

Investment Update

As at 31st October 2020



Spheria Emerging Companies Limited
ACN 621 402 588

Pre-tax net tangible assets⁴
\$1.965

Company⁷ performance p.a.
(since inception)

3.1%

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share price	\$1.68
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	\$102.9m

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 performance for the month of October was 1.8%, while the S&P/ASX Small Ordinaries Accumulation Index increased 0.5%.

The Company has updated its performance reporting this month to reflect the Company's investment portfolio performance before tax. Company performance is calculated as investment portfolio performance after management and performance fees and Company expenses. This performance measure provides a more direct alignment with the Benchmark against which performance is measured. The Company's investment portfolio performance does not include the impact of taxes paid by the Company, and also excludes the impact of dividends paid by the company and the accretive impact of the share buy-back on the Company's NTA.

MONTHLY COMMENTARY

The Portfolio has rebounded strongly in the last three months (+14%) and six months (+21%), yet we believe there remains tremendous scope for even greater returns in the next few years as the economy recovers from a lockdown induced recession and a flood of cheap money seeks out mispriced securities for which the Australian sharemarket currently has an abundance, especially when working down the market cap spectrum. Our portfolio is literally littered with businesses that are performing well when considering the economic backdrop or are in a strong recovery phase and yet are trading on depressed valuations that would have been unfathomable only a few years ago in an even higher interest rate environment. Just like past cycles we believe this is a temporary phenomenon and our clients will be greatly rewarded as cash flows and valuations are enduring while speculation is fleeting. If our recent performance trends are any indicator the rotation from speculation to valuation is upon us.

As the great investor Warren Buffett once said "Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble."

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Major contributors to performance were:

Seven West Media (SWM.ASX)

SWM share price rebounded 50% in October on the back of improving trends in advertising markets. Though saddled with debt SWM is on the cusp of selling several assets (eg. Airtasker minority stake and its terrestrial TV transmission towers) that should alleviate the debt load, and it has structurally reduced its cost base which means gearing metrics (debt to earnings) should improve dramatically in the short to medium term, thus dispelling any threat of insolvency. In our experience, the recovery from an anticipated insolvency has generally provided supernormal returns to those shareholders willing to stick around.

Class (CL1.ASX)

Class gained 11% during October after a significant rebound in the share price post a strong profit result in August. The relatively new CEO has clearly defined and articulated strategic objectives and deployed capital sensibly to achieve them. Whilst the investment in Class Trust has dragged on profitability, the potential payoff is significant, and could easily double the company's revenue and profits in the next three to five years.

Sims (SGM.ASX)

SGM gained 25% in October after being heavily sold off during COVID as conditions in the scrap markets badly deteriorated. The company reported a very challenged result in August with the saving grace being its balance sheet strength. Given it is a highly cyclical business, we believe the worst is now behind SGM and the business is set for a significant cyclical turnaround. Recent strength in the price of scrap (ferrous and non-ferrous) metals lends support to this view.

Major detractors to performance were:

Corporate Travel Management (CTD.ASX)

CTD retraced 15% after a stellar rally in the last few months. We believe the company is fantastically positioned to take market share from competitors as the business travel industry recovers. It has also structurally reduced its cost base in the last few years via heavy investment in technology and systems. This process was accelerated during the COVID downturn and means the company will come out of this stronger and more profitable. The recent capital raising further underpins the company's already strong balance sheet and capability to ride out the current downturn.

City Chic Collective (CCX.ASX)

The CCX share price fell 10% in October as more heat came out of the valuation after being gazumped on the acquisition of the eCommerce assets of Catherines in September. To be fair, CCX has done the heavy lifting for our performance in recent years, so some respite is a healthy dynamic and has allowed us to opportunistically add to the position in November as the retracement in share price continued. We feel the medium to long term strategy is intact and the management team can deliver strong organic growth, in any case.

Event Hospitality (EVT.ASX)

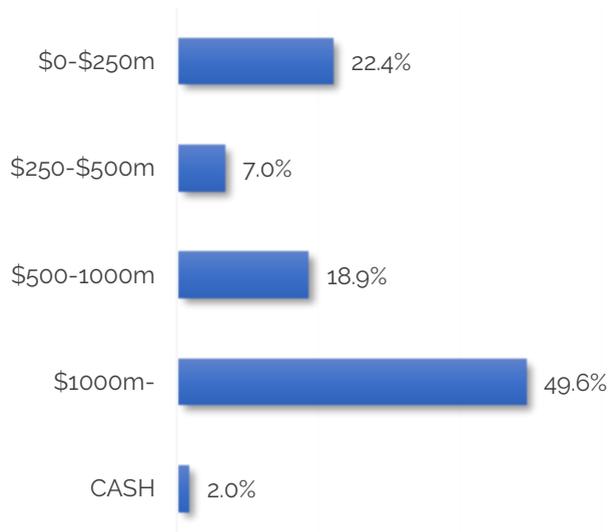
EVT fell 14% in October after the announcement that the sale of its German cinema exhibition (Cinestar) to Vue for A\$300m had been paused by the acquirer. EVT is in discussions with Vue and is reserving its full legal rights regarding the transaction. Given the sale was only conditional on German competition commission approval, which was obtained, we feel there is a high probability the transaction will settle in due course. We also note one of the joint owners of Vue - OMERS - is a large Canadian pension fund which has >\$100bn in net investments assets under management, clearly it has the resources to meet its legal obligations in respect of this transaction.

Top 10 Holdings

Company Name	% Portfolio
Class Limited	5.3
Ht&E Limited	4.1
Breville Group Ltd	3.7
Mortgage Choice Ltd	3.6
Adbri Limited	3.6
City Chic Collective	3.5
Healius	3.3
Fletcher Building	3.2
Corp Travel Limited	3.2
Asaleo Care Limited	3.2
Top 10	36.6

Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Net Tangible Assets (NTA)³

Pre-tax NTA⁴	\$1.965
Post-tax NTA⁵	\$2.023

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 October 2020

	1m	6m	1yr	2yr p.a.	Inception p.a. ⁶
Company⁷	1.8%	21.3%	-2.5%	3.2%	3.1%
Benchmark⁸	0.5%	15.1%	-2.4%	5.7%	3.3%
Outperformance	1.3%	6.2%	-0.1%	-2.5%	-0.2%

Past performance is not a reliable indicator of future performance.

⁶ Inception date is 30th November 2017

⁷ 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. Company performance excludes the impact of dividends paid by the Company and the accretive impact of the share buy-back on the Company's NTA.

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

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