ALIUM CAPITAL MANAGEMENT

ALIUM ALPHA FUND

SEPTEMBER 2023

Performance		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2017	**(%)**	4.8	1.0	1.2	1.6	1.6	1.6	9.6	0.3	15.3	0.6	2.7	0.3	**48%**
2018		1.5	3.2	0.3	0.6	1.4	-2.5	1.1	3.0	-0.2	-0.5	1.2	-0.5	**9%**
2019		1.9	4.4	-0.6	0.3	2.5	-0.3	1.8	1.7	4.4	-1.8	3.2	-0.9	**18%**
2020		-0.1	3.1	-4.5	1.7	-0.6	1.1	1.2	8.0	-1.0	2.1	4.5	0.8	**17%**
2021		1.7	1.1	0.9	1.0	-0.4	0.0	5.0	0.9	1.0	5.7	0.0	0.7	**19%**
2022		-1.5	-0.6	0.3	-1.3	-1.1	-0.3	0.9	-1.3	-0.8	-0.4	-0.4	-2.1	**-8%**
2023		1.6	-0.7	0.6	-0.7	-0.2	-0.9	0.8	3.2	-0.2*				**4%***
Inception														**150%^**

Notes: (^) Performance is Net of Fees; (*) Estimated performance

The Alium Alpha Fund returned +3.9% for the quarter versus the ASX200 -2.1%, the ASX Small Ords -3.0%, and the S&P -3.6%. It was another challenging quarter for markets as hopes of a Fed-induced soft landing and peak interest rates in July gave way to a resurgence in bond yields globally, against the potential of higher for longer rates and ballooning US debt issuance. This painful adjustment saw equity markets ratchet lower as a hawkish Fed maintained its resolve to keep rates above 5% well into next year. The rate sensitive tech sector saw a stronger correction with the S&P 500 IT Index dropping more than -10% from its July highs. With this backdrop, both consumers and investors alike lost confidence in the outlook for spending and investing. Seasonally, we are also in the weakest period of the year with September historically being poor for equity markets. Having said that, we are somewhat encouraged by the price action across global markets post the September sell-off, despite added macro concerns that have recently materialized.

As a reminder to our investor base, Alium has taken a conservative investment approach to markets over the past 18 months as we have tactically refrained from adding to both listed and private exposures, particularly during the bubble-like valuation period for technology companies in late 2021. As such, we feel that the fund is well-positioned to deal with any further volatility across risk assets. As we look ahead, and through the lens of the tech sector and the reopening of capital markets, we do feel that sentiment is turning. It is important to note just how much has been thrown at this market. Despite the 10-year Treasury yield hitting its highest level since 2007 in recent weeks, rising energy prices, the war in Israel and the threat of government shutdowns, the market has managed to bounce off of the recent lows. There is an argument to suggest that equities can still perform well while yields range between 4-5%. During the 1990s, when the 10-year yield averaged 6.7% for example, the S&P500 performed incredibly well. Markets are appearing to come to grips with a higher rate environment and these higher yields are in some ways removing the need for further actual rate hikes by raising borrowing costs, and the US economy (as evidenced by the recent US jobs data) continues hiring despite these higher rates.

The outlook for our strategy in 2024 is therefore improving as investors gain more certainty around a "higher for longer" rate environment. Whilst we concede there is real recessionary risk in CY24, we are of the opinion that a soft landing is more likely. This weeks' WSJ poll of US economists saw recession odds fall from 54% to 48% reflecting a more resilient economy. Furthermore, the technology sector in Australia is far less consumer facing, and hence far less cyclical, than many other parts of the market which should be more heavily impacted as the economy slows.

The 3 high profile technology IPOs which listed in September – ARM, Klaviyo & Instacart – were of particular significance for the Alium Alpha Fund. Although these stocks retraced after strong openings, we feel their relative performance has been solid given the heavy sell-off in technology stocks which coincided with their respective launches. Encouragingly, on the back of these transactions, we have now seen other high-profile companies announce their intention to list in the US - with Databricks, Discord, Reddit, Klarna & potentially Stripe – all looking to IPO. This is a vote of confidence for the potential resurgence of capital market activity, which we believe will continue to unfold through calendar 2024. As we have maintained in previous communications, we believe IPO markets continue to thaw, and that this most recent 2-year hiatus in activity is a natural part of the economic cycle. There is always a need for private companies to go public in-order-to provide liquidity for early investors and founders. Furthermore, the ability for these businesses to raise capital as a listed entity is far easier and faster than as a private company.

From a domestic perspective, we are now starting to see activity returning as more private companies prepare themselves for a tilt on the ASX. Nido (Childcare operator) listed and successfully raised $100m. The deal was cornerstoned by AustralianSuper, and our feedback from various investment banks suggests that we can expect to see more involvement from these larger super funds in several of the larger upcoming IPOs. Despite the treacherous quarter just experienced in equity markets, several large cap IPO aspirants including AirTrunk ($10b), Virgin ($3b), Molycop ($2b), Cuscal ($700m), and Mason Stevens ($500m) have all indicated they intend to list imminently. In stark contrast to the previous 18 months of virtually zero activity outside of the resources sector, we believe this cohort of IPOs will open up a much larger subset of deals in the new year, particularly in the technology sector, where we believe demand for high margin and

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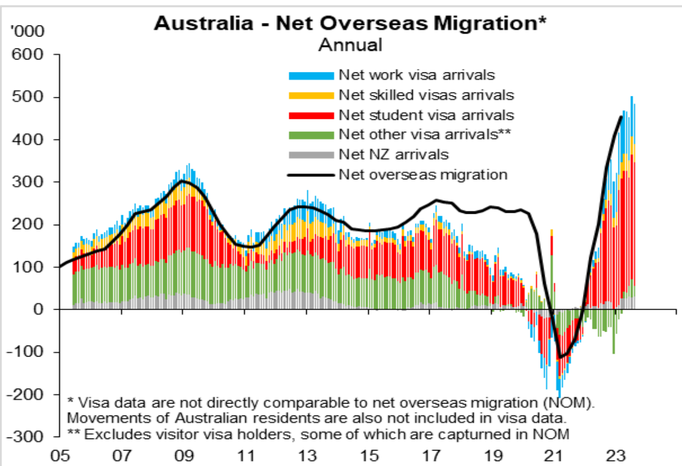
and profitable businesses will strengthen as we get closer to a peak in interest rates. We have also seen an increase in pre-IPO deals.

In terms of attribution for the quarter, the key driver of returns was our position in York Street Brands which continued to deliver significant monthly top line growth as their two brands (BoostLab and TBH Skincare) broaden their distribution networks and drive their e-commerce platforms with innovative marketing. With new product launches, and several large distribution channels commencing this month, we expect significant further valuation upside over the coming 6-12mnths.

Private Company Focus – Education Tech

One area of the technology sector that Alium has exposure to and that we are excited about is education technology. Just as technology, and particularly the digital era, has disrupted and improved most major segments of our economy, education and training will in the same way undergo a tech revolution. EdTech is not just about reformatting books and training manuals but about applying digital technology to deliver a new form of learning architecture. EdTech harnesses the reach of the internet, delivers personalised learning and training that can automatically adjust to an individual's learning competence and that uses big data analysis to understand the most effective ways for learners to progress. In changing the traditional architecture of education, EdTech has the power to create efficiencies, cut costs, and enable new levels of standardisation and democratised access. Worldwide, the combined education and training industries account for spending of more than $4 trillion.

With the renewed influx of overseas students into Australia contributing to strong net new migration, we expect the demand for education and upskilling to bloom. Pleasingly for the Australian Education sector, the overwhelming majority of 2023's record net new migration is due to student visa arrivals:



Our two key exposures are described below:

Learnt

Learnt is a B2B and B2C education and EdTech provider. Learnt is the largest VET content provider in Australia with 4,500 courses and micro-credentials. The B2B business is the fastest-growing student management software company in Australia with multiple Tier 1 enterprise customers including Toyota. Learnt has recently launched a JV in the pet sector, and is seeing growth from the AUS Government looking to adopt a licensed product for the public high school network.

Management is targeting Revenue growth from $9m in FY23 to $14-15m in FY24 from organic growth and the new JV, assuming no new contract wins. Kevin Lynch (ex-COO of Open Colleges) has come on as the Chairman after serving as a Director for 12mnths. We believe an exit for this business is likely in CY24.

Academy Xi

Academy Xi is a B2B2C EdTech company that provides short, practical, and skill-specific courses for individuals and corporates to upgrade their capabilities in design and innovation. Courses include UI/UX, Cybersecurity and many more. We are most excited by courses they have recently launched in AI and they are having terrific take-up in corporate boardrooms. AXi differentiates its content with a focus on Applied AI vs Technical AI. This means an application towards understanding the tools in the context of human-centered design (which is a course AXi has on-going success with). Customers on-boarded include the likes of CHUBB, Coles, ATO and many others. AXi is on track for >$18m in ARR and is currently profitable, with margins in the 15-20% range. We are optimistic of a potential take-out of the business in the next 12 months by either a listed player (approaches have occurred) or as a bolt-on to several private EdTech businesses which are in the hands of PE.

Alpha Fund outlook commentary

Having remained quiet on the investment front for the better part of 18 months, we feel strongly that now is the time to start cautiously deploying capital. We see 3 distinct areas of opportunity for the fund in-light-of the aggressive retreat in the valuations of all but the largest, listed stocks.

Firstly, private technology valuations are finally reverting to attractive entry points. Over the last quarter, we have met several interesting SaaS businesses with strong margin and growth capabilities, combined with compelling valuations and deal structures. We will continue to explore these into year-end.

Secondly, we are finding very attractive opportunities in the mid-cap listed technology space, where several businesses are trading at historically low revenue multiples as they approach or achieve profitability. We believe that now is the right time to be diligently increasing our weighting to ASX listed tech.

Thirdly, opportunities in private secondaries have continued to grow. We have been working on a deeply discounted offering for the last few months as we negotiate favourable terms. We hope to have an outcome by year-end.

The fund is actively preparing to start investing again and accordingly we are fundraising to help drive returns for the year head. We are also heavily engaged with 7 of our private businesses to help achieve IPO outcomes in 2024 as market conditions improve.

ALIUM INSIGHTS – Current Tech trends

See below our analysis of current trends in Tech:

- Steady SaaS demand
- Buoyant Merger activity
- Investors now demand Profit
- Benefits to being listed

Steady SaaS demand

Gartner predicts software spending will increase by about 15% the next 12 months. The global SaaS market is projected to grow from $274 billion in 2023 to $908 billion by 2030, at a CAGR of 19%.

Source: Statista

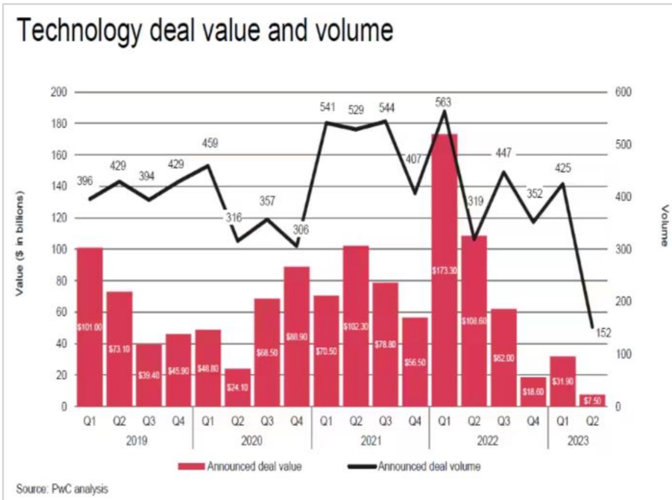
As we move into 2024, it's becoming increasingly clear that, on average, SaaS sales cycles have become longer, more expensive, and more challenging. This trend will most likely continue as-long-as the economy continues to be challenged.

The State of SaaS Buying Report by Spendflo indicates that SaaS is one of the top five expenses in nearly every organization, while a survey by DevSquad reports that 38% of companies run entirely off of subscription-based SaaS services, while 80% of companies would like to achieve the same by 2025. Hence, we remain constructive on the long-term growth of SaaS despite current economic concerns – software was the only sector to post positive earnings growth during the GFC.

Buoyant Merger activity

In 2022 we saw mega tech mergers like Adobe buying Figma for $20bn, Vista bought Citrix for $17bn, Microsoft bought Nuance for $19bn and Boardcom took over VMWare for $61bn and the largest was Microsoft buying Activision for $68bn. It has been quieter in 2023 with the larger deals including Toshiba going private for $16bn, SAP sold Qualtrics for $13bn, IBM bought Apptio for $5bn. Volume and Value are both down, but that is largely a function of nervousness across most elements of the economy.

We believe that M&A activity will start to pick up again once the outlook for interest rates stabilizes. That said, we are familiar with many assets which are in discussions with both strategic and financial buyers. So, the pipe is robust, but the closing time is extended.



We are also seeing a pick-up in mergers between small equals. Buoyant capital markets, as experienced during 2021, allow for access to large pools of capital with which to compete on customers, staff, advertising, share of wallet, etc. The current scarcity of capital is encouraging competitors to come together and immediately slash competitive tensions, as with the merger last month between rivals Mr Yum and me&u here in Australia.

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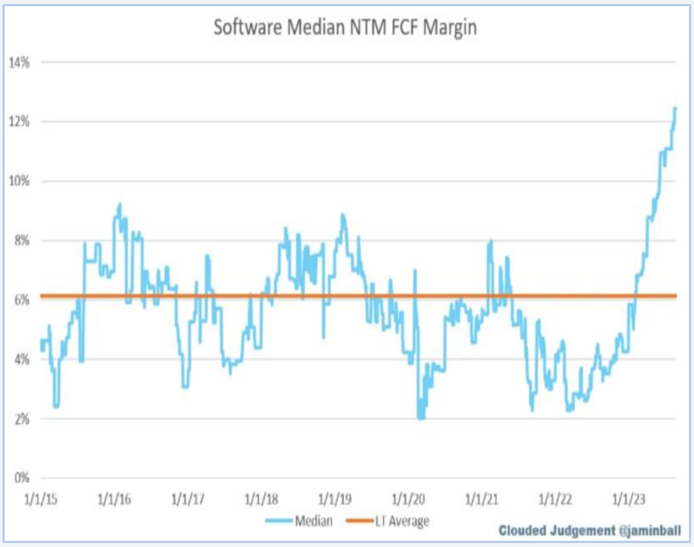
Investors now demand Profit

Tech valuations in the last few years were centered on growth, market share, TAM, etc. The market has now firmly moved to efficiency, ROI, capital discipline, and profit.

As companies cut costs and increase profits to survive for longer without needing to raise more money, we're seeing the rate of revenue expansion come down. 30-40% growth is the new 100-150% rate from prior years. Whilst it is impressive to see tech companies of all sorts figure out how to make money, but they aren't making so much revenue as fast as they used to anymore. As we know, growth has been hard to come by in the last few quarters. Just about every software company has seen their growth slow down.

We contend that when the economy improves, not only will these increasingly profitable and cash-rich companies have a strong base to grow from, but they will also do so from a position of wealth.

Growth has slowed and the need for profits is up.

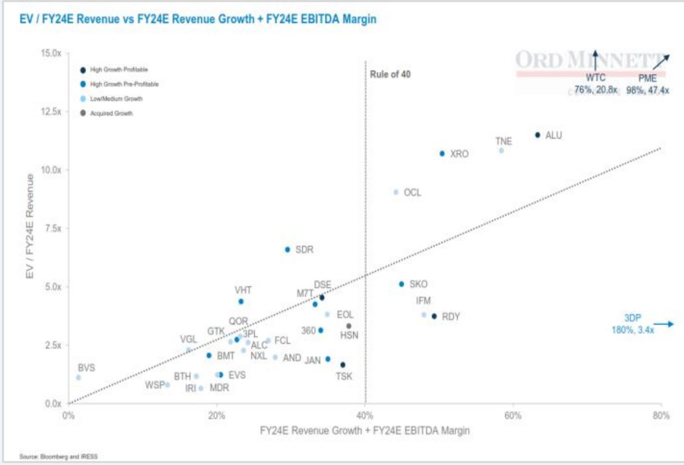


Pleasingly for the Alpha Fund, 50% of the portfolio is currently profitable, with 72% forecast to be profitable by end-CY24.

Growth at any cost has given way to the Rule of 40 in markets, where investors demand sound underlying business models, and growth is no-longer a substitute for profitability but a careful balance. Management teams and boards, in setting their FY24 budgets, have been grappling with this fine trade-off.

Investors are currently rewarding businesses with a high Rule of 40, with the highest multiples awarded to those who have both positive Revenue growth and EBITDA contributors to the Rule.

With this in mind, the cohort of high-flying EV/Revenue stocks

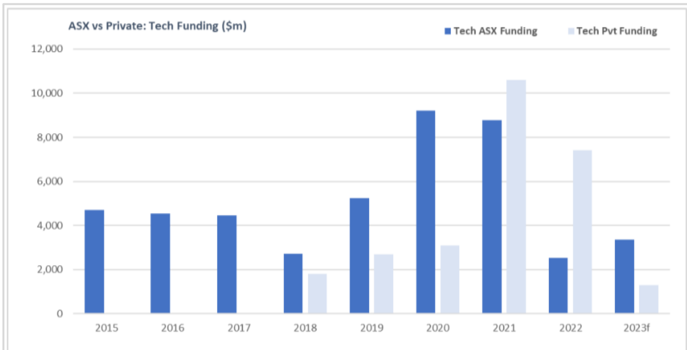


(>10x multiple) all exhibit Revenue growth rates of 20-30%. In the current economic climate, 30% growth and strong, sustainable EBITDA margin is viewed as exceptional – and rightfully so, with the bulk of listed ASX Tech now generating between 5-15% growth.

Benefits to being listed

Following-on from our IPO research piece in August, we noted that despite giving up their lofty share price highs of 2021, ASX-listed Tech companies have been able to raise a large amount of capital quickly in 2023. This is despite the market for new listings being shut, and a tough raising environment for private companies.

At almost $4bn raised CYTD in 2023, ASX Tech companies have been able to raise a level of capital in-line with long-term averages.



US markets have seen 121 IPOs so far in 2023, including 3 significant Tech IPOs in the last month during the Nasdaq's recent decline. Despite this backdrop, Instacart, Klaviyo, and Arm Holdings have so far been resilient post-listing, which has bolstered listing aspirations both in the US and in Australia, where companies are able to make use of the significantly more favourable listed capital markets.

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