Investor Update

Q2.2023

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	**0.2%**	**3.9%**	**7.7%**	**21.8%**
Benchmark (5% hurdle p.a.)	1.3%	5.0%	5.0%	13.3%
ASX All Tech Index	9.2%	27.1%	-1.7%	-4.6%

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 +0.2% for the quarter. For context, the ASX Small Cap Index returned -1.8% for the same period, and an index of "small cap tech" companies on the ASX (those between $15m and $150m of market capitalisation) returned -4.3% for the quarter and -20.9% for the last 12 months. This last cohort has relevance to several of the companies that Wunala has invested in, typically being smaller 'growth' companies that are either burning cash or slightly profitable. Wunala's relative outperformance highlights that the majority of our portfolio companies have continued to perform well over the last 12 months with our carrying valuations supported by multiple factors - covered later in this letter.

This investor update covers the following topics:

- Listed market & macro view
- Portfolio summary, notable transactions & deal flow
- How to predict the future

Listed market & macro views

Wunala's portfolio is largely invested in unlisted growth companies, which we intend to support through to an IPO or M&A/sale event to generate liquidity for the fund. We typically do not have a significant exposure to listed markets but we watch it closely, especially as it is a leading indicator of the IPO market and serves to gauge demand for new listings.

While we have avoided the poor performance of small cap technology companies in the public market, we have likewise not been a direct beneficiary (yet) of the recent run-up in large cap tech companies. Of note, the Magnificent 7 (some of the largest and profitable tech companies listed on the NASDAQ, not the cowboy movie) alone have contributed over 80% of the 14% rise in the S&P 500 in the 6 months to 30 June. This highlights how narrow the current drivers of the strength in the market are, and also shows that this rally has yet to extend to the majority of the rest of the public market.

In our view listed tech is interestingly poised at the moment. One view is that the runup in the top tech compounders may face headwinds should there be further interest rate hikes in the US. My 2c view is instead that there may be an increased pile-on into these cash- generating high ROI stocks. Many listed equity managers have publicly stated they have so far avoided these in 2023 in favour of more defensive options, thereby trailing their performance benchmarks and putting pressure on them to eventually capitulate and buy in. We also believe that if the multiples on these largest companies continue to stretch higher it will make the smaller and less-widely owned small cap tech companies look increasingly more attractive with scope for multiple expansion, with corresponding demand for new companies to list - which would play into our strategy perfectly.

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Portfolio summary

Portfolio summary & notable transactions

As of 30 June 2023, the Fund had positions in 2 listed and 15 unlisted positions. During the quarter we did not make any new investments, and exited three listed positions entirely, including Iris Energy (NASDAQ: IREN). We invested as a very early private investor, rode the roller coaster through the IPO at US$28/share (when we were locked up!), down to almost US$1 around Christmas and then back up over 400% until we eventually sold our stake at a profit. We continue watching the stock and may consider buying back in on any weakness.

We elected to redeem our investment in Shaype during the quarter, booking a +16% return over a holding period of a little over 18 months. While the company had demonstrated its ability to grow its revenue and user base, we expect that the business will need to stay unlisted for longer than anticipated which affected our estimated return calculations. We believe this exit was a good result for investors and are pleased that our focus on delivering liquidity, especially in a tough market, is still viable.

ImmVirX closed a new series B funding round led by OneVentures, one of Australia's premier healthcare venture capital funds, at a price higher than our series A entry point. While the short term valuation uplift is nice, it is much more important to us that OneVentures saw the prospects of the company and will put their considerable skills and expertise into supporting the company's growth and expansion of its product roadmap in the future.

Our convertible note in Demyst matured at the end of June, and we are negotiating terms to convert our note into a new class of preference shares at what is expected to be a favourable valuation. We anticipate providing further details on this conversion and our strategy/rationale to do so in the next quarter's update, once the shares are issued and revaluation finalised. We also restructured our convertible note investment in Immediation into a new Series C class alongside new capital from Perennial and Thorney.

As a reminder Wunala's private market investments are held at the lower of cost, or their written-down value to reflect public peer performance, unless there has been a recent material arms-length transaction. Of the 15 unlisted investments at 30 June, 11 companies had raised money and/or sold shares within the last 12 months, which in our opinion shows that our carrying values and approach are reasonable.

Deal flow

From an investment perspective, we continue to see a high amount of dealflow crossing our desk. We have noticed that almost all opportunities are much more investor friendly than during the 'spicy' markets that characterised most of 2021 and 2022. It appears that many of the less sophisticated investors have left the market, which we view as positive - this additional demand was one of the driving forces behind the frothy valuations. We deliberately managed to avoid much of this hype by not investing from Q3 2021 to late 2022.

The deals we are now seeing can be divided into three subgroups:

1) Rounds out of strength: Relatively rare in the current market. These companies have shown consistent growth over the years by bootstrapping the business or have raised at reasonable valuations in the past. They can raise successfully at current multiples without crushing the cap table through dilution.
2) Bridge/recapitalisation rounds: Their previous round was typically a large amount raised at or near the peak of the market. Unfortunately, execution has often been underwhelming and these companies have been forced to come back to raise further funds on investor-friendly terms. Increased liquidation preferences of 1.5x-2.5x, dividends and a steep discount on the previous valuation are usually offered to attract new investors. These companies may have amazing products and customers but have not been successful in converting the increased spending to sustainable growth, which puts them in a tough spot.
3) Internal rounds: Companies that raised large rounds at high valuations but delivered enough traction for current shareholders to back them again, often at the same valuation (aka the "extend and pretend" approach). By doing so, the extension can provide time for the company the to grow into its new dollar valuation at a lower revenue multiple. Anecdotally, a majority of the funds in our sector are doing very few new deals and are using their dry powder to support their own portfolio companies instead.

We are primarily seeking out companies in bucket 1, but will on occasion invest in bucket 2 where the economic upside is compelling and suitably de-risked.

Predicting the future

We consider our investing process in two broad constructs: the present and the future.

When we look at the act of making an investment decision we mostly think about trying to see the present clearly. This does not require any heroic assumptions or dramatic extrapolations, it is almost entirely focused on picking up on the small number of data points that have an outsize impact.

A famous example is Jeff Bezos spotting a statistic in 1994 that made him leave his high-paying hedge fund job at DE Shaw to start Amazon: that the internet was growing 2,300% per year. He didn't have this realisation from a decade long journey of self-discovery and meditation, or that he had a vision come to him of building a trillion dollar company starting by selling books. He read a stat on some website and thought "hmm this could be something". He saw the present clearly, saw that it could have legs, ran with it and kept evolving.

For Wunala's investments we are looking for companies that tap into some core trends and may become "an index of their underlying market" as Elad Gil wrote. A company in this position can take a cut of every transaction in their space, or can provide a piece of infrastructure that everyone in the markets need. One reason we love these companies is that we don't have to pick the specific winner, as we'll likely participate in the upside more broadly.

In our portfolio some of the trends we like are data (Demyst), payments (Datamesh) and carbon trading registries (Xpansiv). In our view these companies can be successful as long as there is increasing demand for the underlying data infrastructure product they provide, and accordingly their future is tied not just to their own execution but to the success of the overall trend.

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Once we have actually invested in a company our thought process shifts and we spend our time thinking about "seeing around corners". We don't need to predict the future many years out (forecasting is a folly in most cases anyway), but we do need to apply our decades of experience, pattern-recognition and judgment to identify what is coming next. We then use this information to help make good decisions to take advantage of this knowledge, both to help company founders/management and - candidly - for us to decide when to sell out of an investment.

We've spent a lot of time thinking of exits recently (see the March 2023 investor letter for a deeper dive). Broadly, a wall of capital rushed into private investing in 2020 and 2021, and as has been widely-reported, exits have fallen off a cliff (IPO market being shut & lack of strategic M&A buyers due to economic uncertainty re: interest rates) thereby "trapping" this capital. Unfortunately, much of this capital was also invested at inflated valuations, and/or the underlying companies have struggled with pivoting to cash flow profitability rather than burn-powered growth.

There is currently a lot of public doom and gloom about the prospects of late stage private companies, both because a) negative articles about down-rounds and cut-price bailouts get more clicks but also b) because most people extrapolate in a straight line from today. If the market is tough right now then it must be tough forever?

I agree that a number of companies will struggle, and that due to their economic model, cap table dynamics and other factors they are likely to either fail or become "zombies". But the great companies will always be in demand, and we think we have a reasonable chance of identifying and investing in them (either primary or via discounted secondary stakes) on valuations and terms that will generate an attractive risk-adjusted return.

The problem is that the future is inherently unknowable, so both (contrary) views - everything is doomed, or this is an amazing counter-cyclical opportunity - can be equally plausible. We can't prove that we are right, nor can we prove that the other view is wrong.

So when we talk to our investors, **we just ask one question: "What *if* we are right?"**

Anticipation

John Maynard Keynes said "Successful investing is anticipating the anticipation of others". While many inventors are sitting on the sidelines and waiting to pile into a crowded trade (by which time it's too late), we believe our best buying opportunities are right now, when capital is scarce, competition is low and we can pick our spots. From these lows, we believe that the quality companies we back can compound attractively.

We have a view that our offering at Wunala is unique and not something you can get elsewhere. We invest in what we believe are some of the most exciting private companies, led by passionate and experienced founders. We focus on high-growing sectors we have deep knowledge in, with large opportunities, because we think this will carry our companies further (growing faster than system has a compounding effect vs. increasing share in a flat or declining market).

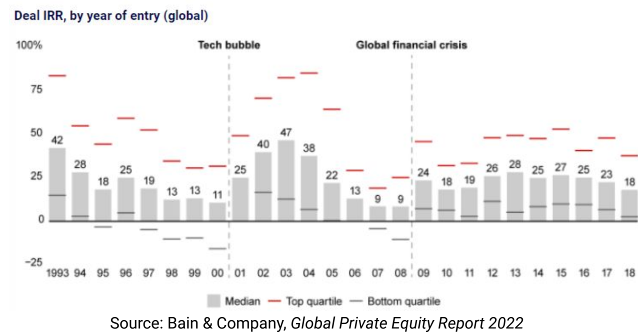
We don't have to predict the future precisely, we just need to know that there is a reasonable chance that our view will turn out to be correct, that we would generate a return from it, and that our downside case is limited.

Accordingly, we target reasonably high returns through the cycle, and believe that over time our investments will increase in value considerably. (Here is a reminder that the Fund has returned +26.5%* over the last 2 years).

So then a question.

What *if* our view of the future is correct?

What if we are at an inflection point in the cycle, coming out of a downturn and primed for outperformance? What would this mean for the value of our investments, and how it affects our goal to compound our capital based on our current portfolio? If we raised additional capital, what sort of attractive investments could we add to sell into the anticipated rally?



Source: Bain & Company, *Global Private Equity Report 2022*

Put another way - based on our investment strategy and portfolio composition, is this coming towards the last opportunity to 'get in cheap' before the IPO window opens and we start realising some of those gains?

Open for new applications

We'd like to invite you on the journey to build the future. The fund is open for new applications and will close on 15th December 2023. You can find out more details and apply here.

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

Managing Partner

** Net of all fees and expenses, before tax, and assuming reinvestment of distributions*

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