WUNALA CAPITAL

Investor Update

Q4.2021

Wunala Capital Pre-IPO Investments

The Wunala Capital Emerging Opportunities Fund (the "Fund") invests in high growth Pre-IPO, IPO and select listed opportunities across technology, financial services, healthcare and sustainable energy companies.

Welcome to the Wunala Capital quarterly investor update. The Fund delivered a **+36.5**% net return for calendar year 2021.

Returns	3 months	12 months	Since inception (annualised)	Since inception (total) #
Wunala Capital Fund	7.9%	36.5%	31.7%	37.7%

Performance is reported net of all fees and assumes reinvestment of distributions. Past performance figures may be subject to rounding and is not necessarily a reliable indicator of future returns. # Cumulative returns from inception date of 31 October 2020.

As we rule off our first full calendar year since the Fund's inception in October 2020, we are pleased to report results that comfortably exceeded our target returns. Given that substantially all of our investments (greater than 75% by value) are still held at cost, we believe that there will be several catalysts for upwards revaluation for many of these positions over the next 12 months and beyond.

Notable Transactions

Two portfolio companies listed during the December quarter - Iris Energy on the NASDAQ, and BirdDog Technologies on the ASX. Both of these have delivered attractive gains to investors in the Fund by virtue of the discounted entry price that we paid relative to their current trading price.

An oft-repeated adage in real estate investing is "you make money when you buy". While this is too simplistic an analogy when running a fund (where, timing, sizing and overcoming inherent bias are equally as important in deciding when to exit a position), it does serve to neatly encapsulate part of our strategy which is to build a position in a private company at a sufficient discount to the next funding round that it can overcome any short-term price declines (indeed in Iris's case, despite the share price being down 42% from its IPO we are still showing a ~3x return).

Previous quarterly updates have discussed the Fund's investments we made in Encompass, Marketplacer and Crimson during the last quarter. We also added to our holdings in Demyst via a small secondary tranche of equity ahead of their planned 2022 IPO.

Finally we exited three sub-scale listed positions (collectively ~1.5% of total assets) at a modest premium in order to simplify our book and reduce exposures to the riskier tail of our portfolio. Although we believe these would neither break the bank or materially change the fortune of the Fund, the reduction in workload and attention devoted to these minnows frees up additional capacity for us to focus on the opportunities that can deliver that step-change in returns which we strive for.

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The year in review

Returns throughout the year were driven by a few core themes. Firstly, the Fund went long on battery and electric vehicle-associated technology in the first half of the year, and that sector was strongly supported in the latter half of the year in many facets. Due to some more recent frothiness as valuations raced ahead of reality we took profits in these positions prior to the recent pullback. Another, albeit smaller, contributor were some attractive private biotech investments that listed throughout 2021 that we also sold down shortly after listing to lock in gains.

In both these sectors, we continue to believe strongly in the underlying trends that support their medium and long term growth potential, but our focus on managing money is twofold: firstly to tap into these trends of ongoing disruption, but secondly (and arguably more relevantly) to identify the winners in each of these. Easier said than done, which we discuss further in the section below.

The other big driver of returns was the Fund's exposure to cryptocurrency-related businesses. Although this introduces some additional volatility into the monthly results, it forms only a modest portion of our assets but carries a significant opportunity for long-tail results to the upside.

As the drawdown of tech (or to be more precise, 'growth' companies that are returning zero to negative free cash flow) continues unabated under the spectre of rising interest rates, we think that high-quality bitcoin miners will come back into investor favour. Their astonishing ability to generate free cash flow and high returns on capital will become increasingly attractive, notwithstanding the fluctuations in the underlying commodity they produce (i.e. BTC itself). In our view, investing in the 'picks and shovels' of miners significantly minimises the risk of holding actual cryptocurrency assets themselves which are subject to additional volatility, quirks in accounting rules and the ever-present risk of hacking and losing your assets entirely (Matt Levine from Bloomberg has semi-humorously/sarcastically stated that "the fate of any bitcoin exchange/wallet/bank/custodian is to be hacked". This is a greatly reduced risk when the miner sells each day's production for cash every 24 hours).

In terms of mistakes, there were a few decisions that in retrospect we'd like to take back. However, as a mitigant, by design our fund is actively positioned to minimise the impact of any detractors on our overall returns, while the winners have the potential to deliver returns multiple times that of our invested capital.

Putting aside the short-term vagaries of share market pricing, in those occasions when we got something wrong it was primarily in underestimating the execution risk in a small number of our portfolio companies. Our investment decision process has a multi-factor approach that seeks to mitigate this where possible through the support of an experienced board/investors, longer runways of capital, shorter timeline to liquidity/breakeven etc., but it is hard to get away from the fact that building and sustaining a high-growth company with a real edge is difficult work. Especially for our private investments, we will seek to support these teams where there is a temporary setback or gap in delivery, and the underlying product remains attractive such that we remain confident in them delivering value to our investors.

The year ahead

One of the more interesting aspects of managing a fund like Wunala is unearthing early stage companies that are innovative in their business model/product/service, but have the potential to become much larger and successful over time. We have never really been interested in the 'ok' companies that may grow modestly or struggle to truly differentiate their offerings - it's a crowded world out there for average SaaS businesses for example, and absent any sustained revenue growth we believe valuations will continue to compress as listed equity investors sustain their flight to quality.

Fundamentally we are looking for companies that are building the people, processes, and systems necessary to keep winning and continuing to scale. This requires the company to execute in the present (achieving product-market fit, building solid leadership teams, driving sustainable unit economics etc) as well as balance its investment in the future (how will the company keep winning by attacking new products/markets). We believe that backing these companies is what will deliver compounding returns to our investors over time.

The pullback in listed company valuations, especially in high-growth/negative-return businesses in the US (where almost half the tech companies in the NASDAQ are off more than 50% from their 2021 highs) has not however been replicated in the private world yet. VC funds remain awash in capital and are increasingly shortening their due diligence/loosening the terms of investment in order to participate in the hottest deals. Other than the qualitative analysis required of any active investor, two key factors that seem to drive private investment success are access and relationships - if you hear of the deal before it hits the AFR and the founder/s like you, it's likely that you will be offered a chance to invest. Drag your feet too long or ask too many difficult questions and you'll be quickly shown the door.

This throws up some interesting tensions in our approach. There is no doubt that we have and will continue to miss some transactions because we wouldn't accept egregiously founder-friendly terms, or agree to simply skim through our due diligence without deeply understanding what we are getting into. As part of the last private round of capital prior to an IPO or trade sale, we cannot simply put our faith in the 'greater fool' theory that we can always offload our positions at a higher price to someone else down the line. As to how this plays out in the broader market, when the irresistible force of private capital at eye-watering valuations meets the immovable force of public market bearish reality, it feels too early to make any definitive calls, but don't be surprised to see more companies remaining private for longer to wait this volatility out and see where the new normal lands over the next 6-12 months.

For the time being we'll continue to err on the side of caution when pursuing new private investments. We have worked hard at building our access channels - we screened 300+ opportunities in 2021 alone - and are confident that from this we can identify the best 10-15 high quality deals to pursue each year. We believe that we have a high quality pipeline that will put us on a great footing for 2022 and beyond. As long as we continue to make good decisions and execute well, we will find our way.

On a personal note, the Fund continues to grow and we are adding to our team. This additional capacity will allow us to conduct deeper dives into sectors to really pick our spots that we think will deliver outsized gains, as well as spend more time on the direct origination that we believe will lead to superior returns over time. We are excited to share this news with you soon.

If you have any questions about our fund or investment approach, please contact us on the details below.

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

Scott Wilson
Managing Partner

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