Eiger Australian Small Companies Fund

ARSN 631 961 398 APIR HOW2967AU

eiger capital

Quarterly Report March 2022

Fund Performance

Eiger Australian Small Companies Fund Performance (after fees) as at 31 Mar 2022

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	5.85	-10.21	10.67	38.94	16.91	-	-	17.21
S&P/ASX Small Ordinaries Accumulation Index	5.26	-4.21	9.68	29.20	9.62	-	-	9.96
Active return	0.59	-6.00	0.99	9.73	7.29	-	-	7.25

[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 2022.**

[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 2022

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	5.85	-10.21	10.67	38.94	16.91	14.88	12.61	10.90
S&P/ASX Small Ordinaries Accumulation Index	5.26	-4.21	9.68	29.20	9.62	9.90	6.02	4.60
Active return	0.59	-6.00	0.99	9.73	7.29	4.98	6.59	6.30

[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 2022.**

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	$317.6M
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.

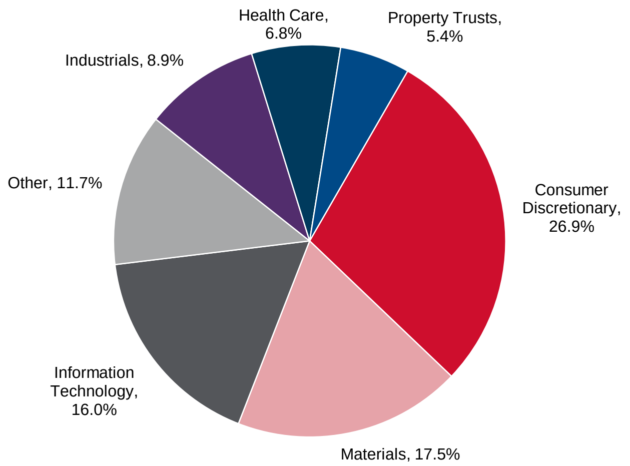
Experienced and aligned: The investment team has more than 60 years of combined industry experience. We have materially invested in the Fund alongside our clients and also own a majority of equity in Eiger Capital.

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
ARB Corp Ltd
Johns Lyng Group Ltd

Stock attribution (alphabetical)
Top contributors (quarter)
AP Eagers Limited
Flight Centre Travel Group Limited
Zip Co Ltd
Top detractors (quarter)
City Chic Collective Ltd
Life360 Inc
Ryman Healthcare Ltd

Asset allocation	Actual %	Range %
Security	93.36	90-100%
Cash	6.64	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -4.21% for the quarter. The fund underperformed the market and delivered a -10.21% return over the quarter.

Contributors

AP Eagers Limited (APE)

Continued stability in car sales

Flight Centre Travel Group Limited (FLT)

COVID reopening

Zip Co Ltd (Z1P)

Declining market sentiment toward BNPL sector. (Not held by the fund).

Detractors

City Chic Collective Ltd (CCX)

Negative market sentiment toward inventory build

Life360 Inc (360)

Tech sell off

Ryman Healthcare Ltd (RYM NZ)

Concern around NZ housing prices

Market overview

The S&P/ASX Small Ords Index (XSO) decreased by 4.2% during the March 2022 quarter. The Small Industrials decreased by 9.1%, while the Small Resources increased by 14.5%. XSO finished the quarter on a forecast P/E ratio of 18.8x which is 8.5% below its 5 year average. This valuation is 16.2% higher than the equivalent ratio for the ASX200.

The best performing sectors were: Metals & Mining - Steel (+39.3%), Energy (+27.1%), Metals & Mining – Advanced Materials (+19.3%), and Metals & Mining - Precious (+9.2%).

The worst performing sectors during the March quarter were Biotechnology (-36.2%), Retail (-18.3%), Financial Services (-16.3%) and Healthcare (-15.6%).

The best performing stocks within the XSO Index were Coronado (CRN, +72%), Whitehaven Coal (WHC, +63%), New Hope (NHC, +52%) and Strike Energy (STX, +51). Whitehaven, Coronado and New Hope are responding to the significant jump in coal prices with Strike driven by rises in oil and gas prices.

The worst performing stocks in the XSO index during the quarter were ZIP (Z1P, -66%), Dubber (DUB -54%), Redbubble (RBL -53%) and Sezzle (SZL, -51%). Zip and Sezzle have fallen on the back of declining market sentiment toward the BNPL industry as well as the merger between the two. Dubber fell on weak results and Redbubble missed expectations and lowered guidance.

Market outlook

World markets in one month have flipped from concern about the rate and trajectory of recovery from the Omicron COVID wave and the persistence of inflation to the impact of the Russian conflict in Ukraine. The conflict and associated sanctions, which continue to grow in scope, have had a major impact on commodity prices. Russia and Ukraine are major exporters of minerals, including aluminium, gold and energy. In addition, Russia has significant market share in the export of nickel, platinum and palladium. Russia and Ukraine are also major suppliers of soft commodities notably wheat. The prospect of significant price increases in commodity prices, particularly oil and gas, is highly likely to lift inflation expectations both in size and duration. Central banks are now in an unenvious position. The US bond market has strengthened as the markets grapple with a traditional flight to quality of $US and the risk of an economic slowdown. The risk of an economic slowdown has now been exacerbated with the prospect of COVID lockdown rolling across China.

The price of hard and soft commodities and particularly energy, which had risen over the last 12 months have now jumped significantly. Energy costs are likely to feed into widespread price rises if they persist at anything like spot levels. In addition, the ability of China to supply the world with a just-in-time supply on a huge range of consumer goods had already been impacted by high shipping costs and now possible COVID shutdowns. This impact seems unlikely to unwind quickly following to onset of conflict in Europe.

Out of all this volatility we can only conclude that, following a decade of reduced exploration and production investment, high quality commodity exposures are likely to be important investments in a portfolio. In the industrial space growth stocks have de-rated. The balance now is between these names, which are now cheaper, and needing to avoid any of them that may need to now raise (more expensive) capital to continue to grow.

Thought Piece: IPO's – Has 2021 yielded opportunity.

An Initial Public Offering (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 existed just prior to IPO.

Post IPO the "proforma" business as it was presented, no longer can 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 we examine a database of almost 2,225 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 prepared and updated this report for the last 5-6 years and the results have been remarkably stable. This year's update to the end of 2021 (covering the period 2000-2021) is no different. The trend of returns deteriorating from 6 months out to 2 years is unchanged. However, in past years the underperformance between years 2 and 3 has stabilised. This year's update if anything reveals ongoing deterioration in returns out to 3 years.

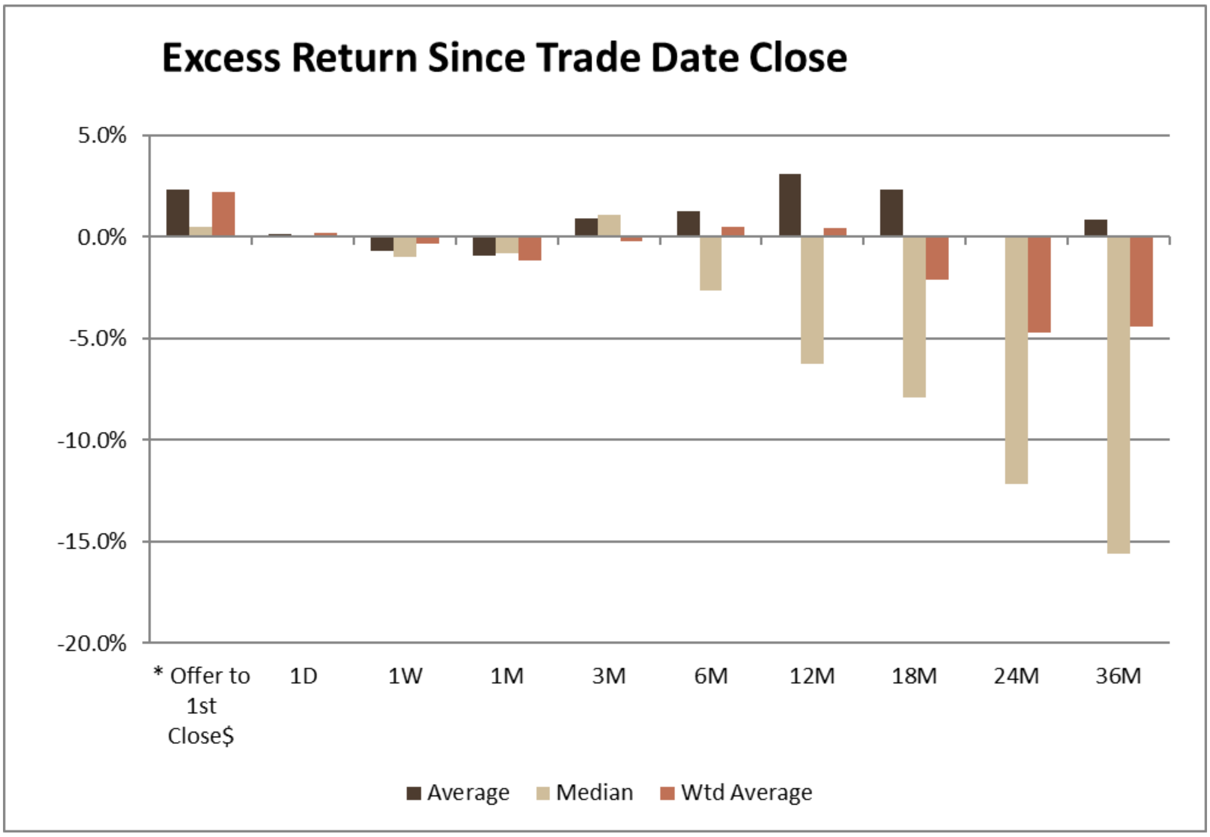
We have used Factset to create a database of all the IPOs that have occurred in Australia between 1 January 2000 to 30 June 2019. Our database identified 2,235 IPOs since that time. We have focused our attention on 302 IPOs that raised over $50m (significant small cap IPO's). In 2014, there were 37 IPOs greater than $50m; the most in any one year. 2021 was the second most active calendar year in our survey with 24 IPOs with a raising greater than $50m.

2014	37
2021	24
2015	31
2005	21
2013/2017	20
2016	19
2004	18

Performance of significant small cap IPOs

Twelve months post listing the rot sets in

The median small cap IPOs perform in line with the XSO index over 6 months but then performance deteriorates. The worst period of underperformance is between 6 months and 2 years. Once again, the weighted average underperformance is not as significant as the median indicating that the larger raisings underperform less than the smaller raisings.



IPO's in 2019 that have contributed to the 15% underperformance of this group over 3 years vs the XSO index include Tyro Payments, Limeade, Openpay, Nuchev, Openlearning, Damstra, VGI Partners and Carbon Revolution. These companies have all underperformed the XSO index by between 60% and 90% over the last 3 years. In reviewing the numbers, we would note that the recent seasoning of 3yr numbers has revealed broad and significant underperformance.

The best performing IPO's over the last 3 years have included Uniti Wireless and Home Consortium. Uniti Wireless initial price in early 2019 was below 20c. Its price at the end of 2021 was $4.45.

Our full report will be published on our website in due course but our preliminary findings are that the IPO class of 2019 was, on average, weak.

For further information, please contact:

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