Eiger Australian Small Companies Fund

ARSN 631 961 398 APIR HOW2967AU

eiger capital

Quarterly Report December 2021

Fund Performance

Eiger Australian Small Companies Fund Performance (after fees) as at 31 Dec 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	1.20	2.17	31.97	25.49	-	-	-	23.60
S&P/ASX Small Ordinaries Accumulation Index	1.41	2.03	16.90	12.98	-	-	-	12.63
Active return	-0.21	0.14	15.07	12.51	-	-	-	10.97

[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 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 Dec 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	1.20	2.17	31.97	25.49	25.58	17.09	15.75	12.28
S&P/ASX Small Ordinaries Accumulation Index	1.41	2.03	16.90	12.98	15.71	11.17	7.97	5.13
Active return	-0.21	0.14	15.07	12.51	9.87	5.92	7.77	7.15

[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 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	$328.2M
Distribution frequency	Quarterly

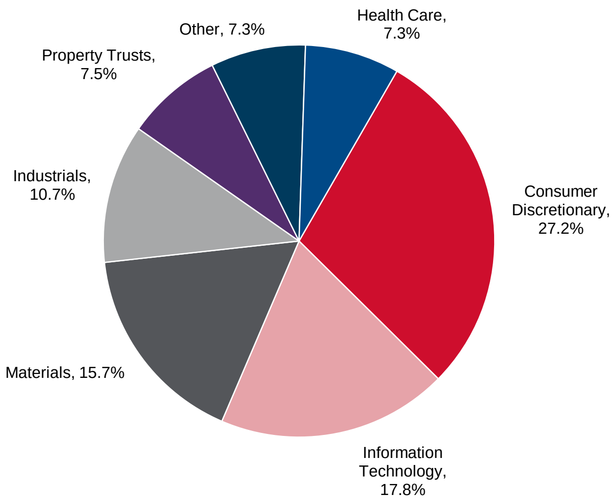
[4]The Benchmark for the Fund is the S&P/ASX Small Ordinaries Accumulation Index

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)
Johns Lyng Group Ltd
Pilbara Minerals Ltd
Ryman Healthcare Ltd

Stock attribution (alphabetical)
Top contributors (quarter)
Johns Lyng Group Ltd
Lynas Rare Earths Ltd
Pilbara Minerals Ltd
Top detractors (quarter)
Domino's Pizza Enterprises Limited
Nitro Software Ltd
Ryman Healthcare Ltd

Asset allocation	Actual %	Range %
Security	93.62	90-100%
Cash	6.38	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned +2.03% for the quarter. The fund outperformed the market and delivered a +2.17% return over the quarter.

Contributors

Johns Lyng Group Ltd (JLG)

Highly accretive and strategically positive acquisition in the USA.

Lynas Rare Earths Ltd (LYC)

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

Pilbara Minerals Ltd (PLS)

Ongoing strength in EV/PHEV sales. Higher commodity prices.

Detractors

Domino's Pizza Enterprises Limited (DMP)

Very strong in September quarter. Slowdown in sales in Japan.

Nitro Software Ltd (NTO)

Significant selldown of global peer following weak 3rd quarter result.

Ryman Healthcare Ltd (RYM NZ)

Weaker than expected interim result. Reserve Bank of New Zealand efforts to cool property market in New Zealand.

Market overview

The S&P/ASX Small Ords Index (XSO) increased by 2.03% during the December 2021 quarter. The Small Industrials decreased by 1.22%, while the Small Resources increased by 14.2%. XSO finished the quarter on a 2yr forecast price to equity (P/E) ratio of 19.7x which is 17% above the 5-year average. This valuation is 6% and 8% above the equivalent ratio for the ASX Midcap 50 and the ASX200 respectively

The best performing sectors during the quarter were: Metals & Mining - Base (+35.8%), Metals & Mining - Precious (+21.0%), Industrial Technology (+16.5%), and Metals & Mining – Advanced Materials (+11.6%). The worst performing sectors during the December quarter were Consumer Discretionary & Leisure (-12.9%), Biotech (-12.1%), Financial Services (-8.3%) and Wholesale, Distribution & Manufacturing (-6.4%).

The best performing stocks within the XSO Index were Falcon Metals (FAL, +938%), BrainChip (BRN, +72%), Capricorn Metals (CMM, +60%) and Nickel Mines (NIC, +52%). Falcon Metals was a spinout from Chalice so its performance may be slightly artificial. BrainChip announced a partnership in late November with leading Japanese Ai company MegaChips. Nickel Mines announced in mid-November that it's Angel project was well ahead of schedule.

The worst performing stocks in the XSO index during the quarter were Sezzle (SZL, -47%), PPK (PPK – 39%) and Zip (ALK -39%). Sezzle and Zip are buy-now pay later providers that are being impacted by the prospect of tighter lending regulation in several jurisdictions. PPK reported a loss for the year ended June 2021 at the end of August vs a profit of A$8.3m in the prior year.

Market outlook

The market and economic outlook are dominated by the rate of recovery from COVID-19 and its impact on inflation and interest rates. The omicron outbreak has, we believe, the potential to exacerbate the current concerns about inflation by causing even more disruption to the labour market. This is despite evidence so far that it's impact on the health system may be lower than previous strains, notably delta. The debate around the trajectory of inflation post COVID has shifted from the near certainty that it was a temporary concern to the prospect that it will remain elevated for a longer period. The latest notes from The US Federal Reserve confirm that they now believe inflation is here to stay for a while. The risk of stagflation has also risen. Central banks appear to be increasingly concerned about inflation rather than growth. We believe whatever the shape of the downturn and recovery, interest rates overall will remain lower than in prior cycles as debt will remain very high.

The cost of hard and soft commodities and particularly energy has risen over the last 12 months. Energy costs could potentially feed into widespread price rises if they persist. In addition, the ability of China to supply the world with a just-in-time supply or a huge range of consumer goods has at least temporarily declined. Shipping costs have skyrocketed. Booming real estate prices in most developed economies is beginning to cause reflection among key Central banks.

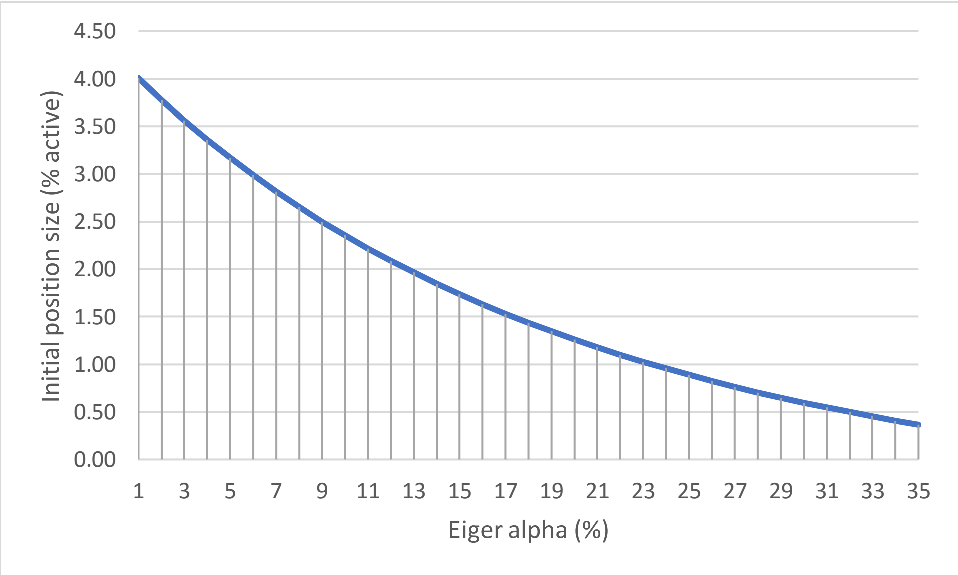
Resources and soft commodities are also dependent on the US$/A$ exchange rate. The A$ is currently trading around US$0.72c and has been weak of late.

We continue to believe that low interest rates will remain positive for equity valuations. However, we are becoming more cautious on the impact this will have on growth.

Thought Piece: How does our process take advantage of early stage ideas?

In the past we have discussed our approach as small cap managers to position sizing and its importance given the large investable universe – about 700 companies between A$100m and A$3bn. Choosing a company to invest in goes beyond a purely quantitative approach and major considerations include liquidity, maturity of the business and the appropriate size within the portfolio. In other words, the highest alpha opportunity does not necessarily equate to the biggest holding.

The chart below is a schematic illustration of this point. It shows the projected growth of a company's holding size with a portfolio if our assumptions and modelling prove to be right. So, a company with a very high alpha, say 35%, could enter the portfolio at 0.5% only and all other things being equal, could grow to about 4% without us adding to the position. If the company turns out to grow as we have assumed and we gain more confidence in the investment, then we might choose to add to it.



Source: Eiger Capital

We therefore do not need to take big risks on small, earlier stage opportunities. If we are right about the stock, growth will be very strong, and we should be rewarded with increased market capitalisation and share price. However, if we are wrong, the impact on the portfolio is limited.

Around 80% of our portfolios by stock number are anchored around more sizeable, liquid companies where we have a lot of confidence in the medium to long-term outlook. These companies are typically a bit more mature in their development but would also be considered as being higher quality (e.g. strong management, higher returns on capital etc) and still have prospects for efficient growth. The balance of the portfolio is a 'nursery' of ideas that we believe have excellent potential in the medium to long-term but are earlier in their journey.

One example where this investment approach has worked well for us is Pilbara Minerals (ASX: PLS), a WA based hard rock lithium miner. It's a position held in the Eiger portfolio since fund inception in early 2019. As the saying goes Pilbara has been an overnight success some years in the making. Scoping the upside was never the issue. Our challenge was always managing the elevated risk in Pilbara's earlier stage of development (high project capex and funding risk) and then forecasting the medium to long term demand for lithium battery grid storage and EVs.

In early 2019, our Pilbara alpha score (our DCF valuation models expected 6 year compound annual return) was well in excess of 30%. Nevertheless, as noted above, Eiger's initial position sizing risk management process lead us to commit to only a 1% initial position in Pilbara.

Pilbara began construction of its plant in WA during the previous lithium boom in late 2016. As events would have it, the sector was then hit with a severe commodity price downturn during the new plant's commissioning in 2019 and 2020. It was during these difficult times that we became very impressed with how prudently the company was managed. Others in the industry were less well managed during this downturn.

Around mid-2020, as the lithium commodity price approached its nadir, our active portfolio position in Pilbara was still around 1%, (at a share price of 25c). Although we subsequently took up our pro-rata entitlements in the capital raise of early 2021 (to fund the acquisition of its insolvent lithium producing neighbour, Altura), we did not otherwise materially add to the position over this time.

Nevertheless, over the past 2 years, Pilbara Minerals has been the fund's largest performance contributor, by some margin (Dec 21 share price of $3.20). This performance is despite our 5% "Hero Rule" (risk constraint of a max 5% active position) forcing us to continuous trim of our holding during 2021. At the end of 2021 Pilbara Minerals remained our third largest position, representing ~3.8% of the fund. It has delivered our investors over 9% alpha contribution over the past two years, all from that initial 1% position size.

A negative example involves Polynovo (ASX: PNV). We were very impressed with the NovoSorb technology that offered burns and wounds victims much better recoveries and outcomes. This product had a global total addressable market (TAM) of US$1bn but It was also developing similar products in areas with bigger addressable markets such as hernia treatment and breast reconstruction. Two years ago, we had a portfolio position of ~1% or an active position of about 0.65%. This doubled over the next 12 months through share price appreciation to ~1.45% active. Unfortunately, several waves of COVID impacted the company's US expansion and the CEO departed, so we chose to exit and wait for more stability in the business before reconsidering an investment. As Pilbara has shown, when small companies get things right, they can grow at an exceptional rate.

Today there continue to be several other small "nursery" positions of 1% or less in the fund. Examples include Calix (ASX: CXL), Eagle Mountain Mining (ASX: EM2), Boss Energy (ASX: BOE) and Chalice Mining (ASX: CHN). Calix has developed an innovative decarbonisation technology that has widespread potential in carbon-heavy industries, in particular the cement and steel industries, which combined account for about 15% of global carbon emissions.

Eagle Mountain is a brownfields copper company with a resource in Arizona, USA. It is aiming to expand the skarn copper resource and recommence mining. It is well-located in a major copper producing region, notable for some large porphyry deposits, and has had some exciting drill results from the skarn, possibly fed from a porphyry lode. It has also made a new gold discovery nearby at Golden Eagle.

Boss Energy gives us exposure to the uranium market, which has seen renewed interest since COP26 and the establishment of the Sprott Physical Uranium Trust. Boss is in South Australia, is fully permitted to produce and export uranium and requires only about 12 months to come off care and maintenance to begin production. The uranium sector has been capital starved for a decade and more focus on alternatives to fossil fuels has seen uranium prices increase dramatically over the past year from US$18/lb to US$42/lb.

Chalice Mining represents one of the most significant base metals and PGM discoveries in Australia in recent years. It recently announced a maiden resource of 330Mt @ 0.58% Ni eq at Julimar, WA (Gonneville) from about a quarter of its exploration holdings there. The company is now moving onto ground not previously explored and there remains strong potential for further positive results. We believe the suite of metals at Julimar (Ni, Cu, Pt, Pd) is attractive because of their widespread use in the renewables sector (in batteries, electrification and catalysts in hydrogen fuel cells).

There are also a small number of what were original sub 1% nursery positions over the past 2-3 years that have graduated into the top end of nursery holdings as they successfully prove out our investment thesis (now 1.5-2% active positions). Some examples include Audinate (the global leader in IP networked audio and video solutions), PWR (innovative thermal cooling technologies for automotive and increasingly defence industries) and PEXA (dominant Australian digital property exchange marketplace with opportunities to replicate similar position in other large property markets).

Most of these nursery positions have the potential to deliver our investors significant excess returns over the next 5 years plus. However, we are also realistic to accept that not all these ideas will work out as successfully as Pilbara. Nonetheless, we believe our measured risk-taking approach to these high alpha opportunities means not betting the farm on any single idea whilst providing our investors exposure to some the better earlier stage opportunities in our investment universe.

For further information, please contact:

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