MEREWETHER CAPITAL

Merewether Capital Inception Fund Performance Summary (at 31 May 2024 net of fees and expenses)					
1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Since Inception*
0.40%	5.66%	10.53%	16.62%	1.29%	-24.33%

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 $0.7550 and ended the month with an indicative unit price of $0.7580 for a 0.40% return.

May was a strong month globally for equity markets, once again driven by US mega cap tech stocks and the seemingly unlimited potential for artificial intelligence and machine learning to impact every aspect of our lives. Domestically it wasn't quite so buoyant with the local market only rising 0.5% (compared to the Nasdaq rising 7%) as our index is dominated by banks and miners, sectors not considered candidates to lead the artificial intelligence revolution.

As always, the Fund is largely driven by company specific news, and in that context it was a relatively quiet month for the portfolio.

Austco Healthcare (AHC) announced they have entered into a national purchasing agreement with US based Premier Inc, an alliance of 4,400 hospitals in the States. While the agreement brings no immediate revenue it provides pre-negotiated pricing and terms for Premier members and is a validation of the work done by AHC over the last few years to innovate and upgrade their product set to be an industry leading solution.

Compumedics (CMP) released a trading update confirming they will exceed their revenue target for financial year 2024 of $46m, but conceded they are likely to fall short of their $5m earnings guidance. While disappointing, the earnings miss largely comes from a decision to invest further in their US sales and marketing team to leverage the launch of their Somfit sleep testing product which received FDA approval late last year.

Positively, the decision to invest in the US market is supported by the rapid uptake of Somfit in Australia, particularly in the pharmacy-based home sleep testing market where a 75% market share has been achieved in short time due to a national relationship with Philips Pharmacy Sleep Services. Philips removed their sleep diagnostics products from the US market earlier this year, leaving a 40% market share up for grabs with Somfit well positioned as a next generation wireless product to benefit.

Prophecy International (PRO) provided a strong third quarter update with annualised recurring revenue growing to $27m, largely driven by the recent contract win with Devo Technology to replace their in-house endpoint monitoring solution within their broader cybersecurity platform.

Importantly, management also provided guidance that they will be cashflow positive for this financial year, generating ~$1m cash through the first ten months. As a cash profitable, high margin enterprise software business growing over 20% a year, PRO remains a high conviction position in the Fund.

SKS Technologies (SKS) also continued its fantastic execution in the electrical contracting space, announcing over $30m worth of contracts in May including $11m at the RAAF Base Tindal in Darwin and $13.5m for a hyperscale data centre in Melbourne. Those wins take the order backlog to $110m, up from $96m in February.

Given the sharp rise in the SKS share price since the start of year (up over 200%), we took some profits on our holding but maintain a large weight in the Fund given the view that the long-term benefits from the strategic investments to focus on data centres and defence are only in their early innings.

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Vysarn (VYS) announced their new Vysarn Asset Management (VAM) arm had secured the first native title water rights agreement through a joint venture with the Kariyarra Aboriginal Corporation. Kariyarra country includes the Port Hedland infrastructure hub and the pending Boodarie industrial complex which will begin construction in 2027/28. Commercial details remain light for now but nonetheless it is a key water source with obvious use cases for water infrastructure.

I still consider the potential financial impact of VAM to be blue sky, but as management continues to execute with the next step likely to be a committed capital project to extract water, I (and the broader market) will have to start pricing in the substantial revenue and profits VAM can contribute from controlling and tolling water, representing significant upside for the VYS share price.

Xref (XF1) announced the Board will conduct a strategic review of the business to maximise shareholder value following expressions of interest from several parties for a potential acquisition of the business.

It's no surprise XF1 has received inbound interest for the business as the value to a strategic acquirer is likely significantly higher than the current value ascribed by the public market ($25m pre-announcement). XF1 has a $20m+ revenue base, a dominant position in their core reference checking and pre-employment checking modules, an emerging employee sentiment module, a modern technology stack and a suite of blue-chip customers available to cross sell into.

While nothing is guaranteed from the strategic review process, it is pleasing to see parties acknowledging the potential value of XF1, and the Board being open to unlocking that value if it is not being represented accurately by the public market.

After taking some small profits on holdings that have performed well in recent months, we are toward the higher end of our preferred cash holding range (5-15%), providing flexibility as we enter tax loss selling season.

In the last few years June has proven to be a lucrative hunting time for illiquid micro and small cap stocks as it doesn't take much selling pressure to see prices overshoot past the intrinsic value of the business. I have compiled a list of stocks that a candidates for indiscriminate tax loss selling, and our heightened cash pile will allow us to be nimble and move quickly if opportunities arise.

Thanks for your on-going support.

Luke Winchester (Portfolio Manager)