

Merewether Capital Inception Fund Performance Summary (at 31 May 2022 net of fees and expenses)

| 1 Month | 3 Months | 6 Months | 1 Year | 2 Years (p.a.) | Since Inception* (p.a.) |
|---------|----------|----------|--------|----------------|-------------------------|
| -12.58% | -19.17% | -26.24% | - | - | -26.11% |

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 \$0.8452 and ended the month with an indicative unit price of \$0.7389 for a -12.58% return.

Unfortunately, the pain of April continued through May, particularly in the micro and small cap end of the market. Macroeconomic fears continue to dominate headlines, with energy input shortages now in the mainstream news as power prices spike due to a confluence of factors. However, taking a step back and looking across our holdings, it is liquidity that is really hurting the Inception Fund in the short term.

Liquidity is an interesting phenomenon in the micro cap market. I have heard it being compared to oxygen, in the sense that when it is there you take it for granted completely unnoticed, but when it is not there it quickly becomes the most important thing to an investor. Panic quickly sets in, particularly for investors who are leveraged with debt, forced to sell into any liquidity they can find.

Of course, we play in these illiquid markets voluntarily as it is the illiquidity that creates the opportunities we seek. At the risk of sounding like a broken record these last few months, to participate in the opportunities provided by illiquidity we must stomach the downside that emerges in times like these.

As liquidity dries up it makes exiting positions very difficult and if you own a portfolio of businesses who can survive the liquidity crunch (or even better, grow through it), often the only move is to hunker down and ride out the storm.

Ultimately, that is largely the situation we are in with the Inception Fund. We have made (and will continue to make) small changes around the edges as opportunities arise but otherwise I believe our core holdings are small, profitable and importantly growing businesses. We will back the management teams of these businesses to continue their good work and remain confident of outperformance in the medium term.

As far as actual news from our holdings, there was very little in a month that produced a negative double-digit return.

Laserbond (LBL) was the only holding to release negative news, advising that supply chain issues will mean a large chunk of revenue budgeted to be recognised in this financial year will now be delayed. After initially guiding for \$35m revenue, that figure is now expected to be \$30-31m. While the share price response was modest (~10% fall), we did trim our position to reflect the uncertainties for growth in the near term.

In the short term, it remains difficult to see a major change in sentiment, however it is positive to see increased merger and acquisition activity as well as director buying across the broader market, two factors which helped signal the bottom of the Covid crash.

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)

