

Investment Update

As at 31st July 2020



Spheria Emerging Companies Limited
ACN 621 402 588

Pre-tax net tangible assets⁴
\$1.746

Company⁷ performance p.a.
(since inception)

-2.5%

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share price	\$1.35
Inception date	30 November 2017
Listing date	5 December 2017
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Management Fee	1.00% (plus GST) per annum ¹
Performance Fee	20% (plus GST) of the Portfolio's outperformance ²
Market Capitalisation	\$82.9m

¹ calculated daily and paid at the end of each month in arrears

² against the Benchmark over each 6-month period subject to a high-water mark mechanism

Commentary

The Company's pre-tax NTA increased 0.9% in July, the S&P/ASX Small Ordinaries Accumulation Index increased 1.4%.

MONTHLY COMMENTARY

Share markets continue to be driven by macro thematics with little regard for fundamentals and anything resembling valuations. It is a combination of circus and casino at the smaller end of the market with many speculative names burning cash in bewildering sums gaining huge audiences that are drunk on the euphoria of prodigious paper gains. Our process means we are unlikely to own such concept stocks and as such it has been a very unrewarding period with our names currying very little favour relative to their respective benchmarks, even our genuine growth names have in most cases lagged this hi-octane rally. We are confident in our approach and note early indications from the August reporting season augur well for much better performance in future periods. In a rational market we believe our performance will be a significant differentiator given the unwarranted unpopularity bordering on antipathy for some of key holdings, which belies how well they are performing as businesses and the valuation risk-reward which seems heavily skewed in their favour.

Major contributors for the month:

City Chic (CCX) was again the largest contributor to performance during the month as it continues to bounce back from the March selloff. Just over two years ago the company was on the brink of insolvency and has since been one of the best performers in the Australia share market. It illustrates the potential payoff in our portfolios given we have an abundance of such companies that are seriously unpopular but have great characteristics' which are currently being overlooked. During the month we increased our holding in CCX via an institutional raising at a discount to fund the potential acquisition of Catherine's online operations (USA +size female brand). Ascena Retail the parent company having filed for Chapter 11 bankruptcy. CCX is well positioned for further acquisitions of this nature to enable it to dominate this space in the USA and potentially on a global basis. It appears to have little major competition for assets given the fragility of many operators due to their store networks which are currently a millstone around their neck as COVID-19 accelerates structural change and delivers insolvencies.

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Breville Group (BRG), another strong contributor for July, has also seemingly benefitted from lockdowns with many people purchasing kitchen items for cooking at home. The company continues to take market share in key offshore markets with the market factoring in further global market share penetration to justify the significant re-rating.

Major detractors for the month:

The largest detractor for July was **Adbri (ABC)** which announced the loss of a major lime contract (\$70m of revenue pa) from Alumina (AWC). This was a material profit contributor (~20% of EBITA) to the group and was disappointing given AWC will instead import lime which is not without risk. In addition, it is unlikely the imported contract is on sustainable commercial terms. We believe the contract has a 3-year term and will begin 1st July 2021. Whilst this is a major earnings setback, we note ABC's earnings have fallen about \$100m in last two years due primarily to cyclical pressures and some competition in key markets. Any reversion to normal cyclical levels and an abatement of competition (due to a lower AUD) will more than offset the loss of the lime contract, which may revert back to ABC when the contract ends or earlier if it cannot be fulfilled contractually.

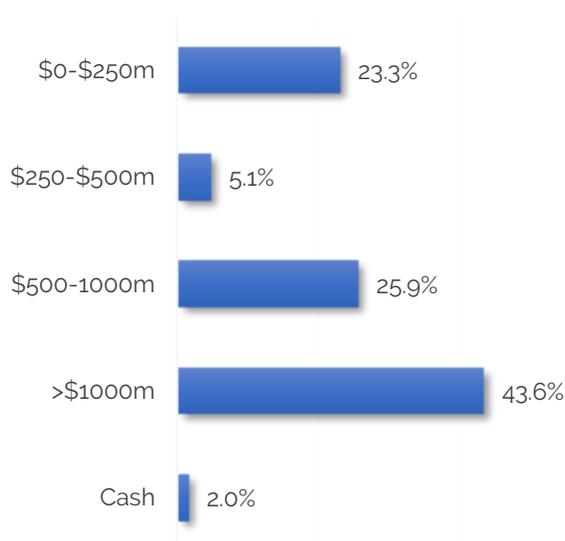
Monadelphous (MND) was also a large detractor in July for little obvious reason. We believe MND will be a major beneficiary from increased iron ore spend given it is one of very few mining construction companies in WA that can deliver large projects at the quality levels required by the big miners. It also will generate from any increase more broadly in mining capex in WA which seems likely given strength in commodity prices driven by the insatiable demand from China. With a pristine balance sheet, strong cash flows and a great reputation, we believe MND is well placed to win above its natural market share, particularly given the withdrawal of meaningful competitors like CIMIC and Downer.

Top 10 Holdings

Company Name	% Portfolio
City Chic Collective	51
Breville Group Ltd	43
Class Limited	42
Ht&E Limited	37
Sims Limited	36
Blackmores Limited	33
Asaleo Care Limited	31
Healius	31
Bega Cheese Ltd	30
Fletcher Building	29
Top 10	36.3

Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Net Tangible Assets (NTA)³

Pre-tax NTA⁴	\$1.746
Post-tax NTA⁵	\$1.869

³ NTA calculations exclude Deferred Tax Assets relating to capitalised issue cost related balances and income tax losses

⁴ Pre-tax NTA includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses

⁵ Post-tax NTA includes tax on realised and unrealised gains/losses and other earnings

Performance as at 31st July 2020

	1m	6m	1yr	2yr p.a.	Inception p.a. ⁶
Company⁷	0.9%	-17.0%	-12.8%	-5.4%	-2.5%
Benchmark⁸	1.4%	-10.9%	-8.5%	-0.8%	1.9%

Past performance is not a reliable indicator of future performance.

⁶ Inception date is 30th November 2017

⁷ 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), assuming the re-investment of any dividends paid by the company

⁸ Benchmark is the S&P/ASX Small Ordinaries Accumulation Index

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