Investor Update

Q3.2023

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	**-0.6%**	**-2.7%**	**6.8%**	**21.0%**
Benchmark (5% hurdle p.a.)	1.3%	5.0%	5.0%	14.6%
ASX All Tech Index	2.1%	27.0%	-0.9%	-2.6%

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 -0.6% for the quarter. The Fund continues to earn interest on its unlisted convertible note investments, and we have only a very small amount of capital allocated to the listed markets at the moment. While this results in lower volatility in the unit price (a feature not a bug!) because our unlisted positions are not marked as frequently as listed ones, it also means that we tend to rely on corporate transactions to catalyse more material movements in the unit prices.

Despite the positive developments from many of our portfolio companies (see below for more details) our conservative valuation approach means we do not mark up any unlisted holdings even if the company is outperforming listed peers on a comparables basis. We are building value in the portfolio to be realised and booked at a later date.

This investor update covers the following topics:

- Portfolio summary
- Dr Seuss is waiting for you
- Behavioral finance hacks

Portfolio summary

As of 30 September 2023, the Fund had positions in 1 listed and 14 unlisted positions. During the quarter we did not make any new investments, and completed the exit of our investment in Shaype in mid-July for a cash return of +16% over a holding period of a little over 18 months. While Shaype had displayed acceptable growth metrics, we expect that the business will need to stay unlisted for longer than anticipated which affected our estimated IRR 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.

Many of our companies reported their full year FY23 results in the last quarter. Full details are in the investor-only report mailed separately to current investors, but some highlights include:

- Crimson: grew revenue +46% year on year with negligible cash burn
- Datamesh: increased revenue by 300% year on year, signing multiple new significant contracts
- Spriggy: crossed the 1-million member mark and doubled revenue run rate

Post the quarter end (in late October), Immediation was placed into voluntary administration by its directors. The process to sell the company's assets or recapitalise the business is still ongoing at the time of writing this update. We hold convertible notes with certain preferences and security rights, so have marked this holding down in the monthly October valuation to its anticipated recovery value and will update investors as this progresses.

Portfolio summary

Dr Seuss is waiting for you

The Wunala team has been on the road a lot, meeting existing and prospective investors across the country, maintaining our regular cadence of sourcing and reviewing investment opportunities, and supporting our portfolio companies by rolling up our sleeves to add value where we can. No matter who we spoke to, or on what topic, the message we are almost universally hearing is that everyone is waiting to see what happens before committing to action. New capital raises are being pushed back, M&A transactions are being largely deferred, customer contracts are slipping, IPOs remain elusive, even simple decisions are being postponed.

Some readers may be familiar with the works of Dr Seuss. While reading bedtime stories to my children the other day I was struck by how accurately he captured the investment zeitgeist in “Oh, the places you’ll go”:

Waiting for a train to go,
or a bus to come, or a plane to go,
Or the mail to come, or the rain to go,
Or the phone to ring, or the snow to snow,
Or waiting around for a Yes or No,
Or waiting for their hair to grow,

Everyone is just waiting.

What, me worry?

I’ve always been fascinated by the “why” of investing, which is where the ongoing learnings of behavioral finance comes in. It’s my belief that only by having a clear understanding of the real reasons that we do the things we do (whether we are self-aware enough to admit them to ourselves not) can we hope to improve our investing processes and decision making, and reduce future errors.

I have come to realise that one emotion rules a majority of financial decision making - *fear*. Although it’s a common enough human experience in many aspects of life, making decisions on investments seems to be an especially ripe candidate for this unpleasant feeling to appear. This is not just the negative connotation of fear; risk, loss, commitment issues, procrastination etc. Greed is fear in a different wrapper - the fear of missing out, or FOMO, can cause irrational risk taking and other value destructive behaviours (see: every bubble that ever existed).

Most times though, fear presents itself as a form of inaction, a desire to ‘wait and see’. It usually gets rationalised or explained away through the uncertainty of [insert reason here]. The “reason” changes from time to time, from person to person, but there is often some event in the indeterminate distance that needs to change to some undefined level. For example - interest rates to stop rising (or stop falling), unemployment, oil prices, global conflict, Chinese real estate bond prices, US election cycles, IPO window, the list goes on and on. Rarely is this matched with a concrete action plan though - if x happens then do y.

Whatever the fear (and the actual reason may change even as the underlying feeling remains), it usually leads to an inherently flawed investment strategy. This usually manifests itself via the classic errors of bad market timing and poor impulse control. This is the reason why the late stage of a rally is often the steepest, as a greater share of market participants pile in; most of the time people remain sitting on the sidelines too long, and the FOMO overwhelms the FOFLAF (fear of feeling like a fool).

Although the direct physiological changes and impacts that fear has on one’s nervous systems are beyond the scope of this letter, a more relevant approach is considering how understanding and navigating fear applies to investing, and more importantly, how to deploy solutions that take advantage of well-established principles of behavioral economics by making small changes in your outlook and investment process.

Worrying is like a rocking chair…

…it gives you something to do but doesn't get you anywhere.

The hardest part is that simply telling someone to not to worry is almost completely ineffective. Tired? You need to get more sleep! Unfit? Do more exercise! There you go, don't you feel better now?

A much more effective way is to deploy some small but useful hacks that are proven to thwart some of the more value-destructive patterns that we fall into. Like going to the gym, the easy part is deciding to go and the hard part is sticking with it. Some suggestions include:

The basics: understand that good investing is boring; markets go up and down; compounding works best when it is left uninterrupted, and that nobody can predict the future. Hence the oft-repeated advice to have a small stable of investments that you know well, back them to produce results, and leave them alone while they do so.

Risk vs Reward: apply rationality and perspective to market events, and adjust accordingly. Asset pricing is often a leading indicator; bad news is often baked in well in advance, so that when the bad thing comes and goes (or good news happens instead) the mood can shift suddenly far ahead of fundamentals. In our case, waiting "until the IPO market reopens" to allocate capital to our strategy will be too late, as all the bad news is already factored into the depressed pricing of late-stage growth capital today.

Portfolio allocation: Also known as "not putting your eggs into one basket". While making highly concentrated bets may work if you are Warren Buffett, spoiler alert: you are probably not (and Warren, if you're reading, hello and thank you for stopping by). For the vast majority of folk, having a core of 'boring' long term investments and a smaller mix of more exciting strategies based on your own particular flavour (VC, PE, esoteric macro bets, whatever you like) will likely deliver you more consistent returns most of the time.

How Wunala is viewing things

Anyone who has read their Dr Seuss will know that in *Oh, The Places You'll Go* the very next page after the 'waiting' masterpiece outlines that we'll arrive at "bright places where boom bands are playing". We remain firmly of the belief that our core strategy - *investing in the winners of digitisation* - will deliver us attractive returns throughout the cycle. Our high-quality portfolio companies continue to grow by solving real problems that have long-term thematic tailwinds.

The global 'waiting game' means we are seeing opportunities at what we believe are cyclical lows. We think it makes sense to be deploying capital now and harvesting later, when the cycle inevitably turns. Should the IPO window (and associated strategic M&A activity) pick up as early as some experts are predicting throughout 2024, we will be focused on returning capital gains to our investors rather than raising further funds at that time.

Invest with us

At Wunala, we want investors to join us who believe in our strategy, have the discipline to commit to a reasonable holding period, and can be ruthlessly analytical in pricing risk vs reward (which we believe is strongly tilted in our favour). The fund 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

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