Spheria Emerging Companies Limited ASX: SEC

Investment Update 30 September 2026

Overall Commentary

In the month ended 30 September 2026, the Company returned -1.1% (after fees), outperforming the S&P/ASX Small Ordinaries Accumulation Index by 1.2%.

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share Price	$2.180
Inception Date	30 November 2017
Listing Date	5 December 2017
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Dividends Paid	Monthly
Management Fee	1.00% (plus GST) per annum[1]
Performance Fee	20% (plus GST) of the Portfolio's outperformance[2]
Market Capitalisation	$130.7m

[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 2026

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	Inception p.a[3]
Company[1]	-1.1%	2.9%	-7.5%	10.1%	2.7%	6.9%	6.7%
Benchmark[2]	-2.3%	-0.5%	-6.7%	10.4%	2.2%	5.0%	5.4%
Difference	1.2%	3.5%	-0.7%	-0.3%	0.5%	1.9%	1.3%

[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]	Post-Tax NTA[3]
2.263	2.246

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

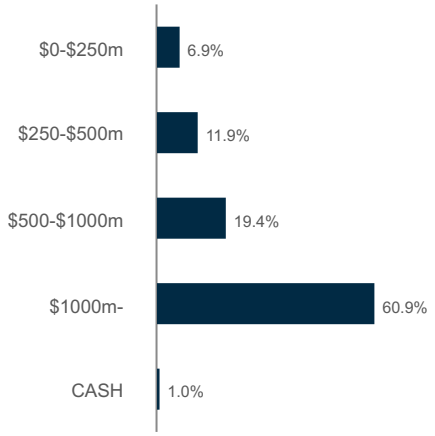
[2]Pre-tax NTA includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses.

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

Top 10 Holdings

Company Name	% Portfolio
Supply Network Limited	5.5
Bapcor Limited	5.2
Perpetual Limited	4.8
Orora Limited	3.8
Sims Limited	3.8
New Hope Corporation Limited	3.7
Imdex Limited	3.6
Deterra Royalties Limited	3.5
Universal Store Holdings Limited	3.5
IRESS Limited	3.5
Top 10	**40.7**

Market Cap Bands

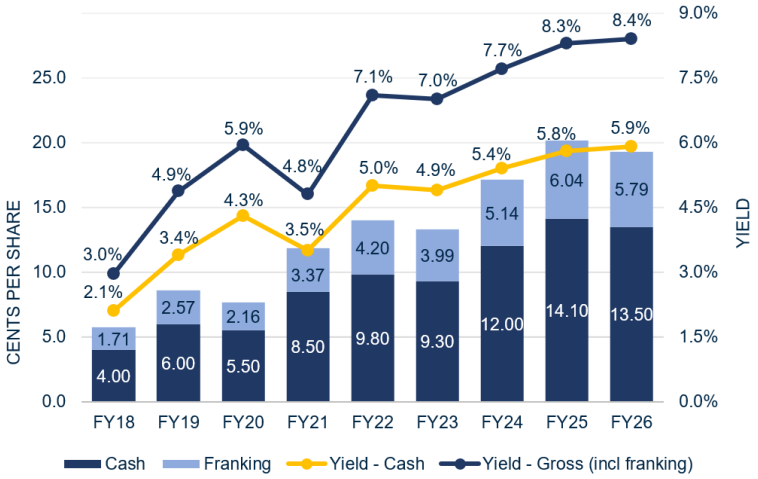


Source: Spheria Asset Management

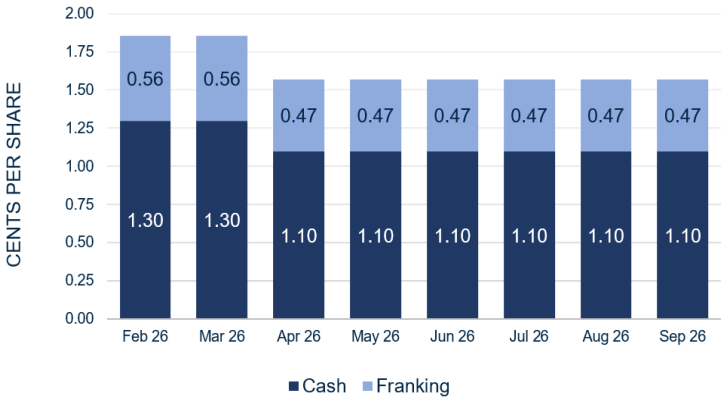
SEC Dividends

The Company transitioned from the payment of quarterly dividends to the payment of monthly dividends in February 2026. During the month of July, the Board of Spheria Emerging Companies Limited (ASX:SEC) resolved to pay three monthly fully-franked dividends of 1.1 cents per share payable in July, August and September 2026.

Dividends / Yield[1]



Monthly Dividends[2]



Source: Spheria Asset Management. The declaration of dividends by the company is at the full discretion of the board (unlike trusts where income must be fully distributed each financial year).

[1]Trailing dividend yield based on each financial year's dividends calculated on share price at each financial year end. Gross Yield is the trailing dividend yield plus franking calculated at the applicable corporate tax rate.
[2]Monthly dividends are calculated and announced on a quarterly basis at the rate of 1.5% of the post-tax NTA value per share at each quarter end, paid in three equal monthly instalments (rounded to the nearest 0.1 cents). While monthly income has been consistent since February 2026, this may change in the future.

Markets

Global equity markets traded sideways in September despite US bond yields reaching multi-decade highs. The US 30-year yield rose above 5.61%, its highest level since 2002, while the 10-year yield reached 5.15%, a level last seen in 2007. Renewed inflation fears drove the move, as oil prices rebounded on the re-escalation of conflict in the Middle East with no clear resolution in sight. US equity returns remained concentrated in the mega-caps, with the AI thematic sustaining momentum in a narrow pocket of the market and the equal-weighted S&P 500 underperforming.

Domestically, the Australian market underperformed global peers following a further rate hike during the month. Selling was indiscriminate across the market-cap spectrum, and large caps were not spared. The Reserve Bank of Australia (RBA) raised the cash rate by 25bps to 4.60%, its highest level since 2011 and the fourth hike this year. Alongside rising energy prices from the ongoing war in Iran, the RBA pointed to AI-related demand and excessive government spending as drivers of inflation remaining above target.

Major Contributors to Performance

Over the month the largest contributors were an overweight position in Bapcor Ltd (BAP.ASX, +27%), owning IPD Group Ltd (IPG.ASX, +16%), and not owning Pinnacle Investment Management Group Limited (PNI.ASX, -21%).

Bapcor Ltd (BAP.ASX) returned +27% during the month as the market continued to reward its stronger-than-expected FY26 result, delivered in August. We first built a significant position through the February 2026 recapitalisation at 60cps, adding further via on-market purchases following the relisting. We had met management during Bapcor's 2014 IPO but never held a material position, wary of the acquisition-led growth strategy - a caution later vindicated as that strategy unravelled, with the share price falling more than 90% peak-to-trough at the recap price.

We like the automotive parts and servicing space for its defensive characteristics. Vehicle servicing and parts replacement are largely non-discretionary - driven by fleet age, usage and safety requirements rather than consumer sentiment - and the addressable market keeps growing as the vehicle parc ages and expands. EV penetration is only 2% of vehicle parc. Trade distribution is also concentrated in a duopoly structure, which supports rational pricing and scale advantages in inventory, distribution and supplier terms. It's a structurally attractive backdrop for Bapcor's main division Burson which represents ~40% of $2bn in group sales.

What attracted us specifically was, first, that the recapitalisation largely dealt with balance sheet risk, and second, the appointment of CEO Chris Wilesmith in January 2026. Wilesmith is a proven auto parts operator, with 13 years in Supercheap Auto's executive leadership team, including seven years as Managing Director. Feedback from industry contacts and suppliers gave us great confidence in his ability to turn the business around.

Wilesmith has since brought in a slew of new executives to drive the turnaround: inventory is being right-sized, stock turns are improving, fast-moving stock is being moved out to branches to improve DIFOT/sales, and pricing is being adjusted against competitors to lift gross margins. Balance sheet risk has also reduced meaningfully, with net debt falling from $195m after the recap to $136m in just four months of trading under the new CEO, against a difficult macro backdrop of elevated fuel prices. Both Trade (Burson) and Network/Wholesale revenue returned to growth in 2H, and a portfolio review is underway to simplify the group via divestment of smaller, non-core assets, freeing up capital and management focus.

We believe the Trade distribution division, Burson, which represents $800m of revenue is worth in excess of $1bn vs an enterprise value of the group which is ~$660m even after the significant re-rate in share price. Eventually, we expect to make a significant return (potentially multiples) from this investment with financial risk diminishing greatly post a better-than-expected result.

Major Detractors from Performance

The largest detractors from performance included not owning Megaport (MP1.ASX, +25%), an overweight position in Fletcher Building (FBU.ASX, -14%), and not owning Ventia Services Group (VNT.ASX, +12%).

Megaport (MP1.ASX) returned +25% during the month and was a detractor as it was not held in the Company. The company announced three new AI infrastructure contract wins in its Neocloud business representing A$979m of revenue over four years. The cost of this, however, is a further A$500m of capital expenditure. Following the wins Megaport updated guidance which drove short term earnings upgrades and thus share price performance. Our concern with businesses like MP1 is the unproven nature of the business model (or at least the Neocloud portion) which requires considerable capital investment (and thus balance sheet leverage). The economic return from GPU rental is far too nascent to determine with any confidence. As with any commodity, pricing and returns stay high while demand exceeds supply. Once supply catches up, returns fall to much lower levels. MP1 trades on around 45x FY27 EV/EBIT albeit these numbers fall as earnings materialise from GPU investment and rollout to around 12x in FY28 assuming all goes well.

Outlook & Strategy

Australian small caps having outperformed large caps from the market sell off in March 2025 (the US tariffs) but have struggled since the end of January this year as the backdrop of persistent inflation and thus rising rates have dampened the economy. With the RBA now four hikes into the year and bond yields at multi-decade highs, the near-term macro backdrop remains subdued. We believe September's sell-off has created opportunities, with quality businesses sold down alongside weaker ones on interest rate hiking fears.

Our focus remains on looking through the noise and investing for the medium-to-long term. Our team’s focus on mid-cycle earnings, strong cash generating businesses keeps us focused on the long-term game. Corporate activity remains elevated as the recent bids for Reliance Worldwide (RWC.ASX) and Steadfast (SDF.ASX) have demonstrated. Both takeovers were instigated by foreign entities (Brookfield and Amwins/Dragoneer/KKR, respectively). This suggests small cap valuations remain low enough to attract takeover interest, despite the global rate rises to date.

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

Disclaimer

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