sup>2</sup>. The Company's intention is to pay a dividend to shareholders at least annually, subject to available profits, cash flow and franking credits.

Dividend ex-date	Record date	Payment date
5 September 2019	6 September 2019	20 September 2019

## Discount to NTA

SEC shares are trading at a 13.2%<sup>3</sup> discount to the 16 August 2019 pre-tax NTA (\$1.935 per share). The Board acknowledges that the discount has widened over FY2019 and remains committed to addressing the discount to NTA. The Company has implemented several initiatives over the period including moving from monthly to weekly NTA reporting, increasing shareholder communication and investor roadshows, and most recently the on-market share buy-back as outlined below and will continue to take proactive measures to address the discount to NTA.

## On-market share buy-back

On 24 June 2019, the Board announced that the Company has decided to implement an on-market buy-back of the Company shares as a proactive measure to address the share price of the Company trading at a persistent discount to the NTA of the Company.

The Company will purchase up to \$5 million worth of shares during the 12-month period commencing 1 July 2019 and ending 30 June 2020, at the prevailing share price where the discount to the last disclosed NTA is in excess of 10%.

This buyback is a clear commitment to shareholders that the Board is prepared to take action when the share price trades away from the NTA. The Board expects the buyback to be accretive to NTA.

## Investment by the Manager

As at 30 June 2019, the aggregate holding of shares in SEC of Spheria Asset Management Pty Limited (the Manager) and executives of the Manager was 558,207. The Manager is committed to being a long term investor in the Company.

---

<sup>3</sup> Share price at 26 August 2019 of \$1.68

### **Conference call on results and portfolio**

The Board invites shareholders to our upcoming shareholder conference call on 30<sup>th</sup> August 2019 at 11:00am (Sydney time). The call will provide an update on the Company's investment portfolio by Matthew Booker and Marcus Burns, the portfolio managers of Spheria Asset Management Pty Ltd (the **Manager**). Dial in details are provided below.

#### **Dial in details:**

**Within Australia: 1300 628 593**

**Outside Australia: +613 9067 7903**

Calvin Kwok  
Company Secretary  
27 August 2019

## Additional shareholder information

### Performance as at 30 June 2019

	Since 1 July 2018	Since inception p.a.
Company*	0.1%	3.2%
Portfolio**	1.8%	6.0%
Benchmark***	1.9%	6.1%
Portfolio Outperformance	(0.1)%	(0.1)%

\*Calculated as movement in Company's pre-tax NTA, which includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses, adjusted for dividends paid by the Company.

\*\*Shows how the portfolio, for which the Manager is responsible, has performed after deducting management fees, costs and taxes and performance fees (if applicable).

\*\*\* S&P/ASX Small Ordinaries Accumulation Index.

### Manager's commentary

#### Portfolio performance

The investment portfolio increased 1.8% for the year, underperforming the S&P/ASX Small Ordinaries Accumulation Index by 0.1%. Global markets rebounded in the second half of the year after the losses experienced in the December quarter. The market continues to be driven by macro-economic themes with little regard paid to traditional fundamental measures. Given these conditions we feel the portfolio performed reasonably on a relative basis. The 3 largest contributors to portfolio performance during the year were Mount Gibson Iron (MGX), Technology One (TNE) and Navitas (NVT), while the 3 largest detractors were Bega (BGA), Class (CL1), and Fletcher Building (FBU).

#### Market outlook

We have been pleased with the investment performance for the financial year given our fundamental approach is generally not suited to speculative market conditions. We expect common sense to prevail in the medium to long term, which will lead to strong investment returns from segments of the small-cap market that have been left behind from a valuation perspective. The investment portfolio is well positioned to benefit from such a paradigm shift and in the meantime is underpinned by strong and stable cash flows across its diverse set of holdings.

#### About Spheria Asset Management Pty Ltd (Manager)

Spheria Asset Management Pty Ltd is a fundamental-based investment management firm with a bottom-up focus, specialising in small- and micro-cap companies, which can provide higher returns in the long term than their larger peers.

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 Management Limited.

Spheria Asset Management Pty Ltd (ABN 42 611 081 326, Corporate Authorised Representative No. 1240979) ('Spheria') is the investment manager of Spheria Emerging Companies Limited ABN 84 621 402 588 ('SEC', 'Company'). While SEC and Spheria believe the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Spheria and SEC disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. Any opinions and forecasts reflect the judgment and assumptions of Spheria and its representatives on the basis of information at the date of publication and may later change without notice. Disclosure contained in this communication is for general information only and was prepared for multiple distribution. The information is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. The information in this communication has been prepared without taking account of any person's objectives, financial situation or needs. Persons considering action on the basis of information in this communication are to contact their financial adviser for individual advice in the light of their particular circumstances. Past performance is not a reliable indicator of future performance. Unless otherwise specified, all amounts are in Australian Dollars (AUD). Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from SEC and Spheria.