Eiger Australian Small Companies Fund

ARSN 631 961 398 APIR HOW2967AU

Quarterly Report September 2020

Fund Performance

Eiger Australian Small Companies Fund Performance (after fees) as at 30 Sep 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	-1.93	10.40	6.25	-	-	-	11.96
S&P/ASX Small Ordinaries Accumulation Index	-2.82	5.67	-3.33	-	-	-	2.92
Active return	0.89	4.73	9.58	-	-	-	9.04

[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 Sep 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 Sep 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	-1.93	10.40	6.25	10.79	12.78	11.80	9.14
S&P/ASX Small Ordinaries Accumulation Index	-2.82	5.67	-3.33	6.53	9.96	6.25	2.69
Active return	0.89	4.73	9.58	4.26	2.82	5.56	6.44

[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 Sep 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	$11.8M
Distribution frequency	Quarterly

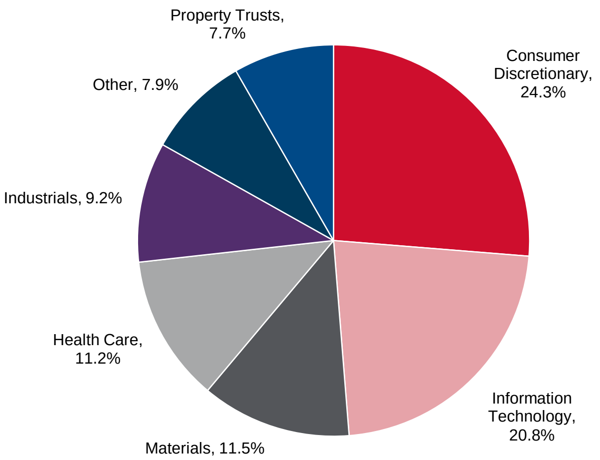
[4] The Benchmark for the Fund is the S&P/ASX Small Ordinaries Accumulation Index

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
Technology One Limited

Stock attribution (alphabetical)
Top contributors (quarter)
Adairs Ltd
Corporate Travel Management Limited
Life360 Inc
Top detractors (quarter)
Capitol Health Ltd
Emeco Holdings Ltd
Technology One Limited

Asset allocation	Actual %	Range %
Security	92.58	90-100%
Cash	7.42	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +5.67% for the quarter. The fund outperformed the market and delivered a +10.40% return over the quarter.

Contributors

Adairs Ltd (ADH)

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

Corporate Travel Management Limited (CTD)

Rebounded after a better than expected FY20 result and outlook.

Life360 Inc (360)

Exit of stock overhang. Launch of new membership product that was well received.

Detractors

Capitol Health Ltd (CAJ)

Impact of second wave of COVID-19 in Victoria.

Emeco Holdings Ltd (EHL)

Disappointing management of capital raising and refinancing.

Technology One Limited (TNE)

No news.

Market overview

The S&P/ASX Small Ordinaries Index (XSO) increased by 5.67% during the September 2020 quarter. The Small Industrials increased by 6.93%, while the Small Resources increased by 0.88%. XSO finished the quarter on an FY22 forecast price-to-earnings ratio of 18.3x which is 16% above the 5-year average. This valuation is in line with the equivalent ratio for the ASX200.

The best performing sectors during the quarter were: Automotive (+32.9%), Retail (+25.0%), Metals & Mining - Other (+22.0%), and Retail (+44.8%). The worst performing sectors during the June quarter were Metals & Mining - Base (-9.6%), Banks (-8.4%), Chemicals (-5.9%) and Healthcare (-5.2%).

The best performing stocks within the XSO Index were PointsBet (PBH, +114%), HUB24 (HUB, +99%), Corporate Travel (CTD, +83%) and Netwealth (NWL, +70%). PointsBet announced a significant marketing arrangement with NBC in The US and a related expansionary capital raising. HUB24 and Netwealth both witnessed a stabilisation and resumption of FUM (funds under management) inflows. Corporate Travel revealed a significantly better than expected FY20 result.

The worst performing stocks in the XSO index during the quarter were Unibail (URW, -40%), Australian Ethical (AEF – 33%) and IOOF (IFL -30%). Unibail and IOOF undertook significant capital raisings with ongoing concerns surrounding the outlook for both companies. In IOOF case it surrounds the implementation risk around the MLC acquisition. Australian Ethical was impacted as IOOF sold its investment in early August.

Market outlook

The market and economic outlook are dominated by the rate of recovery from COVID-19. The economic damage measured in declines in GDP (gross domestic product) 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 near future. 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 currently trading at around US0.72c. The A$ seems to have established a post COVID-19 trading range of US0.70c to US0.73c range and it will be beneficial for exports if this continues. The farming community also looks set to significantly benefit from record crops across Australia following best in a decade conditions. The biggest concern at present seems to be finding enough people to pick the crops.

Are Small-Mid Caps Overvalued?

Date: October 2020
Author: Stephen Wood

At the end of September 2020, The Australian Small Ordinaries Index (XSO) is 95% of the level it achieved at the end of 2019 and 89% of the peak achieved in mid-February 2020. The valuation of the XSO index, as measured by a 2 year forecast PE ratio is also back to around 95% of the level achieved in February 2020. In February 2020 COVID-19 restrictions, business uncertainty and significantly elevated global debt levels were not the issues they arguably are now. So are Australian small-mid caps overvalued? Does this mean that equities in general and small-mid caps should be avoided?

Interest rates keep going down

Declining interest rates over a long period have undoubtably boosted underlying equity valuations. The US 10 year bond now yields around 0.65% compared with a low of 2.1% during the Global Financial Crisis (in late 2008) and 5.8% exactly 20 years ago. I started work in late 1989 when the US 10 year bond was yielding around 8%. A downturn followed and yields fell to 5.25% in late 1993 only to rebound to over 8% in late 1994. By comparison, the Australian 10 year bond from late 1989 to now has gone from yielding 14% to 0.8%. This now all seems like a bygone era.

The issue now is what may break this trend of ever lower interest rates? Will it be the fear of inflation that just doesn't want to reappear or sudden concern about elevated debt levels everywhere? Will it be social developments and tension between the asset owning Baby Boomers and the young generations faced with high education costs and a housing market that seems beyond reach? Could it be the impact of global trade going backward as a result of current tensions?

TINA and FOMO

TINA (There is no Alternative – to equities) and FOMO (Fear of Missing Out) have combined to create a rapid rebound in equities. This is evident in the volume records being set on many world equities exchanges and significantly increased participation by retail investors. In 2H FY20 the ASX reported a 52% increase in cash equities volumes over 2H FY19. The ASX also noted 7 million trades in one day in March 2020 which was +122% vs the pre COVID-19 daily record set on the 6 August 2019.[1]

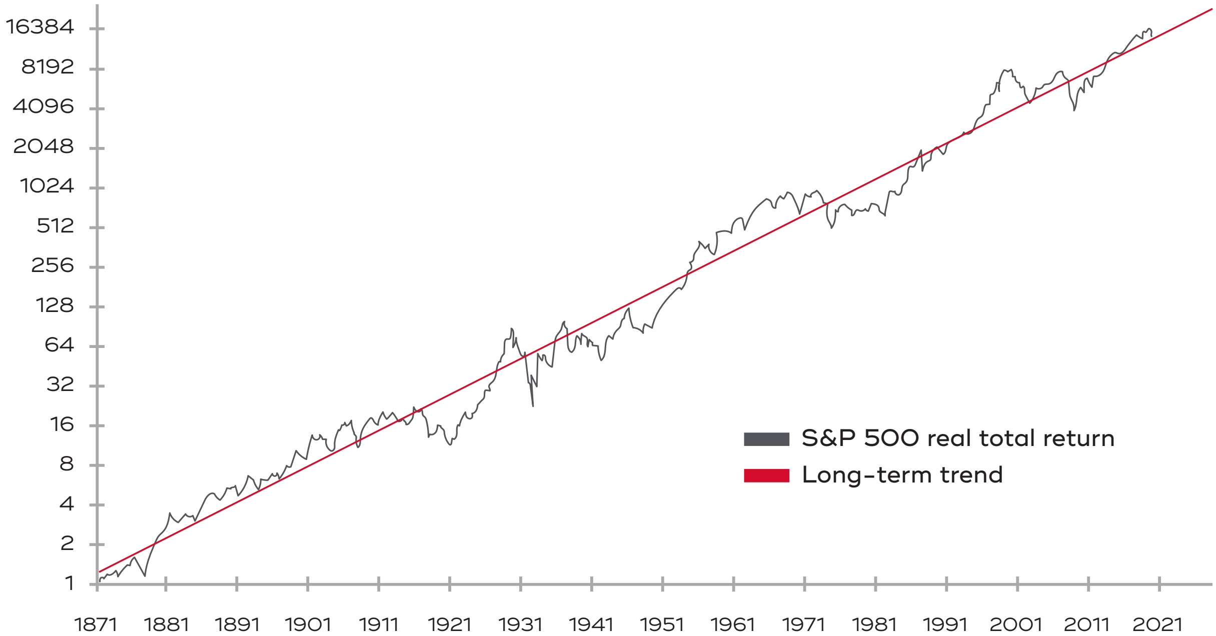
We are currently in a recession. However, the equity market has been moving in the opposite direction vs struggling underlying economies. There are two principal views among investors, in our opinion, on what is wrong or not. Traditional investors are concerned about the impact of recession, debt levels and general economic risk. Traditional investors are also likely to have more than half an eye on ***wealth preservation***. The second, newer group, perhaps more prevalent in the additional volume being generated across world stock markets, are likely to be younger ***wealth seekers*** who don't want to miss out this time the way they have in housing and equity markets for what seems like forever.

1 (Source: ASX FY20 Annual release presentation 20/8/20).

The long term

Let's reflect on the following very long-term chart of equity markets.

S&P 500 inflation-adjusted total return



Monthly data as of 08/28/2020. Source: Haver, FactSet, Robert Shiller, FMRCo.

If you take a longer perspective the adage of "it's not ***timing*** the market that matters its ***time in*** the market" that counts.

Zero % interest in the bank doesn't work but over a longer perspective the equity market is still very likely to rise. A long run return above zero is still better than zero.

It appears to us that taking a longer-term perspective reconciles the concerns of both groups of investors and that both may therefore be right. A longer-term perspective reduces the prospect of wealth destruction for the first group and for the second group anything better than zero will create some wealth. A bank at-call deposit will now produce virtually none. Even a 1-year term deposit will yield less than 1% compared with an equity market that offers 3 day settlement. However, a 10 year investment in equities seems likely to do considerably better than either.

Australian and US interest rates at current levels are significantly lower than they were at the start of 2020. The US 10 year bond has declined from around 1.9% to 0.65% since December 2019. Interest rates also seem unlikely to rise rapidly given the levels of debt now outstanding. In this context the 2 year forecast PE for the XSO index, currently sitting at around 18.5x and like the start of this year, does not seem excessive. We believe that within the small-mid cap space it is always possible to find growth being driven by innovative management and often global opportunities. In addition, COVID-19 has produced structural change opportunities that have accelerated. The very long-term chart of the S&P 500 above highlights that if you can invest in ***compounding*** growth you ultimately will get paid. In that context we believe that don't need to fall back on TINA and FOMO to justify the current valuation of Australian small-mid caps. You do however need to take a longer-term perspective.

For further information, please contact:

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