Eiger Australian Small Companies Fund

eigercapital

ARSN 631 961 398 APIR HOW2967AU

Quarterly Report September 2021

Fund Performance

Eiger Australian Small Companies Fund Performance (after fees) as at 30 Sep 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	0.33	11.38	48.24	25.48	-	-	-	25.18
S&P/ASX Small Ordinaries Accumulation Index	-2.14	3.44	30.41	12.27	-	-	-	13.07
Active return	2.47	7.94	17.83	13.21	-	-	-	12.10

[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 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 Sep 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	0.33	11.38	48.24	25.48	18.52	15.12	15.36	12.37
S&P/ASX Small Ordinaries Accumulation Index	-2.14	3.44	30.41	12.27	9.43	10.18	7.69	5.06
Active return	2.47	7.94	17.83	13.21	9.09	4.94	7.67	7.31

[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 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	$219.5M
Distribution frequency	Quarterly

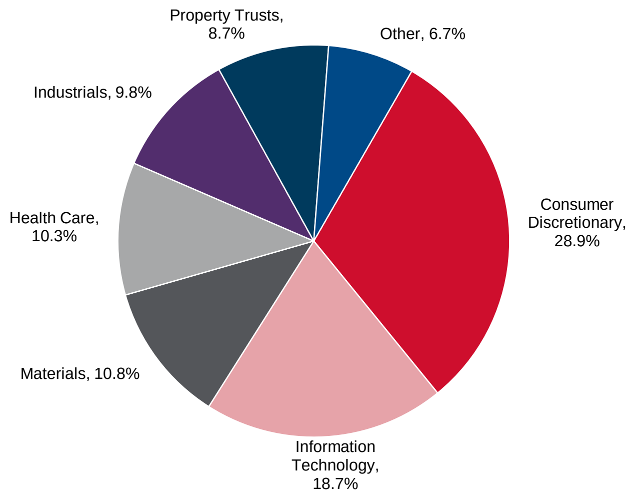
[4] The Benchmark for the Fund is the S&P/ASX Small Ordinaries Accumulation Index

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)
Mainfreight Ltd
Ryman Healthcare Ltd
Technology One Limited

Stock attribution (alphabetical)
Top contributors (quarter)
Life360 Inc
Lifestyle Communities Ltd
Pilbara Minerals Ltd
Top detractors (quarter)
AP Eagers Limited
Reece Ltd
Whitehaven Coal Ltd

Asset allocation	Actual %	Range %
Security	93.77	90-100%
Cash	6.23	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +3.44% for the quarter. The fund outperformed the market and delivered a +11.38% return over the quarter.

Contributors

Life360 Inc (360)

Result revealed higher average monthly revenue. COVID opening benefits.

Lifestyle Communities Ltd (LIC)

Ongoing increases in residential housing prices and strong demand.

Pilbara Minerals Ltd (PLS)

Increases in reserves and higher commodity prices.

Detractors

AP Eagers Limited (APE)

Gave up June quarter share price rise on a result that was strong but delivered no upgrade.

Reece Ltd (REH)

Gave up June quarter share price rise on a result that was strong but delivered no upgrade.

Whitehaven Coal Ltd (WHC)

Strong rise in share price on very strong coal prices. (Not held by the fund)

Market overview

The S&P/ASX Small Ordinaries Index (XSO) increased by 3.4% during the September 2021 quarter. The Small Industrials increased by 3.8%, while the Small Resources increased by 2.3%. XSO finished the quarter on a forecast P/E ratio of 20.7x which is 24% above its 5 year average. This valuation is 16% higher than the equivalent ratio for the ASX200.

The best performing sectors were: Energy (+29.9%), Aged Living (+19.2%), Metals & Mining – Advanced Materials (+17.8%), and Real Estate Management (+15.4%). The worst performing sectors during the September quarter were Metals & Mining - Steel (-14.1%), Metals & Mining - Precious (-11.9%), Metals & Mining – Base (-7.4%) and Healthcare (-4.0%).

The best performing stocks within the XSO Index were ioneer (INR, +80%), Whitehaven Coal (WHC, +67%), Coronado Resources (CRN, +54%) and Flight Centre (FLT, +45%). ioneer established a joint venture and funding to develop its lithium/boron project in Nevada. Whitehaven and Coronado are both responding to the significant jump in coal prices. Flight Centre bounced on news that global travel volume continues to increase rapidly.

The worst performing stocks in the XSO Index during the quarter were Marley Spoon (MMM, -53%), Mount Gibson (MGX -47%) and Appen (APX -34%). Marley Spoon disappointed the market with its June quarter update and was impacted by a Woolworths selldown of equity. Mount Gibson was impacted by the declining iron ore price while Appen steadily declined all quarter and announced a disappointing 1HFY21 earnings update.

Market outlook

The market and economic outlook are dominated by the rate of recovery from COVID-19 and vaccine rollout rates. Hospitalisation rates from COVID in those countries with high vaccination rates appear to be within expected limits. 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 debate around the trajectory of inflation post COVID has shifted from near certainty that it was temporary to concern about stagflation.

The cost of hard and soft commodities and particularly energy has risen sharply. Energy costs could potentially feed into widespread price rises if they persist. In addition, the ability of China to maintain just-in-time supply across a huge range of consumer goods has at least temporarily declined. Shipping costs have skyrocketed. Booming real estate prices in most

Are Pilbara Minerals and Lynas Rare Earths themost valuable strategic assets in Australia?

The below interview with Eiger's Victor Gomes originally appeared onLivewire Markets in early September 2021.

Lithium and rare earth miners have had nothing short of an electricrun over the past 12 months, with the appetite for battery material producers switching into gear in the midst of the COVID-19 crisis.

Investors in Pilbara Minerals (ASX: PLS) and Lynas Rare Earths(ASX: LYC) have seen share prices ahead 580% and 170% respectively over the year to 30 September 2021.

2021, in particular, has been especially kind to battery material producers. In March, US President Joe Biden called for $174 billion tobe spent on electric vehicles (EV), including incentives for consumersand a promise to build 500,000 EV charging stations across the US.

In August, the Biden administration announced that up to half (40- 50%) of new vehicles sales would be electric by 2030. Meanwhile, theannouncement of a $1 trillion bipartisan infrastructure bill (including a lower than expected $7.5 billion in spending to build EV charging stations across the country) saw further rises in share prices.

And while the demand for lithium is expected to increase tenfold by 2030 (furthered by China's similar commitment to EV car sales by 2030), investors fear the market could face supply issues far sooner.

What were the key takeaways from Lynas RareEarths' result?

Mining companies put out quarterly production reports, so a lot of the key data was already released at the end of July. There wasn't a lot that was new. Probably one of the highlights with Lynas is the consistency of their operations. Amanda Lacaze runs a very tight ship,she's a great CEO - one of the top CEOs in my area of coverage.

Rare earths, in particular, NdPr, which is their key product, makes magnets. These magnets are important for electric vehicles and motors that use permanent magnets. You can either use permanent magnets or electromagnets, but permanent magnets are more efficient - they're lighter, smaller and more powerful, which helps give EVs greater range. So they are key to electric vehicles and renewables. The average 1Mw wind turbine uses 200kg of NdPr for its generator.

Malaysia has been really impacted by COVID-19, more so than Australia. So their operations have only been at 75% capacity and they haven't been able to exploit the strong pricing environment at the moment.

Despite that, earnings before interest, tax, depreciation and amortisation (EBITDA) grew very strongly, cashflow was strong and you got a taste for what the business can do if they get the dynamic of good prices and they are able to double production volumes - as is their plan to do over the next five years.

What were the key takeaways from Pilbara Minerals'result?

Pilbara again pre-announced a lot of the details from the quarterly.The key lesson is that they've done the hard work.

They capitalised on the opportunity when their neighbour went broke;Altura. They bought it at basically well below replacement cost. You couldn't build that mine for what they paid for it.

When you have two mines right next to each other, you can never goright up to the boundary line because there's a fence; you have to taper your pit walls, and there's a whole lot of land in the middle that you can never access. Now they can keep going past the wall.

LYC and PLS were both sold off on the day they reported. Why do you think this was?

It's hard to judge whether that share price response was just due to coincidence; that the day they reported was an off day for commodity prices and resource stocks. And I think it was. The market tends to buy the rumour and sell the facts. That's the other thing. It's always hard to invest on a day to day, week to week basis. But if you take the long view and that's the way we invest, it actually does become easier to pick where you think the business will be in five years time.

Lynas is going to be a much more valuable business over that timeframe because it's such a unique asset. It's the only material producer of rare earths outside of China. It's at the bottom end of the cost curve globally. It's the second biggest globally; there's only one Chinese producer that's bigger and they're a state-owned enterprise. It's got a very long life, low-cost mine in Mount Weld, and they haven't even really drilled that out significantly.

So the resource base could be much bigger than they're saying at the moment. It's going to support their expansion into the US. And this is a strategic material globally for everyone outside of China.

This is probably the most valuable strategic asset in Australia.

The sell-side has chased their tail on this company. It's gone from 20cents to $2.20 over a year and a bit. And all the way through at 20 cents, most people were negative on it. And they continued to keep chasing their tails. I think they've been surprised by how quickly demand has recovered in combination with management doing a really good job.

In both cases, Pilbara and Lynas are well-positioned to exploit rising demand and will be able to increase their supply to the market.

Were there any major surprises in these results?

Probably the only surprise with Lynas was how their operations are still being impacted by COVID-19. I thought Amanda would say that they would be back operating at 100% over the next three to six months, and she's still saying that most of this year Lynas will be running at 75%.

On the positive, a surprise was that the government has given them an extension on their licence to relocate to Australia. Lynas is moving the initial part of their process, which is called cracking and leaching, from Malaysia to Kalgoorlie in Western Australia. They are on track to do that by 2023.

Another positive surprise is that they're probably doing better having set up their operations in the US. The US government is very keen to encourage a non-Chinese source of supply for these critical elements that go into not only renewables and EVs but also a lot of the defence sector. And as you can see at the moment, geopolitical issues are a big focus, not only for Americans but also for Europeans. And Lynas is key. That's why I believe it is one of the most strategically valuable assets listed on the ASX.

On Pilbara, I expect costs will stay elevated for a bit longer. A lot of companies have talked about wage pressures in WA, and Pilbara is not immune to that. Having said that, most of its cost pressures are from shipping; freight costs have gone through the roof.

But having said that the spodumene price has gone up a long way. It's gone from $400 to $900. And they're setting up what they call a battery materials exchange, or BMX, a very interesting acronym. And as they grow out Altura, and their total production to a million tonnes (including a growing amount of uncontracted production) over the next four to five years, they're going to try to sell that not on contract, but on spot. Just as you get a very liquid iron ore price, they're looking to do the same thing with battery materials. So that will give them a lot of leverage in a tight supply environment to really extract the best prices out of their growing production profile over the next few years.

Both Lynas and Pilbara are in our top ten holdings.

Will they grow ten times? No, I don't think so. But I think they will provide a better than market return over the next five years; all the preconditions are there. The market environment is there, they are well-positioned within their sectors, they've de-risked, their capital expenditure (CAPEX) risk is very low, they are operationally running really well.

The sell-side always tends to overestimate or underestimate the tops and the bottoms. And they move in small steps, but the market doesn't do that. If supply is much tighter than demand, it tends to move a lot quicker. And that's what we've seen. So there has been really tight conditions for battery materials, in particular, lithium units out of hard rock.

Lithium units either come from salt pans or salt lakes, like Orocobre (ASX: ORE), and comes out of Chile and Argentina. That's essentially brining salt, evaporating it and scraping what's left after the sun has dried it, and there is a lot of lithium in there but you have to process it. It's a cheaper way to make low-grade lithium for carbonate and for LFP batteries, which are lower density batteries. It's a more expensive way to make lithium for high-density batteries, like the one you find in Tesla; for long-range, high nickel content batteries - you need very pure lithium. And the cheapest source of that is hard rock.

There are really only a couple of companies globally who supply hard rock lithium at the moment. We think Pilbara controls 60% of the worldmarket.

Mineral Resources (ASX: MIN) and Galaxy Resources (ASX: GXY) have mines, but they do not have a lot of free spodumene there and they are small relative to Pilbara's capacity over the next five years. I know Rio Tinto (ASX: RIO) wants to build a mine in Serbia, and there are a lot of hopefuls out there, but the experience we have learnt from Pilbara over the last four years is that it is going to take longer, it costs more, and it is harder to build. There is all this fear that there is going to be oversupply, but I think people are underestimating how hard it's going to be.

Pilbara's already built, it's at the low end of the cost curve, and it can expand from 500,000 tonnes now to a million tonnes with the Altura plant they bought at very measured capital. So it's a brownfield expansion; it's low risk.

Pilbara is one of the best plays globally that can expand to double production at measured CAPEX over the next couple of years with this increasing demand. You haven't seen it in the results yet because the price really has only spiked in the last three months. But I think this year we'll see a much stronger cash flow result.

As for Lynas, there are not many competitors, to be honest. Mount Weld is such a unique asset, it's the highest grade rare earths mine in the world. I once heard a statistic that the second highest-grade deposit of rare earths was their tailings; the stuff that they had rejected, that was on the side. So this is a fairly unique asset. And it's built and it's operating. They went and spent $800 million perfecting their process in Malaysia over eight years - you just can't replicate that easily.

What's your outlook for LYC, PLS and the battery material sector?

Demand is so strong with the take up of EVs that I think there will still be a deficit in the market even if these competitors can establish new mines. So that's why the outlook for both Lynas and Pilbara looks very promising over the next few years.

Lynas and Pilbara are global tier-one suppliers in both their respective commodities, very well positioned, and at the low end of the cost curve. They are well managed, they have well-capitalised balance sheets, and have the ability to grow production at measured CAPEX. So these are fairly unique businesses.

We are looking to get a compound return of 10-15% over the next five years, that would be a great outcome. Whether these businesses have the potential to do that is hard to say. But if the demand environment stays where it is, I think they could.

Is the supply of battery materials falling behind demand? Is this something investors should beworried about?

The resources sector is characterised by a massive mistiming of investments. They invest at the top and when the mine is ready to come on and produce, the cycle has turned and commodity prices areat their lows and they lose lots of money - and then there is a CAPEX strike for 10 years because everyone got burnt!

I have no doubt that there is a lot of new investment going into this space. No one picked European demand for EVs taking off so quickly since COVID-19 hit. And it does feel like if you don't have a net-zero target by 2050, then you are out on a limb now. The US is aiming for acertain percentage of cars to be zero-emission. It's almost unstoppable. And it just means that demand will be very strong.

We've talked about new suppliers coming on, but we think it will be like iron ore. There was a lot of production, usually at higher costs andlower grade. And those businesses become unprofitable; they are too high cost.

If you are buying Pilbara and Lynas, you are buying the BHP and Rioiron ore equivalents in the battery materials space. They are at the bottom of the cost curve, they have the biggest resource, the lowest costs.

For further information, please contact:

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