SALTER BROTHERS

EMERGING COMPANIES LIMITED

Investment Report & NTA Update

13 OCTOBER 2021

Net Tangible Asset Value per share as at 30 September 2021

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings
$1.141	$1.144	$1.098	$0.80	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	1.88%	-	-	-	-	-	18.81%

* 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. During the month we have tactically increased exposure to defensive infrastructure, and reduced technology exposure due to valuation.
- The investment strategy was compliant with the emerging companies investment requirements of the Australian Significant Investor Visa regime for the period ending 30 September 2021.

Market Insight

The portfolio generated a positive return in September driven by some corporate activity and the continued momentum of names held from reporting season. The fund was up 1.88%.

The Small Ordinaries Accumulation Index generated a negative 2.14% return during September versus the broader market falling 1.90%.

During the month small industrials fell 1.30%, whilst resources fell 5.40% on the back of weaker gold and base metal prices.

Volatility has returned to equity markets with the first negative return in 11 months as bond yields rose, driven higher by growing concerns over rising inflation as supply chain disruptions and labor shortages raise fears that these cost pressures are not transitory. The US Federal Reserve has also indicated that it will taper its bond purchasing program and the probability of raising rates has been brought forward. The recent tribulations of Chinese property developer Evergrande, which has US$300bn in liabilities and has missed interest repayments is also casting a shadow over markets. How the Chinese authorities deal with this will be important.

What are we looking at?

- The main uncertainty over the next 12-18 months remains COVID-19 disruptions which are weighing in the near term. The impact of lockdowns and COVID-19 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.
- The spectre of inflation and rising inflationary expectations is gaining more prominence in investors' minds. As already highlighted, whether these cost pressures prove to be transitory or more symptomatic of rising inflation will have implications for monetary policy globally. Central Bank commentary regarding inflation will be crucial over the next 3 months.
- 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) defining 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	$300m
Cash Weighting	1.2%
Portfolio >300m mkt cap	42.9%
Portfolio 100-300m mkt cap	38.7%
Portfolio <100m mkt cap	14.3%
Unlisted Investments	2.9%
Shares on Issue	94,392,046

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Portfolio Review

The portfolio benefitted from an eclectic bunch of stocks driven by value, stocks exposed to the "re-opening" trade, as well as Defensives, highlighting the importance of stock selection.
Our stock spotlight last month **Pacific Current** was a strong contributor as 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 c$350m. 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. *(At time of writing the GQG IPO has secured $800m from cornerstone investors, implying a high probability of the IPO succeeding, at a price delivering a $6-$6.5bn market capitalisation – effectively adding another $1 plus to the PAC valuation.)*

Stocks exposed to the economy re-opening post lockdowns also performed strongly with **Viva Leisure**, **Ardent Leisure** and **Camplify** all rallying as the market starts to price in increased earnings as the economy re-opens and consumers go back to the gym and resume travel. **Pacific Turbines** which provides turbine maintenance services to airlines also continued to rally post both a strong result and a recovery in the US air travel market given it services the US airplane engine maintenance market.

Swick Mining Services continued to rally post a strong FY21 result as investors continue to re-rate the stock which by our measures is trading on low multiples.

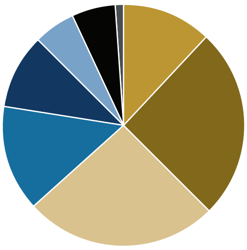
Defensives such as funeral operator **Propel Funeral Partners** and renewable energy operator **Genex Energy** also held up well during the sell off. Propel announced the accretive acquisition of 3 funeral providers during the month.

The tech names held in the portfolio were not immune from the sell off, with **Praemium**, **BigTinCan** and **Raiz Investments** all weaker during the month. **Veem Ltd** the marine propulsion and stabilisation business announced a capital raise and founder sell down aimed at improving the stocks liquidity and appeal to institutional investors. This was conducted at a significant discount in which the fund participated, however we did see the share price fallback towards the capital raising price. Value stocks were also not immune from the sell off with Mining Service companies **Macmahons** and **Maca Ltd** also down during the month, perhaps also impacted by sentiment on the back of weaker commodity prices during the month.

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

We sold our holding in **Camplify** during the month after the share price doubled in 2 months. The stock has exceeded our valuation and given our disciplined investment process the stock was sold from the portfolio. We also increased our holding in **Genex Power** which is a owner and developer of renewable energy assets in Australia.

Fund Sector Weights



12.1%	Industrials
25.5%	Information Technology
25.8%	Financials
14.2%	Health Care
10.0%	Consumer Discretionary
5.7%	Materials
5.8%	Utilities
0.9%	Consumer Staples

Top 4 Holdings

Pacific Current Group Limited (ASX code: PAC)
Praemium Limited (ASX code: PPS)
Probiotec Limited (ASX code: PBP)
Genex Power (ASX Code: GNX)

Core Investments – Spotlight

Genex Power (ASX code: GNX) | **Genex Power - A Rare Find**

Genex is a renewable energy company with 2 solar farm assets in NSW and QLD with a capacity of generating 100MwH of power. However, the main asset is the 250Mwh pumped hydro electricity project in Kidston. This asset has now finally completed FID and has largely locked in contracts for construction as well as a rental offtake arrangement with Energy Australia that underpin cashflows for the next 30 years. These cashflows involve no price risk and are indexed to inflation. The construction risk is also reduced via a lump sum fixed price contract ensuring that the company has no risk during constriction due to delays or cost overruns. The company also has some potential growth projects with further expansion in the Kidston energy hub in both solar and wind power generation as well as a battery storage project in QLD. Catalysts include completion of the hydroelectricity project (in 2024), new renewable projects or potential corporate activity as listed infrastructure assets have been highly sought with Infigen, Tilt Renewable, Spark Infrastructure and Sydney Airport taken over or currently under takeover bids.

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Authorised for release by the Board of SB2.