



AGM Investor Presentation  
OCTOBER 2021



# DISCLAIMER

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## Disclaimer - Future performance and forward looking statements

This announcement contains certain forward looking statements with respect to the financial condition, results of operations, projects and business of the Company and certain plans and objectives of the Company. Forward looking statements can generally be identified by the use of forward looking words such as 'expect', 'anticipate', 'likely', 'intend', 'propose', 'should', 'could', 'may', 'will', 'predict', 'plan', 'believe', 'forecast', 'estimate', 'target', 'continue', 'objectives', 'outlook', 'guidance' and other similar expressions.

The forward looking statements, opinions and estimates contained in this announcement are based on the Company's intent, belief or current expectations, assumptions and contingencies which are subject to change without notice, as are any statements about market and industry trends, which are based on interpretations of current market conditions. They involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of the Company and its officers, employees, agents and associates, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct.

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# OUR VISION AND STRATEGY

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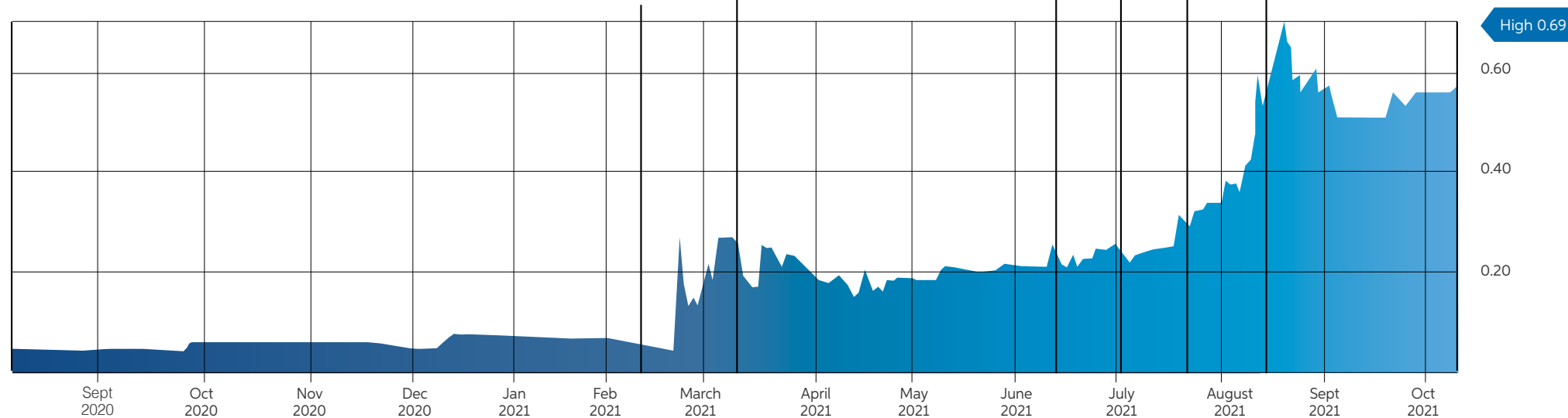
To build a listed boutique funds management platform and investment company by investing in, supporting and partnering with the best fund managers across a range of asset classes and investment strategies.

# CAPITAL STRUCTURE

ASX Code	ARC
Shares on issue	29,776,352
Options	Nil
Board Ownership:	44.3%
Market Capitalisation: (at 61c share price on 20th October)	\$18.1m
Net Cash (at 20th October)	\$3.1m

## Share Price Performance

\*Chart adjusted for 27c capital return in Namoi shares on 10th Feb, 2021



Source: ASX

# WELCOME TO ARC FUNDS

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New strategy to build a listed funds management platform and investment company.

We will do this by investing in, supporting and partnering with the best fund managers across a range of asset classes and investment strategies.

## What we do

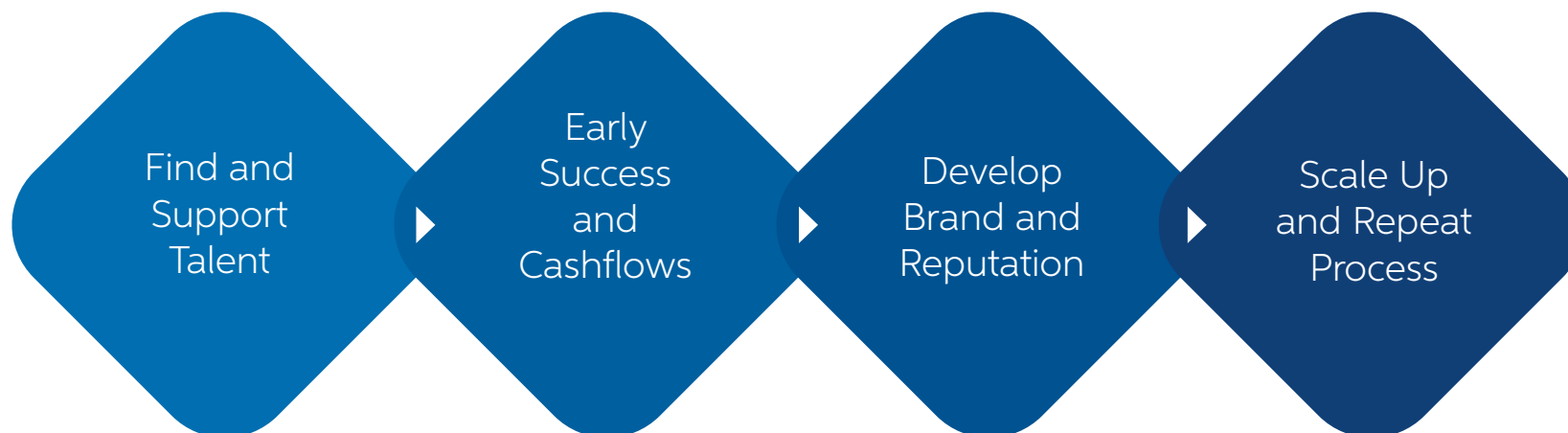
- Own 25-40% of the equity in our affiliate boutique funds management businesses.
- Provide support services and nurture our investee funds management businesses via an 'Affiliate Management Agreement' (AMA).
- We will initially rely on 3rd party services (e.g. AFSL, trustee, custodian, legal, tax). These service providers have already been identified. Services provided in-house by ARC will grow as our capabilities grow, increasingly becoming an additional income stream.
- ARC has begun the process of acquiring its own AFSL as the first step in providing in-house services to our managers
- Use balance sheet capital to invest in affiliate businesses and support them through to profitability.
- Make strategic acquisitions that are value accretive to shareholders

## The Opportunity

- Boutiques deliver outperformance and are sort out by asset allocators.
- Large pool of talented investors capable of outperforming the market and seeking to launch their own funds management company. ARC has the opportunity to become the 'Partner-of-Choice' for the best boutique funds management talent in Australia.
- Incoming executive team highly immersed in the investment community and in touch with upcoming talent.
- Target in-demand and niche sectors of funds management such as small caps, ESG friendly, global, innovation, etc.
- ARC will seek to build its own distribution platform, leveraging new methods of technology and distribution

# ARC FUNDS PLAN

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- Find and invest in the best talent in each asset class/investment strategy
- Provide them with access to capital, support, infrastructure and guidance in order to allow them to focus on what they do best – investing
- Be active but patient investors in our management companies, providing a platform for success and support them through the early stages of their journey

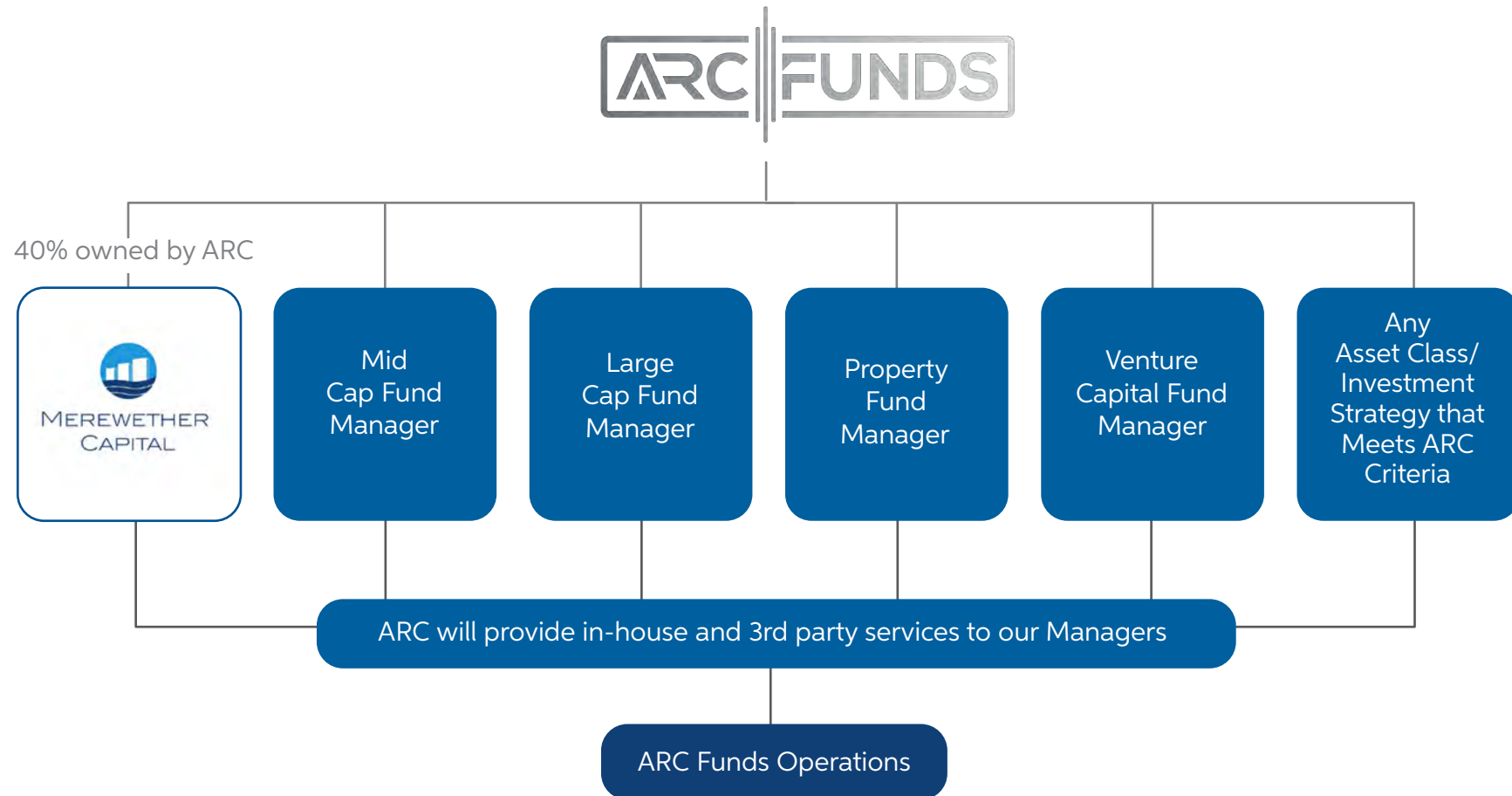
- Our managers start to perform, generating larger management fees as FUM grows and strong returns drive performance fees. Defined dividend policies return cash to ARC
- ARC will use this cash flow to 1) invest in other managers and 2) build our in-house service offering to increase our utility to managers and provide an income source to ARC
- Services include AFSL, compliance, operations, sales & distribution (key asset), legal & advisory, tax

- As our managers build a successful 3+ year track records they will become more marketable, driving an increase in FUM growth and size of performance fees
- Their success and positive experience helps build our brand & reputation as a 'Partner Of Choice' making deal origination easier
- Combined with developing our internal sales & distribution team, this will allow a step change in the size & scale of the managers we invest in

- Repeat the process, focusing now on more scalable strategies where FUM size is larger, leveraging our brand, reputation and sales team
- We will always focus on backing managers that can outperform, but at this stage FUM size and capacity becomes more important as we scale
- Highly scalable, capital light model with significant operating leverage capable of delivering strong returns to shareholders



# ARC FUNDS STRUCTURE



# WHY PARTNER WITH ARC FUNDS?

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- We know and understand the boutique funds management industry and the challenges that exist;
- As an emerging platform ourselves, we have the ability and desire to be flexible and open minded in our approach to success;
- We exist to ensure the success of our Managers – their success creates our own and we structure everything we do with aligned incentives;
- We are completely focused on performance, a natural extension of our boutique origins;
- We aim to do things differently, to leverage new technologies and methods of distribution, and are excited to be backing Managers willing to innovate themselves;
- Our ASX-listed status grants us greater reach, transparency, access to capital and ability to structure deals with flexibility and equity-aligned incentives;
- COVID-19 lockdowns have created a catalyst for re-assessment of career opportunities and is likely to drive many to 'go out on their own' – we are positioned as a partner of choice.



# FIRST 100 DAYS – PROGRESS TO DATE

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- Harley Grosser appointed Managing Director on 26th July 2021
- Implemented new strategy to become a multi-affiliate boutique funds management and investment company
- Announced first manager in Merewether Capital Management, a small and microcap specialist funds management company founded by Luke Winchester
- Applied for and submitted AFSL application for ARC Funds
- Completed rebrand, company name change and launch of ARC Funds into the market
- Developed a framework for partnering with and launching new managers, as well as for reporting and governance, streamlining the process for new partnerships
- Established preferred supplier agreements at ARC Funds level, benefiting from early signs of scale
- Launch planned for Merewether Capital Inception Fund in November

# OVERVIEW AND NEXT STEPS

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- New strategy to build a leading multi-affiliate boutique funds management and investment company with the rebrand to ARC Funds Ltd;
- ARC is proud to partner with Merewether Capital as our first manager, with the Merewether Capital Inception Fund launching November;
- Our initial thesis for this market opportunity has been proven as our strategy has resonated with shareholders, service providers and prospective managers;
- ARC is progressing additional opportunities with other managers in various assets classes & investment strategies and will keep the market informed on an as-needed basis;
- We remain focused on identifying and partnering with the best emerging talent in funds management;
- We continue to work towards our vision of becoming the 'Partner-of-Choice' in the Australian boutique funds management industry.





Thank you for your time

Any questions please refer to

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# MEREWETHER CAPITAL

## Merewether Capital Inception Fund

ARC AGM Presentation

Luke Winchester - Founder and Portfolio Manager

October 2021



# DISCLAIMER



Merewether Capital Management Pty Ltd is a Corporate Authorised Representative (CAR No. 001292724) of SLM Corporate Pty Ltd (AFSL No. 224034)

## Summary Information

This Presentation contains summary information about the Company and the Merewether Capital Inception Fund ("the Fund") to assist with your own evaluation of the Merewether Capital Inception Fund ("the Fund"). This information is of a general nature and does not purport to be complete nor does it contain all the information which a prospective investor should consider when making an investment decision or that would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act 2001 (Cth) ("Act").

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## Not investment advice

This Presentation does not constitute investment or financial product advice nor any recommendation to invest in the Merewether Capital Inception Fund ("the Fund"). It is not intended to be used on the basis for making a financial decision, nor is it intended to constitute legal, tax, or accounting advice or opinion. Any references to, or explanations of, legislation, regulatory issues, benefits or any other legal commentary are indicative only, do not summarise all relevant issues and are not intended to be a full explanation of a particular matter. Relevant parties should make their own enquiries and investigations regarding any investment, and should seek their own professional advice on the legal, financial, accounting, taxation and other consequences of investing in the Merewether Capital Inception Fund ("the Fund").

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## Investment Risk

An investment in securities is subject to known and unknown risks, some of which are beyond the control of the Company, including possible loss of income and principal invested. The Company does not guarantee any particular rate of return in respect of the Merewether Capital Inception Fund ("the Fund"), nor does it guarantee the repayment of capital from the Merewether Capital Inception Fund ("the Fund") or any particular tax treatment.

You should have regard to the risk factors outlined in the Fund's IM when making any investment decision.

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The Presentation contains forward looking statements which are identified by words such as "may", "could", "believes", "estimates", "expects", "forecasts", "intends" and other similar words that involve risks and uncertainties. You should be aware that such statements are only estimates or predictions, which may be based on subjective judgments and assumptions as to future events, which may or may not occur and which are subject to inherent risks and uncertainties, many of which are beyond the control of the Company. Actual events or results may differ materially from the events or results expected or implied in any forward looking statement. No representation or warranty (whether express or implied) is made as to the accuracy or likelihood of fulfilment of any forward looking statement.

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You should note that past performance, including past share price performance and pro forma historical information in this Presentation is given for illustrative purposes only and cannot be relied upon as an indicator of (and provides no guidance as to) future performance including future price performance of the Merewether Capital Inception Fund ("the Fund"). This historical information includes unaudited and/or pro forma historical information which is not represented as being indicative of the Company's views on the Fund's future financial condition and/or performance.

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You represent, warrant and agree that you have not relied on any statements made by any of the Parties in relation to the Merewether Capital Inception Fund ("the Fund").

## Financial data

All dollar values are in Australian dollars (A\$), unless otherwise stated. Financial data is presented at actual foreign exchange rates, unless otherwise stated. A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Presentation are subject to the effect of rounding. Accordingly, the actual calculations of these figures may differ from figures set out in this Presentation.

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# OVERVIEW

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- Merewether Capital is an investment management company based in Newcastle.
- Merewether Capital is in the process of launching the Inception Fund, a concentrated portfolio of ASX-listed micro and small cap equities.
- Luke Winchester is the Founder of Merewether Capital and will be Portfolio Manager of the Inception Fund. Luke will have a significant majority of his family's wealth invested in the Inception Fund.
- Australian Rural Capital (ASX:ARC), an ASX-listed company led by Harley Grosser, is an equity partner in Merewether Capital and will provide back office, regulatory and compliance support.



MEREWETHER CAPITAL





# TEAM

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**Luke Winchester**

(Founder and Portfolio Manager)

Investing in ASX-listed micro and small caps for over a decade. Worked at Oracle Investment Management for last five years, most recently as the Portfolio Manager of their Emerging Companies strategy.



**Harley Grosser**

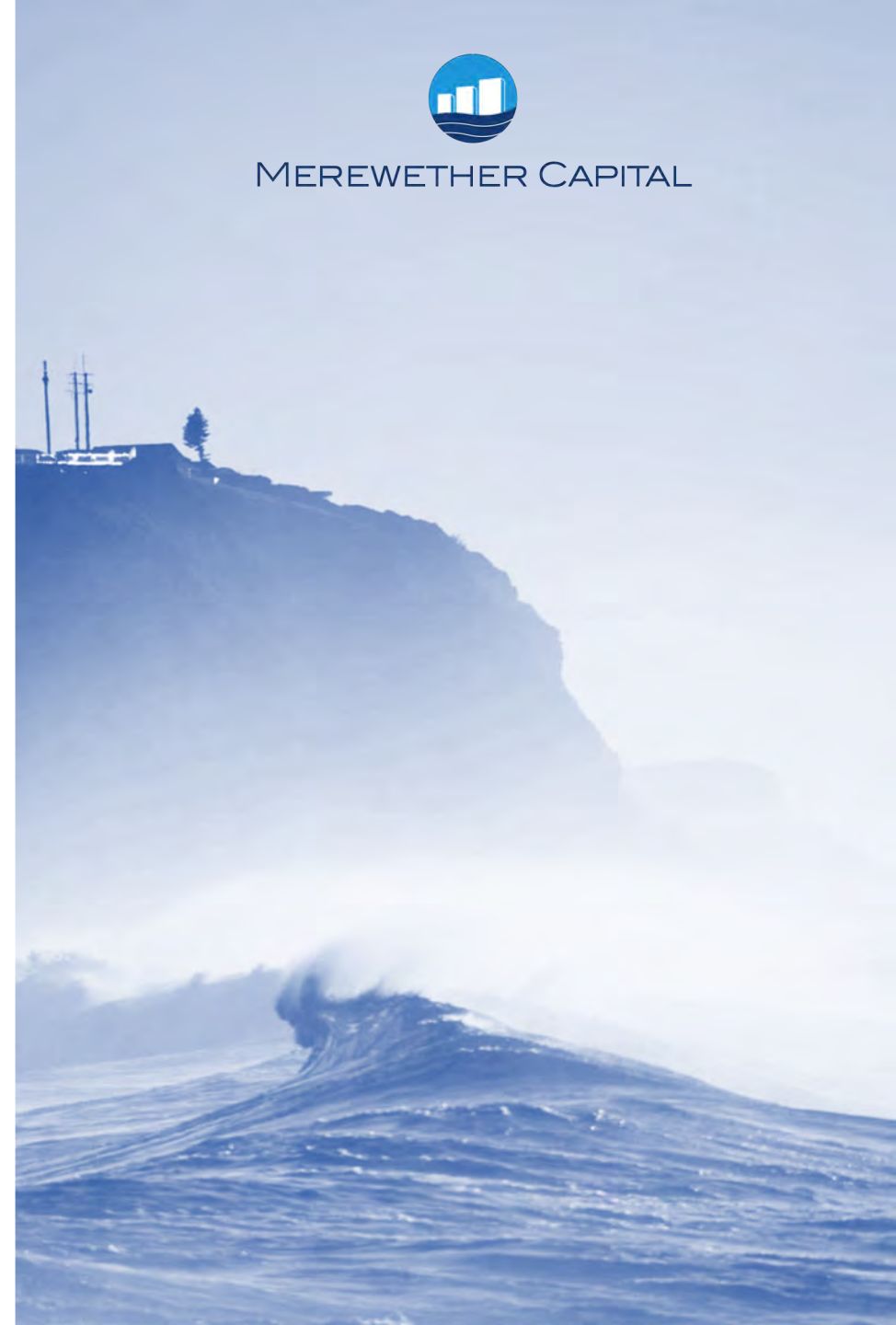
(Non-Executive Director)

Chief Investment Officer and Founder of Capital H Management. The Capital H Inception Fund primarily focuses on micro and small caps, returning 38% p.a. since launching in 2018.

Managing Director of Australian Rural Capital (ASX: ARC), an equity partner in Merewether Capital.



MEREWETHER CAPITAL



# VALUES

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We will aim for the Merewether Capital Inception Fund to be a top performing ASX-listed micro and small cap equities fund by focusing on four clear values:

- Be hard working "The person that turns over the most rocks wins the game" Peter Lynch
- Be intellectually honest "Everybody's got a different circle of competence. The important thing is not how big the circle is. The important thing is staying inside the circle." Warren Buffett
- Be accountable "While we will inevitably make mistakes, we are determined to learn from each one" Seth Klarman
- Be highly aligned with investors "Show me the incentive and I will show you the outcome." Charlie Munger



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# STRATEGY

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MEREWETHER CAPITAL

- The Inception Fund will be a concentrated portfolio of 10-25 primarily ASX-listed micro and small cap stocks.
- Ideal market cap range is companies from \$20-200m.
- High conviction strategy with portfolio weightings typically ranging between 5% to 15%. The mandate allows for a position to be up to 10% at cost and up to 20% based on market value.
- Focus will be on profitable, growing industrials and technology businesses. Resources and biotech are not in our circle of competence.
- Four key features for every investment:
  - Management ownership
  - Reasonable valuation
  - Growth prospects
  - Simple financial accounts
- Aim to hold investments for many years to allow for the full effects of compounding.



# FUND DETAILS



Fund	Merewether Capital Inception Fund ("Fund") is an unregistered wholesale managed investment scheme structured as a unit
Trustee	Evolution Trustees Limited, AFSL 486217
Investment Manager	Merewether Capital Management Pty Ltd ("Merewether Capital", "Merewether" or the "Investment Manager") is a Corporate Authorised Representative (CAR No. 001292724) of SLM Corporate Pty Ltd (AFSL No. 224034)
Custodian & Administrator	Mainstream Fund Services
Fund Objective	To outperform an absolute return hurdle of 6% per annum over a rolling 5-year period by investing in undervalued, profitable ASX-listed smaller companies
Investment Strategy	Investing in a concentrated portfolio (10-25 positions) of primarily ex-ASX100 listed equities with a focus on profitable, growing small and micro cap ASX-listed companies
Investment Horizon	5+ Years
Investment Restrictions	Long only, primarily investing in ex-ASX100 listed equities with the ability to invest in pre-IPO opportunities, with an avoidance of 'speculative' investments such as resource exploration companies or biotechnology companies

Minimum Investment	Initial Investment: A\$50,000 (unless waived at the Manager's discretion) Additional Investment: A\$25,000
Minimum Redemption	A\$25,000, subject to a A\$50,000 minimum balance
Buy/Sell Spread	0.25%/0.25%
Fees and Expenses	Management Fee: 1.5% (plus GST) of the Fund's Net Asset Value calculated and payable monthly in arrears Performance Fee: 20% p.a. (plus GST) of the returns in a performance fee period exceeding the hurdle rate and higher than the previous high watermark The Trust incurs cost recovery to a maximum of 0.50% p.a. (plus GST) of the Trust's Net Asset Value
Hurdle Rate	6% p.a. plus management fee accrued
Application Frequency	Quarterly or 3 Business Days after application monies are received if investing more than \$250,000
Distributions	Annually on June 30. Distributions are automatically reinvested unless instructed otherwise.
Redemptions	Quarterly

# LUKE'S PORTFOLIO RETURNS SINCE INCEPTION



- Luke's personal account was managed in a way that is consistent with the strategy to be employed by the Merewether Capital Inception Fund
- Returns are sourced from Interactive Brokers which was the platform used to manage the portfolio

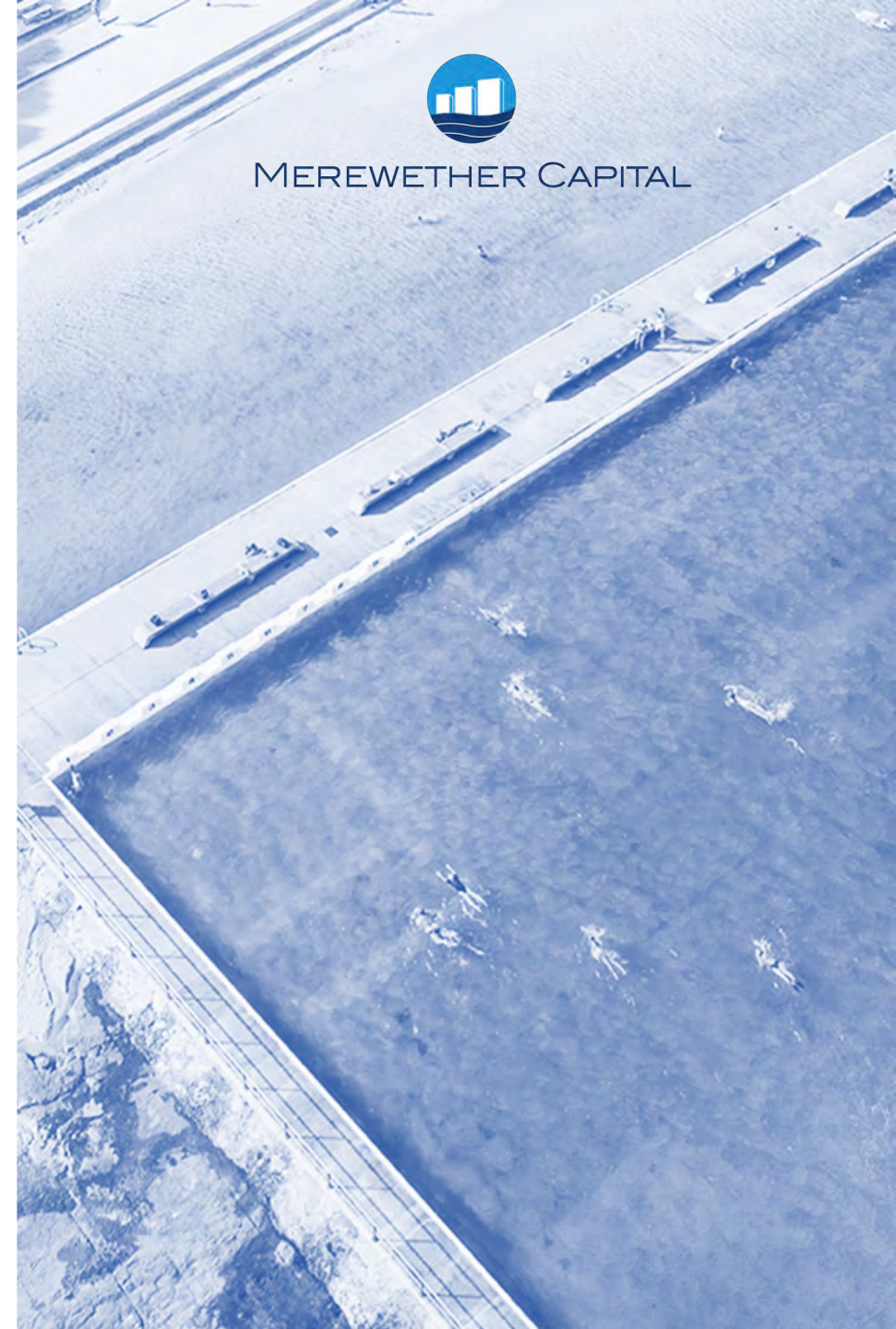
# XRF SCIENTIFIC

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- Manufacturer of lab equipment for the purity testing of metals and materials.
- First parcel of shares purchased in March 2019 at 16 cents.
- Investment ticked all boxes:
  - **Management ownership** – Founder remained on board with 7% shareholding and recently purchased on market.
  - **Growth prospects** – Like LBL, after significant investment in new products and geographies, management were confident that growth would return post mining bust.
  - **Reasonable valuation** – On rough forecasts, trading around 8x earnings.
  - **Simple financial accounts** – Little debt and strong cash generation.
- At the time there was no broker coverage and very little conversation on investment forums.
- Continues to be one of the largest holdings in Merewether Capital.



MEREWETHER CAPITAL







#Bull Case

stale



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XRF is a manufacturer of equipment used to measure the composition and purity of metals, materials and chemicals. Majority of revenue is mining related (58%), but this has been falling as non-mining revenue grows (generally construction materials).

The business operates with an attractive razor/razorblades model, as their low margin Capital Equipment sales feed into high margin recurring Consumables sales. For 1H19, Capital Equipment grew revenue 28%, driven by demand for new products and exited the period with a record level of orders. Consumables grew 29%, though the prior period was impacted by the integration of a Canadian acquisition. Interestingly, management are also expecting to grow their market share beyond just their own equipment.

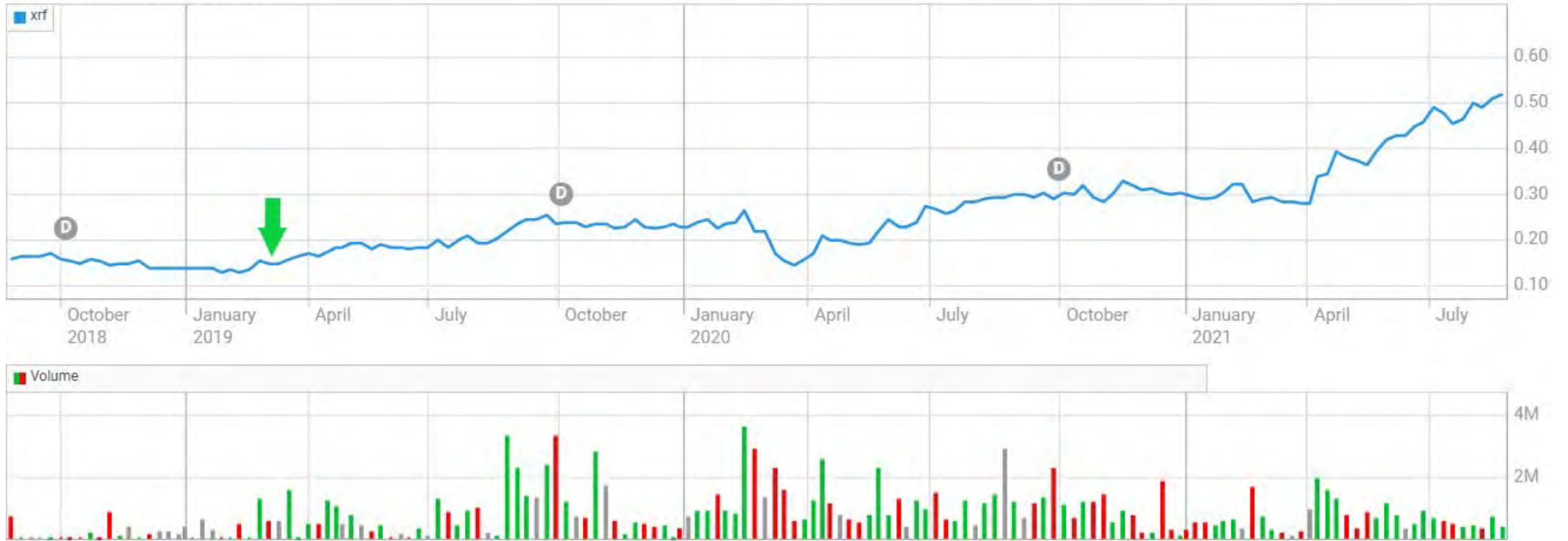
The third operating segment is Precious Metals which is the sale and re-manufacture of platinum laboratory equipment. This segment has been significantly under-earning for the past couple of years as XRF has invested over \$2.5m since FY17 expanding with a new German office and upgrading the existing Melbourne factory. This investment is largely complete as the German office is now profitable (January 2019 first profitable month of \$5k) which provides an interesting inflection point for the business. Management expect "material" profit from the segment over the next 1-2 years.

With the period of heavy investment behind them, 1H19 saw strong growth in EBITDA margins from 10% to 14%, though still well below the historical highs of 25% back in FY11. Management expect to see further margin growth in 2H19, with a goal of getting margins back to those historical highs over the next 3-5 years.

# XRF CHART



Chart generated on 25/8/2021 at 3:19 pm





A monochromatic blue-toned photograph of the Merewether Ocean Baths at night. The building, with its name 'MEREWETHER OCEAN BATHS' illuminated on the facade, sits on a hill overlooking the ocean. In the foreground, two curved metal handrails are visible on a concrete platform. The water of the ocean is dark and textured.

## CONTACT

Luke Winchester - Founder and Portfolio Manager

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