SALTER BROTHERS

EMERGING COMPANIES LIMITED

Investment Report & NTA Update

13 SEPTEMBER 2021

Net Tangible Asset Value per share as at 31 August 2021

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings
$1.123	$1.132	$1.085	$0.85	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	6.30%	-	-	-	-	-	16.64%

* 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 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 31 August 2021.

Market Insight

The portfolio had a strong August driven by well received full year results being reported by stocks held within our portfolio delivering a return of 6.30%.

The Small Ordinaries Accumulation Index generated a 4.98% return during August versus the broader market rising 2.6%.

During the month small industrials rebounded 6.1%, whilst resources consolidated their gains from the previous month rising 0.7%.

Mergers and acquisitions continued to be prevalent with Australia's largest takeover by value with Square agreeing to acquire Afterpay in a board supported takeover. Oilsearch also agreed to an all-equity merger with Santos. Sydney Airports received a revised higher offer, which the board rejected. Both Spark Infrastructure and IRESS received revised higher offer from their suitors, which the boards were happy to support subject to no higher offer.

What are we looking at?

- Australian reporting season saw impressive profits and record dividend payouts reflecting the strength of the previous 12 months as the country emerged out of the previous COVID induced lockdown. It also highlighted the strength of corporate balance sheets.
- However, the main uncertainty over the next 12-18 months remains COVID19 disruptions which are weighing in the near term. The impact of lockdowns and COVID disruptions are also affecting supply chains with higher costs both in terms of product as well as freight costs, which have almost quadrupled over the last 12 months.
- Whether these cost pressures prove to be transitory or more symptomatic of rising inflation will have implications for monetary policy globally.
- The combination of these factors has seen a significant percentage of corporates not issue any guidance, which makes the upcoming AGM season (October to December) crucial in terms of evaluating the impact of these new lockdowns and supply chain disruptions.

Key Metrics – Summary Data

Portfolio Metrics	
Weighted Average Market Capitalisation of the Investments	$292m
Cash Weighting	1.0%
Portfolio >300m mkt cap	43.8%
Portfolio 100-300m mkt cap	36.9%
Portfolio <100m mkt cap	15.4%
Unlisted Investments	2.9%
Shares on Issue	94,392,046

Portfolio Review

The portfolio benefitted from the continued strong performance of technology names held with positions in **Praemium**, **BigTin Can**, **Camplify**, **Ansarada** and **Raiz Investments** all delivering positive contributions. Positive full year results delivered during the month from all of these companies helped lift their share prices. **BigTinCan** also announced the accretive acquisition of a competitor, Brainshark, which will help double Annual Recurring Revenue (ARR) and importantly gives the business scale.

Ardent Leisure, which was only added to the portfolio in June, surprised the market with the strong trading performance of its big box US Family Amusement business, MainEvent. The re-opening of the US economy post COVID has seen pent-up demand lead to significant revenue growth and more importantly operating leverage exceeding both the market's and our expectations. Even with the subsequent increase in share price, we still believe that the company is undervalued as the market is ascribing little to nil value for the Dreamworld Theme Park assets. Once Australia re-opens with high vaccination rates we expect the same pent-up demand for travel and outdoor adventure to lead to significant earnings growth at Dreamworld.

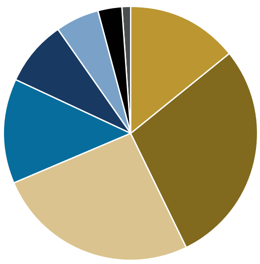
OzForex gave a trading update at its AGM, which highlighted that the improved revenue growth sales seen in the 2HFY21 has continued into the current financial year. The company still trades at a substantial discount to its international peer group.

Pacific Current's result saw the company meet expectations, however it pointed to a solid pipeline of FUM growth in the next 12-18 months. Additionally, this month, one of its investee firms, GQG, announced it was looking to list on the ASX with a $5bn+ valuation. PAC has a 5% stake that could be worth up to $250m compared to a current GQG book value of $ 115m and a total PAC market cap of $300m. Using a $5bn valuation for GQG would imply an increase in book value by c$2.65 per share implying room for additional upside to the current share price.

Fortunately, we did not have a major disappointment during reporting season within our current holdings. The worst performers were **Nuheara** which failed to provide any detail on any follow up orders from Hewlett Packard for its hearing devices. **Viva Leisure** was weaker following a capital raise, in which we participated, to shore up the balance sheet to withstand the impact of the lockdowns on the East Coast. Operationally, it delivered a result in line with expectations, but more importantly it highlighted the run rate in revenue and profitability was in line with expectations for FY22 ahead of the lockdowns, giving us confidence it will be a strong performer once lockdown ends.

Our investment process continues to identify selective opportunities in established Australian small and micro cap businesses and our experienced investment team is committed to maximise investment returns on these opportunities.

Fund Sector Weights



14.2%	Industrials
28.6%	Information Technology
25.8%	Financials
13.3%	Health Care
8.4%	Consumer Discretionary
5.7%	Materials
3.1%	Utilities
0.9%	Consumer Staples

Top 4 Holdings

Praemium Limited (ASX code: PPS)
Pacific Current Group Limited (ASX code: PAC)
RPMGlobal Holdings Limited (ASX code: RUL)
Probiotec Limited (ASX code: PBP)

Core Investments – Spotlight

Pacific Current Group Limited (ASX code: PAC)

Pacific Current Group – A Mispriced Fund Manager

Pacific Current is an investment company specialising in buying stakes in unlisted Fund managers and is one of the largest positions in the portfolio. The stock trades at a significant discount to the underlying value of its investments. We are attracted to the business as there is good diversity in holdings with a number of fund managers not correlated to the performance of equity markets. 30% of the book value of the company is GQG Partners, a global listed equity manager that has an impressive performance record and has over the past 12 months grown funds under management by 90% to US$84bn. Our valuation for GQG is conservative at $3.2bn and the recently speculated listing of GQG on the ASX with a valuation of between $4-5bn adds significant upside to our base valuation.

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Authorised for release by the Board of SB2.