Eiger Australian Small Companies Fund
ARSN 631 961 398 APIR HOW2967AU

Quarterly Report December 2020

Fund Performance
Eiger Australian Small Companies Fund Performance (after fees) as at 31 Dec 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	5.74	14.77	19.36	-	-	-	19.10
S&P/ASX Small Ordinaries Accumulation Index	2.76	13.83	9.21	-	-	-	10.29
Active return	2.98	0.94	10.15	-	-	-	8.81

[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 Dec 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 Dec 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	5.74	14.77	19.36	11.24	11.85	13.85	10.44
S&P/ASX Small Ordinaries Accumulation Index	2.76	13.83	9.21	6.57	10.45	8.25	3.99
Active return	2.98	0.94	10.15	4.66	1.39	5.60	6.45

[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 Dec 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	$21.4M
Distribution frequency	Quarterly

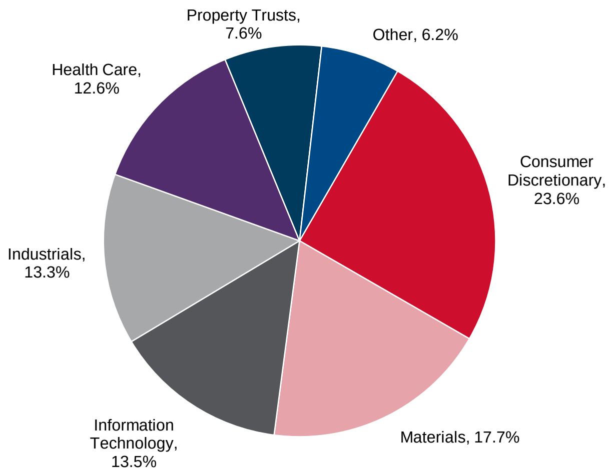
[4]The Benchmark for the Fund is the S&P/ASX Small Ordinaries Accumulation Index

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)
AP Eagers Limited
Pilbara Minerals Ltd
Technology One Limited

Stock attribution (alphabetical)
Top contributors (quarter)
Lynas Rare Earths Ltd
Mesoblast Limited
Pilbara Minerals Ltd
Top detractors (quarter)
Appen Ltd
Elders Ltd
St Barbara Limited

Asset allocation	Actual %	Range %
Security	94.50	90-100%
Cash	5.50	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +13.83% for the quarter. The fund outperformed the market and delivered a +14.77% return over the quarter.

Contributors

Lynas Rare Earths Ltd (LYC)

Increased rare earth prices. Increased concern on stability of China supply of these key minerals.

Mesoblast Limited (MSB)

Disappointing trial results and a failure to convince the FDA to approve a cornerstone product without additional trials.

Pilbara Minerals Ltd (PLS)

Ongoing global strength in electric vehicle and plug-in hybrid electric vehicle (EV/PHEV) sales and a successful acquisition of it neighbour, Altura Mining, from receivership.

Detractors

Appen Ltd (APX)

Earnings downgrade in December.

Elders Ltd (ELD)

Strong FY20 result was not enough to hold strong share price performance over prior 12 months.

St Barbara Limited (SBM)

Soft 1Q production announcement.

Market overview

The S&P/ASX Small Ordinaries Index (XSO) increased by 13.8% during the Dec 2020 quarter. The Small Industrials increased by 12.2%, while the Small Resources increased by 20.3%. XSO finished the quarter on an FY22 forecast price-to-earnigns ratio of 20.3x which is 27% above the 5-year average. This valuation is 5% above the equivalent ratio for the ASX200.

The best performing sectors during the quarter were: Metals & Mining - Other (+78.4%), Metals & Mining - Base (+47.1%), Banks (+37.8%), and Metals & Mining - Steel (+33.2%). The worst performing sectors during the December quarter were Biotech (-31.8%), Metals & Mining - Precious (-12.6%), Telecommunications (-0.1%) and Chemicals (+6.5%).

The best performing stocks within the XSO Index were Pilbara Minerals (PLS, +187%), ioneer (INR, +133%), Unibail (URW, +111%) and Galaxy (GXY, +99%). Pilbara benefitted from strength in electric vehicle sales and a successful transaction to acquire its neighbour, Altura Mining, from financial administration. ioneer and Galaxy are also lithium miners.

The worst performing stocks in the XSO index during the quarter were Mesoblast (MSB, -56%), Opthea (OPT – 33%) and Alkane Resources (ALK -32%). Mesoblast had several trials that missed their specified endpoints and a failure to convince the FDA to approve a cornerstone product without further trials. Opthea declined after a capital raising in October.

Market outlook

The market and economic outlook are dominated by the rate of recovery from COVID-19. The depth of this impact and whether the recovery is steep or slow or in fact W shaped will keep markets guessing for the near future. Currently markets are anticipating a recovery in industrial production in 2021. The significant re-emergence of COVID cases in many places is now a concern with full lockdowns across Europe. In Europe and North America there is a race to rollout vaccines as fast as possible. We believe whatever the shape of the downturn and recovery that interest rates will remain low and debt will remain very high and that equity valuations will remain high by recent historical standards.

The ongoing trade dispute between The US and China has become more pronounced during the COVID-19 lockdown period. The election of Joe Biden as the new US President has led to a pause while markets wait to see what path the new administration in The US will take on the China trade dispute. Australia is caught up in this dispute with several exports targeted. Despite this commodity prices are rising particularly LNG and thermal coal, key exports for Australia. Iron ore has remained strong throughout the quarter.

Resources and their related mining services suppliers are also dependent on the US$/A$ exchange rate. The A$ is currently trading above US$0.77c. The A$ has strengthened as optimism on world growth in 2021 has improved. The farming community also looks set to significantly benefit from record crops across Australia following best in a decade growing conditions. Despite the China trade bans there seems to be significant demand for the record Australian wheat crop. The biggest concern at present seems to be finding enough people to pick the crops given State based COVID restrictions.

Lithium - we sometimes 'misunderestimate' speed of structural change

With apologies to George W. Bush[1] for the title of our note, sometimes it is easy to underestimate how quickly, 'slow' and 'consistent' foundational change is occurring. A bit like the old adage of boiling the frog, steady small changes can often go unnoticed (frog doesn't notice small gradual increases in water temperature) until the cumulative impact of this imperceptible change suddenly results in seismic shifts (the frog dies).

We believe this may be a good descriptor for what has been happening in the battery and EV (electric vehicle) sectors over the past 5-7 years. Small incremental improvements in EV and battery technology combined with incremental setbacks for ICE (internal combustion engine) vehicles, such as Dieselgate and tighter emission targets, may have gone somewhat unnoticed by markets until recently. These improvements have resulted in a fast approaching tipping point where we believe a more rapid take up of EVs takes place. This may occur much faster than perhaps markets have been expecting, if this year's rise in Tesla's share price is any indication.

Very much like we saw with mobile phones, EV's have advanced greatly. Whilst the initial mobile phone adoption seemed to be incredibly slow, still below 1% even a few years after launching during the early 80's (think Michael Douglas in the original Wall Street movie with his Motorola DynaTAC 8000x analogue mobile phone). In the mid 90's penetration continued to be low at about 10%.

At the start of the new millennium, penetration was still only around 30%. Today there are almost 300 million US mobile phone subscribers (90% penetration). These phones not only make phone calls but can also text and most incredibly for smart phones they can in an instant deliver you the cumulative knowledge of all mankind right into the palm of your hand. Plus, today it is not just people that have mobiles but also machines. The number of mobile devices used in machines (the 'Internet of Things') is now at multiples of the population.

1987

Motorola Dynatac 8000x

-US$4,000 (US$11,000 @ today's prices)

-10hrs to charge

-30 mins talk time

-no texting or internet

2020

Apple iPhone 12Pro

-US$1,300

-3hrs to charge

-21hrs talk time (15hrs video time)

-5G internet, 512GB memory

1. *Quote from GWB – Bentonville Arkansas, 6.11.2000 - "They misunderestimate me"*

We believe the same dynamic is now underway with EVs. The same comparison with EV's is stark:

2010

G-wiz electric car (built by Reva)

-US$14,000 (US$17,000 @ today's prices)

-About 4,600 sold worldwide

-4 seater (2 very [very] small kids in rear)

-Power 13Kw, top speed 80km/h, range 120km

-Acceleration?? Likely very slow (avoid motorways)

2020

Tesla Model Y (Performance model)

-US$60,000

-Launched March 2020, now biggest seller

-5 seater (7 seater option)

-Power 300Kw, >200km/h, range >500km

-0-100km/h <5s

Here's a link to a review of the Tesla Model X by an avowed petrol head (Jeremy Clarkson - Grand Tour).
Warning – some may take offence to a few things Clarkson says or draws in this video!

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

Tesla just reported that it sold almost 500,000 cars in calendar year 2020 (+36% year-on-year). It exited the year at an annual run rate of >700,000 cars p.a. (based on Q4 sales). For context, it exited 2012 at only 20,000 cars p.a., thus massive growth over the past three quarters of a decade.

Does this growth justify today's US$770 billion market valuation for the company? Hard to say, but perhaps it reflects the market's increasing view that EV's will relegate ICE vehicles to the same historical dustbin as that of the horse and buggy and landline phone.

Besides the current stratospheric Tesla share price, there is clearly broad and significant momentum in this structural megatrend, specifically the move to electric transport (and also renewable energy). It is not just climate change that is driving the globe towards zero emissions. It's a factor even more powerful than moral rectitude. It's economics.

Renewables today are already the lowest cost grid power option, materially lower in cost than all fossil fuel alternatives. But cost is not the only issue here. Variability and dependability of supply from renewable is the main challenge. There are various solutions to this challenge, including pump hydro, pump storage and gas. However, the most efficacious solution from an emissions and latency standpoint, and the one currently seeing the fastest deployment globally is grid battery storage. This will further supercharge the demand for lithium batteries, with long term demand from grid storage alone, potentially multiples of that from EVs.

Nevertheless, the move to zero emission transport is rapidly building momentum. More and more countries are announcing bans on ICE vehicles including UK, Denmark, Ireland, Netherlands, Slovenia, Israel, India and Sweden all banning sale of ICE vehicles after 2030 and France and Singapore after 2040. Sales of EVs in Norway have recently passed above 50% of all vehicle sales (54%). Other Scandinavian countries are not far behind (Iceland, Sweden, Finland), but also countries like the Netherlands, Portugal and China.

Whilst global ICE vehicle sales have plummeted during 2020 due to Covid-19, EV sales have boomed not only in China but more importantly in Europe. Recently in Germany, EV sales have surpassed the sale of diesel powered vehicles (previously >50% of all vehicle sales in Germany were diesel powered).

We have clearly seen EV sales accelerated somewhat by Covid-19. Nonetheless this momentum had been building (unperceptively) for some time. Somewhat evidenced by the complete pivot that many leading global auto OEMs (Original Equipment Manufacturers) have performed on their future model plans.

Volkswagen is shifting exclusively to EVs and by 2030 will have more EV than ICE models, Volvo is doing so sooner with >50% of models planned to be electric by 2025, Toyota expects to sell 4.5 million EV/hybrids by 2030, even GM has announced the EV Hummer (first year's production in 2021 was fully reserved within 10 minutes of launch online).

Hundreds of billions of dollars of OEM research and development (R&D) have been shifted from ICE to EV development whilst battery technology continues to improve at 12-15% p.a. in energy density and cost. Tesla is now at or below the magic US$100/KWh battery cost tipping point where the cost of EVs become on par with ICE vehicles.

For us at Eiger, all this change provides us with interesting investment opportunities. There are a number of Aussie small caps exposed to the lower end of the EV supply chain. We believe it is at this early point in the supply chain, particularly in lithium mining (for batteries) and rare earths mining/production (for magnets used in synchronous electric motors), where the likely price pinch points will emerge.

Our two positions in lithium mining, IGO Ltd (IGO) and Pilbara Mineral (PLS) along with our position in Lynas Rare Earths (LYC) are all tier one global producers with long mine lives and are at the bottom end of their respective global cost curves.

These three are not planned projects or exploration opportunities. All are existing operating and producing businesses that can quickly respond to increased demand (and higher prices). Each can also quickly expand production either via lower risk brownfield expansions or in PLS's case via the recent purchase of their neighbour out of bankruptcy and at below replacement cost. PLS was the largest contributors to the Eiger Australian Small Companies Fund's performance over the December 2020 quarter and LYC was number two.

To finish, we like these two photos we've previously used to illustrate how quickly structural change can happen. Just as with the last great change in transport technology at the turn of last century, we may be surprised that by 2030 ICE vehicles are as rare as horses were at the Easter grand parade on Fifth Avenue New York City in 1913. As they say a picture (or two) tells a thousand words.

Easter parade 1900: 5th Ave, New York City.
Only one automobile

Easter parade 1913: 5th Ave, New York City
Only one horse and carriage

Source: US National Archives

In the words of that great philosopher, George W Bush, the future investment opportunities in Aussie small caps in the EV and battery storage space are not to be misunderestimated.

For further information, please contact:

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