

Investment Report & NTA Update

12 AUGUST 2021

Net Tangible Asset Value per share as at 31 July 2021

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings
\$1.070	\$1.077	\$1.048	\$0.92	34

Investment Portfolio Performance*

	1 Month [#]	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Inception p.a. [^]	Inception (Total Return) [^]
SB2	3.61%	-	-	-	-	-	9.72%

* Investment portfolio performance is calculated net of Management fees and expenses but before taxes, other fees and expenses. Performance has not been grossed up for franking credits received by shareholders.

[#] includes 0.67% increase due to independent, 3rd party valuations of Unlisted investments conducted for FY end audit process not previously recognised in prior NTA update.

[^] Inception date is 27th May 2021.

Key Points

- Valuation upside of portfolio compelling with significant upside to our valuation, diversified across 34 stocks.
- Strategy remains focused on a bottom up driven blend of growth and cyclical exposures with upside and away from lower returning defensives.
- The investment strategy was compliant with the emerging companies investment requirements of the Australian Significant Investor Visa regime for the period ending 31 July 2021.

Market Insight

The portfolio performed well in July with a return of 3.61%.

The Small Ordinaries Accumulation Index generated a 0.7% return during July versus the broader market rising 1.1%.

During the month small industrials fell 0.9%, but the market was driven higher by a strong 7.4% from small resource stocks. Rising coal prices combined with a falling AUD saw these stocks like Coronado Resources, Whitehaven Coal and New Hope Coal dominate returns through the month. Lithium stocks were also popular with Orocobre, Galaxy and Pilbara Minerals also rising strongly through the month. We also saw increasing merger and acquisition activity with bids for Sydney Airport and Australian Pharmaceuticals. This is expected to be an ongoing phenomenon in the next 6-12 months given low funding costs for corporates.

What are we looking at?

- Australian reporting season. Market is forecasting strong growth in earnings in FY22 of +15% with potential for upgrades on stronger commodity prices, and a speedier recovery out of COVID19.
- Whether the current spike in inflation is temporary or whether it is more enduring and the ramifications for asset prices
- Peaking growth rates as we cycle COVID19 induced weakness and the implications for the recovery;

Key Metrics – Summary Data

Portfolio Metrics	
Weighted Average Market Capitalisation of the Investments	\$256m
Cash Weighting	1.2%
Portfolio >300m mkt cap	33.6%
Portfolio 100-300m mkt cap	43.6%
Portfolio <100m mkt cap	21.6%
Unlisted Investments	3.1%
Shares on Issue	94,392,046

Portfolio Review

The portfolio benefitted from the continued strong performance of technology names held with positions in **Praemium**, **RPMGlobal**, **Paygroup**, and **Ansarada** and **Raiz Investments** all delivering positive contributions. Positive trading updates issued during the month from all of these names helped lift their share prices.

The mining services sector bounced off its June lows, with the stocks recovering some ground as industry participants gave positive operating updates. The sector as a whole is trading on depressed multiples despite what Salter Brothers consider to be strong industry tailwinds with high commodity prices and continued investment in new mines and exploration. We believe the fears of labour shortages and increasing costs will benefit the sector as a whole with the good operators being able to capitalise on this with higher rates and sustained or improving margins. We witnessed this directly within our existing holdings as **MacMahons** and **Swick Mining Services** confirmed guidance and highlighted strong growth ahead. This sentiment also lifted **MACA** Ltd and **Duratec** during the month.

Weakness in **Nuheara** impacted returns as the market was looking for follow up orders on the HP deal. The company expects the orders to flow as the new laptop sales increase as the product is launched into the market during Aug-Sep. Despite this the company showed exceptional growth over the last 12 months with

sales growing from under \$2m to almost \$11m. There are still many catalysts and opportunities for growth with the HP deal alone sufficient to drive the company into profitability.

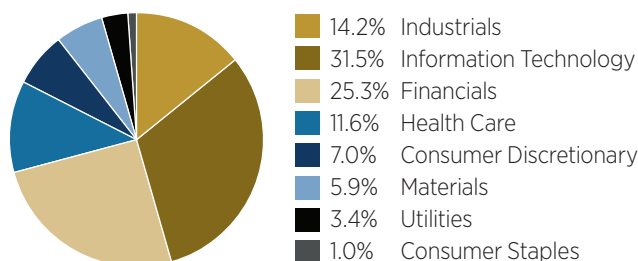
Decmil undertook a capital raise to support the strong growth in revenues projected over the next few years, which saw the share price come under selling pressure.

Pacific Current's update saw steady growth in FUM to \$142bn. The business trades at a significant discount to its peer group with Pinnacle Investment (ASX:PNI) trading on 35x PE versus Pacific Current on 11x PE despite having a higher level of FUM. Additionally, we believe the PAC business model possesses greater resilience given both its international and multi asset class exposures. Despite this stock was marginally down during the month. Further growth in FUM which has occurred happened despite covid impacts and further growth in underlying valuations of investments are key catalysts for a re-rate in the stock.

Bailador Technology Investments announced a \$5.5m in digital healthcare platform InstantScripts, however the stock was weaker during the month.

Importantly, we believe the portfolio still has significant embedded upside in a market that is increasingly looking fair value to expensive. This illustrates the opportunities that are still available in the smaller end of the market for experienced managers.

Fund Sector Weights



Top 4 Holdings

Praemium Limited (ASX code: PPS)

Pacific Current Group Limited (ASX code: PAC)

Probiotec Limited (ASX code: PBP)

RPMGlobal Holdings Limited (ASX code: RUL)

Core Investments – Spotlight

RPMGlobal Holdings Limited (ASX code: RUL)

RPMGlobal – Niche Mining Software Provider

RUL is a SAAS based software company that provides management and decision-making software to the mining industry. Through a number of bolt on acquisitions and focused R&D the product suite is now well built out. It has progressed from a number of individual point solutions to an enterprise grade decision making software. The product integrates into SAP and other enterprise systems and we expect the sales momentum to gather pace. With commodity prices at record levels mining companies should continue to invest in new technology and software to optimise their operations and gain efficiencies. The stock has performed well rising over 100% over the past 12 months. There is still upside to our valuation.

Contact

E | info@salterbrothersemergingcompanies.com.au **P** | 03 9258 2100 **W** | www.salterbrothersemergingcompanies.com.au
 Authorised for release by the Board of SB2.

Important information

This information has been prepared by SB2 and Salter Brothers Funds Management Pty Ltd ABN 94 608 295 683, an authorised representative of Salter Brothers Asset Management Pty Ltd ABN 33 119 833 760 (Australian Financial Services Licence 308971) (**Disclosers**).

This is general information only and is not financial advice and does not take into account any individual's objectives, financial situation or particular needs. Before making an investment decision an individual should assess whether it meets their own needs and consult an appropriately licensed financial adviser. No warranty (express or implied) is made as to the accuracy, completeness or reliability of any statements, estimates or opinions or other information contained in these materials (any of which may change without notice) completeness or reliability of any statements, estimates or opinions or other information contained in these materials (any of which may change without notice) and to the maximum extent permitted by law, the Disclosers disclaim all liability and responsibility (including, without limitation, any liability arising from fault or negligence on the part of any or all of the Disclosers) for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from these materials.

Past performance is not a reliable indicator of future performance.