CVC Emerging Companies Fund

Quarterly Report

For the period ending 30 September 2023

Fund I update

Update of Fund I activities during the quarter

September quarter is always busy, with public and private companies alike finalising full year results, reporting to shareholders in their respective ways, completing audits and locking down 2024 budgets. Across the portfolio we've been pleased with our portfolio companies' FY2023 results and performance-to-budget in the first quarter of 2024, with most, but not all, achieving their growth goals in a delicate market.

There were numerous notable developments within the Fund I portfolio during the quarter. Bellroy paid a further dividend in September following on from the one received in June and distributed to unitholders last week. Bellroy has been a holding in Fund I since July 2019 and has experienced extraordinary revenue and profit growth during that period. DesignCrowd closed its acquisition of domain name design.com, which broadens its reach in the online design category. DesignCrowd announced another quarter of excellent growth, with gross revenue up over 55% and SaaS revenue up 118% year on year. On the listed side, Cleanspace (CSX) announced a return to quarter on quarter revenue growth and close to break-even performance for the quarter. This is welcome news for all CSX investors as the company looks to consolidate under the leadership of their high-quality new Managing Director, Graham McClean. Further details on all the portfolio companies can be found in the Investments section of this report.

The Fund's NTA was up 2.14% during the quarter. We remain firmly focused on liquidity options across the portfolio and will continue to prosecute these to maximise value for unitholders and return capital in the fifth year for the Fund. With three portfolio companies in active sale processes and a much better market for corporate activity, we remain confident of achieving meaningful exits and return of capital this calendar year.

The market for emerging companies

Private market activity in our category feels like it's getting back to normal levels which raises the question about what actually is normal. Probably the best way to describe it is we are at least back to 2019 levels of activity, if not sentiment. Private companies are comfortable going back to market and investors are no longer on pause.

The small end of the ASX listed market however remains very subdued. While the S&P ASX Small Ordinaries Index (XSO) was roughly flat over the quarter it is still down 25% from 2021 highs. Even so, the XSO is not a great indicator of microcap performance (XSO constituents market capitalisation ranges from $500m to $3 billion) and the sub $500m market-cap segment's price and volume performance has been considerably worse, in what has anecdotally been described as the worst microcap market in 30 years.

The reopening of offshore IPO markets has been pleasing to see, even though the performance of key stocks like ARM, Klavio and Birkenstock have been less than convincing. The potential reopening of the non-resources IPO market in Australia has been attracting a lot of media attention as Mason Stevens, Cuscal, AirTrunk and a handful of others test investor appetite. Our feedback is that there is solid interest for quality, well priced companies. Although we don't rely on IPOs to exit positions per se, we do regard a healthy IPO market as good for companies in our category.

Fund I remains in realisation mode and we are having regular and consistent conversations with all of our portfolio companies about liquidity in the coming 6-12 months. Whilst we are not in a bull market for realisations, the return to what can only be described as some sense of normality in private markets should provide a genuine opportunity to exit good quality assets at compelling prices.

Further realisations and distributions

There were no distributions during the quarter. Total distributions to date are $1.10 per unit (or 61.1%) on the initial $1.80 investment unitholders made in the Fund and the Fund's total return now stands at 41.15% on a gross basis or an IRR of 13.94% as at 30 September 2023. We would also remind all unitholders that our assets remain either held at cost or at valuations that we generally do not believe reflect their true value and we would expect to realise uplifts on the portfolio as they are realised.

Fund activity, performance and outlook

The Fund has called the full unit value of $1.80 or the total of $44.8m committed by unitholders. The Fund's NTA at 30 September 2023 was $1.4409**. Of the original $44.8m committed, $27.4 m, or $1.10 per unit has been distributed as capital and profit to date. All return information is net of fees and uses holding valuations at the time of reporting.

Period	NTA per unit	Return (%)
3-month performance (net of fees)^	$1.4409**	2.14%
Since inception (net of fees)^*	-	41.15%
Since inception (net of fees)^* per annum	-	8.12%
Since inception (net of fees)^^ annualised (IRR)	-	13.94%

^ Adjusted and inclusive of all capital calls for a total of $1.80/unit and distributions paid or declared of $1.10. Calculated as the monthly return inclusive of distributions, compounded for the relevant period.

^^ Internal rate of return inclusive of all capital calls, distributions paid and current NTA, net of all fees and costs, calculated using the time of inflows and outflows.

* Fund inception date 1 May 2019.

** Includes a distribution payable of ~$860,818.96 to be paid in the December 2023 quarter.

Fund summary and looking ahead

The Fund is fully deployed and we remain focussed on assisting companies grow, optimising value for the Fund and preparing for liquidity events. As a summary, the Fund made 16 separate investments across 13 companies since launch in May 2019. Three investments have now been realised completely (Portt, Lendi and Airtasker) and two more (Cleanspace Holdings Ltd (CSX.ASX) and Ai-Media Technologies Ltd (AIM.ASX)) have had partial realisations. Following the Moneytech/Monoova demerger there are 11 investments remaining in the portfolio, three are listed and eight remain unlisted. Of those unlisted companies, three continue to be held at cost with minor increases to the carrying value of two investments made at 30 June 2023 reflecting substantially increased performance since investment. Conversely, the carrying value of one unlisted investment was reduced at 30 June 2023 due to subsequent dilutionary capital raisings in which Fund I did not participate.

Investments

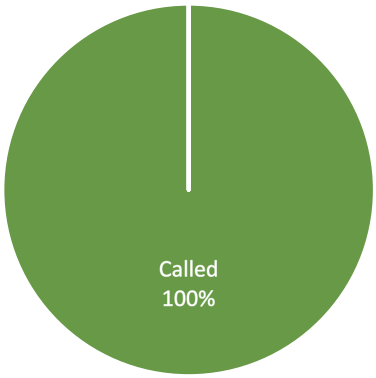
Investment	About the company
CleanSpace® RESPIRATORS	**CleanSpace** designs, manufactures and markets a range of compact powered airflow personal respirators for protection from hazardous particulates and gases in mines and industrial workplaces as well against infectious diseases in healthcare. **Update**: CSX released a quarterly update in early October, reporting a return to quarter on quarter growth. Discussions with the new CEO indicate to us that the company is on track with ASX-released commentary regarding improved performance in the industrial segment, material cost reductions and a focus on reduced cash burn.
Deep Blue Company	**Deep Blue** is the #1 player in the fragmented Australian property conveyancing market with a scalable, low-cost digital business model. Deep Blue has also begun to realise adjacent market opportunities in building inspections, insurance and utilities. **Update**: DBC's restructure has positioned the company to achieve cashflow breakeven in the coming quarter. Michael Burgess (CFO) continues to impress us with his laser-like focus on costs and revenue growth. The outlook for the second half is a return to growth after a relatively flat period related to a weaker property listings market.
bellroy	**Bellroy** is a purpose driven Australian accessories brand that sells distinctively designed wallets, bags and other "carry" products to more than 100 countries, with the majority of sales conducted online through its website and digital marketplaces such as Amazon and Tmall.

Investment	About the company
	Update: Bellroy delivered a strong year of growth in 2023, well ahead of budget across most channels. The growth in new products combined with increasing wholesale demand bodes well for FY24. Whilst there are challenges in the ecommerce market, the overall performance of Bellroy demonstrates how well high-quality products can perform even in a weak consumer market.
moneytech FINANCE FOR GROWTH. AND THEN SOME.	**Moneytech Finance** is an SME focussed provider of secured lending products including trade and debtor finance, equipment finance and term loans. Moneytech Finance is a leading player in the non-bank lending sector. In operation since 2003, Moneytech Finance is blending a traditional approach to risk and loan management with significant investments in technology enablement to improve assessment and execution efficiency and overall customer experience. **Update**: Moneytech Finance completed a record year of performance with a strongly performing loan book and the introduction of Equipment Finance in FY23 helped performance meaningfully. We retain a keen eye on the performance of the book in what continues to be a challenging environment for lenders but the high-quality management team have continued to demonstrate their skills in managing credit risk.
monoova make money move	**Monoova** is a payment solution for businesses looking to automate end-to-end payment workflows using Monoova's API integration. Monoova's automated, real-time debits and payments, assign unique account numbers and PayIDs offers significant efficiency benefits to businesses with complex payment requirements. Monoova was one of the first payment initiators to go live with PayTo, and with a small group of others is at the vanguard of new payments technology in the Australian market. **Update**: Monoova has been able to maintain revenue close to budgeted levels despite difficult conditions in their two key end markets. They are getting good traction in opening up new markets, with a strong pipeline containing some excellent enterprise customers.
ai media	**Ai Media** is a global leader in speech-to-text providing high accuracy, technology-enabled live captioning, closed captioning, transcription and speech analytics to broadcast, education, government and corporate clients. **Update**: The FY23 earnings update provided an insight into the margin expansions the company has continued to prosecute whilst also outlining modest revenue growth. With higher margins and the possibility for revenue growth, we believe that AIM is well positioned for the coming financial year.
swoop	**Swoop Holdings Limited** is a medium size fixed wireless provider operating predominantly in NSW, Victoria and Western Australia. The company listed in late May 2021 following the merger of Swoop and NodeOne and has a growing revenue base across retail, business and wholesale supported by 2 recent acquisitions that will provide further scale for the business. **Update:** Swoop exited FY23 being cashflow breakeven, positioning the business well for FY24. We would expect growth of +10% in FY24 on an organic basis alone with the potential for acquisitions to drive this growth higher.
DesignCrowd	**DesignCrowd** is an online marketplace providing easy to access brand and design products for SMEs. It operates two products: DesignCrowd and BrandCrowd. The DesignCrowd product offers custom design by actual freelance designers through an online platform, targeting the "do it for me" market, while the BrandCrowd product offers design maker tools for the "do it yourself" segment of the market. **Update**: DesignCrowd continued its growth in the September quarter, with SaaS revenues in particular continuing to grow strongly. Revenue for FY23 smashed the budgeted amounts and the company continues to generate free cash on a monthly basis.
orbx simulation systems	**Orbx** is a digital content company creating specialist imagery and geo-mapping scenery for the flight simulation / gaming industry. The company runs a digital marketplace model for their map products, which are compatible with multiple flight simulation platforms. Orbx has a leading position in the flight simulation industry and is looking to expand its offering to broader gaming audiences. Content for simulation games represents an addressable market of over US$1 billion. **Update**: We understand the company is currently considering liquidity options and anticipate being able to achieve liquidity for this position in the coming 6 months. The business continues to perform largely in line with the previous year, however, new growth strategies have the potential to drive growth in FY24.
Studiosity Anytime, anywhere	**Studiosity** is the leading enterprise provider of online, on demand, academic literacy and student retention solutions for tertiary institutions and their students in Australia and New Zealand, and increasingly in other international markets such as the UK and Ireland. At its core, Studiosity solves a critical problem for its customers – it provides a study support platform for users and helps universities deliver content digitally. **Update:** Studiosity looks to be delivering another record year with strong university additions and net revenue retention delivering additional organic growth. AI has been a fascinating discussion point within the company and at this stage, universities are seemingly using Studiosity as a tool to assist with their adoption and/or defence of AI-related issues within their own businesses. We remain fascinated by the use of AI in the education sector and how this can be adopted by Studiosity to grow their overall market share.

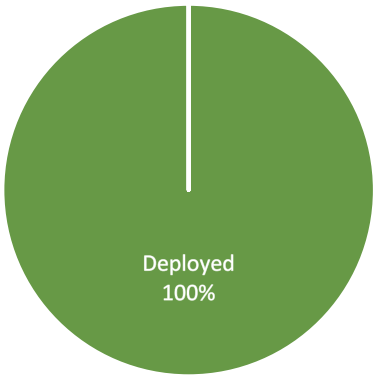
* The Fund also has an investment in a food manufacturing business which remains subject to confidentiality restrictions.

Portfolio characteristics

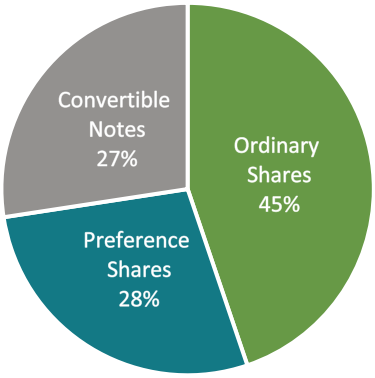
Called v Uncalled Capital



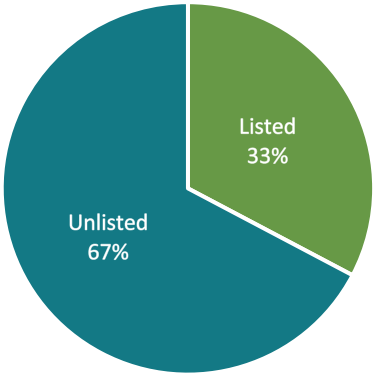
Deployed v Undeployed Capital



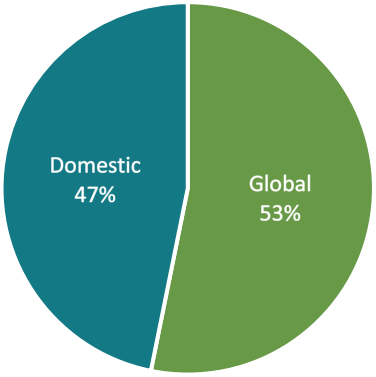
Security Structure (by Capital Deployed)



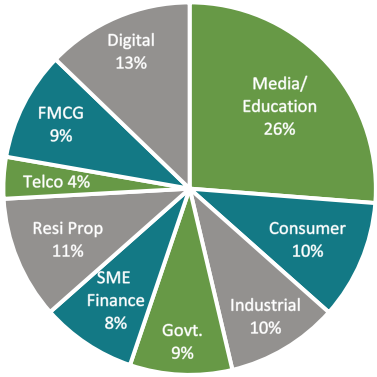
Listed v Unlisted (by Capital Deployed)



Business Footprint (by Capital Deployed)



Primary Business Sector (by Capital Deployed)



About the fund

The Fund is a wholesale unit trust which invests in unlisted and listed emerging companies and is managed by CVC Emerging Companies IM Pty Ltd (ACN 631 673 740, CAR 1274 220) a joint venture entity of CVC Limited (ACN 002 700 361), and E&P Investments Limited (ACN 152 367 649), a division of E&P Financial Group Limited (ACN 609 913 457).

Fund details

Investment Vehicle
Unlisted wholesale unit trust.

Fund Term
Intended to be five years, with the option to extend for two consecutive one-year periods.

Fund Objective
The Fund's objective is to generate superior long-term returns for Investors through investments in listed and unlisted growth and expansion stage companies:

Unlisted – Ordinary and preferred equity, convertible notes. Typically, 6–24 month timeframe to liquidity

Listed – Pre-IPO investments, (potentially) held post-IPO for a period of time, micro/small cap IPOs and placements.

Investor Eligibility
Wholesale investors only.

Redemptions
Fund subject to lock-up period. All redemptions are at the sole discretion of the Trustee and Investment Manager. Transfers can be facilitated by the Trustee.

Distributions
The Trustee is expected to determine distributions semi-annually or more frequently subject to availability.

Portfolio Composition
Targeted portfolio composition of 15-25 companies. At the time of investment, a maximum weighting of 15% to any one investment.

Management Fee
1.75% p.a. on committed capital during Investment Period and on invested capital thereafter (plus GST and before accrued fees).

Performance Fee
20% p.a. (plus GST) subject to an 8.0% per annum cumulative (non-compounded) pre-tax preferred return.

Other Fees and Costs
Expense recovery for audit, legal, Trustee & custodian fees, administration, registry, tax and external investment due diligence advice.

Overall Expense Ratio capped at 2.50% (plus GST, excluding performance fees).

Investment team



CHRISTIAN JENSEN
Portfolio Manager
T +61 421 996 061
E cjensen@cvc.com.au



JONATHAN PEARCE
Portfolio Manager
T +61 412 898 993
E jpearce@cvc.com.au



JOSEPH LEE
Investment Manager
T +61 406 059 182
E joseph.lee@cvc.com.au

Important information

This document has been prepared by CVC Emerging Companies IM Pty Ltd (ACN 631 673 740, CAR 1274 220) (Investment Manager) of the Fund. The information contained in this document is confidential and is provided to wholesale investors only. This document is not intended for retail investors and must not be distributed to retail investors.

This document may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs.

Past performance is not a reliable indicator of future performance. This announcement may contain statements, opinions, projections, forecasts and other material (forward looking statements), based on various assumptions. Those assumptions may or may not prove to be correct. The Investment Manager and its advisers (including all of the Past performance is not a reliable indicator of future performance. This announcement may contain statements, opinions, projections, forecasts and other material (forward looking statements), based on various assumptions.

Those assumptions may or may not prove to be correct. The Investment Manager and its advisers (including all of their respective directors, consultants and/or employees, related bodies corporate and the directors, shareholders, managers, employees or agents of any of them) (Parties) do not make any representation as to the accuracy or likelihood of fulfilment of the forward-looking statements or any of the assumptions upon which they are based.

Actual results, performance or achievements may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward looking statements and the Parties assume no obligation to update that information.

CleanSpace refers to CleanSpace Holdings Ltd; Deep Blue refers to Deep Blue Company Pty Ltd; Bellroy refers to Bellroy Pty Ltd; Moneytech refers to Moneytech Group Ltd; Monoova refers to Monoova Ltd; Ai-Media Technologies Ltd is trading as Ai Media; Swoop Holdings Ltd is trading as Swoop; DesignCrowd refers to DesignCrowd Pty Ltd; Orbx refers to Orbx Investments Ltd and Studiosity refers to Studiosity Pty Ltd.