ALIUM CAPITAL MANAGEMENT

ALIUM ALPHA FUND

OCTOBER 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	5.7*			18%
Inception														160%^

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.

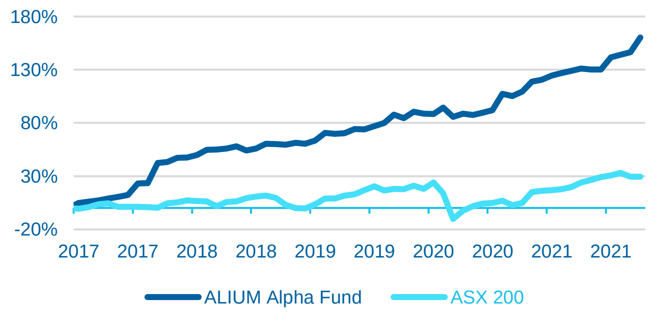
The Alium Alpha Fund returned +5.7% in October versus the ASX which closed down 0.1%, once again highlighting our uncorrelated return profile. The weakness in the Australian market looked to have been led by the excessive move in both the short and long end of the domestic yield curve - with a 40% rally in the 10 year, and an incredible 1,700% move in the 2-year yield. Despite the dovish tone emanating from the RBA meeting last week, it seems clear that bond market traders are expecting rates to be hiked as early as the 2nd quarter next year, versus Philip Lowe of the RBA, who continues to suggest it will be late in 2023 before we see any upward move in interest rates. Hence there is at present a clear dichotomy developing between experienced bond market players and central banks, not just domestically, but all over the developed world, whereby central banks want us to believe that all this inflation we are currently experiencing is only transitory in nature. Bond market investors seem to be far more nervous. Either way, it seems clear that the timing and velocity of any interest rate moves will have enormous implications for the trajectory of equity markets over the next 6-12 months.

As we move into November, we have started to see these yields pull-back as the calming central bank rhetoric seems to be working. Over the past week alone we have seen the UK, US & Australia all focusing their messaging on patience with regards to any potential hikes. As such, and as we head into the seasonally stronger months of November & December, there is some potential for a squeeze higher in markets as retail investors maintain strong levels of cash post-lockdown, and institutions have significantly de-risked their portfolios on the back of heightened yield sensitivities.

Whilst there certainly remains a plethora of macro-economic uncertainties, it is also important to note that the US reporting season was exceptionally strong, with 80% of companies delivering an upside surprise on EPS, while 70% beat on sales. Overall earnings were 10% ahead of expectations, and earnings growth was up an impressive 40% yoy. Despite a pullback in growth during the 3rd quarter to 2% – from 6.7% the prior quarter – it does seem likely that US GDP growth will re-accelerate next year as COVID restraints, power shortages, and general supply side constraints start to ease. In our opinion, we are likely to see a more significant sell-off from the second quarter of next year as the reality of central bank tightening starts to hit. With this in mind, we intend to start increasing our cash weighting next year as we simultaneously reduce our listed exposures, whilst also setting a high bar for adding any new private investments unless they possess exemplary management & significant valuation arbitrage.

If we look at the last two meaningful sell-offs – 20% correction in the 4th quarter of 2018 (taper tantrum) & the 35% correction in March 2020 due to COVID – we note that both were short and sharp in nature. With the onset of ETFs, algorithmic trading & the speed with which information is now disseminated, we would expect any interest rate/growth related sell-off to be similar in nature. We will therefore be using index options to hedge against a potential correction

Performance since inception



Performance summary	Alpha Fund accumulated
Annualised return	22%
Annualised std. dev.	10%
No. of down months over 1%	3
Correlation to ASX 200	0.21

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next year. However, we expect that markets will likely remain stable into year-end and given the significant levels of cash on the sidelines we also expect the IPO market to remain buoyant into the first quarter of next year. Recent IPO bookbuilds in Judo, Siteminder & APM serve to illustrate the strength of this IPO appetite as all three deals raised over $500m & were corner-stoned quickly and easily. These bode well for the IPO calendar into year end in our view.

In terms of attribution for October, our key drivers stemmed from 3 key positions. Firstly, we saw an increase in valuation on one of our earlier e-commerce software investments where some founder stock was transacted ahead of an IPO in 2022. Secondly, our NDIS-backed healthcare company had a valuation increase after delivering a significant jump in revenue and EBITDA for their FY21 year, also providing a strong uplift to their FY22 guidance. There is solid M&A interest in this particular asset and we are excited about its prospects for next year. Finally, one of our largest listed exposures, Cash Rewards, received a take-over offer from ANZ to acquire the remaining 80% of the company, which added to the strong performance for October.

Interesting Market Facts

1. From the highs of late 1999 to the lows of late 2001, AMZN stock fell 95%.

2. Today, AMZN alone collects 35 cents of every dollar spent on US online retail sales (that's up from 32% pre-pandemic).

3. If you bought MSFT stock at the highs in 2000, it took 15 years to get back to breakeven.

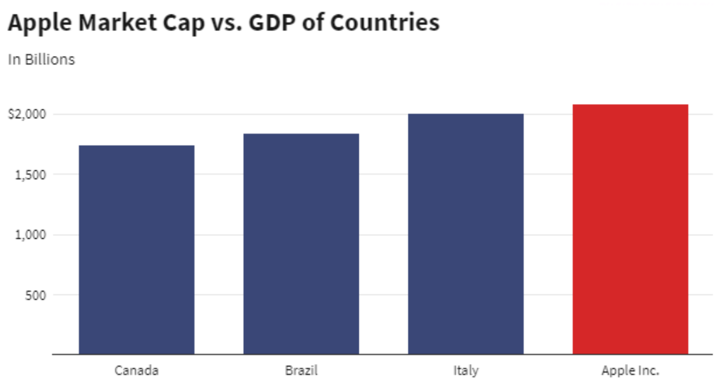
Five largest companies by market cap

1975	1985	1995	2005	2021
1. IBM	1. IBM	1. GE	1. GE	1. Apple
2. Exxon Mobil	2. Exxon Mobil	2. Exxon Mobil	2. Exxon Mobil	2. Saudi Aramco
3. Proctor & Gamble	3. GE	3. Coca-Cola	3. Microsoft	3. Microsoft
4. GE	4. Schlumberger	4. Altria	4. Citigroup	4. Amazon
5. 3M	5. Chevron	5. Walmart	5. Walmart	5. Alphabet

4. At $2.5tr today, the market cap of MSFT is larger than the entire US high yield market.

5. In 1997, AAPL was 90 days away from bankruptcy.

6. Today, AAPL averages $1bn per day in sales, $300mm per day in operating income and $300mn per day in capital returns.



7. The total return of NDX off the Mar '09 lows is now 1,636%. what's also interesting are the returns from notable corrections along the way: from Aug '11 = +724%... Feb '16 = +326%... Dec '18 = +176%... Mar '20 = 129%.

8. Since 1942, the average US bull market saw a gain of 154% over 53 months... compared to the average bear market falling 32% over 11 months. Said another way, bull markets go about 5x further and last 5x longer.

9. Also since 1945, a $10k investment in S&P has returned $4mm (396x) if only invested from November through April, but just $117k (12x) if only invested from May through October.

10. Fed moves by decade: 70's = 89. 80's = 76. 90's = 35. 00's = 43. 10's = 12. 20's so far = 2.

11. Of the $40tr of US household ownership of domestic equities, the top 1% owns 53%... and, the top 10% own 89%.

11. If you break down the total earnings of the entire S&P, just 12 companies account for 25% of the pile... and 47 names account for a full 50%.

Alium Investor Webinar

We have an Investor Webinar link to share our latest thoughts and views on markets and the portfolio below:

Link: **Alium Investor Webinar**

Password: 5q!RZ7&N

Kind regards,

THE ALIUM ALPHA FUND

aliumcap.com