Investor Update

Q4.2022

Wunala Capital Emerging Opportunities Fund

The Fund invests in late-stage growth capital, bridge/Pre-IPO financing and select listed opportunities across high growth technology, financial services, data and digital companies.

Performance Summary

Net Returns	3 months	12 months	Since inception (annualised)	Since inception (total)
Wunala Capital Fund	**-3.9%**	**-13.2%**	**8.5%**	**19.4%**
Benchmark (5% hurdle p.a.)	1.3%	5.0%	5.0%	10.8%
ASX All Tech Index	3.2%	-32.8%	-10.2%	-20.8%

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

The Fund returned -3.9% for the December quarter, with most of the decline coming from one of our listed stocks (Iris Energy, which of course has promptly rebounded materially from 1 January this year). We had a number of offsetting transactions in the unlisted portion of the portfolio which had a neutral impact on performance over this timeframe, and also took the opportunity to sell down part of our holding in Xpansiv (locking in some profits) to a consortium led by Aware Super.

In our opinion the environment for start-up funding, growth capital and exit opportunities continues to harden. The IPO window appears to be welded shut for the foreseeable future (unless you are a speculative microcap resources company), but we are seeing increased M&A appetite for best-in-class tech companies, and accordingly inbound enquiries to our portfolio companies is growing. Based on comparable transactions, we see a strong opportunity for value capture as strategic bidders and financial sponsors ramp up their activity and pursue targets (including our portfolio companies).

This investor update covers the following topics:

- Portfolio summary and notable transactions
- New investments
- Secondaries - our unique capabilities

Portfolio summary

As of 31 December 2022, the Fund had positions in 5 listed and 15 unlisted companies. We made two new investments in the quarter, DataMesh and SendFX, both of which are covered overleaf. These are the first new investments made by the Fund in over 12 months, which reflects our patience and discipline to wait for the right opportunity.

Of our existing portfolio of unlisted companies, two executed some form of funding transaction during the quarter, providing additional transparency on the valuation of that company. Our remaining private companies are held at the lower of cost, or where warranted, their written-down value to reflect public peer performance.

Investors in the fund will receive a separate, detailed portfolio update, but Q4 highlights include:

- Exits: partial selldown of our stake in Xpansiv, locking in a ~3.3x gain on our investment
- New funding: Alex Bank closed a new funding round at a modest discount to our prior entry price (we marked our position down to reflect this new value)
- Other: Our convertible notes in Demyst and Orbx were extended at more favourable terms to us

New investments

In October we invested in the fintech DataMesh. Their product enhances any bank's payment offering and addresses latent structural payment problems for merchants. By solving these issues with its leading solution stack, Datamesh can add value to banks, merchants and their consumers through useful and enriched data analytics. DataMesh's payment services software, infrastructure and data analytics products provide streamlined, low cost and flexible payment solutions across point of sale (POS) systems, various next-gen payment devices and online payments. In particular, DataMesh's software enables merchants and acquirers to accept a wide range of payment methods, including QR codes, loyalty cards, prepaid transport cards, debit and credit cards and other methods.

We are especially excited about DataMesh's strategy to partner with banks instead of disrupting them. This is underpinned by the composition of this investment round, which consisted of 3 banks (two of Australia's big 4, and one of Europe's largest global banks as well - pretty great company for Wunala to keep!).

Just before Christmas we closed our second investment for the quarter in SendFX. Send provides currency payment solutions for both businesses and retail customers, and has built a unique infrastructure to create a fintech out of every company that is using their software. Send has pursued a B2B2C strategy to enable its business users to handle cross-border payments and offer favourable currency rates to their own end customers, fully integrated within their payment environment but powered by Send's platform.

The clever part is the profit share model to incentivise Send's partners to offer a seamless and cheap currency payment solution and have it embedded within their partner's platform. Send has a number of leading global companies among their customers (including PEXA) and we are confident they will continue growing the business at a strong rate.

Secondaries - our unique angle

As a fund with flexibility in the types of assets we hold, we see a clear opportunity in the secondary market with several compelling arguments to invest via this structure.

The majority of funds in Australia are precluded from investing in "secondary" transactions (buying securities in an unlisted company from an existing investor, instead of investing capital into that company directly). This is typically due to tax or regulatory restrictions and incentives which essentially limit these investors to acquire new securities issued by a company, and the exosting investors will suffer from the corresponding dilution that comes with such investment.

As a secondary transaction provides liquidity for the seller, this may come at an attractive discount (especially when liquidity is scarce, such as today). Sellers may be early investors that invested several years ago and for their own reasons would like to see an exit event, and even at today's depressed prices they may still be booking a material gain from their angel or seed investment. Potential downsides are usually limited to acquiring a subordinated class of shares (i.e. common vs. preferred, which is typically issued for primary funding) but with appropriate due diligence, by focusing on the strongest companies and pricing accordingly this can be mitigated.

With limited traditional exit opportunities currnetly, we see great potential for Wunala to acquire stakes in world-class companies via this approach and are keeping our eyes wide open for the right opportunities.

Looking ahead

In news that will come as a surprise to almost nobody, 2022 was a terrible time to be in our type of investing (even though we got through it largely unscathed). Central banks globally commenced an unprecedented wave of interest rate increases in an attempt to curb inflation and wind back pandemic-era stimulus. As a result, valuations in public markets dropped significantly to reflect the higher cost of capital, essentially shutting IPOs as an exit path for private companies. Without this certainty, funding for late-stage private/VC companies also became much harder to raise.

Conversely, this year may turn out to be a great time to invest. We believe the opportunity set is enormous due to a high number of companies that will need to raise funding, much less capacity available to them and an eventual opening of the IPO market as interest rates stabilise:

- On the company fundraising side, typically tech companies raise to fund 12-24 months of growth. 2021 was a bumper year for fundraising with $10.6bn invested in Australian startups[2]; unless these companies have managed to change their business models such that they would never need to raise to fund growth again, we expect the majority of these to be back in market to raise again in 2023. Anecdotally, our deal flow has become much more investor friendly from the last quarter of 2022 onwards.
- On the capacity side, there are a number of investors who have been very active in the last 2 years, but are now taking a step back from new investments and are focused on salvaging value in their existing portfolio companies via internal bridging/extension rounds (to avoid a down-round)
- Finally, we know that all cycles turn and that exit opportunities will pick up again, especially when viewed through our preferred hold period of 12-24 months.

We therefore strongly believe we can continue to cherry-pick some genuinely world-class companies to support through to a liquidity event and beyond.

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

Scott Wilson
Managing Partner

Footnotes

1. Index references are used for comparison only as the Fund is not measured against this for its calculation of performance fees.
2. State of Australian Startup Funding 2022; Cut Through Venture & Folklore Ventures

E: info@wunalacapital.com.au **T:** (02) 9199 5064 **W**: wunalacapital.com.au

Wunala Capital Pty Ltd | Level 1, 377 New South Head Rd, Double Bay NSW 2028 | CAR 1281806 of AFSL 238198