Eiger Australian Small Companies Fund

ARSN 631 961 398 APIR HOW2967AU

Quarterly Report March 2021

Fund Performance

Eiger Australian Small Companies Fund Performance (after fees) as at 31 Mar 2021

Performance[1]	1 month %	3 months %	1 year %	2 years % p.a	3 years % p.a	5 years % p.a	10 years % p.a	Inception % p.a[2]
Eiger Australian Small Companies Fund	1.17	7.07	74.34	20.14	-	-	-	20.60
S&P/ASX Small Ordinaries Accumulation Index	0.79	2.09	52.15	9.59	-	-	-	10.10
Active return	0.38	4.98	22.19	10.55	-	-	-	10.50

[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 2021.**

[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 2021

Performance	1 month %	3 months %	1 year %	2 years % p.a	3 years % p.a	5 years % p.a	10 years % p.a	Inception % p.a[3]
Investment strategy	1.17	7.07	74.34	20.14	14.60	15.26	10.92	10.92
S&P/ASX Small Ordinaries Accumulation Index	0.79	2.09	52.15	9.59	8.32	10.69	4.11	4.11
Active return	0.38	4.98	22.19	10.55	6.27	4.57	6.82	6.82

[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 2021.**

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	$46.3M
Distribution frequency	Quarterly

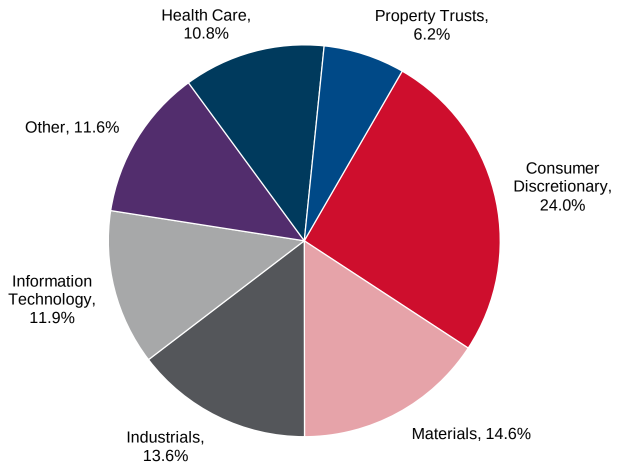
[4]The Benchmark for the Fund is the S&P/ASX Small Ordinaries Accumulation Index

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
Technology One Limited
Whitehaven Coal Ltd

Stock attribution (alphabetical)
Top contributors (quarter)
Life360 Inc
Lynas Rare Earths Ltd
Pilbara Minerals Ltd
Top detractors (quarter)
NEXTDC Ltd
PolyNovo Ltd
Virgin Money UK PLC

Asset allocation	Actual %	Range %
Security	92.79	90-100%
Cash	7.21	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +2.09% for the quarter. The fund outperformed the market and delivered a +7.07% return over the quarter.

Contributors

Life360 Inc (360)

Announced strategic review.

Lynas Rare Earths Ltd (LYC)

Ongoing growth in electric vehicle sales and higher rare earth prices.

Pilbara Minerals Ltd (PLS)

Higher lithium prices and demand for electric vehicles.

Detractors

NEXTDC Ltd (NXT)

Reduced valuations of tech related stocks as COVID focus declines.

PolyNovo Ltd (PNV)

December quarter sales impacted by COVID in the US.

Virgin Money UK PLC (VUK)

Positive trading update.

Market overview

The S&P/ASX Small Ordinaries Index (XSO) increased by 0.79% during the March 2021 quarter. The Small Industrials increased by 1.72%, while the Small Resources increased by 3.02%. XSO finished the quarter on an FY22 forecast price to earnings (P/E) ratio of 17.9x which is 10% 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: Chemicals (+29.5%), Metals & Mining - Other (+22.3%), Consumer Discretionary & Leisure (+14.7%), and Agriculture (+12.3%). The worst performing sectors during the March quarter were Metals & Mining - Precious (-20.2%), Engineering & Mining (-16.8%), Banks (-9.7%) and Metals & Mining - Steel (-7.0%).

The best performing stocks within the XSO Index were Lynas (LYC, +55%), Hansen Technology (HSN, +47%), Virgin Money (VUK, +45%) and Australian Ethical (AEF, +41%). During the quarter the price of key rare earth minerals, where Lynas is the world's 2nd biggest supplier, increased significantly. Hansen increased guidance. Virgin Money similarly had a positive trading update.

The worst performing stocks in the XSO index during the quarter were Resolute (RSG, -45%), Service Stream (SSM – 40%) and Red 5 (RED -40%). Resolute and Red 5 are both gold mines exposed to a weak gold price. In addition to these underperformers 3 companies were ejected from the index during the quarter. These were FAR (FAR), Freedom Foods (FNP) and Phoslock (PET). FAR and Phoslock remain suspended while Freedom Foods finally relisted after being suspended almost a year. If fell 82% from its prior traded price.

Market outlook

The market and economic outlook are dominated by the rate of recovery from COVID-19 and vaccine rollout rates. Currently markets are anticipating a recovery in industrial production in 2021. In the UK and North America, in particular, there is a race to rollout vaccines as fast as possible. Infection rates in those countries now appear to be falling rapidly. We believe whatever the shape of the downturn and recovery that interest rates will remain relatively low and debt will remain very high despite recent ructions in the global bond markets.

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 had no impact on the severity of this 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 around US$0.76c. The A$ has been steady at this level recently and we believe it offers a boost for exporters and commodity producers. 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 and barley. Wine exports, the initial focus of China imports tariffs, have also held up much better than expected. The biggest concern at present seems to be finding enough people to pick the crops given State based COVID restrictions.

Thought Piece - Profiting from initial public offerings (IPOs)

Do IPOs in Australia provide a good return for investors…or just exposure to the Wizards of Oz?

An IPO typically presents a snapshot of a business as it prepares to list. There is usually a "proforma" profit and loss and balance sheet which means that the accounts are not what actually existed just prior to IPO.

Post IPO the "proforma" business as it was presented, no longer has the ability to choose how and what to include in its accounts. Investors will own a share of a business that will progressively reveal how well it can deliver on its IPO investment outlook and how well its management, products and structure can cope with positive and negative surprises.

In this report, and in the tailwind of the significant underperformance of the Deliveroo IPO in London, we examine a database of over 2,000 IPOs that have taken place since the year 2000. We attempt to answer the question as to whether there is a degree of financial alchemy in the IPO process that causes underperformance as a business reveals its level of profitability and sustainable return on capital.

We will leave you to ponder the identity of the Wizards of Oz.

"In the end, alchemy, whether it is metallurgical or financial, fails. A base business cannot be transformed into a golden business by tricks of accounting or capital structure."

Warren Buffett
1989, Annual Report
Berkshire Hathaway

These issues have been around forever!

"I can calculate the motions of the heavenly bodies but not the madness of people."

Sir Isaac Newton

In 1720, while discussing the significant volatility surrounding South Sea shares, Sir Isaac Newton, who at the time was Master of the Mint, remarked that *"I can calculate the motions of the heavenly bodies but not the madness of people."* For this reason, it is necessary to examine the performance of IPOs over a reasonable period of time to remove the impact of positive and negative short-term speculation and trading noise. We are interested in examining returns over a sufficient period for the business to report multiple interim and final results and to hold multiple Annual General Meetings. That way investors will be able to access value not just based on the snapshot presented at IPO but on multiple sets of accounts and presentations.

During the era of Sir Isaac Newton's tenure as Master of the Mint there were all sorts of interesting capital raisings including those to create a wheel of perpetual motion and many to profit from trading with the newly discovered Terra Australis. What could possibly go wrong?

The sage of Omaha

Before examining the IPO data, we couldn't resist one more classic Buffett quote. This one specifically on IPOs:

"It is almost a mathematical impossibility to imagine that, out of the thousands of things for sale on a given day, the most attractively priced is the one being sold by a knowledgeable seller (company insiders) to a less-knowledgeable buyer (investors)."

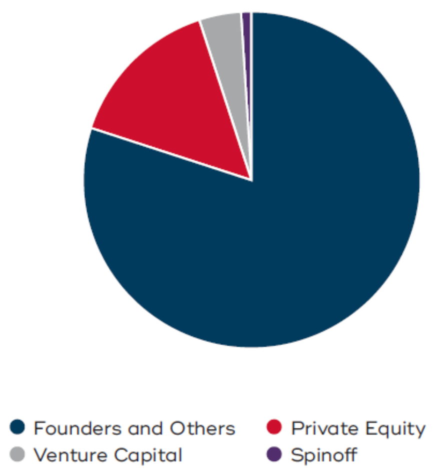
- Warren Buffett

The Australian IPO market

We have used Factset to create a database of all the IPOs that have occurred in Australia between 1 January 2000 to 31 December 2020. Our database identified 2,026 IPOs since that time. We have focused our attention on the 305 IPOs that raised over $50m. In 2014, for example, there were 39 IPOs greater than $50m; the most in any one year. The overwhelming number of IPOs are either Private Equity or Founder originated.

- *2,026 IPOs since 2000. $136 billion raised*
- *There were only 305 significant raisings (defined as >$50 million)*

Chart 1: Australian IPOs since 2000



Source: Factset, Jan 2000-Dec 2020

Table 1: Velocity of significant raisings

2014	39
2015	31
2013/2019	22
2005/2017	21
2016	20
2004	18
2018	17
2007/2020	16

Source: Factset, Jan 2000-Dec 2020

Some more statistics

We have split the significant (>$50m) IPOs into two groups: those that raised >$1,500m and those that raised between $50m-$1,500m. We have classified the larger group 'midcap IPOs' and the small group 'small cap IPOs'. The larger group typically enter the ASX 100 almost immediately. This was the case with Medibank, Healthscope and QR National which are in this category. While this group individually raised the largest amount, they are by far in the minority. 96% of the IPOs >$50m are the small cap variety and raise between $50m and $1,500m and transition to the small cap index. On average, these small cap raisings were for $239m each.

- *96% of significant raisings were small caps*
- *There have been 13 IPO''s that raised >$1,500 since 2000*
- *Magellan Global Trust, Viva Energy, Medibank, QR National and Healthscope were not small cap IPOs this decade*
- *Average raising of IPO below $50 million is $20 million*
- *Average significant small cap IPO raised $239 million*

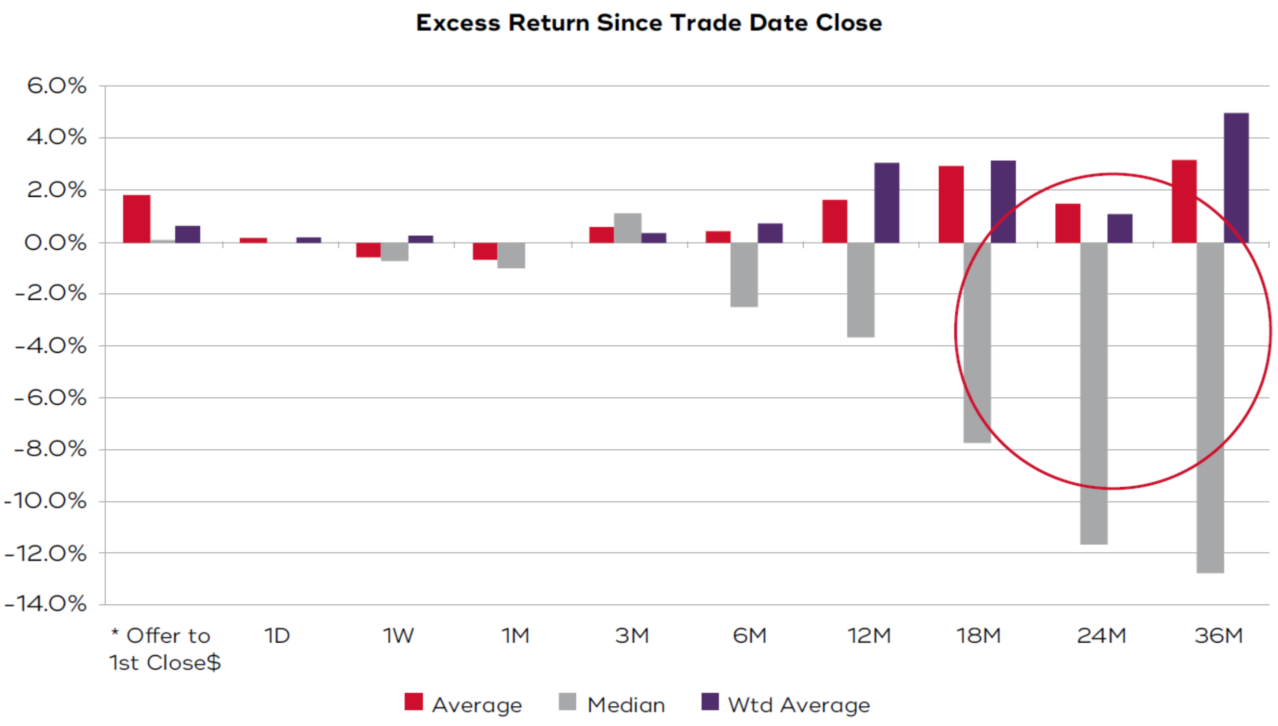
Performance of significant IPOs

Largest IPOs on average appear to perform better

How have these IPOs performed? Including the larger (>$1,500m) IPOs reveals that the average, median and weighted average IPO performed roughly in line with the small cap (XSO) index for 6 months. However once we increase this to 12 months, the median IPO has fallen to -6% relative underperformance. The median IPO underperforms by just over 11.5% over 2 years. The rate of underperformance steadies between 2 and 3 years but does not improve. The weighted average raising outperforms over 1, 2 and 3 years indicating that the **largest raisings perform significantly better than the smaller ones.**

It is worth noting the significant outperformance over 3 years post-IPO of QR National (+120% ahead of the XSO benchmark) which was also the second largest IPO (>$4bn raised) in our survey as the overwhelming driver of weighted average outperformance.

Chart 2: Performance of significant IPOs



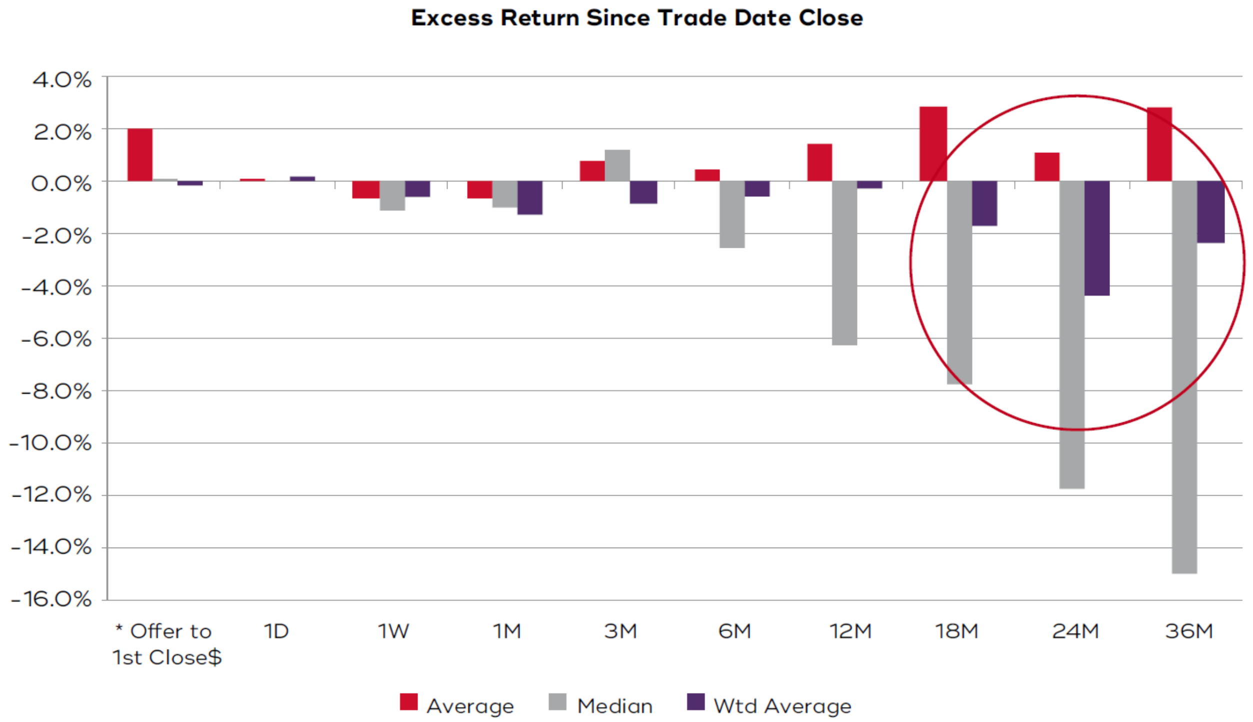
Source: Factset, Jan 2000 – Dec 2020
*Excludes IPOs with offer to 1st close absolute value >50%

Performance of significant small cap IPOs

Twelve months post listing the rot sets in

Excluding the larger IPOs alters the picture if for no other reason than QR National is now excluded as it is a midcap IPO. The median small cap IPOs perform in line with the XSO index over 3 months but then performance deteriorates. The worst period of under-performance is between 3 months and 2 years. Between 2 years and 3 years underperformance vs the benchmark also steadies but does not improve. Once again the weighted average underperformance is not as significant as the median indicating that the larger raisings underperform less than the smaller raisings. However excluding QR National, the weighted average is now comfortably negative over 2 and 3 years.

Chart 3: Performance of significant small cap IPOs



Source: Factset, Jan 2000 – Dec 2020
*Excludes IPOs with offer to 1st close absolute value >50%

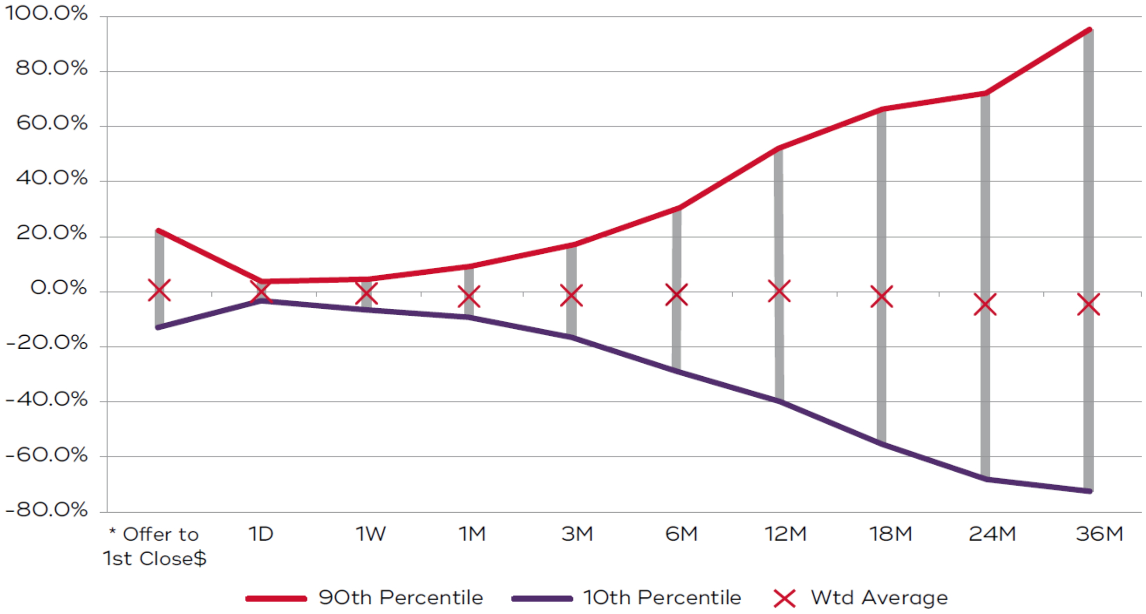
The key conclusion that we draw is that **it is between 3 months and 2 years when a company reveals its true long-term intrinsic value and earnings capability.** On average the intrinsic value that is revealed is lower than what was described or expected at IPO.

Are Small Cap IPOs a poor investment?

They can be unless you are very selective

Is the obvious conclusion to ignore all IPOs (except perhaps the privatisations of Government entities such as QR National) as, on average they underperform? We believe the answer to this question is no. While the median and the weighted average returns vs benchmark are negative, the spread between the best and the worst is very large.

Chart 4: Distribution of excess return



Source: Factset, Jan 2000-Dec 2020

Table 2: Excess return 1-3 years post-IPO

Years post IPO[1]	1	2	3
Weighted Avg Excess Return (%)[2]	-0.2	-4.4	-2.2
90th percentile	50.6	70.5	96.1
10th percentile	-40.5	-69.9	-72.4

Source: Factset, Jan 2000-Dec 2020
[1] Excess returns vs Small Ordinaries Index
[2] Weighted by amount raised at IPO

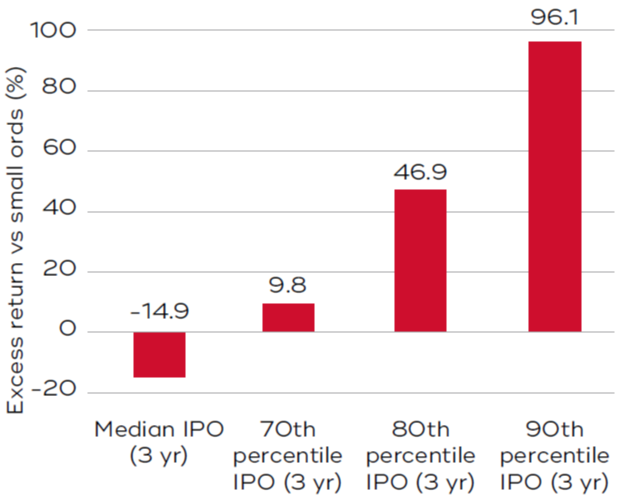
- *Median returns begin to decline between 3-6 months post IPO*
- *Median returns remain negative out to 3 years*
- *Weighted average returns are in line over 1 year but then decline out to years 2 and 3*
- *But the best 30% added alpha while the best 20% added significant alpha*
- *The initial trade day returns are as volatile as returns over 3 months. There are big initial day winners…and losers*
- *Compared with our last IPO review 18 months ago, the performance of the 90th percentile has lifted while the 10th percentile has deteriorated*

Key takeaways

IPOs require detailed analysis

The best 30% of significant IPOs outperformed the benchmark by 9.8% over 3 years. While this is only 3.2% p.a. the story gets better from here. The best 20% outperformed by 46.9% (13.6% p.a.) which is significant. The best 10% outperformed by significantly more again and delivered 96% or 25% p.a.

Chart 5: Excess returns vs small ords (p.a.)



Source: Factset, Jan 2000-Dec 2020

We draw the following conclusions:

- Significant alpha is available by investing in IPOs.
- It is not always necessary to invest in the IPO as the outperformance of the best companies begins to really compound beyond the 3-6 month period.
- Investors need to be very selective. The worst 70% will deliver an index return at best and will possibly significantly underperform.
- The best 30% will deliver alpha vs the benchmark. However it is only the best 20% that will really make a difference to investing in the XSO benchmark.
- Significant returns are available, however the Devil will take the Hindmost!

For further information, please contact:

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