Eiger Australian Small Companies Fund

ARSN 631 961 398 APIR HOW2967AU

Quarterly Report March 2020

Fund Performance

Eiger Australian Small Companies Fund Performance (after fees) as at 31 Mar 2020

Performance[1]	1 month %	3 months %	1 year %	3 years % p.a	5 years % p.a	7 years % p.a	Inception % p.a[2]
Eiger Australian Small Companies Fund	-23.03	-26.70	-17.10	-	-	-	-16.11
S&P/ASX Small Ordinaries Accumulation Index	-22.38	-26.72	-21.02	-	-	-	-19.94
Active return	-0.65	0.03	3.91	-	-	-	3.82

[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. Past performance figures that are less than 12 months are for informational purposes only and are not to be relied upon when considering the likely performance of the Fund. **Source: Fidante Partners Limited, 31 Mar 2020.**

[2] The inception date for the Fund is 26 March 2019

Track Record of Investment Strategy

Historical performance of the investment strategy applicable to the Fund[3] - as at 31 Mar 2020

Performance	1 month %	3 months %	1 year %	3 years % p.a	5 years % p.a	7 years % p.a	Inception % p.a[3]
Investment strategy	-23.03	-26.70	-17.10	1.22	4.77	7.81	5.49
S&P/ASX Small Ordinaries Accumulation Index	-22.38	-26.72	-21.02	-1.33	2.52	1.91	-0.19
Active return	-0.65	0.03	3.91	2.54	2.25	5.90	5.68

[3] Eiger Capital launched the Fund on 26 March 2019. Eiger Capital's Stephen Wood and Victor Gomes apply the same strategy to the Fund as they applied between 1 April 2011 and 31 March 2019 to a mandate they managed whilst at another large asset management firm, including the same investment process, methodology and investment universe. For information purposes, we have provided the historical performance of the strategy since 1 April 2011. The strategy's performance represented here is on an after fees basis, whereby returns are adjusted to reflect the Fund's fees as if applied throughout the relevant performance period of the strategy. **Source: Fidante Partners Limited, 31 Mar 2020.**

Fund facts	
Portfolio managers	Stephen Wood, Victor Gomes, David Haddad
Fund inception date	26 March 2019
Investment objective	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling five year periods (after fees).
Management fee	1.00%
Performance fee	20% of the Fund’s daily return (after fees and expenses and after adding back any distributions paid) above the Performance Benchmark.[4]
Buy/sell spread	+0.40% / -0.40%
Fund size	$4.2M
Distribution frequency	Quarterly

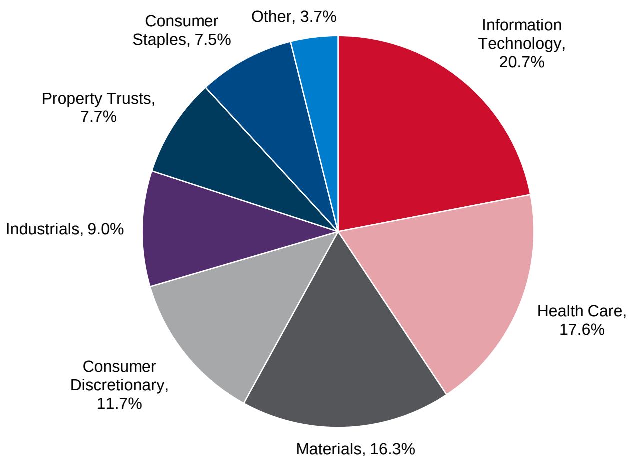
[4] The Benchmark for the Fund is the S&P/ASX Small Ordinaries Accumulation Index

Fund features
Concentrated: A best-ideas portoflio of small company opportunities. Typically 30-40 stocks, diversified across industry sectors and actively risk managed.
Nursery for future leaders: We focus on identifiying small companies with potential to strongly compound up growth over the medium term regardless of economic cycles. We prefer companies that have enduring quality-based franchise factors.
Experienced and aligned: The investment team has more than 60 years of combined industry experience. We have materially invested in the Fund alongside our clients and also own a majority of equity in Eiger Capital.
Disciplined and proven process: We take a longer term view than the market, intrisincally valuing small companies using our proprietary 6 year cashflow-based valuation model. We then apply our "9 Commandments" qualitative investment rules, distilled from our 60 years of industry experience. This proven investment process has delivered our clients strong long term investment returns through varying phases of equity markets.

Top 3 active positions (alphabetical)
Collins Foods Ltd
Emeco Holdings Ltd
Technology One Limited

Stock attribution (alphabetical)
Top contributors (quarter)
Fisher & Paykel Healthcare Corporation Limited
NEXTDC Ltd
Technology One Limited
Top detractors (quarter)
AP Eagers Limited
Emeco Holdings Ltd
Saracen Mineral Holdings Ltd

Asset allocation	Actual %	Range %
Security	94.10	90-100%
Cash	5.90	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -26.72% for the quarter. The fund outperformed the market and delivered a -26.70% return over the quarter.

Contributors

Fisher & Paykel Healthcare Corporation Limited (FPH)

World leading supplier of humidification technology for hospital respirators. Supplier of masks and breathing consumables for sleep apnoea. Increased demand and beneficiary of lower $NZ.

NEXTDC Ltd (NXT)

Data centre operator a positive beneficiary from significantly increased work from home and online commerce.

Technology One Limited (TNE)

Online service provider with a very stable and resilient client base.

Detractors

AP Eagers Limited (APE)

Largest retailers of cars in Australia. Just completed large acquisition. Exposed to economic downturn. Position sold.

Emeco Holdings Ltd (EHL)

Concern over of US$ debt with lower AUD. Company have now confirmed debt is hedged.

Saracen Mineral Holdings Ltd (SAR)

Not held by the fund. Beneficiary of higher gold price and lower AUD. Positioned in other gold names.

Market overview

The S&P/ASX Small Ordinaries Index (XSO) decreased by 26.7% during the March 2020 quarter. The Small Industrials decreased by 26.9%, while the Small Resources decreased by 26.1%. XSO finished the quarter on a forecast price to earnings ratio of 13.4x which is 15% below its 5 year average. This valuation is 2% higher than the equivalent ratio for the ASX200.

The best performing sectors were: Telecom's, (+6.1%), Healthcare (-6.6%), Wholesale & Distribution (-7.1%), IT Services (-7.7%) and Agricultural Products (-8.1%). The worst performing sectors during the March quarter were Internet Services (-61.0%), Media (-52.3%), Energy (-47.7%) and Automotive (-44.0%).

The best performing stocks within the XSO Index were Fisher & Paykel Healthcare (FPH, +37%), Next DC (NXT, +36%), Metcash (MTS, +23%) and Elders (ELD, +16%). Fisher & Paykel Healthcare is the world leader in the supply of humidifiers for hospital respiratory ventilators and has seen unprecedented global demand beginning in China early in the year. Next DC runs data centres that have seen increased demand due to increased remote working. Metcash is the wholesale supplier to independent grocers, including IGA, where volume has increased significantly. Elders offer a range of rural supply services where the drought in much of Australia has broken and fresh food prices have increased.

The worst performing stocks in the XSO index during the quarter were Ardent Leisure (ALG, -84%), Southern Cross Media (SXL – 80%) and IVE Group (IGL -77%). Ardent Leisure has had to close all its leisure centres in The US and Australia. Southern cross Media is seeing declining advertising as is IVE Group.

Market outlook

The market and economic outlook is dominated by the impact of COVID-19. The economic damage measured in declines in gross domestic product (GDP) and rises in unemployment is likely to be significant. The depth of this impact and whether the recovery is steep or slow will keep market guessing for the foreseeable future. We believe whatever the shape of the downturn and recovery that interest rates will remain low and debt will remain very high.

The ongoing trade dispute between The US and China has been forgotten for the moment but we believe that this is likely to resume with increased vigour during the COVID-19 recovery period later this year. The US presidential election will probably add to these tensions. It is unclear at this stage whether these macro factors will result in additional Chinese fiscal and infrastructure stimulus that will sustain resources during 2020. It does seem likely that global demand for China's manufactured exports will be weak for some time.

Resources and their related mining services suppliers are also dependent on the US$/A$ exchange rate. The A$ has now dropped to the US0.61c which offers extra margin for exporters. The gold price in particular has been very strong and is at record levels in A$.

Thought Piece: Repositioning our Gold Exposure

During early March 2020 Eiger Capital repositioned its exposure to small cap gold miners by a factor of over 3x. We are now overweight gold vs the XSO Small Ordinaries Index weight of around 10%. We increased our investment in St Barbara (**SBM**) and added significant new positions in Gold Road (**GOR**) and Alacer Gold (**AQG**).

St Barbara has at times seemed to struggle to complete the significant upgrades at its Gwalia mine in Western Australia but we are confident that this project is almost complete. We also believe that the acquisition of Atlantic Gold in Canada will pay dividends in the years ahead. The new Managing Director, Craig Jetson, has a very successful history is fixing initial problems with the sulphide project at the Lihir mine for Newcrest. We believe he will be able to do the same for St Barbara at Simberi in Papua New Guinea. Simberi is likely to add a sulphide project using similar technology to Lihir (also in Papua New Guinea) during 2021.

We have owned **Alacer** in the past but in recent times we felt this excellent company was until recently overvalued. Our opportunity came in early March as small cap gold miners were likely aggressively sold down by passive ETF's.

Canaccorde Genuity noted on April 8 - "Gold equities have certainly not been immune to liquidation selling on COVID-19 fears (and realities). We highlight an average share price fall of ~40% of our covered gold stocks (vs ASX200 -37%) from the 21 Feb peak to the recent 23 Mar trough, vs the gold price at only -5% (A$ gold up 8%). While we have seen a rebound rally in gold equities (avg. +31%, albeit from a lower base), we continue to see equities lagging the gold price with an average implied gold price of our covered gold stocks of US $1,228/ oz, 26% lower vs spot (at time of writing)." We totally agree with these sentiments and believe that liquidity issues rather the operational issues provided a very good entry point for an investment in Alacer.

Gold Road is a new investment for our team and strategy. The company owns a 50% stake in the new Gruyere mine in Western Australia (with Goldfields GV-USA, who are the mine operator) and some highly prospective tenements in its own name. Production is ramping up now and seems to be going very well. We are optimistic that the Gruyere mine will achieve its 300oz/pa run rate by mid 2020 with cash cost of around A $1100/oz. Gold Road also announced some highly prospective drilling results at its 100% owned Gilmour project.

However our decision to significantly increase our gold exposure during early March 2020 was more than just driven by a mismatch between equities performance at the underlying gold price (particularly in A$). We also believe that advent of never seen before monetary and fiscal stimulus in response to the COVID-19 crisis will be supportive for gold. The world economies will likely emerge from this crisis heavily indebted, uncertain, unable to raise interest rates from virtually zero and immediately facing a highly charged US Presidential election. This is an election that could see US-China relations go in very different directions depending on the result. The emerging world, that relies heavily on gold as a store of wealth, are also likely to emerge from the COVID-19 crisis in terrible financial shape compared to the developed world, that itself is likely to be struggling.

On April 3 Goldman Sachs noted - "Our commodity team has revised their gold price forecast, now expected to average US$1,638/oz for CY20 and US$1,800/oz for CY21. The team cites risks to global growth surrounding COVID-19 together with a continued savings glut, depressed real rates and increased focus on the US election as the drivers for risk aversion and a higher gold price by year-end."

In this environment companies that can maintain earnings, let alone increase them, are likely to be in a small group. We believe that the three gold names we have selected have a chance of reporting increased earnings and possibly significantly so. Margins in A$ (Turkish lira in the case of Alacer) are now at record levels and may go higher. We do not believe that production will be disrupted beyond the bounds of normal quarterly variability. We have also chosen, in selecting these 3 Companies, to avoid the lower cost West African gold producers. In a time of record prices, we believe selecting more certainty of production ranks ahead of lower costs. Attempting to assess the ability of some African States to cope with COVID -19 is also incredibly difficult.

We have however maintained our smaller investment in **Perenti** (PRN) which is a world leader in open cut and underground gold mining including in the more stable African States. We believe that this is a better way to gain some additional exposure to a sector that is likely to see higher margins during the course of the rest of 2020 and into 2021. In addition we believe that equipment rental operation **Emeco** (EHL) was particularly oversold during early March and we significantly increased our position in this company. Mining equipment is not in surplus supply as it was post the GFC. Ironically with the A$ now trading at around US$0.64 the replacement cost of Emeco fleet would likely be significantly higher than book value. Emeco recent acquisition of Pit n Portal has left it with 25% of its underlying revenue exposed to the mining of gold.

Finally we cannot end an update on gold without a comment from Lord Edmund Blackadder (aka Rowan Atkinson) on the value of gold (or is that green).

https://www.youtube.com/watch?v=TkZFuKHXa7w

For further information, please contact:

Fidante Partners Investor Services | **p:** 13 51 53 | **e:** info@fidante.com.au | **w:** www.fidante.com.au