

Overall Commentary

The Company returned 4.8% (after fees) during the month of March, performing in line with the S&P-ASX Small Ordinaries Accumulation Index.

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share Price	\$2.240
Inception Date	30 November 2017
Listing Date	5 December 2017
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Dividends Paid	Quarterly
Management Fee	1.00% (plus GST) per annum ¹
Performance Fee	20% (plus GST) of the Portfolio's outperformance ²
Market Capitalisation	\$133.9m

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

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

Performance as at 31 March 2024

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a. ³
Company ¹	4.8%	5.4%	15.7%	5.5%	8.2%	7.7%
Benchmark ²	4.8%	7.5%	13.8%	2.7%	5.4%	5.2%
Difference	0.0%	-2.1%	1.9%	2.8%	2.8%	2.4%

¹ 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

² Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

³ Inception date is 30 November 2017. Past performance is not a reliable indicator of future performance. All p.a returns are annualised.

Net Tangible Assets (NTA)¹

Pre-Tax NTA²

2.434

Post-Tax NTA³

2.364

¹ NTA calculations exclude Deferred Tax Assets relating to capitalised issue related balance and income tax losses.

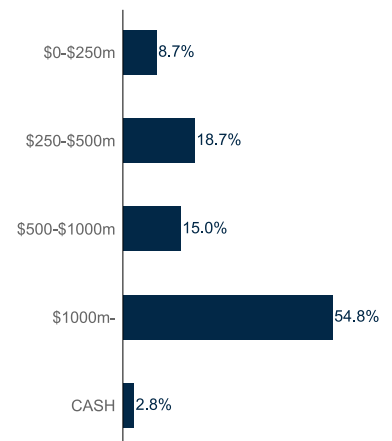
² Pre-tax NTA includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses.

³ Post-tax NTA includes tax on realised and unrealised gains/losses and other earnings.

Top 10 Holdings

Company Name	% Portfolio
Bega Cheese Limited	4.6
Supply Network Limited	4.2
Vista Group International Limited	3.9
IRESS Limited	3.9
Healius Limited	3.6
The Star Entertainment Group Limited	3.6
Link Administration Holdings Limited	3.0
GWA Group Limited	3.0
Breville Group Limited	2.7
Adbri Limited	2.7
Top 10	35.0

Market Cap Bands



Source: Spheria Asset Management

Markets

The “everything” rally continued in March with the small and microcap indices outperforming the larger cap indices for the first time in a long time. Generally, these markets do not suit us as valuation discipline is far outweighed by fever-pitched speculation. However, this time was different, and the fund managed to keep pace with the benchmark in March. This is a great result considering the two best performers for the benchmark in the month were Mesoblast (MSB) and Life360 (360) which rallied 88% and 60%, respectively – two companies which we are unlikely to ever own given the former is a serial cash burner and the latter has a significant market capitalisation (nearly \$3bn) despite it never being profitable. Also, the gold sector was strong as gold prices continued to surge to new highs. We have no direct gold exposure, so this was another headwind for performance. Interestingly, there were no real stand-out moves in our portfolio with the portfolio gain due to a broad-based rally across our holdings and not having anything blow-up.

Major Contributors to Performance

Over the month the largest contributors to performance were from overweight positions Vista Group International (VGL.ASX, +20%), Healius (HLS.ASX, +19%) and Universal Store Holdings (UNI.ASX, +16%).

Vista Group International (VGL.ASX) share price rose 20% in March post the company announcing their full year result at the end of February. Recurring revenue and SaaS revenue grew 10% and 20%, respectively, whilst EBITDA grew 25% although the company continues to capitalise an elevated level of R&D in respect of its cloud transformation. The cloud rollout continues to gather momentum with its first multi-territory client live and several new signings representing ~350 sites out of the group’s approximate 7,800 sites. The business also reaffirmed medium term aspirations of Annualised Recurring Revenue (ARR) of \$175m and an EBITDA margin of 15%+ by the end of CY25, and to be free cash flow positive in Q424. We have been a long-term shareholder of Vista attracted to its strong market share (>50% ex-China) and transition from on-premise to cloud revenue which will increase their share of wallet and therefore drive significant growth in revenue and earnings.

Major Detractors from Performance

The largest detractors from performance included not owning Life360 (360.ASX, +60%) and overweight positions in Bega Cheese (BGA.ASX, -1%) and Smartgroup Corporation (SIQ.ASX, -12%).

Bega Cheese (BGA.ASX) share price was broadly flat over the month which underperformed a market that rose strongly. The company delivered their 1H24 results in February with branded revenue growth offset by some weakness in bulk due to relatively weak commodity prices. However, there was some improvement in the milk supply late in the period which enabled the company to deliver results ahead of market expectations. The decline in Australian milk supply over recent years has forced processors to chase market share at the expense of returns in the industry. Management believes there are signs the decline in milk supply is potentially bottoming out and competition abating. This could be a major inflection point for the industry particularly if recent improvements in export prices are sustained. Whilst the company has re-rated in the last six months, earnings have also improved, and we continue to believe the business offers value underpinned by a strong branded portfolio.

Outlook & Strategy Going Forward

Investor confidence is high, and equity is cheap whilst debt is relatively expensive but available and the outlook for interest rate settings is down. We think this sets the market up for further M&A as organic growth is increasingly difficult to come by. Historically, we have been a disproportionate beneficiary of such activity as our companies are highly cash generative, have strong market positions and are generally cheaper given our valuation discipline, thus making them targets for bigger listed players, foreign companies and private equity.

Fund Ratings



Contact Us

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311 or email distribution@pinnacleinvestment.com

Disclaimer

Spheria Emerging Companies Limited (the Company, ASX: SEC) is a listed investment company (LIC) that provides investors with access to an actively managed, Australian and New Zealand small and micro companies portfolio, designed for investors seeking capital growth and portfolio diversification. It is a confined capacity investment strategy that identifies smaller companies where the present value of cash flows can be reasonably determined and they are assessed to be trading at a discount to their intrinsic value. The smaller companies universe is more volatile and higher risk. An experienced investment manager in the small company end of the market is paramount to success, for this reason there are only a small number of listed investment companies offering access to a diversified small companies investment portfolio. Spheria Asset Management Pty Ltd (the Manager, Spheria), is the appointed investment manager and is a specialist team with a track record of navigating the higher risk opportunities at the small end of the market.

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