Merewether Capital

31 January 2023 Investor Update

Merewether Capital Inception Fund Performance Summary (at 31 January 2023 net of fees and expenses)					
1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Since Inception* (p.a.)
0.40%	0.50%	-2.46%	-26.84%	-	-29.68%

Indicative performance is reported net of all fees and assumes reinvestment of distributions. Past performance is not a reliable indicator of future returns. * Inception Date 26 November 2021

Dear Investor,

The Merewether Capital Inception Fund (the "Fund") began the month with a unit price of $0.7004 and ended the month with an indicative unit price of $0.7032 for a 0.40% return.

It appears the Santa rally was simply delayed from last year after weak markets in December, as January saw animal spirits come roaring back to celebrate the new year. Most global markets recorded their best start to a calendar year in their histories despite a lack of macroeconomic data points.

Some pockets of the market were heavily oversold and perhaps were due a recovery to start the year, but after my commentary last month that large areas of the market look expensive in the face of deteriorating fundamentals, that situation has only exacerbated since.

As we enter February half year reporting season results and outlooks will be scrutinised more than normal given the current market sentiment. So far disappointing results have been sold off heavily and even solid results in line with expectations have seen selling pressure as investors look to lock in profits.

We had some updates from many portfolio companies in January with quarterly cash reporting season.

The most significant piece of news was from **intelliHR** (IHR) which announced it received a takeover proposal from fellow HR software company Humanforce for 11c cash, a 75% premium to where shares had traded prior. We held a position just under 2% in the Fund prior to the bid, which provided a nice boost in an otherwise tough month.

I wrote about IHR in my November report as one of the major mistakes I made in the first year of managing the Fund. While the mistake is not fully undone, in that analysis I did comment that the valuation looked too cheap and that IHR could be a valuable asset in the right hands and with merger and acquisition activity in the tech space high a takeover was not out of the question.

Unfortunately the 11c price was still below our average buy price of around 15c, confirming what I wrote about in September that even with increased M&A in the beaten down tech sector, existing shareholders were unlikely to see a reprieve of takeovers anywhere near the highs of 2021 share prices.

Spacetalk (SPA) was the other position I highlighted as a major mistake in November and like IHR it provided a very positive update. For the quarter SPA generated $400k in cash, their first positive quarter in some time. Impressively, that $400k is the bottom line number and includes the changes in working capital (primarily inventory) which was the cause of major cash burn in the past. The upcoming half yearly will shed some more light as to how sustainable cash generation can be moving forward but full credit to new SPA management and board who have done an excellent job turning the business around in such a short time.

Compumedics (CMP) is a recent addition to the portfolio who released a weaker than expected update. Unfortunately the medical device manufacturer saw the headwinds of disrupted supply chains and logistics continue despite showing signs of easing towards the back end of FY23. CMP will grow revenue and likely earnings as well this year, but slower than I originally expected.

Compounding the issues in the short term is the orders the company receive annually from China were delayed due to the Covid outbreak in the country, but management are confident they will come through in the second half of the financial year. Like SPA, the half year result will shed more light when it arrives.

In more positive news, **Aerometrex** (AMX) announced it had received a contract from the Department of Defence for $1.9m to perform LiDAR work. It is the second contract from the DoD and is a strong validation of AMX's products as well as solid financial contributions. Longer term I expect the 3D segment to be the major driver of the business but for now the LiDAR segment is the main cash generator so another contract in the space is welcome.

We also had quarterly cash reports from a range of our smaller holdings. **8Common** (8CO), **Aeeris** (AER), **Global Health** (GLH), **Knosys** (KNO) and **SKS Technologies** (SKS) all reported solid numbers in line with my expectations.

Market reactions were muted for all of those stocks as they continue their paths of operational execution and move towards sustainable profits and cashflows.

As I said before this reporting season feels like the most focused set of numbers I have seen from the broader market in some time. I am generally confident that our portfolio companies will report well and hopefully those that do can be rewarded.

As always, if you ever have any questions about the Fund or its holdings, please call me on 0423 510 004 or email luke@merewethercapital.com.au

Thanks for your on-going support.

Luke Winchester (Portfolio Manager)