Eiger Australian Small Companies Fund

September 2022

Fund Performance

Eiger Australian Small Companies Fund Performance (net of fees) as at 30 September 2022

Performance[1]	1 month %	3 month %	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 (net)	-6.4	7.1	-24.4	5.8	6.0	-	-	8.4
S&P/ASX Small Ordinaries Accumulation Index	-11.2	-0.5	-22.6	0.5	-0.8	-	-	1.5
Active return	**4.8**	**7.6**	**-1.8**	**5.3**	**6.8**	**-**	**-**	**6.9**

Track Record of Investment Strategy

Historical performance of the investment strategy applicable to the Fund[3] (net of fees) as at 30 September 2022

Performance	1 month %	3 month %	1 year %	2 years % p.a	3 years % p.a	5 years % p.a	10 years % p.a	Inception % p.a[3]
Investment strategy (net)	-6.4	7.1	-24.4	5.8	6.0	8.8	10.9	8.6
S&P/ASX Small Ordinaries Accumulation Index	-11.2	-0.5	-22.6	0.5	-0.8	4.1	4.6	2.3
Active return	**4.8**	**7.6**	**-1.8**	**5.3**	**6.8**	**4.7**	**6.3**	**6.3**

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 September 2022.

2 The inception date for the Fund is 26 March 2019.

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 September 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	$326.3M
Distribution frequency	Quarterly

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.

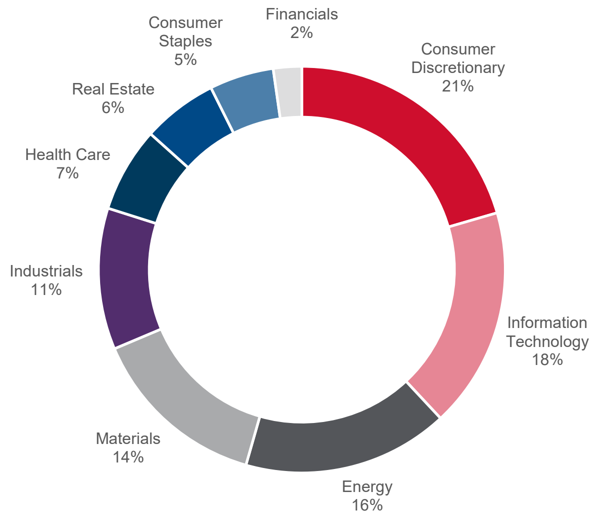
Disciplined and proven process

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)
Pilbara Minerals
Life360
Technology One

Stock attribution (alphabetical)	
Contributors	
Life360	Price rises
Pilbara Minerals	Strong cashflow and lithium prices
Whitehaven Coal	Strong coal prices
Detractors	
Dominos	Concern over commodity and labour costs
NextDC	Delays on customer announcements
New Hope	(Not owned). Strong coal prices.

Asset allocation	Actual %	Range %
Security	91.27	90-100%
Cash	8.73	0-10%



Fund performance summary

The S&P/ASX Small Ordinaries Accumulation Index returned -0.5% for the quarter. The Eiger Australian Small Companies Fund outperformed the market and returned 7.1% over the same period.

Market overview

The S&P/ASX Small Ordinaries Index (XSO) was down 0.47% during the September quarter. The Small Industrials decreased by 0.98%, while the Small Resources increased by 0.94%. The XSO finished the month on a 2yr forecast P/E ratio of 14.9x which is 12.7% below its 5-year average. This valuation is a 17.0% premium to the ASX200.

The best performing sectors in the September quarter were: Metals & Mining – Advanced Materials (30.2%), Mining Services & Engineering (16.0%), Energy (12.4%), and Retail (12.4%). The worst performing sectors during the month were Consumer Discretionary & Leisure (-11.9%), Agricultural Products (-9.3%), Wholesale, Distribution & Manufacturing (-8.2%), and Metals & Mining - Base & Industrial Metals (-8.1%).

The best performing stocks within the XSO Index were Tyro Payments (TYR 116.7%), Nearmap (NEA 95.2%), New Hope (NHC 81.8%), and Life360 (360 74.3%). Tyro surged on end of year results and rumours of takeover interest. Nearmap announced strong results and was bought out by Thoma Bravo. New Hope continued to be bouyed by strong coal prices and Life360 gained on a broader recovery in the tech sector.

The worst performing stocks in the XSO index were Appen (APX -44.4%), EML Payments (EML -35.0%), Australian Strategic Materials (ASM -32.2%), and Aussie Broadband (ABB -31.1%). Appen released weak end of year results and outlook. EML Payments continued to call after a failed takeover talk and governance concerns. ASM appears to have fallen on investor caution around ongoing projects. Aussie Broadband fell on trading updates despite growth in users.

Market outlook

World markets continue to be concerned about weakening growth and ever-increasing concerns around inflation. It appears to us that more and more some financial markets are struggling to function. Spreads in many credit markets have widened materially. Central banks are now in an unenvious position. They need to stamp out a worldwide inflation outbreak while growth is weakening, and geopolitical risk is very high. We continue to monitor the risk of recession closely and now believe that it is far more likely than not in most countries.

The cost of energy has risen significantly over the last 12 months. In addition, the ability of China to supply the world with a just-in-time supply on a huge range of consumer and intermediate goods had already been impacted by high shipping costs and persistent COVID lockdowns in China. Inflationary impacts will need to unwind quickly from now to avoid an inflation/wage cost spiral. Particularly as Northern Hemisphere winter power bills are about to rise significantly.

During the first six months of this year equity markets compressed the premium valuation of growth and tech stocks. Tech stocks, which often have no earnings, have been hit particularly hard as interest rates have risen. We believe the focus of equity markets has now shifted to who can manage cost pressures - whether a company is viewed as low growth, high growth, or loss-making tech.

The August report season was, overall, better than expected. However, we remain very wary as we believe that general economic conditions continue to deteriorate. We believe that in general investors should avoid companies that are likely to need to refinance significant debt or rely heavily on debt or equity markets to fund projects.

There's no such thing as a free (delivered) lunch!

If you hadn't used a food delivery service prior to COVID, chances are that at some point during lockdown you tried it for the first time. If food delivery isn't something you've used, then maybe you've booked an Uber instead of a taxi or used Airtasker to have something designed, couriered, or assembled. Food delivery services like Uber Eats, Deliveroo and Menulog experienced huge uptake during the various lockdowns and an already growing gig-economy continued to expand. You may have noticed more delivery bike riders on the roads than cars at some point – clear indication of the popularity of these services.

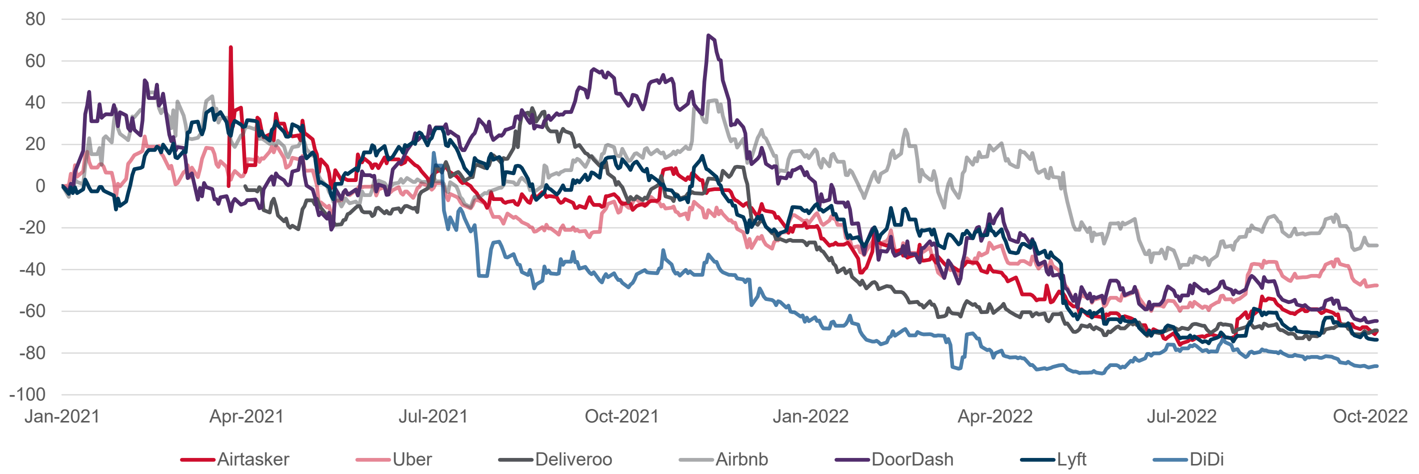
Companies like Uber have enjoyed a free ride with equity markets funding persistent losses and allowing consumers to have heavily subsidised rides and deliveries. These companies have also enjoyed lax regulation around their workforce management allowing them to avoid having drivers and riders classified as employees and therefore reducing insurance, wage, and superannuation costs. With governments beginning to push for unionising gig-economy workforces and thereby raising labour costs, increasing interest rates, and significantly lower equity prices, we see expenses climbing significantly and funding becoming far more expensive. The path to profitability for these companies is getting much harder and levelling the playing field with local companies like Dominos and KFC (Collin's foods).

> "Companies like Uber have enjoyed a free ride with equity markets funding persistent losses and allowing consumers to have heavily subsidised rides and deliveries."

These gig-economy businesses have a commonality amongst them – their funding model. A persistently loss-making business must access capital regularly to stay operating as it attempts to generate a profit. For companies with a business model that is heavily dependent on providing a cost competitive service it is imperative to keep costs low. For many of these companies this means accessing cheap (we'd suggest almost free) capital. These companies have enjoyed a paradise of systemic market change (i.e. lockdowns driving the utility of these services) for nearly two years and at the same time have had access to near zero cost capital. Despite all time low rates, many of these companies have funded their loss-making business through equity raisings.

Uber, for example, generated around $40bn US of revenue during 2019,20,21. Over those three years it made a net profit (loss) of around -$17bn and raised ~$12bn primarily through equity issues. It is currently left with ~$5bn in cash and broker estimates suggest Uber will face a ~$9bn loss for 2022. Uber is now faced with financing 2022's loss by issuing debt at much higher rates than it has previously or via equity raising at a share price that is half of it 2021 highs. As it does this, its hurdle to profitability becomes even higher and its investor base even more eager for the company to generate a profit. With the US target rate having risen from 0.25% (set March 2020 and held until March 2022) to 3.25%, and most other countries having similar rate raises, these companies face significant changes to the debt portion of their funding models.

Indexed Price Change % (0 at 31 Dec 2020)



> “Given their low-cost funding has now dried up, the response is likely to be raised prices for the services to cancel out the funding costs.”

We looked at indexed share prices for Uber, Deliveroo, Airbnb, Airtasker, Doordash etc. and all of them have fallen at least 50% since the start of 2021 when they were during a low rate, high demand environment. Given their low-cost funding has now dried up, the response is likely to be raised prices for the services to cancel out the funding costs.

Not only has funding these losses become significantly more expensive, but there is also increasing pressure from Governments to regulate the gig-economy, particularly the labour agreement component. This change will create more complexity and operating risk for these companies as well as significantly increase their cost of doing business. In Australia, riders and drivers for these companies have been treated as contractors, not employees.

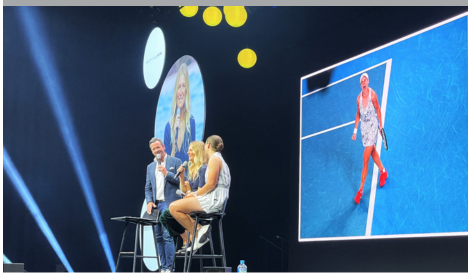
https://www.afr.com/work-and-careers/workplace/deliveroo-overturns-ruling-rider-an-employee-20220817-p5balm

This has allowed companies to avoid providing equipment, insurance, stable salary with superannuation, and other employee benefits. Consider that some Australian delivery riders generate as little as $10/hr after costs (an E-bike or scooter is a significant expense for these delivery riders) and that the likely wage for this sort of occupation should be upward of $20/hr you can see that there is a significant cost impact of companies having their ‘contractors’ reclassified as employees. Add in superannuation and insurance that companies will have to start providing and the prospect of profitability looks far less likely without price rises.

We will be watching with interest as gig-economy stocks grapple with the prospect of price rises to reduce losses. This will also have an impact on their competitive positioning against the likes of the local listed Dominos and Collins Foods.

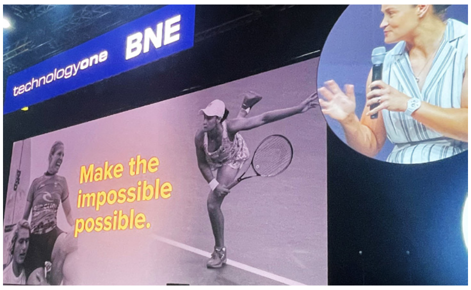
Recent research visits

Technology One - Brisbane



AP Eagers Auto Mall - Brisbane

Autosports Group - Showroom and workshop



BYD Showroom - EV transition research

Eiger Capital team

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