

Merewether Capital Inception Fund Performance Summary (at 31 December 2023 net of fees and expenses)

1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Since Inception*
8.37%	0.31%	1.71%	6.11%	-12.84%	-25.68%

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 an indicative unit price of \$0.6858 and ended the month with a unit price of \$0.7432 for an 8.37% return.

The market rally that began in November continued into a classic "Santa rally" in December as animal spirits once again returned. In one of his public speeches, US Federal Reserve Chairman Jay Powell gave the indication that rate rises appeared to have had the intended effect of curbing inflation which was all global markets needed to go off to the races.

For the last decade and a half the market has been a Pavlov's dog for Federal Reserve commentary with the dogma of "don't fight the Fed" well and truly ingrained in a post-GFC world. It is worth noting that current valuations appear reliant on a very narrow path where economic conditions weaken marginally sparking modest rate cuts yet corporate earnings remain resilient despite the environment.

While many would doubt that outcome, I remain more sanguine. The long-term history of interest rates in developed nations (or cost of capital in general) has steadily decreased for centuries with small spikes on the way down. If you take the view that the core driver of post-Covid inflation was supply side driven then as those effects normalise, interest rates should revert back to their downward trajectory even as economies remain strong.

The Inception Fund was a beneficiary of the sharp reversal in market sentiment, with one of our largest positive monthly moves despite barely any significant company news.

Only one portfolio holding gave a fundamental reason for a strong share price rise which was **Compumedics** (CMP). I have previously written about CMP (<https://www.merewethercapital.com.au/blog/is-the-market-asleep-to-this-microcap-med-tech-company/>) with the simple investment thesis that it was a fair price for a solid core business in the sleep and brain health monitoring space, with the potential for large upside if the company could execute on some of the new endeavours they were investing in.

December brought good news on two of those endeavours, with the Somfit device receiving US FDA approval and CMP receiving orders from their Chinese distributor for three MEG units for \$9.3m.

While CMP has had rapid success with Somfit commercialisation in Australia, the US remains a large opportunity with the home sleep testing device market valued at \$150-250m per year with CMP setting an ambitious goal to reach 10-30% in the next two years.

The MEG sales are much more tangible with firm orders taken and expected to be completed in FY25. It is also a reminder of the step change in revenues a successful MEG segment would be for CMP with each device \$3-4m, compared to a current revenue base of ~\$44m.

Despite being a beneficiary of widespread market sentiment, it was nice to finish the year on a positive note and I look forward to a strong 2024.

Thanks for your on-going support.

Luke Winchester (Portfolio Manager)



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