

Punakaiki Fund Limited

March 2019 Quarterly Report

Welcome

This is a shortened quarterly report, as we work away on the year-end valuation, and then the annual report. We did not issue a March Quarterly Report last year, so take that into consideration as you hold back your disappointment at the lack of Chris's missive and a quarter-end valuation.

The good news is that we have seen the asset backing of your shares start to move upwards, through the monthly valuation work we do, and in April we moved our issue price for new shares to \$22.00, up from \$21.50 for the last few months. We are always careful to do what we can to prevent overshooting on our valuations, and the annual audit process is designed to give shareholders confidence in our ability to systematically value our companies.

This final quarter of the 2019 financial saw both Vend and Mobi2Go accept large investments, each led by New Zealand expansion fund Movac. To the best of our knowledge Movac have so far placed over half of their commitments to date from their active fund with Punakaiki Fund companies. We are happy for Movac, and glad that the companies were able to accept the funding.

This is a time of investment for New Zealand high growth companies and funds, as a fast rising tide of high quality companies are increasing their revenue, staff and funding demands. Occasionally a company will sell, but in general we see that these exits are too early, and we should be endeavouring to hold on to investments for as long as possible. Why exit a Software as a Service company at a recurring revenue of under \$2 million and value of, say, \$12 million, when a few years later that exit might be at a recurring revenue of \$10 million and a value of, say, over \$100 million? But then why not wait a few years after that and sell when revenue is over \$100 million, and valuations approach \$1 billion? Things don't always pan out, but this is certainly how we aim to invest.

Each company is different, of course, and sometimes the short or medium-term future does not look great, or there is a better natural owner, or the founders and investors value the immediate cash and want to get out. But as long-term investors we are looking to maximise the amount of money you receive from our investments, that generally means holding for the very long-term. Ten of the companies have current valuations of over \$10 million, and only one of those is over \$100 million. Our chief strategy for extracting value for you is to wait – those companies are growing.

Along the way we expect, and generally see, a rocky ride for many companies. We have seen companies lose a year or two after key selling seasons were messed up, several very large clients failed to renew, or, distressingly, funding was not available to fuel growth. In New Zealand we are unforgiving, our lack of capital means that missed quarters, slow growth or internal ructions can cause major slowdowns. But these fires also create strong companies, with resilient founders and staff, people who have wide and deep knowledge, and who create impact well beyond their better funded peers offshore. We are big fans of the high-growth ecosystem in New Zealand, and continue to champion investing in New Zealand high-growth companies and funds to all.

So it was with envy and delight when we saw the announcement that First NZ Capital (to be renamed Jarden), Simplicity, K1W1 and several Icehouse investors combined to invest \$4 million to purchase 23% of Icehouse Ventures, a manager of various Icehouse funds with \$50 million under



management. Icehouse Ventures will grant 7% of equity to staff, with the remaining 70% being owned by the (tax free) charity that owns the Icehouse group, including office rental and education segments. The deal values the manager at \$13.4 million before the \$4 million investment, and \$17.4 million after the investment. Icehouse Ventures also attracts \$800k-\$1 million from the government each year to help with incubator services.

As part of the deal, KiwiSaver provider Simplicity committed \$2 million to the latest Icehouse Ventures fund, and up to a further \$100 million over the next 10 years. Simplicity would need to have \$2 billion in their growth funds to be able to deliver that \$100 million, which they should easily be able to do over 10 years.

Icehouse Ventures' funds have traditionally focused on early stage companies, and have often been an investor that follows angels who set the round dynamics. We see (and hope) that they will evolve to lead more deals, and to write larger investment amounts too. Punakaiki Fund generally makes larger commitments to later stage companies, although there are exceptions each way.

The deal sends a message to all funds, including KiwiSaver funds, that the high growth venture capital space in New Zealand is maturing, and investments there are an important part of any portfolio. Punakaiki Fund's unusual structure is designed to be particularly friendly to funds that require continuous pricing and investment availability, a liquidity event (via IPO) and open, well audited reporting.

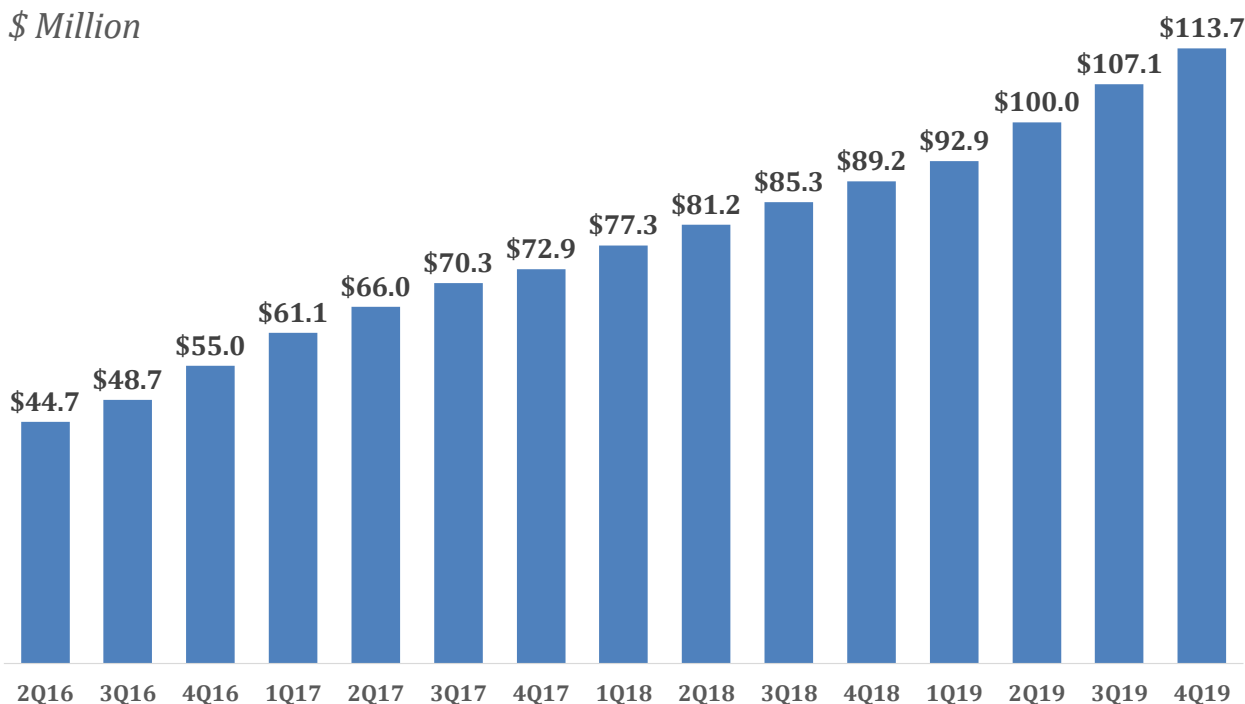
We are also looking forward with hope to the budget, at the end of May, hoping that government will be able to change the game somewhat for venture capital funding by and for New Zealanders.

Growth

As always, I enjoy sharing the revenue growth chart, with last twelve month revenue from all companies now over \$114 million, up \$24.5 million from last year.

PFL Portfolio: Total Last 12 Months Revenue

\$ Million



Meanwhile the last twelve months equity-weighted revenue is now \$19 million, getting close to the milestone of \$20 million.

Total Equity Weighted Last 12 Months Revenue *\$ Million. Weighted at March 2019 shareholding*



New Investments

Over the quarter we made small investments totalling under \$400,000 into RedSeed and Devoli, followed by \$300,000 of investments into Conqa, Devoli and NZAW after quarter-end. These investments are generally designed to fuel the company to a stage where we, or another investor (preferably us though) can place a larger round.

Administration Costs

Over the last five years LWCM has performed a number of administration functions for Punakaiki Fund at no cost. These tasks were outlined in the management contract as being performed by LWCM – or another party – with the costs of these tasks to be reimbursed. Last year the burden of providing these functions at no cost became difficult to manage, in particular the audit and valuation processes, and LWCM requested that the Board review the situation.

At the May 2019 Board meeting the external directors met alone to discuss the situation. The principles for the discussion were that the Board wanted LWCM to succeed as the Manager, to be fairly compensated for any work beyond the role of Manager, and to ensure any contractual inconsistencies were tidied up. The Board also had a preference for LWCM to provide administrative support rather than Punakaiki Fund having its own employees or another third party complete the work.

The Board decided that a fixed fee would be determined for each financial year, based on an agreed scope of works. The Board also agreed that 50% of LWCM’s estimated FY19 costs would be met, and this has resulted in an \$86,500 (plus GST) provision in the accounts below. LWCM intends to recruit (at least) a Finance Manager to take on the bulk of the administration requirements going forward.



Quarterly Webinar

Our quarterly webinar will be held at 5pm on Monday, 27 May. [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, 27 May to Friday, 31 May, 2019. The last window again saw large volumes move, with a 12% discount to investor net asset value.

Looking forward, we see a range of possibilities for Punakaiki Fund and companies we have invested into, and considerable uncertainty in the space, although underpinned by growth. We are in the early stages of planning a retail offer for later in the year, and have a range of possibilities for that. As always we will make sure existing investors get access to the best deal.

Thanks for your support. I suspect even more thanks would come from many of the 398 people and their families who rely on jobs at the companies you and we have invested into. That excludes the over 250 at Vend, as it's fair to say our funding was only a small part of their journey.

But it should give you a very good feeling that we are not just collectively contributed to lasting change in New Zealand, but creating impact for hundreds of individuals and families.

Lance



Portfolio Company Update

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



Shareholding: **1.6%**

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

First Investment: **Aug 2015**

- Record revenue growth in the March quarter;
- Short-listed for the Hi-Tech Company of the Year Awards (winner to be announced on 24 May in Auckland);
- Began a significant expansion of product and engineering teams; and
- Product improvements including the launch of integration with WooCommerce, improved syncing with Xero, launching a BigCommerce integration beta and the release of Singapore-dollar billing.



Shareholding: **44.9%**

[Devoli](#) is an Internet Service Provider that provides wholesale and corporate telecommunication services.

First Investment: **Jun 2014**

- The rollout of the new network core got underway which will greatly increase Devoli's network capacity and reliability. The rollout will continue through the 2019 calendar year and beyond;
- Several Robotic Process Automation (RPA) deals were signed during the quarter;
- Punakaiki Fund purchased a small number of shares from existing shareholders; and
- Software development of new and improved products continues.



Shareholding: **25.6%**

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

First Investment: **Feb 2015**

- Onceit made their top line revenue target for the 2019 financial year with 29% growth in Q4 (the January – March period) compared to the prior year;
- Over 500,000 visits to their website during the quarter;
- The Development team has been doing significant work in the Dispatch Centre, with a new picking and order dispatch tool in the testing phase in March. The results from the testing phase have showed more efficient picking and packing of orders and the improvements will be rolled out in the coming months.



Shareholding: **19.6%**

[Mindfull](#) is a global advanced analytics practice that builds data, information management and warehousing, predictive tools and platforms.

First Investment: **Dec 2015**

- Completed development on the new MiBI product, which is to be launched in the US in June;
- Exceeded cash flow and revenue expectations for the March quarter and signed two large new clients; and
- Appointed a Head of Finance who was previously the Chief Financial Officer for ABSA bank in South Africa.





Shareholding: **3.8%**

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

First Investment: **Jun 2014**

- The Timely marketing team has partnered with a digital growth agency, allowing Timely increase the impact from its paid search, paid social and search engine optimisation strategies;
- Timely's UK market-entry focus has ramped up with Timely's UK first expo of the year, an increased marketing and staff spend in that market, and a customer success role relocated from NZ to the UK, which has lifted lead volumes and market proposition;
- Their repackaging project was launched at the start of May; and
- Released a host of product improvements including gap minimisation to improve calendar optimisation, user experience and user interface improvements.



Shareholding: **6.3%**

[Raygun](#) provides a software intelligence platform including crash and error reporting, real user monitoring, and deployment tracking.

First Investment: **Apr 2014**

- After 2018's focus on product development culminating in the launch of Raygun APM, the focus for 2019 is growth in customers and revenue;
- Raygun is recruiting for roles to boost growth including Marketing, Business Development and a Chief Revenue Officer;
- Signed their largest customer to date; and
- Delivered product updates including dashboard enhancements, Raygun4Apple and APM.NET core support beta.



Shareholding: **17.7%**

[Coherent Solutions](#) develops and manufactures advanced laser test equipment for the global fibre optic communications market.

First Investment: **Nov 2017**

- Added 17 product families, with 132 configurations, and 458 part numbers over the last year;
- Revenue grew by almost 100% year on year; and
- Closed their first sale with NASA, and signed a lease for a new office in the USA.



Shareholding: **16.1%**

[Mobi2Go](#) is a digital ordering and engagement platform for the hospitality sector.

First Investment: **Oct 2015**

- Closed a \$5 million Series A investment round led by Movac with a small contribution from Punakaiki Fund;
- Mark Vivian from Movac has joined the board and Mobi2Go have begun scaling their team with the recruitment of a Director of People and Culture, and additional roles advertised in New Zealand, Australia and North America; and
- Continued product development and working to close sales with globally recognised brands.





Shareholding: **29.9%**

[EverEdgeIP](#) is an intangible asset valuation specialist which helps companies drive growth and create wealth from intangible assets.

First Investment: **Jul 2015**

- [Announced](#) the appointment of Vijey Ananda as Partnerships Director based in Singapore;
- CEO Paul Adams, and Head of Strategy, Paul Davies, were named in the 2019 IAM Strategy 300 rankings;
- Released a case study on a valuation project with Tourism Holdings which resulted in a 360x investment return on fees for the client; and
- EverEdge Capital agreed terms to pursue two live commercialisation projects and has a further five high quality projects under negotiation with intangible asset owners.



Shareholding: **19.1%**

[Conqa](#) provides software allowing the construction industry to do their quality assurance planning and execution online.

First Investment: **Feb 2017**

- Developed a prefabricated building-related software product that is currently being trialled by Fletcher Building;
- Ryman Healthcare have quickly become Conqa's largest customer, with eight projects now using Conqa across Australia and New Zealand. There is still a significant capacity to grow this relationship;
- Appointed a new Head of Revenue; and
- Punakaiki Fund has made two small investments since the end of the March quarter. Punakaiki Fund has made two small investments since the end of the March quarter.



Shareholding: **32.8%**

[RedSeed](#) helps large retailers increase their sales through proprietary and customised modules in a SaaS Learning Management System.

First Investment: **Mar 2015**

- Great progress on the sales pipeline in both New Zealand and Australia with a number of leads coming into the pipeline (General Pants, BigSave, Anaconda, and Boardriders) that have progressed quickly;
- Barker's clothing signed and launching at the end of May;
- Major re-vamp on core material format to overcome existing barriers with customers;
- Developed four face-to-face sessions to increase the effectiveness of product implementation. The key executive half-day session is around insights and a diagnostic piece which helps to inform the training solution; and
- Continued progress on a B2B project that is due for delivery at the end of July.



Shareholding: **23.9%**

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

First Investment: **Jun 2016**

- Sales in Woolworths Australia have begun well;
- Good order volume from China and progress in setting up a "Wholly Owned Foreign Enterprise" in China with the assistance of NZTE; and
- A new bottle has been designed for the juice brand, which has tested well with buyers.





Boardingware

Shareholding: **30.1%**

First Investment: **Feb 2015**

[Boardingware](#) helps schools manage their students' movements and pastoral care using a SaaS product.

- Attended NAIS (National Association for Independent Schools) conference in Los Angeles resulting in a number of new sales leads;
- Developed new product features including:
 - Location manager as a way for schools to map every possible location that a student could be, delineated by zones, buildings, rooms, both on and off school grounds;
 - In Transit Tracking feature to record the time taken to travel from one location to another;
 - Check In features to allow students to be checked into different locations without filling out a Pass; and
- NZTE growth grant approved to help fund expansion into the Day school market.



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.

- The Ministry of Health funded a 2.5 year pilot supporting 18-25 year olds with mild to moderate mental health needs called "Piki". The pilot is now live;
- Awarded a Callaghan Growth Grant;
- Continued development on the new analytics platform and co-created content for the Youth Emotional Wellness pilot "Piki"; and
- Paula Snowden has joined the Melon Health board, bringing experience from her leadership positions in government, government owned and not-for-profit sectors. Paula is currently the CEO of Problem Gambling Foundation NZ.



Shareholding: **30.4%**

First Investment: **Feb 2015**

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

- Presented at the InvestHER event in Auckland which was a female-founder pitch event organised by NZTE;
- Dramatically increased sales as the full-time sales team in Sydney gains traction;
- Developed a minimum viable product for an automated, multi-step pre-assessment tool which a large customer is trialling; and
- Closed a small rights issue with existing shareholders.



Shareholding: **14.6%**



Shareholding: **25.2%**



Shareholding: **23.3%**



Shareholding: **11.0%**



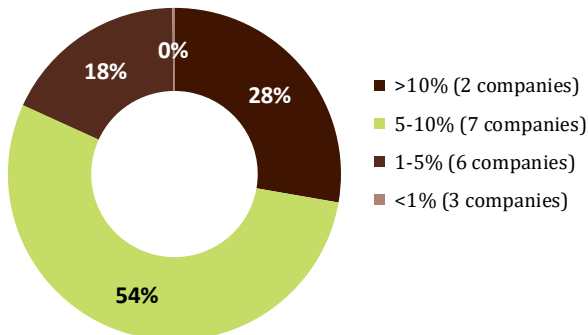
Shareholding: 400,000 FamilyZone shares + 1.5 million FamilyZone performance shares



Portfolio Valuation Splits (as at 31 March)

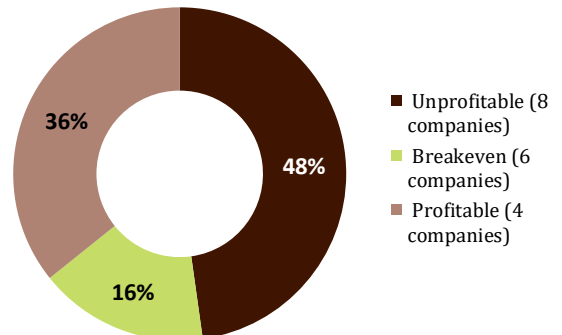
The diagrams below show various splits of portfolio valuation, less the value of our residual holdings in disposed-of companies (ThisData and Family Zone), by differing methods.

Valuation Split By Concentration



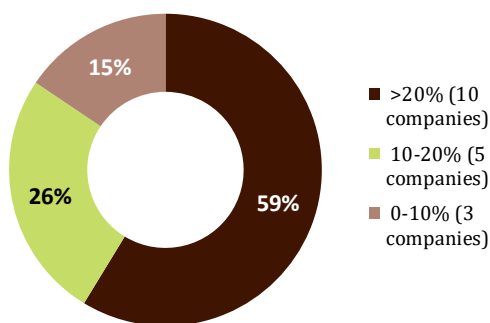
Punakaiki Fund has 28% of its investments by value in two companies which each contribute at least 10% by value to Punakaiki Fund's total portfolio value.

Valuation Split By Profitability



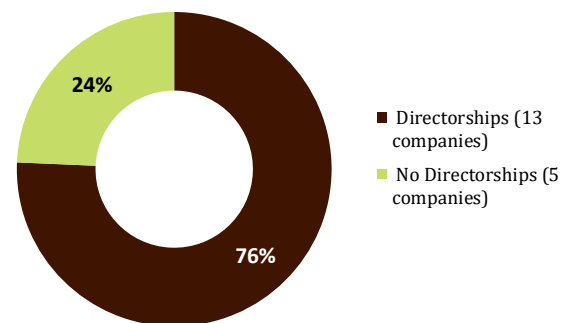
47% of Punakaiki Fund's investments by value are in unprofitable companies. 17% are in breakeven companies and 36% are in profitable companies.

Valuation Split By Ownership %



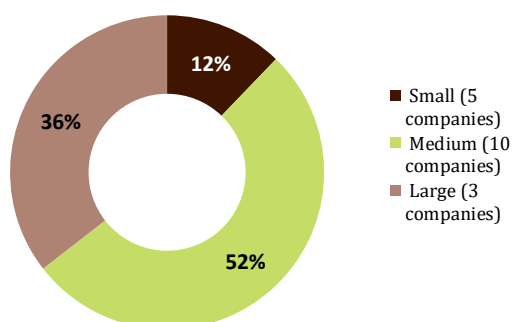
The companies in which Punakaiki Fund owns more than 20% comprise 58% of the total portfolio value. Those between 10-20% comprise 27% of the value.

Valuation Split By Directorship



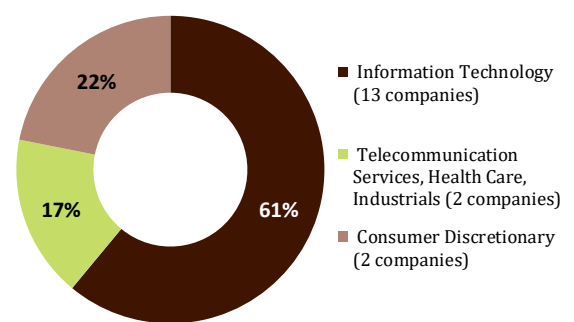
76% of Punakaiki Fund's investments by value have Punakaiki Fund board representation provided by the manager.

Valuation Split By Revenues



Punakaiki Fund holds 12% of its portfolio in Small companies (less than \$1 million in revenues p.a.), 53% in Medium companies (\$1-10 million) and 35% in Large companies (more than \$10 million).

Valuation Split By Industry



61% of Punakaiki Fund's portfolio is held in the Information Technology industry, 17% in Consumer Discretionary and 22% in Communication Services, Health Care and Industrials combined.



In the News

Coherent Solutions	<u>Device developed in Dunedin could revolutionise internet</u>
Conqa	<u>How Ryman Healthcare is leading the way for the construction of aged care infrastructure</u>
Devoli	<u>Devoli taps Mitel channel expertise to drive trans-Tasman growth</u>
EverEdgeIP	<u>Intangible assets are 95% of business value – what to do about it (NBR Paywall)</u>
Linewize/FZO	<u>We not spyware' - after school controversy, Family Zone hits back</u>
Melon Health	<u>Healthcare Gamification Market Forecast 2017-2024</u> <u>Free youth mental health pilot for Porirua</u>
Mobi2Go	<u>Movac Backs Mobi2Go with \$5m Investment</u> <u>The next Xero? Online ordering specialist Mobi2Go raises \$5mln</u>
Raygun	<u>Failing to succeed: Why anything is possible if you're just willing to try</u> <u>Best practices for monitoring cloud-based apps for 2019</u>
Vend	<u>Why the future of retail is to be everywhere</u> <u>Kiwi tech boss buys a 'zoo', changes his name</u>
Weirdly	<u>An inside look at 12 recruiting tools used by modern HR teams</u>
Punakaiki Fund	<u>How Kiwis' preference for property is starving our startups</u>

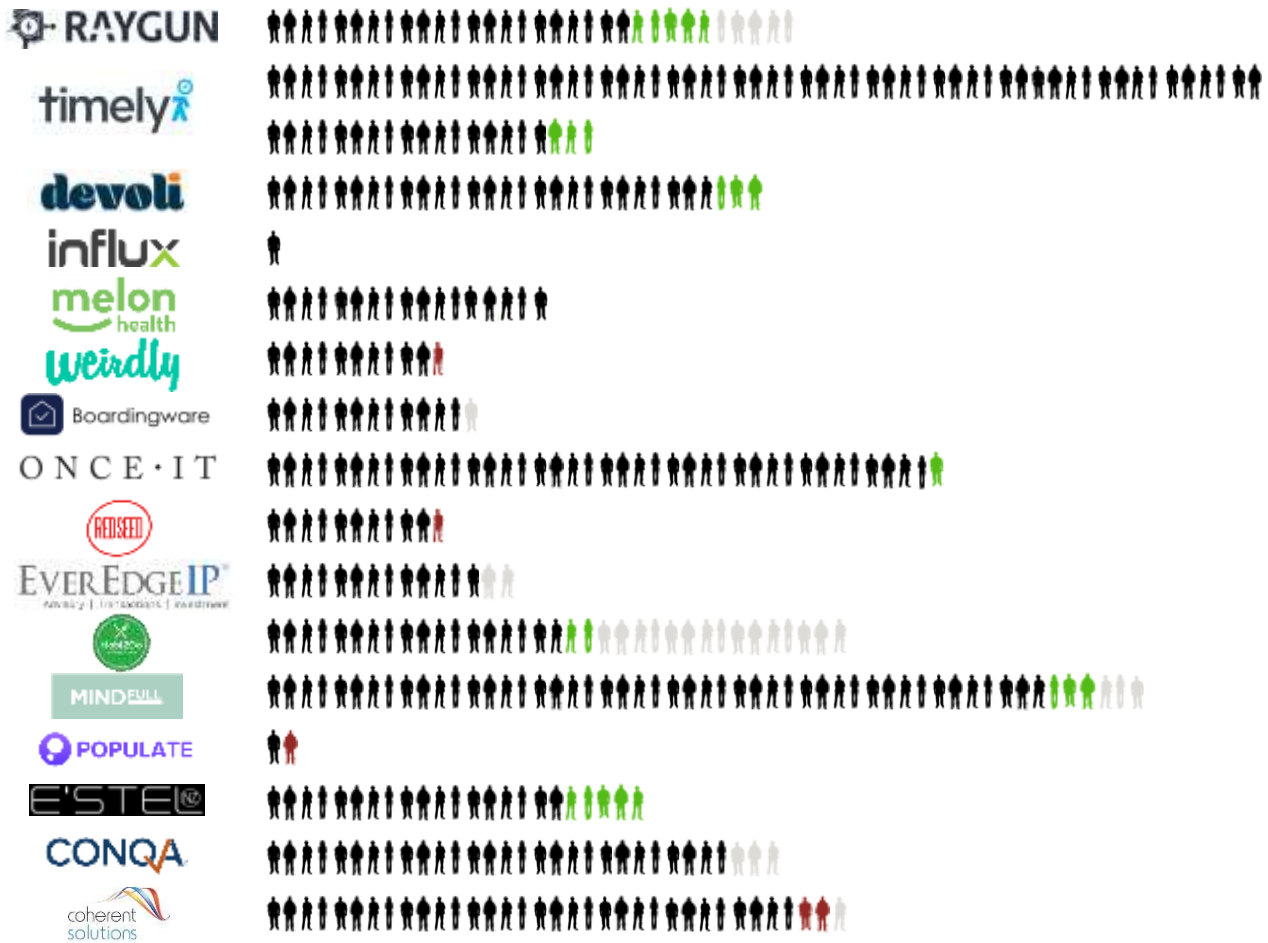
Share Trading

The last Quarterly Share Trading Window concluded on Friday, 15 March 2019, and resulted in 11,963 shares being traded at a price of \$18.90, for a total turnover of \$226,101.

The next Quarterly Share Trading Window will open on Monday, 27 May 2019 and close on Friday, 31 May 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 (March Quarter)

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



That's 398 jobs as at the end of the March quarter – a net 17 more than at the end of December.



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 10 May 2019 for the quarterly Board meeting to consider, among other matters:

- To review Punakaiki Fund's investment portfolio;
- To consider updates to the Investment Valuation Policy;
- To consider the Investment Valuation Methodologies paper;
- To consider the Valuation Discussion and Evidence paper;
- To consider the cost of PFL's administrative function; and
- To receive and consider this quarterly report.

The Board's next meeting is planned for 7 June 2019, primarily to consider the financial year-end valuation.

Financial Reporting

The valuation of Punakaiki Fund's investments as at 31 March 2019 has not yet been determined and the financial year-end valuation process is still underway. This information will be released in the 2019 Annual Report, which is expected to be issued in July.

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 January 2019 of \$1,289,970;
- \$376,270 was invested in RedSeed (all new shares) and Devoli (existing shares);
- \$279,500 was raised from investors via continuous wholesale capital raising rounds open during the quarter;
- Management fees of \$248,377 including GST were paid to LWCM;
- Brokerage Fees of \$8,385 were paid to LWCM;
- \$11,008 was paid for accounting services (including the preparation of the Interim Financial Statements);
- \$35,887 was paid to Punakaiki Fund's directors for fees and out-of-pocket costs;
- \$697 was reimbursed to LWCM for out-of-pocket costs related to annual filing fees;
- GST refunds of \$32,446 were received; and
- A closing cash balance of \$998,305.



Punakaiki Fund Limited - Unaudited Financial Position	
as at 31 March 2019	NZ\$
Current Assets	
Cash on deposit	998,305
Accounts Receivable	38,601
Prepayments	22,852
Non-current Assets	
Investments	
Total Assets	
Current Liabilities	
Accounts payable	132,097
Non-current Liabilities	
Accrued Performance Fee	
Equity	
Retained earnings - Operations	
Retained earnings - Accrued Performance Fee	
Share-based Payment Reserve	
Asset revaluation	
Share capital	31,553,603
Capital Raising Costs	(818,433)
Total Equity and Liabilities	
Accounting NAV	
iNAV (after deduction of the performance fee)	
iNAV per Share	

Punakaiki Fund Limited - Cash Flow Summary	
for the quarter ending 31 March 2019	NZ\$
Operating Cash Flows	
Gross Interest received	245
Withholding Tax on Interest	(81)
Bank Fees	(26)
Payments to External Advisors	(11,008)
Management Fees	(248,377)
Other Net Expenses	(36,584)
GST Refunds	32,446
Total Operating Cash Flows	(263,386)
Investing Cash Flows	
Investments made	(376,270)
Investments realised	-
Dividends received from investments	76,875
Total Investing Cash Flows	(299,395)
Financing Cash Flows	
New capital received	279,500
Brokerage Fees	(8,385)
Dividends paid	-
Total Financing Cash Flows	271,115
Total Cash Movements	
Opening cash balance	1,289,970
Closing cash balance	998,305

Expected Cash Flows for the June 2019 Quarter

Following the end of the March quarter, Punakaiki Fund has raised \$304,003 of new capital and has made additional investments in Devoli, Conqa and New Zealand Artesian Water totalling \$398,442. Further investments are likely to be undertaken before the end of the quarter.

The payment of the interim June Quarterly Management Fees to LWCM of \$249,504 including GST occurred in early April 2019.

Administration fee of \$99,475 (including GST) due to LWCM for services performed during the 2019 financial year.

Accounting fees of \$1,150 and Director Fees, interim audit fees of \$26,521 and other consultancy fees of \$3,450 (all including GST) have been paid, and a GST refund of \$27 and an income tax refund of \$24,738 has been received to date in the June 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 June 2019 quarter.

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

Additional Disclosures / Conflicts

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



Contact

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

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