Eiger Australian Small Companies Fund

ARSN 631 961 398 APIR HOW2967AU

Quarterly Report June 2020

Fund Performance

Eiger Australian Small Companies Fund Performance (after fees) as at 30 Jun 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	0.21	28.51	0.49	-	-	-	5.89
S&P/ASX Small Ordinaries Accumulation Index	-1.95	23.90	-5.67	-	-	-	-0.91
Active return	2.16	4.60	6.16	-	-	-	6.79

[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, 30 Jun 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 30 Jun 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	0.21	28.51	0.49	9.57	11.06	12.82	8.23
S&P/ASX Small Ordinaries Accumulation Index	-1.95	23.90	-5.67	6.10	7.89	7.52	2.16
Active return	2.16	4.60	6.16	3.47	3.17	5.30	6.08

[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, 30 Jun 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	$5.5M
Distribution frequency	Quarterly

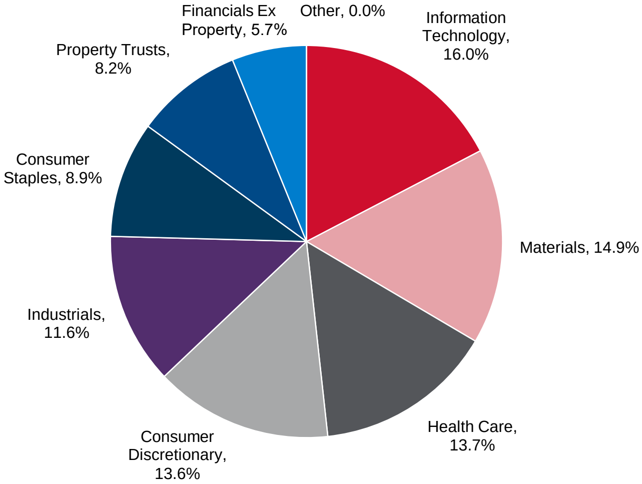
[4]The Benchmark for the Fund is the S&P/ASX Small Ordinaries Accumulation Index

Fund features
Concentrated: A best-ideas portfolio of small company opportunities. Typically 30-40 stocks, diversified across industry sectors and actively risk managed.
Nursery for future leaders: We focus on identifying 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, intrinsically 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
Lifestyle Communities Ltd
NEXTDC Ltd

Stock attribution (alphabetical)
Top contributors (quarter)
Adairs Ltd
City Chic Collective Ltd
Collins Foods Ltd
Top detractors (quarter)
Appen Ltd
Freedom Foods Group Ltd
iSignthis Ltd

Asset allocation	Actual %	Range %
Security	92.50	90-100%
Cash	7.50	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +23.90% for the quarter. The fund outperformed the market and delivered a +28.51% return over the quarter.

Contributors

Adairs Ltd (ADH)

Strong online homeware sales boosted by stay at home lockdown and Jobkeeper program.

City Chic Collective Ltd (CCX)

Strong online clothes sales boosted by stay at home lockdown and Jobkeeper program.

Collins Foods Ltd (CKF)

KFC in Australia in particular navigated COVID lockdown very well with delivery and drive through. European stores also rebounded late in quarter.

Detractors

Appen Ltd (APX)

Not held by the fund. Strong rebound during June quarter driven by success of global tech clients in COVID recovery period.

Freedom Foods Group Ltd (FNP)

Initial strength in UHT milk sales unwound by significant inventory write downs late in quarter and departure of CFO and Managing Director within a 24hr period.

iSignthis Ltd (ISX)

Write down of position to reflect long suspension.

Market overview

The S&P/ASX Small Ordinaries Index (XSO) increased by 23.9% during the June 2020 quarter. The Small Industrials increased by 23.9%, while the Small Resources increased by 37.2%. XSO finished the quarter on a forecast price to earnings ratio of 20.1x which is 27% above its 5 year average. This valuation is 12% higher than the equivalent ratio for the ASX200.

The best performing sectors were: Infrastructure & Utilities (+76.1%), Biotech (+73.8%), Automotive (+51.9%), and Retail (+44.8%). The worst performing sectors during the June quarter were Chemicals (-19.8%), Wholesale, Distribution & Manufacturing (2.6%), Banks (+4.8%) and Ag Products (+6.0%).

The best performing stocks within the XSO Index were Zip Co (Z1P, +230%), Kogan.com (KGN, +175%), Bellevue Gold (BGL, +23%) and Mesoblast (MSB, +135%). Zip acquired their previously partially owned US affiliate significantly expanding their customer footprint. Kogan reported strong online sales during the peak COVID lockdown period. Mesoblast is one of many biotech companies with COVID treatment trials underway.

The worst performing stocks in the XSO index during the quarter were Speedcast (SDA, -100%), Navigator Global (NGI –49%) and Dacian Gold (DCN -48%). Speedcast has been in long term suspension with significant solvency issues. Navigator Global declined sharply during the initial COVID period in March and has not recovered. There are significant concerns about funds under management (FUM) outflows. Dacian relisted after a recapitalisation during the June quarter. There are significant concerns about the forward mine plan.

Market outlook

The market and economic outlook is dominated by the impact of COVID-19. The economic damage measured in declines in GDP and rises in unemployment is likely to be significant in a historical context. However the depth of this impact and whether the recovery is steep or slow will keep market guessing for the foreseeable future. As at the end of June 2020 the market is not as optimistic as it was at the end of May. The acceleration or re-emergence of COVID cases in many places is a concern. 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 become more pronounced during the COVID-19 lockdown period. The US presidential election in November will probably add to these tensions.

Resources and their related mining services suppliers are also dependent on the US$/A$ exchange rate. The A$ is now trading at around US0.70c which has increased from US0.65c in only a month. This increase will reduce export margins. Australia's main competitor for the sale of iron ore, Brazil, is in the midst of the COVID crisis and this is impacting it's exports boosting global prices for this commodity.

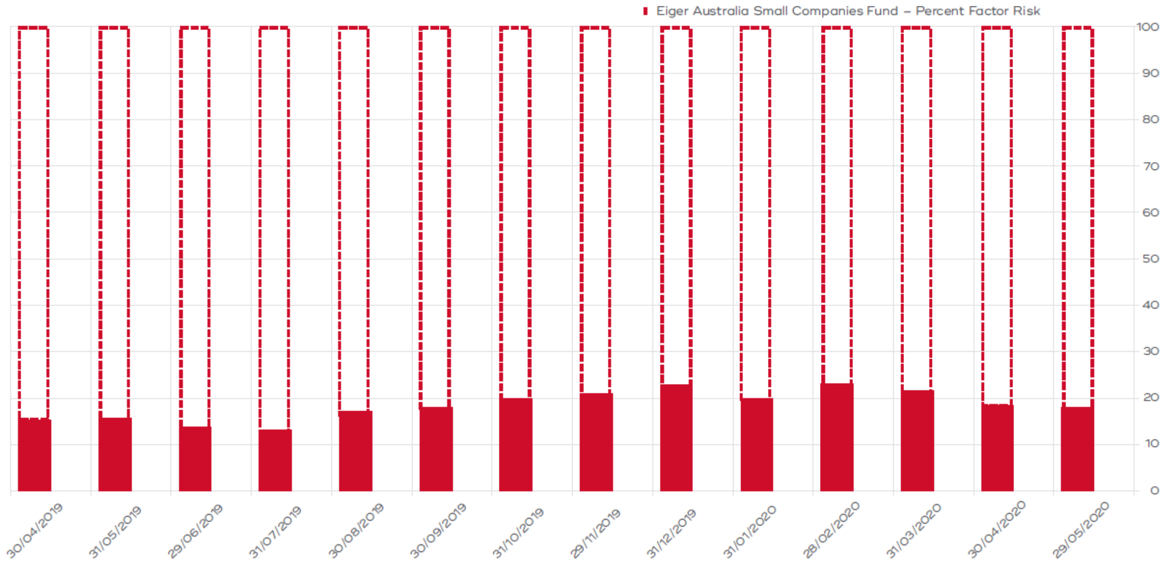
Thought Piece: Managing Risk in Small Caps

The standard industry method – does it work well in small caps?

The standard method for dissecting risk exposure vs an index is the use of a risk model, such as Axioma, that can accurately track variances in portfolio factors such as momentum, value, volatility, quality and size. Around 80% of the risk in a large cap portfolio, benchmarked against the S&P/ASX 100 Accumulation Index or S&P/ASX 200 Accumulation Index (ASX 200), can be measured and segmented using one of these models. The unexplained risk balance, typically around 20% in many large cap funds, is due to stock specific risk. However, for a concentrated small cap portfolio, such as the Eiger Australian Small Companies Fund, an industry standard risk model can only explain around 15% of the risk exposure vs the S&P/ASX Small Ordinaries Index (ASX Small Ords). The following chart highlights that between April 2019 and May 2020 the Axioma risk model we use can only explain between 12% and 22% of the risk in our portfolio vs the ASX Small Ords.

Percentage factor risk

Eiger Australian small companes fund: Characteristics over time
04/30/2019-05/29/2020



Source: Factset/Axioma ©FactSet Research Systems

The balance, as in a typical large cap portfolio, is due to stock specific risk. However, in small cap portfolio such as ours, stock specific risk is 80% of the risk vs the benchmark rather than 20%.

The volatility of our portfolio is higher than the ASX 200 but lower than the ASX Small Ords….

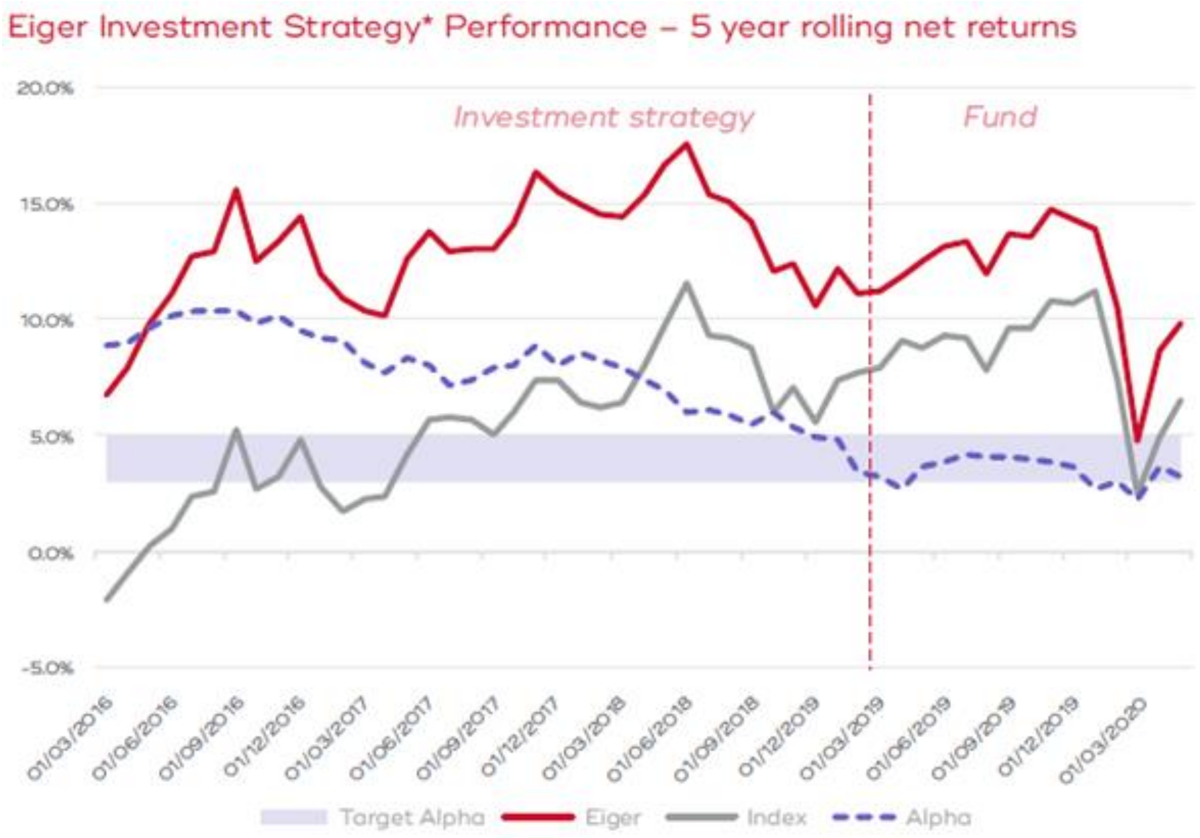
Does this make a portfolio such as ours excessively risky or volatile? We believe that the answer is definitely no. In addition, what this also highlights is that our portfolio of typically 30-40 stocks is not a portfolio that is constrained by a benchmark or any other overly restrictive factors that can inhibit performance. The Eiger Team has managed a small cap strategy continuously since April 2011. The standard deviation of daily returns (a universally accepted measure of volatility) of this strategy over to the end of May 2020 is 1.019%. The daily volatility of the ASX 200 and the ASX Small Ords over the same period was 0.99% and 1.054% respectively. Our portfolio over this time period has been less volatile than the ASX Small Ords Index and closer to the volatility of the ASX 200 that is dominated by Australia's largest and most secure businesses such as the major banks, supermarkets and diversified mining giants.

We have also analysed longer term data from similar small cap funds published by Morningstar. For example, the UBS Australian Smaller Companies Fund between inception in March 2004 and November 2018 had a daily return standard deviation of 0.99%. The ASX 200 and ASX Small Ords had a daily standard deviation of 1.027% and 1.078% respectively over the same time period. We believe that it is possible to manage the overwhelming influence of stock specific risk in a concentrated small cap portfolio to take advantage of the high growth, innovation and entrepreneurial management and achieve a level of risk and volatility in line with the broader ASX 200.

Another way of analysing strategy volatility is to count the number of days the relevant fund's unit price has varied above a specified amount. We have 4,123 days of observable unit price data for our small cap strategy. On 241 (5.8%) occasions has the unit price varied by more than 2%. Increasing the variance to 5% reduces the number of occasions to only 10 (0.2%). This is despite the strategy investing only in small- and mid-cap companies whose individual share prices are often much more volatile.

…but the historic returns are higher

The five year through-the-cycle track record of our small cap strategy is shown in the chart below. Despite having lower volatility than the ASX Small Ords the through-the-cycle returns have consistently been higher.



Source: Eiger Capital as at 31 May 2020. *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 historical performance has been adjusted to reflect the fees applicable to the Eiger Australian Small Companies Fund. Past performance is no indication of future performance.

Managing stock specific risk

We have continually refined the way in which we manage stock specific risk, which as discussed typically accounts for around 80% of the total risk within our small cap strategy. We have measures in place to maintain a level of volatility below that of the ASX Small Ords, including:

1. Our research process requires us to construct our own models and forecasts rather than significantly rely on broker estimates, financial databases or consensus forecasts.
2. Our modelling template - which is largely unchanged for over 15 years - includes a significant quality bias with its focus on growth, operating cashflow and the consumption of cash via capex, working capital and intangible investment.
3. Our 9 Commandments which have been formulated over the 70+ years that our team collectively has in financial markets.

Industry and Company Research – 9 Commandments

1. Only invest in businesses we understand
2. Good businesses usually struggle in poor industries
3. Non-consensus sources provide better insights
4. Changes in market structure can deliver enduring excess returns
5. Business models must be (holistically) sustainable
6. Management quality and honesty are as important as the numbers
7. Watch what management and board are doing, especially when they sell
8. Don't diversify for diversity's sake
9. Rarely buy from private equity vendors

4. Portfolio constraints that include a 5% active limit on any one investment. We believe that this limit has worked time and time again in making sure that, for example, after a strong short term rise in a share price that some profits are harvested. As Bernard Baruch said over a hundred years ago "nobody ever lost money taking a profit".
5. A proprietary fundamental reclassification of our investment universe into 25 categories. The following table charts the ASX Small Ords, which forms a significant portion of our investible universe, into these categories. We use these classifications to manage the fundamental underlying profit drivers within our portfolios. This ensures that we don't accumulate excessively concentrated economic biases with our individual bottom up stock selections. We have continued to refine these categories for almost 10 years and believe they more fundamentally recognise economic risk than the standard Global Industry Classification Standard (GICS) classifications. The table below also highlights how significantly the sector bias has changed over time and the necessity to manage risk against these changes.

Risk management inherent in investment process

In-house Sector mix (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019
Healthcare	3.6	5.4	5.5	5.7	9.7	9.5	9.1	8.4	8.7
Building Materials	5.4	6.3	5.5	4.5	2.1	2.4	2.3	2.2	4.2
Commercial Services	3.9	7.8	8.6	8.2	9.5	8.7	12.1	8.2	9.7
Engineering & Mining Services	14.3	11.9	8.8	6.4	4.3	4.2	5.3	7.3	5.4
Financial Services	3.6	5.7	8.1	6.5	9.8	9.9	8.6	8.6	11.3
Infrastructure, Utilities & Property	8.8	9.9	11.3	13.3	14.3	14.3	13.6	10.1	11.5
Internet Services & Media	5.1	4.2	8.4	9.4	7.1	7.1	6.1	7.2	11.7
Consumer Discretionary	3.8	5.9	10.2	8.7	8.1	7.5	7.1	6.1	7.3
Telecommunications	2.4	3.3	5.3	6	5.2	2	3.1	4.1	4.5
Base & Other Metals	7.6	8.4	5.2	7.3	5.8	6.1	4.3	7.4	10.8
Precious Metals	10.2	11.2	4.8	5.4	4.1	9.2	5.3	5.4	5.2
Steel	5.6	4.4	2.2	2.1	0.6	0	0	0	6.9
Energy	12.7	7	7.4	6.2	6.4	2.7	3	3	0.5
Agricultural Products	7.5	0.6	1.1	0.7	1.7	2.3	3.3	4.5	2.2
Other Sectors	5.5	8	7.6	9.6	11.3	14.1	16.8	17.5	0.0

Source: Eiger and FactSet. *Institutional strategy as at 31 May 2020. Inception date 1 April 2011.

We believe that these factors are key to achieving risk and volatility well below the ASX Small Ords and more in-line with the ASX 200.

For further information, please contact:

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