MEREWETHER CAPITAL

Merewether Capital Inception Fund Performance Summary (at 31 March 2023 net of fees and expenses)					
1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Since Inception*
-0.01%	-4.03%	-5.10%	-26.12%	-	-32.78%

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 an indicative unit price of $0.6723 and ended the month with a unit price of $0.6722 for a -0.01% return.

March was once again a volatile month for markets globally. At times I have felt like a broken record beginning these monthly reports by saying that, but as reports of several banks globally were potentially insolvent began to emerge throughout the month, it seemed as though we may be staring at the contagion for another financial crisis.

I have heard it been said that since the GFC with the levels of debt globally (consumer, corporate or Government), whenever central banks enter a tightening cycle they proceed until something breaks. That something inevitably comes from the financial sector, so when reports that Silicon Valley Bank and Credit Suisse were potentially insolvent, it felt as if the next crisis was beginning.

However, the playbook for dealing with liquidity crises in the financial system is well known now, and Governments and central banks acted quickly to stabilise concerns by guaranteeing deposits in the case of Silicon Valley Bank and negotiating an acquisition of Credit Suisse by UBS.

Despite only a few weeks passing since these events, it does appear as if Silicon Valley Bank and Credit Suisse are not a contagion to a wider financial crisis, as major US banks emerged unscathed through their reporting season with commentary that the system remains well capitalised.

Despite the fears of the worst case scenario easing, I think the expectation that current debt levels struggle under the weight of interest rate rises is legitimate and we will see further cracks emerge as the world is forced to deleverage.

Turning to the portfolio, it was a slower news month after reporting season in February. The most significant news was the bidding war that emerged for **intelliHR** (IHR).

To quickly recap the timeline, the IHR share price had been beaten down over the course of 2022 and was languishing at roughly 6c before receiving a takeover offer from Humanforce for 11c. Shortly after a competing bid emerged from The Access Group and the two parties countered each other numerous times, before Humanforce ended up paying a 120% premium to their initial bid with a 24c offer.

This was obviously a fantastic outcome for the Fund, we did take some profits on the initial bid but held a meaningful parcel throughout the bidding war. The fact that a strategic buyer would pay a 300% premium for IHR over the valuation given by the public market is an example of the value in pockets of the microcap sector right now.

The cost of equity capital is extreme right now for microcaps. If the market gets any indication that a business may need to raise capital, share prices are being hammered and if businesses proceed, they are forced into massive dilution to get cash in the door.

With the focus so heavily on profitability, little to no value is being placed on more qualitative factors like quality of the product, customer base or growth potential.

These factors can provide high strategic value to the right parties who don't share the same capital concerns, such as larger peers with better balance sheets.

IHR is likely an extreme example (I can't recall another bidding war resulting in the final bid more than double the first bid) but I expect we will see more M&A in the future among the microcap space.

Prophecy International (PRO) announced they had sold a license for their Snare cybersecurity software to the UK Air Force for roughly $500k. Financially it is a nice outcome for the business but perhaps the strategic value of landing another large Government contract is more important, particularly with PRO trying to get a foothold with the US Government which would represents contracts multiples larger than the UK.

Global Health (GLH) announced they signed an agreement to partner with healthylife (a subsidiary of Woolworths) to provide their telehealth offering through healthylife's website. Unfortunately financial details were light, however with healthylife attracting roughly 500k website views a month it potentially represents a large distribution channel for GLH in the future.

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)