Investor Update

Q4.2023

WUNALA CAPITAL

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	**-4.0%**	**-2.7%**	**4.9%**	**16.2%**
Benchmark (5% hurdle p.a.)	1.3%	5.0%	5.0%	15.8%
ASX All Tech Index	9.2%	34.4%	2.0%	6.4%

Performance is reported net of all fees and expenses, 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.

The Fund returned -4.0% for the quarter. Even with this small drawdown, we have managed to largely avoid much of the significant declines in growth/tech company valuations of the last 2 years (as shown by our positive absolute returns and ~10% outperformance over the ASX All Tech Index). The negative impact to the fund is attributed to the writedown of one of our unlisted positions to zero. We unpack this investment later in this letter with a focus on understanding how it happened and, just as importantly, what lessons we can learn as capital allocators to ensure we can improve future decisions.

I am pleased to report that the core portfolio continues to perform strongly at an underlying level. At Wunala we tend to focus a great deal more on the performance of the companies in our portfolio, and spend most of our time measuring, guiding and rolling up our sleeves to assist directly where needed. While we aim to invest on great terms at attractive prices, that is just a start. We also look for companies that can sustainably grow their revenue and earnings, while solving large problems for their customers and giving its staff employment opportunities they can be proud of. With all that in place we firmly believe that the compounding increase in underlying valuation of our investment will take care of itself in due course.

This investor update covers the following topics:

- Portfolio summary
- The power of no
- Valuing information

Portfolio summary

As of 31 December 2023, the Fund had positions in 1 listed and 13 unlisted positions. Full details of our portfolio are in the investor-only report mailed separately to current investors. During the quarter we did not make any new investments. We modestly increased the valuation of our holding in Alex.Bank to reflect the share price of their latest material funding round, but also wrote down the carrying value of our holding in Immediation to zero and removed it from our portfolio.

In the prior quarter's letter we reported that Immediation had recently been placed into voluntary administration by its directors. As this process played out over the subsequent months it became apparent that the realisable value of the IP and assets would be insufficient to cover out all the statutory obligations of the company, let alone provide a return on our capital. We therefore wrote this carrying value down to zero in November 2023 and the business was placed into liquidation in December.

Portfolio summary

Post mortem

A material focus of our fund is capital preservation, as losing money hurts. This is not just a paper loss (or gain), of fluctuations in the price of a publicly traded shares - this can be managed through taking a long-term approach where confidence and a certain calmness rule the day (or where urgency and panic can result in a transfer of value from the impatient to the patient). Taking an actual loss - selling for less than you paid - means we have to work the remaining portfolio harder to recoup the loss and to still deliver an overall gain on the total capital invested.

Since starting the fund we have backed 24 unlisted companies over 4 years, and Immediation was the first outright failure. Generally we think we have looked after our investor's capital well. Of the 24 investments we have had 9 exits; we made money on 7 of them, broke even on one, and took a modest loss on one. Adding Immediation's zero as our tenth 'exit', we have still delivered an average exit IRR of over 50%. Even excluding our top exit to date, the exited portfolio (incl. Immediation) has delivered an average IRR of 32%.

As nice as it is to pat ourselves on the back for a job relatively well done, I am using this experience to conduct a thorough post mortem of our investment process and decision making mechanisms. The goal is to identify what we got wrong and to build improvements in our analysis and execution so that we can do better.

In short, our review identified two aspects that led to this specific result:

1. We got a key aspect of the company's investment thesis wrong, and had convinced ourselves that by building appropriate protections into the investment structure that these risks could be sufficiently mitigated (spoiler alert: they were not).
2. Certain circumstances of the business changed ~6 months after we invested, and we did not have sufficient control or influence (via ownership stake and/or contractual rights) to be able to steer this in the manner we believed would preserve and grow the business.

To spare the blushes of those involved I will not go into the specifics of the underlying factors, but in some ways they don't really matter. What did matter was that I did not have as high a conviction on the investment at the time of making it than I had with other far more successful opportunities. When I look back at our winning investments it's always been the ones that were an obvious "yes" right from the start that delivered an unequivocal success rather than one where I had to 'convince myself' into it.

The second aspect is an issue that had been slowly raising its head as we helped our portfolio companies navigate the turbulent 2022 and 2023 environment in particular, and that is of control vs. influence. Outside of business this can seem super obvious (anyone that has experience with, say, getting young children to eat broccoli will know about the illusion of control!) but we define it as ensuring that the leadership of a company take actions appropriate for the circumstances. We have typically relied on a mix of influence and relationship to have our view heard, and it has had a large element of success so far, but it's something we are increasingly looking to formalise in recent and future investments to ensure that we have an element of this codified to lean on if necessary.

The power of no

Another way to improve for next time? The words of my former boss at Macquarie came to me while going through this exercise. As a young and excitable analyst my deal enthusiasm was high, and I (and the team) were constantly proposing some exotic acquisition, financing, leveraged recap or whatever else we had cooked up on the Excel spreadsheets that week. His common refrain was "We don't have to do this deal".

At the time this would frustrate me (and not only because I was compensated with a bias to action!). We are at an investment bank, I would think, why shouldn't we be doing all this cool stuff that was surely going to make money? The reason is a strong reminder of the old John West ad - that it's the deals you don't do that tend to highlight your long term success as an investor. For a long time now we have had the discipline to walk away from terms or companies that don't gel with our approach, and in retrospect, should have done the same thing here.

What makes a difference

Risk is part of what we do. In the pursuit of great gains we will occasionally get it wrong. On the flip side we also acknowledge that mathematically the biggest error we can make is missing out on something that increases in price multiple times rather than owning something that goes to zero. As we do not invest with leverage or options, the most we can lose is the capital invested, but the most we can miss out on is many multiples of that number. So it's much more important to position ourselves so that when we win, we can win big.

In pursuit of ensuring that we follow our strategy of deeply understanding each opportunity - we don't make many investments but when we do we are high conviction - we borrow the "punch card" mentality from Hamish Corlett at TDM (who leveraged it from Warren Buffett) who says it beautifully:

> "Those truly outstanding investments, the life-changing ones, are in limited supply; the punch card mentality provides a necessary sense check for when to let a few 'good' investments pass so that when the time comes, you're ready to go all in on the great ones."

Our focus remains on letting go of the decent opportunities in search of the truly special ones. We believe we have several of these special ones in the fund today, and are relentlessly searching for the next one - we have 3 new deals in the pipeline that look extremely promising so far. Watch this space.

The value of information

As a fund that is generally focused on the unlisted side, we do not spend a lot of time getting caught up in the endless dance that is 'reporting season'. For those unaware of the term, this is the twice a year period where listed company fund managers, brokers, investor relations and corporate communications team spend 1-2 months trying to gain the tiniest sliver of insight - working out if company A will beat earnings per share by $0.01 or executive B's body language will show her unease with how an important contract negotiation is progressing for example.

It's all important stuff to be sure, and is part of the great functioning of the stock market which (theoretically) weighs and imputes current facts to update prices instantly. But goodness me it sounds tiring.

The reason is that the information is almost instantly out of date, and therefore worthless. All of that work for naught if you don't stay on the treadmill, running to get the next insight, the next briefing, the next morsel of cheese to build your mousetrap. How can you value information like this if it has such a short half life?

At Wunala we have been focused since day 1 on identifying the information with the longest shelf life, as it is this which people return to again and again, which then allows us to build an investment thesis around. Can we tell you which generative AI model will be the market leader in 5 years? No, and anybody who asserts they can is likely full of it. But can I confidently state that customers of our portfolio companies will always value getting high quality service at the lowest prices? Yes - and that's the sort of axiomatic information that we do value highly.

Invest with us

Due to the recent strong performance of technology companies and the increasing market whispers around the IPO window re-opening (sooner rather than later!), we are seeing strong interest from new parties wishing to invest in the fund which is currently open for new applications. You can find out more details and apply here.

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

Scott Wilson
Managing Partner