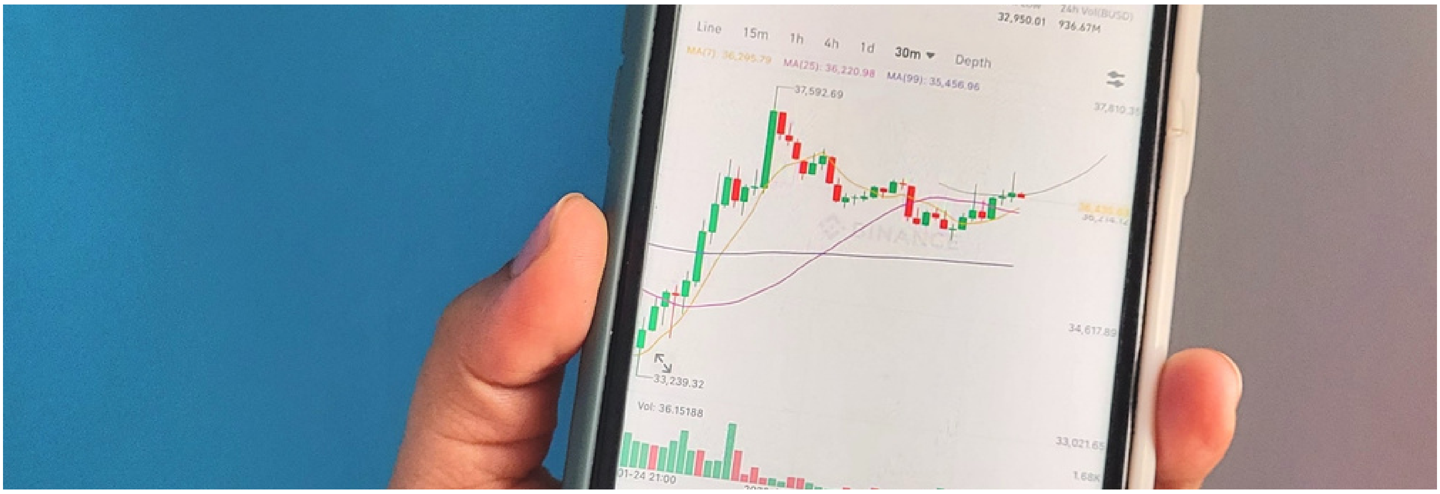
MARCH 2022

PAC Capital

PAC QUARTERLY REPORT

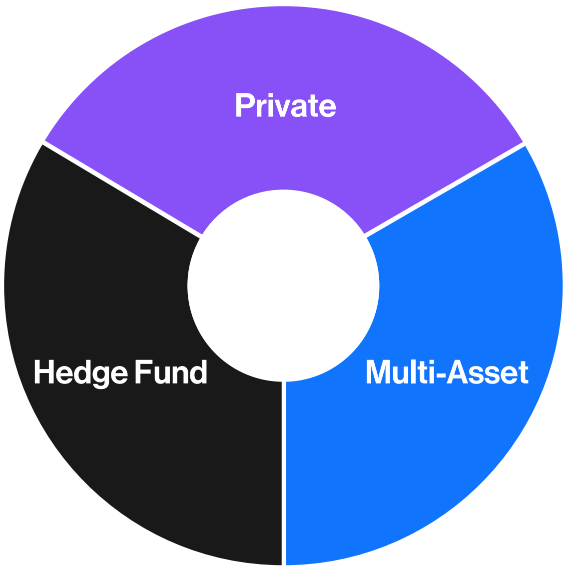
Persistence Ambition Consistency



PAC Capital Launches new Venture Capital Fund.

by Clayton Larcombe

Australia's First Venture Capital (VC) fund focused on: Esports, Metaverse, Blockchain, Gaming, Health, Artificial Intelligence, Virtual Reality, Machine Learning.



PAC Private 1 (PP1). PAC Capital has a passion for next generation and Innovation themes. PAC launched Australia's first Esports Hedge Fund in the listed space and is now launching a private fund. Due to high demand and following the success of Picklebet, PAC continues to focus on topics and areas that will change our world forever and find the most innovative companies and ideas at an Early-stage to invest in.

PAC Private 1 (PP1) Launch

Venture fund

- Next Level Investing Fund Size - $50m USD
- Wholesale Only

PAC Capital's interest in Early-stage investments started with Picklebet some years ago. This led to other companies hearing about the cornerstone investment in Picklebet.

PAC's ability to join the board and guide the company through multiple capital raises and strategic support has been pivotal to its growth and are now expanding the offering to other companies.

PAC has also built key relationships with some of the best managers in the world in this space and gained access to their

closed funds. PP1 Co-invests with the managers.
The Fund is a combination of fund of funds and direct private investments.

The investment mandate is exclusively in: Esports, Metaverse, Blockchain, Gaming, Health, Artificial Intelligence, Virtual Reality, Machine Learning – and PAC has specifically partnered with the best managers in the world in these areas to co-invest and invest in their specific funds.
These funds are all closed to outside investment and PAC has been allowed access due to the relationships.
Further details in the deck and through the PAC Investment team.

Bitkraft
Biggest Venture Capital firm globally in Esports/Gaming.
Built by founders for founders, BITKRAFT is a global investment platform for gaming, Web3. We focus on Seed, Series A, and Series B investments in game studios, gaming platforms, and gaming related technology.
Clayton Larcombe has a close relationship with founders, Jens Hilgers, Scott Rupp and Malte Barth.

Manifest
When we partner with entrepreneurs, we commit to being there every critical step of the way. Our goal is for every portfolio company to achieve their optimal outcome. Our approach has proven to be especially successful.
Paul Falzone and Clayton Larcombe talk about companies often and share investment philosophies.

F7 Ventures
F7 is comprised of 7 female operators and leaders with over 20 years of experience in the fastest growing technology companies in Silicon Valley. During their tenures at Facebook, Google, Yahoo and beyond, they managed and developed thousands of people across dozens of teams around the world.
F7 has an inspirational story and Joanne and Kelly communicate with Clayton and the Investment team regularly.

Boston Seed Capital
Boston Seed was one of the very early-stage investors in DraftKings. DraftKings is now the largest online sports betting provider in the USA. Boston Seed and PAC Capital share a common story which is Picklebet and early angel cornerstone investment and guiding it to a listing/M&A activity.
Nicole Stata and Peter Blacklow are the founders and work closely with Clayton Larcombe on investment decisions and ideas.

DRIVE
DraftKings Venture Capital. The largest online betting company is the USA, which has started its own Venture fund after the success of DraftKings. With an amazing deal flow and next-generation ideas and access, they share a common theme with PAC Capital.
Meredith McPherron shares an interest in Esports as the next area to be involved in, especially with online sports wagering and the B2B and B2C cross over.
Meredith and Clayton have become good friends and see a long relationship working together.

Darling Ventures
DV focus our investing on North America based software start-ups using data intelligence, automation and/or decentralization. The start-ups they like to partner with are pushing the frontier of innovation and are native to at least one of these three disruptive technology themes. Their founders are domain experts who have a rare insight into the problem they are solving. Focused specialists with the deep backgrounds, technical expertise and valuable networks that make them uniquely positioned to launch their breakthrough solution and build an exceptional company around it.
Daniel and Clayton have been friends since school. They have watched each other journeys from around the world and now work closely, sharing ideas and co-investments.

Private Investments

Picklebet
Australia's largest Esport betting platform and now entered Canada and the North American market. Picklebet is a next gen brand + platform that sits at the intersection of esports, sports betting and media. Picklebet Mission: To reimagine betting and entertainment for tomorrow's customer Vision: The most forward-looking betting and entertainment brand; the destination for tomorrow's customer.

Oddin
Oddin is Esports betting technology, which provides the probabilities to the betting agencies. Business to Business (B2B) is sort after as a defensive long contract business and Oddin are making good traction in the industry.

Sportsbook2022
SB22 is along the same line as Oddin and is in the B2B space. SB22 has seen the problems now being experienced in USA with the expansion of online bookmaking and state by state errors in legacy platforms. SB22 are bringing a new experience and challenging large companies. One to watch and PAC are significantly involved.

Talon
Asia's top Esport team. Talon has had some significant investors and continue to make traction around Asia. Asia is where 60% of Esports takes place and consumed and Talon are placed to become one of the most successful teams globally.

Crypto league
Crypto League are building the world's first gaming, esports-like, competitive onchain social-trading platform. A rolling trading "competition platform" where investors choose their portfolio managers / hedge funds and bet on those potential winners via gamified tournaments.

Bayes
Bayes is the exclusive global distribution partner to the top content rights holders in the esports industry. Their core business centers around coverage of the "Big 3" esports titles LoL, CS:GO and Dota 2 with the addition of brights to the first ever spin-off of a professional soccer league, the German Bundesliga. Bayes builds its business on long term relationships (min. 1 year time frame) to build a stable and sustainable product offering for its customers, as well as driving ongoing improvements and innovations with its content partners.

$50m USD Fund Size.

- The fund has already deployed 15% of capital, with a +10% Return on Invested Capital (ROIC).
- Next 6 months expect markups resulting in ROIC of +60%.
- 1/3 has been committed and will have a hard close at $50m USD.

Contact:
Please email investors@paccapital.com.au to see the deck and arrange a call with the Investment team.

Looking for funding?
If you are looking for funding or Early-stage investment, please send an email to the below address with your idea and arrange a call with PAC Team. ventures@paccapital.com.au.

Market Overview

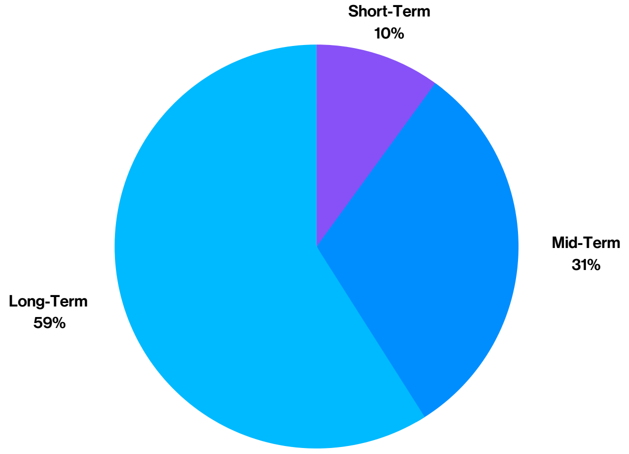
by Max Lim - Analyst

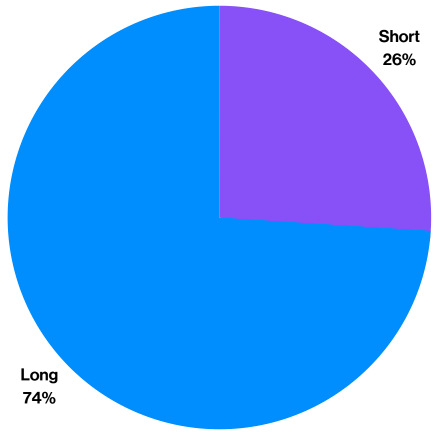
Global markets suffered one of the most challenging starts to a calendar year in the first quarter of 2022. The quarter began with lingering concerns around Covid-19 restrictions, inflation and uncertainty around the speed and ferocity of interest rate hikes. Then on the 24th of February, Russia invaded Ukraine, sending global markets into a tailspin and forcing investors to weigh in the War's impact on already-stretched global supply chains. The MSCI All Country World Index was down -4.6% for the quarter while the S&P 500 fell by -5.3%.

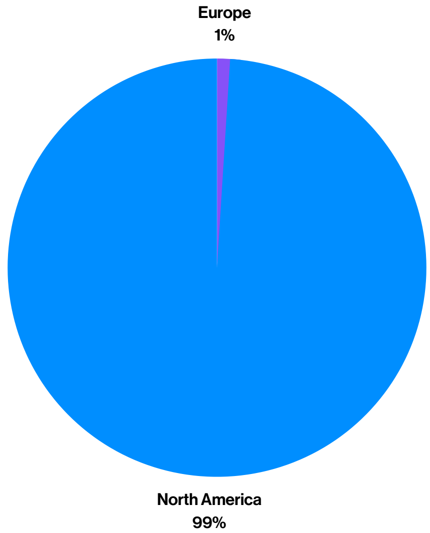
Due to the inherent bias toward growth and technology stocks, the Hedge funds were particularly impacted by the rising interest rates and inflation on longer duration assets (such as growth and tech stocks). In the US, the yield on the benchmark 10-Year treasury note rose from 1.51% to 2.32%. When interest rates on virtually risk-free assets such as US Treasuries rise, the premium investors will demand on more risky investments such as stocks will also rise – meaning they demand a higher return for the risk that they are taking. If rising rates are driven by higher GDP growth, improving economic performance can offset the higher rate of return demanded by investors. However, if rising rates are mainly a response to inflationary fears, then the effects are likely to be negative, especially for companies that lack pricing power.

Furthermore, one of the primary methods used by investors to derive company value is to discount a company's expected future cash flows by a chosen interest rate. All else being equal when interest rates rise, companies with expected cash flows further into the future will be disproportionately impacted by the discounting effect used in this method. This partly explains why the growth-heavy Nasdaq 100 Index fell disproportionately (by -8.9%) during the quarter.

While this sell-off has undoubtedly created challenges, it is also creating opportunities for active investors to establish positions in companies that may have previously traded above acceptable valuation thresholds. With that in mind, stock selection matters now more than ever.







While growth prospects and valuation are essential, companies with pricing power, positive free cash flow and strong balance sheets should be better equipped to withstand near-term pressures caused by inflation and rising rates.

Esports Fund

As part of the growth segment of equities, the esports sector faced a tough first quarter of 2022, with many names in the industry going through significant share price contractions.

While PAC's active management style resulted in some significant profits in the month of February through opportunistic positions, the first quarter overall proved to be an extremely volatile and difficult environment to navigate.
Nevertheless, the esports industry and online gaming as a whole continues to grow exponentially. In the first quarter, a number of high profile investors and corporations expressed interest in the metaverse, Web3, and NFTs, all of which are inextricably linked to the gaming industry.

Notable examples include Microsoft's move to acquire one of the leading video game company 'Activision Blizzard', and Epic Games' attempts to gain significant market share in the new virtual world era by building a metaverse that would compete with early entrants such as Decentraland and The Sandbox.

Innovation Fund

Despite the impact of inflationary concerns and the Russian invasion, the Innovation Fund was able to seize opportunities in what was a volatile environment for equities. One industry that was heavily impacted by supply chain constraints was semiconductors, with the share price of TSMC, the largest semiconductor producer in the world, falling 19%.
The Innovation Fund established multiple short positions in semiconductor equities in the first quarter of 2022, as our research indicated mounting strains on the supply chains of semiconductors and products that need semiconductors. Profits were realised on a number of these positions during the quarter and we enter April with small short positions in semiconductors.

Conversely, having identified several attractive opportunities, the Fund has also been using market gyrations to accumulate exposure in the technology space to what we view as longer-term disruptors. Acknowledging that the equities market is still in an uncertain period, we have been incrementally adding to equity positions that we believe were disproportionately sold down in the first quarter, especially those caught up in the downward move following the Russian invasion. For example, we believe many software companies were over-sold in the first quarter and we therefore used the market volatility as an opportunity to add long positions in those companies we believe are most mispriced.

Response

With continuing prospects with the esports industry, PAC will maintain its belief towards actively managing the esports fund with a view that traction will consistently grow.

It is expected that positions in esports names will continue to be revised depending on new information regarding the market and companies individually, with an underlying conviction in the growth of the industry.

As for the Innovation Fund, PAC remained largely net long during the first quarter of 2022, with short opportunities sized at a smaller scale. We expect this approach will continue into the second quarter of 2022 as we do not believe it prudent to carry large short opportunities during periods of geopolitical uncertainty.

It is important for PAC to uphold its belief in the consistency of returns, especially in times of heightened volatility, and we believe this can be achieved by monitoring markets and incrementally adding to new and existing long positions over time as new information continues to shape the equities market while taking smaller positions in short opportunities where we have the highest conviction.

GLOBAL INNOVATION FUND

Retail Class NOW OPEN

0.12% - 1 month

March
PERFORMANCE

GLOBAL ESPORTS FUND

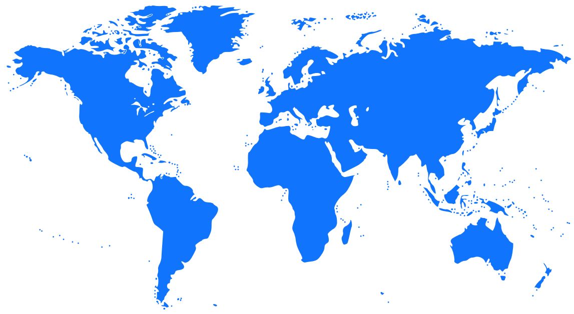
Retail Class NOW OPEN

-0.80% - 1 month

March
PERFORMANCE
2022

Inflation: The driver of markets for 2022, 2023 and beyond?

by Sebastian Lander - Senior Analyst

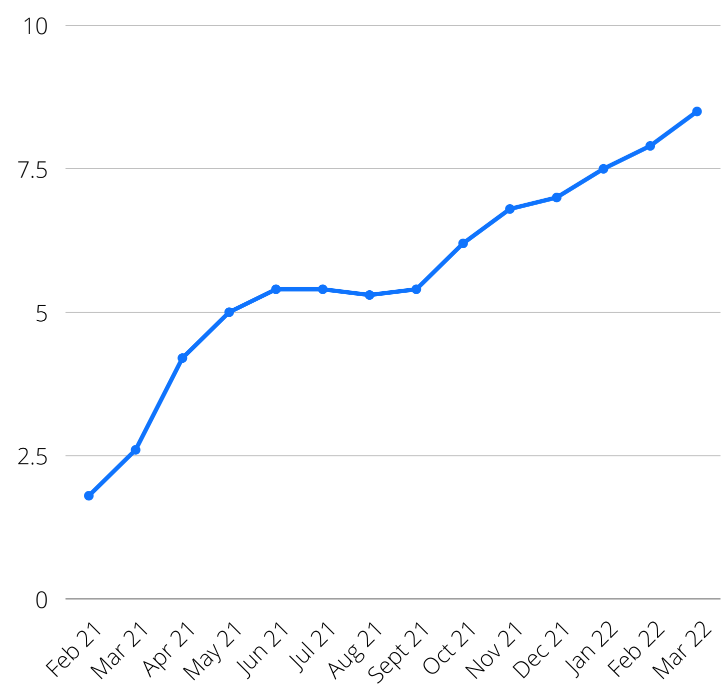


There were two big themes driving markets in the first quarter of 2022: Russia's invasion of Ukraine and rising inflationary pressures. The war is a tragedy and an end to it cannot come soon enough, most notably for the citizens of Ukraine. As such, focusing this article on inflation makes us feel somewhat guilty, but our hope is that it will be elevated inflation that lingers into 2022 and 2023 rather than the war. Further, predicting the outcome of geopolitical events is very complex and not something we try to do at PAC.

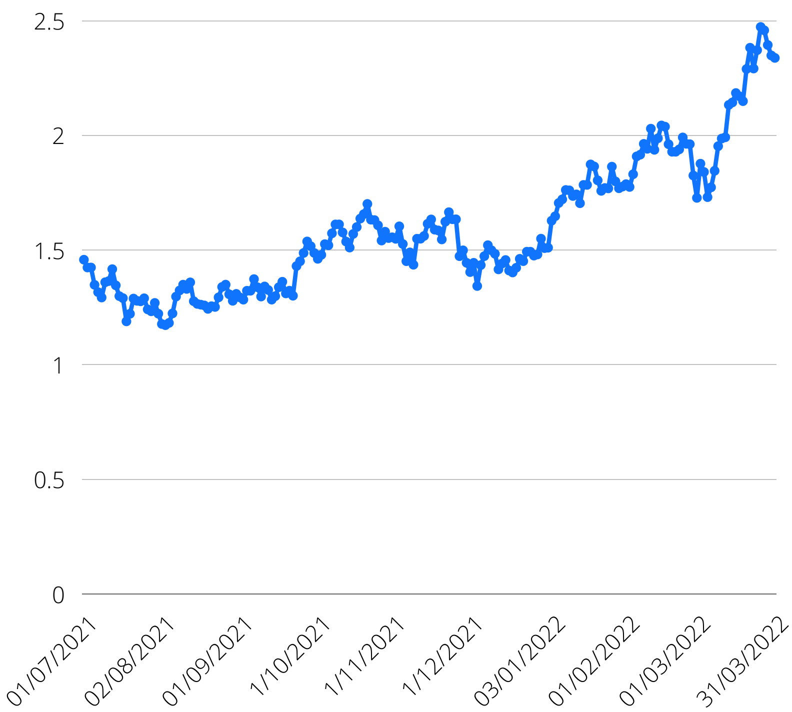
What has been happening with inflation?

Inflation has surprised central bankers and many economists by remaining stubbornly high over the past year. The view for much of 2021 was that higher inflation was 'transitory' and primarily driven by supply chain disruptions brought about by covid. However, this view morphed in late 2021 as inflationary pressures continued to mount.

The below chart depicts the year-on-year US inflation readings since early 2021 and shows that after some stability in mid-2021, inflation marched higher from the third quarter of 2021



In late 2021, as inflation broke higher, prices rose within a broadening number of Consumer Price Inflation (CPI) components, and there were indications that wage inflation pressures were beginning to build, forcing central banks to concede that inflation would likely persist at higher levels for a longer period than they'd previously envisaged. This hawkish policy pivot was most noticeably characterised at the December 2021 US Federal Open Market Committee (FOMC) policy meeting, with US Fed Chair Jerome Powell 'retiring' the 'transitory' narrative ascribed to inflation. This set the stage for interest rates on government debt in the US and globally to rise. As shown below, in December 2021 the yield on the 10-year government bond broke out of its trading range and has ground demonstrably higher since then.



* Source: Data extracted from Bloomberg

The Russian invasion of Ukraine has exacerbated inflationary pressures globally, owing to the importance of Russia and Ukraine to the global supply of energy and other commodities. The invasion triggered sharp spikes higher in oil, wheat and other commodities in March.

While some of those moves have now been retraced, it is expected that sanctions on Russia and the inability of Ukraine to produce and export commodities like wheat will cause the peak in inflation to come later in 2022 than forecasted prior to the invasion.

How have authorities and markets reacted to high inflation?

At the March 2022 US FOMC meeting, the Fed raised interest rates for the first time since 2018 and updated their forecasts for rate rises over the next two years, predicting much fast and larger rate rises across the period. Further, FOMC members have subsequently made several hawkish statements indicating interest rate rises and balance sheet reduction will come thick and fast in 2022, with 0.50% hikes in both May and June now possible. This has seen markets continuously reprice expectations, with some banks now forecasting five 0.50% rate rises between May and September 2022. While the Fed remains data dependent and the situation continues to evolve, it is clear inflation is now the Fed's number one priority.

Rising interest rates combined with the Russian invasion of Ukraine triggered investment markets to reassess valuations ascribed to financial assets. Within equities, we have seen lower price to earnings multiples, within government bond markets we've seen higher yields across the curve and within credit markets we have seen wider yield spreads over government debt. By mid-March 2022, the technology-focused Nasdaq index had experienced a top-to-bottom fall of around 20%, the technical definition of a bear market. Other major equity indices saw large falls, with many falling 10% - 15%.

Between the middle and end of March however, equities staged a somewhat remarkable recovery, shaking off geopolitical, inflationary and interest rate concerns to claw back most of their 2022 losses. The catalyst for the strength in equities in the second half of March appeared to be hope around peace talks between Russia and Ukraine, and investors having confidence in the Fed's inflation fighting abilities.

Bond markets however have continued to fare poorly, as bonds yields have moved sharply higher across government and corporate bond curves to reflect expectations of material central bank cash rate hikes throughout 2022 and into 2023. Bond indices recorded their worst quarter of record, with the Bloomberg AusBond Composite 0+ Year Index finishing the March quarter down 5.9% and the Bloomberg Global Aggregates TR Index (AUD Hedged) finishing the quarter down 5.0%.

What is the outlook for inflation?

The Fed is now laser focused on cooling inflation through reducing the demand side of the equation.

Ongoing increases to the cash rate in 2022 will see the Federal Funds Rate quickly approach the 2.5% estimated neutral level, and when combined with balance sheet reduction, this should see financial conditions tighten and economic activity slow. By way of example, US mortgage rates are now approaching 5%, up from circa 2.75% in mid-2021, and this is likely to reduce household discretionary income and impact consumer spending.

Further, assuming the prices of key inflation inputs such as energy and commodities do not rise indefinitely, in the second half of 2023, year-on-year inflation rates should begin to fall simply due to these base effects. We therefore expect inflation will begin to fall in the second half of 2022 and into 2023 and for inflation to be within an acceptable range versus the Fed's 2.0% target by the second half of 2023. The key question for investors though, looking out across the next 6 to 18 months, is will the Fed's tightening of financial conditions in 2022 and 2023 have significant economic implications, such as inducing a recession?

How is the PAC Capital investment team responding to the developments with inflation in our multi asset portfolios?

We think it is unlikely the Fed can engineer a 'soft landing', that is where they tighten financial conditions significantly without sending the economy into a recession.

However, as always with the PAC approach, we continue to build robust portfolios and are not betting the house on any one outcome, acknowledging the future remains very uncertain.

In a heightened risk environment, where central policy is now a headwind to investors (having been a tailwind for many years), and the inflation and economic outlook is so uncertain, we believe it wise to play defence rather than offence in our diversified funds.

We have positioned the PAC multi asset portfolios with an underweight to growth assets versus the neutral SAA growth / defensive split.

Further, we are using our flexibility in asset allocation and security selection to position the multi asset portfolios away from those assets most exposed to interest rate hikes. Within our defensive assets exposure, we currently hold no government bonds and no investment grade credit, as both these asset classes are highly sensitivity to interest rate changes (i.e. both have relatively high duration). Within our growth assets exposure, we are investing in vehicles that have less sensitivity to broad changes in equity indices (i.e. investment vehicles with less equity beta) to provide our portfolios with some downside protection should there be a meaningful sell off in equities from here.

If you'd like to find out more about how we are positioning the PAC multi asset portfolios or to invest with us, please get in touch.