MEREWETHER CAPITAL

Merewether Capital Inception Fund Performance Summary (at 30 June 2024 net of fees and expenses)					
1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Since Inception*
3.36%	9.81%	5.42%	7.23%	8.22%	-21.65%

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 $0.7580 and ended the month with a unit price of $0.7835 for a 3.36% return.

In what has become a consistent theme, June was once again a strong month globally for equity markets. However, in a pleasing development it was a healthier grind higher than previous months as it was driven by the broader market rather than the highly concentrated set of technology companies known as the "Magnificent 7".

This outperformance of micro and small caps compared to their larger peers is a welcome change for our Fund and given the valuation gap that has emerged over the last few years I am hopeful the mean reversion can continue into the future.

We also had another quiet month for fundamental news in the Fund with only **Kip McGrath Education Centres** (KME) providing a trading update. After a weak first half result back in February, KME management guided to a modest improvement in the second half. The business maintained its ~20% revenue growth rate which was positive in the context of deteriorating consumer conditions, and profitability bounced back with a $1.3m net profit in the second half after a small loss in the first.

Last month I wrote that our cash balance had crept up close to 15% over the previous few months as we had taken small profits on some positions that had performed well. The elevated cash balance was to give us flexibility to move quickly with the expectation of June tax loss selling, and late in the month we initiated a new position in **Change Financial** (CCA).

While I was aware of CCA for many years, it's chequered operating history meant I had never looked at an investment thesis too deeply. However, a string of positive announcements in recent months put it on my radar, and when we had the chance to participate in a block trade from a motivated seller at an attractive discount, I was quick to pull the trigger.

I have penned a blog post on CCA which can be found here. It briefly covers the history of the business, but more importantly focuses on the future with a full-featured modern payment processing platform underpinned by some key customers to on-board over the coming financial year. I look forward to the upcoming quarterly report in July which should provide an indication on the momentum entering the new year.

As we exit the 2024 financial year it is only natural to look back and reflect. While our 7.23% return is adequate, it is below the expectation I set for myself, particularly in the context of the horrible first year for the Fund.

Nonetheless I remain optimistic in the near term, driven largely by the valuation gap that remains between micro and small caps and their larger peers as I outlined before. Last financial year saw the continuation of the largest factor driving share prices across most markets simply being market capitalisation. Not geography, industry sector or growth/value outlook but rather an almost a perfect correlation between the size of the business and share price performance.

However, there are improving signs as there are a growing number of micro and small cap companies (several held in the Fund) demonstrating exceptional share price growth on the back of improving business fundamentals. It leaves my focus clear; *find and own businesses with improving earnings outlooks*. As conditions improve, these will be the businesses rewarded by the market.

Turning to investments specifically, while they were outweighed by our successes such as **SKS Technologies** (SKS) and **Vysarn** (VYS) it is the mistakes I made where more lessons can be learned.

While we had our fair share of share price underperformers such as **8Common** (8CO), KME or **Laserbond** (LBL), for these positions while the investment theses may be bruised, they are not yet broken and we have held our positions (or in LBL's case, even topped up).

However, the one genuine mistake I made last financial year was our holding in **Rectifier Technologies** (RFT). I wrote about the mistake in-depth in the November monthly report, noting that while there were certainly positive aspects to the business, I focused too heavily on them and did not properly account for the risks, primarily the corporate governance and customer concentration risks.

For the corporate governance risk, it is now a lens I apply intensely to all our investments through the key question *"If the business performs as I expect it to, how likely are we to benefit as minority shareholders?"*. Given the size of our Fund it is an important question to ask as we will be a small minority shareholder in every investment we make.

Several factors go into answering that question and unfortunately each of them lives in the uncomfortable grey area in between black and white. Take the example of our Fund holding **SDI Limited** (SDI) where founder and 42% shareholder Jeff Cheetham appointed his daughter Samantha when he stepped back as CEO of the business in 2015. Some investors may point to the fact on average family run businesses outperform the broader market and applaud the decision, while others would label it nepotism and the sign of a lifestyle company. It can certainly be a fine line between the two!

For RFT, I was certainly aware of the governance risk but had built up a level of comfort to it over the many years of owning the stock. In the end that comfort was misguided and the mistake of overlooking the risk was compounded by its large position weight. Better managing risk through position weighting is another area of focus into the new financial year and beyond.

In the end, as much as I will try to minimise them, I am aware I will make mistakes and fellow investors need to be aware of that too. While I can't guarantee I won't make them, I can guarantee you will hear about them, and importantly the learnings from each and how I strive not to make them again. As I wrote in the March report, we have exited our RFT position, and it is now a mistake I wear on the chin and look to learn and move on.

With quarterly cashflow reporting season in July for our micro caps and the potential of trading updates from our larger holdings I expect July will be a busy month and I look forward to updating investors again soon on the progress of the Fund.

Thanks for your on-going support.

Luke Winchester (Portfolio Manager)