SEC Results FY22

FY22 Loss	Company Performance[1]	Dividends[2]	Yield	Yield (including franking)
($13.4m)	-14.3%	9.8c	5.0%[3]	7.1%[4]

- **FY22 net loss after tax of $13.4m, impacted by market falls in 2HFY22**
- **Company Performance of -14.3%, Manager outperformance compared to benchmark[5] of +5.5%**
- **Four consecutive quarterly dividends declared for the year totalling 9.8 cents per share (fully franked)[2]**
- **Trailing dividend yield equal to 5.0%[3] (7.1%[4] including franking)**
- **Dividend Reinvestment Plan (DRP) commenced upon payment of March 2022 quarterly dividend**
- **Shareholder webinar on results and portfolio**

Performance

Spheria Emerging Companies Limited (ASX:SEC or the Company) recorded a loss of $13.4m for the year resulting from falls in asset prices in the second half of FY22 (2HFY22) as global inflationary pressures, rising interest rates and the conflict in Ukraine impacted markets. While this produced unrealised losses in the Company's investment portfolio in 2HFY22, these losses do not represent realised losses and can be reversed should investment values rise in future.

During the year, the Company's investment portfolio returned -14.0% after investment management fees compared to benchmark of -19.5%, representing outperformance of +5.5%. After Company administration expenses, Company Performance was -14.3%. The negative performance resulted from market declines in the 2HFY22 where the benchmark fell by -23.7%, compared to -20.5% for the Company's investment portfolio (after fees).

Despite the negative returns this year, the Company has generated positive returns since inception[6] and has also exceeded its investment objective over this time, with the investment portfolio returning +5.6% p.a. after fees compared to benchmark returns of +2.3% p.a., representing portfolio outperformance of +3.3% p.a.

Quarterly dividends

Recognising the attractiveness of regular fully franked dividends to shareholders, the Company commenced payment of quarterly dividends during FY22, at a rate of 1.0% of the Company's post-tax NTA at the end of each calendar quarter. The target annual dividend yield of 4.0% (5.8% including franking) of post-tax NTA per annum places the Company in the top half of Australian equity LICs from a dividend yield perspective[7].

The Company has now paid a total of 9.8 cents per share in quarterly fully franked dividends for FY22[2], which represents a trailing dividend yield of 5.0%[3] based on the 30 June 2022 share price of $1.97, and a gross yield (including franking credits) of 7.1%[4].

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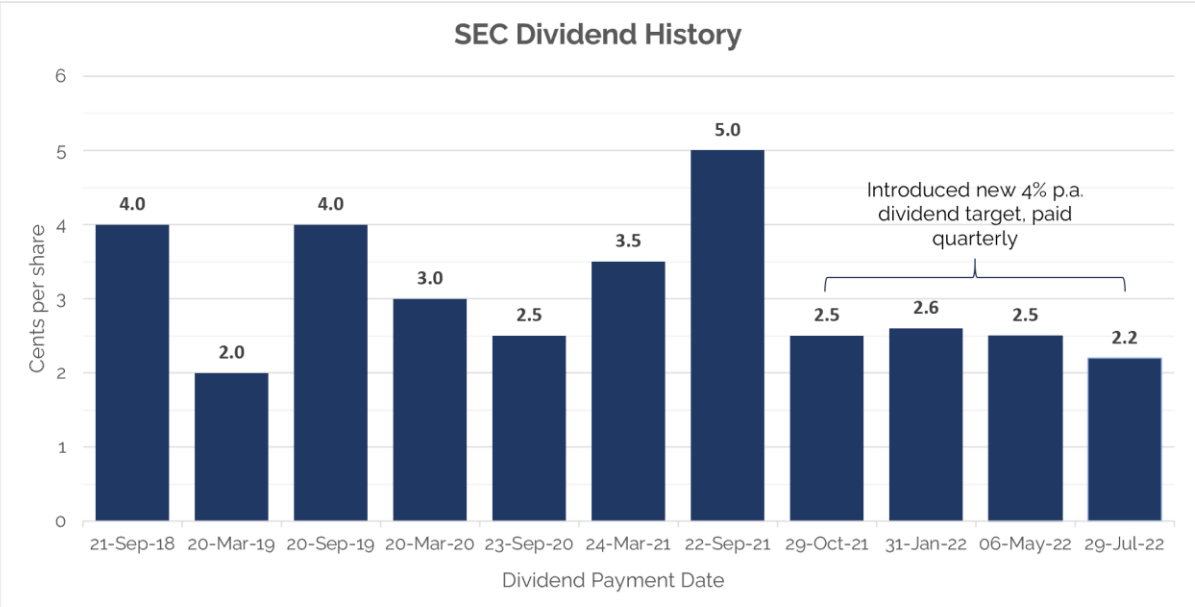
[1] Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, after Company expenses.
[2] Comprising September 21 quarter dividend of 2.5 cents (paid 29 October 2021), December 21 quarter dividend of 2.6 cents (paid 31 January 2021), March 22 quarter dividend of 2.5 cents (paid 6 May 2022), and June 22 quarter dividend of 2.2 cents (paid 29 July 2022).
[3] Trailing dividend yield based on total quarterly dividends for FY22 of 9.8 cents, calculated on share price as at 30 June 2022 of $1.97.
[4] Trailing dividend yield including franking credits based on total quarterly dividends for FY22 of 9.8 cents, calculated on share price as at 30 June 2022 of $1.97, using 30% tax rate.
[5] S&P/ASX Small Ordinaries Accumulation Index.
[6] Inception of the investment portfolio occurred 30 November 2017.
[7] Ord Minnett June 2022 quarterly LIC report.

The quarterly dividends paid for FY22, fully franked at a 30% tax rate, were as follows:

Quarter ended	Value per share	Date paid
30 September 2021	2.5 cents	29 October 2021
31 December 2021	2.6 cents	31 January 2021
31 March 2022	2.5 cents	6 May 2022
30 June 2022	2.2 cents	29 July 2022

Including these quarterly dividends, the Company has now paid 33.8 cents per share total dividends since its ASX listing in Dec 2017.



The Company intends to continue the payment of quarterly dividends at a level equivalent to 1% of the post-tax NTA of the Company, subject to available profits, cash flow and franking credits. Notwithstanding the losses in the 2HFY22, the Company maintains a healthy franking credit balance and the Board will continue to monitor its dividend policy and profits reserves based on market conditions and prudent business practices.

Dividend Reinvestment Plan (DRP)

During the year the Company put in place a DRP which was operative from the payment of the March 2022 quarterly dividend.

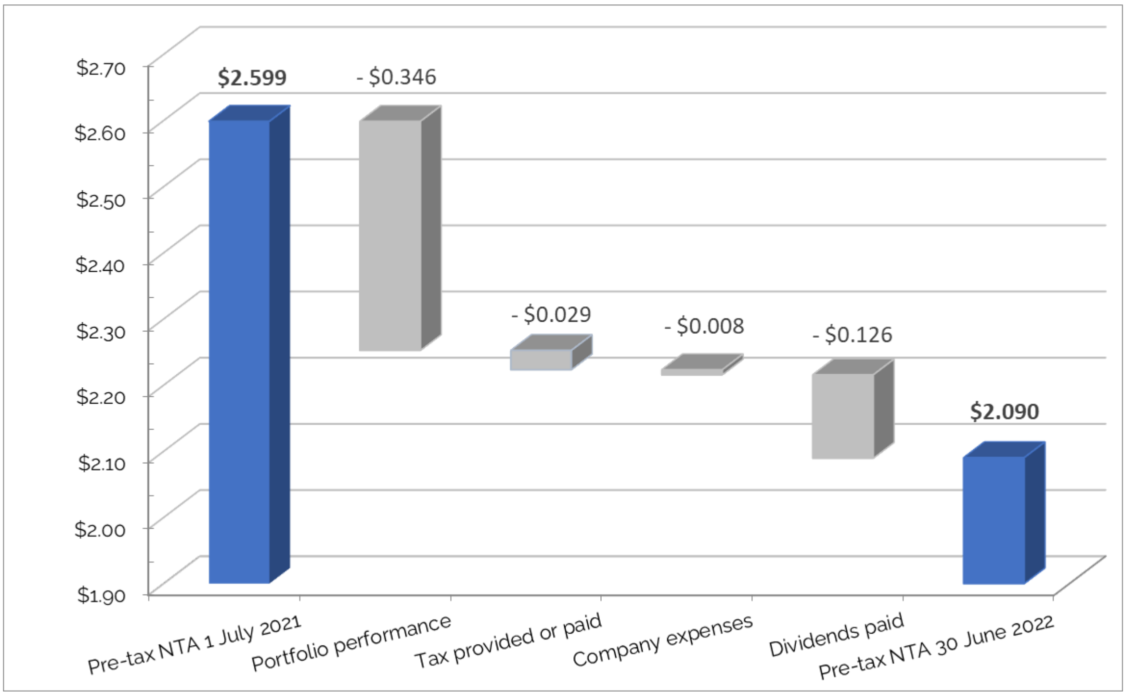
The DRP has been designed so that participants receive the lowest reinvestment price possible, without their reinvestment diluting the post-tax NTA of those shareholders who choose not to participate in the DRP.

Shareholders who would like to find out more about the DRP can visit the Company's website: https://spheria.com.au/funds/spheria-emerging-companies-limited-asx-sec/.

Shareholders who would like to participate in the DRP can enrol at: https://investor.automic.com.au or alternatively please contact the Company's share registry, Automic, for assistance on 1300 902 587 (in Australia) / +61 2 7208 4521 (International).

NTA performance breakdown for FY22

In FY22, largely as a result of the decline in asset values in the second half of the year, the pre-tax NTA decreased by $0.509, from $2.599 at 30 June 2021 to $2.090 at 30 June 2022. The decline in NTA also includes 12.6 cents in dividends paid during the year (which includes the final FY21 dividend of 5.0 cents per share paid in September 2021)[8].



Discount to NTA

Pleasingly, the discount between the Company's pre-tax NTA per share and its share price stabilised during the year, and narrowed to stand at 5.7% on 30 June 2022[9].

The Board will continue to focus on steps to address the discount, such as the payment of quarterly dividends as noted above.

Investment by the Manager

As at 30 June 2022, the aggregate holding in SEC of the Manager and executives of the Manager (who are not acting in concert with each other) was in excess of 800,000 shares. The Manager is committed to being a long-term investor in the Company.

Shareholder webinar on results and portfolio

The Board invites you to the upcoming shareholder webinar on 24 August 2022 at 11.00am (Sydney time AEST). The webinar will provide an update on the Company's full year financials and investments from the Company's Director and Spheria Asset Management's Portfolio Manager, Matthew Booker.

Shareholders are invited to register at the following link:
https://event.on24.com/wcc/r/3890347/300706233ADBD62614372FF43EAF3EAF

The Board of Spheria Emerging Companies Limited has authorised this announcement to be released to the ASX.

[8] Comprising FY21 final dividend of 5.0 cents (paid in September 21), September 21 quarter dividend of 2.5 cents (paid 29 October 2021), December 21 quarter dividend of 2.6 cents (paid 31 January 2021), and March 22 quarter dividend of 2.5 cents (paid 6 May 2022).
[9] Calculated on share price as at 30 June 2022 of $1.97.

Additional shareholder information

Performance as at 30 June 2022

	FY22	Since inception p.a.
Company*	-14.3%	+5.2%
Manager**	-14.0%	+5.6%
Benchmark***	-19.5%	+2.3%
Portfolio Outperformance	+5.5%	+3.3%

* Calculated as the Company's investment portfolio performance after investment management fees excluding tax on realised and unrealised gains/losses and other earnings, after Company expenses.
** Shows how the portfolio, for which the Manager is responsible, has performed after deducting management fees and performance fees (if applicable).
*** S&P/ASX Small Ordinaries Accumulation Index.

Manager's commentary

Portfolio performance

The investment portfolio decreased 14.0% for the twelve-month period ending 30 June 2022, outperforming the Benchmark by 5.5%. Global asset prices fell dramatically in the second half of the financial year as central banks raised interest rates to combat significant inflationary pressures, primarily (and ironically) the result of excessive and over-extended monetary stimulus, and higher energy prices as sanctions against Russia impacted supply of oil, gas, and coal when renewable energy sources and processes are insufficient to meet elevated demands. The unwillingness to entertain reliable sources of energy including nuclear power are manifesting in enormous cost of living pressures and likely to widen the gap between the rich and poor thus creating social division and an overall decline in standards of living.

Whilst the economic and social landscape could be construed as depressing, it should not be confused with the investment landscape which, in our opinion, has a favourable risk-reward equation. For example, in this financial year we have had strong investment returns from core holdings including Flight Centre Travel (FLT), Michael Hill Jewellers (MHJ), and Class (CL1), which were up (including dividends) between 17% and 53% for the financial year. CL1 topping the list due to a takeover from HUB24 that closed the gap to fundamental valuation whilst FLT and MHJ benefited from mean reversion in consumer spending for travel and shopping centre spend, respectively, after two years of "stop-start" government restrictions. A complete removal of restrictions relating to COVID-19 here and abroad will no doubt further benefit such companies and alleviate some of the potential impact from a weaker consumer due to lower disposable incomes and cost of living pressures.

Apart from the takeover for CL1 there was surprisingly very little merger and acquisition activity in the portfolio, however two companies did sell significant components of their group operations. Reckon (RKN) divested its accounting practice management division for $100m which at the time represented most of its market valuation despite it being less than half of its earnings, and Vita Group (VTG) sold its ICT stores to Telstra for $110m which also represented most of its market valuation. VTG returned most of these proceeds to shareholders during the financial year via two fully franked dividends whilst RKN is going through a similar process with the expectation of a large partially franked dividend. These situations highlight that it is possible to generate value and returns in "unpopular" companies when there is solid cash flow generation and the valuation multiple attached to those cash flows in absolute terms is low such that you are essentially being paid to be there.

The three largest detractors to portfolio performance versus the Benchmark during the year were Whitehaven Coal (WHC), Nitro Software (NTO) and Pilbara Minerals (PLS). We did not own WHC and PLS during the year which rallied 154% and 58% respectively, WHC benefitting from rising thermal coal prices that reached record levels during the second half of the year, and PLS which moved into positive free cash flow generation due to strong demand for lithium raw materials. We continue to own NTO, which fell nearly 60% during the year, as we believe the product is robust, the strategy sound and the market size large. Sacrificing top line growth for economic profit and sustainability has impacted the share price but we think this is a sensible decision in light of the economic backdrop.

Market outlook

It's grim for those companies that are burning cash and have little runway to raise money from previously benevolent shareholders, and we feel there is a wave of insolvencies coming in this area. This process though painful will ultimately be a healthy cleanse for the economy and the sharemarket, as many of these so-called "disrupters" were undermining returns for legitimate companies and had never formulated a path to an economic business model but were simply being propped up by cheap money from central banks. Those days feel over.

Whilst the economic backdrop will be difficult for our companies as revenues will be under pressure, we believe they will survive and likely thrive on the other side as the return equation improves – addition by subtraction really. Those investing on macro-economic themes are likely to find it difficult moving forward, we think bottom-up fundamental analysis will again shine and like the dot-com bust and the ensuing recession (shallower than expected in hindsight) it will be those portfolios that are biased to cash flows, solid balance sheets and sensible valuations that will generate the strongest returns.

We thank our shareholders for their interest in and support of the Company and would welcome your questions and participation in our results and conference calls.

About Spheria Asset Management Pty Limited (Manager)

Spheria Asset Management Pty Ltd is a fundamental-based investment management firm with a bottom-up focus, specialising in small- and micro-cap companies, which can provide higher returns in the long term than their larger peers.

The Manager is majority owned by its team, which has nearly 100 years of combined investment experience. The Manager's performance culture is underpinned by sensible incentives, a focused offering and the outsourcing of non-investment functions to minority partner Pinnacle Investment Management Limited.

Find out More about the Company and Manager

To find out more information about the Company, please visit the [SEC Website]
To find out more information about the Manager, please visit the [Spheria website]

Contact Us

If you have any questions for the Company, please reach us on 1300 010 311
If you have any questions regarding your shareholding, please call Automic, the Company's share registry on 1300 902 587