Punakaiki Fund Limited

December 2017 Quarterly Report

Welcome

That was a busy quarter.

Firstly – welcome to the 45 new investors who joined our journey in the December Offer, and our thanks to all 142 investors who participated, and all 670 investors at the end of the year. We closed on December 21st having raised $3.4 million, and the very next day made four investments into portfolio companies.

The quarter also saw the sale of Linewize to Family Zone (FZO:ASX) completed, with the Family Zone share price on completion at 70 cents and below there ever since. We expect a lumpy ride with their share price, and are, as always, patient investors. It does mean some more volatility in our quarterly valuations though.

During the quarter we made investments into Coherent Solutions, New Zealand Artesian Water, Vibe Communications, Conqa, Linewize (a working capital adjustment when completing the sale) and Weirdly. We placed $1.2 million of the capital raised in December, and have $1.9 million more (after allowing for provisions) to allocate.

After the end of the quarter we completed the purchase of shares from several shareholders in EverEdgeIP, and one shareholder in New Zealand Artesian Water, in exchange for Punakaiki Fund Limited shares. We struck these deals as at December 22nd last year, and they concluded in late January and early February. We now own 30% of EverEdgeIP – up from under 5%, and our Annual Meetings may be a lot more entertaining – as former Shareholders' Association Chair Bruce Sheppard, who is famous for appearing dressed up at AGMs, is now a shareholder.

Last year was a very busy one for us at LWCM and Punakaiki Fund. We made 26 investments (double that of the previous year), saw two exits, conducted two public offers and a wholesale round and continued our normal work as directors and advisors to many companies – all while getting our regular reporting, audits, valuations and so on completed. The amount of work is only going to increase, with the Path to IPO high on the board's mind, and our intentions to continue to invest in and help great high growth companies.

As a result Chris and I have committed to employing more people this year. We are looking for rounded people with skills including building and maintaining robust processes, legal work, financial analysis and research. If you are interested or know anyone who could be then let us know.

And a final sad note. Angus Weir, who was CFO at both Timely and before that Vend, passed away earlier this year. Angus left a host of friends, family and colleagues behind who held him in very high regard, and many of our shareholders knew him and his work. Our condolences to his family, partner Kimberley and to the teams at Timely and Vend.

Our quarterly webinar will be held at 5:30 pm on 19 February. ***Pre-register here***

I welcome your calls and emails, especially if you have questions I can answer at the webinar.

Lance

Portfolio Company Update

RAYGUN

Shareholding: **6.3%**

First Investment: **Apr 2014**

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

Highlights for the December quarter include:

- Ongoing development work for a third product to add to Raygun's platform (its release is expected at the end of March 2018; and
- Continued to build out US sales team (including hiring a new US-based sales manager).

timely

Shareholding: **3.8%**

First Investment: **Jun 2014**

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

influx

Shareholding: **25.2%**

First Investment: **Jun 2014**

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

vibe COMMUNICATIONS

Shareholding: **29.0%**

First Investment: **Jun 2014**

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

Highlights for the December quarter include:

- Selling the unprofitable RackCentral business;
- Appointing Karl Rosnell as CEO of Vibe and Lance's brother John Wiggs, who had been acting CEO, stepped down;
- After the end of the quarter, rebranding to Devoli; and
- Punakaiki Fund increasing its shareholding to 29.0% following the continued purchase of Vibe shares from three existing shareholders.

melon health	Shareholding: **23.4%** First Investment: **Dec 2014**	*Melon Health gives chronic disease patients on-line platforms with the tools, support and information to help manage their condition.*

Highlights for the December quarter include:

- Confirming a contract for Emotional Wellness for WellSouth (the Primary Health Network for Otago and Southland); and
- Appointing Brian Russell (former CEO and founder of Zephyr Technology) to the Melon Health Board.

ONCE·IT	Shareholding: **25.6%** First Investment: **Feb 2015**	*Onceit is an on-line daily deal site selling high end New Zealand designer fashion. Onceit is profitable and pays dividends.*

Highlights for the December quarter include:

- November 2017 being the biggest month in Onceit history for sales turnover (24% higher than their previous biggest month August 2017 and 44% up on November 2016);
- November 2017 having the largest day and third largest day in the history of Onceit sales; and
- Their "Once a year" sale seeing over 9,500 products sold over 3 days.

Boardingware	Shareholding: **28.6%** First Investment: **Feb 2015**	*Boardingware helps boarding schools manage their students' movements and pastoral care using a SaaS product.*

Highlights for the December quarter include:

- Being approved for a three year Callaghan Growth Grant starting in January 2018;
- Implementing price changes for new US, Australian and United Kingdom schools;
- Signing up the prestigious Swiss-based Leysin American School; and
- Arranging for a pilot to be set up with Eton College in May 2018.

weirdly	Shareholding: **31.3%** First Investment: **Feb 2015**	*Weirdly helps companies that actively recruit people to find better applicants through the use of innovative software.*

Highlights for the December quarter include:

- Weirdly's new CTO starting in November;
- Going to Amsterdam to investigate the European market, with CEO Dale Clareburt presenting at the HRTech World Congress; and
- Punakaiki Fund making a small additional investment in Weirdly, increasing its shareholding to 31.3%.

REDSEED	Shareholding: **13.1%** First Investment: **Mar 2015**	*RedSeed helps large retailers increase their sales by sales associates 10-15% through blended proprietary and customised modules in a SaaS Learning Management System.*

Highlights for the December quarter include:

- Gaining momentum in Australia, with three sales closed at the end of the year, and with two more getting very close to closing;
- Re-configuring their sales team, including adding two new business development managers;
- Broadening their product offering, including introducing the ability to use RedSeed's Learning Management System platform to host customers own courses, reducing the length of courses and introducing a micro-learning suite of courses; and
- Punakaiki Fund increasing its shareholding as the result of RedSeed buying back shares from an existing shareholder.

ThisData	Shareholding: **11.0%** First Investment: **Apr 2015**	*ThisData provides contextual login authentication services for SaaS companies.*

ThisData (now renamed TD Limited) is a holding company for 200,000 OneLogin shares. OneLogin is a US-based private business providing sign-on and identity management for cloud-based applications. In the June 2017 quarter, TD completed the sale of the majority of its assets including intellectual property to OneLogin. The OneLogin shares owned by TD will be held under escrow for a period of time before they are able to be either distributed to TD's shareholders or sold by TD and the proceeds returns to TD's shareholders.

EVEREDGEIP Advisory | Transactions | Investment	Shareholding: **4.6%** First Investment: **Jul 2015**	*EverEdge helps companies drive growth and create wealth from intangible assets. They are the world's premier IP strategy firm.*

vend	Shareholding: **2.0*%** First Investment: **Aug 2015**	*Vend provides cloud-based point-of-sale software that includes ecommerce, inventory, customer loyalty and analytics.*

Highlights for the December quarter include:

- Launching a partnership with CBA in Australia that will see CBA referring retailers to Vend;
- Launching a number of significant product enhancements included Scanner by Vend (a stock count application) and "Dott", an Artificial Intelligence assistant; and
- Exceeding 14,000 paying retailers.

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

	Shareholding: **15.9%** First Investment: **Oct 2015**	*Mobi2go helps food service businesses sell more by adding an ordering function to their marketing website.*

Highlights for the December quarter include:

- A continuing focus on building their outbound sales capacity, which has been driving greater increases in revenue and traction in the market; and
- Successful implementations of Mobi2Go at Tank Juice, Sandwich Chefs and Taco Bill.

	Shareholding: **19.2%** First Investment: **Dec 2015**	*Mindfull resells, implements and supports IBM's TM1 business intelligence software along with its own supporting software.*

Highlights for the December quarter include:

- Selling their first data vault work to one of New Zealand's largest government agencies;
- Launching their internal consultants dashboards so that consultants can self service their performance, upcoming work and any support tickets waiting to be resolved; and
- Having their first sizeable sale of the Qubedocs product in France.

	Shareholding: **14.6%** First Investment: **May 2016**	*Populate helps companies collaboratively plan and track their hiring plans using a SaaS-based platform.*

	Shareholding**: 0.0%** First Investment: **Jun 2016**	*Linewize provides a firewall and SaaS product that enables teachers to gain insight and control over Internet use in the classroom.*

During the quarter, 100% of the shares in Linewize were acquired by ASX-listed company Family Zone (FZO:ASX) for NZ$200,000 in cash and 19.014 million Family Zone shares. Just under half of these shares, or 9.500 million will only be released, over five tranches, if and when certain performance milestones are met over the next five years. In return for selling its 20% shareholding in Linewize, Punakaiki Fund received a $40,000 cash payment, 1.914 million Family Zone shares and up to a further 1.900 million Family Zone shares subject to certain performance thresholds being met. During the quarter, Punakaiki Fund made a small investment in Linewize to fund a pro-rata share of the settlement date working capital requirements.

E'STEL NZ	Shareholding: **24.2%** First Investment: **Jun 2016**	*New Zealand Artesian Water bottles and exports water under both its own E'stel brand (bottled) and third party brands (boxed).*

Highlights for the December quarter include:

- A significant increase in quarterly revenue quarter-on-quarter (mainly due to increased sales in China);
- Commissioning the blow moulder, which allows NZAW to run their own bottles through their production line at speed;
- Adding a new sales opportunity in Qatar, where NZAW are going through the last stage of government compliance. Once this is signed off (expected in the next two weeks), NZAW will begin to manufacture their first shipping container of products for Qatar;
- Starting to produce OEM bottles for JP Turner group, with that customer placing orders for their first eight shipping containers; and
- Punakaiki Fund's shareholding in NZAW increasing to 24.2% at the end of the quarter following a new investment by Punakaiki Fund and other shareholders.

HAYLOAD	Shareholding: **23.3%** First Investment: **Jul 2016**	*Hayload provides a SaaS product for agricultural contractors that assist with tracking jobs and invoicing.*

CONQA	Shareholding: **10.9%** First Investment: **Feb 2017**	*Conqa provides software allowing the construction industry to do their quality assurance planning and execution online.*

Highlights for the December quarter include:

- Achieving annualised recurring revenues of $1 million;
- Officially launching their Melbourne office with co-founder Barney Chunn moving there manage Australian expansion;
- Hiring a full time business development manager for Melbourne; and
- Punakaiki Fund increasing its shareholding to 10.9% in Conqa through the partial exercise of the option in Conqa that it holds.

coherent solutions	Shareholding: **12.3%*** First Investment: **Nov 2017**	*Coherent Solutions produces high-end coherent and non-coherent optical testing equipment and associated software.*

Highlights for the December quarter include:

- Completing their $3 million A-Series investment round, lead by Punakaiki Fund and including K1W1, UniServices and the New Zealand Venture Investment Fund;
- Shipping their first PXI modules to Intel (ahead of schedule); and
- Signing their first Product Partner Agreement with National Instruments.

** Punakaiki Fund has an option to purchase existing Coherent Solutions from founders before the end of March 2018 which would increase Punakaiki Fund's shareholding to 19.5%.*

CHRIS' RAMBLINGS

To Be Coherent, or Not to Be...

My former CEO at Pacific Fibre made a great quip one day when he asked: "what's the importance of being coherent?"

To the casual observer, this would sound like a bizarre question. After all, it is fairly important to be coherent in business, especially when trying to get a multi-100 million dollar international telecommunication infrastructure project off the ground. The word "coherent", however, takes on an entirely different meaning in the fibre optic industry and is something that we need to understand further in order to explain the business of Punakaiki Fund's latest investment, Coherent Solutions.

It's a Bit Confusing, but it's Not the End of the World

Your standard garden variety fibre optic cable (and I do mean garden-variety – as in the cable that runs from the street, under your garden and into your home if you are connected up to UFB) is made up of a number of fibre pairs, with each fibre pair being two fibres which carry light (and information) in different directions. The fibre itself is made of an internal core of transparent glass or plastic, and an external transparent cladding with a lower refractive index than the core. This lower refractive index results in the interface between the core and the cladding acting as a mirror, resulting in any light beamed along the internal core staying within that core until it gets to its destination (i.e. it does not get lost outside of the cable on its journey, nor does it get absorbed into the cable – well, at least not much, anyway). This includes the ability to go around curves, such as the local street corner or the curvature of the Earth.

Fibre optic cables work by transmitting the ones and zeros that run around in your computer in electrical form down the fibre as light pulses generated by a laser. In its basic form, this technique can send data on a single wave of light down a single fibre at around 10 gigabits per second, or like turning a flashlight on and off 10 billion times per second.

This quickish speed was entirely adequate in the 1980's and the 1990's when data traffic was significantly lower than it is today. Technologies like Time Division Multiplexing (or TDM*) allowed multiple users to share a single wave of light and to keep up with demand, fibre optic cables were built (as they are now) with multiple fibre pairs in each cable.

But with the dawn of the new millennium and the explosion of internet traffic volumes, single wave fibres combined with TDM was just not going to cut it volume-wise. Enter Wavelength Division Multiplexing (or WDM**).

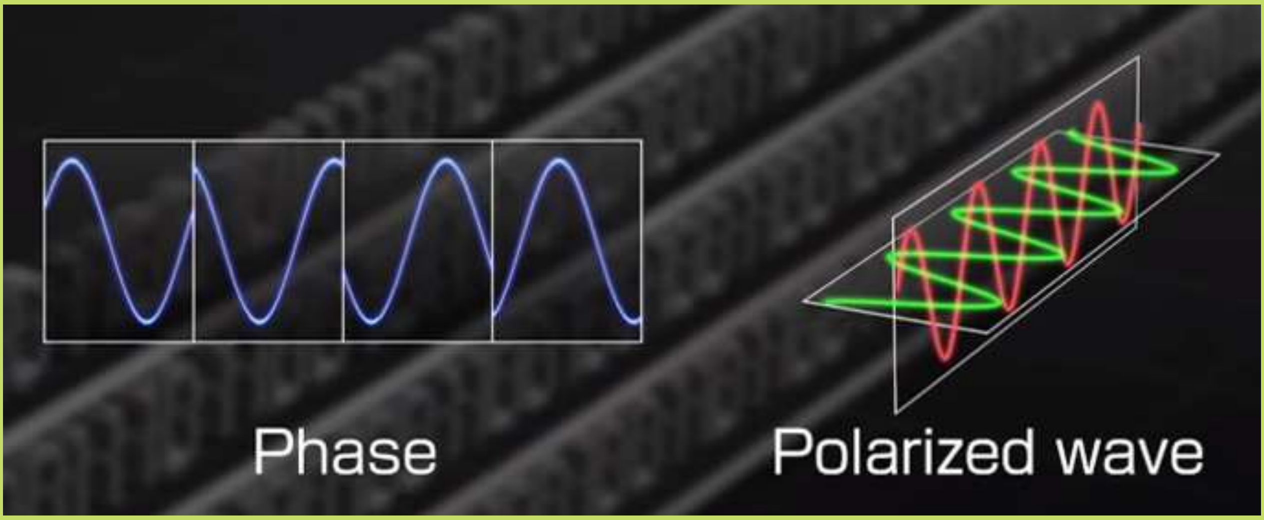
** Not to be confused with Youtuber DanTDM, with over 11 billion Youtube views and earnings in 2017 of over $20 million (see right).*

*** Not to be confused with Weapons of Mass Destruction (or WMD – see left).*

WDM technology allows multiple waves of different wavelengths (or colours) to be beamed down a fibre at the same time and advances in technology also allowed each individual wave to carry 40 Gigabits of data per second. A single fibre could now carry 1.6 terabits of data per second, or an increase over the old technology of 160 times.

Now WDM was all well and good in the 2000's, but in the 2010's, data-heavy internet uses like video streaming meant that something better was needed, especially over long-haul routes with limited physical infrastructure in place. The scene was set for the introduction of coherent optics.

In TDM and WDM, light waves transport information as pulses by simply switching on and off very quickly. Coherent optics uses a number of tricks with the light waves to significantly increase the amount of information that a single wave can carry. Instead of switching on and off, coherent waves changed the amplitude (or height) of the waves, the phase of the waves (shifting the wave in its cycle) and by using two polarisations (instead of just using a wave of light oscillating up and down as it moves along a two dimensional plane, it also moves side to side in a three dimensional space). All of these tricks contribute to coherent waves being able to transmit up to 100 Gigabits of data per second (at the moment – 400 Gigabit technology is on the way), with a single fibre being able to carry up to 100 of these waves, for a total transmission capacity of 10 terabits per second.



Coherent Long, Non-coherent Short, but...

If you were able to get through and understand the last couple of paragraphs, good on you – this isn't easy stuff. The two important things to take away is that coherent technology is not easy (there are only a handful of businesses that play in this space in the world) and it is more expensive to use that WDM technology. This means that historically, coherent technology has only been used on longer routes, where the cost of the technology is more than offset by savings from not needing as much physical infrastructure. An example of this is a comparison between the fibre optic cables that span the Pacific Ocean, which usually only carry a single-digit number of fibre pairs using coherent technology, and the backbone fibre optic cables in New Zealand which run on WMD technology and have up to 100 fibre pairs in a single cable.

However, networks are running up against capacity issues as the volume of traffic over the internet continues to grow and there has been a steady shift to using coherent technology over shorter and shorter routes. It is now being used over short hops between data centres and is starting to be used within the data centres themselves.

Walk into the Light

There are also a lot of interesting non-coherent light developments occurring at the moment too.

Lasers are being used to develop secure communications systems known as free-space optical communications, which are based around 'bouncing' information carried in a laser beam off a satellite and back down to a receiver on the surface of the earth. For this to work, the satellite needs to point the laser beam at the receiver, as lasers having little divergence in their waves (i.e. they don't spread out like torch light does). The nature of free-space optical communications means that it has the ability to transmit much higher amounts of data than conventional radio frequency methods and importantly for the military, it has a relatively high level of security, as it has a low probability of detection and a lower probability of intercept, and it is difficult to jam. It also has many civilian applications, especially in locations where it is too expensive or is impractical to establish physical ground infrastructure like cables.

Computing is also slowly being revolutionised by light. The CPU that is the heart of today's computer is built on the back of electricity, however electricity cannot carry data as quickly as light. The development of "silicon photonics", which replaces electricity signals with light signals between memory and CPU, and potentially between the processing cores of the CPUs themselves, is underway to de-bottleneck the speed of computers, but these developments are still decades away from being released to the market.

Very Expensive Boxes

This brings us to Coherent Solutions ("Coherent"). Coherent neither develops nor manufactures these leading edge technologies. Instead it develops very smart equipment and software that tests that the lighting cards, lasers and other kit produced by these technologies are working properly in a lab or research facility and, in limited circumstances, low volume production facilities. That makes the test equipment and software that Coherent creates leading edge as well.

You may have worked out from what was written above that this kit is hard to make, and it is also really hard to test. The fields in which Coherent operates are characterised by each only having a handful of other test equipment providers (usually between two and four), and this equipment does not come cheap. To illustrate this, the equipment stack pictured to the right comprises a Teledyne LeCroy oscilloscope (top – around US$110,000), a Teledyne LeCroy Acquisition Module (second-from-top – US$150,000 to US$500,000), the Coherent Solutions Optical Receiver (the "IQScope" third-from-top – co-branded with Teledyne LeCroy and running you US$50,000 to US$320,000 depending on the model) and at the bottom, another Teledyne LeCroy Acquisition Module (at another US$150,000 to US$500,000 – you need two Acquisition Modules if you want to fully "characterise" an optical signal at higher frequencies). You definitely don't want to be replacing that lot if you knock it off the bench top.

It is important to note that the value that Coherent provides to its customers comes not only from the hardware that it supplies, but also from its software that powers all of the images you can see being generated on the oscilloscope (the top box). There are only three companies in the world with ability to write and support this type of software to a high quality, and Coherent is one of them.

Coherent have a number of different products, ranging from the top of the line Optical Receiver noted above, down to the US$4,000 optical switch "blades" that fit within standardised test equipment chassis made by other companies and are used to switch signals between different fibres. I won't go into all of the different things that the different Coherent products can do, but if you are technically minded, check out the Coherent website (I see that have an ex-demo LaserBlade on sale at the moment – you may not be able to use it, but it would sound cool to tell your friends that you have one).

Time to Grow

So why is Punakaiki Fund so interested in investing in a company like Coherent? Good question and there are a few reasons why we did.

The Standard Stuff: Coherent has great products, operates in an industry that is growing strongly, currently has a very small market share (Coherent believe that they have about 1% of their total addressable market at the moment), has a number of very smart people working within the company, is export orientated etc. etc. etc... (pretty standard stuff).

The Disruptive Stuff: Coherent is just coming out of the underground-genius-teenager stage of its life. They have spent a few years working furiously in the "basement" coming up with quality new stuff from apparently nowhere and as a result have developed a good reputation in the industry (which counts for a lot when you are a customer buying this sort of expensive equipment or when you are an equipment manufacturer looking to collaborate). They are small and nimble compared to the billion dollar companies that they compete against and are well positioned to get significant traction over the next few years (oh, and their "basement" operations continue to expand at pace).

A "Basement", but not Coherent's.

The Secret Sauce: This is the additional upside potential – and there are a couple of interesting initiatives in the pipeline. One of these is partnering with the US-based National Instruments to make testing equipment blades (modular products) that fit into National Instruments chassis. This development allows Coherent equipment to be used not just for R&D or testing in the factory, but also testing at the installation stage and afterwards in the field. Coherent also has another very interesting opportunity which is a couple of years away, but it is very hush, hush at this stage.

Show Me the Money

The Coherent investment round announced late last year provided Coherent with a $3 million cash injection. What does this means for company that had previously grown entirely organically?

It means that now Coherent can now significantly increase its component inventory, which means that when it gets an order for certain equipment that it makes, it doesn't have to wait up to eight to ten weeks for a critical component to be shipped from the Northern Hemisphere. Those customers can now get their orders a lot quicker.

It means that Coherent can invest significantly more in their R&D and sales teams.

And probably most importantly, it can spend on marketing, previously significantly underfunded but a necessity to get brand awareness out into the market.

It's All Right Here

Now you might think that being located in New Zealand is a distinct disadvantage for Coherent, but that's just not true. Founder and CEO Andy Stevens believes that one of Coherent's significant advantages is that is has a stable and relatively cheap labour force available to it in Auckland. This can be contrasted to where its competitors are operating in Western Europe and North America, where labour costs are high and (especially in California) where it can be difficult to retain talented engineers for more than a year or two. In contrast, there are few business in Auckland competing with Coherent for the skills that it seeks and there is a surprising large (relatively speaking) pool of qualified candidates, especially in the migrant community where those people have moved to New Zealand for lifestyle reasons and struggle to find work in their specialist fields.

The distance to market is also not really an issue as Coherent's equipment is relatively small and can be shipped by air freight at relatively low cost. It does mean though, that Andy and others at Coherent do a fair bit of flying around the world.

And a Couple of Interesting Things about the Deal…

In closing, it's worth noting that there were a couple of firsts in the Coherent investment for us.

It was our first co-investment with K1W1, UniServices and NZVIF. While K1W1 was an earlier investor in Melon Health, this is the first time that we have both made the first investment into a company at the same time. It is also worth noting that we did not share our due diligence work with any of these parties, nor did we undertake to represent their interests going forward – they have all invested purely on their own account.

Assuming that we exercise our March 2018 option to purchase additional existing Coherent shares from the two founders (and we are intending to), this will be Punakaiki Fund's largest investment to date. The total of $2.755 million invested comprises $1.5 million invested directly into Coherent and the purchase of $1.255m in shares from the founders. This amount surpasses the $2.725 million invested in Vend in August 2015, which comprised a $2 million cash investment in Vend and $0.725m in Punakaiki Fund shares issued to Lance for his Vend shares.

Path to IPO

We have increased activity in relation to Punakaiki Fund's IPO over the last three months, including agreeing overall timelines and work-streams, dedicating people (both Directors and LWCM) to those work-streams, and committing to a number of shorter term activities which are to be completed over the next three to six month period. These include:

- Presenting a paper to shareholders (aiming for delivery in March 2018), the purpose of which is to inform shareholders in a general sense about why companies consider listing, and the potential benefits and detriments of doing so, so that shareholders might start of consider what this means for Punakaiki Fund;
- Presenting a paper to shareholders (aiming for delivery in May 2018), the purpose of which is to inform shareholders of the risks associated with an IPO, specifically those that are likely to be present if Punakaiki Fund was to IPO, so that shareholders can consider the merits or otherwise of a listing for Punakaiki Fund;
- Undertaking several pieces of internal work and research relating to:
    - Looking at lessons learned from other IPOs;
    - Punakaiki Fund's post IPO strategy;
    - The potential presentation of prospective financial information;
    - Seeking feedback from shareholders, Portfolio Companies, the tech ecosystem, potential (larger) investors & brokers, the NZX & ASX, and others on both Punakaiki Fund's IPO and what Punakaiki Fund needs to do to get itself ready;
- Building out Punakaiki Fund's suite of policy documents so that Punakaiki Fund meets the governance requirements of a listed company; and
- Looking at Board composition and remuneration.

The two major Path to IPO events are the shareholder vote, scheduled for the 2018 Annual Meeting (likely to be in September 2018) and the actual listing of Punakaiki Fund (likely to be in the second half of calendar year 2019). In between these times we will do significant work to firstly fully inform shareholders prior to the Annual Meeting vote and then to prepare Punakaiki Fund itself for listing.

We intend to ask for your current opinion about an IPO through a shareholder survey before the end of March. If you would like to talk to us directly about the IPO, please feel free to get in contact with Lance, Chris or Mike. Our contact details are on the last page of this quarterly report.

Share Trading

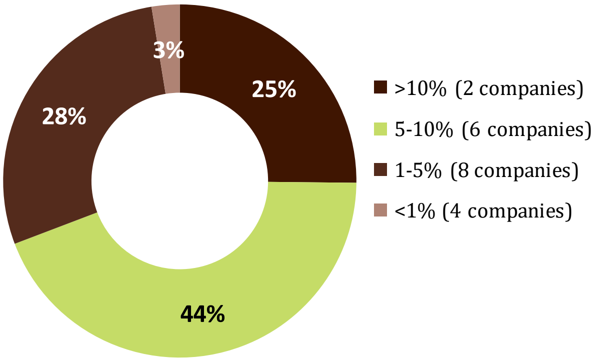
The March Quarterly Share Trading Windows will open on Monday 19 February 2018 and will close on Thursday 22 February 2018. We will email all shareholders a reminder closer to the time.

If you would like to either buy or sell Punakaiki Fund shares, please email Chris at chris@lwcm.co.nz and we will run an auction process to determine a 'clearing' price that shares will trade at. Those who had bid at or above the clearing price will buy shares at the clearing price, and those who have offered to sell at or below the clearing price will sell shares at the clearing price. The auctions have multiple rounds so buyers and sellers have the ability to change their bids or offers as the action progresses.

Portfolio Valuation Splits

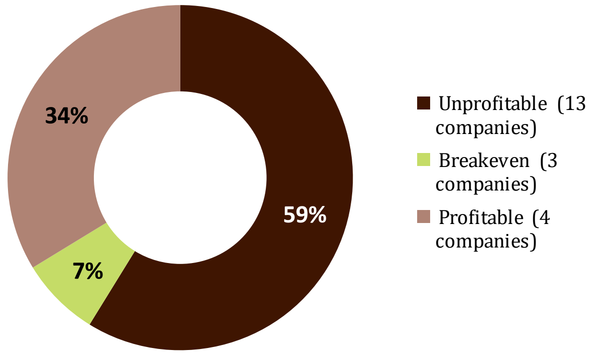
The value ascribed to Punakaiki Fund's investments excluding cash is $32.4 million. The diagrams below show various splits of this valuation by differing methods.

Valuation Split By Concentration



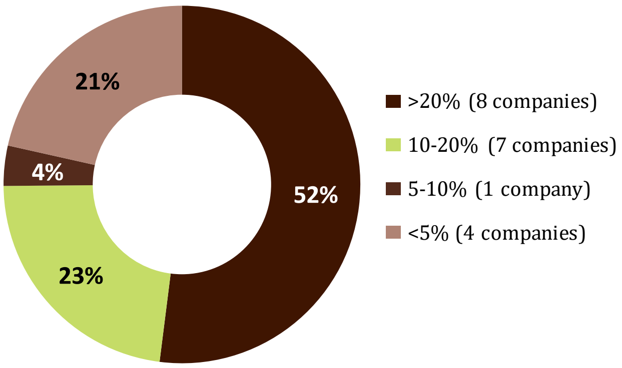
Punakaiki Fund has 25% of its investments by value in two companies which each contribute at least 10% by value to Punakaiki Fund's total portfolio value.

Valuation Split By Profitability



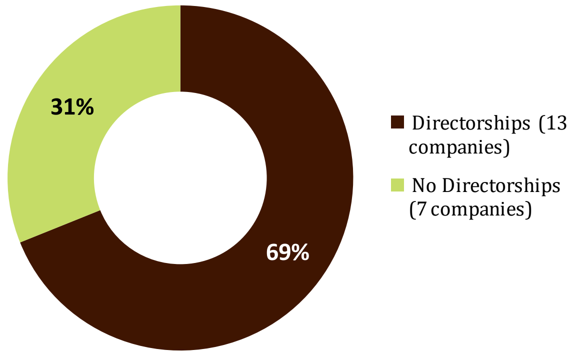
59% of Punakaiki Fund's investments by value are in unprofitable companies. 7% are in breakeven companies and 34% are in profitable companies.

Valuation Split By Ownership %



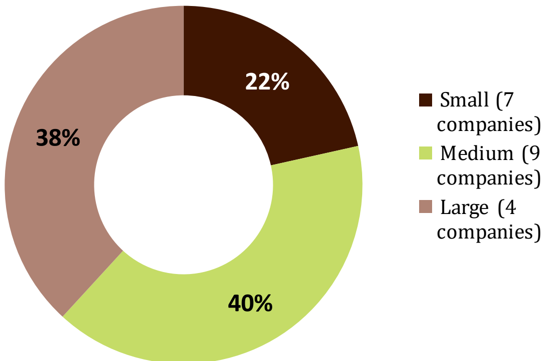
The companies in which Punakaiki Fund owns more than 20% comprise 52% of the total portfolio value. Those between 10-20% comprise 23% of the value.

Valuation Split By Directorship



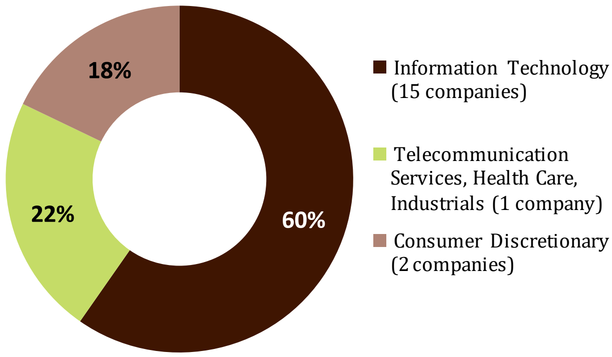
69% of Punakaiki Fund's investments by value have Punakaiki Fund board representation provided by the manager.

Valuation Split By Revenues



Punakaiki Fund holds 22% of its portfolio in Small companies (less than $1 million in revenues p.a.), 40% in Medium companies ($1-10 million) and 38% in Large companies (more than $10 million).

Valuation Split By Industry



60% of Punakaiki Fund's portfolio is held in the Information Technology industry, 18% in Consumer Discretionary and 22% in Telecommunication Services, Health Care and Industrials combined.

In the News

Coherent Solutions: Optical test gear maker Coherent Solutions raises $3.5m
Coherent Solutions Raises $3 million
Coherent Solutions closes $3m Series A round led by Punakaiki

Linewize: Why Family Zone Cyber Safety Ltd shares stormed higher

Onceit: Black Friday sales up by more than 50 per cent for some retailers

Raygun: High Volume Event Processing with John-Daniel Trask (with Audio)

Timely: Rowan Simpson and his founder-centric approach to being a company director
Firefly the top Kiwi company of Deloitte Technology Fast 500
Who is Firefly Search? One of the fastest growing tech companies in Asia
Dunedin tech businesses on Pacific Fast 500 index
NBR Radar: Timely on the value of remote working and going global (includes video)

Vend: Vend rolls out Dott, an AI booster for retailers
Firefly the top Kiwi company of Deloitte Technology Fast 500
How SaaS vendors can create a new-look channel
NBR Radar: Vend's bout of new growth and shift to AI
CommBank reaffirms its tech agenda with Vend partnership
Tapping top techies for your business calls for creative resources
Retail isn't dying – it's entering a golden age

Punakaiki Fund: No news this quarter

Corporate Update

Governance

The Board convened on 2 February 2018 for the quarterly Board meeting to consider, among other matters:

- A review of Punakaiki Fund's investment portfolio, including the quarter-end valuation of those investments;
- The FY2018 financial audit plan as presented by Ernst & Young assurance partner Graeme Bennett;
- The timing and type of the next capital raise;
- Punakaiki Fund's path to IPO;
- The Interim Accounts (for the period to 30 September 2017);
- The updated Delegated Authority Policy;
- The existing Board Charter;
- Using independent valuations for some of Punakaiki Fund's portfolio companies;
- Adopting an operating budget for FY2019; and
- Reviewing this Quarterly Report.

The Board's next meeting is scheduled for 11 May 2018.

Financial Reporting

The Investor Net Asset Value of the fund after all contingent performance fees at 31 December 2017 was $32,710,196 (or $20.90 per share), a material increase from the 30 September 2017 Net Asset Value of $29,265,319. The Accounting Net Asset Value (which includes only the cash component of the performance fee and is used to calculate the management fee) was $34,360,980, also materially up from $30,915,000 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 2017 of $2,293,505;
- $2,815,662 was invested in Conqa, Coherent Solutions, Weirdly, Linewize, New Zealand Artesian Water, (all new shares) and Vibe Communications (existing shares);
- $40,000 was received from the sale of Linewize;
- $523,974 was recognised as a net decrease in the value of Punakaiki Fund's investments at the end of the December 2017 quarter compared to those values set out in the September 2017 quarterly report (principally from the fall in value of Family Zone shares on the ASX);
- $3,438,750 in new capital was raised in the December 2017 retail capital raise;
- Management fees of $164,067 including GST were paid to LWCM;
- Brokerage fees of $99,383 were paid to LWCM in relation to the December 2017 retail capital raise;
- Insurance costs of $46,190 (including GST) were paid;
- $23,492 (including GST) were paid for valuation services to Staples Rodway;
- Transaction costs in relation to the Linewize sale of $11,673 (including GST were paid to Duncan Cotterill and BDO;

- $1,333 were paid for accounting fees;
- PAYE on Directors Fees of $825 was paid;
- AGM catering costs of $1,670 (including GST) were paid;
- GST refunds of $18,828 were received; and
- A closing cash balance of $2,626,980.

Punakaiki Fund Limited - Unaudited Financial Position	
as at 31 December 2017	NZ$
Current Assets	
Cash on deposit	2,626,980
Accounts Receivable	20,914
Prepayments	33,430
Non-current Assets	
Investments	32,350,000
Total Assets	**35,031,324**
Current Liabilities	
Accounts payable	28,372
Non-current Liabilities	
Accrued Performance Fee	641,972
Equity	
Retained earnings - Operations	(1,160,529)
Retained earnings - Accrued Performance Fee	(2,292,755)
Share-based Payment Reserve	1,650,784
Asset revaluation	13,305,181
Share capital	23,538,954
Capital Raising Costs	(680,654)
Total Equity and Liabilities	**35,031,324**
Accounting NAV	34,360,980
iNAV (after deduction of the performance fee)	32,710,196
iNAV per Share	$20.90

Punakaiki Fund Limited - Cash Flow Summary	
for the quarter ending 31 December 2017	NZ$
Operating Cash Flows	
Gross Interest received	378
Withholding Tax on Interest	(125)
Bank Fees	(61)
Payments to External Advisors	(36,498)
Management Fees	(164,067)
Other Expenses	(48,685)
GST Refunds	18,828
Total Operating Cash Flows	**(230,230)**
Investing Cash Flows	
Investments made	(2,815,662)
Investments realised	40,000
Dividends received from investments	-
Total Investing Cash Flows	**(2,775,662)**
Financing Cash Flows	
New capital received	3,438,750
Brokerage Fees	(99,383)
Dividends paid	-
Total Financing Cash Flows	**3,339,368**
Total Cash Movements	**333,476**
Opening cash balance	2,293,505
Closing cash balance	2,626,980

Expected Cash Flows for the March 2018 Quarter

Following the end of the December quarter, Punakaiki Fund has not made any further cash investments in Portfolio Companies. It has completed eight share sale and purchase agreements with one shareholder of New Zealand Artesian Water and seven shareholders of EverEdgeIP Global with a combined notional value of $1,894,958. These transactions were settled by the issue of 91,045 Punakaiki Fund shares.

Punakaiki Fund holds options to invest further in Conqa and Coherent Solutions prior to the end of the March 2018 quarter which if exercised would cost a total of $1.156 million. Further investments may be undertaken before the end of the quarter.

The payment of the final December Quarterly Management Fees to LWCM of $13,695 including GST and interim March Quarterly Management Fees to LWCM of $192,703 including GST occurred in January 2018.

A GST refund of $4,587 was paid by the IRD to Punakaiki Fund in relation to the month of December 2017, and $2,109 in accountancy fees have been paid to date in the March quarter.

Punakaiki Fund is planning to raise capital in the March 2018 quarter. Any funds raised will incur a brokerage fee of 3%, which is payable to LWCM.

Capital Raising Plans

Punakaiki Fund is planning to raise capital via a wholesale offer, which is scheduled to be completed prior to the end of March 2018.

Additional Disclosures / Conflicts

With the exception of the conflicts which have been previously disclosed, the directors of Punakaiki Fund or the managers of LWCM do not have any other additional disclosures or conflicts of interest to declare.

Contact

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