

Investment Report & NTA Update

13 DECEMBER 2021

Net Tangible Asset Value per share as at 30 November 2021

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings
\$1.141	\$1.149	\$1.106	\$0.795	35

Investment Portfolio Performance*

	1 Month	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Inception p.a. [^]	Inception (Total Return) [^]
SB2	-2.22%	16.62%	-	-	-	-	19.02%

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

[^] Inception date is 27th May 2021.

Key Points

- Valuation upside of portfolio remains compelling with significant upside to our valuation, diversified across 35 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 30 November 2021.

Market Insight

The portfolio generated a negative return in November of -2.22%.

The Small Ordinaries Accumulation Index generated a negative -0.31% return versus the broader market which fell -0.68%.

Fresh COVID concerns regarding the Omicron variant sparked selling in global markets late in the month. When coupled with increasing disquiet from investors over the inflation outlook, markets ended in negative territory with technology names the focus of selling.

Bond yields finished down for the month as safe havens were sought, however, yields had been headed higher through the month as inflation fears were increasingly prevalent.

What are we looking at?

- Uncertainty continues to be generated by the challenges associated with COVID-19 disruptions, particularly with the latest mutation which impacted markets late in the month. As has been noted, the impact of COVID-19 disruptions on supply chains has led to higher costs, feeding into the debate on the nature of inflation.
- Inflation still occupies the mindset of investors with the US Fed suggesting “transitory” is no longer an appropriate descriptor, raising the prospect of an accelerated tapering of quantitative easing (QE) and potentially interest rate rises sooner than expected.

Key Metrics – Summary Data

Portfolio Metrics	
Weighted Average Market Capitalisation of the Investments	\$300m
Cash Weighting	1.8%
Portfolio >300m mkt cap	43.9%
Portfolio 100-300m mkt cap	38.5%
Portfolio <100m mkt cap	11.1%
Unlisted Investments	4.7%
Shares on Issue	94,392,046

Portfolio Review

The portfolio benefitted from some corporate activity during the month, with platform provider **Praemium (PPS)** receiving a bid from Netwealth (NWL) which valued PPS at 1.50+. The offer was mostly NWL scrip with some cash depending on the quantum of the sale of Praemium's international business. Takeover expectation had been building in the share price and other bidders may emerge.

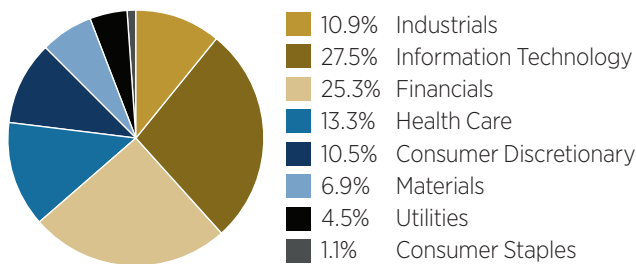
OzForex Group (OFX), a provider of foreign exchange transfer and management services to both personal and corporate users, produced a solid result with the first increase in active clients since 2018. This included an increase in both average transaction size and transactions per client, with fraud write-offs down to zero. These positive trends are encouraging and the company looks set to continue the positive earnings momentum.

Despite the Australian 10 year bond yield retreating to close the month at 1.70%, interest rate sensitive stocks, in particular technology names continued to be sold with negative attribution from **Ansarada Group (AND)**, **Bailador Technology Investments (BTI)**, **Bigtincan Holdings (BTH)**, **Nova Eye Medical (EYE)** and **Aldicion Group (ALC)**.

In addition, boutique Fund Manager investor **Pacific Current Group (PAC)** also gave back some gains, partly driven by falls in the now listed GQG, one of its largest investments, but primarily by an effective widening of the discount to book value for its remaining businesses (ex GQG). This discount is now c. 50% on our numbers, which is hard to understand given the current global demand for private fund managers.

The portfolio had one negative surprise via **Veem (VEE)**, which disappointed the market with its AGM update. There were some one-off hits to earnings in the core business but the bigger cause for concern was the lack of sales growth in the gyro division, seen by the market as the future growth engine of the company. Whilst disappointing to see momentum stall, the market opportunity remains compelling with the company clearly now needing to execute to recapture investor attention.

Fund Sector Weights



Top Holdings

Pacific Current Group Limited (ASX code: PAC)

Praemium Limited (ASX code: PPS)

Probiotec Limited (ASX code: PBP)

OzForex Group Ltd (ASX Code: OFX)

Core Investments – Spotlight

Probiotec Limited (ASX code: PBP)

Probiotec is one of the largest integrated pharmaceutical and over the counter (OTC) manufacturers in Australia. PBP offers a full suite of manufacturing services from formulation, sourcing, packaging and distribution with purpose-built facilities in Victoria and NSW. The company has made a number of bolt-on acquisitions and has annualized revenue of well over \$100m from a large range of blue chip clients including Pfizer, Proctor and Gamble and Blackmores. Valuation is extremely undemanding at c. 5x EV/EBITDA (forward) and there are a number of catalysts for the company including further accretive acquisitions, strengthening business conditions including a re-stocking event for cold and flu medications and a potential strategic onshoring of manufacturing operations by large global customers. It has secure, defensive revenue and predictable, growing earnings and a reliable, experienced management team who continue to effectively execute the company's strategy.

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 consider 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) 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.