8IP Small Companies Fund

Fund Update: 31 May 2020

EIGHT INVESTMENT PARTNERS

FUND SNAPSHOT

The 8IP Australian Small Companies Fund ("Fund") provides diversified exposure to small companies. The Fund aims to deliver outperformance above the S&P/ASX Small Ordinaries Accumulation Index with a diversified portfolio of equities within the Australian small companies segment.

Since inception* in October 2012, the fund has delivered outperformance of +6.38% pa (pre-fees) and +4.36% pa (net).

The Fund is rated Recommended by Lonsec Research - please contact 8IP for more information.

COMMENTARY

The fund beat its benchmark in May by approximately 2.96%, appreciating by 13.55% (net).

Last month we said the strength of the snap back in April would be a hard act to follow (S&P500 +12.7% month-on-month, ASX Small Ordinaries + 14.3%). And so it turned out - but not by much. Driven by supportive financial conditions (overwhelming fiscal and monetary stimulus, US bond yields at all-time lows), continued improvements in case numbers / fatalities, and coordinated moves towards reopening economies, the bellwether US S&P500 rose +4.53% in May; the ASX100 was broadly in line at +4.23%; but the small cap index stormed ahead, rising +10.59%. For context, all indices are still down versus the start of the year. But in spite of the exceptional levels of volatility, as at end-May, the Australian small cap index (-8.3%) has performed better than large caps (-13.9%) by some margin.

PERFORMANCE

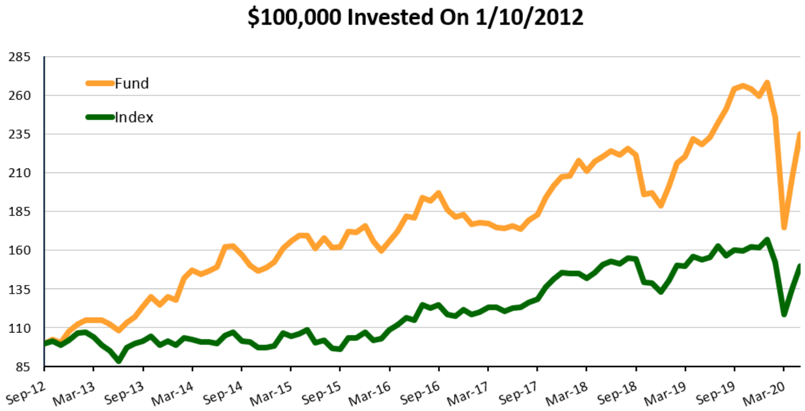


Chart Footnotes: Returns sourced from 8IP and S&P/ASX as on 31/05/2020 in Australian dollars. Fund returns are gross returns.
**The inception date is the date that current management took responsibility for investing this Fund.*

KEY FACTS

Inception Date	Current Portfolio Team commenced 1/10/2012
No of Stock Holdings	57
Fund Size	$10.4m
Liquidity	Daily
Benchmark	S&P/ASX Small Ordinaries Accumulation Index.
Domicile & Status	Registered Managed Investment Scheme domiciled in Australia
Base Currency	Australian dollars
Distributions	Paid annually, shortly after 30 June; reinvested unless otherwise instructed
Unit Prices at 31/05/2020	Buy Price: $0.9809 Sell Price: $0.9731

DISTRIBUTIONS (LAST 5 YEARS)

Date	Cents per unit
30/06/2019	8.24c
30/06/2018	11.24c
30/06/2017	5.00c
30/06/2016	0.79c
30/06/2015	4.9145c

8IP Small Companies Fund vs Benchmark	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception
8IP Small Companies Fund (gross of fees)	+13.65%	-4.40%	-11.03%	+2.88%	+10.48%	+6.73%	+11.77%
S&P/ASX Small Ordinaries Accumulation Index	+10.59%	-1.91%	-7.66%	-2.91%	+7.51%	+6.59%	+5.39%
Active Return (gross of fees)	+3.06%	-2.49%	-3.37%	+5.79%	+2.97%	+0.14%	+6.38%
8IP Small Companies Fund (net of fees)	+13.55%	-4.70%	-11.59%	+1.65%	+9.07%	+5.30%	+9.75%

Past performance is not an indicator of future performance. All returns are shown to two decimal places. Returns for periods of more than one year are annualised. Total returns include realised and unrealised gains and losses plus income and are time-weighted rates of return that adjust for external cash flows. Valuations are computed and performance reported in Australian dollars. Gross-of-fees performance returns are presented before management and performance fees but after all trading expenses. Net-of-fees performance returns are presented after management and performance fees.

Index strength was down to strong share price appreciation of stocks in the gold and tech sectors, as well as in "healthtech", REITS and the broad automotive space. We were overweight in a number of these areas, in particular gold and technology, and in general retained our bias to stocks standing to benefit from either changed behaviours or the "reopen" trade. Our best contributors were Kogan.com (+40.6%), Retail Food Group (+40.0%) and Strike Energy Limited (+50.0%).

Kogan.com's share price has risen +196.31% to the end of May since bottoming in March. Consistent and strong updates from the company since mid-April have driven analyst upgrades and valuation expansions from a market willing to pay a premium for good news. The question investors should ask is whether, for Kogan, Covid-19 is a P&L sugar-hit or an event that will induce an acceleration in its long-term growth. We think that the company's capital light model and low-variable cost base provide a solid foundation for growth in the Australian e-commerce space, a market widely noted for lagging behind US and European comps. We have taken profit consistently on the way up but remain invested for now because we see a pathway for the company to increase its revenue per customer as it scales.

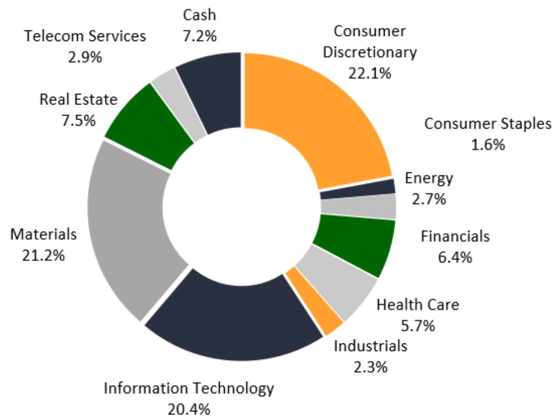
Retail Food Group was one of our worst-hit holdings in March. We had participated in the recapitalisation of the business in October 2019 at 10cps, backing management to execute a turnaround. During March, the price fell to a low of 2.8cps but closed April at 5cps and May at 7cps. The recovery has reflected the improving consumer outlook and some management action, but our view has changed—we feel the turnaround will be more difficult post-Covid. As a result, we exited our position in early June.

Within our portfolio, Strike Energy is both an early stage, high quality energy play, and a play on the eventual recovery in oil prices. During the month, WTI prices rose 62.4%. This was the major factor behind Strike's share price rise. Fundamentally, we are invested in Strike because it is one of the largest onshore conventional gas discoveries in Australia, with approximately 1.2TCF gross 2C resources and a pathway to further, potentially very substantial resources in the Greater Erregulla gas project. Initial offtake agreements are in place via foundation gas sales to Wesfarmers. The initial project has low development costs, high flow rates, is close to existing gas infrastructure and with its location in the Perth Basin, has a significant transportation cost advantage (c$1.10/ GJ) vs peers. Fundamentals may even have improved as a consequence of recent oil price falls, given the potential deferments of major backfill candidates in Scarborough and Browse.

TOP HOLDINGS

Top 5 Holdings	Portfolio Weight
Regis Resources Ltd	3.8%
Saracen Mineral Holdings Ltd	3.7%
Igo Ltd	3.2%
Splitit Payments Ltd	3.1%
Nextdc Ltd	2.8%

SECTOR ALLOCATION



Source: 8IP and Bloomberg.

Please note that 8IP may reallocate stocks' sector classifications where in 8IP's view it is appropriate to do so.

Our biggest detractors in May were Atomo (-29.2%), Cooper (-3.5%) and Splitit (-7.9%). We wrote about Cooper at length last month and are still watching for progress in commissioning at the Orbost processing plant. Atomo, which produces "home blood-test kits" used to detect antibodies including HIV and now Covid, listed at 20cps in April and closed the month at 48cps. At the end of May the stock was trading at 34cps – well down on April but still 70% above its IPO price. We took advantage of higher prices to more than recoup our initial investment, and now retain a smaller holding. Regular readers of our updates will be well acquainted with SplitIt. We participated in a capital raising at 41cps during April. The stock closed April at 50.5cps, and May at 46.5cp. On June 4th, management reported an extremely strong strategic and operating update. As we write, the stock is trading at 68cps, up +46.2% vs its end-May price and +65.9% vs the placement.

OUTLOOK

We were not expecting May's rally to be as strong as it was. As it continued into the present month, the S&P500 hit the same level as 31st December 2019 on 8th June. It was as if "the whole Covid thing" had simply gone away. By most measures this just didn't pass the common-sense test. We are very early in the recovery process and there are multiple hurdles to be overcome: fundamental risks, especially those around "second wave" outbreaks and US-China relations; trading risks, arising from the speed of the bounce back; and valuation risks, arising from high multiples of earnings which are less transparent than at any stage for years. The subsequent pause in market momentum made sense; as we write, the S&P500 is down -5.9%, ASX 100 down -12.5% and the small cap index down -10.0% vs 31st December, 2019.

Where to from here? As has been well documented, the US recovery to date has been driven by share price strength in a tight phalanx of "IT mega caps", healthcare and other growth defensives. Earnings multiples for these stocks have extended, in some because the virus has accelerated existing business models, in others because investors have been willing to pay a premium for relative earnings certainty. But with multiples in these stocks as high as they are, the rally will have to broaden into cyclicals if it is to be sustained. In our view, for that to happen, more of the risks in the environment (including those enumerated above) will have to dissipate. With

Europe on the cusp of reopening, second wave risks are especially pronounced - the pace of the sell-off following increased US infection rates in early June shows how fragile investor sentiment remains.

And yet … it is clear the Fed (whose mandate targets of full employment and 2% inflation look very far away) is intent on printing whatever amount of money is required to steady the US economy. With this in mind, broad-based corporate earnings and outlook statements (most of which have been improving recently) will need to be very much worse than expected to see the market come anywhere near recent lows. History suggests betting with the Fed may prove the "one thing" that trumps the rest.

Balancing these risks, and bearing in mind that US equities are now trading only marginally lower than pre-Covid, we expect markets to move sideways. We expect a "tug of war" between investors who believe the risks are either overdone or inconsequential in the face of a Fed that might conceivably end up buying equities, and those who believe earnings expectations over the next two years are about to crater and drive the market down hard.

Our portfolio is close to maximum cash and otherwise invested in stocks we believe can deliver upside earnings surprises. The re-opening of the Australian domestic economy is poised to accelerate, and we are alert to the potential for the rally to broaden. A number of our tech stocks have re-rated dramatically. We have taken profits where prudent, and reinvested in tech companies whose stories, we believe, are not properly understood. We retain our overweight "hedge against everything" in gold. We are not expecting gold prices to breakout; we doubt the US dollar will lose its global leadership, and inflation is not a near term risk. However, we believe the gold price is already high enough that gold miners don't need another breakout for their share prices to outperform. Finally, we remain very active in the secondary placement market, and are pleased with the quality of offerings seen so far in June.

Please don't hesitate to get in touch with your feedback and thoughts.

My thanks to all of our investors for your continued support.

Stephen Walsh
Chief Investment Officer

HISTORICAL FUND RETURNS

Monthly Returns (Gross)	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	1 Year Return (Gross)	1 Year Return (Net)	1 Year Return (Index)
2012										2.11%	-1.77%	7.24%	7.56%	7.26%	2.04%
2013	4.47%	2.44%	-0.13%	0.02%	-2.42%	-3.84%	5.17%	3.16%	5.84%	4.92%	-4.16%	4.47%	21.01%	17.85%	-0.76%
2014	-1.66%	10.98%	3.58%	-1.71%	1.38%	1.67%	8.63%	0.48%	-3.39%	-4.51%	-2.33%	1.36%	14.16%	10.00%	-3.81%
2015	2.37%	5.81%	3.02%	2.31%	-0.06%	-5.02%	4.22%	-3.59%	0.08%	6.18%	-0.08%	2.12%	18.07%	16.31%	10.15%
2016	-5.59%	-3.64%	3.88%	3.64%	5.83%	-0.55%	7.32%	-1.25%	2.88%	-5.67%	-2.49%	0.93%	4.35%	2.95%	13.18%
2017	-3.59%	0.76%	-0.47%	-1.34%	-0.30%	1.01%	-1.25%	3.16%	2.09%	5.84%	4.22%	2.76%	13.24%	11.63%	20.02%
2018	0.32%	4.75%	-3.25%	3.02%	1.59%	1.52%	-1.10%	1.94%	-2.04%	-11.36%	0.53%	-4.17%	-8.90%	-10.14%	-8.67%
2019	6.34%	7.69%	1.96%	5.02%	-1.48%	1.92%	4.16%	3.63%	5.07%	0.81%	-0.75%	-1.68%	37.37%	35.79%	21.36%
2020	3.27%	-8.34%	-29.02%	18.52%	13.65%								-9.51%	-9.99%	-7.40%

STEPHEN WALSH
Chief Investment Officer
With over 30 years' experience, Stephen has held director level roles in equities research and investment banking in Australia and overseas.
He was Banks Analyst at Macquarie (2000-2004), Head of Research at Wilson HTM (2005-2011), and Head of Asia (ex-Japan) Consumer Research at Credit Lyonnais (1996-2000).
Previously, he worked in senior strategy roles for LEK Consulting and Standard Chartered Bank.

ABOUT 8IP

8IP is a boutique investment group with offices in Sydney and Brisbane. Our senior staff have decades of experience in small cap investing. We employ a unique philosophy combining insights from our experience and academia to select between 40-60 stocks for the 8iP Australian Small Cap Fund, which is our flagship product. The objective of the fund is to deliver positive investment returns of at least 5% above benchmark over a rolling 5-year period.

For more information about our team and products, please visit www.8ip.com.au

KEY FUND INFORMATION

Investment Manager: Eight Investment Partners Pty Ltd (8IP)
Responsible Entity: Equity Trustees Limited
ABN: 46 004 031 298
AFSL: 240975
Fund Regulator: Australian Securities and Investments Commission
Fund Domicile: Australia
Fund Administrator: Mainstream Fund Services
Custodian: JP Morgan

FUND IDENTIFIERS

APIR: FHT0012AU
ARSN: 143 454 013
Bloomberg Ticker: EIPASMC AU
Morningstar Ticker: 16197

FEES

Management Costs: 1.20% p.a. including GST
Performance Fee: 20% over hurdle
Minimum Investment: $5,000
Exit penalties: None