Investor Update

Q1.2022

Wunala Capital Emerging Opportunities Fund

The Fund invests in late-stage VC, Pre-IPO and select listed opportunities across high growth technology, financial services, data and decarbonisation companies.

Performance Summary

Returns	3 months	12 months	Since inception (annualised)	Since inception (total)
Wunala Capital Fund	-2.5%	33.5%	23.1%	34.2%
S&P / ASX Small Ords Industrials	-9.9%	-2.7%	7.5%	10.7%
Outperformance	**7.4%**	**36.2%**	**15.6%**	**23.5%**

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.

The Fund returned -2.5% for the quarter. Our mandate is absolute returns, so the inclusion of the Small Ords Industrials index as reference is used as a guide only. While any decline in unit price is something we strive hard to avoid, I take some small comfort in that our relative performance is proving that our investment strategy is working as intended. Put simply, we look to profit from a rising market, and minimise losses in a downturn such as that which has hit technology and high growth stocks over the last 3-6 months.

Notable Transactions

The Fund made no new investments in the quarter. While we reviewed circa 40 new opportunities, we were unable to agree terms on any of these for a variety of reasons. That being said there are two issues that come up with regularity that cause us to pass so I thought it may be useful to detail them here.

The first one is pivots. Our focus on investing is to help a company accelerate their growth. This forms a key part of our due diligence and can inelegantly be summarised as "keep doing what you are doing, just more of it".

However more frequently we are seeing companies seeking to raise (often large sums of) capital to fund a significant pivot or change in their business. That is, they have found some version of success pursuing approach A, and now want to take on a different model, product or geography B. Reasons for this are varied, but most often it is seeking to expand the addressable market and/or amortise costs over a larger proposed customer base. While typical in early stage companies seeking product-market fit, our view is that late stage companies should have this well established.

This is not to say that these companies can't or won't find success, and in fact I hope many of them do succeed. The projected return that we are presented with is not commensurate with the increased risk to take this on however which takes me to the second reason for rejecting deals - valuation.

As the 'last buyer' of private capital prior to a company undertaking an IPO or trade sale, our capital effectively needs to bridge private valuations to listed exits. At the moment there is a significant mismatch with listed peers trading at discounts of up to 50% those of unlisted companies presented to us. Clearly this cannot last in perpetuity with the likely outcomes being a pullback in late stage valuations, price appreciation of listed peers, or a combination of both.

While our focus remains firmly on investing in the best unlisted companies, there is an increasing opportunity set in the listed environment driven by a growing mismatch between negative share price vs. strong underlying company growth. We may deploy a modest amount of additional capital in the listed markets while this imbalance persists.

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Diversity of investing opinions

I love talking to investors and other market participants, and some of the more interesting questions I typically receive ask for my views on the market and macro trends that may impact its performance. The reality is that the market is a complex adaptive system and any forecast on how some of the myriad inputs that may affect one of the myriad outputs would be speculation at best.

This is because the market is made up of different investors who all bring a unique investment style and time horizon to their decision making, yet they all end up trading with one another. For example, day traders in meme stocks use different signals to guide their decisions compared to long-term buy and hold investors, or index funds. This holds equally as appropriate in private investing, albeit with less data points. The neat trick is that through all the countless interactions of each of the players an observable "behaviour" comes to light. (Interestingly, most people try to find a story or narrative after the fact to fit the pattern, rather than doing so the other way round.)

The investing market works at its best when there is a diversity of views. Each interaction is effectively a competition to see which competing view is the most effective or would "win" over time. Macro thinkers who fear an inflation-induced recession is imminent will have a certain view on particular investments and will interact accordingly with others - commodity bulls, crypto evangelists, bottoms-up analysts - all with some level of contrarian positions. The most effective views survive as the losers retreat and/or lose capital to the point of irrelevance.

Nothing good lasts forever though. Over time, the concentration of 'winning' strategies increases as investors pile into crowded trades, pushing up asset prices as the diversity of investment approaches decline. This accelerates the trend until it gets very sensitive to small changes in demand for that strategy, and a relatively minor decline can trigger it to all come tumbling down in a crash. Although recency bias is easy to introduce into your investment analysis, the reality is that the market is much more efficient after a pullback (such as tech stocks from late 2021 to today) because it has reintroduced a diversity of opinions. This is another reason why we are seeing the current listed market as an opportunity for buying some of the fallen angels - rather than everyone pinning their ears back and bidding up companies to insane levels, there is an increased variance in views which supports the view that the market may be more robust than some think.

The relevance this has to our chosen niche of investment is significant. Firstly, it reinforces the approach that getting the big picture calls right is so difficult as there are so many factors that may affect one's views. Inflation, bond liquidity, shipping bottlenecks, war, elections, currency movements etc. I would hazard that if you ask enough 'experts' you will find enough views to support your bias one way or another.

Secondly, it drives home the point that as investors we should (and will continue to) focus on what is knowable. Our investments do not try to predict the market or the economy as a whole. We find excellent founders and management teams, executing with precision in fast-growing industries, creating products their customers love with strong unit economics. Matched with our focus on alignment of interest, capital efficiency and exit strategy, we believe this approach will continue to deliver returns for our investors and over time the macro trends will take care of themselves.

Next window for applications

We are currently intending to open the Fund for new applications on 1 July 2022 (a reminder that we intend to pay a distribution as of 30 June of taxable income realised for the financial year). We will be conducting a series of in-person presentations across May and June - please contact us if you would like a personalised briefing on the Fund, its strategy, portfolio and current opportunities.

Team news

I am pleased to announce that Beau Huizenga has joined Wunala Capital as an Investment Principal. Beau brings over 10 years of experience in both listed and unlisted investments in Europe and Australia, focusing on technology. His presence will allow us to spend more time unearthing new investment opportunities and conducting detailed due diligence to allow us to invest with conviction.

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

Scott Wilson
Managing Partner

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This report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investors should obtain individual financial advice based on their own particular circumstances before making an investment decision. Any person considering investment in the Wunala Capital Emerging Opportunities Fund ("the Fund") should first review the Investment Memorandum for the Fund dated July 2021. Wunala Capital does not guarantee repayment of capital or any particular rate of return from the Fund. Past performance is no guarantee of future performance. Investment returns have been calculated in accordance with normal industry practice utilising movements in unit price and assuming reinvestment of all distribution of income and realised profits.

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