MEREWETHER CAPITAL

January 2025 Investor Update

Merewether Capital Inception Fund Performance Summary (at 31 January 2025 net of fees and expenses)						
1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception*
1.0%	-1.3%	7.8%	27.2%	16.2%	-0.4%	-5.1%

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 a unit price of $0.9396 and ended the month with an indicative unit price of $0.9493 for a 1.0% return.

Global markets were robust in January, led by European indexes as their tech-heavy US counterparts lagged on the news of the Chinese based large language AI model DeepSeek being released with considerably lower capital and training costs than established AI peers.

While I have integrated the use of AI into my daily workflow, I won't profess to have in-depth knowledge of the technical training requirements. However, the market's initial reaction does make sense in the context of the previous economics of AI potentially being upturned. That said, as with any emerging technology we are in the early innings of its growth and usage, and making any definitive predictions is fraught with danger.

There were few updates across the Fund in January, with only **SDI Limited** (SDI) providing a trading update prior to the release of full statutory accounts in February.

SDI disclosed sales for the first half of the fiscal year were down 1.5% on last year, driven by currency movements and the on-going wind down of the business's lower margin Amalgam product. Adjusting for currency and Amalgam, sales grew ~2%, below the historical high single digit levels of the recent past.

Pleasingly, despite weaker than expected sales, gross margins grew from 61.5% to 63.5% which means profit will likely be flat on last year. While the result was slightly weaker than I expected, with a seasonally stronger second half and the business trading on just 9.5x earnings we continue to hold our position.

We had quarterly cashflow reporting for our smaller holdings, and overall they all reported well and continue to play out their investment theses.

Change Financial (CCA) reported second quarter revenue growth of 53% on last year and has generated ~$500k in cash so far this year excluding the soon to be shut down US operations.

Knosys (KNO) reported a $900k cash outflow for the quarter, though this was in line with normal seasonal cash patterns. Pleasingly, the business returned to annualised recurring revenue growth, up from $9.4m to $9.7m over the quarter. Given the low enterprise value of the business (~$5m), it will only take continued modest ARR growth to see KNO significantly re-rate.

Global Health (GLH) reported a great quarter with total cash receipts up 22% on last year and generating $350k positive cashflow. Unlike KNO, GLH benefits from seasonality in the second quarter, but nonetheless the trajectory is very strong as the business continues to grow and move towards profitability.

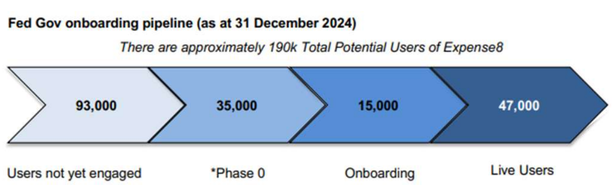
Aeeris (AER) reported continued growth in its annualised recurring revenue to $3.4m and recorded it's first quarter with over $1m in cash receipts. Unfortunately, the business continues to have modest cash outflows, although with new legislation for climate change risk reporting for large enterprises in place from 1 January the tailwinds for AER's climate software is very strong.

The disappointing result came from **8Common** (8CO), who actually reported a cashflow breakeven quarter but saw revenue fall 21% on the same quarter last year. While recurring and transactional revenue grew 9%, it was a lack of implementation and support revenue that saw a much weaker result than expected.

8CO has been an extremely painful lesson for me in "thesis creep". While I agree with the general investing philosophy of "sell when your thesis is broken", it usually overlooks the fact that in most cases it is very difficult to point to one specific event or time when a thesis breaks.

The investment thesis is often the proverbial frog in a boiling pot of water, with investors not realising it is broken until too late. For 8CO, the investment thesis was simple; in 2021 their core expense management software was awarded the contract for the whole Federal Government, worth $5m+ per year in recurring revenue when it was fully rolled out.

The difficulty for our proverbial frog is that the thesis still remains generally intact:



With ~20k Federal Government users onboarded back in 2021, 8CO now has 47k, with 15k more currently onboarding and another 35k in the initial stages of developing an onboarding timeline.

What has boiled the frog in this case is simply how slow the onboarding process has been for 8CO. Elections, security upgrades and the general bureaucracy of Government has meant the business has remained sub-scale while it inches towards the light at the end of the tunnel.

So why do we continue to hold the stock? In part because as I wrote earlier the original thesis is still generally intact, though beaten and bloodied along the way.

However so is the share price, and the current market capitalisation of $5m doesn't reflect the $8-10m of sticky Government software revenue the company can earn once fully deployed. As further Federal Government customers are on-boarded, I suspect the strategic value of that foothold within Government will grow to a potential acquirer of the business.

With February half year financial reporting around the corner, I look forward to a more detailed operational update for our portfolio companies next month.

Thanks for your on-going support.

Luke Winchester (Portfolio Manager)