

Investment Update

As at 28 February 2018



Spheria Emerging Companies Limited
ACN 621 402 588

Pre-tax net tangible assets⁴
\$2.083

Company⁷ performance
(since inception)
4.1%

Company Facts

Investment Manager	Spheria Asset Management Pty Limited
ASX Code	SEC
Share price	\$2.00
Inception date	30 November 2017
Listing date	5 December 2017
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Management Fee	1.00% (plus GST) per annum ¹
Performance Fee	20% (plus GST) of the Portfolio's outperformance ²
Market Capitalisation	\$133m

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

Investment Objectives

- To deliver total returns in excess of the Benchmark over each full investment cycle
- To provide capital growth over each full investment cycle
- Aim to pay fully franked dividends (at least annually)

Company Overview

Spheria Emerging Companies Limited is a listed company 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 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.

Commentary

The Company pre-tax NTA lost some ground in February after strong performance in December and January. The portfolio is invested in companies generating strong free cash flow with significant valuation support. We have shied away from the 'ultra' expensive companies that have found favour again. In some instances these businesses generate very little free cash flow (even negative) and yet have significant market valuations. From experience, this usually does not end well. We recently increased positions in Bega Cheese (BGA), Monadelphous (MND) and Navitas (NVT). All three sold off after reporting solid results that disappointed a market wanting superlative guidance rather than conservatism. Although to be fair, MND and BGA share prices have performed well in the past year. We believe the following quote from Benjamin Graham apt in context of current market dynamics:

"In the short run, the market is a voting machine but in the long run, it is a weighing machine."

Net Tangible Assets (NTA)³

Pre-tax NTA⁴	\$2.083
Post-tax NTA⁵	\$2.058

³ NTA calculations exclude Deferred Tax Assets relating to capitalised issue cost related balances and carried forward tax losses of \$0.001 per share

⁴ Pre-tax NTA includes tax on realised gains and other earnings, but excludes any provisions for tax on unrealised gains

⁵ Post-tax NTA includes tax on realised and unrealised gains and other earnings

Performance as at 28th February 2018

	1m	3m	Inception⁶
Company⁷	-2.3%	4.1%	4.1%
Benchmark⁸	0.0%	2.7%	2.4%

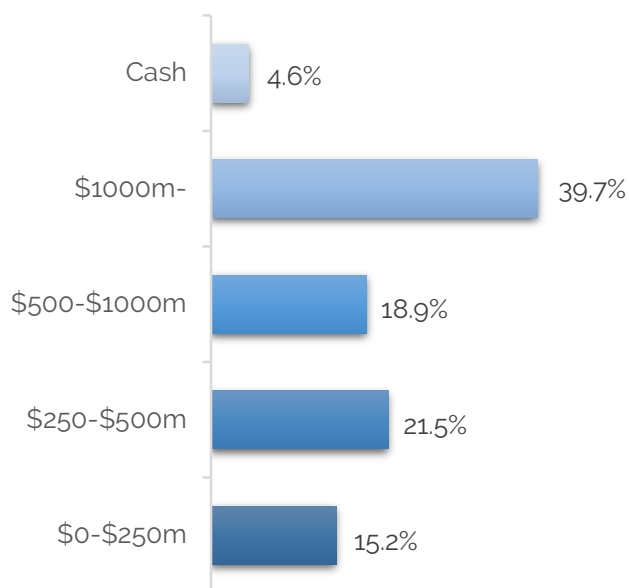
Past performance is not a reliable indicator of future performance.

⁶ Inception date is 30th November 2017

⁷ Calculated as movement in Company's pre-tax NTA

⁸ Benchmark is the S&P/ASX Small Ordinaries Accumulation Index

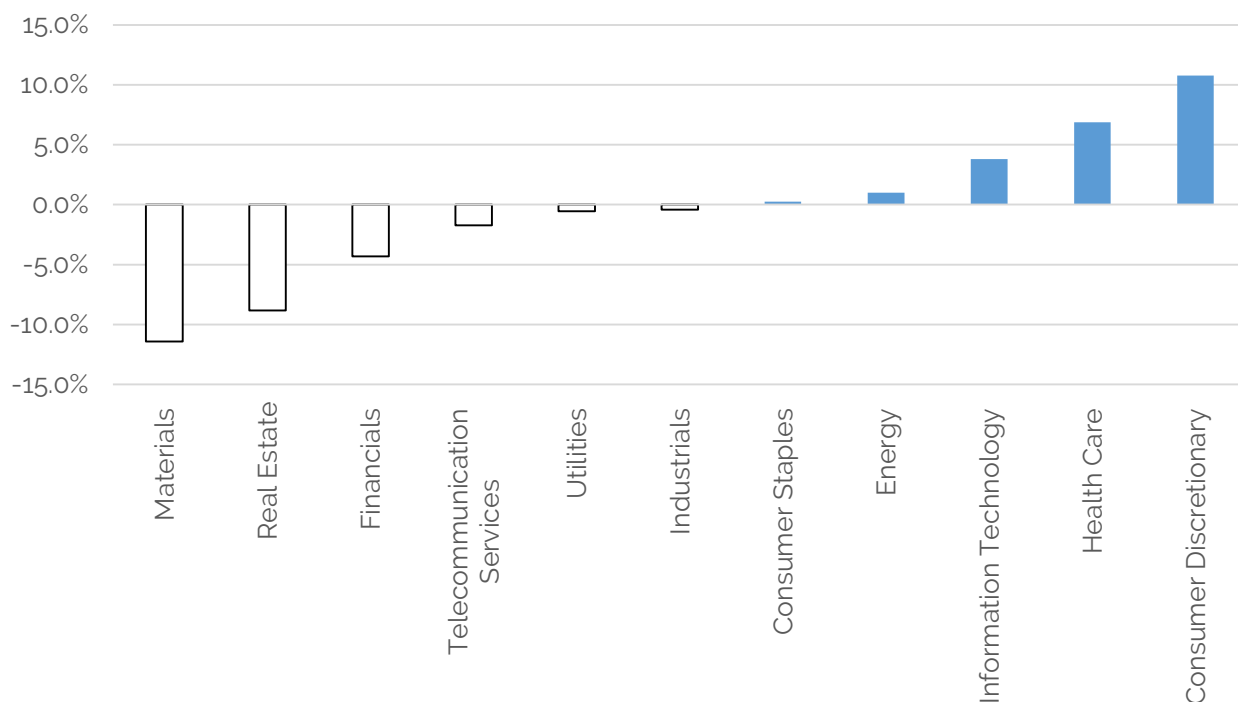
Market Cap Bands



Top 5 Holdings

Company Name	% Portfolio
Sirtex Medical	11.4
AWE Limited	8.1
Navitas Limited	4.5
Bega Cheese Ltd	4.3
Class Limited	4.2
Top 5	32.5

Active Sector Exposure



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