

Overall Commentary

The Company returned 0.6% (after fees) during the month of December, strongly outperforming the S&P/ASX Small Ordinaries Accumulation Index by 3.7%.

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share Price	\$2.300
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	\$137.5m

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

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

Performance as at 31 December 2024

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a. ³
Company ¹	0.6%	1.6%	9.0%	1.2%	7.6%	7.3%
Benchmark ²	-3.1%	-1.0%	8.4%	-1.6%	4.0%	4.8%
Difference	3.7%	2.6%	0.7%	2.7%	3.6%	2.5%

¹Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings and after company expenses

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

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

NTA Tangible Assets (NTA)¹

Pre-Tax NTA²

2.409

Post-Tax NTA³

2.344

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

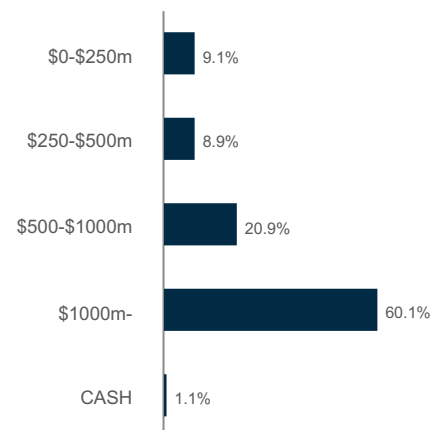
²Pre-tax NTA includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses.

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

Top 10 Holdings

Company Name	% Portfolio
Supply Network Limited	5.9
Insignia Financial Limited	5.4
Healius Limited	4.5
Fletcher Building Limited	4.3
IRESS Limited	3.9
Bega Cheese Limited	3.7
Deterra Royalties Limited	3.5
Universal Store Holdings Limited	3.5
Technology One Limited	3.3
Sims Limited	3.2
Top 10	41.1

Market Cap Bands



Source: Spheria Asset Management

Markets

After a strong year equity markets finished lower in December. Smalls finished the year up 8.4%, whilst large caps outperformed, rising 11.7%. This marks the third year of outperformance of large-caps over small-caps brought on by a period of record inflation and a sharp rise in interest rates. The timing of a reversion feels more imminent with interest rates in most developed economies now on the decline, with Australia expected to follow suit over the coming months. Falling rates, as witnessed in prior cycles, has tended to bode well for smaller companies outperforming large caps. From a portfolio perspective stock selection across most sectors drove the relative outperformance over the month.

Major Contributors to Performance

Over the month the largest contributors were from owning Bravura Solutions (BVS.ASX, +46%), an overweight position in Insignia Financial (IFL.ASX, +13%), and owning Supply Network (SNL.ASX, +5%).

Bravura Solutions Limited (BVS.ASX) share price rose +46% during the month, after the company increased their FY25 earnings expectations and announced the recommencement of dividends in addition to an already announced capital return. Management now expects revenue to grow in FY25, albeit modestly, this is a notable positive with the business returning to topline growth after a significant period of cost out to realign the cost base and return the business to profitability. New management have successfully delivered on the business turnaround and the recommencement of the dividend reinforces management's confidence in the stability of earnings. BVS has been one of the top performers for the portfolio over the last year, having risen over 160%. The company is well positioned to win market share in the superannuation administration market if there is a shift to insourcing and away from outsourcing given the strength of its Sonata platform.

Major Detractors from Performance

The largest detractors from performance included not owning Mesoblast (MSB.ASX, +75%), an overweight position in Fletcher Building (FBU.ASX, -10%), and not owning De Grey Mining (DEG.ASX, +16%).

Fletcher Building (FBU.ASX) returned -10% during the month with the NZ economy remaining in recession and housing construction extremely weak. In November, the company announced that its subsidiary, Iplex Pipeline Australia together with the WA Government had reached an agreement surrounding the plumbing issues caused by Iplex Pro-Fit pipes. Iplex AU (100% owned by FBU) is expected to record a pre-tax provision of A\$155m in its FY25 statements in relation to these issues. If BGC, who was the homebuilder responsible for 65% of the installation, agrees to participate in the Industry Response then Iplex's direct costs will be proportionately lower. The announcement provides clarity around total costs for the business after over a year of deliberation and negotiations with the WA government and associated parties. The group recently de-levered via an equity raise and the sale of Tradelink, the macro appears to be close to bottoming and any cyclical rebound will support growth in the business which is trading on around 5-6x through the cycle EV/EBITA.

Outlook & Strategy

The past year marked another year where momentum largely triumphed over logic. The small cap market was marked by a significant uplift in the stocks with earnings growth with scant regard to valuations. Correspondingly, businesses with earnings cyclicality and downgrades plumbed new lows. With apparently fewer investors looking to fundamentals - just ask an ETF or index fund what multiple their underlying investments are trading on – it shouldn't be surprising that things have somewhat disconnected from the economic laws of gravity. Just as a law is a law and not an opinion, however, our view on the weighing ability of the stock market longer term remains intact. Whilst momentum has been the friend of some this year, we have seen the momentum engine slow and reverse previously and have a strong sense of déjà vu. The more things change the more they stay the same.

Despite the bifurcation of the smaller cap market this year the Portfolio has outperformed both this year and over most timeframes since inception. With our continued focus on cashflow generating businesses and valuations we steadfastly hold that these tenets are likely to continue to lead to long-term outperformance.

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.

Zenith Disclaimer: The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned February 2024) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at <https://www.zenithpartners.com.au/our-solutions/investment-research/regulatory-guidelines/>.

Lonsec Disclaimer: The rating issued (Spheria Emerging Companies Limited rating issued October 2024) is published by Lonsec Research Pty Ltd ('Lonsec') (ABN 11 151 658 561, AFSL 421 445). Ratings are general advice only, and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit lonsec.com.au for ratings information and to access the full report. © 2024 Lonsec. All rights reserved.