Punakaiki Fund Limited

June 2017 Quarterly Report

Welcome

It's been a time of turmoil. Trump and Kim Jong-un are shaking rattles and nuclear weapons at each other, Labour and Greens look nothing like they did two weeks ago and more bad news emerged about our changing climate.

Globally stock markets are high, with increasing numbers are saying they (and New Zealand houses) are over-valued. Meanwhile alternatives like bank interest rates remain extraordinarily low.

At Punakaiki Fund we believe in long term growth, and that investing in companies that deliver long term growth is a very good way to weather any storm or climate. We also look for investments in companies that are able to keep going even if the market for more finance dries up. We are happy to report that just over 10% of the investment assets are with companies that, we see, may additional funding to keep going - versus our SIPO target of 20%. We do include this potential demand in our investment plans. While almost all companies could benefit from further funding, almost all are at least able trim costs a little to make it though, or to continue to grow to sustainability on their existing cash flow and cash assets.

We are also very happy with our continued frugal approach to managing our investments, with the Annual Report showing that running the company cost under 2% of our year-end assets last year.

During the quarter we made investments into Melon Health, New Zealand Artesian Water, Populate, ThisData and Vibe Communications. We made a very small investment with Hayload after the end of the quarter. We still have funds left to commit, and have not yet closed our wholesale offer.

We were also very happy to report that the assets of ThisData were acquired by OneLogin, and we commend founders Rich and Nicole on their journey. More details inside.

And don't miss Chris' write-up – as he dives into the story of Vibe Communications.

Valuation Results

The quarter-end total assets were valued by the board at $28.4 million. This rounds to the same value as at the end of the previous quarter and our financial year, but is actually very slightly down. We show an Investor Net Asset Value (iNAV) of $26.3 million and $20.08 per share.

Furniture

You may not be aware that as a Punakaiki Fund investor you are in the furniture business – with Onceit importing and selling two large containers of furniture in June. You can help them shift more stock by joining up at onceit.co.nz.

Alternatively check out Timely's new website makeover – it's sparkling in pink showing how Timely has doubled down on its core target spa and salon clients.

Lance

Portfolio Company Update

Shareholding: **6.3%**

First Investment: **Apr 2014**

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

Highlights for the June quarter include:

- Releasing Raygun's platform offering (one plan which includes all of Raygun's tools) as their default offering, while retaining the ability to still sell their products individually;
- Developing the ability to offer Raygun as an on-premise solution (versus cloud only); and
- Ongoing development work on a third product to add to Raygun's platform.

Shareholding: **4.7%**

First Investment: **Jun 2014**

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

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.

Shareholding: **26.4%**

First Investment: **Jun 2014**

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

Highlights for the June quarter include:

- Changing focus and adding more professional managers, which is improving Vibe's ability to work with larger companies on larger deals;
- Adding Australian circuits to the product portfolio, including business grade NBN, giving Vibe access to over two million sites;
- Grant Wakelin joining the team as Finance Director;
- Punakaiki Fund entering into agreements with two of Vibe's smaller shareholders to acquire shares over the next 18 months. At the end of the quarter 36 of the 120 shares (2.2% of Vibe's issued shares) to be purchased under these agreements have been acquired by Punakaiki Fund; and
- Punakaiki Fund now having contracts to purchase shares to increase its shareholding in Vibe Communications to 34.6% before the end of 2018.

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 June quarter include:

- Signing a contract with Comprehensive Care, a large Primary Health Organisation in Auckland addressing mental health;
- Appointing Doug Olsen as Vice President Business Development in North America; and
- Raising new capital through a rights issue to existing shareholders. Punakaiki Fund participated in this issue and together with K1W1, provided the majority of the capital raised by Melon Health. This investment has increased Punakaiki Fund's shareholding in Melon Health from 18.4% to 23.4%.

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 June quarter include:

- The arrival of the first two twenty-foot containers of furniture (headboards) during June, with most already sold;
- Employing a senior beauty buyer;
- Paid Punakaiki Fund its forth dividend since investment; and
- Celebrated seven years in business.

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 June quarter include:

- The US customer price increases going smoothly;
- Signing up their first Chinese school (a company based in Hong Kong). Boardingware have identified a very large opportunity to sell to boarding and other schools in China;
- Currently in sales discussions with a number of prestigious schools; and
- Being in the process of releasing a new kiosk platform and web application.

weirdly	Shareholding: **30.4%** First Investment: **Feb 2015**	*Weirdly helps companies that actively recruit people to find better applicants through the use of innovative software.*

Highlights for the June quarter include:

- Launching V3 of Weirdly's software, which better caters to large and enterprise customers;
- Signing on two material customers with revenues beginning in the September quarter;
- CEO Dale Clareburt speaking at the HRTechWorld Conference in San Francisco along with being the MC for one of the conference streams for a day; and
- Making four trips to Australia as Weirdly commenced growing a pipeline of large sales in that country.

REDSEED	Shareholding: **12.8%** First Investment: **Mar 2015**	*RedSeed helps large retailers increase their sales by sales associates by 10-15% through blended proprietary and customised modules in a SaaS Learning Management System.*

Highlights for the June quarter include:

- Continuing solid revenue growth;
- Signing their first Australian customer, will more in the pipeline;
- Re-signing a number of important existing customers; and
- Securing a new office space on Tuam Street, Christchurch. Following a custom fit-out, including a dedicated filming area, RedSeed expects to be moving in during early September.

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

Highlights for the June quarter include:

- Undertaking a small rights issue to raise capital to fund the OneLogin deal;
- Completing the sale of the majority of its assets including intellectual property to OneLogin, a US-based private business providing sign-on and identity management for cloud-based applications;
- Now holding 200,000 shares in OneLogin as a result of this transaction; and
- Changing its name to TD Limited and becoming a non-operating company.

The OneLogin shares owned by TD Limited 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.

EverEdge IP 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 June quarter include:

- Launching a partnership with Square into United Kingdom market;
- Adding software feature including the ability to reporting on historical inventory levels. This helps Vend's customers to make informed buying decisions; and
- Being a finalist in the Hi-Tech Company of the Year category at the Hi-Tech Awards.

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

Mobi2Go	Shareholding: **12.5%** First Investment: **Oct 2015**	*Mobi2go helps food service businesses sell more by adding an ordering function to their marketing website.*

Highlights for the June quarter include:

- Fully launching Mobi2Go Payments (out of beta). Mobi2Go Payments allows customers in 28 countries to accept credit cards for online payments. Since fully launching, 67% of all new clients are using Mobi2Go Payments;
- Hiring a Director of Sales based in Mobi2Go's Melbourne office; and
- Signing Edo Japan, a 140 chain quick service restaurant based in Canada.

MINDFULL	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 June quarter include:

- Launched their new Mindfull Organisational structure product, which is targeted at driving more growth from strategic clients;
- The launching of the new Qubedocs product at the IBM Vision 2017 conference in Orlando, Florida in May. Two new clients bought this product immediately at the conference; and
- Continuing to close large software and consulting deals with well known New Zealand entities.

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

LINEWIZE	Shareholding**: 20.0%** 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.*

Highlights for the June quarter include:

- Launching their new Classwize classroom tools at the Interface Expo, leading to significant new committed revenue and an uptick in sales interest;
- Attended EduTech in Sydney leading to a partnering opportunity to enter the Australian market;
- Working with Google Australia to become a Education Partner;
- Installing the Linewize software in Ottawa Catholic School Board schools in Canada; and
- Developing new VPN blocking technology.

E'STEL NZ	Shareholding: **21.6%** 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).*

Highlights for the June quarter include:

- Being well advanced in purchasing, installing and making other preparations in relation to a new plant line capable of running at more than five times the speed of the existing plant line;
- Negotiating new contracts with most of their suppliers;
- Supply Contracts with American, Singaporean and New Zealand customers now started or about to start; and
- Punakaiki Fund exercising its option to invest further in New Zealand Artesian Water, increasing its shareholding to 21.6%.

HAYLOAD	Shareholding: **21.1%** First Investment: **Jul 2016**	*Hayload provides a SaaS product for agricultural contractors that assist with tracking jobs and invoicing.*

Highlights for the June quarter include:

- Releasing a new product "Base", which provide a contractor workshop / fixed-base solution utilising Hayload's platform;
- Exhibiting at the New Zealand Agricultural Fieldays;
- Punakaiki Fund renegotiating the expiry date of its Hayload option from 30 June 2017 to 31 December 2017; and
- Punakaiki Fund investing a small additional amount via the exercise of a portion of its Hayload option.

CONQA	Shareholding: **5.4%** First Investment: **Feb 2017**	*Conqa provides software allowing the construction industry to do their quality assurance planning and execution online.*

Highlights for the June quarter include:

- Fulton Hogan Australia commencing their pilot of the Conqa software on the Melbourne Tram Upgrade project, and have outlined a path for a roll-out of Conqa within their Australian business;
- Holding discussions with an Australasian design and construction contractor for a pilot of Conqa's software on both sides of the Tasman;
- Homes Land Community (a wholly-owned subsidiary of government social housing provider Housing New Zealand and a major player in the development of large scale residential projects), expressing an interest in partnering with Conqa on significantly improving processes involved in solving the quality aspects of the 'housing crisis';
- Simon Wilson joining the Conqa board. Simon is a Director at RTD Pacific, a highly regarded project management consultancy based in New Zealand, and a Director of the New Zealand Green Building Council.

Networking Kings

AMPed on WAN

"Vibe Communications" – you probably only know the name if you're one of their business customers, work in the telecommunications industry or are a Punakaiki Fund shareholder. Vibe doesn't have much to do with the general public – most of their customers are ISPs, large corporates and other telecos (that is to say, Vibe mainly works in the wholesale end of the market, not the retail end). Vibe's sweet spot is to serve customers that are too small for the big telco operators to worry about, but who require top quality solutions and don't want to wait a lifetime to get them (this sweet spot is starting to change, but more later). Vibe is not alone in this market in New Zealand and does have competition from other mid-market companies that you may or may not have heard of before such as Voyager, Vocus and a number of others.

Vibe, like a lot of fast growing companies, has actually been around a while. Founded in 2008, the first three years of Vibe's existence were relatively low key, doing a number of one-off jobs including set up a Wide Area Network (WAN) for AMP and selling internet to retail businesses on the back of establishing their first Point of Presence[1] in the Sky Tower. Things didn't really heat up in the business until 2011, when Davey Goode and Barry Murphy starting working in Vibe full-time. In that year, Vibe ramped its sales activities and got more heavily into selling services such as IP Transit and wholesale network circuits.

Since "lift-off" in 2011, Vibe has grown at a rapid clip. How fast? – well, we can't disclose too many numbers but let's just say they have revenues of over $10 million per annum now, but didn't qualify to enter in the new Deloitte Master of Growth award due to not having the required minimum $5 million of revenues in FY13 (in fact, they won't qualify to enter this award until 2019!). And now with a greater focus on Australia, there is plenty of scope for this growth to continue.

But this isn't a back story piece – instead we will lift the lid ever so slightly on what it is that Punakaiki Fund's largest investment does, and why we think we are on to a good thing with Vibe.

If it Looks Like a Duck... but it Roars...?

So what is Vibe?

Technically Vibe is a wholesale broadband aggregator, a wholesale fibre aggregator, a wholesale IP transit reseller and an international Layer 2 reseller. If that made your eyes glaze over, let's just say they take different bits of telco infrastructure ranging from the links into your home, right through to capacity on the undersea fibre-optic cables that link countries together, make it all work together and resell it in smaller chunks to businesses, small to medium sized telco retailers and, in some cases, individuals.

But the interesting thing about Vibe is the software that it has developed to make all of this work relatively seamlessly. So it might actually be better to describe Vibe as being either:

a) a wholesale telecommunications company that has some really good software; or
b) a software company that sells a lot of wholesale telecommunication services.

The truth is somewhere in the middle, and is evolving over time.

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[1] *The place where Vibe's networks and systems hook into the networks and systems of other communication companies to allow things like the internet to work (that's a really simplified description, but you get the drift).*

In Vibe's early days, it was all about selling telco-related solutions, including both hardware and connectivity. Customers in these early days were generally companies and corporates who just needed stuff to work properly and not wait for months for that to happen.

As Vibe grew larger, it started to also serve smaller Internet Service Providers ("ISPs"). This shift to serving customers that were in turn reselling to a retail customer base added a whole level of complexity for Vibe, because they now needed to connect numerous retail-level customers to the physical telecommunication networks of others. It was a job that needed to be automated if Vibe was to make these types of customers profitable – and so Vibe developed the first of its flagship software products – Layer2.

Vibe has since moved progressively up in customer size and also more heavily into the software automation space, recently adding its IntelliPath network software to its suite of products.

Layers Upon Layers

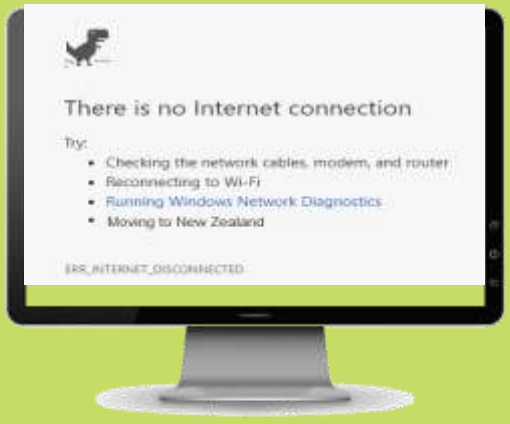
In the beginning, selling services to Internet Service Providers and other customers was relatively complicated. There were a lot of spreadsheets and emails and bits of paper, and generally the process was slow and cumbersome, although for Vibe's customers, it was still quicker and easier than dealing with a lot of Vibe's larger competitors. Early on in the piece Davey and Barry identified the requirement for automation of these processes. This kicked off the development of the Layer2 software.

In New Zealand there are not many systems you need to link into in order to start automating the job of connecting customers to a network. Chorus is obviously the biggest network operator in New Zealand, and there are a couple of other players that emerged in recent years as the result of winning areas to roll out the Government's Ultra Fast Broadband ("UFB") initiative. To make the Layer2 software work, you need to be able to "hook" into the systems of these operators as well in you can. Ideally, this is through an Application Programming Interface ("API"), which can be done for Chorus, but not for the others (they don't have one). With an API, Vibe is able to request a new connection electronically, and then monitor progress on establishing that connection (and a whole lot of other stuff as well), which is a lot faster and more efficient when dealing with hundreds of new connections than a lot of other operators are able to offer. Dealing with the other network operators without an API is harder, but Vibe is currently looking at a very interesting solution to automate dealing with these operators too.

I know from my own experience of getting LWCM's second office in Te Anau wired up for internet that going through the Layer2 system was efficient and relatively painless. Unfortunately, using Layer2 doesn't speed up the non-Vibe parts of the process – like getting the Chorus technician around to connect the building to the network quickly…

And Layer2 won't monitor my wasting of time reading comments on the NBR. That's more of a LineWize thing.

Time to Sledge the Aussies



It is a different story in Australia, where there are a number of significant players in the telecommunication infrastructure space and getting access to APIs (if they even exist) is difficult. Automation of the process to get customers connected in Australia (which is still mainly paper-based) is years behind that in New Zealand and is complicated by the National Broadband Network ("NBN") – Australia's partial equivalent to New Zealand's UFB. I use the word *partial* here because unlike UFB, NBN is only expected to roll out fibre to the premise (i.e. right to your Australian cousin's home) for between 17-21% of all premises, with 43-54% of premises will be connected up via fibre to the node, which means the last bit down the street will be over the existing copper lines or coaxial cable.
Australians will be forced to move to NBN and many will find their internet will run at speeds not nearly as fast as they could. Compared to New Zealand, Australia can be a complicated place for retailers to operate and is ripe for additional automation, which itself is hard to implement. It's also a not a great place to live if you want to ensure you have good internet at home.

ISP in a Box

While Australia does not quite have the same ability to easily link into their telco's network software yet, we do expect Australia to go the same way as New Zealand, which will mean that the Layer2 software will be a powerful tool for Aussie telco's to use to automate customer connections in the medium term.

How powerful, you ask?

On the back of Layer2 in New Zealand, Vibe is able to offer "*ISP in a Box*" for anybody that wants to set up an ISP. This white-labelled product (meaning anybody can put their brand on it) takes care of connecting customers and provides the internet and technical customer support. That leaves the ISP to focus on marketing, gaining new customers and billing. In effect, Vibe takes care of all of the technical network stuff on behalf of the ISP.

The Intelligent Path

Now Layer2 is great if you are a wholesaler and want to hook up your end users into the internet, but what if you are a business and want to link yourself to a data centre or link to two points on a network? What if you also want to have certainty over pricing, you want to do it now and you want to be able to increase or decrease the amount you have access to... instantly?

Enter IntelliPath.

Vibe's second piece of smart software does all of these things through an online interface that allows the customer to turn on circuits and "dial" them up and down as needed.

"Davey, a network cable is unplugged. Can you go and sort it out? I think it's the yellow one..."

This approach is a significant departure for Vibe's wholesale customers, who are used to dealing directly with telco infrastructure owners and resellers were the sales process goes something like this:

"Hi Jim, I would like a 100Mbps circuit between this data centre and that data centre."

"Sure thing Mary, let me go and price that up for you..."

Three days later...

"Hi Mary, that's going to be $5,000 a month"

"Thanks Jim. That sounds fine. How do we proceed?"

"I will get the paperwork across to you"

Three days later...

"Thanks for getting the signed contract back to me Mary – that all looks in order. I will get the engineers to set it all up."

Six weeks later...

"Hi Mary – it is all up and running now."

"Actually Jim, we now need 200Mbps."

"Let me go and price that up for you..."

(Actually, the above is simplified and I cut out some of the delaying steps – but you get the drift).

Instead, once an IntelliPath customer has set up an account on the system, the process for setting up new circuits goes something like this:

Tap, tap, tap... *(the sound of a customer ordering instantly through the IntelliPath software.)*

..."That was easy. Let's go and have a coffee."

Now to be honest, it's not quite as easy as that from IntelliPath's side. Before you can offer telecommunication circuits on-demand, you need a supply of ports (a place where you can interconnect between networks, and data centres), and a network to link to those ports. IntelliPath can offer this via the deal it has negotiated with Nextgen Networks (now a subsidiary of Vocus Communications) which has a nationwide network within Australia. If a port is ready to go, you can use IntelliPath to turn it "on" straight away and then change it if required; if it is not, then you still have to wait for the network owner to physically establish the port connection (hopefully only a few days). Now this is still a delay, but the trick is as you grow, you will have more and more port connections already established with spare capacity that can be turned on instantly by IntelliPath – game on!

INTELLIPATH

IntelliPath can also be used to cross networks. It is possible to build a dedicated network from Perth through to Sydney on the Nextgen network, then onto Vibe's trans-Tasman link to Auckland and then to Wellington – all as one link, and built in around 10 seconds.

But even Nextgen's backbone network is not the full story. Across Australia there are tens of thousands of "tails", which are connections from network "nodes" (major network intersections) into places like commercial buildings (where the customer is). IntelliPath can only provide instant networks in places where it has agreements to access to the underlying network infrastructure. So at the moment, Vibe is busy signing up the tail owners so IntelliPath is able to offer an end-to-end network solution for its customers. At the time of writing, IntelliPath has access to 1,000's of API enabled tails, which means that new network links for customers in a lot of commercial buildings in the main Australian centres can be activated and capacity can be dialled up and down via IntelliPath today. IntelliPath also has a pipeline of additional deals that will put IntelliPath on other national networks and gain access to a whole lot more building tails, significantly increasing its addressable market (remembering that customers who have secured their own capacity on these tails can still use IntelliPath for linking from the tail to the rest of the network).

The Opportunity

Even if Vibe just stuck to sticking bits of telco networks together and reselling the result in chunks, it would have a great future. But there are a couple of really interesting opportunities out there that are tied to the evolving telco market. From Vibe's perspective, these opportunities are mainly calling out from Australia.

A couple of things have or are happening in Australia that has set the scene:

- The big retail-focused telco players, especially TPG and Vocus, have been gobbling up the mid-tier players and now there are not that many mid-tier players left in Australia. This will make it significantly easier for a wholesale-focused company like Vibe to meaningfully enter that country's market;
- Vibe's software allows for a level of procurement automation that companies and mid-tier telco's are demanding, with few others able to offer it;
- The large telcos are looking at ways to improve and automate their own systems, and Vibe is a potential partner to make this happen; and
- Customers in Australia are demanding elastic and automated solutions - Vibe is in a great place to take advantage of this.

There is a fantastic window of opportunity in Australia for Vibe's software solutions, and it may be as short as a couple of years – so watch this space.

The Secret Sauce

Vibe has gotten to where it is today for a number of reasons, not least of which is its *just make it work* mentality when dealing with customers. In its earlier days it is fair to say that there was a definite fly by the seat pants approach to both the business and its growth; and that this approach served the company well. However, as Vibe becomes larger, continues to deal with larger customers and grows its team, there is a need to expand the management team, the sales team and generally the all-round capability of the company.

To this end, there are a number of new faces in Vibe, including CEO John Wiggs (for those that missed the conflict disclosures – he is Lance's brother), General Manager of New Zealand Karl Rosnell and Finance Director Grant Wakelin (also needing a conflict disclosure – Grant is the founder of 200 Square, in which Lance is an investor and director). Simultaneously with the appointment of John Wiggs, in late March 2017, Lance stood down from the board and I took his place.

The shift from *start-up* to *corporate* is a tricky one. Vibe's board (myself included) are very aware that we need to preserve Vibe's entrepreneurial culture and can-do mentality while at the same time ushering in the additional people and systems that will allow Vibe to grow to the next level.

The Day that Sky Tower Blew Up

My first experience of Vibe was when I moved on from PwC and starting working as a Finance Manager at Pacific Fibre[2]. We had an office on the bottom floor of a low-rise office building that fronted onto Viaduct Harbour Avenue (with a beautiful water view) and backed on the multi-lane arterial route out of central Auckland that is Fanshawe Street. Being a finance boffin I was located on the dark side of the building that looked out over Fanshawe street and next to my desk was a window which, if you contorted your body in the right manner, allowed you to see the Sky Tower. Due to this line of sight with the Sky Tower the window supported the beer-bottled size microwave link that provided Pacific Fibre's internet via the kit Vibe had installed on the Sky Tower. This microwave link was attached to the window by large suction cups which had a propensity to fail every six months or so, each time nearly taking out the poor sap that sat beneath it (me).

Notwithstanding my own health and safety issues, the Sky Tower microwave links served Vibe well in the early part of its existence when it moved into providing business internet. That is, except the time that Davey and Barry had travelled to Rarotonga to meet with Telecom Cook Islands. The trip had been a successful one, but when Davey touched down in Auckland his phone went crazy – there had been issues at Sky Tower.

At the time the Sky Tower was Vibe's main Point of Presence and in order to make sure that this Point of Presence continued to work, Vibe had installed two uninterruptable power supplies – one as backup for the other. It turned that that these uninterruptable power supplies were not so uninterruptable and they had both blown up, one after the other, during Davey's flight home. The messages on Davey's phone were from concerned customers who had lost internet service. Some had even turned up to Vibe's office to make sure that they had not gone out of business. Luckily, the fix was an easy one with new uninterruptable power supplies swapped in.

To my knowledge there have not been any other visits since from customers to Vibes office to see if they are still in business.

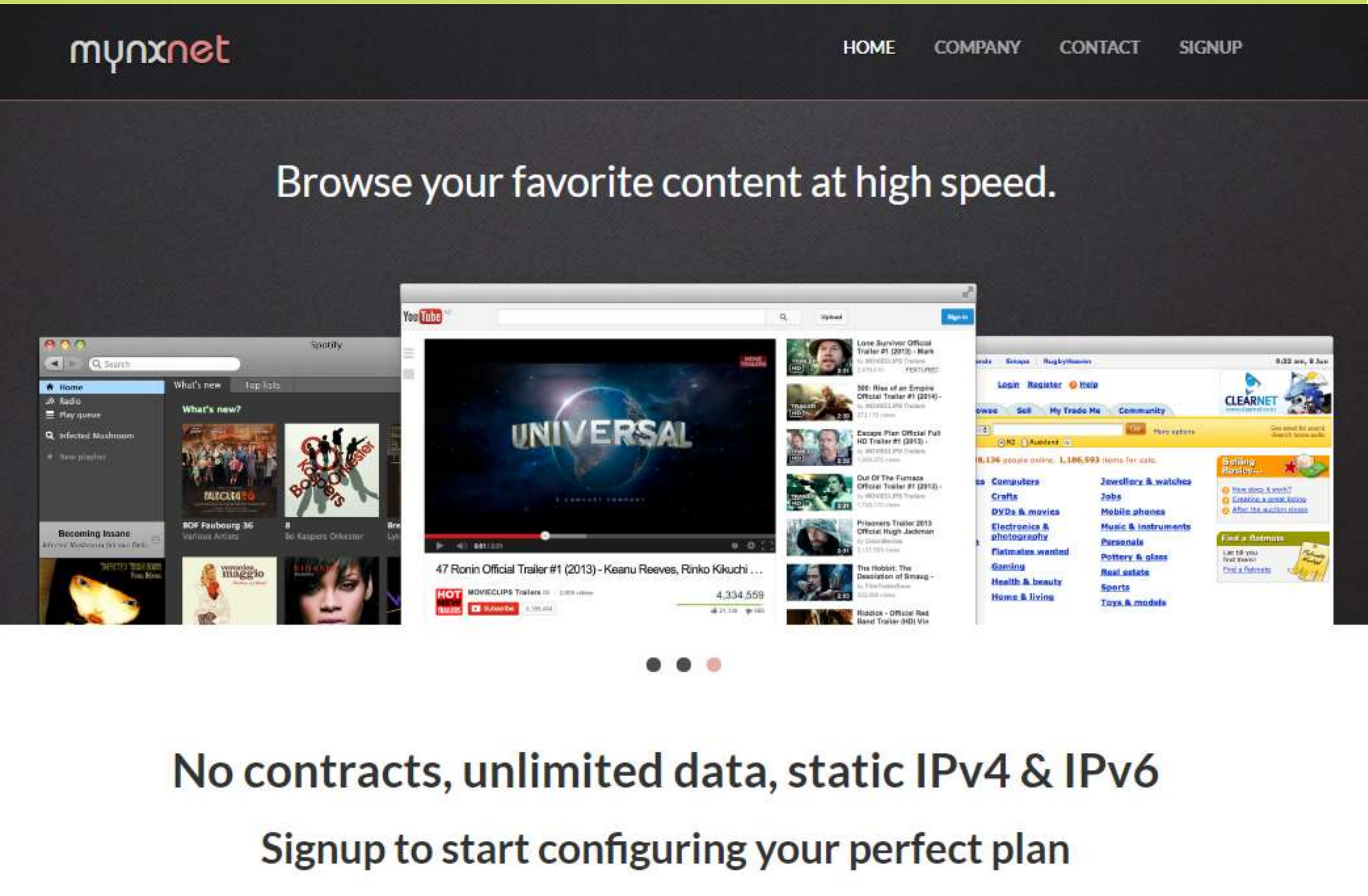
[2] *The Sam Morgan/Rod Drury/Lance Wiggs/John Humphrey (no relation)/ Stephen Tindall/Mark Rushworth-founded start-up that tried to get a fibre optic cable system built between Sydney, Auckland and Los Angeles. You can blame these guys for Lance and me getting to know each other.*

And Just So You Know…

Before signing off, here are some fun facts and figures on Vibe:

- Based on the networks that Vibe has access to, its customers can now access 100 data centres via IntelliPath – 77 in Australia, 28 in New Zealand, 4 in the USA and 1 in England.
- Vibe was the second New Zealand company (after Telecom) to establish a point of presence in the USA (it was cheaper to install a scrubbing box in the US to combat distributed denial of service attacks in the US than in New Zealand – call Barry if you don't understand any of that).
- Vibe has its own small premium Internet Service Provider, currently called Mynx.
- Vibe was in the Deloitte Fast 50 in 2014, when it ranked 34th with 252% revenue growth over the preceding two years.
- Vibe approached Punakaiki Fund about investment in 2014 because they saw us as being a "credible" investor. We were tickled pink because we were very new - Punakaiki Fund completed its investment in Vibe only two months after raising its initial $1.5 million from our foundation shareholders in April 2014.

Chris



Trading Shares

Feedback from Shareholders

Ever since Punakaiki Fund first raised capital in April 2014, we have told shareholders there are no established markets for their shares and that their shares are likely to be highly illiquid. This has proven to be the case, with only a small proportion of Punakaiki Fund shares trading since that time.

We have, however, facilitated trading in shares; usually when approached by a shareholder that wishes to sell their shares (it is interesting to note that in the vast majority of these cases, the sale has been triggered by a change in personal circumstances, rather than dissatisfaction with their investment). At those times, we were either aware of interested buyers who we contacted directly and facilitated a share trade, or we put the call out to all shareholders and then ran an auction process in order to sell the shares.

To date the timing of these sales has been rather ad hoc, and in the shareholder survey conducted in May 2017, a number of shareholders asked about regular share trading windows.

Quarterly Trading

Starting in the September Quarter, we will be implementing Quarterly Share Trading Windows. These will be one week windows when any person interested in buying or selling shares can send their bids or offers to Chris Humphreys (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.

Trading Shares – You're doing it wrong!

Timing

The Quarterly Share Trading Windows will be held after each quarterly report is released. Indicative timing for the year are mid-August, mid-November, mid-February (2018) and late-May (May is later as the March quarterly report requires the year-end valuation to be finalised).

August Share Trading Window

The August Share Trading Window will open on Monday 14 August and close on Thursday 17 August. We will email all shareholders a reminder closer to the time.

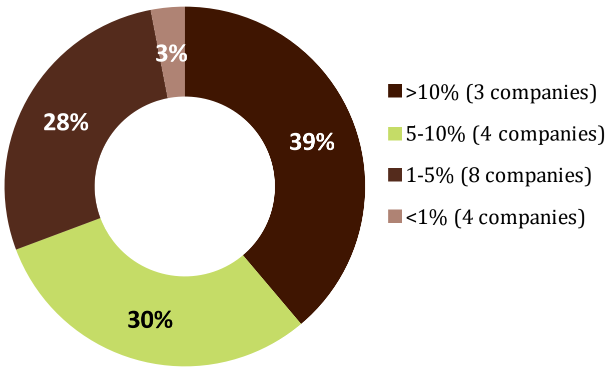
Things to Consider

Before you sell your Punakaiki Fund shares bear in mind that during these auctions the price set for shares is not tried Punakaiki Fund's iNAV but is determined by supply and demand. If, for example, one large shareholder decides to sell a large stake then expect the clearing price to be low. You should also consider whether the sale of your shares will trigger any taxation liability. Do take advice.

Portfolio Valuation Splits

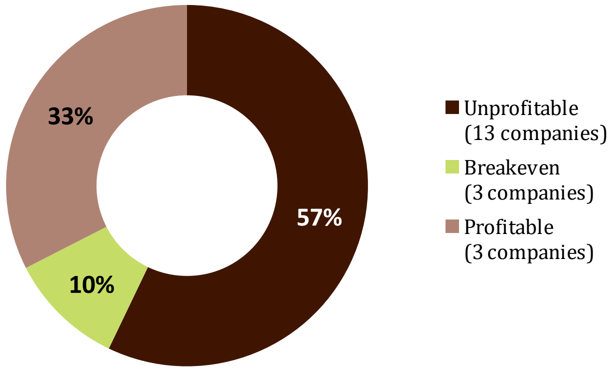
The value ascribed to Punakaiki Fund's investments excluding cash is $26.9 million. The diagrams below show various splits of this valuation by differing methods.

Valuation Split By Concentration



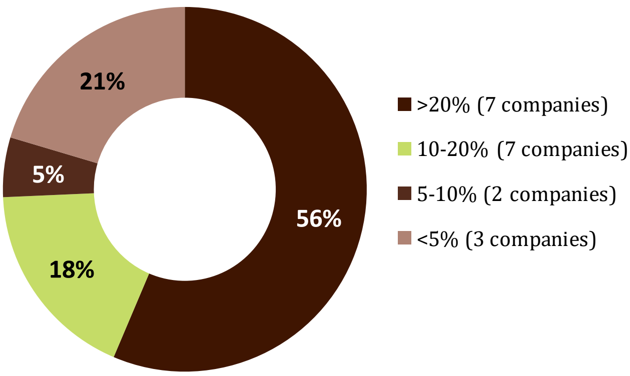
Punakaiki Fund has 39% of its investments by value in three companies which each contribute at least 10% by value to Punakaiki Fund's total portfolio value.

Valuation Split By Profitability



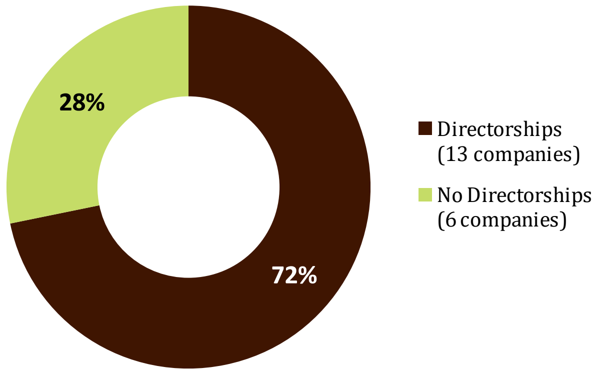
57% of Punakaiki Fund's investments by value are in unprofitable companies. 10% are in breakeven companies and 33% are in profitable companies.

Valuation Split By Ownership %



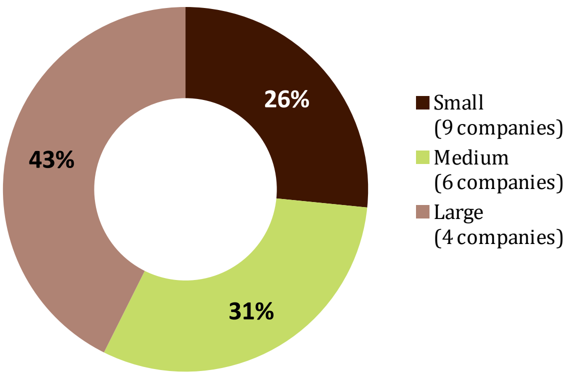
The companies in which Punakaiki Fund owns more than 20% comprise 56% of the total portfolio value. Those between 10-20% comprise 18% of the value.

Valuation Split By Directorship



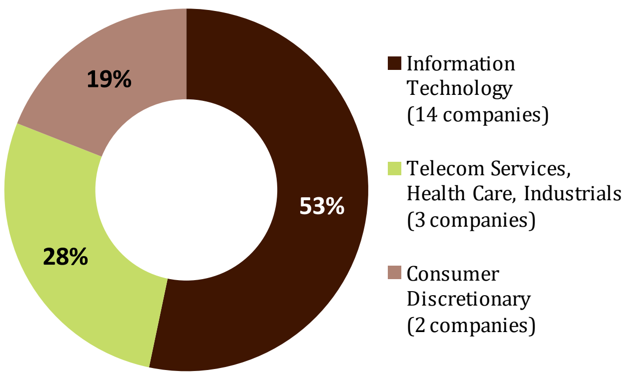
72% of Punakaiki Fund's investments by value have Punakaiki Fund board representation provided by the manager.

Valuation Split By Revenues



Punakaiki Fund holds 26% of its portfolio in Small companies (less than $1 million in revenues p.a.), 31% in Medium companies ($1-10 million) and 43% in Large companies (more than $10 million).

Valuation Split By Industry



53% of Punakaiki Fund's portfolio is held in the Information Technology industry, 19% in Consumer Discretionary and 28% in Telecommunication Services, Health Care and Industrials combined.

In the News

Conqa:	Cake now uses Conqa software
EverEdgeIP:	EverEdge expands into Asia with IP Office of Singapore
Linewize:	Getting smarter with digital distractions
Melon Health:	New health service helps people with osteoarthritis
	New online tool for osteoarthritis rolled out in Taranaki
ThisData:	NZ security startup in asset sale to US outfit
Timely:	Timely poised for major growth, appoints new CCO
Vend:	Deloitte Fast 50: Latest category to award sustained business growth
	Innovation series: Paranoid, impatient founders make for better leaders
	Record-breaking temperatures turn up the heat for UK retailers
	Square UK Teams Up With Vend, TouchBistro
	Retail tech: the last hope for the high street
	Best retail POS systems
	Fresh Flowers Group migrates to Xero, Deputy and Vend
	Vend and Square bring partnership to Australian retailers
	New POS partnership a boost for retailers
	Data for the people: how to use analytics in your people strategy
	Why a change is better than a rest
	Face the fear of missing out
Weirdly:	Interview: Dale Clareburt, CEO of Weirdly
Punakaiki Fund:	NZ security startup in asset sale to US outfit

Corporate Update

Governance

The Board convened on 4 August 2017 for the quarterly Board meeting to consider, among other matters:

- Reviewing and updating of Punakaiki Fund's Statement of Investment Policies and Objectives. The SIPO will be redrafted and submitted to the Board for further review and approval;
- Reviewing and discussing of Punakaiki Fund's Investment Valuation Policy, with the policy to be redrafted and submitted to the Board for further review and approval;
- Reviewing Punakaiki Fund's risks, including risk to valuation, AML and SIPO compliance risk (all regular board meeting activities);
- Reviewing the performance of companies in the portfolio;
- Setting Punakaiki Fund's Net Asset Value as at 30 June 2017 for disclosure in this quarterly report; and
- Reviewing this quarterly report.

During the meeting, Graeme Bennett from Ernst & Young presented to the Board in respect of the audit of Punakaiki Fund's FY2017 financial statements. The Directors met with the auditor privately (i.e. without 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 FY2017 financial statements.

In late July (prior to the 4 August Board meeting), the Board also reviewed and approved Punakaiki Fund's 2017 Annual Report.

The Board's next meeting is scheduled for 3 November 2017.

Financial Reporting

The Investor Net Asset Value of the fund after all contingent performance fees at 30 June 2017 was $26,329,205 (or $20.08 per share), a slight decrease from the 31 March 2017 Net Asset Value of $26,353,988. The Accounting Net Asset Value (which includes only the cash component of the performance fee and is used to calculate the management fee) was $27,774,385, also slightly down from $27,803,630 in March.

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 April 2017 of $2,843,003;
- $1,401,900 was invested in Melon Health, New Zealand Artesian Water, Populate, ThisData (all new shares) and Vibe Communications (existing shares);
- $11,900 was recognised as a net decrease in the value of Punakaiki Fund's investments at the end of the June 2017 quarter compared to those values set out in the March 2017 quarterly report;
- Management fees of $159,897 including GST were paid to LWCM;
- $28,667 was paid for accounting fees;
- PAYE on Directors Fees of $4,125 was paid;

- GST refunds of $30,641 were received;
- A dividend, net of all taxes, of $128,125 was received from Onceit; and
- A closing cash balance of $1,407,704.

Punakaiki Fund Limited - Unaudited Financial Position as at 30 June 2017	NZ$
Current Assets	
Cash on deposit	1,407,704
Accounts Receivable	20,418
Prepayments (Insurance)	8,831
Non-current Assets	
Investments	26,930,000
Total Assets	**28,366,952**
Current Liabilities	
Accounts payable	30,553
Non-current Liabilities	
Accrued Performance Fee	562,015
Equity	
Retained earnings - Operations	(777,125)
Retained earnings - Accrued Performance Fee	(2,007,195)
Share-based Payment Reserve	1,445,180
Asset revaluation	11,340,592
Share capital	18,300,204
Capital Raising Costs	(527,271)
Total Equity and Liabilities	**28,366,952**
Accounting NAV	27,774,385
iNAV (after deduction of the performance fee)	26,329,205
iNAV per Share	$20.08

Punakaiki Fund Limited - Cash Flow Summary for the quarter ending 30 June 2017	NZ$
Operating Cash Flows	
Gross Interest received	1,248
Withholding Tax on Interest	(412)
Bank Fees	(85)
Payments to External Advisors	(28,667)
Management Fees	(159,897)
Other Expenses	(4,353)
GST Refunds	30,641
Total Operating Cash Flows	**(161,525)**
Investing Cash Flows	
Investments made	(1,401,900)
Investments realised	-
Dividends received from investments	128,125
Total Investing Cash Flows	**(1,273,775)**
Financing Cash Flows	
New capital received	-
Brokerage Fees	-
Dividends paid	-
Total Financing Cash Flows	**-**
Total Cash Movements	**(1,435,300)**
Opening cash balance	2,843,003
Closing cash balance	1,407,704

Expected Cash Flows for the September Quarter

Following the end of the June quarter, Punakaiki Fund has completed a small investment in Hayload and committed to a larger investment in Mobi2Go via a rights issue. Further investments are likely to be undertaken before the end of the current September quarter with a potential investment in a new company nearing the end of LWCM's due diligence Processes.

The payment of both the interim September Quarterly Management Fees to LWCM of $158,057 including GST were made.

Payment of $750 was made to Punakaiki Fund's accountant for accounting services and $863 was paid to Populate (a Punakaiki Fund portfolio company) for undertaking software due diligence on a potential Punakaiki Fund investment.

Punakaiki Fund is currently raising capital from wholesale investors. Any funds raised will incur a brokerage fee of 3%, which is payable to LWCM.

Capital Raising Plans

Punakaiki Fund is currently raising capital via a wholesale offer, which is scheduled to end prior to the end of August. There are no other plans to raise capital in the September quarter.

Additional Disclosures / Conflicts

Grant Wakelin, who is the founder of 200 Square, an online real estate agency, was appointed as Finance Director for Vibe Communications. Lance Wiggs is a director and shareholder of 200 Square.

We note from previous disclosures that Lance Wiggs' brother John Wiggs was appointed as Acting CEO of Vibe Communications in March 2017. At that time Lance stood down from the Vibe Communications Board of Directors and LWCM appointed Chris Humphreys in his place.

With the exception of the above and 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

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

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