Punakaiki Fund Limited

December 2018 Quarterly Report

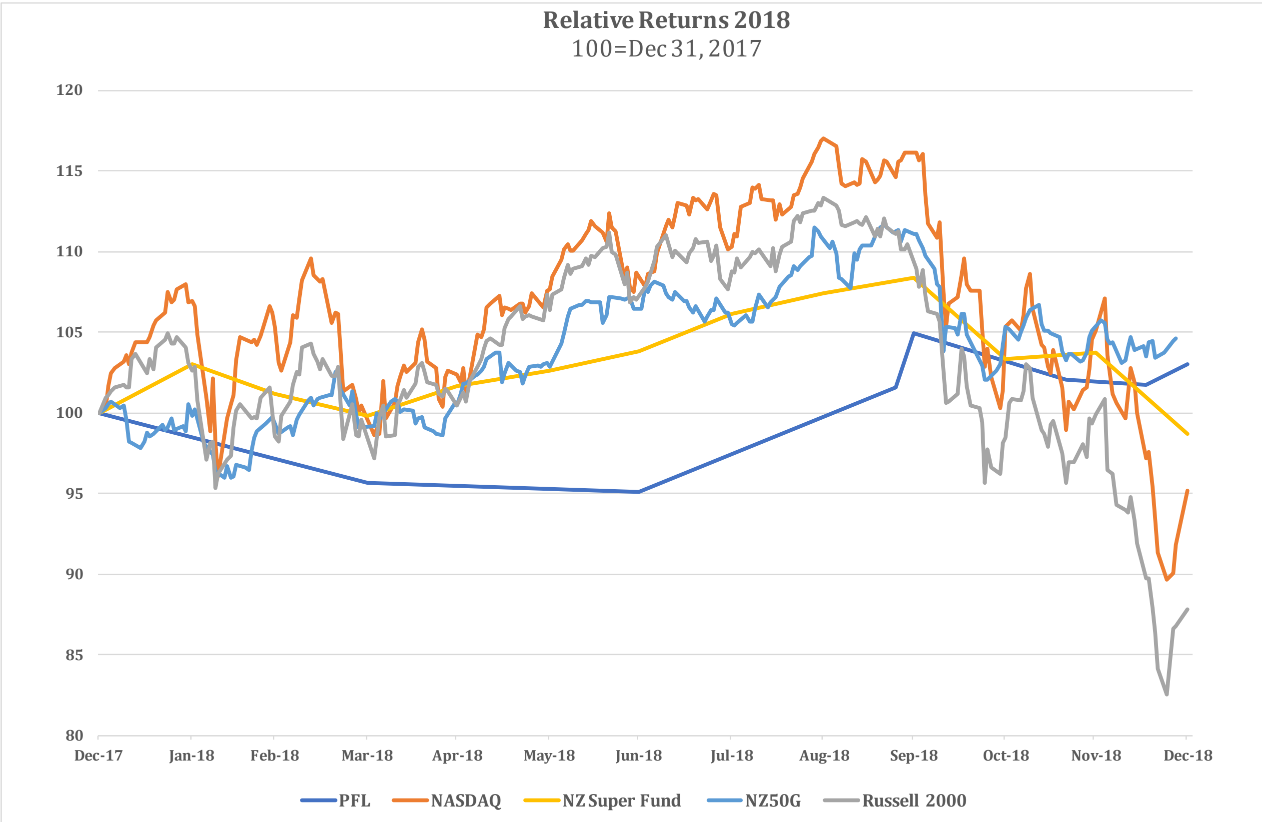
Welcome

In this quarterly report we review Punakaiki Fund's flat share price performance over 2018, introduce our new Investor Relations staffer (chances are you have heard of him) and Chris' latest missive covers the rapid rise of New Zealand Artesian Water. We also have details on the share-trading window (the last one was our biggest by quite a margin), a new conflict of interest on the Board and our forthcoming newest director, to be appointed by the Board.

Fund Share price Performance

We emphasise in our investment documents that Punakaiki Fund is volatile versus public markets, given that we invest in early stage tech companies.

In 2018, however, we saw some of the benefit of investing in venture capital as part of a diversified portfolio. The chart below shows how the value of the Punakaiki Fund portfolio dropped as the markets were rising, and then rose as the markets dropped.

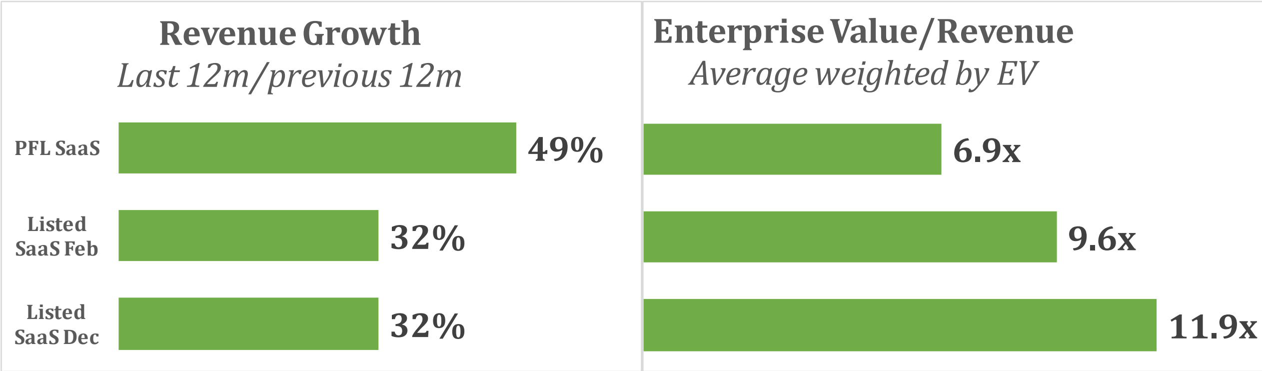


Over calendar-year 2018 the result for investors was flat (the iNAV/share moved from $20.90 to $21.52, an increase of just 3.0%), which is well below our 20% target. As at mid-February the iNAV/share has moved to $21.58, and we are quietly positive about the year ahead.

As we've explained before the flat performance was for three main reasons – reinvestment at previous round prices (meaning we hold the valuation for longer), marking down several companies and tougher multiple caps for SaaS companies and an additional small company discount introduced for March 2018.

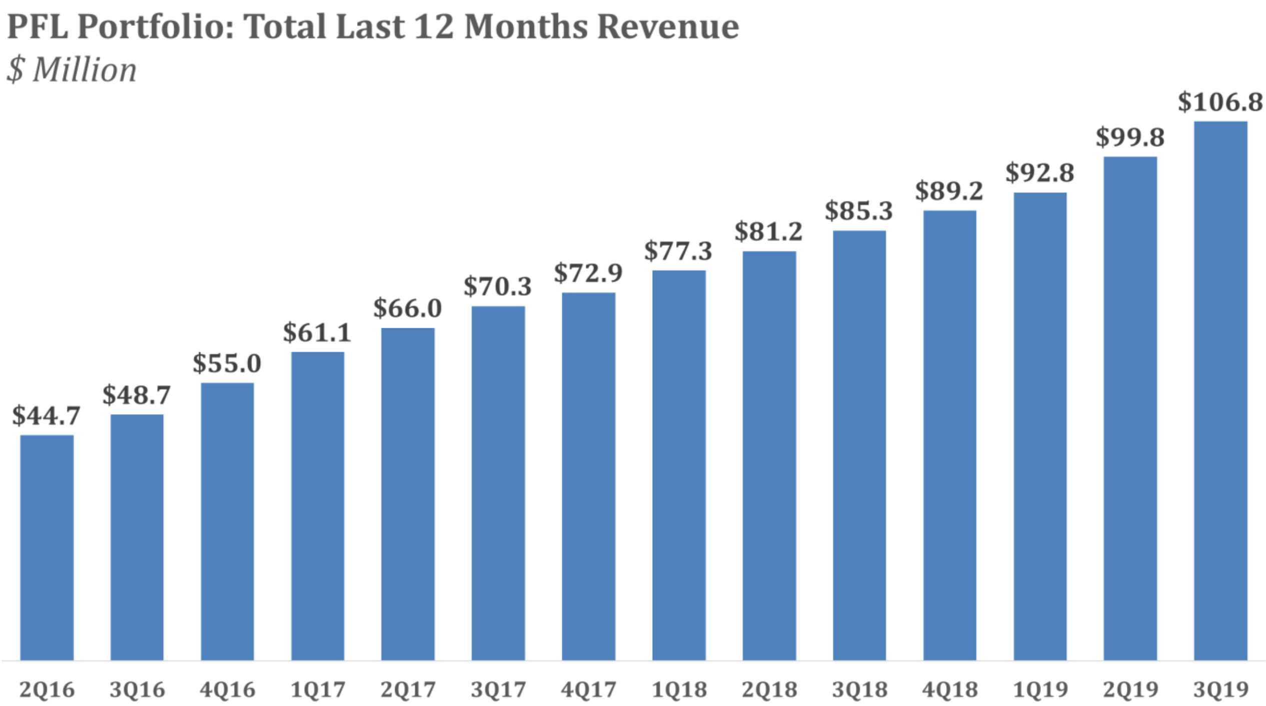
The easiest way to explain our SaaS multiple caps, along with our discounts, is to show the net impact on valuations. The charts below show that as at the end of December our SaaS companies had an average growth rate of 49%, and an average multiple of 6.9x – each weighted by our holding value.

Meanwhile the listed SaaS companies we track averaged two thirds of the growth of our SaaS portfolio and were valued almost 50% higher as at the end of December, and over 70% higher as at the end of February.



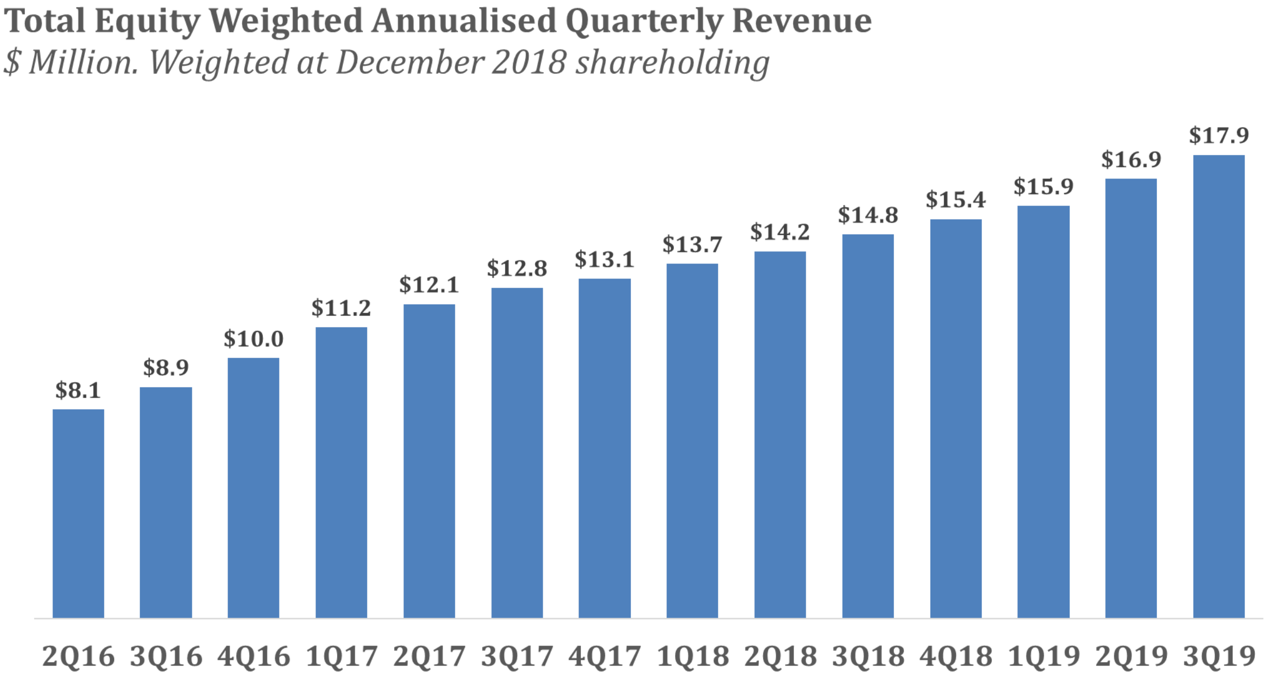
We would expect our investments to be priced at a lower valuation than listed companies, which command a premium for their liquidity from listing, and their overall size. Accountants like to discount the valuations of smaller companies because there is heightened risk of unsustainability, and so we do that. However I have observed that SaaS companies with solid metrics above, say, $2 million in recurring revenue are very stable, and able to scale down expenses if they have to and still survive.

The underlying value of all of our high growth companies is very dependent on revenue, growth and sustainability, so we are very happy announce that they have exceeded $100 million in trailing twelve months revenue for the first time. The companies collectively delivered $107 million in revenue to the end of December (this is total revenue, and is not equity weighted for Punakaiki



Fund's holding). December is a seasonably very strong quarter, and averaged over $120 million annual run rate, which we expect to drop to closer to $100 million in the March Quarter.

Our trailing twelve months Equity Weighted Revenue grew to $17.9 million, versus $14.8 million 12 months ago, using the same December 2018 equity weights. What the chart below doesn't show is that using equity weightings from 31 December 2017 the result 12 months ago was $11.8 million, with the increase to $17.9 million driven by both growth and our new investments gaining increased percentage shareholdings.



New Investments

Over the quarter we made 10 new investments, all into existing companies, largely as promised in the Product Disclosure Statement (PDS) we used for the retail offer. Those investments, into Mobi2Go, Weirdly, NZAW, Melon Health, Coherent Solutions, Devoli and Boardingware totalled $2.65 million. The reinvestment approach, and we have made 93 investments into the 20 companies so far, has seen our average investment stake creep up to 24%, and we hold 29% or more of six companies.

Those larger shareholdings are generally in the up and comers – and we stand to gain a lot of value if their growth continues.

Bridging The Funding Gap

The continued growth means that on average our companies are getting bigger.

As I write this we now have eleven investments with over $2 million in revenue, of which seven have recent run rates of over $5 million revenue. These eleven companies represent two thirds of the value of our investments. Overall around 97% of our investment value derives from investments in companies currently tracking at over $500,000 in annual revenue.

That 97% of investment value derives from 15 companies, with five others (two sold and three written down) accounting for the remainder. In essence we now regard Punakaiki Fund as having 15 active material investments, and of those four (Vend, Raygun, Timely and Mobi2Go) are "graduates", and are run without any Punakaiki Fund involvement.

We are always happy when we see companies get follow-on investment, as we saw in January with Vend accepting investment from Singapore based fund Qualgro along with Movac, and as we hope to announce for another company soon.

But the truth is we constantly see a gap in the market, not just for our own growing companies, but also for a surge of high quality companies that knock on our door. We believe that the investments we have made will deliver strong returns over the years, but despair at the opportunities we have to bypass for lack of funds.

In New Zealand's markets fast growing companies reach a point where the market for capital largely fails them, and many companies are forced to lower their growth rates or ambitions as they spend too much time searching for capital, which is often not available. In turn we at Punakaiki Fund need to do a better job at raising funds, and I mean the tens and hundreds of millions of dollars required to deliver the very high growth results New Zealand promises. We do not subscribe to the US model of giving a company too much funding and making them either grow vertically or die – but we are certainly looking to help them accelerate in a sustainable fashion.

We know that value growth for companies and Punakaiki Fund will accelerate with more funding, and we also know that more funding will increase the number of full time high quality jobs across the companies we have invested in. We estimate the overall payroll from the companies we have invested into is already over $50 million per year – and there are plenty more PAYE cheques to write as jobs increase in the future. We see jobs growth, associated with export led revenue, tax paid and, of course, investor returns, as great indicators of the value we are creating for society – comprising clients, founders, staff, investors and, through the Government, all New Zealanders.

So we are excited to hear reports that the Government is seeking to change how they help grow the venture capital ecosystem in New Zealand. We would welcome their renewed commitment, and especially would welcome an evolved and fair system that rewards those with proven investment experience and funds already raised. So if you know any MPs then let them know that any efforts to support this space are welcome – and we are always happy to meet with MPs and policy makers.

With the distraction of our own potential IPO now delayed until we have $100 million in assets, our focus this year is to raise funds from a larger range of wholesale and institutional investors (known as "qualified investors"). We are now continuously open for investment from qualified investors, and welcome any referrals or follow-on investment from our existing investors.

LWCM Additions and Moves

We are delighted to share the news that Investment Manager Bridget Winstone-Kight has given birth to a son, Baxter, on the 5th of February. Bridget is (obviously) taking maternity leave.

Olo Brown joined us in January 2019, to cover for Bridget, and is now responsible for Investor Relations. Olo, the former rugby player who many will recognise, brings experience in private equity, as being a former CEO of a start-up, and, in his early career, seven years at PWC. Most recently he has been advising companies and helping with fund raising.

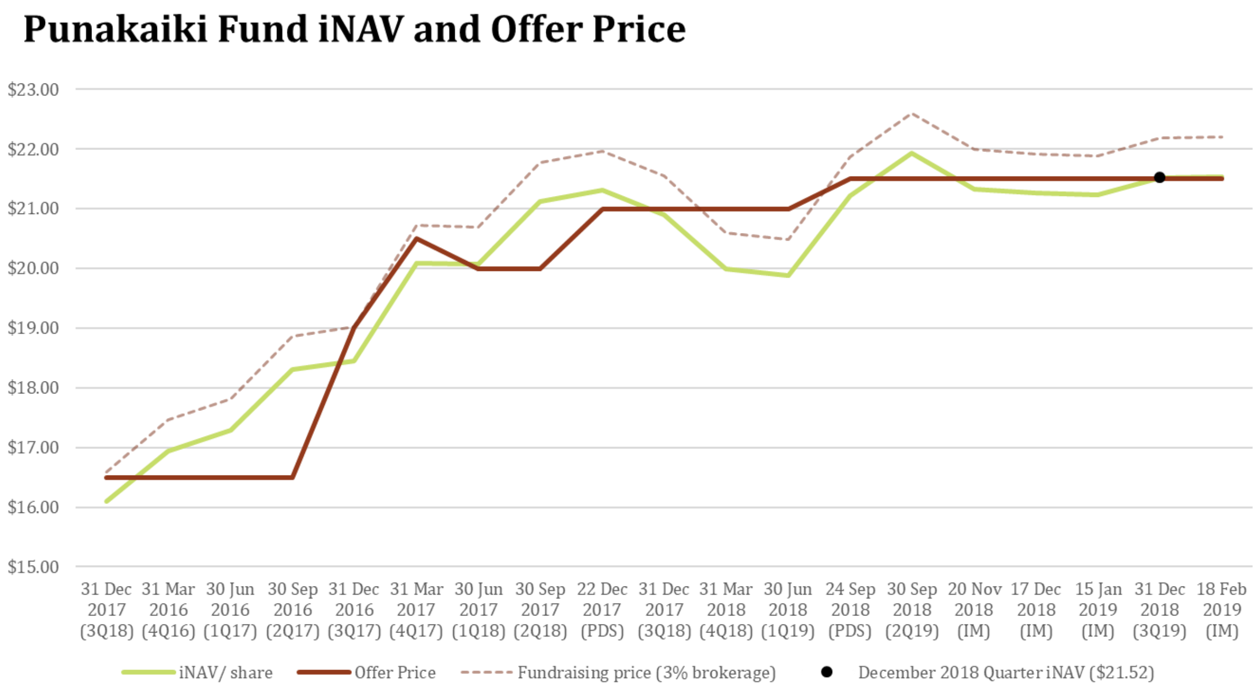
Olo is reaching out to current and potential investors, and seeking to understand their needs. He is a very good listener, and is willing to learn more about your requirements. Get in touch at Olo@lwcm.co.nz.

We are also very happy that LWCM, the manager of Punakaiki Fund, has moved offices – up one floor to Level 6, 2 Kitchener St, Auckland. We have taken over half the space vacated by private equity fund Direct Capital, who have moved to an even larger space on Level 4. We are very happy with our new space, which is far larger and more professional, but still great value, as Chris would have it no other way.

It's hard to believe but LWCM only hired Bridget and then James nine months ago. The extra capacity has allowed us to do more and I even took an extended break over summer this year, travelling to China and Malaysia. I expect to write about that soon.

Webinar and Share Trading

We now perform monthly valuation exercises, and then back them up with quarterly valuations based on complete data. The chart for recent valuations is below. The green line is the iNAV/share, which does tend to move around. The parallel dotted line is the iNAV/share with the effect of brokerage added, and the solid brown line is the offer price per share.



Given the inherent volatility of the iNAV/share we do not change the offer price until it (generally) is higher or lower than the iNAV/Share by more than $0.50.

Our quarterly webinar will be held at 5pm on Tuesday, 12 March. ***Pre-register here.*** We will present the results, talk about new investments and will answer any questions.

Our quarterly share trading window will be open from Monday, 11 March to Friday, 15 March 2019. The last window saw large volume as investors snapped up shares at a healthy discount. What will this one bring?

We are looking forward to an interesting year – committing to invest, if we can, into several new companies and to look to accelerate, if we can, our fund-raising results. If you are a wholesale investor looking to place $20,000, $200,000 or $2,000,000 then please get in touch at any time – Punakaiki Fund has immediate opportunities to invest in existing portfolio and new companies.

Lance

Portfolio Company Update

Key highlights for the December quarter for each company are set out below:

vend

Shareholding: **1.6%**

First Investment: **Aug 2015**

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

- Vend had another strong quarter, with its biggest ever net monthly recurring revenue growth occurring in November;
- Outbound sales were expanded into North America with a team in Toronto;
- Total stores using Vend now exceeds 27,000;
- Vend's product development team optimised inventory reports which now run up to 40% faster, enhanced in-app error messaging and handling, and released enhanced partner portals to certain US resellers; and
- Rhiannon White joined as Chief Product Officer and member of the executive team.
- Completed an investment round led by Qualgro and Movac

devoli

Shareholding: **43.4%**

First Investment: **Jun 2014**

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

- The impact of network outages in the September quarter was felt in the December quarter, which led to improvements in crisis communications systems and processes for the future. Since the network outages in August, Devoli has had 100% network uptime;
- Growth continued in customer acquisition in Australia, a difficult and fragmented market which lends well to Devoli's automation tools; and
- Extensive product development continued throughout the December quarter, re-writing a number of API's and separating the front-end from the core platform to allow faster feature releases, and easier 'white labelling'.

ONCE·IT

Shareholding: **25.6%**

First Investment: **Feb 2015**

Onceit is an on-line daily deal site selling mid- to high-end fashion, beauty and homewares, predominantly in New Zealand.

- Onceit had a record-breaking quarter: October revenues were at a record high, which was then followed by even higher November revenues, and a very strong December;
- Onceit's promotion on domestic Air New Zealand flights commenced through its partnership with Air New Zealand airpoints; and
- Over 4,000 new customers signed up in November alone.

MINDFULL

Shareholding: **19.6%**

First Investment: **Dec 2015**

Mindfull is a global advanced analytics practice that builds data, information management and warehousing, predictive tools and platforms.

- Mindfull's Mi Bi product has been developed for the US market and will be launched in the US in early 2019;
- Added a new Client Executive and three new graduates; and
- Callaghan innovation approved two more years of growth grant funding.

Shareholding: **3.8%**

First Investment: **Jun 2014**

Timely provides a software platform to beauty and wellbeing businesses to manage bookings, reminders, point of sale, reporting and analytics.

- Recorded revenues (both recurring and overall) were ahead of budget and costs were below budget for the quarter;
- Completed the onboarding of six new staff members, mostly in sales roles;
- In product development, Timely released a new consultation app on iOS for hair salons, and added functionality to allow customers to create and sell gift vouchers, order stock directly from suppliers, book directly from Instagram, and record and report client retention (a key metric for salon business owners); and
- Had some big customer wins, consistent with their strategy to target larger customers, including three new customers with over 100 staff each.

Shareholding: **6.3%**

First Investment: **Apr 2014**

Raygun provides a software intelligence platform including crash and error reporting, real user monitoring, and deployment tracking.

- Raygun announced a $15m self-funded investment into its New Zealand operations, including the hiring of 70 additional team members, starting now and over the next two years;
- Made significant improvements to its third product on the platform – Raygun APM (Application Performance Monitoring), primarily in performance and onboarding; and
- Enhanced product and service support for Raygun customers on Apple devices;
- Onboarded additional team members in front-end development, marketing, finance, and in operations administration; and
- Signed up a number of new key enterprise customers.

Shareholding: **17.7%**

First Investment: **Nov 2017**

Coherent Solutions develops and manufactures advanced laser test equipment for the global fibre optic communications market.

- Completed the development of the Software and Hardware platform which will enable the rapid development of the new product features in Coherent Solutions pipeline for 2019/2020;
- Hired Greg Crouch as a Director of Sales (USA) to manage the US subsidiary and US sales; and
- Had a large order delayed due to the US government shut down, but still delivered record results.

Shareholding: **19.6%**

First Investment: **Oct 2015**

Mobi2Go is a digital ordering and engagement platform for the hospitality sector.

- Successfully onboarded two senior leaders as Mobi2Go looks to scale key functions of the business: Ben Jones, Director of Customer Success (Melbourne) and Ruth Young, Director of People & Culture (Wellington). Mobi2Go is hiring a number of support and engineering roles, which can be found here;
- Signed on a number of notable customers, particularly in Australia;
- Continued to build out the functionality of Mobi2Go Loyalty, allowing clients to better interact, know and drive repeat purchasing behaviours of their customers; and
- Punakaiki Fund issued a convertible note as a pre-cursor to Mobi2Go's Series A funding round.

Shareholding: **29.9%**

First Investment: **Jul 2015**

EverEdgeIP is an intangible asset valuation specialist which helps companies drive growth and create wealth from intangible assets.

- Launched EverEdge Capital in November as a specialised intangible asset investment fund. 48 opportunities were under review in its first month of operation;
- The Intellectual Property Office of Singapore renewed its alliance with EverEdge in Singapore after a successful 12 month pilot;
- EverEdge's average return on fees for clients now exceeds 10x.

Shareholding: **19.1%**

First Investment: **Feb 2017**

Conqa provides software allowing the construction industry to do their quality assurance planning and execution online.

- Signed a significant Multiplex project on the construction of Collins Arch (447 Collins Street, Melbourne) which is a 49,000sqm PCA premium grade office building, part of a luxury mixed use development, which has been making headlines as Melbourne's next major landmark; and
- Presented at the Venture Downunder event to several New Zealand and international Venture Capital funds in the September quarter, and had strong interest from several funds about assisting with a possible capital raise.

Shareholding: **29.5%**

First Investment: **Mar 2015**

RedSeed helps large retailers increase their sales through proprietary and customised modules in a SaaS Learning Management System.

- True Alliance became RedSeed's largest customer in Australia with the addition of a wholesale programme, recruitment and training for Peak Trade;
- Fletcher Building decentralised its contracts to its various business units causing a reshuffle in the way this significant customer had been previously served. RedSeed remains a supplier and licensing for existing programmes continues, and an additional two new programmes are about to launch into the business which should continue to deliver strong results across the group;
- Continued to develop the platform which was released for Kathmandu in the September quarter;
- Received a strong pipeline of work for the first quarter of 2019; and
- Matt Pizzo joined the team as Sales Director for USA.

Shareholding: **24.6%**

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).

- Successful start to national supply to Countdown stores across New Zealand, with sales running well above their expected sell-through rates on a SKU/store/week basis;
- New Zealand success leveraged to close a deal with Woolworths Australia, which increases the distribution network by around 7x to 1,400 stores in Australasia. Following a very focused sales strategy in 2018, the expansion into the Australian market is a significant milestone for NZAW;
- Received an initial order from TOP (Thailand's largest supermarket chain) in advance of the company's completed FDA registration in Thailand;
- Commenced the rebranding of the NZ Natural Juice Company product line, a Hawke's Bay beverage company acquired in the September quarter, to align its look and feel with the E'Stel range; and
- Agreed a rights issue with all shareholders participating, to provide additional capital for the next phase of growth.

Boardingware

Shareholding: **30.1%**

First Investment: **Feb 2015**

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

- Significant customer wins including King's School in Sydney (one of the top three private schools in Australia, with over 1,800 day students);
- Developed a working Near Field Communication Checkpoint prototype, which allows students to swipe low cost NFC tabs with their own devices to check in and out of various locations on campus. This provides schools with a quick, accurate and low-cost model for tracking students on campus. Initial feedback has been extremely positive;
- Mike Didomenico joined the team in Boston in a sales role; and
- Boardingware were awarded a grant by Callaghan for a summer intern.

melon health

Shareholding: **30.3%**

First Investment: **Dec 2014**

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

- Secured contract extensions with two key New Zealand customers, Compass Group and Hutt Valley District Health Board, for a further 2 ½ years;
- Extended functionality of the Food Diary to include a nutrition look-up tool;
- Onboarded three new key additions to the executive team: Dwight French, CCO; Andy Newport, CTO; and Aaron White; COO;
- Received the Hutt Valley DHB Quality Award for "Excellence in Integration" for Melon's digital self-management programme for diabetic patients in the Hutt Valley. There was extremely close collaboration throughout the programme between general practice teams, Te Awakairangi Health Network and Melon Health; and
- Closed a $3.3 million investment round led by Punakaiki Fund. Punakaiki Fund is committed to contribute $2.0 million in total, with the option to invest another $2.4 million in mid-2020. Co-investors included K1W1 and Impact Enterprise Fund.

weirdly

Shareholding: **31.7%**

First Investment: **Feb 2015**

Weirdly is a Human Resources technology SaaS platform, helping companies filter the best candidates from thousands of applicants.

- Weirdly concluded a successful sales sprint November/December, and with a geographically dispersed team, including three new staff spread across different regions, this was an even greater achievement;
- Development of two major product features: *Video Intros*, which allows Weirdly to be used as a pre-application assessment, and *NXS* (Candidate experience scoring), which showcases Weirdly's effectiveness in improving candidate experience;
- Closed negotiations on a number of high calibre customers in the USA, Australia with new pipeline in the UK.; and
- Agreed a small rights issue with existing investors in anticipation of a larger capital raise H1 2019.

POPULATE

Shareholding: **14.6%**

influx

Shareholding: **25.2%**

HAYLOAD

Shareholding: **23.3%**

ThisData

Shareholding: **11.0%**

LINEWIZE

Shareholding: 1.9 million FamilyZone performance shares

There's Something in the Water

CHRIS' RAMBLINGS

A Long, Long Time Ago

To tell the story of New Zealand Artesian Water, you have to go back a long time. Back 16,000 years in fact, when the rain falling on the hills and mountains behind Nelson percolated down into the rocks and started its long underground trip to the sea.

You then need to fast forward to recent times when Andrew Strang (one of NZAW's founders) who not that long out of school, set up an importing and retailing business called Marocka with his wife. Marocka started with a single store in Nelson selling clothing, gold and silver jewellery and other wares and quickly expanded to three stores, one of which ended up being franchised.

The success and rising turnover of Marocka meant Andrew and his wife were soon making frequent trips overseas to source new products, which were imported mainly from China, Thailand, Indonesia and Mexico. On these product sourcing trips they got into the habit of brushing their teeth with bottled water. It seemed like the thing to do. The habit became so entrenched that they even did it when they were travelling in Australia.

It was this minor travel habit that got Andrew thinking about bottled water. Back in the early 2000's, bottled water was an immature market, but the idea of a premium water brand being created in New Zealand intrigued Andrew.

Like a Boss

While it had grown well, the 2008 Global Financial Crisis meant some hard decisions to be made at Marocka. Andrew and his wife decided that it was an opportune time to sell out. Once that decision had been made to sell, the business was sold within four weeks.

Soon after the sale, a referral from one of his former suppliers in China led to Andrew to a job at Hugo Boss in Australia as an intrapreneur - somebody with entrepreneurial flair that could lead innovation within the business. At Hugo Boss, Andrew got friendly with designers, marketers, and the guys on the ground, learning what he could about the premium brand game. However, it didn't last long as earning a wage wasn't nearly as interesting as creating your own business.

Diggy, Diggy Hole

At the time, Andrew's brother in law and NZAW co-founder Wayne was working for Solid Energy in the coal mines on the West Coast. Wayne heard about Andrew's plan and suggested that he go for a job in the mines doing analytical, GPS and mine set-up work. The deal was one week on and one week off, and paid Andrew more money than he knew what to do with.

Andrew got the job and he and Wayne spent their alternative weeks off working on the water bottling company concept. It was the start of three years of research, design-work, prototyping and market testing. When they were happy with what the product was going to look like, they built a website landing page with the shape of the bottle on it including its label, put $10,000 into a Google AdWords account and basically tested the market with a product which didn't yet exist.

The information gained was invaluable – they tested brand names (E'stel, NZPure and others) and what their pricing should look like. They focused on markets in Australia, China, US and New Zealand and kept the testing up for six months. E'stel was the name they needed, the bottle design was good, as was the price point. They also got plenty of enquiries for bulk water.

Curvy Stuff

When the team initially looked into the bottled water market, they noted that there were brands that were doing really well, and others coming into the market and failing. A common theme that was apparent was that design-focused companies had a better chance of survival than those that just focused on the water. NZAW needed to be design focused!

The curve was the first bottle design element. It had a tactile feel and hugged your hand – the feedback was good. The large cap was next. Other brands that had bottles with a "complete look" (where the cap wasn't an after-thought on the top of the bottle) usually did fairly well.

By playing around with these two aspects, they got to something that looked pretty good, but a round base didn't do the design justice. So they started experimenting with a square base. This process wasn't quick or easy, but by being design-led, and forming a lot of different prototypes and putting them into people's hands, they came up with the current bottle design. The blue tinge that has been recently added was designed to make it stick out from other bottled water on supermarket shelves and to make the water look more 'glacial', in line with the E'stel's branding.

All In

This testing gave both Andrew and Wayne the confidence to sell their houses to raise seed money for the business. With a bit of additional funding from another family member and a $300,000 debt facility from Kiwibank, they had about a $1 million all up to play with.

The first thing they looked for was a plant line. There was a small one in China that had come up for sale at around the same time that Solid Energy were looking to do a round of lay-offs. Wayne and Andrew sent in their redundancy notices and the day after they finished up, they jumped on a plane to China. They had booked their return ticket for two weeks' time but ended up staying over six weeks – the plant line was wasn't ready to go, then they had to learn how to use the line and then it needed to be packaged up into shipping containers – all a major learning curve.

Oh, Sh*t!

With the bottling line sailing slowly towards New Zealand, the next major item on the list was securing a water source. The original water source that the team had identified was located in Rai Valley, a small town between Nelson and Blenheim.

It looked good: there was a land, a building suitable for the bottling line and consent for a one million litre per day water take. They signed up to a deal to purchase the property for $500,000 – half of their money, subject only to due diligence on the water source.

The next step was a meeting with the Marlborough District Council. The council were really engaged, but when Andrew and Wayne turned up at the meeting, they were surprised to find about twenty people from the Council waiting for them, including geological experts, water scientists and engineers. The uniform advice from them all was not to set up at that particular spot. Why? Well… the water was no good.

Opening the Plant

Sometimes to get the Prime Minister to open your plant, you just have to ask.

This turn of events was unexpected. The water source had looked good. But it will look good, the Council advised, until it rains. Sure enough, water testing undertaken after a period of decent rainfall showed that the rain contaminated the water with high nitrates and other nasties. It was completely unsuitable for export. Andrew defined this as their first "oh sh*t! moment". Luckily, they were able get out of the deal under the due diligence clause, but it still left them without a water source.

As it turned out, the solution was closer to home. A recently surrendered bore in the Tasman District became available, and the water source turned out to be alkaline. There was no initial plan to source alkaline water – that was just the luck of the draw. The team undertook a bit of research and found out that the alkaline water segment of the market was small but growing fast. It was an aspect of the E'stel brand that could provide a real point of difference to other premium brands that were selling artesian water.

Back On Track – Sort Of

Just as the water source was secured, the bottling plant began to arrive on the wharf in Nelson. The team secured a warehouse in the industrial part of the city and started assembling the plant. The plant line had been sold on the basis of having the capacity to bottle 5,000 bottles per hour, and while it could theoretically be made to do that, it needed a lot of extra money spent on it to make that happen. Instead they had to run the plant at 1,000 bottles per hour, meaning that they were looking at 40 hours of bottling to fill a twenty-foot shipping container with product. This wasn't great as it meant they couldn't supply the size of sales contracts that they had been working on and Andrew and Wayne had to instead turn their focus to customers that wanted the smaller volumes that NZAW could actually supply.

Bag in Box

NZAW is not just about bottling water, they have a very successful line of six litre and ten litre boxed products, with strong sales in China. The product is a lot like a cask of wine, and plastic bladder with a tap, enclosed within an attractive box.

Boxed water sales have been particular good in China, and if you are wondering why NZAW's boxed water comes in two sizes, that's because market research showed that the 10-litre box was uncomfortably large for ladies (the main buyers in that market) to handle.

Tough Times

The second year was the toughest. There was a constant lack of money, there were issues in fulfilling orders, there were product quality issues, and to top it all off, Andrew's father got cancer and passed on.

The one thing that kept them going through it all was that everyone who touched the bottle and everyone who tried the water loved it. Overseas enquiries kept rolling in and other water and distribution companies became interested, not just in the product, but in the company itself.

But it was nose to the grindstone on completing orders, and there were many occasions when Andrew and Wayne would start at 7 a.m. to do bottling runs and not pack up until 2 or 3 a.m., only to be back in the factory at 7 a.m. the next day – day-in and day-out. Andrew remembers how his wife and children would bring in dinner to the factory, just so they could eat it together and then Andrew could keep on working.

After a few big potential customers got to grips with NZAW's throughput limitations, talk turned to investment. Initially the company took a smaller amount of capital from two local accountants – enough to fund working capital, but not for a material investment into the plant line. Andrew and Wayne had started to get approaches from investors about a major investment, which would have resulted in a majority stake in the company passing to a new investor and potentially resulted in the relocation the whole business overseas.

New Zealand Trade and Enterprise then came into the picture to lend a hand to NZAW to raise new capital and after performing due diligence, Punakaiki Fund made its first investment into NZAW in June 2016. Andrew remembers the excited reaction from his and Wayne's families at the time the subscription agreement was signed, despite still living at their parent's houses. There was now a palpable feeling that there was something real here, something they could have a good crack at and a real chance of creating something huge.

Survival Mode

In the grimmest days of NZAW's early history, Andrew and Wayne never lost hope. When their seed money had run out, more money was needed. Some of this came from the business' revenues, but it wasn't enough.

There was a somewhat dark joke between the co-founders as to "what can we sell next?" to fund the wages of their workers. A one low point after they both had no funds left, had sold their houses, borrowed against their cars and had borrowed way too much money from their parents, attention turned to Wayne's boat. While a long shot to sell quickly, was put on the market and sold the next day for $5,000 in cash. Those funds immediately went to pay wages.

They had a not-so-serious (but actually serious) list of other things that they could sell for cash and this list was getting pretty short by the time Punakaiki Fund invested.

The Core Team

Adrian Toft had been involved with NZAW from early days when Andrew and Wayne needed help getting their first plant line up and running. Over time Andrew and Wayne got to know Adrian better and had a number of far ranging discussions about the water bottling game. Adrian believed that there something in the business - Andrew had an unique ability to sell the NZAW dream and open doors, Wayne would just make stuff happen/work and the employees on the factory floor loved him, and the company had an important Chinese customer on-board. As Adrian had management and commercial expertise, along with a lot of experience in the water bottling game, the three of them decided to join forces and drive NZAW forward.

Eco-Think

When NZAW started out there wasn't that much customer concern with the environmental aspects of bottled water. This has definitely changed and NZAW have been moving with the times, and retailers are delighted. While it's hard to eliminate plastic from plastic bottles, they have:

- Cut the weight of the plastic used in the bottles by half by making thinner-walled bottles;
- Used recycled PET plastic in the bottles;
- Transitioned from plastic shrink-wrapped to cardboard boxed bottles;
- Started to use recyclable slip sheets instead of pallets; and
- Started to produce small runs of glass bottles.

Adrian showed his commitment to become a member of the core NZAW team through purchasing shares in NZAW at about the same time as Punakaiki Fund was making its second investment in the business. The NZAW board and the team decided that to deliver on their vision, NZAW needed a new plant line (to increase through-put, solve delivery issues, improve quality and to improve margins), more skilled people working in the company (to allow each of the core team to focus on what they were good at, to professionalise the business and to make sure the core team were able to operate without burning out) and to raise new capital to make it all happen.

Money Time

Raising a significant amount of new capital was the first thing on the agenda, and a material investment ultimately came from Wellington investor John McLeod after some hard work by the team getting a business plan fine-tuned and a financial forecast finalised. On the back of this capital raising, NZAW were also able to secure a significant amount of finance from the BNZ. Together, these two sources of new capital provided the funding for both a new higher-speed plant line, the additional people that the company needed and working capital for the business.

Now, despite raising several million dollars of new capital, NZAW was still very lean, and couldn't quite afford a refurbished fully-automated Sidel (a top-of-the-line brand) bottling line running at 24,000 bottles per hour which was available to be relocated from China. However, another option came in from wine-maker Nobilo, who had a plant line based in Auckland for sale for a fraction of the price, although it did need a bit of refurbishment.

The Plan

By the time the Nobilo plant line was shifted to Nelson and was up and running, the team had also sourced new suppliers, set up proper financial systems within the business and hired a small number of key staff. Progress on a large US deal that NZAW was working had stalled, but fortunately the company secure an OEM contract (a deal to manufacture a third-party's brand through your plant line) from a Chinese customer that had a joint venture with a well-known New Zealand family.

With this in contract place, NZAW's sales were 80% non-E'stel branded, and 20% E'stel branded. NZAW wanted to significantly increase the amount that they were producing under the E'stel brand.

There was a simple, but audacious plan. Land a series of big New Zealand supermarket chain customers, get into the food service market and land a big player in Australia.

Juicing It Up

In September 2018, NZAW acquired a small 100% juice label based in the Hawkes Bay called Orchard Gate. Orchard Gate owns no significant assets aside from its presence in stores and brand loyalty. With the bottling done by a third party under contract, Orchard Gate was a low-cost acquisition for NZAW. There is plenty to do to help Orchard Gate reach its potential, but with a long shelf-life and no added sugar product, Orchard Gate continues to attract discerning customers and store buyers.

There are some interesting beverage options that are now available to NZAW. One is a water/juice mix called a "quencher", which would be upwards of 70% E'stel alkaline water, with the balance being fruit juice. It offers a taste of juice, but with much lower sugar content. Other things on the horizon for NZAW include functional drinks (water with added nutrients), sparkling water and more glass bottling. Stay tuned.

Plan in Motion

NZAW bumped through 2018 as the team battled to keep enough cash coming into the business to execute on the Plan. In addition to a couple of small capital raises from existing investors (including Punakaiki Fund), they sourced capital from a new investor and continued to generate modest but increasing revenues from water sales.

The sales effort continues apace, with one eye on New Zealand and one on making in-roads into the Australian market. They headed to Australia and got Andrew's old friend Jeff Bush (former Sales Manager of Fosters) in a room for a day to understand the market there and perfect their pitch. Geoff has lots of clout and experience in the Fast Moving Consumer Goods market in Australia and with his input they were able to really polish the E'stel proposition.

Things then started happening quite quickly on the sales front in both New Zealand and Australia and by the end of 2018 NZAW could count amongst its customers Woolworths Australia, Woolworths New Zealand, Service Foods New Zealand (wholesalers to the hotel and restaurant trade) and Foodstuffs South Island (the umbrella group for Pak'nSave, New World and Four Square chains in the South Island).

Virtual Groceries

Having an edge is important in ranging meetings with supermarkets and on NZTE's advice, NZAW visited the Food Innovation Centre at Monash University. The centre is home to a lot of experts on branding, marketing and selling food in Australia, along with some really interesting technology. They offer services that are focused on creating products that are customer focused, category manager focused (the buyers for supermarkets) and stand out on the shelf.

The virtual theatre screen in particular is an interesting tool. It is basically an array of large TV screens upon which supermarket aisles can be shown. New products can be places on the shelves to show how they stand-out, and "field tests" can be undertaken by putting "shoppers" in from of the screen and monitoring their eye movements - where they are looking, and how long they are looking at individual items for. The E'stel-brand water rated well through this testing, but the newly acquired (see below) and as yet rebranded juice didn't show up any point of difference.

Hard Knock Life

NZAW appreciates how hard it is to get on supermarket shelves in New Zealand and Australia, competing in a market dominated by firms like Coca Cola Amatil and Frucor.

The recent deals that NZAW has secured has taught NZAW how to sell their products, gain relationships and put the brand out there. The team has always believed that having the E'stel brand on the shelf in Australia and New Zealand would be the critical first step to give the brand global exposure, and this is coming to pass, with a steady stream of enquiries from all over the world. Importantly, rather than having to "push" into a new market entirely under their own steam, NZAW is getting offers to get "pulled" into those markets by third parties who have seen the E'stel products on the shelves. But as always, we are still just at the start of the story.

The Final Words

Before we finish, let's have a look at what NZAW believes has contributed to their success to date:

1. ***The Power of the Team***. The culture of their team is paramount to NZAW, and it has been protected religiously as they have grown. It provides them with the resilience to deal with every problem that is thrown their way.
2. ***Focus, Planning and Execution***. NZAW developed a six step strategy which has been essential in keeping clear focus and alignment within the team when working towards its defined goals.
3. ***Looking at the Business Model Differently***. Following the traditional water bottling model in New Zealand would not have likely turned out well for NZAW. Knowing where the margins are and that water is a volume game with significant efficiencies kicking in for logistics, packaging and labour after certain levels of production are reached has been important for the business.
4. ***Intermediaries are Hard***. The old rule of sales is that you need to be talking to the buyers, rather than dealing with intermediaries. It still holds true today and by dealing directly with buyers you can gain their trust, get direct feedback and work directly with them on both solving their problem and creating new opportunities. NZAW has had mixed results dealing with intermediaries and generally good results from dealing with its customers directly.
5. ***Relationships***. Keep your stakeholders closely informed and believing in you. Build strong and loyal relationships with both suppliers and customers. They are more likely to back you if the going gets tough, as they have with NZAW.
6. ***Financial Planning***. Cash is king. Know your numbers intimately. You don't want surprises which mean you run out of working capital.
7. ***Luck***. Every successful business has it. NZAW could be in the right place at the right time - the alkaline water category is starting to move and NZAW has arrived in the market just as retailers were looking for a brand to disrupt bottled water's ever decreasing prices. NZAW is seen as quick moving, innovative and a potential solution to low pricing by its customers.

Why?

I remember the thinking around the office when we were looking at investing in New Zealand Artesian Water back in 2015: "What an interesting investment prospect", "what a great New Zealand story". Taking a plentiful natural resource, sticking it in a bottle and selling it, both here and overseas. The design and production line aspects of it were right up our alley. It checked the growth box. The diversification benefits that it could offer our portfolio couldn't be over looked either. What wasn't to like?

It surprised me a bit when we got some pushback from a few shareholders. The comments usually fell into one of two camps: it's not tech, or, it's not very green.

On the first point – we do love tech. Tech ticks a lot of our boxes, especially the growth one. While we have a lot of tech companies in our portfolio, we are not exclusively a tech fund... or a software fund... or a SaaS fund. We are a growth fund, and that's why I think NZAW sits quite neatly within Punakaiki Fund's portfolio. NZAW is currently our investment with the fastest growing revenue.

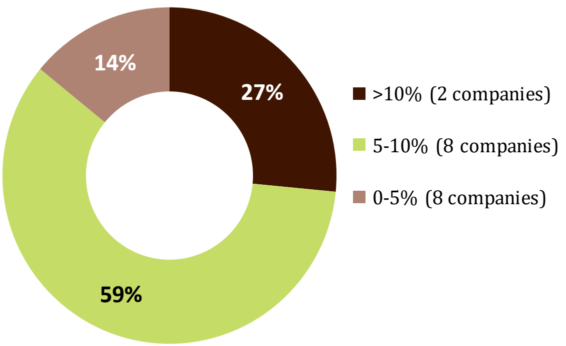
On the second point – you can definitely argue there are environmental angles to be considered in respect of NZAW. We don't have a problem with the water extraction. The reservoir where NZAW source their water is a renewable and sustainable substantial resource and by any account does not appear over-allocated. NZAW's draw on this reservoir does not deprive users downstream of water and much of the water flowing through the gravels of the reservoir ultimately empty into the seabed, rather than charging the flow of any local waterways.

Plastic is trickier. Single-use plastic bottles are obviously an issue and NZAW is committed to improving the industry. Check out the Eco Think sidebar above what NZAW is doing on plastic.

Portfolio Valuation Splits (as at 31 December)

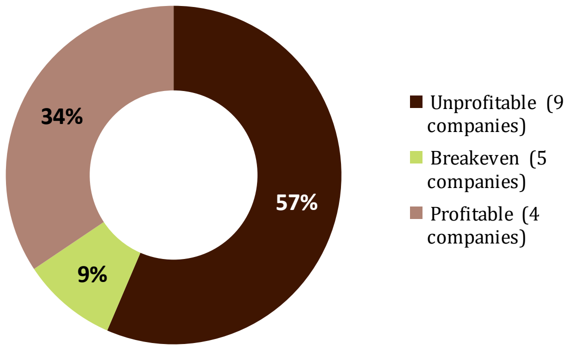
The value ascribed to Punakaiki Fund's investments excluding cash is $42.52 million. The diagrams below show various splits of this valuation, less the value of our residual holdings in disposed-of companies (ThisData and Family Zone), by differing methods.

Valuation Split By Concentration



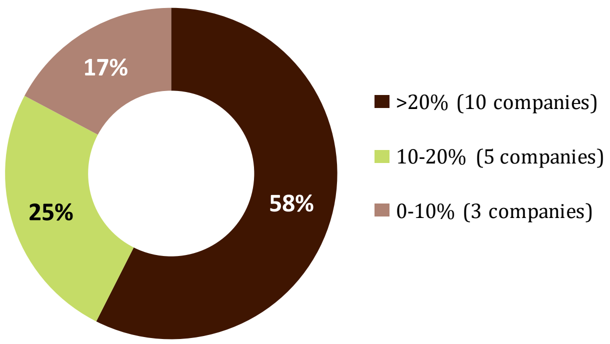
Punakaiki Fund has 27% of its investments by value in two companies which each contribute at least 10% by value to Punakaiki Fund's total portfolio value.

Valuation Split By Profitability



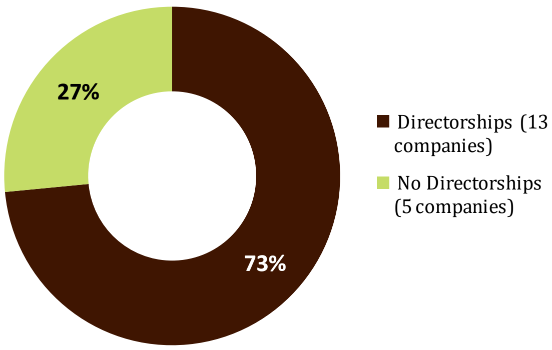
57% of Punakaiki Fund's investments by value are in unprofitable companies. 9% are in breakeven companies and 34% are in profitable companies.

Valuation Split By Ownership %



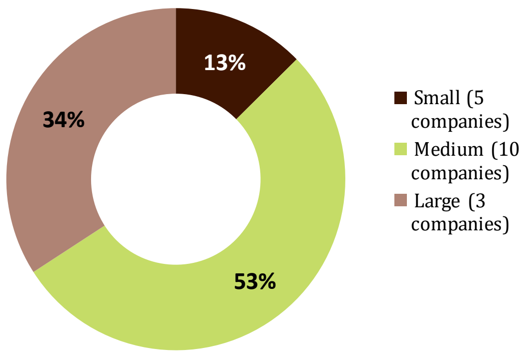
The companies in which Punakaiki Fund owns more than 20% comprise 58% of the total portfolio value. Those between 10-20% comprise 25% of the value.

Valuation Split By Directorship



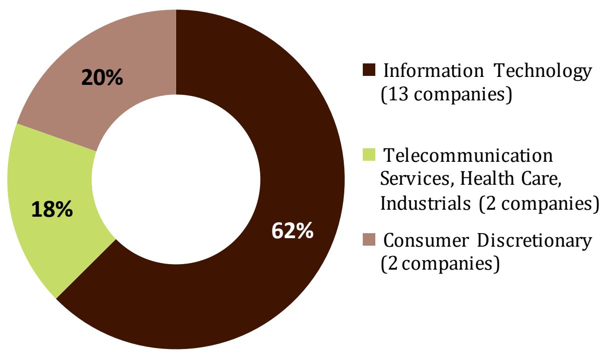
73% of Punakaiki Fund's investments by value have Punakaiki Fund board representation provided by the manager.

Valuation Split By Revenues



Punakaiki Fund holds 13% of its portfolio in Small companies (less than $1 million in revenues p.a.), 53% in Medium companies ($1-10 million) and 34% in Large companies (more than $10 million).

Valuation Split By Industry



62% of Punakaiki Fund's portfolio is held in the Information Technology industry, 18% in Consumer Discretionary and 20% in Communication Services, Health Care and Industrials combined.

In the News

EverEdgeIP	EverEdge Global announces appointment of CIO, Francis Milner
	Addvalue reveals S$123m valuation in response to shareholder queries
	Intangible risk a tangible threat
Melon Health	Social enterprise investment fund closes with $9M
	Digital mental health tool trialled at three DHBs
	Callaghan taxpayer funding for Bitcoin startup draws brutal criticism from tech execs
	Between making money and doing good
	New Zealand's Impact Enterprise Fund misses target with $6.2 million in commitments
	Porirua picked for Piki as more to be done for distressed young adults
Raygun	Raygun aims $15m investment at Wellington
	Trade Me takeover offer good deal, but not a 'done deal'
	Raygun announces $15 million NZD investment into Wellington
	Wellington's 'entrepreneurial spirit' sees tech boom as companies flock to the capital
	Kiwi tech companies like Raygun, Weta and Trade Me crying out for tech literate recruits
Timely	The end game that startups need to think about
Vend	Vend POS Review 2019
	'We bought a zoo' - Vend founder Vaughan Fergusson's new gig (and name)
Weirdly	Managing the Communication Chaos of Collecting Employee Feedback for Remote Workers
	How Strong Values Can Attract and Retain, with Devin Rogozinski of Atlassian
Punakaiki Fund	Punakaiki launches 'private equity for the people' funding round, updates on NZX plans
	Trade Me has grown from a 20-member start-up to a $2.5b company - here's how
	Nothing ventured: government start-up fund urges big thinking
	Don't be afraid of our best companies heading overseas

Share Trading

The last Quarterly Share Trading Window concluded on Friday, 7 December 2018, and resulted in 14,270 shares being traded at a price of $18.50, for a total turnover of $263,995.

The next Quarterly Share Trading Window will open on Monday, 11 March 2019 and close on Friday, 15 March 2019. We will email a reminder closer to the time. If you would like to either buy or sell Punakaiki Fund shares, please email James at james@lwcm.co.nz and we will run an auction process to determine a 'clearing' price that shares will trade at. Those who bid at or above the clearing price will buy shares at the clearing price, and those who offer 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.

Employment Monitor (December Quarter)

Here is a snap shot of our portfolio companies' employment situation at the end of December:

That's 381 jobs as at the end of the December quarter – a net 18 more than at the end of September.

Vend's employment figures are not included. ThisData's and Linewize's staff has been removed following their sale.

Corporate Update

Governance

The Board convened on 15 February 2019 for the quarterly Board meeting to consider, among other matters:

- To set the value of Punakaiki Fund's investment portfolio as at 31 December 2018;
- To review Punakaiki Fund's investment portfolio;
- To consider updates to the Statement of Investment Policies and Objectives;
- To consider updates to the Delegated Authority Policy;
- To consider updates to the Privacy Policy;
- To consider updates to the Business Continuity and Disaster Recovery Policy;
- To consider updates to the Investment Guidance Policy;
- To consider LWCM's 2019 priorities discussion document; and
- To receive and consider this quarterly report.

The Board's next meeting is planned to be held on 10 May 2019.

Financial Reporting

The Investor Net Asset Value of the fund after all contingent performance fees at 31 December 2018 was $41,543,129 (or $21.52 per share), an increase from the 30 September 2018 Net Asset Value of $39,690,456 (or $21.93 per share). This change is partly from decreased portfolio company valuations (downward impact) and partly from issuing new capital (upward impact). The Accounting Net Asset Value (which includes only the cash component of the performance fee and is used to calculate the management fee) was $43,196,048, compared to $41,653,575 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 2018 of $1,691,071;
- $2,654,111 was invested in Weirdly, New Zealand Artesian Water and Boardingware (all new shares), Melon Health (convertible note and new shares), Mobi2Go (convertible note), and Coherent Solutions and Devoli (both existing shares);
- $834,111 was recognised as a net decrease in the value of Punakaiki Fund's investments at the end of the December 2018 quarter compared to those values set out in the September 2018 quarterly report;
- $2,601,006 was raised from investors via both the November retail capital raising round and the December wholesale capital raising round;
- Management fees of $239,508 including GST were paid to LWCM;
- Brokerage Fees of $78,030 were paid to LWCM;
- $660 was paid for accounting services;
- $3,450 was paid for independent valuations (a final payment for an earlier valuation);
- $46,190 was paid for insurance;
- GST refunds of $19,651 were received; and
- A closing cash balance of $1,289,970.

Punakaiki Fund Limited - Unaudited Financial Position as at 31 December 2018	NZ$
Current Assets	
Cash on deposit	1,289,970
Accounts Receivable	40,126
Prepayments	33,856
Non-current Assets	
Investments	42,520,000
Total Assets	**43,883,952**
Current Liabilities	
Accounts payable	45,103
Non-current Liabilities	
Accrued Performance Fee	642,802
Equity	
Retained earnings - Operations	(1,800,549)
Retained earnings - Accrued Performance Fee	(2,295,720)
Share-based Payment Reserve	1,652,918
Asset revaluation	15,175,343
Share capital	31,274,103
Capital Raising Costs	(810,048)
Total Equity and Liabilities	**43,883,952**
Accounting NAV	43,196,048
iNAV (after deduction of the performance fee)	41,543,129
iNAV per Share	$21.52

Punakaiki Fund Limited - Cash Flow Summary for the quarter ending 31 December 2018	NZ$
Operating Cash Flows	
Gross Interest received	370
Withholding Tax on Interest	(122)
Bank Fees	(56)
Payments to External Advisors	(4,110)
Management Fees	(239,508)
Other Net Expenses	(46,190)
GST Refunds	19,651
Total Operating Cash Flows	**(269,965)**
Investing Cash Flows	
Investments made	(2,654,111)
Investments realised	-
Dividends received from investments	-
Total Investing Cash Flows	**(2,654,111)**
Financing Cash Flows	
New capital received	2,601,006
Brokerage Fees	(78,030)
Dividends paid	-
Total Financing Cash Flows	**2,522,975**
Total Cash Movements	**(401,101)**
Opening cash balance	1,691,071
Closing cash balance	1,289,970

Expected Cash Flows for the March 2019 Quarter

Following the end of the December quarter, Punakaiki Fund has raised $258,000 of new capital and has made additional investments in RedSeed and Devoli totalling $373,884. Further investments are likely to be undertaken before the end of the quarter.

The payment of the interim March Quarterly Management Fees to LWCM of $244,940 including GST occurred in early January 2019.

Accounting fees of $10,801 and Director Fees and Out of Pocket Costs of $14,337.44 (both including GST) have been paid, and a GST refund of $7,374 has been received to date in the March quarter.

Capital Raising Plans

Punakaiki Fund has put in place a continuous wholesale offer, which was launched in early December 2018. This offer allows wholesale investors to invest in Punakaiki Fund at any time. This continuous offer is planned to be open for investment for the entirety of the March 2019 quarter.

It is expected that the Punakaiki Fund's next retail offer will occur within the September to November period in 2019.

Additional Disclosures / Conflicts

Mandy Simpson has been employed by Z Energy as their Chief Digital Officer, reporting to Mike Bennetts. Mandy and Mike are both directors of Punakaiki Fund, and the other directors agreed to monitor the situation, noting that Mandy Simpson is up for rotational retirement (and possible re-election) at the 2019 Annual Shareholders Meeting.

Director John Berry's Pathfinder Asset Management accepted a controlling investment from Alvarium Wealth Management. We do not expect this will create conflict for John and Punakaiki Fund.

Contact

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

Lance Wiggs
Lance Wiggs Capital Management Limited
lance@lwcm.co.nz
+64 21 526 239

Chris Humphreys
Lance Wiggs Capital Management Limited
chris@lwcm.co.nz
+64 27 622 7803

For Governance queries, please contact:

Mike Bennetts
chair@punakaikifund.co.nz