SPHERIA EMERGING COMPANIES LIMITED

Spheria Emerging Companies Limited ASX: SEC

Investment Update 30 September 2025

Overall Commentary

In the month ended 30 September 2025, the Company returned -0.9% (after fees), underperforming the S&P/ASX Small Ordinaries Accumulation Index by 4.4%.

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share Price	$2.700
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	$161.6m

[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 30 September 2025

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a[3]
Company[1]	-0.9%	11.2%	18.0%	14.8%	12.3%	8.7%
Benchmark[2]	3.4%	15.3%	21.5%	15.5%	9.3%	7.1%
Difference	-4.4%	-4.1%	-3.5%	-0.7%	3.0%	1.6%

[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.

NTA Tangible Assets (NTA)[1]

Pre-Tax NTA[2]

2.630

Post-Tax NTA[3]

2.536

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

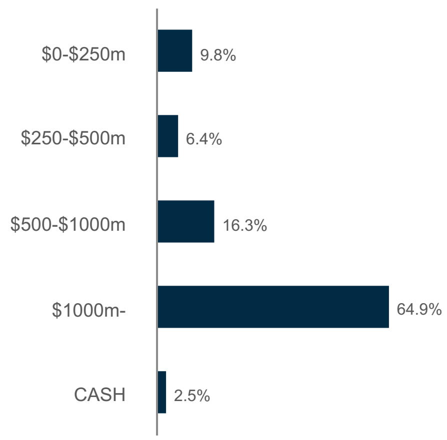
[2]Pre-tax NTA includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses.

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

Top 10 Holdings

Company Name	% Portfolio
IRESS Limited	5.5
Supply Network Limited	5.0
Perpetual Limited	4.0
Sims Limited	3.7
Deterra Royalties Limited	3.7
Fletcher Building Limited	3.6
Cromwell Property Group	3.5
Imdex Limited	3.4
Universal Store Holdings Limited	3.2
Eagers Automotive Limited	2.9
Top 10	**38.5**

Market Cap Bands



Source: Spheria Asset Management

Markets

Global equity markets maintained their positive momentum through September, with most major indices reaching new all-time highs. In the United States, equities (S&P 500) gained 3.5%, supported by renewed expectations of Federal Reserve rate cuts. The main exception was the Australian large-cap market (ASX 50), which declined 1.4% over the month and significantly underperformed both small and micro-cap indices. After an extended period of large-cap outperformance, a clear rotation into smaller-cap stocks appears to be underway — with The Small Ordinaries Accumulation Index rising 21.5% over the past year, compared to 8.3% for large caps (ASX 50 Accumulation Index).

The portfolio lagged the benchmark during the month, largely due to a significant underweight to the gold sector. The small-cap gold sector surged 23% in September, driven by record gold prices, with gold reaching approximately US$3,863/oz—an increase of 45% over the past year and up almost 12% over September. Small-cap gold companies historically had generally underperformed the gold price, due to higher costs, increased capex and older and more complex mines leading to poor free cash flow (FCF). With the significant rise in gold prices over the last year the impacts on gold miners have been two-fold. Firstly, the size of the economic resource around an existing mine potentially grows (depending upon sustainability of gold prices) and secondly revenue growth has materially outpaced cost increases driving strong FCF. Given our focus on mid-cycle cash flow, we have tended to be underweight gold miners. We have instead gained exposure to gold indirectly through mining services companies such as Mader (MAD) and Imdex (IMD). Some of these names, whilst having performed well, are likely to perform more strongly as exploration and production growth grows in the mining sector in response to sustained higher commodity prices. The portfolio's mining services exposure was not sufficient to offset the strength of the gold sector over September.

One final point is worth underscoring. The steady debasement of fiat currencies—a centuries-old phenomenon—has moved decisively back into the spotlight. Veteran macro investors including Bridgewater's Ray Dalio and Tudor Investment's Paul Tudor Jones have urged portfolios to hold a meaningful allocation to gold, citing ballooning public-sector debt and negative real yields. Their rhetoric is resonating with institutional and retail investors alike: gold futures have pushed through US$4,000/oz for the first time, with more than A$100 billion flowing into gold ETFs so far this year. The on-the-ground anecdote matches the macro data—ABC Bullion's flagship store in Martin Place now sees lunchtime queues of buyers stretching onto the footpath, a scene echoed in other capitals as the "buy-gold" mantra gathers pace. In our view, this renewed enthusiasm for bullion should not be dismissed as noise; rather, it is a logical portfolio response to an environment of aggressive monetary expansion and heightened geopolitical risk. The sustainability of the gold price, however, is the key question around the longer-term performance of gold equities from here.

Major Contributors to Performance

Over the month the largest contributors were owning Southern Cross Media Group (SXL.ASX, +18%), an overweight position in Superloop (SLC.ASX, +18%), and not owning Opthea (OPT.ASX, -100%).

Southern Cross Media Group (SXL.ASX) returned 18% including a 4cps final dividend (on an 80c share price) as the company reinstated dividends due to significant free cash flow generation and a material reduction of debt in 2H25. The total return for the month included a spike in the share price on the final day of the month following the announcement of its proposed merger with Seven West Media (SWM.ASX). Under the proposal, SXL will acquire all shares in SWM and upon completion, SXL and SWM shareholders will own 50.1% and 49.9%, respectively, of the merged entity. The merger is strategically aimed at creating a larger, more diversified media group with an integrated TV, audio, and digital platform. Management expects to achieve $25–30 million in annual pre-tax cost synergies within 18–24 months driven by reduced overheads, consolidation of property and resources and greater economies of scale. We strongly support the merger viewing it as a compelling opportunity for cost optimisation and improved profitability across both businesses. We remain shareholders in both Southern Cross and Seven West Media and continue to see valuation upside, with the stocks currently trading on low to mid-single-digit free cash flow multiples.

Major Detractors from Performance

The largest detractors from performance included an overweight position in Supply Network (SNL.ASX, -8%), an overweight position in Perpetual (PPT.ASX, -11%), and an overweight position in Healius (HLS.ASX, -13%).

Perpetual (PPT.ASX) declined 11% during the month with very few active investors on the register leaving the share price at the whim of passive flows. Perpetual's result in late August was sound but littered with one-off transformation costs which are a little concerning as there will be no obvious cost reductions to flow to shareholders. We believe however, that there is very little value (if any) ascribed to PPT's Asset Management division which has A$225bn of FUM across six affiliates and generates ~$200m in Profit Before Tax (PBT). The company is re-engineering the affiliates to create stand-alone P&L's to better align the key staff to profitability and business outcomes which in turn better aligns their motivations with shareholders. As a benchmark, Pinnacle (PNI.ASX) has $180bn in FUM across its affiliates and has a current market capitalisation of over $4bn. If PPT can move its affiliates successfully to a more aligned model that improves their profitability and prospects it could clearly manifest significant value for shareholders.

Outlook & Strategy

The heightened interest in smaller companies appears related to the global reduction in interest rates and some more difficult times which have befallen a few large caps in the Australian market. Whilst we see some parts of the market as fairly speculative vis those areas related to AI, datacentres and defence, it is important not to lose sight of other sectors which remain attractive on mid-cycle cash flow backed valuations. With rates decreasing and the Australian Dollar still relatively weak the conditions remain favourable for M&A in the small cap space. Despite the relative outperformance of smaller companies vs. large we believe opportunities still prevail in the small and micro-cap end of the market.

Fund Ratings

Zenith RECOMMENDED

Recommended Lonsec Research

Contact Us

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

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