Overall Commentary

The Company performance for the month of April was -2.2%, which underperformed the S&P / ASX Small Ordinaries Accumulation Index by 0.7%.

On 6 May 2022, the Company paid a fully franked quarterly dividend for the period ended 31 March 2022 of 2.5 cents per share to SEC shareholders.

The Company is pleased to announce the dividend reinvestment plan (DRP) is now available to shareholders.

Company Facts

Investment Manager	Spheria Asset Mangement Pty Limited
ASX Code	SEC
Share Price	$2.24
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	$134.7m

1 Calculated daily and paid at the end of each month in arrears.
2 Against the Benchmark over each 6-month period subject to a high-water mark mechanism.

Performance as at 30th April 2022

	1 Month	6 Months	1 Year	3 Years p.a.	Inception p.a[3]
Company[1]	-2.2%	-5.8%	7.0%	9.7%	9.6%
Benchmark[2]	-1.5%	-4.6%	2.9%	7.6%	7.5%
Difference	-0.7%	-1.1%	4.2%	2.1%	2.1%

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

Markets

Last month, the energy sector continued to outperform, thermal coal prices escalated with Newcastle prices averaging just over US$300/t for April after bottoming out in 2020 at below US$50/t. This kind of acute rally not witnessed since the GFC when prices spiked to about US$200/t. The rally in commodity prices, both soft and hard, being driven by strong demand due to world economic growth, supply imbalances and some element of speculative behaviour. The rally in thermal coal miners has impacted relative performance as we have no direct exposure in the portfolio. Economic sanctions against Russia do not appear to be curtailing the conflict but are causing volatility in commodity prices which is flowing into sharemarkets and contributing to intense inflationary pressures. Central banks lifting interest rates and the bond market rally continue to weigh on long duration assets (i.e. high valuations with low or no earnings) and are affecting sentiment towards consumer discretionary sectors, including retailers and housing exposed businesses.

Net Tangible Assets (NTA)[1]

Pre-Tax NTA[2]

$2.486

Post-Tax NTA[3]

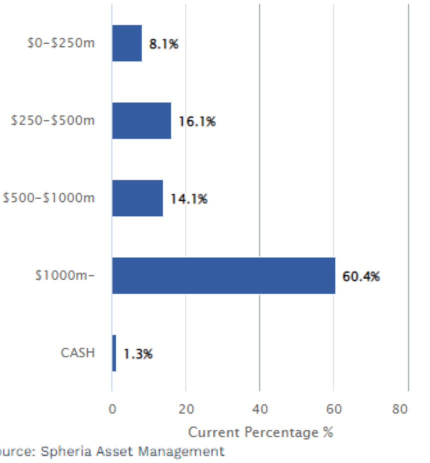
$2.428

The NTA values shown above are after the dividend of 2.5 cents per share paid on 6 May 2022. The ex-date of the dividend was 14 April 2022.
1 NTA calculations exclude Deferred Tax Assets relating to capitalised issue cost related balances 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
Blackmores Limited	5.2%
InvoCare Limited	5.2%
Flight Centre Travel Group Limited	4.8%
Monadelphous Group Limited	3.9%
Michael Hill International Limited	3.9%
IRESS Limited	3.9%
Seven West Media Limited	3.8%
Bega Cheese Limited	3.3%
Adbri Limited	3.3%
INSIGNIA FINANCIAL LTD.	3.2%
Top 10	40.2%

Market Cap Bands



Source: Spheria Asset Management

Major Contributors for the Month

Flight Centre (FLT.ASX) – following the trend in March, FLT rose 15% over the month of April. FLT and other travel companies continue to reveal improving demand for travel, with the corporate travel division now at 76% of pre-COVID levels for the month of March and Leisure around 45% (based on total transactional values). Positively, FLT returned to positive free cash for the month of March, so balance sheet pressure has now abated. Travel in the Northern Hemisphere is rebounding strongly, and we believe there are signs travel may over-recover after two years of restrictions, however, we feel all restrictions must be removed globally for this to come to fruition. Many countries in Europe including the UK have abolished all such COVID restrictions, however, the USA, Asia and Pacific regions continue to lag. We believe FLT is trading on < 10x recovered EV/EBIT at current levels with its cost base reset for structurally higher earnings and returns.

Vita Group (VTG.ASX) – gained 43% in April after announcing a significant increase in its forecast final special dividend relating to the sale of its Telstra store network. The increase due to pressure primarily from Spheria and other major shareholders. Post the special dividend, the business will still have approximately $20m of cash on balance sheet, which is enough capital to fund the Artisan business back to profitability and provide ample liquidity to fund greenfield opportunities. In a normal year, Artisan generates about $30m in annual revenue, the current implied market valuation is less than $30m, which feels light in context of the revenue and potential earnings.

Megaport (MP1.ASX, not owned) fell almost 38% in April, driven by a weak Q3 report and the ongoing sell-off in technology names. The business reported soft revenue growth, behind analysts' expectations, seeing the stock fall over 21% on the day. This is a business we have avoided owning, as it is loss-making and has negative operating cash flows, both of which are key pillars to our investment process.

Major Detractors for the Month

Here, There & Everywhere (HT1.ASX) – fell 11% over the month, on no obvious news flow. The company delivered a strong CY21 result with the radio advertising market recovering and audience share remaining strong. The business has the No.1 rated metro radio network in Australia and recently acquired the largest regional player, to expand and complete its national presence and grow its digital offering, IHeartRadio. HT1 is inexpensive trading at less than 7x EV/EBITA.

Whitehaven Coal (WHC.ASX, not owned) – rose almost 19% over the month, benefiting from incredibly strong thermal coal prices. The company announced excellent Q3 results over the month, with record production and cashflow, and a balance sheet that has returned to net cash. Whilst the business is extremely cheap, trading on ~2x free cash flow, it is a highly cyclical industry which means extrapolating current thermal prices is dangerous, particularly given some level of speculation is now manifesting in all commodity prices. Notwithstanding this dynamic, we did miss an opportunity to buy a position at lower levels due to balance sheet concerns at the time which proved misplaced due to the strong rebound in thermal coal prices that delivered a windfall of free cash flow allowing the company to quickly pay down outstanding debt.

Nitro Software (NTO.ASX) – fell over 10% in April, impacted by the broad sell off in growth and technology names. NTO is a business we like due to its recurring revenue base and strong potential growth opportunities in PDF productivity and high trust signing. However, it is marginally loss making, with these types of businesses being punished recently due to a market that is reassessing risk. In April, NTO announced that strong growth in revenue had continued and that it expected to move towards cashflow breakeven by 2023. Trading on <2x FY23 EV/Sales, we believe the business is currently trading inexpensively for a business with strong growth prospects and a line of sight to profitability.

Outlook & Strategy

The negative sentiment and general weakening of sharemarkets is creating significant opportunity for cash flow and valuation focused investors like ourselves. We are comfortable with our investments as balance sheets are strong and thus in the event of a weaker economy, they are in position to ride out the downturn and capitalise on opportunities that may present.

Fund Ratings

Zenith RECOMMENDED

Further Information

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

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