ALIUM CAPITAL MANAGEMENT

ALIUM ALPHA FUND

SEPTEMBER 2021

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	-0.3	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	-1.1	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*				12%
Inception														146%^

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

Alium Capital Management is an investment manager catering to sophisticated investors seeking uncorrelated returns with lower target volatility. Our specialization is investing in listed and unlisted emerging companies, with a particular emphasis on technology & innovation.

The Alium Alpha Fund returned +1% in September versus the ASX200 which fell 2.7% and the S&P500 which fell 4.8% in what was a genuine risk-off month for equity markets – highlighting the fund's uncorrelated return profile. The idyllic conditions that drove equities to records leading into reporting season are now swiftly fading as an increasing number of fund managers start positioning for what many believe is an overdue correction that will send valuations lower. Tightening Chinese regulation occurring against the backdrop of central bank tapering and a rapid slowdown in economic activity, is combining to rattle global equity markets and increase volatility.

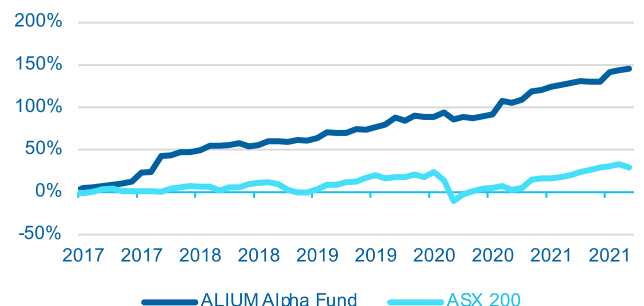
In our opinion, it is fair to argue that we are now likely past peak growth, peak stimulus, and peak central bank liquidity, which effectively means the low volatility, almost 90% rally (from the March COVID lows) is over for now. We feel that investors are currently transitioning their mindset to accept potential reductions in earnings growth which has been premised on a multitude of cautionary macro-economic impacts. Without going into detail on the specifics of each of these factors, we view the most concerning issues facing markets in the coming 6-12 months as follows:

- A mounting energy crisis, with rolling power outages in China and fuel shortages in Britain causing increased inflation and putting Chinese growth at risk. This is effectively a stagflation scare.
- Logistics and supply bottlenecks continue to cause corporate earnings risk via margin contraction, with simultaneous impacts on inflation and growth.
- China's property issues spread across the real estate sector, the banking system and other parts of the Chinese and global economy.
- The general effect of the Fed's reduction in stimulus combined with the potential threat of inflation and the impact this will have on growth and valuations.

Weighing up the factors mentioned above, our base case is for a 7-10% correction, however looking forward we expect volatility to remain elevated as the market assesses whether these issues are transitory in nature, or potentially more serious. In our view, many of these issues are the former, though we expect a more serious correction some time in 2022 when the thread of higher rates becomes more pronounced.

At this stage, we are refraining from adding any risk, and we have been tactically reducing our equity exposures over the last few months, as such we intend to keep our powder dry until the macro picture becomes clear. We have also had index put protection on which helped to mitigate some of the effects of the selloff in listed emerging technology stocks during September and October. Should we see a correction of 10%, we would likely start to look for oversold opportunities in the listed market, especially given the historical positive attribution we tend to experience in the last 2 months of the year. Furthermore, we have noted risk reduction from both institutional and retail investors has left cash balances and net ratios at more attractive levels. This is an important factor for the fund, as the upcoming IPO

Performance since inception



Performance summary	Alpha Fund accumulated
Annualised return	21%
Annualised std. dev.	10%
No. of down months over 1%	3
Correlation to ASX 200	0.22

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window will likely benefit from the heightened cash levels we currently see in Australia. $30bn of dividends to be paid in the next two weeks and a record $40b worth of take-overs this year has added further ammunition for those investors looking for new opportunities in the IPO space into year-end, which is encouraging for the fund.

In terms of attribution, the fund benefitted from the IPO of Way2Vat (W2V AU) which was a pre-IPO investment made just prior to the onset of COVID. The listing was therefore delayed, however we are very excited for the outlook of this business given it is a pureplay re-opening trade and will likely see significant revenue growth in calendar '22 & '23. The company provides a fully automated, end-to-end VAT/GST reclaim solution for businesses. They have patented and revolutionary artificial intelligence technology and capabilities to enable automated report generation, submission and recovery. Given the hit to travel – particularly business travel – over the past 18 months, we expect Way2Vat to experience a significant ramp in enterprise customers in the months ahead. The stock traded up We also gained attribution from our tactical position in S&P index puts. We bought the index protection in early September and it helped mitigate the losses suffered in our emerging company technology portfolio in the listed space, which suffered from de-risking during the month.

As we look ahead to year-end, we remain positive on the construct of the book given our lighter listed exposures and our upcoming pipeline of IPOs. At this stage – market conditions permitting – we expect Beforepay, Careteq, Artrya, Australian Bond Exchange, and Health Engine to all list this quarter which should help to drive performance. We haven't added any new private positions during the month despite seeing several interesting companies, of particular note is an e-Commerce play that we think has potential and we will continue with our due diligence over coming weeks. In terms of the broader market we will be watching carefully for any further signs of market stress and applying protection as needed. What is interesting to us was the performance of the two technology-related IPOs that transacted in September. Despite the market weakness we saw Way2Vat trade up 75% on day one and Zoom2U trade up 115% on day one. These performances reflect positively on risk appetite for the right companies at the right price.

Private Markets Continue to Grow, and Grow

Goldman Sachs released an in-detailed research paper around Private Market Investing within the context of hedge and crossover funds increasing their private market allocations. The highlights of the paper are shared below. As many of you know, when we established Alium 5 years ago, we were strongly of the opinion that the strategy of investing in both Private Investments and Public Equities (PIPE) had merits to generate strong risk-adjusted, sustainable returns.

Technology company investing has been at the heart of this growth momentum. The ability to invest in private assets that become public was the core (pre-IPO). Equally, investing in public markets gave us an information edge and we have selectively played that advantage with valuation arbitrage whilst also protecting downside in the fund with effective hedging strategies. Whilst we remain involved in the pre-IPO arena, that time to IPO has extended, and often for good reasons to allow the company to grow and become more valuable before they become public assets. We remain extremely constructive on PIPE investing in Australia – this is structural, not cyclical. Whilst it is becoming more competitive, there are still significant opportunities, and we at Alium remain both disciplined around prices to pay and time to liquidity.

There are several merits of the PIPE strategy:

- Embracing private investing allows funds to become 'lifecycle investors', with the ability to invest with companies through every stage of their growth, which potentially positions them as uniquely-advantaged capital providers.
- In a competitive environment for access to top private companies, PIPE investors enjoy certain advantages over traditional PE/VC players. Given their position as prominent public markets investors, they can provide companies with advice/insights and credentialize them in the process of going public. In addition, they can remain long-term holders that straddle the transition from public to private.
- PIPE investors tend to be passive holders—they generally do not ask for board seats or try to exert influence on the management of the company in the way that many PE/VC firms may do. This allows the Companies to operate with calculated freedom, take risk, grow and create value.

In a global context, according to Goldman Sachs, the private markets have seen an enormous expansion in recent years: over the last decade, assets managed in private markets strategies have more than doubled to >$7tn. To give you some context, the entire Australian Superannuation pool was worth $3.3tn at Jun21.

The enhanced pool of private capital now means that a company goes through three equity funding rounds pre-IPO (up from just one as late as 2011), and on average raises nearly twice as much capital pre-IPO versus a decade ago. The effect of these dynamics on valuations has been dramatic: ten years ago, there were just nine 'unicorns' (private companies valued at >$1bn); there are now almost four hundred.

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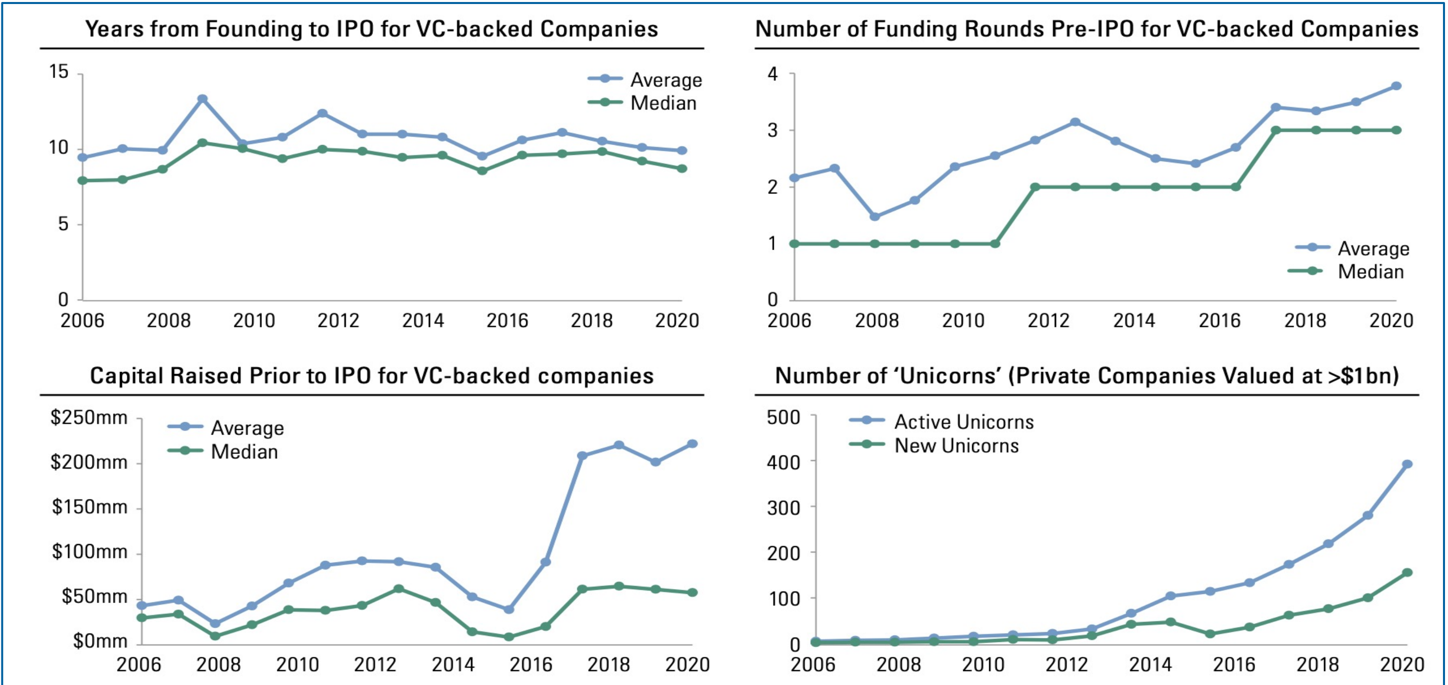
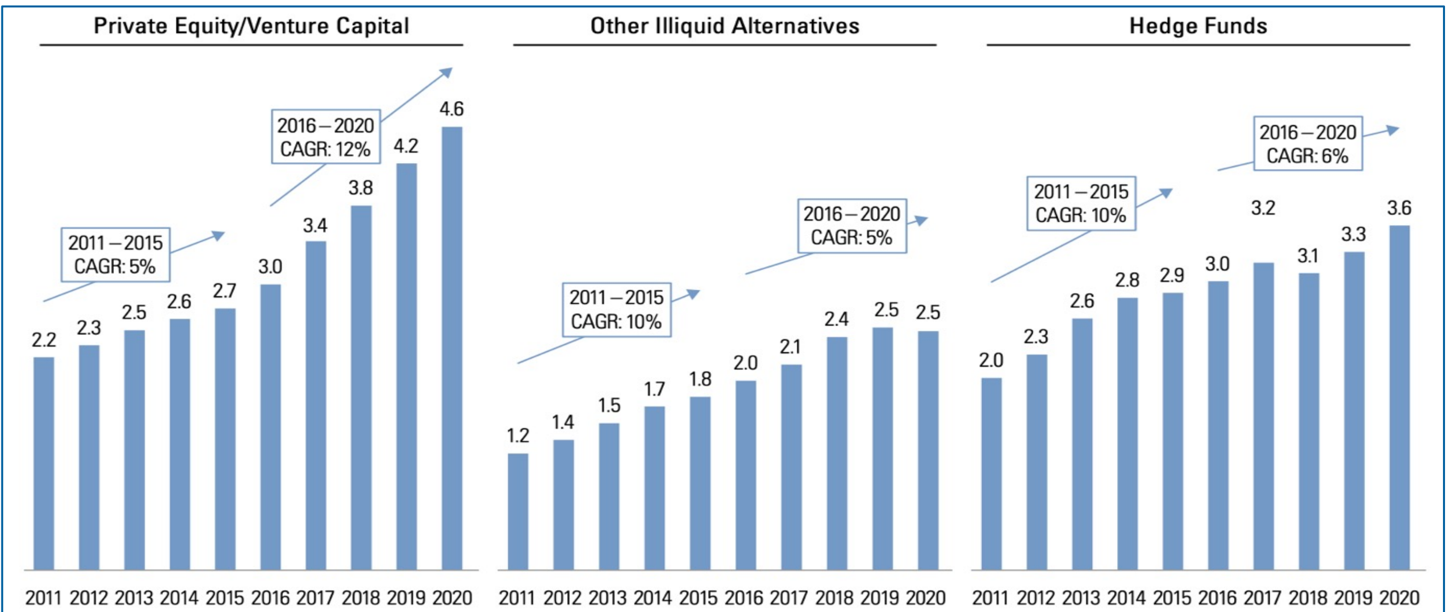


One of the key reasons for growth in broader private markets has been the significant uptick of growth in PE/VC strategies. As per the charts below, between 2011-2015, AUM in these strategies grew from $2.2tn to $2.7tn (5% annualized), whilst from 2016 onwards, this rate picked up significantly, with these growing from $3.0tn to $4.6tn (12% annualized). VC and growth equity strategies have been growing even faster than the category as a whole, at 15% annualized. This means more monies invested earlier, which means many of these assets bubble up into the zone of PIPE investors, hence the growing opportunity set.

Ultimately, more capital at the VC, PE or PIPE Fund stage augers well for companies and Founders as they grow and scale their business. We are encouraged to see more capital available, but we do worry about valuations in the private space at the moment. To illustrate the point, Seed rounds when we started the fund 5 years ago were ~$500,000. Seed rounds now are kicking off at $8-10mn. Valuations of $2-3mn at Seed are now on occasions closer to $50mn pre-product/pre-revenue. The risk is enhanced, yet the valuations don't reflect potential disappointments. To re-iterate, Alium remains acutely focused on investing in companies at



attractive prices, whilst also maintaining a view on liquidity whether in the M&A market or for companies to go public on the ASX.

We leave you with the attached chart prepared by Goldman Sachs that illustrates return performance across asset classes. It shows that the more private the asset, the better the returns. At Alium, we are balancing a healthy mix of both public and private investing. We remain on target to return 20-25% annually.

Kind regards,

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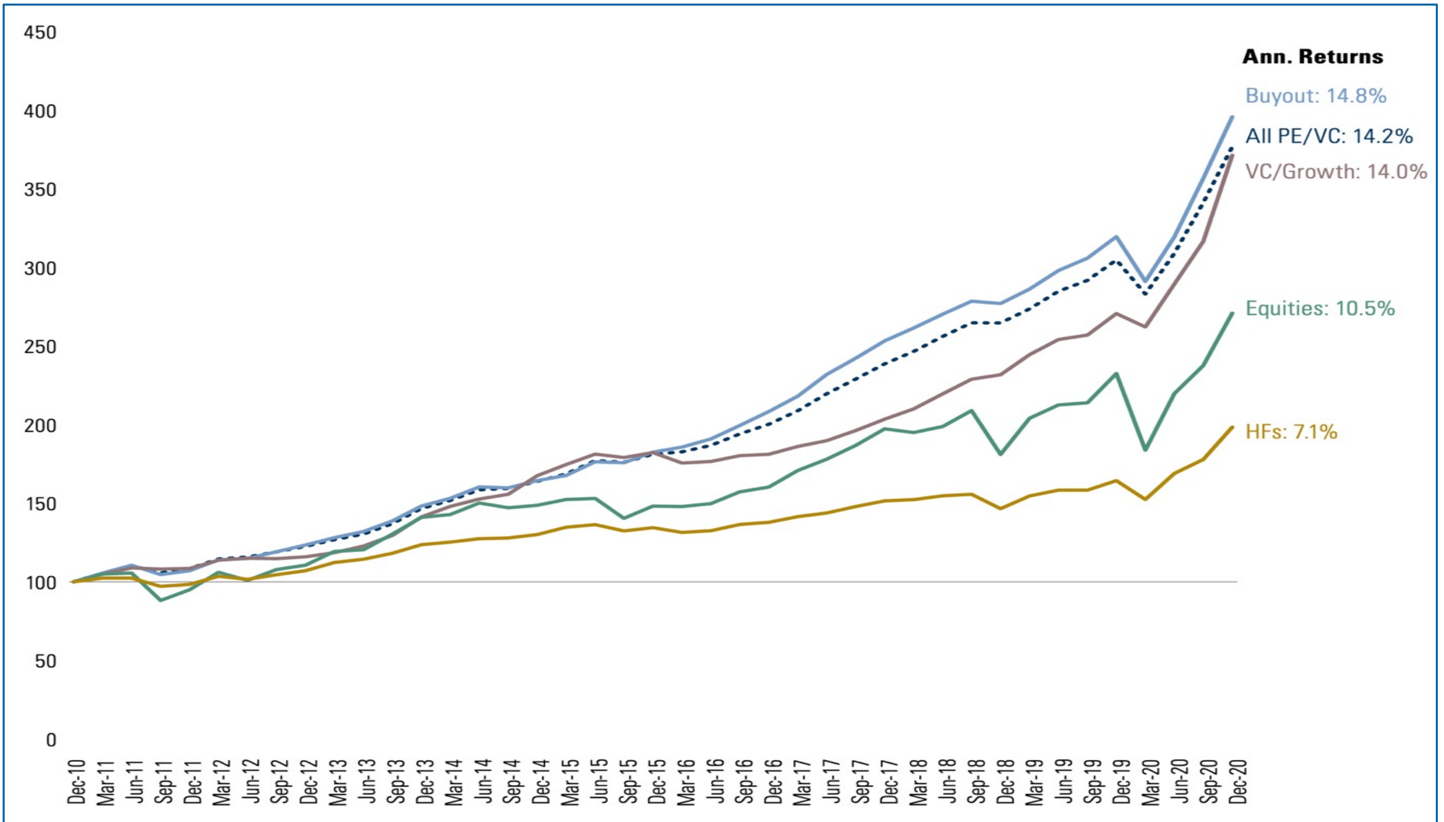
aliumcap.com



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