# Investor Update

# Q4.2020

WUNALA CAPITAL

## Wunala Capital Pre-IPO Investments

### Key Updates

- Our new fund launched on 1 October 2020 for its initial capital raising period running to 31 December. It is now closed to new investors until further notice
- We made 9 new investments, one of which (Cashrewards) has listed on the ASX
- Performance for December was +1.5%, with a net return since inception (after all fees and expenses) of +1.0%

A very busy quarter spent marketing for the new fund and making a number of investments in line with our pre-IPO strategy.

The fundraising was well-supported by existing and new investors. We welcome you all to Wunala and look forward to continue working hard to deliver on our goals of finding and backing high-growth companies on track for an IPO in the near future.

The fund is now closed to new investors for the time being. This is primarily so that we can focus on deploying our capital and managing the portfolio. As positions mature and either IPO and/or we exit our holdings, we may look to open up to additional investors around Q3 this year.

A lot of our time was spent originating and screening for new investment opportunities. This is a very time consuming process as we are very selective and say yes to less than 3% of the opportunities presented. The benefit is that we build a comprehensive database of companies and can refine our screening criteria - as the old ad used to say, it's the fish that John West rejects that makes John West the best.

Finally we recorded our first IPO in the new fund with the successful listing of Cashrewards on the ASX. The first of many!

### Notable Transactions

Cashrewards (ASX:CRW) listed on the ASX on 2 December 2020. We liked the differentiated approach benefiting from the rise in e-commerce, with significant upside potential from increased spending travel/dining in 2021 as well as a potential strategic relationship with ANZ Bank who took a 19% stake at the IPO. CRW debuted strongly and was up almost 20% at one point (we sold down a small portion) although has drifted lower in recent weeks. We plan to hold our position for the time being and anticipate further gains as the company accelerates its user growth and tech rollout.

We made 8 other investments made in the quarter with two worth highlighting here:

Mighty Kingdom is an Australian developer of games for mobile phones and consoles. It has a long track record of developing games for world-class companies such as Lego and Disney, and has recently expanded to produce its own unique content. The gaming industry is enormous with the number of hours spent simply watching games online (excluding actually playing) roughly equivalent to the entirety of Netflix.

Xpansiv is an ESG-focused (environmental, societal and governance) commodity marketplace. It enables trading of renewable energy, carbon credits and the like as well as providing data, validation and associated services. The rise of ESG-related investments is significant (for example the sustainable debt market increased 29% in 2020 alone) with a growing shift from institutions and governments to support sustainability. With backing from BP, Macquarie and S&P we think Xpansiv is the leading ESG-focused commodity exchange globally.

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## In Depth - Expected Return Profile

Looking at our fund's performance (+1.5% for the month of December) you may be forgiven for thinking… is that it?

In short - no. While generating an annualised 18% return is nice, we don't really measure ourselves on such a short term basis, especially with a portfolio made up primarily of quite recent investments.

The majority of our holdings are in companies that are private and are actively working towards an IPO in the next 12 months.
We don't invest in companies that are 'thinking about it' or 'will consider it in due course' and that's fine - we never want one of our companies to rush into an IPO for the wrong reasons.

Likewise there are plenty of amazing companies out there who don't need to list, are too early or simply wouldn't work as a public company. We wish them all the best - but it doesn't line up with our strategy.

While our portfolio companies are accelerating their growth and creating real value every day, we tend not to record this as a 'gain' on our valuation unless there are exceptional circumstances. This could be a subsequent capital raise, an arms-length sale of shares to a 3rd party, or a trade sale or IPO - basically some event that proves the value has changed.

As a result our valuation uplift during most of our hold period on any individual pre-IPO investment is minimal at best. This is followed by (we hope!) a significant upward repricing once there is an event we can measure.

This approach applies to any individual holding. As the portfolio matures we will manage our pipeline to ensure appropriate diversification, including for timing risk. This will avoid the chances of all our IPOs being bunched too close together, which will help to deliver a more stable return profile over time.

*Next time: why do IPOs typically rise on debut?*

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## Commentary

What a quarter that was for IPOs. After a 7-ish month period with very few ASX listings, primarily due to COVID-19, they are back with a bang. Tales abound of the gains to be had with day 1 increases (or 'pops') of over 100% in some cases.

The truth is a little more nuanced than this. Avoiding the losers is as much a part of the battle as it is picking the winners, and while on average returns on IPOs are good, by that logic on average a zebra is grey - it misses out on a lot of the important detail. Sure there were some wonderful companies that recorded incredible gains on debut. There were also quite a few more who have either traded sideways or lost significant ground - some of the least-inspiring performers wiped off -40% or more from their IPO price on the first day alone and have languished at these depressed levels ever since.

This sort of capital loss is hard to stomach, both emotionally and financially. Simple maths dictate that losing 40% of your capital means you need to generate a return of 67% from there just to get to breakeven.

We seek to mitigate the risk of any capital loss through our strategy of 1) picking the best high-growth companies with strong prospects and financials and 2) structuring our investment with downside protection through a discounted entry price (relative to the IPO).

Thank you again for your interest and support of Wunala Capital.

Regards,

**Scott Wilson**
Managing Partner

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