Eiger Australian Small Companies Fund

ARSN 631 961 398 APIR HOW2967AU

eiger capital

Quarterly Report June 2021

Fund Performance

Eiger Australian Small Companies Fund Performance (after fees) as at 30 Jun 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	4.55	8.32	46.95	21.44	-	-	-	22.38
S&P/ASX Small Ordinaries Accumulation Index	3.08	8.50	33.23	12.06	-	-	-	12.93
Active return	1.47	-0.18	13.72	9.38	-	-	-	9.45

[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 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 30 Jun 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	4.55	8.32	46.95	21.44	15.07	14.29	12.69	11.51
S&P/ASX Small Ordinaries Accumulation Index	3.08	8.50	33.23	12.06	8.60	11.24	5.99	4.84
Active return	1.47	-0.18	13.72	9.38	6.47	3.05	6.69	6.67

[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 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	$94.1M
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.

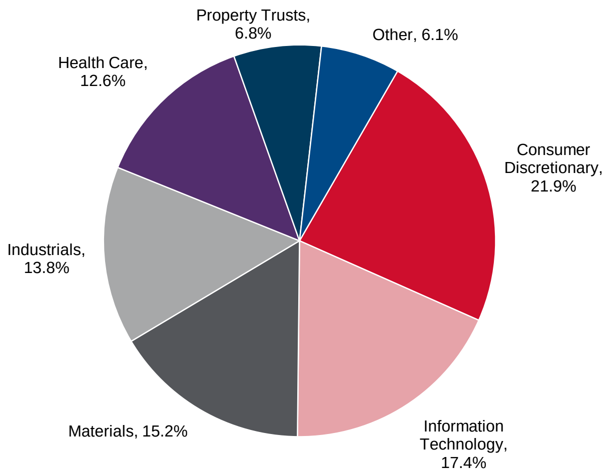
Experienced and aligned: The investment team has more than 60 years of combined industry experience. We have materially invested in the Fund alongside our clients and also own a majority of equity in Eiger Capital.

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
Reece Ltd
Technology One Limited

Stock attribution (alphabetical)
Top contributors (quarter)
Life360 Inc
Pilbara Minerals Ltd
Reece Ltd
Top detractors (quarter)
Ryman Healthcare Ltd
Starpharma Holdings Limited
Whitehaven Coal Ltd

Asset allocation	Actual %	Range %
Security	93.78	90-100%
Cash	6.22	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +8.50% for the quarter. The fund underperformed the market and delivered a +8.32% return over the quarter.

Contributors

Life360 Inc (360)

Announced upgrade to revenue guidance during quarter.

Pilbara Minerals Ltd (PLS)

Ever increasing demand for lithium from both the auto and grid storage sectors.

Reece Ltd (REH)

Exposure to strengthening construction rates in US and Australia.

Detractors

Ryman Healthcare Ltd (RYM NZ)

Full year result raised concerns around debt levels and short term return on invested capital (ROIC).

Starpharma Holdings Limited (SPL)

UK regulator raised concern about label claims for Viraleze.

Whitehaven Coal Ltd (WHC)

Disappointing March quarterly. Position terminated.

Market overview

The S&P/ASX Small Ordinaries Index (XSO) increased by 8.5% during the June 2021 quarter. The Small Industrials increased by 6.6%, while the Small Resources increased by 13.6%. XSO finished the quarter on a forecast price to earnings ratio of 19.3x which is 17% above its 5 year average. This valuation is 8% higher than the equivalent ratio for the ASX200.

The best performing sectors were: Metals & Mining - Other (+21.9%), Automotive (+19.5%), Real Estate Mgmt & Development (+17.5%), and Aged Living (+17.2%). The worst performing sectors during the June quarter were Chemicals (-13.8%), Agricultural Products (-7.5%), Engineering & Mining Services (-5.2%) and Infrastructure & Utilities (-4.1%).

The best performing stocks within the XSO Index were Alkane Resources (ALK, +67), Megaport (MP1, +66%), Galaxy Resources (GXY, +45%) and Uniti (UWL, +44%). Alkane announced positive drilling results and mine life extensions. Megaport announced a new range of cloud services. Galaxy Resources made a series of announcements upgrading production and product suite and responded to the positive news flow surrounding the overall demand for lithium.

The worst performing stocks in the XSO index during the quarter were Nuix (NXL, -57%), Perenti (PRN -34%) and EML payments (EML -27%). The Nuix IPO remains plagued by ongoing bad news which now includes claims of insider trading. There is also the issue of ongoing downgrades, the prospect of class actions and investigations by regulatory bodies. Perenti issued an earnings warning in May. EML Payments was subject to an investigation by The Central Bank of Ireland.

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 an ongoing recovery in industrial production in 2021 although it would appear that China has recently had to increase economic stimulus. In the UK and North America 2 dose vaccination rates are now above 50%. Serious 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 volatility in the global bond markets. This is a positive for equity valuations. Inflation from higher commodity prices and transport remains the key risk to very low interest rates.

The ongoing trade dispute between The US and China has become more pronounced during the COVID-19 lockdown period. The election of Joe Biden has made little difference to the trade disputed between The US and China which continues to spread to adjacent political spheres. Australia is caught up in this dispute with several exports targeted. Despite this commodity prices are rising particularly thermal coal, a key export for Australia. Iron ore has remained strong throughout the year to date.

Resources and their related mining services suppliers are also dependent on the US$/A$ exchange rate. The A$ is currently trading below US$0.75c. This is a positive for mining and farming. The A$ has recently weakened as the impact of a relatively poor vaccination rate in Australia has increased the risk to domestic economic growth. Despite the China trade bans there seems to be significant demand for the record Australian crops. The Australian March 21 quarter current account surplus was $18bn. This was the eighth quarterly surplus in a row. Prior to this period Australia has not recorded a quarterly current account surplus for 44 years.

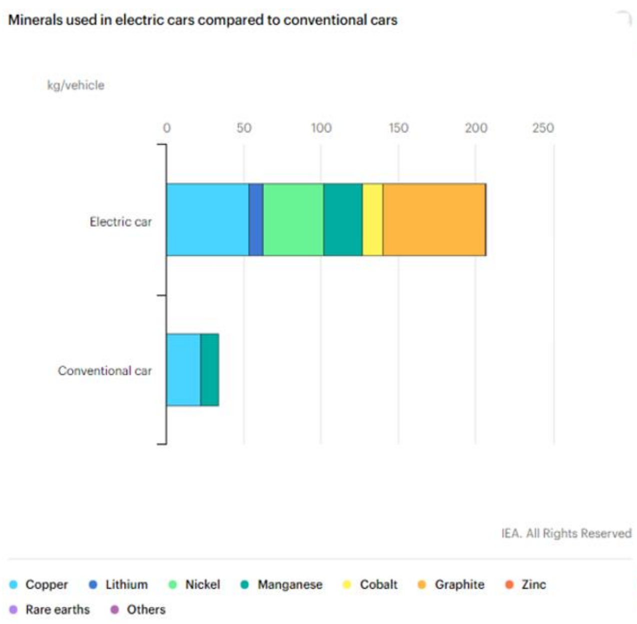
Thought Piece - Finding Exposure to the Original Renewables Metal

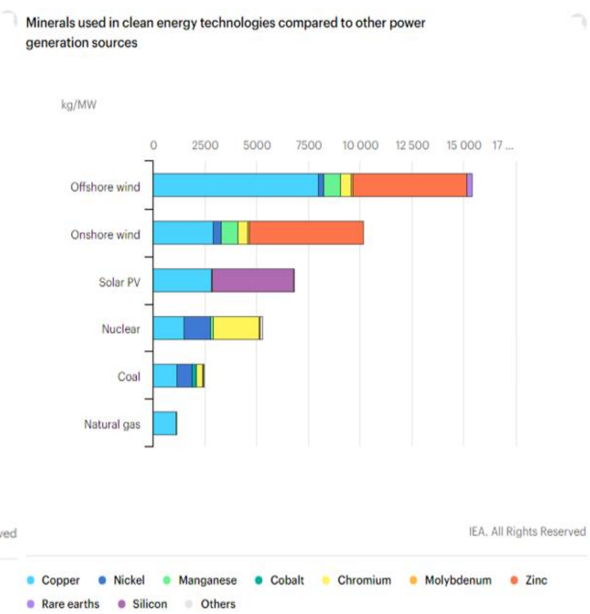
With the signing of the Paris 2050 agreements, industrialised nations are increasingly adjusting their economies to bring about a decarbonised world, or at least are attempting to move towards "net-zero" emissions. Most of the recent focus has been on the electrification of transport with many major automotive manufacturers ceasing R&D of the faithful internal combustion engine (ICE) and switching those funds to electric vehicles instead.

Volkswagen, for example, is targeting 60% electric vehicle sales in Europe by 2030, while in North America, GM said it will cease the sale of petrol/diesel cars and SUVs by 2035. In NSW, the state government recently announced incentives to encourage the take-up of electric vehicles. While cars grab most of the headlines, other important technologies include battery storage and advances in solar and wind power generation. In Australia, there is currently about 240MW of battery storage with a further 1,000MW under construction and almost 3,000MW proposed.

This has created an incredibly strong tailwind for the renewables industry and generated a lot of excitement around "new" energy metals, most notably lithium. The use of batteries and other storage media helps overcome the limitations of solar and wind. We believe strongly in this dynamic and have investments in lithium producers such as Pilbara Minerals and associated rare earths in Lynas Rare Earths.

There is no doubt in our minds that lithium and rare earths have a central role in this new economy, as does solar and wind. Nuclear too, may have a place, as well as hydrogen, and old-fashioned fossil fuels will be around for years yet as the transition takes place. However the future evolves, there is one element that is common to all these outcomes, and that is copper. Regardless of the technology, copper alone is present. Already a 24Mtpa market, copper demand is set to grow strongly as the pace of electrification intensifies.





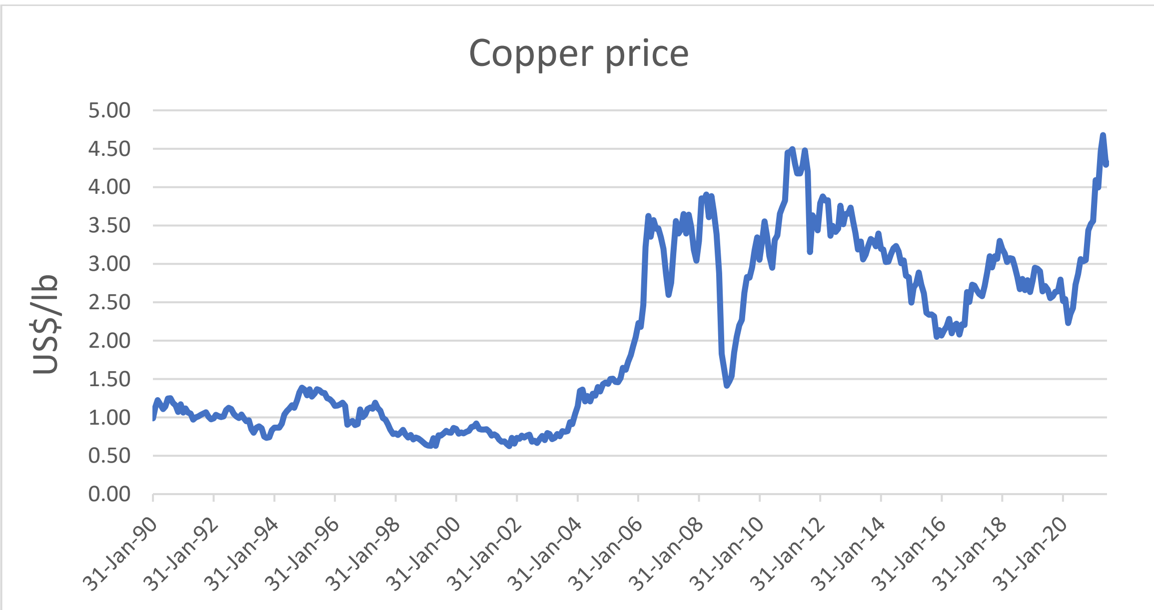
Copper is the second most conductive metal after silver but only about 1/90th of its price. It is highly ductile and more robust than competing metals like aluminium. It is used in every imaginable electrical device and is the most sought after of the base metals.

Consider the impact of vehicle electrification. A standard ICE uses between 8kg and 20kg of copper, but a battery electric car uses around 80kg, or 4-10x as much. An electric bus uses as much as 370kg of copper. To give these figures some context, look at Australian new car sales last year of almost one million vehicles. In simple terms, full electrification would mean an increase in contained copper from 10-20kt p.a. to 80kt p.a., which is more copper than Sandfire Resources produces in a year.

In electricity generation, a windmill uses about 4 tonnes of copper. In the Australian context, where wind accounts for ~8.5% of generation from around 2,700 turbines, the copper required, prima facie, is almost 11,000t. The world's biggest producers of wind energy, China and the EU, dwarf Australia, having 30x and 21x more installed wind capacity, respectively. It's hard not to be swayed by these figures, especially as demand for renewables capacity grows and hence, we view copper in parallel with lithium as a core part of a renewables theme.

Except for OZ Minerals, investment in ASX copper pure-play companies is the preserve of small caps. While there are a small number of listed producers, we are most excited by Eagle Mountain Mining (EM2-AX). The company owns a brownfield project with existing resource in Arizona, which is the US's top copper producing State. Drilling results to date are very encouraging. When the asset was last mined in the 1990s, the copper price was about US$1/lb (see chart below) whereas the price today is close to $4.50/lb. We have seen plenty of examples, especially in gold, where old mining areas have been successfully reopened on higher commodity prices. Reopening old mines is also likely, in our view, to be more successful in currently operating mineral belts. This is the case with reopening gold mines in Western Australia or, hopefully, a copper mine in Arizona.

Eagle Mountain has existing infrastructure, proximity to smelters and a pool of experienced labour. It is presently tripling its drilling rate and we expect to see news flow increase over the coming months. There is lots of work ahead for the company but with the strength of the electrification tailwind for copper, we believe further drilling success may result in a material uplift in valuation.



Source: Factset

For further information, please contact:

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

Unless otherwise specified, any information contained in this publication is current as at the date of this report and is provided by Eiger Capital Limited ABN 72 631 838 607 AFSL 516 751 (Eiger Capital), the investment manager of the Eiger Australian Small Companies Fund ARSN 631 961 398 (**Fund**). Fidante Partners Limited ABN 94 002 835 592 AFSL 234 668 (**Fidante Partners**) is the responsible entity and issuer of interests in the Fund. The information in this publication should be regarded as general information and not financial product advice, and has been prepared without taking into account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs. Each person should obtain and consider the Product Disclosure Statement (PDS) and any additional information booklet (AIB) for the Fund before deciding whether to acquire or continue to hold an interest in the Fund. A copy of the PDS and AIB can be obtained from your financial adviser, our Investor Services team on 13 51 53, or on our website www.fidante.com.au. Please also refer to the Financial Services Guide on the Fidante Partners website. Past performance is not a reliable indicator of future performance. Neither your investment nor any particular rate of return is guaranteed. The information contained in this document is not intended to be relied upon as a forecast and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy, nor is it investment advice. If you acquire or hold the product, we, Fidante Partners or a related company will receive fees and other benefits which are generally disclosed in the PDS or other disclosure document for the Fund. Neither Fidante Partners nor a Fidante Partners related company and its respective employees receive any specific remuneration for any advice provided to you. However, financial advisers (including some Fidante Partners related companies) may receive fees or commissions if they provide advice to you or arrange for you to invest in the Fund. Eiger Capital, some or all Fidante Partners related companies and directors of those companies may benefit from fees, commissions and other benefits received by another group company.