

Punakaiki Fund Limited

June 2016 Quarterly Report

Welcome

We had three big tasks this quarter.

The first, and most enjoyable, was to make four new investments, into Populate, Linewize, Agtract and New Zealand Artesian Water (NZAW). We have the ability to make follow-on investments into Agtract and NZAW, and, subject to sufficient funds being raised, will make a further investment into Linewize.

We are very happy with these investments, and I just have to share a comment made by Scott Noakes, a founder and CEO of Linewize, who following signing the subscription agreement stated *"Thanks all for making this the complete opposite experience of what I was expecting."*

Linewize and NZAW are both well established and near profitable companies, with the investment being used to accelerate growth. We are expecting great things.

Populate and Agtract are much earlier stage, with no revenue hitting the books but agreements in place for future revenue. These were much smaller investments (combined less than 2% of the portfolio) and we look forward to watching them grow. Chris Humphreys landed his first directorship, parlaying his own experiences as a tractor operator to help Agtract.

The second big activity was the end of year accounts process, which included the robust valuation process referred to in our last quarterly report, and added the audit process with Ernst & Young. That audit focussed on the assessment of valuations of the companies in the portfolio, and they especially challenged our use of value to (recurring) revenue multiples. There was a natural clash between the approach used by traditional accounting practices and the recommended approaches in the International Private Equity and Venture Capital Valuation Guidelines, which we use to determine fair value. We always knew this would be an issue, and we also know that using forecasts/discounted cash flow models or external valuers can create valuations well in excess of market norms. Ernst & Young did warn us that the first audit would be painful, but our pain is your gain of confidence that we are not deliberately marking up the value of our assets.

The third task, which is on-going, was to prepare documents to raise more capital from existing and new investors. Expect more on this soon.

Valuation Results

While the board made a lot of internal valuation changes, the Net Asset Value per share is slightly higher than last quarter, at \$17.28 per share, or \$17.31 million (net of both the cash and share component of the accrued performance fee). The directors marked three companies up and three down. The largest fall was due to a pending investment event at a price we believe to be too low, the other two were marked down due to underperforming versus the value we hold. To be clear we still



maintain our own perspective of long term value for each, but we mark down fast, and are also forced to when externally driven financing events occur.

When we see an external financing round that we believe may be over-valued then we often ignore it, while in general we are quick to devalue and slow to increase value for any investment. When we do increase values we like to leave a margin of comfort.

Since the quarter-end we have had new information emerge about certain companies, and when we make the next funding offer we will almost certainly see a higher underlying NAV per share. We do, recall, add the 3% brokerage to the NAV per share so that existing investors are not disadvantaged.

While the overall result is almost certainly going to leave us short of the \$19 September options that the investors from the last round hold, we are also have a lot more confidence in the value of the portfolio after weathering a market downturn. We encourage your participation in the next round as we help the companies' growth.

The fun stuff

It's a high quality group of companies, with [REDACTED]. Those overall revenues, when weighted by equity, increased by just shy of [REDACTED] % year on year when measured on a quarterly basis.

What's very unusual for a growth fund is that the aggregate EBIT and net profits, when weighted by equity, are positive. This principally reflects that some of our larger holdings are in large companies that are delivering very good returns. They represent the future vision for all portfolio companies – large, growing fast and profitable.

We are also very happy that most of the companies are sustainable without requiring additional funding rounds. We can expect these to occur, but they are generally by choice not necessity.

You'll notice a different, shorter, look for this Quarterly Report. It's been getting tougher to write these as the number of companies we have invested keeps rising. We do benefit from a strong portfolio effect though, with overall risk of loss lowered by diversity amongst industries, business models and even currencies that companies earn and have costs in. If you have any questions then please send them to myself or Chris.

The Annual General Meeting will be held this quarter in Auckland and, if demand is there, similar meetings in other cities too. We will send out a survey to determine that demand.

We thank you for your continued support and look forward to meeting many of you in the next two months.

Lance

Conflict Management

During and after the quarter my Sydney-based brother, John Wiggs, was retained by Vibe Communications as General Manager of Vibe subsidiary Intellipath, and is also essentially in charge of all Australian Vibe business. Please refer to the complete story at the end of this document.



Portfolio Company Update



Shareholding: **6.3%**

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

First Investment: **Apr 2014**

Highlights for the June quarter include:

- Solid quarter on quarter revenue growth;
- Releasing the beta versions of Pulse for Mobile & Pulse Insights;
- Enterprise sales increasing in number and frequency including serving a global pizza chain;
- Starting to hire a U.S. sales team; and
- Being a finalist in the Cyber Gold category of the Wellington Gold Awards.



Shareholding: **4.7%**

Timely provides appointment booking services to beauty salons, hairdressers, spas, consultants and personal trainers.

First Investment: **Jun 2014**



Shareholding: **25.2%**

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

First Investment: **Jun 2014**



Shareholding: **24.0*%**

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

First Investment: **Jun 2014**

Highlights for the June quarter include:

- Good quarter on quarter revenue growth and strong profitability growth;
- IntelliPath signing an updated agreement with NextGen Australia which gives Intellipath a more competitive position in the Australian market; and
- John Wiggs (Lance Wiggs' brother) being formally appointed to head Intellipath (based in Australia).

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





Shareholding: **19.0%**

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

First Investment: **Dec 2014**

Highlights for the June quarter include:

- Signing up a number of New Zealand health clinics and organisations for their BetaMe platform;
- Very strong sales pipeline, building from the outstanding success of the pre-diabetes trial with Midlands; and
- Being reviewed in the US Review of Digital Diabetes Programmes along with 40 other companies. Melon was rated 4th overall, (ahead of some of its largest competitors) and highest in terms of engagement.



Shareholding: **25.6%**

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

First Investment: **Feb 2015**

Highlights for the June quarter include:

- Solid revenue growth, despite Jay Goodey's absence for two months;
- New hires including three new people in the buying team and a new operations manager;
- The business showing increasing management critical mass after founder Jay Goodey took his well-earned break and the operations manager resigned to move to Australia.



Shareholding: **28.6%**

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

First Investment: **Feb 2015**

Highlights for the June quarter include:

- Very strong quarter on quarter revenue growth;
- Releasing a native iPhone app with very positive feedback;
- Working on replacing current iPad app with a universal iOS app to work across all IOS devices and on improving the software's leave system;
- A successful northern hemisphere selling period with a step up in revenues expected next quarter; and
- Founders Paul and Kurt to attend the Blackbaud conference.



Shareholding: **29.5%**

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

First Investment: **Feb 2015**

Highlights for the June quarter include:

- Excellent quarter on quarter revenue growth, driven by large consultancy and design add-ons;
- A decision to focusing more on large/enterprise clients;
- Securing more large household-name customers; and
- Focus on Sydney and USA based potential large clients.



Shareholding: **12.0%**

RedSeed helps large retailers train their staff by combining training videos with a SaaS Learning Management System.

First Investment: **Mar 2015**

Highlights for the June quarter include:

- Strong quarter on quarter revenue growth;
- Re-filming and updating of RedSeed's three-level, 22 module core sales product programme;
- Starting to get traction with uptake for their health and safety programme;



- Working on the translation of their product for a pilot for a client with a team in Romania. Translation of existing products is also likely to be required for some of RedSeed's existing customers.



Shareholding: **10.9%**

ThisData provides secure login services for SaaS companies.

First Investment: **Apr 2015**

Highlights for the June quarter include:

- Very high quarter on quarter revenue growth (off a very small base)
- Deploying a new machine learning based risk weighting feature and a new dashboard user interface with security analytics statistics; and
- Entering the Best Awards, and being nominated to enter the New Zealand Innovation Awards.



Shareholding: **4.8%**

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

First Investment: **Jul 2015**



Shareholding: **2.1*%**

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

First Investment: **Aug 2015**

Highlights for the June quarter include:

- Releasing a number of product updates during the quarter including support for store credits, a new navigation menu for new trialists and launching a new Payment Express integration into the UK market.
- Updating pricing plans for new customers including the removal of arbitrary product limits for starter plans; and
- Alex Fala was confirmed as CEO and Darryl Robinson (formerly from Xero) joined as CFO.

** on an undiluted basis. 2.0% on a fully diluted basis (after accounting for employee options)*



Shareholding: **11.0%**

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

First Investment: **Oct 2015**

Highlights for the June quarter include:

- Very strong quarter on quarter revenue growth;
- Releasing advanced delivery mapping functionality and beginning to roll this out to customers;
- Continuing to work on a number of larger deals in New Zealand in Australia for + store site clients; and
- Dave George has joining as Chief Product Officer, formerly of BNZ and previously Serato.



Shareholding: **20.0%**

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

First Investment: **Dec 2015**

Highlights for the June quarter include:

- An excellent quarter with outstanding revenue growth – although this is a seasonal business;
- Winning a competitive process to supply software and services to the New Zealand Fire Service;



- Launching the Qubedocs NOW software to address market needs in the US; and
- Completing the first sale of the Tableau business intelligence software.



Shareholding: **9.2%**

First Investment: **May 2016**

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



Shareholding: **8.0%**

First Investment: **Jun 2016**

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

Highlights for the June quarter include:

- A number of New Zealand-based resellers on-boarded;
- Being awarded a Callaghan Innovation █% co-funding grant for R&D projects;
- Being awarded a grant from the Education New Zealand International Education Growth Fund (IEGF) for █% co-funding of international travel expenses;
- Taking first external investment from Punakaiki Fund with Lance Wiggs joining the Linewize Board;
- Being a finalist in Start-up category of the 2016 NZ Hi-Tech Awards and also being a finalist for the 2016 Australia and New Zealand Internet Awards in the Tech Startup Award category; and
- Being accepted into the Xone accelerator programme.



Shareholding: **11.8%**

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 June quarter include:

- Ramping up production and sales, particularly into the Chinese market;
- Examining production improvements, including production line equipment improvements and adding a second shift; and
- Taking first external *investment* from Punakaiki Fund with Lance Wiggs joining the NZAW Board.



Shareholding: **17.6%**

First Investment: **Jul 2016**

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

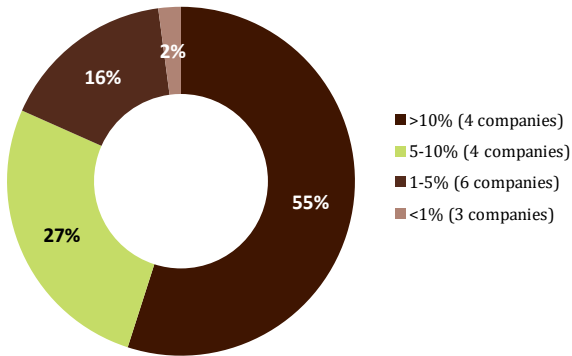
Punakaiki Fund made a new investment in Agtract just after the end of the quarter. Agtract are currently focused on product development and sales ahead of their September 2016 product launch.



Portfolio Valuation Splits

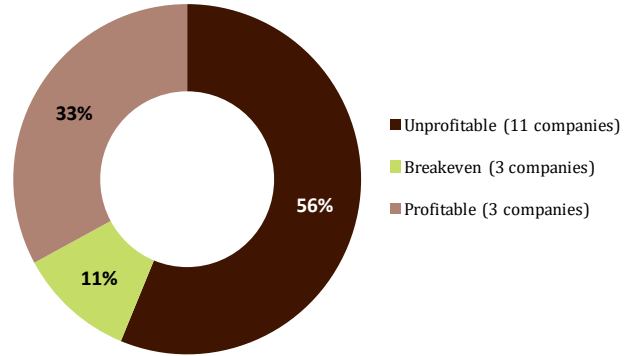
The value ascribed to Punakaiki Fund’s investments excluding cash is \$18.1 million. The diagrams below show various splits of this valuation by differing methods.

Valuation Split By Concentration



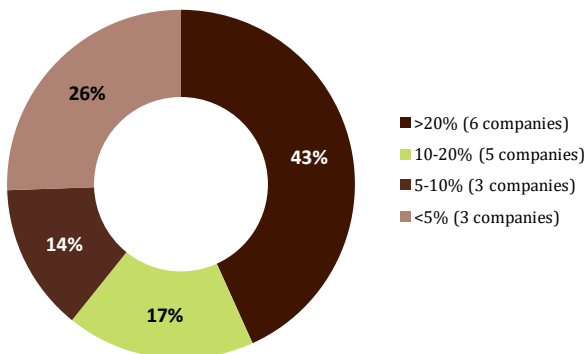
Punakaiki Fund has 55% of its investments by value in four companies which each contribute at least 10% by value to Punakaiki Fund’s total portfolio value.

Valuation Split By Profitability



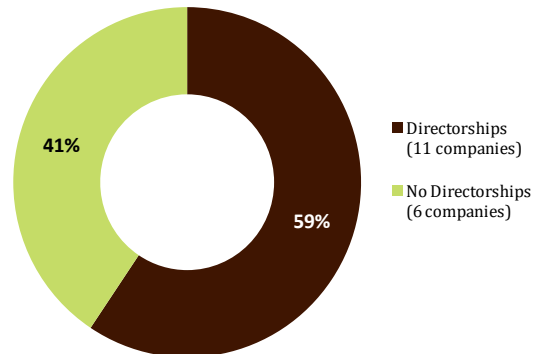
56% of Punakaiki Fund’s investments by value are in unprofitable companies. 11% are in breakeven companies and 33% are in profitable companies.

Valuation Split By Ownership %



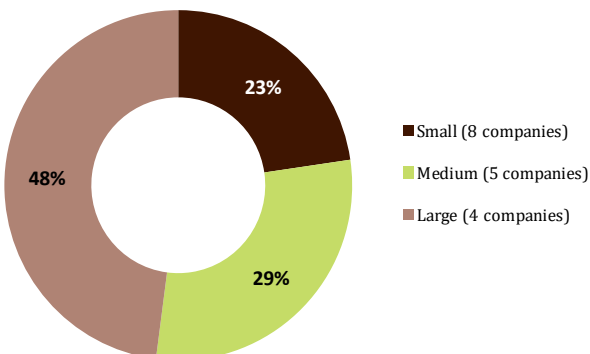
The companies in which Punakaiki Fund owns more than 20% comprise 43% of the total portfolio value. Those between 10-20% comprise 17% of the value.

Valuation Split By Directorship



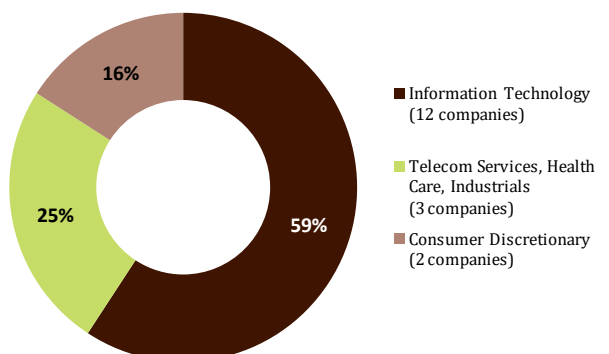
59% of Punakaiki Fund’s investments by value have Punakaiki Fund board representation provided by the manager.

Valuation Split By Revenues



Punakaiki Fund holds 23% of its portfolio in Small companies (less than \$1 million in revenues p.a.), 29% in Medium companies (\$1-10 million) and 48% in Large companies (more than \$10 million).

Valuation Split By Industry



59% of Punakaiki Fund’s portfolio is held in the Information Technology industry, 16% in Consumer Discretionary and 25% in Telecommunication Services, Health Care and Industrials combined.



In the News

- Timely:** [Timely te Reo Challenge](#)
- Melon Health:** [Pacific Edge announces launch of bladder cancer support site](#)
[Pacific Edge Unites with Partners to Launch Online Community](#)
[Melon Health resource creates community for people living with bladder cancer](#)
[Govt grants should fund Kiwi tech pilots rather than hand out cash](#)
- Weirdly:** [Innovation Heroes: Dale Clareburt, Weirdly](#)
[Talking Innovation Heroes with Dale Clareburt](#)
[Kiwi start-ups touch down in San Francisco](#)
- ThisData:** [How To Remove Pokemon Go From Google Apps For Work](#)
- EverEdgeIP:** [Senior US director joins leading Intangible Asset Strategy firm EverEdge](#)
- Vend:** [Cloud-based Retail Management Software provider Vend demonstrates complete mPOS solution with Star Micronics mPOP™ at The Vaper Expo 2016](#)
[Vend has skin in the game with retailer Jurlique P.O.S system](#)
[Jurlique's move to mobile POS set to enhance customer experience](#)
[Taking the Pain Out of Inventory Management for Retailers](#)
[Free iOS app simplifies stock management](#)
[Learning to let go of your technology business](#)
[Vend appoints acting CEO as boss](#)
[Vend announces Alex Fala as new CEO for next stage of growth](#)
[WORLD – Retailing in the cloud](#)
[Vacant shops can revolutionise the high street](#)
[Mobile apps help make business easier for SME owners](#)
[Michael Koziarski of Vend: Economist turned tech executive](#)
[Juha Saarinen: Learn how to care and share and you will profit](#)
[Vend announces new CEO](#)
[Vend and Xero sign global partnership](#)
[Kiwi cloud companies combine as Xero and Vend join forces](#)
- Populate:** [From Vend to Populate: Kirsti Grant's 'audacious' goals](#)
[Kiwi start-ups touch down in San Francisco](#)
[Lance Hodges and Kirsti Grant - Populate \(audio\)](#)
- Linewize:** [Linewize looks to the future](#)
[Ten companies selected for Vodafone's business accelerator](#)
[Dozens of New Zealand schools hacked, access put up for online sale](#)
[Southland schools using tech, parents to promote online safety](#)
- Agtract:** [Punakaiki Fund Invests in Agtract](#)
[Punakaiki Fund invests in Taranaki software company](#)
- Punakaiki Fund:** [Capital Markets: New investor groups spice up private equity market](#)
[Fee guidance doesn't answer all questions](#)



Corporate Update

Governance

The Board of Punakaiki Fund's last meeting was held on 5 August to consider among other matters:

- Reviewing and approving Punakaiki Fund's 2016 Annual Report;
- Reviewing and approving Punakaiki Fund's Statement of Investment Policies and Objectives;
- Setting Punakaiki Fund's Net Asset Value as at 30 June 2016 for disclosure in this quarterly report and reviewing a preliminary valuation for the purposes of discussing the potential share price of Punakaiki Fund's next capital raise;
- Discussing the draft Product Disclosure Statement for Punakaiki Fund's upcoming New Zealand retail capital raising offer and the required Product Disclosure Statement compilation, review, assurance and approval process;
- Approving Punakaiki Fund's updated Anti-money Laundering and Countering Financing of Terrorism Programme and Risk Assessment; and
- Approving this quarterly report.

During the meeting, Graeme Bennett from Ernst & Young presented to the Board in respect of the audit of Punakaiki Fund's FY2016 financial statements. The Directors met with the auditor privately (i.e. without LWCM / Lance and Chris) and were assured by the comments made about the robustness of the audit process and the outcome. Ernst & Young has provided an unqualified opinion in respect of Punakaiki Fund's FY2016 financial statements.

The Board's next meeting is scheduled for early November 2016.

Financial Reporting

The Net Asset Value of the fund after all contingent performance fees at 30 June 2016 was \$17,307,151, an increase from the 31 March 2016 Net Asset Value of \$16,970,880. The Net Asset Value that includes only the cash component of the performance fee is used to calculate the management fee, and was \$18,112,939, up from \$17,716,139 in March

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

- An opening cash balance on 1 April 2016 of \$1,437,237;
- No new capital raised during the quarter;
- \$6,420 was received on behalf of shareholders who sold their shares and was subsequently paid to those shareholders in May 2016;
- \$X was invested in Populate, Linewize and New Zealand Artesian Water;
- \$568,000 was recognised as an increase in the value of Punakaiki Fund's investments at the end of the June 2016 quarter compared to those values recorded in Punakaiki Fund's FY2016 Annual Report (i.e. as at 31 March 2016). This change in valuation relates to the Punakaiki Fund reflects changes in valuations (both up and down) across a number of investments;
- Management fees of \$102,845 including GST were paid to LWCM;



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- \$8,323 was paid for Punakaiki Fund's directors' fees and out of pocket costs;
- \$3,450 was paid to Punakaiki Fund's Anti-money Laundering and Countering Financing of Terrorism programme auditor;
- \$19,294 was paid for accounting and legal services; and
- A closing cash balance of \$304,254.

Punakaiki Fund Limited - Unaudited Financial Position		Punakaiki Fund Limited - Cash Flow Summary	
as at 30 June 2016	NZ\$	for the quarter ending 30 June 2016	NZ\$
Current Assets		Operating Cash Flows	
Cash on deposit	304,254	Net Interest received	1,473
Accounts Receivable	10,498	Bank fees	(48)
Non-current Assets		Payments to external advisors	(22,744)
Investments	18,138,000	Payments to LWCM (Management Fee)	(102,845)
Total Assets	18,452,752	Payments to LWCM (Brokerage)	-
Current Liabilities		Other Expenses	(8,819)
Accounts payable	26,450	Share sale receipts received from buyers	6,420
Non-current Liabilities		Share sale receipts paid to sellers	(6,420)
Accrued Performance Fee	313,362	Total Operating Cash Flows	(132,984)
Equity		Investing Cash Flows	
Retained earnings - Operations	(761,938)	Investments made	(1,000,000)
Retained earnings - Accrued Performance Fee	(1,119,150)	Investments realised	-
Share-based Payment Reserve	805,788	Dividends received from investments	-
Asset revaluation	6,357,848	Total Investing Cash Flows	(1,000,000)
Share capital	12,830,392	Financing Cash Flows	
Total Equity and Liabilities	18,452,752	New capital received	-
		Dividends paid	-
		Total Financing Cash Flows	-
		Total Cash Movements	
		Opening cash balance	1,437,237
		Closing cash balance	304,254

Expected Cash Flows for the June Quarter

Following the end of the June quarter, Punakaiki Fund has completed an investment in Agtract. There are unlikely to be further investments undertaken before the end of the current September quarter given Punakaiki Fund's current cash holdings and the timing of our next capital raising.

The payment of the interim September quarterly Management Fee to LWCM of \$102,184.15 including GST has been made.

It is expected that cost associated with Punakaiki Fund's audit will be invoiced during the September quarter.

Capital Raising Plans

Punakaiki Fund is currently planning to raise capital in September 2016. Further details regarding this capital raise will be announced via email.



Additional Disclosures / Conflicts

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

- John Wiggs, Lance’s brother, was retained by Vibe Communications as General Manager of Vibe subsidiary Intellipath, and is also essentially in charge of all Australian Vibe business and is part of the Vibe leadership team with founders Barry Murphy and Davey Goode. Chris Humphreys has replaced Lance (who is a director) for these negotiations. John has a performance plan that may see him earn shares in Intellipath, and may invest into Vibe itself.

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

Mike.Bennetts@z.co.nz

