PAC NEWSLETTER

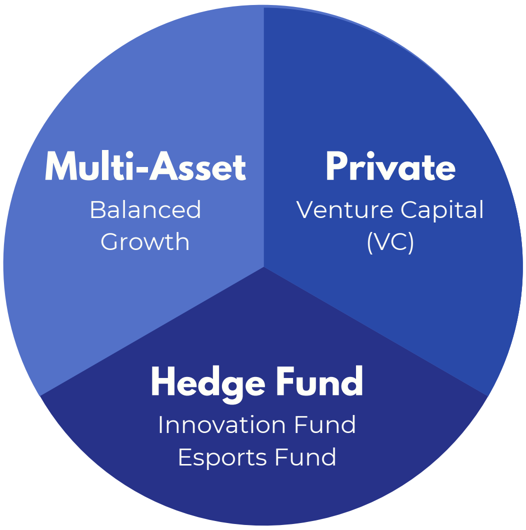
Persistence Ambition Consistency

A message from the Chief Investment Officer

Clayton Larcombe

PAC Capital welcomed Max Lim to the team in September. Max is an experienced quantitative analyst who brings a unique and innovative mindset and set of skills to the investment team. Combining Max's quantitative analytical skills along with his passion for business fundamentals has expanded the offering and depth of our team.

September was a tough month for global markets. We witnessed multiple events including Evergrande, the US Debt Ceiling, European Fuel Crisis and inflationary fears all weighing on market sentiment. US Treasury Yields spiked up, contributing to a dramatic sell down in growth stocks - Esports/Gaming names included. The PAC Global Innovation fund continued its strong start, with performance figures to be released mid-month. The fund's Energy & Lithium exposures all outperformed in what was a challenging environment for equities across the board and Bitcoin provided a complementary return profile – rising as almost all other asset classes fell.



IN THIS ISSUE

Multi-Asset
PAC'S MACRO WRAP

Hedge Fund
'PLAY TO EARN'

Private
M&A HEATS UP

PAC's Macro Wrap

by George Smyrnis - Senior Analyst

September was a turbulent month resulting in widespread under-performance from global markets. We attribute this to the confluence of concerns relating to: (i) Evergrande and China's property/construction market; (ii) an unfolding energy crisis throughout Europe; and (iii) U.S. debt ceiling and infrastructure policies.

For several quarters we have decided to invest actively, rather than passively, in emerging markets since its largely influenced by the unique political, economic and markets risks in China. The looming default of Evergrande and fears of credit/default contagion reinforced this decision as we avoided significant impairment of capital (i.e., the MSCI Emerging Market Index was down almost 3% during September).

We had mixed views upon the unfolding energy crisis in Europe, mainly in relation to its longevity. On the one hand, we have seen several commodities / consumer goods (i.e., iron ore, lumber etc.) sharply rise and then precipitously fall due to supply restrictions caused by lockdowns and erratic consumer behaviour.

Alternatively, ESG concerns has caused especially low levels of investment in 'traditional' energy that may have structurally lowered supply. We are carefully monitoring this situation as it is closest to our circle of competence, although we remain undecided on how it unfolds.

We assessed the recent indecision towards both the debt ceiling and the U.S. infrastructure bill as political posturing rather than signs of genuine political disunity. We believe unforeseen or accelerated unwinding of quantitative easing policies and/or generous fiscal expenditure programs would be especially damaging prior to a complete global re-opening and, therefore, unlikely.

Our research and quantitative modelling suggest the diversification provided by our strategic asset allocation should provide some relief during market sell-offs. Overall, we were encouraged by the relative stability our portfolios compared to more concentrated alternatives during September.

Markets Overview

for the month to 30th September 2021

Indices

	Close	+/-	%
Dow Jones	33,843.92	-1,516.81	-4.29%
S&P 500	4,307.54	-215.14	-4.76%
NASDAQ Composite	14,689.62	-892.89	-5.73%
VIX	23.14	6.66	40.41%
FTSE 100	7,086.42	-33.28	-0.47%
Hang Seng	24,575.64	-1,303.35	-5.04%
Japan Nikkei 225	29,452.66	1,363.12	4.85%
S&P ASX 200	7,332.16	-202.74	-2.69%

Currency

	Close	+/-	%
AUD/USD	0.722	-0.009	-1.17%
AUD/EUR	0.622	0.004	0.67%
AUD/GBP	0.536	0.004	0.88%
AUD/CAD	0.915	-0.008	-0.91%
AUD/NZD	1.047	0.008	0.84%

Commodities

	Close	+/-	%
Gold (NYM $/ozt)	1,755.30	-59.7	-3.29%
Crude Oil (NYM $/bbl)	74.83	6.4	9.35%
Silver (NYM $/ozt)	21.53	-2.52	-10.48%
Iron Ore 62% ($/mt)	119.70	-39.55	-24.84%
Copper (LME $/t)	9,868.00	-235.5	-2.49%

'Play to Earn': The New Way to Monetise Gamers

by Zac Collie - Analyst

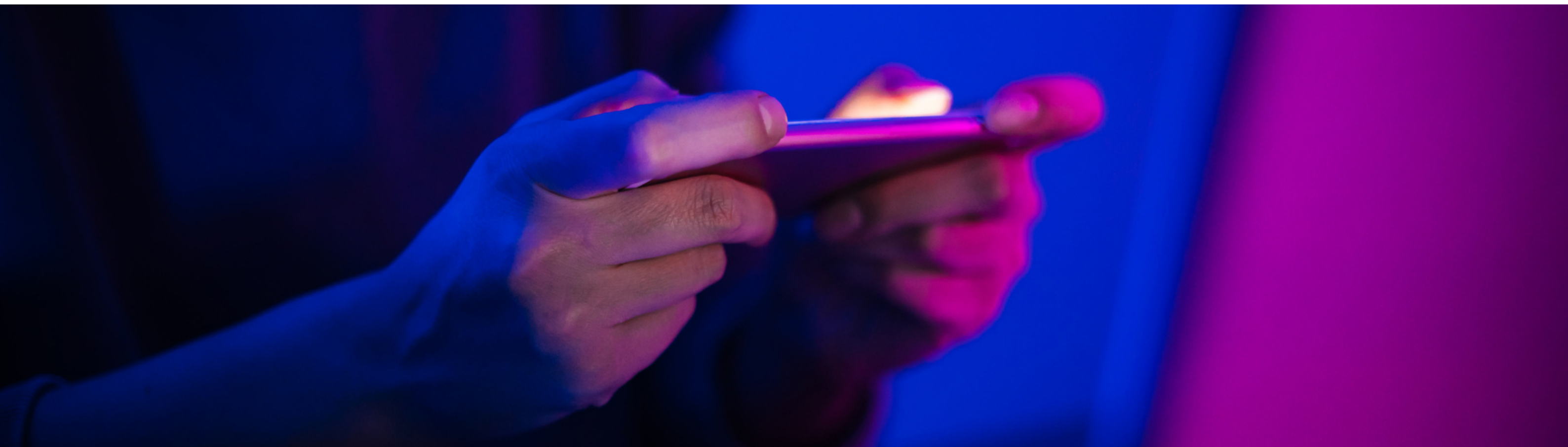
We have recently witnessed a shift in video gaming business models, particularly with mobile gaming, towards a free-to-play, ad-free revenue model. Gaming developers and distributors have recognised that relatively large upfront payments and in-game advertisements create frictions and disruptions that negatively impact customer engagement, retention and life-time value.

The new solution for many developers and distributors is the 'Play to Earn'/'Play to Win' business models. These models tend to be free to download and without advertisement. They monetise users via competition fees, virtual asset purchases and 'loot boxes'. Also, gamers may be rewarded for participation through cash and crypto prizes, NFT's, virtual assets and other incentives. Recently, Apple's iOS 14 Update requires users to opt-in to (rather than automatically accepting) apps tracking and using their data. We believe this requirement will make it more challenging for apps that monetise their users through targeted advertising, thereby accelerating the trend towards 'Play to Earn' models.

These changes have coincided with the rise of mobile gaming. Mobile gaming is expected to be worth $79 billion this year and is the fasted growing gaming segment, in part due to the greater accessibility and geographical reach of mobiles compared to PC's and consoles.

A company at the forefront of these trends is Skillz Inc (NYSE: SKLZ), which is the first mobile gaming platform listed in the US and a current constituent of the PAC Global Esports Fund. Through its proprietary game development and competition hosting software, Skillz helps developers build gaming franchises by enabling social competition. The company hosts billions of casual esports tournaments on its platform and generates revenue by receiving a percentage of entry fees into paid contests.

There are several other reasons why we believe Skillz is an exciting investment opportunity, namely:
(i) attractive margins & unit economics – the company has a 95% gross margin and generates $3.8 for every $1 spent on customer acquisition;
(ii) aligned management headed by initial founders;
(iii) strong balance sheet – US$693 million in cash on its balance sheet and a cash ratio of 5.5x; and
(iv) optionality to expand beyond video games, incorporating additional ways to monetise its user base, and expanding into more competitive game genres.



M&A heats up, private investments continue to grow

by Clayton Larcombe - Chief Investment Officer

Private asset markets have become an integral part of PAC Capital. Our first private investment was with Picklebet, in which we continue to be the most significant shareholder. Picklebet is an online wagering platform catering for Esports and Sports globally, albeit with primary focus, both from a strategy and marketing perspective, towards Esports. It has positioned itself at the forefront of the growing trend towards competitive gaming and has exceeded our expectations, with 52% Gross Gaming Revenue (GGR) growth quarter on quarter.

In terms of our interest in Esports and Gaming, the investment in Picklebet was the spark that lit the flame. Seeing the immense growth opportunities in the gaming and Esports sector, we combined the knowledge, skills and relationships forged through this investment with out expertise in managing equities more broadly. The result was Australia's first actively managed Gaming and Esports fund – the PAC Global Esports Fund.

We have witnessed accelerating growth in wagering markets around the world – primarily in North America where state by state, online sports betting is becoming legalised.

US online bookmaker Draftkings (NAS:DKNG) is the largest holding in the PAC Global Innovation Fund coming into the month. Underscoring the immense amount of M&A activity in the space, the company recently announced USD$22 billion bid for Entain Group (LSE:ENT). The transaction is currently pending but is an aggressive bid by the company to gain market dominance.

As the M&A space heats up in public markets and new company's enter private markets we expect to continue to see plenty of opportunities over the 12-18 month horizon. Primarily in the B2B and B2C wagering space.

PAC Capital

+61 2 9231 8630 www.paccapital.com.au ABN: 25627341218

Chifley Tower, Level 29, 2 Chifley Square Sydney NSW, 2000, Australia