

## Investment Update

As at 31<sup>st</sup> March 2020



**Spheria Emerging Companies Limited**  
**ACN 621 402 588**

Pre-tax net tangible assets<sup>4</sup>

**\$1.43**

Company<sup>7</sup> performance p.a.  
(since inception)

**-10.9%**

## Company Facts

---

<b>Investment Manager</b>	Spheria Asset Management Pty Limited
<b>ASX Code</b>	SEC
<b>Share price</b>	\$1.19
<b>Inception date</b>	30 November 2017
<b>Listing date</b>	5 December 2017
<b>Benchmark</b>	S&P/ASX Small Ordinaries Accumulation Index
<b>Management Fee</b>	1.00% (plus GST) per annum <sup>1</sup>
<b>Performance Fee</b>	20% (plus GST) of the Portfolio's outperformance <sup>2</sup>
<b>Market Capitalisation</b>	\$77.1m

---

<sup>1</sup> calculated daily and paid at the end of each month in arrears

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

## Commentary

The Company's NTA returned -22.7% for the month of March, underperforming the Small Ordinaries Index by 0.3%.

The markets globally continued the sharp correction which began in the middle of February. The market moves were more pronounced locally and the further down the market cap spectrum you went. Faced with an unknown threat in both magnitude and duration, money fled "risk assets" for safety. Despite our investment process – which was forged out of our experiences during the GFC – we fared no better than the market overall which was, candidly, disappointing. Our focus on cash-generating businesses and balance sheets no doubt helped broadly across the portfolio, but we had a few positions in Tourism and Leisure and retail that were sold off particularly aggressively. Every market crisis is somewhat different in its cause. The impact by sector of COVID-19 is not uniform and the restrictions put in place by governments to reduce the spread of the outbreak have disproportionately impacted near-term revenues in these two spaces.

The Smaller companies index fell 33% until the 23rd of March and then rallied hard into the end of the month, rising 15% to finish down 22% overall. Whether we are seeing a bear market rally or the signs of some bottoming in the market remains to be seen. We have always found it more profitable to try to find strong businesses that can survive any reasonable downturn and buy them at attractive valuations than to try to time the market, which we see as a fraught activity. The stock market is a collective of investors participating with a variety of rapidly changing viewpoints and liquidity needs, so we try to keep our clients' money invested in the best possible frontier of investment opportunities as we see them. The positive news is that for some time we have struggled with the valuations of many of the high-growth companies in the market whose valuations have been stretched sky-high by a continued influx into passive investing. The sell-off hasn't spared these names and we have taken the opportunity to selectively rotate into a number of new positions. Some notable examples here include Appen (APX.ASX), Pental (PDL.ASX) as well as topping up positions in Breville (BRG.ASX) and Monadelphous (MND.ASX).

The other new area opening up to us has been capital raisings. An extensive period of prospective "hibernation" for the economy – more extreme in some parts than others – has brought companies back to the market to raise capital. Given the unknown duration of the shutdowns, boards have cautiously raised sizeable amounts of capital - in some cases possibly over-raising - in order to shore up balance sheets. Many of these businesses are experiencing what seem to be sharp but hopefully temporary reductions in their businesses.

*Continued on the next page...*

ASIC has also helpfully raised the placement limits from 15% to 25% of a company's shares outstanding, allowing existing and new shareholders onto the register. We have looked at almost all of the placements – rejecting some on the grounds that even after a raising, the balance sheets still have no net cash, leaving companies to rely upon the latitude of their bankers to fund the operating cash losses. Others, however, appear to have raised sufficient capital at attractive levels. We have added Auckland Airports (AIA.NZ), IDP Education (IEL.ASX) and Reece Plumbing (REH.ASX) to the Company.

Key contributors to performance over the March quarter were:

Bega Cheese (BGA.ASX) which rose 7% over the quarter as the business outlook has dramatically improved with Australia-wide rains, a new cost saving program and improvements in working capital. Asaleo Care (AHY.ASX) which declined just 3% over the quarter. AHY is a consumer goods company selling its paper-related consumer products both to retail and via B2b channels. Their product lines are seen as defensive, and with consumers hoarding goods, are likely to have been the beneficiary of a short-term pickup in sales. Lastly Technology One (TNE.ASX) has also held up relatively well in this tough environment, declining just 3.5% over the quarter.

Major detractors were predominately in the retail and tourism and leisure spaces. Village Roadshow (VRL.ASX) declined 64% as their cinema JV and their Gold Coast theme parks were closed. VRL remains under takeover offer from both PEP and BGH and the company has confirmed publicly that talks with these groups are still underway. VRL has undergone significant repairs to its balance sheet over the past 18 months and is in a far better position to weather the current shutdown on their business. The JobKeeper allowance and some likely rental abatements from cinema landlords will further cushion the sharp downturn. Seven West Media (SWM.ASX) declined 76% as investors worry about a deteriorating top line with a decent amount of gearing. SWM, whilst undoubtedly cyclical in nature, has significant surplus assets, which it is looking to monetise to reduce the debt level; these include their production studios, property holdings and their infrastructure-like holdings in TV towers. Fisher & Paykel Healthcare (FPH.NZ - not held) rose 37% over the quarter as investors bought into the name. FPH produces medical ventilation equipment for patients (predominately those suffering from sleep apnoea) and is seen as a beneficiary of hospital spending on ventilators.

## **Outlook & strategy going forwards**

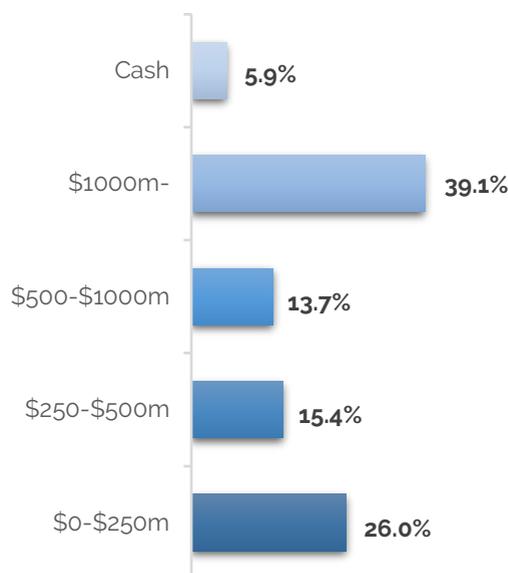
The market sell-off is providing us with some excellent longer-term investment opportunities. Whilst we are mindful of the unknown impacts of COVID-19 on the economy, we are of the view that the crisis is being handled well in Australia and that a 12-month shutdown of the economy will come to be regarded by many as disproportionate to the risks faced by the broader population. We are, for the first time in a while, frankly excited by some of the investment opportunities opening up to us and will continue to rotate the portfolio into new ideas as they present and take advantage of attractive capital raisings.

## Top 10 Holdings

Company Name	% Portfolio
Asaleo Care Limited	4.7
Blackmores Limited	4.6
Bega Cheese Ltd	4.4
Ht&E Limited	4.3
Technology One	4.3
Adelaide Brighton	4.1
Fletcher Building	4.1
Class Limited	4.0
Platinum Asset	4.0
Sims Limited	3.6
Breville Group Ltd	3.5
<b>Top 10</b>	<b>45.5</b>

Source: Spheria Asset Management

## Market Cap Bands



Source: Spheria Asset Management

## Net Tangible Assets (NTA)<sup>3</sup>

<b>Pre-tax NTA<sup>4</sup></b>	\$1.430
<b>Post-tax NTA<sup>5</sup></b>	\$1.653

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

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

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

## Performance as at 31<sup>st</sup> March 2020

	1m	6m	1yr	2yr	Inception p.a. <sup>6</sup>
<b>Company<sup>7</sup></b>	-22.7%	-28.5%	-26.7%	-13.3%	-10.9%
<b>Benchmark<sup>8</sup></b>	-22.4%	-26.2%	-21.0%	-8.6%	-7.4%

Past performance is not a reliable indicator of future performance.

<sup>6</sup> Inception date is 30<sup>th</sup> November 2017

<sup>7</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), assuming the re-investment of any dividends paid by the company

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

### Disclaimer

Spheria Asset Management Pty Ltd ABN 42 611 081 326, ('Spheria'), the Corporate Authorised Representative 1240979 of Pinnacle Investment Management Limited (AFSL 322140), is the investment manager of Spheria Emerging Companies Limited ABN 84 621 402 588 ('SEC' or the '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.