

Punakaiki Fund Limited

December 2016 Quarterly Report

Welcome

Welcome to our 116 new investors, joining the 492 at the start of November 2016 for a total of 608 investors today. We treasure your investment and will continue to do the best we can to help deliver substantial long term returns.

We issued 27,820 shares and raised \$528,280 from our \$19 option round, and another 125,350 shares and \$2,381,638 from the public offer. That's a total of \$2,910,218 raised in the quarter.

We have not stood still – investing \$1.35 million already and closing in on investing into several more companies. We are focusing on helping existing portfolio companies first, and examining one new investment opportunity.

The total of \$2.9 million was about \$1 million short of Chris's estimate (I try not to make them) of how much we would raise – with the missing million entirely due to tiny uptake from Australia. We are competing with a new law that provides a tax offset of 20% for qualifying investments, but also with our own obscurity. We see that over time our performance will make us harder to ignore.

Valuation Results

The December-end Investor Net Asset Value (“iNAV”) per share was \$18.44, up from \$18.30 per share at the end of September. That increase includes the negative impact of the quarterly management fee and other expenses incurred over the quarter.

Over the 3 months to 31st of December 2016 the comparable valuation to revenue metrics for publicly listed SaaS companies dropped – by around 20%. However once again (this also happened 9 months ago) we saw that the impact of the revenue growth for the companies was sufficient to exceed the decline in the markets, and overall the underlying value of the affected SaaS companies rose strongly when marked to market. We have also seen very strong performance from our non-SaaS companies. However in keeping with our standard approach we did not change company valuations for this quarterly report unless there was a financial (investment) event.

We are continuing to quietly watch the public markets, which have already rebounded somewhat, and will mark to market for any fund-raising and for the year end result in March.

To pick three highlights for the quarter –

[REDACTED] Melon Health signed important deals and transitioned into solid revenue and sustainability, and NZ Artesian Water and Vend each raised millions.

I was particularly impressed with Melon Health's transition last quarter – with founder Siobhan Bulfin's many years of hard work paying off with a strong balance sheet and forecast based on the back of excellent patient outcomes.

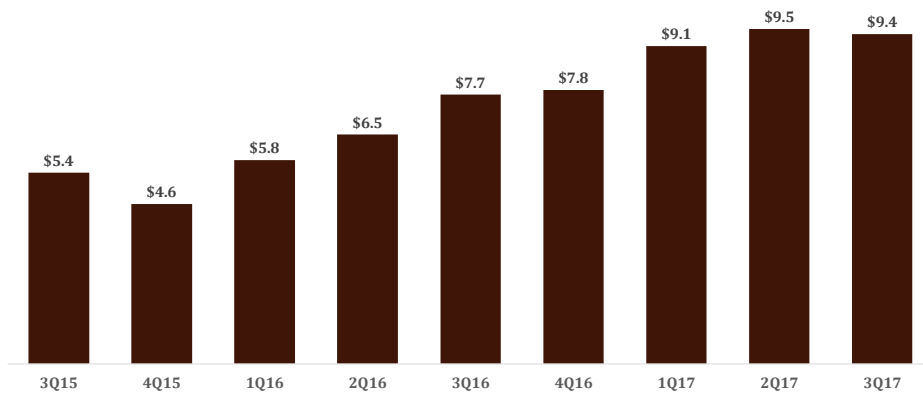
Lance



Portfolio Chart Update

The equity-weighted revenue chart showed a very slight fall this quarter, due mainly to the seasonality of one of the larger company's revenue. Excluding that one company shows that the remaining 17 companies grew equity-weighted revenue by 12% from the previous quarter, and 30% over the same quarter a year ago.

Total Equity Weighted Annualised Quarterly Revenue
\$ Million. Weighted using quarter-end equity holdings



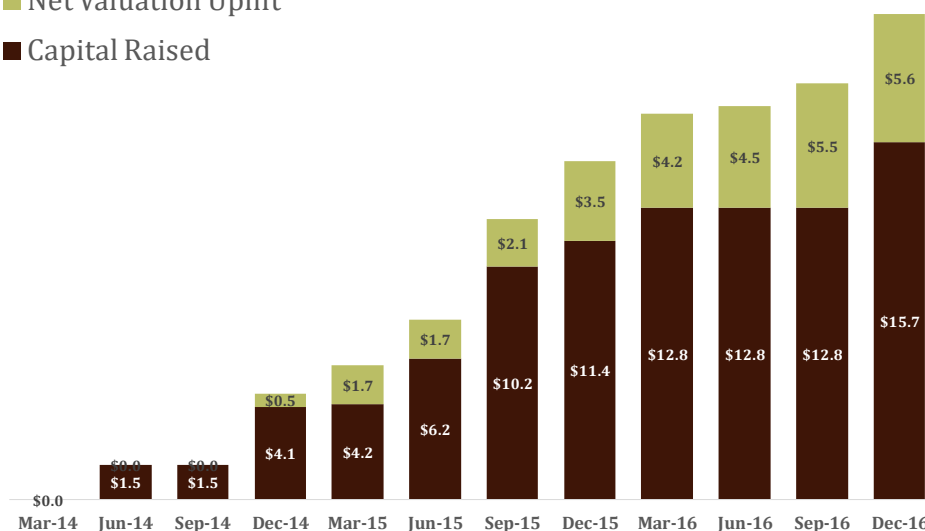
We also saw combined quarterly revenue (unweighted) from all companies exceed an annualised rate of \$70 million with the portfolio as a whole remaining profitable on an equity-weighted basis.

The iNAV over time shows the impact of the two share issues in the quarter. The total asset value of Punakaiki Fund is now \$22.76 million. We have raised a cumulative total of \$15.7 million by issuing Punakaiki Fund shares in return for either cash (\$15 million) or for further shares in one of our investments (\$0.7 million.)

Punakaiki Fund Investor Net Asset Value

\$ million

- Net Valuation Uplift
- Capital Raised



Portfolio Company Update



Shareholding: **6.3%**

Raygun creates SaaS developer tools including crash and error reporting, and real user monitoring.

First Investment: **Apr 2014**

Highlights for the December quarter include:

- Pulse Insights being added to the Raygun Platform, offering proactive weekly suggestions to customers about ways to improve their software performance;
- Hiring new Vice President of Sales, Josh Lowry;
- Expanding the U.S. sales team to six people; and
- After quarter-end, observing the sale of competitor AppDynamics for US\$3.7 billion to Cisco - the day before their proposed IPO and at a price that was over double the estimated IPO price.



Shareholding: **4.7%**

Timely provides a SaaS appointment booking service to beauty salons, hairdressers, spas, consultants and personal trainers.

First Investment: **Jun 2014**



Shareholding: **25.2%**

InfluxHQ is a provider of SaaS for gym owners and their clients to manage and self-manage their classes respectively.

First Investment: **Jun 2014**



Shareholding: **24.0*%**

Vibe Communications is an Internet Service Provider that provides wholesale and corporate telecommunication services.

First Investment: **Jun 2014**

Highlights for the December quarter include:

- The launching of Broadsoft (cloud-delivered unified communications services), with very positive feedback from customers;
- A number of experienced sales staff secured to join IntelliPath over the next two quarters;
- Running a process to hire a General Manager for New Zealand to grow Vibe's team and local revenues;
- IntelliPath signing a number of major organisations in Australia as resellers; and
- Intellipath revenue continuing to grow and expected to be a significant growth contributor to Vibe in 2017.

** including Punakaiki Fund's interest in treasury shares.*





Shareholding: **18.4%**

Melon Health gives chronic disease patients on-line platforms with the tools, support and information to help manage their condition.

First Investment: **Dec 2014**

Highlights for the December quarter include:

- Very strong revenue growth during the quarter as a number of large projects are implemented;
- Signing a number of contracts during the quarter including with the West Coast Primary Health Organisation for a weight-loss programme and with Janssen (a subsidiary of multinational Johnson & Johnson) for a schizophrenia support tool;
- The Health Research Council awarding Otago University funding for a randomised control trial on BetaMe; and
- Bringing on board Rob Grapes as a senior mobile developer.

ONCE · IT

Shareholding: **25.6%**

Onceit is an on-line daily deal site selling high end New Zealand designer fashion. Onceit is profitable and pays dividends.

First Investment: **Feb 2015**

Highlights for the September quarter include:

- Launching a new desktop and mobile site, which has received positive customer feedback, particularly for the mobile site;
- Significantly growing sales of Onceit's homewares category. Stock holdings have also increased to facilitate more same day dispatch sales;
- Managing Director Jay Goodey being asked to be keynote speaker at the Australian Online Retail Logistics Conference; and
- Paying its third dividend to Punakaiki Fund.



Boardingware

Shareholding: **28.6%**

Boardingware helps boarding schools manage their students' movements and pastoral care using a SaaS product.

First Investment: **Feb 2015**

Highlights for the December quarter include:

- Increasing prices for Northern Hemisphere customers and successfully launching multi-year contracts for Southern Hemisphere customers;
- Forecasting to hit profitability in late 2017;
- Now integrating directly with 5 different SIS partners and releasing new Smart Groups functionality;
- Continuing to work towards signing up a large US school-chain with a significant deal value to Boardingware; and
- Signing up St Josephs' in Sydney (the largest boarding school in the Southern Hemisphere).

weirdly

Shareholding: **29.5%**

Weirdly helps companies that actively recruit people to find better applicants through the use of innovative software.

First Investment: **Feb 2015**

Highlights for the December quarter include:

- Continuing positive business development trips to the US to meet with potential customers and investors;
- Two new large customers to commence using Weirdly in January 2017; and
- Following the quarter-end, Punakaiki Fund made a small additional investment in Weirdly, as well as converting the balance of the convertible note issued by Weirdly in late 2016.





Shareholding: **12.8%**

RedSeed helps large retailers increase their sales by sales associates by 10-15% through blended proprietary and customised modules in a SaaS Learning Management System.

First Investment: **Mar 2015**

Highlights for the December quarter include:

- Good progress being made in expanding into the Australian market;
- Still continuing to secure large retailers in New Zealand as customers, despite RedSeed's existing large market share; and
- Punakaiki Fund's shareholding increasing from 12.0% to 12.8% after RedSeed bought-back and cancelled the first tranche of shares purchased from an existing shareholder.



Shareholding: **10.9%**

ThisData provides contextual login authentication services for SaaS companies.

First Investment: **Apr 2015**

Highlights for the December quarter include:

- Hitting 1 million users during the quarter (and now at 1.7m users);
- Successfully completing their Callaghan Innovation-funded machine learning project; and
- Winning a bronze in the Best Design awards.



Shareholding: **4.7%**

EverEdge helps companies drive growth and create wealth from intangible assets. They are the world's premier IP strategy firm.

First Investment: **Jul 2015**



Shareholding: **2.0*%**

Vend provides cloud-based point-of-sale software that includes ecommerce, inventory, customer loyalty and analytics.

First Investment: **Aug 2015**

Highlights for the December quarter include:

- Completing a \$ capital raise to aid product development and business expansion;
- Continuing to make a number of product updates; and
- Placing 38th in the Deloitte Fast 50.

** on an undiluted basis. 1.8% on a fully diluted basis (after accounting for employee options)*



Shareholding: **12.6%**

Mobi2go helps food service businesses sell more by adding an ordering function to their marketing website.

First Investment: **Oct 2015**

Highlights for the December quarter include:

- Increasing pricing for monthly plans to both increase ARPU and encourage migration to annual payments;
- Starting to build their Marketing and Content strategy and have made an employment offer to a marketing manager. To date Mobi2Go has done little to no marketing and are looking to kick-start this in 2017; and
- Raising a small amount of capital from existing shareholders (lead by Punakaiki Fund) to see Mobi2Go through to breakeven, with a view of raising a Series A round in 2017.





Shareholding: **19.2%**

Mindfull resells, implements and supports IBM's TM1 business intelligence software along with its own supporting software.

First Investment: **Dec 2015**

Highlights for the December quarter include:

- Successfully launching the Qubedocs Now offline SaaS product, resulting in seven new clients in the US including the University of California.
- Launching a council version of the Mi Bi product that allows councils to easily undertake most of their business intelligence requirements and reporting. To date two new councils have signed up to the product;
- A strong pipeline of new large potential customers.



Shareholding: **10.4%**

Populate helps companies collaboratively plan and track their hiring plans using a SaaS-based platform.

First Investment: **May 2016**



Shareholding: **20.0%**

Linewize provides a firewall and SaaS product that enables teachers to gain insight and control over Internet use in the classroom.

First Investment: **Jun 2016**

Highlights for the December quarter include:

- Botho University in Botswana subscribing to Linewize software for three campuses;
- Agreeing to the formal evaluation of its software by Vodafone NZ Limited;
- The first US installation of Linewize's software at the Saline School District in Detroit (via reseller Hapara);
- Bonnie Struthers signing as sales Business Development Manager beginning March 2017;
- Receiving the second tranche (\$**1**) of Punakaiki Fund's investment; and
- Receiving a Highly Commended award in the Emerging Innovator category at NZ Innovation Awards.



Shareholding: **20.0%**

New Zealand Artesian Water bottles and exports water under both its own E'stel brand (bottled) and third party brands (boxed).

First Investment: **Jun 2016**

Highlights for the December quarter include:

- Punakaiki Fund and a private company making new investments in NZAW to allow for the purchase of a new automated bottling line. This will give NZAW additional capacity to open and service new markets;
- Installing a new filtration system for export, which helps to meet regulations for supplying the US market;
- A number of new supply contracts being secured; and
- The box water line starting a night shift to meet container deadlines and demand.



Shareholding: **17.6%**

Hayload provides a SaaS product for agricultural contractors that assist with tracking jobs and invoicing.

First Investment: **Jul 2016**

Highlights for the December quarter include:

- Launching the Hayload web application, with mobile app soon to follow;
- First customers using the software; and
- The short-term team focus now switching from development to sales.



LeadGen@Hayload

By Chris Humphreys

In any Software as a Service enterprise, there are several things that a founder needs to manage in order to create a successful business. These include product development, sales, customer service, recruitment, managing staff and raising capital (the last of which is not necessarily an easy thing to do in New Zealand).

In the industry we hear horror stories about otherwise very smart people building and improving their products, but who don't start selling early enough. At LWCM, we like to see evidence of sales very early – sometimes even before a product is launched. Companies should get on with selling in order to demonstrate that the product is designed correctly, there is demand for the product and to generate income before they run out of cash, and their investors run out of patience. Improvements and perfection can come later.

There are a number of ways to tackle sales in the SaaS space. Most start out by selling (read “testing”) the product on people that they know and then get their shoe leather worn out from personal visits (or calls) to potential customers. Getting the word on the street can be done through blogs, advertising, websites, attending and presenting at industry events and then, as momentum builds, interest will hopefully also be generated through word-of-mouth referrals. These can all generate leads, a good proportion of which can then be converted into sales to happy and loyal customers.

When starting out, we like founders who are prepared do the hard yards and go door-to-door for sales. It's like this at Hayload, who are targeting a problem currently “solved” using stacks of paper, and where potential customers are spread right across rural New Zealand and don't talk to each other as much as we would like. It's an entertaining space, so here are a couple of stories from the frontline of Hayload's sales lead generation efforts.



Chris West (CEO – right) and brother James West (CTO) of Hayload (the tractor was borrowed).

Fell Off

During the summer season, agricultural contractors are busy people who don't have a lot of time for strangers turning up and trying to sell them things. When Hayload CEO Chris West and Sales Manager Braedan Taylor went to see one Taranaki-based contracting boss, he was busy removing a silage bin from a truck and wouldn't talk until that job was done. Nothing unusual in that, but as Chris and Braedan waited for the task to be finished, they watched a trailer come adrift from a passing tractor. It would be unusual enough for a trailer to pop a drawbar pin and come free at any time, but in this case the whole drawbar assembly had been ripped from the tractor and lay (still attached to the trailer) out in the paddock.

This was a big problem for the contractor. Having a tractor out of action can slow down the whole operation, so it was all hands on deck to fix the offending draw-bar and get the machine back on the job. An initial search for parts carried in the contractor's various tractors and trucks turned up empty, so Braedan and the contractor took off in the Hayload ute to the Contractor's home base to continue the search there. Meanwhile Chris hopped onto a silage truck and drove that for the next couple of hours to keep the job on track while the Braedan and the Contractor fruitlessly searched for the necessary parts. In the end, they found some wrong-sized parts which they then had to machine to size, got the drawbar back on the tractor and the tractor back into operation.

All this delay meant that Chris and Braedan didn't get the meeting that they were after, but the appreciative Contractor did make time to meet with Chris a couple of days later and are now looking to roll-out the Hayload software mid-year, ready for the start of the next contracting season.

That's a Big Ten-Four

There are four key agricultural areas in the North Island: the Waikato, Taranaki, Hawkes Bay and the Manawatu. Each of these has a sizable number of agricultural contractors and Braedan spends a lot of time travelling to these regions.

On one trip to Tauranga, Braedan noticed that the chatter over the CB in his ute was being generated from an agricultural contractor working in the area. Now since CBs only have a range of about eight kilometres and since Braedan was driving at just under the speed limit, Braedan only had a few minutes to raise the contractor on the CB, give him a quick pitch over the "airways" and give him an email address. It worked a treat. After a couple of emails and a call, this opportunistic lead turned into a new customer with ten users.

Sell to the Customer... or to the End User

Hayload have put in place a marketing ploy called a Bag-drop. The Bag in question consists of Hayload branded merchandise including a beanie, note pad, pens, fridge magnets; along with a cold bottle of craft beer and most importantly, Chris' and Braedan's business cards. The theory with the Bag-drops is that you can go and see ten or so contractors in a day, give them a Bag and get them to enter their details on a form on Chris' or Braedan's tablet. The process takes less than five minutes, gives Hayload a sales lead and lets the busy contractor get on with their day. When the contractor has some down-time (say when it is raining), Chris or Braedan can then follow up with a pitch and a demonstration of the software.

For one particular Bag-drop, Braedan rolled up to a contractor's office and explained where he was from, only to be met by a response from the contractor that he didn't want to be pitched to. Not dissuaded, Braedan offered up the Bag and got the contractor's details. However when he started into his pitch, he was once again rebuffed by the contractor, who was then distracted by a phone call.

At this point Braedan turned his sales attention to the other person in the office - the accounts manager. As the person who prepares the invoices for the business, she was the principal end user whose job would be made a lot easier by the Hayload software. Taking his opportunity, Braedan gave her a very quick pitch, followed by a test drive of the system.

It turned out that the accounts manager was a person of significant managerial influence in this contracting business - she was the contractor's wife.

A full presentation then followed to both parties which eventually resulted in the sale of ten licenses. Well done!

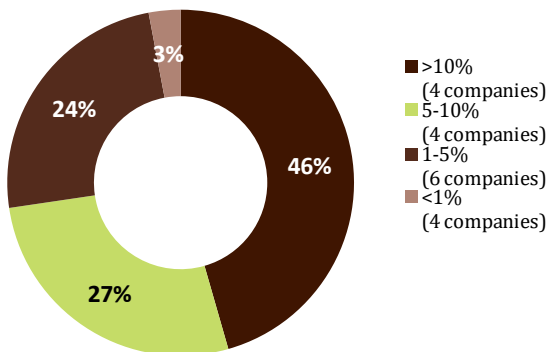


The "Bag"

Portfolio Valuation Splits

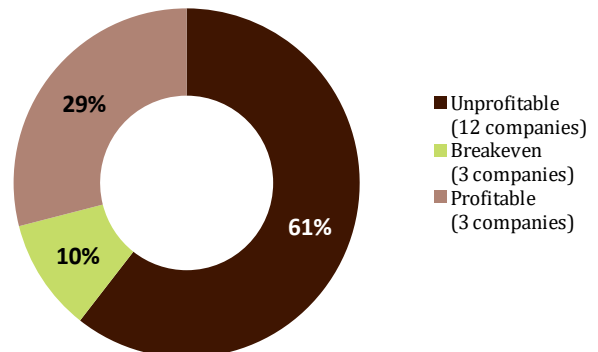
The value ascribed to Punakaiki Fund's investments excluding cash is \$21.3 million. The diagrams below show various splits of this valuation by differing methods.

Valuation Split By Concentration



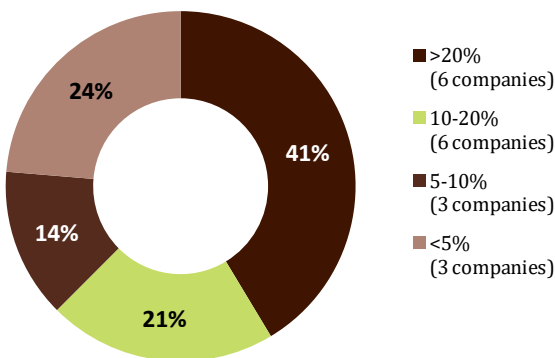
Punakaiki Fund has 46% of its investments by value in four companies which each contribute at least 10% by value to Punakaiki Fund's total portfolio value.

Valuation Split By Profitability



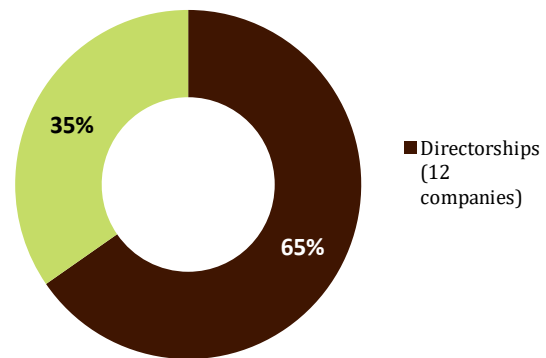
61% of Punakaiki Fund's investments by value are in unprofitable companies. 10% are in breakeven companies and 29% are in profitable companies.

Valuation Split By Ownership %



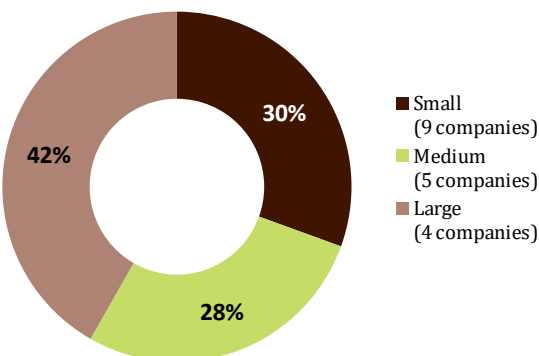
The companies in which Punakaiki Fund owns more than 20% comprise 41% of the total portfolio value. Those between 10-20% comprise 21% of the value.

Valuation Split By Directorship



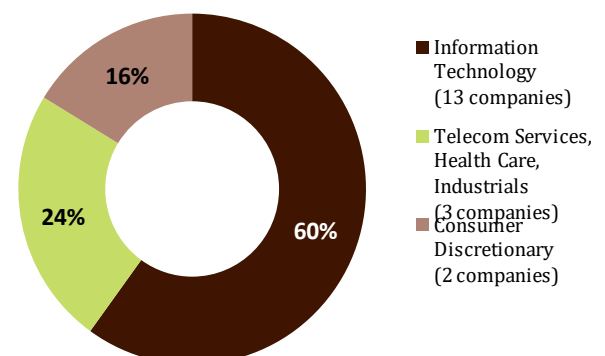
65% of Punakaiki Fund's investments by value have Punakaiki Fund board representation provided by the manager.

Valuation Split By Revenues



Punakaiki Fund holds 30% of its portfolio in Small companies (less than \$1 million in revenues p.a.), 28% in Medium companies (\$1-10 million) and 42% in Large companies (more than \$10 million).

Valuation Split By Industry



60% of Punakaiki Fund's portfolio is held in the Information Technology industry, 16% in Consumer Discretionary and 24% in Telecommunication Services, Health Care and Industrials combined.



In the News

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- Linewize:** [World changing Kiwis win innovations awards](#)
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- Populate:** [Frank Sinatra, dinosaurs and the hidden dangers of startup nationhood](#)
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Corporate Update

Governance

The Board convened on 27 January 2017 for the quarterly Board meeting. This Board meeting focused on:

- Reviewing the performance of each company in the portfolio;
- Setting Punakaiki Fund's Net Asset Value as at 31 December 2016 for disclosure in this quarterly report;
- Reviewing the draft Business Continuity and Disaster Recovery Policy;
- Reviewing the Path to Listing update paper;
- Agreeing on the Audit Plan, presented by Ernst Young, who attended this part of the meeting;
- Managing risk, including risk to valuation and AML risk (regular board meeting activities), along with whether Punakaiki Fund is captured by the FMA's Managed Investment Scheme designation; and
- Reviewing this quarterly report.

The Board's next meeting is scheduled for 5 May 2017, at which time it will consider the formal year end valuation.

Financial Reporting

The Net Asset Value of the fund after all contingent performance fees at 31 December 2016 was \$21,296,926 (or \$18.44 per share), an increase from the 30 September 2016 Net Asset Value of \$18,330,646. The Accounting Net Asset Value (which includes only the cash component of the performance fee and is used to calculate the management fee) was \$22,297,032, up from \$19,320,663 in September.

Punakaiki Fund's unaudited financial summary metrics are set out in the tables below. Financial highlights from the quarter include:

- An opening cash balance on 1 October 2016 of \$63,644;
- New capital of \$2,910,218 raised during the quarter, including \$528,580 from the exercise of the September 2016 options and \$2,381,638 from the November/December capital raising offer;
- \$█ was invested in Populate, Linewize, Mobi2Go and New Zealand Artesian Water;
- \$283,960 was recognised as an increase in the value of Punakaiki Fund's investments at the end of the December 2016 quarter compared to those values set out in the September 2016 quarterly report;
- Management fees of \$111,094 including GST were paid to LWCM;
- Brokerage fees of \$15,857 were paid to LWCM;
- \$25,236 was paid for audit, accounting and legal fees;
- \$31,706 was paid for Punakaiki Fund's annual insurance costs;
- \$4,601 of Annual Meeting and Shareholder update costs were incurred; and



- A closing cash balance of \$1,453,373.

Punakaiki Fund Limited - Unaudited Financial Position		Punakaiki Fund Limited - Cash Flow Summary	
as at 31 December 2016		for the quarter ending 31 December 2016	
	NZ\$		NZ\$
Current Assets		Operating Cash Flows	
Cash on deposit	1,453,373	Gross Interest received	562
Accounts Receivable	16,223	Withholding Tax on Interest	(186)
Prepayments (Insurance)	23,095	Bank Fees	(45)
Non-current Assets		Payments to External Advisors	(25,236)
Investments	21,265,522	Payments to LWCM (Management Fee)	(111,094)
Total Assets	22,758,212	Payments to LWCM (Brokerage)	(15,857)
Current Liabilities		Other Expenses	(36,306)
Accounts payable	72,249	GST Refunds	21,224
Non-current Liabilities		Total Operating Cash Flows	(166,938)
Accrued Performance Fee	388,930	Investing Cash Flows	
Equity		Investments made	(1,353,552)
Retained earnings - Operations	(1,016,465)	Investments realised	-
Retained earnings - Accrued Performance Fee	(1,389,037)	Dividends received from investments	-
Share-based Payment Reserve	1,000,106	Total Investing Cash Flows	(1,353,552)
Asset revaluation	7,961,818	Financing Cash Flows	
Share capital	15,740,610	New capital received	2,910,218
Total Equity and Liabilities	22,758,212	Dividends paid	-
Accounting NAV		Total Financing Cash Flows	2,910,218
	22,297,032	Total Cash Movements	
iNAV (after deduction of the performance fee)	21,296,926		1,389,728
iNAV per Share	\$18.44	Opening cash balance	63,644
		Closing cash balance	1,453,373

Expected Cash Flows for the March Quarter

Following the end of the December quarter, Punakaiki Fund has completed an investment in Populate. Further investments are likely to be undertaken before the end of the current March quarter with a number of investments in new and existing portfolio companies currently in process.

The payment of the interim March Quarterly Management Fee to LWCM of \$126,803.17 including GST was made and the final March Quarterly Management Fee payment of \$1,404.77 was approved by the Board.

Payment of \$760.59 has been made to Punakaiki Fund's Australian lawyer in relation to the November Australian wholesale share offer, along with \$71,449.15 to LWCM as brokerage in relation to the November capital raising offers.

Punakaiki Fund is considering raising capital via a retail New Zealand offer in March 2017. If this goes ahead then indirect costs of approximately \$5,000 are likely to be incurred in relation to the offer, along with a brokerage fee of 3% of the final amount raised that will be paid to LWCM to meet the other direct costs of the offers.

Capital Raising Plans

Punakaiki Fund is considering raising capital via a retail New Zealand offer in March 2017. Further details will be communicated to shareholders closer to the time of any offer.



Additional Disclosures / Conflicts

With the exception of those conflicts which have been previously disclosed, none of the directors of Punakaiki Fund or the managers of LWCM has any additional disclosures or conflicts of interest to declare.

Contact

If you require any further information regarding Punakaiki Fund, please contact Lance or Chris at LWCM in the first instance:

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