

Investment Report & NTA Update

10 JUNE 2022

Net Tangible Asset Value per share as at 31 May 2022

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings
\$0.951	\$0.96	\$0.977	\$0.72	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	-5.13%	-15.60%	-	-	-	-	0.48%

* 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 27 May 2021.

Key Points

- The portfolio is diversified across 35 stocks and maintains significant upside compared to our valuation.
- Strategy remains focused on a bottom-up driven blend of growth; 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 May 2022.

Market Insight

The portfolio generated a negative return in May 2022 of -5.13%.

The Small Ordinaries Accumulation Index generated a -7.01% return versus the broader market return of -3.49%.

In the month of May, the US Federal Reserve raised interest rates by 0.5%, the largest increase in more than two decades. This was off the back of the highest inflationary pressures affecting the US economy in 40 years. The RBA also increased its cash rate in May by 0.25%, over similar inflationary pressures (headline inflation to the March quarter was 5.1% and 3.7% on an underlying basis). Significant contributions to Australian and international inflationary pressures included supply-chain disruptions resulting from COVID lockdowns in China and geopolitical tensions surrounding the Russia/Ukraine conflict.

The market expects the RBA to continue increasing interest rates over the next 12 months, following the central bank's comments that "inflation is expected to increase further, but then decline back towards the 2-3% range next year."

Rising cost of debt alongside pessimistic business and consumer sentiment is leading to a bear market especially in the small caps sector, as retail and wholesale investors flee to blue-chip companies and bonds. However, the Manager believes the current market provides significant opportunities to invest in high-quality companies with strong IP and sustainable competitive moats at materially undervalued prices.

Key Metrics – Summary Data

Portfolio Metrics	
Weighted Average Market Capitalisation of the Investments	\$250m
Cash Weighting	3.9%
Portfolio >300m mkt cap	39.0%
Portfolio 100-300m mkt cap	34.0%
Portfolio <100m mkt cap	17.3%
Unlisted Investments	5.8%
Shares on Issue	94,392,046

Portfolio Review

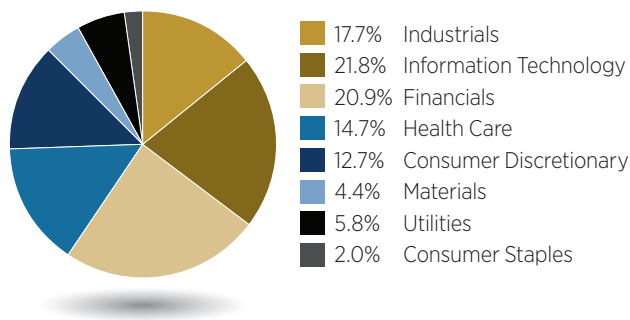
With the backdrop of the difficult financial climate, the portfolio had multiple detractors in the month of May 2022. These included DDH1 Limited (DDH), Alcidion (ALC), Ansarada (AND) and Nova Eye Medical (EYE). Positive contributors included Fluence Corporation (FLC) and Veem (VEE).

FLC continued to rally off the back of its business update for 1Q 2022 in which the company noted revenues up +116% year on year (YoY) and a contracted backlog of \$99.3m, of which \$75m is expected to be recognized in statutory revenue in 2022. The business noted a FY22 revenue guidance of \$144m (+40% YoY) and EBITDA guidance of \$3m (up from \$1m in FY21). The investment team continues to monitor the holding and notes the business holds a strong balance sheet with \$31m of cash at the end of 1Q FY22.

In May, the Manager invested in Acrow Formwork and Construction Limited (ACF), a new addition to the portfolio. ACF provides engineered formwork and engineered solutions primarily to the civil infrastructure market of Australia. The company continues to deliver impressive growth and provides a compelling valuation opportunity.

The Manager also participated in Future First Technologies (FFT)'s institutional raise, adding the position to the portfolio. FFT's core business segments are Asset Vision, and EagleSoft. Asset Vision is a cloud and mobile driven enterprise and asset management platform which provides significant synergy potential with EagleSoft's intelligent data capture which provides a unified approach to asset inspections, maintenance and operations management services.

Portfolio Sector Weights



Top Holdings

Pacific Current Group Limited (ASX code: PAC)

OzForex Group Limited (ASX Code: OFX)

Probiotec Limited (ASX code: PBP)

Genex Power Limited (ASX code: GNX)

Core Investments – Spotlight

RPMGlobal Holdings Limited (ASX code: RUL)

RUL is a global leader in the provision and development of mining software solutions, advisory services and professional development to the mining industry.

In May, RUL announced an on-market share buy-back with an intention to acquire up to 5% of the company's current shares on issue to support its share price, taking into account the company's \$36.9m of available cash in the bank as at 30 April 2022. The business also provided an update on total contracted value (TCV) derived from its software license sales year-to-date being \$43.3m.

As 1H22, RUL reported total revenue of \$40.5m (+12% YoY) and underlying EBITDA of \$3.9m (+457% YoY) and NPAT of \$1.9m (up \$8.3m YoY).

The Manager continues to be attracted to the quality of the RUL business, including the intellectual property of their integrated software solutions. The growth opportunity remains significant and is supported by a strong balance sheet and a strong management team.

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Authorised for release by the Board of SB2.

Important information

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