Punakaiki Fund Limited

March & June 2018 Quarterly Report

Welcome

This is a combined March quarter and June quarter quarterly report.

We missed our internal deadlines for the March and Annual reports as we had a drawn-out process for finalising our year-end valuations and accounts, and our choice (for your benefit) to be audited to the higher standards applied to newly listed entities. As a result of these delays, and because of the fullness of information in the Annual Report, we're giving you a 2-for-1 deal with this combined report.

Some of you may have seen the recent valuation issues with some listed investment companies; with Bailador, BlueSky and Powerhouse Ventures writing off large parts of their portfolios. That's all fodder for a global trend towards increased scrutiny of valuations of private investment assets

We obtained two external valuations for the portfolio companies. One was challenging as it derived a value for a company that was just 10% higher than when we invested over 2.5 years ago, despite its recurring revenue increasing by over 12 times. This and many of the other investments are held at valuations where I am confident that events unfolding in the next 6-18 months show good upside, but as always we cannot make any predictions.

The results for June were similar (and informed by) the year end results. We made some investments that reduced the carrying value of certain companies, and this was balanced by increased value after strong growth from (mainly) one other company.

We've combined the financials, shown two employment summaries (your investment has helped create hundreds of high quality sustainable jobs) and don't miss the latest company deep-dive from Chris – this time on Mobi2Go.

You may recall earlier in the year we surveyed shareholders on a range of topics including whether to IPO (list on a stock exchange). Shareholder views on an IPO surprised us and we set these out on page 13 below for you.

Our quarterly webinar will be held at 5 pm on Monday, 6 August 2018. ***Pre-register here*** – we will answer any and all questions, which you can ask via a simple text chat feature.

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

Lance

Portfolio Company Update

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

Vend — Shareholding: **1.84%** — First Investment: **Aug 2015**

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

- Launching a partnership with Afterpay, the Australian leader in the buy-now-pay-later space (also used by OnceIt);
- Completing its billing migration and improving retailer self-service capability;
- Being named as a finalist for the Hi Tech Awards Company of the Year 2018;

Devoli — Shareholding: **30.4%** — First Investment: **Jun 2014**

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

- Significant contract wins with Stuff Fibre and Victoria University;
- Rebranding both the New Zealand and Australian businesses to Devoli (see the new logo above), moving into new Devoli headquarters, and holding its first ever annual meeting of shareholders;
- Three independent directors being added to the Board (Paul Trotter (Chair), Sean Hannan and Brooke Paterson), with founders Davey Goode and Barry Murphy standing down; and
- Punakaiki Fund continuing its share purchase agreements with three existing shareholders, increasing its shareholding to 30.4%. After the quarter end, Punakaiki Fund entered in an agreement with Davey Goode to purchase up to 9.5% of his shares in Devoli.

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.

- Leasing a new warehouse/dispatch centre, with size increasing from 1,000m^2 to 3,000m^2, which is now fully operational following a move there in May;
- Forming a green committee with a focus on making positive and sustainable changes to the business (i.e. being more efficient and environmentally friendly with resource utilisation);
- Implementing an Afterpay offering, which is going well (see https://www.afterpay.com/en-NZ/category/featured-retails for more details - Vend has also done this); and
- Undertaking a successful MyCoke promotion resulting in new Onceit customers and MyCoke using Onceit vouchers for their future promotions.

MINDFULL — Shareholding: **19.2%** — First Investment: **Dec 2015**

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

- Releasing a new module of Qubedocs which was very well received by clients, including having JP Morgan Chase sign up for a Qubedocs trial licence;
- Being a finalist in the Air NZ Cargo Exporter Awards for their Qubedocs product;
- Negotiating a New Zealand Informatica distribution agreement, which will allow Mindfull to deliver a platform of data governance and data exploration services;

coherent solutions	Shareholding: **15.1%** First Investment: **Nov 2017**	*Coherent Solutions develops and manufactures test equipment for the global fibre optical communications market.*

- Launching their initial Optical PXI modules in collaboration with National Instruments at the OFC (Optical Fibre Communications) trade show in San Diego, generating significant interest;
- Recruiting a very experienced technical sales manager, who is located in California;
- Focussing on promotional sales and marketing events, including:
  - exhibiting at the OFC Exhibition in California;
  - attending (by request) Sandia National Labs' scientific tradeshow (which resulted in several new orders);
  - various collaborative sales trips with National Instruments (NI), including attending "NI Week", a four-day long exhibition organised by NI;
    - an extensive meeting with [redacted], a launch PXI partner; and xxxx
  - attending another NI-sponsored exhibition in China, followed by two weeks of customer visits with NI across China and Taiwan;
- Hiring the first USA-based staff member, Aaron Kaplan, who has a strong background in optical instrumentation sales and is based in San Francisco; and
- Punakaiki Fund partially exercising its options to purchase additional shares in Coherent Solutions, increasing its shareholding to 15.1%. It should be noted that Punakaiki Fund did not exercise all of its options over Coherent Solution shares due to competing demand for capital from other companies with our portfolio. Following the end of the June quarter, Punakaiki Fund entered into an agreement with Coherent Solutions founders Andy Stevens and Iannick Monfils to purchase an additional 2.5% of Coherent Solution's shares.

timely	Shareholding: **3.8%** First Investment: **Jun 2014**	*Timely provides a software platform to beauty and wellbeing businesses to manage bookings, reminders, marketing, point of sale and reporting.*

Shareholding: **6.3%**

First Investment: **Apr 2014**

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

- Launching their third product - Raygun APM (application performance management), which has been turned on for a first group of beta testers and subsequently expanded to over 50 customers. Feedback has been positive, with some beta customers finding and resolving issues in their own software within days, despite those issues going undetected for several years when using the APM software of one of Raygun's competitors. APM will fully launch in August;
- Migrating all of their customers from Chargify to an internal billing engine (having an internal billing system allows for more flexibility with how Raygun bills their customers);
- Raygun being cash flow positive in May, without any support from grants; and
- Following analysis on their internal sales pipeline, narrowing its focus to sales efforts on account management and customer success.

Shareholding: **19.6%**

First Investment: **Oct 2015**

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

- Closing substantial deals with top tier brands, including Hudson's Coffee (a 70 store Australian coffee group), Brumbys Bakery (which is part of the RFG Australia group), Sumo Salad, Top Juice, and Mad Mex. If all this food-talk is making you hungry, try Mad Mex, powered by Mobi2Go here!
- Continuing to build the outbound sales approach, the success of which is indicated by some top quality client wins in both AsiaPac and North America;
- Product development continuing, with digital ordering, a Stamp Loyalty card functionality (rolled out in New Zealand, Australia and Canada to date), with a new release of the mobile app due for release soon which will incorporate new engagement tools and provide a richer customer experience; and
- Receiving a new investment from Punakaiki Fund, which lifted Punakaiki Fund's shareholding in Mobi2Go to 19.6%.

Shareholding: **29.8%**

First Investment: **Mar 2015**

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

- Appointing a Marketing Manager to grow sales leads, and a newly-hired salesman in the Australian office who has been busy securing meetings and landing his first significant sale after only three months in the job;
- Improving product development offering with LMS functionality significantly improved, course and document upload in its final testing stage. RedSeed's Click-to-Buy offering is scheduled to come online by September as an off-the-shelf offering;
- Evolving their codebase to a Laravel (PHP) framework, will allow for much faster development and more flexibility when adding additional functionality in the future;
- Having new projects progressing with [redacted] of their existing clients in New Zealand as a result improved account management and closing off a huge production quarter, with work for Fletchers, Jani King, C1 Espresso, Drummond Golf, RedCurrant, Bivouac, and Revlon completed;
- Hitting $[redacted] in revenue at the end of the 2018 financial year; and
- In the June quarter, Punakaiki Fund purchasing additional shares from an existing shareholder, increasing its shareholding to 29.8%.

Shareholding: **0.0%**

First Investment: **Jun 2016**

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

During the December 2017 quarter, 100% of the shares in Linewize were acquired by ASX-listed company Family Zone (FZO:ASX) for NZ$200,000 in cash and 19.014 million Family Zone shares. Just under half of these shares, or 9.500 million will only be released, over five tranches, if and when certain performance milestones are met over the next five years. In return for selling its 20% shareholding in Linewize, Punakaiki Fund received a $40,000 cash payment, 1.914 million Family Zone shares and up to a further 1.900 million Family Zone shares subject to certain performance thresholds being met. During the June quarter, Punakaiki Fund sold all of its 1.914 million Family Zone shares for A$0.54 per share, realising a net amount of NZ$1.109 million.

Shareholding: **28.6%**

First Investment: **Feb 2015**

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

- Progressing with an expansion into the day school market, including interviewing 10 day schools in the US private school market, and three early adopters in the US market trialling the platform;
- Deciding on a brand name for the new day-school market – ORAH – which will eventually replace the Boardingware brand as existing customers expand their platform use to day students;
- Releasing their Emergency Roll feature as a first move into focussing on student security, health and safety;
- Exceeding $[redacted] in annualised recurring revenue; and
- Passing the initial stages of ISO 27001, 27017, and 27018 standards, all of which are audited by BSI. Certification is a key security and privacy differentiator for Boardingware amongst its competitors and will allow the company to store and process students' personal and location information. The ISO 27001 family of standards is a difficult standard to achieve and Boardingware is one of the first private companies in New Zealand to receive this.

Shareholding: **30.0%**

First Investment: **Jul 2015**

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

Shareholding: **24.9%**

First Investment: **Dec 2014**

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

- Signing a contract with Hutt Valley DHB for Diabetes management delivered through primary care;
- Brian Russell (ex-founder and CEO of Zephyr Technologies, which was sold to Medtronic) being appointed as Melon Health's board as Chair, and Brian Leighs stepping down from the Board;
- Considerable time and effort being put into closing some significant contracts, including Oscar Health New York, Physician Home Care, and Georgia Physician Accountable Care (largest physician owned ACO in the USA), with all three contracts being signed following the end of the June quarter;
- Continuing to grow the Melon team, with a sales person starting after the quarter-end and a new CFO to be on-boarded imminently;
- Awarded a Health Research Grant with the University of Otago for a randomised control trial on Melon's platform for pain management; and
- Issuing a convertible note to Punakaiki Fund, which Punakaiki Fund converted prior to the end of the March quarter, and Punakaiki Fund purchasing a small parcel of existing shares from departing director Brain Leighs in the June quarter, increasing our shareholding in Melon Health to 24.9%.

Shareholding: **26.6%**

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).

- Significant revenue growth, albeit from a small base;
- Agreeing contract terms for a minimum of 120 containers of bottled and boxed water per year to China over three years;
- Progressing to the final stages of setting up Estel USA, including completing the government compliance requirements in Qatar and Nevada, allowing NZAW to sell into those markets;
- NZAW's Food Safety Programme being rated as excellent by independent auditor Eurofins;
- Securing new investment into the company of $[redacted] by Leisure Investments Limited; and
- Punakaiki Fund increasing its shareholding in NZAW following entering into an agreement with one of NZAW's larger shareholders to purchase a small amount of their NZAW shares in exchange for Punakaiki Fund shares. These transactions have increased Punakaiki Fund's shareholding in NZAW to 26.6%.

Shareholding: **19.1%**

First Investment: **Feb 2017**

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

- Being used by the 2nd and 3rd largest main contractors in New Zealand (Dominion Construction & Hawkins Construction) and also by Arrow Construction. Dominion and Arrow are specifying the use of Conqa's platform for trades on their projects;
- Achieving 20 accounts in Australia and growing steadily in that market, including being used by large Tier 1 contractors in Australia;
- Hiring of a Senior Business Development Manager in Melbourne, Brian Simons, previously with Aconex and three times winner of Aconex's 'president's club' for top global salesman;
- Developing an ICP conversion score to improve conversion metrics. A new data architecture is now in beta testing with key customers to increase the speed of first interaction through the software to less than 5 seconds; and
- Punakaiki Fund leading a new investment round, increasing our shareholding in Conqa to 19.1%.

Shareholding: **31.3%**

First Investment: **Feb 2015**

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

- Closing a significant contract with Sodexo Australia, with a view to growing globally. Sodexo is the 18th largest employer in the world;
- Teresa Pollard joining the Weirdly Advisory Board. Teresa brings global enterprise sales experience which will help Weirdly grow their enterprise business;
- Hiring a new VP Sales, Sascha Gray, who will initially focus on the Australian market, with a view to becoming global;
- CEO Dale Clareburt commencing a 5-month in-market growth plan across the US; and
- Punakaiki Fund participating in a small capital raise to fund Weirdly's US growth plans alongside existing investors, increasing its shareholding to 31.3%.

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: **11.0%**

First Investment: **Apr 2015**

ThisData provides contextual login authentication services for SaaS companies.

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

Shareholding: **14.6%**

First Investment: **May 2016**

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

Shareholding: **23.3%**

First Investment: **Jul 2016**

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

- Minimum activity occurring within the business.

CHRIS' RAMBLINGS

A Taste of SaaS

As you know, Punakaiki Fund has a portfolio of 20 companies that have varying business models, industry exposure and growth rates. We do invest for success, but success does look different for each company depending on what they do and which markets they operate in. Within the portfolio there are a handful of companies that have the opportunity to be globally dominant in their niche and as a result, become substantial businesses. Mobi2Go is a member of this group, and has a shot at becoming a leader in the on-line and mobile ordering space.

In the Beginning…

Mobi2Go's origin story starts back with a young Tarik Mallet, when he was studying accounting and information systems at university back in the late 1990's. This was a time when email was being taken up by the broader population and the World Wide Web was becoming useful. While these tools had not yet matured, they were responsible for piquing Tarik's interest in the field of information technology, defining his career path and ultimately resulting in the creation of Mobi2Go.

It was while at PwC that Tarik forced himself to learn computer coding. His first creation was NZFlats – a market place for rooms in flats. In its heyday, NZFlat's was generating $5,000 of revenue per month, but in Tarik's view the business was never going to grow into a sizeable business. In order to help create a critical mass of listings, the business hired a person to type in external real estate listings (which weren't online at that time) into the platform, but ran into issue around culling live listings on the website that were no longer available in real life. A couple of years after NZFlats was created, Tarik decided to wind it down, although not all was lost - the experience gained by Tarik led to the GrpTXT/Mobi2Go journey and Tarik's on-going ability to hold knowledgeable discussions with software coders, engineers and architects.

After university, Tarik landed a job at 'big four' professional services firm, PwC. His first role within PwC was in the Global Risk Management Solutions team, which involved going out into companies and organisations and performing information technology security audits and testing that those firms were adopting best practice. Following this, but still within PwC, Tarik moved into business continuity planning (putting systems and process in place to deal with events that disrupt businesses like earthquakes or your office burning down). From there it was into the computer forensics, were Tarik and the team would be called in if there was suspected illegal computer-related activities in a company, such as theft, payroll fraud or general computer fraud. While in forensics, one of the more notable jobs that Tarik was involved with was being seconded to San Francisco for three months to help out the PwC US team with a minor investigation that they were doing into a small company called Enron.

During his time at PwC, Tarik heard about a US entrepreneur called Dennis Crowely who set up a mobile text-based business called Dodgeball (which tells you which of your friends are in a certain location – usually a bar), then sold it to Google, who shut it down a couple of years later. Dennis then went on to set up Foursquare, which was similar to Dodgeball, but instead of being text-based, it was an app for smart phones. In 2007, following six and a half years at PwC, Tarik resigned to investigate setting up a New Zealand equivalent to Dodgeball. Unfortunately, Tarik came to the conclusion that a New Zealand Dodgeball-equivalent wouldn't be a success. The technology hardware (then available in New Zealand) was not sufficiently evolved and New Zealand was too small to get the necessary scale for the business to be successful.

Group Text

In its place, Tarik then set-up GrpTXT, where you could sign up to a subscription lists and then receive “text blasts” to your phone, sent on behalf of business giving you deals and/or coupon offers. The first iteration of GrpTXT was for consumers, then additional iterations were created for sports teams (SporTXT) and businesses selling to other businesses (MobiTXT).

GrpTXT was great little company, but any scope to expand internationally was limited by the requirement to integrate with several different telecommunication providers in each country in order to send text messages over their networks. Had Tarik gone down this (relatively painful) path, GrpTXT had a shot of being something akin to Twilio today (which is currently valued at US$5.2 billion).

GrpTXT had a lot of customers in the hospitality sector, and some those customers wanted to offer customers the ability to text in orders for drinks and food. However, text messaging wasn’t the right technology for that sort of application. Never-the-less, Tarik kept on getting requests for ordering functionality, so in 2012 GrpTXT become Mobi2Go and pivoted to online ordering.

Powering Hell

The story of Hell Pizza is fairly well known. The edgy New Zealand pizza chain focused on the premium end of the pizza market, commonly used shock tactics in their advertising and grew quickly since their founding in Wellington back in 1996. Along with the constant controversy it generated (anybody remember when they gave away condoms in their pizzas advertising mailers? I saw that one on the 6 o’clock news), Hell Pizza had been offering online order since back in 1997, which was unheard of in New Zealand at that time. Hell Pizza’s founders Callum Davies and Stuart McMullin reached out to Tarik to talk about what Mobi2Go was doing and came back a couple of weeks later wanting Mobi2Go to help Hell set up a mobile ordering solution for their 60-store chain.

Pizza is one of the most complicated fast foods to build an ordering system for because of all of the possible topping combinations that you can have. However, Mobi2Go took on the job and created their first ordering system for a restaurant chain. The HabitualFix chain was next (then with a handful of stores), which was followed by interest from others in New Zealand and Australia. At that time, Mobi2Go was creating a bespoke software solution for each client and was effectively a digital agency - a software development shop building one-off pieces of software for each customer.

In the following year (2013) Tarik decided if Mobi2Go was to be a successful business, it needed a single product that it sells repeatedly with only minor cosmetic changes. At the time, Software as a Service ("SaaS") was becoming more mainstream and this looked to be a good way to give Mobi2Go the ability to implement its software at a new customer's business within a month from starting.

At the time Mobi2Go was bootstrapping its growth (growing by spending only what it earned), however it needed to focus on building its SaaS software. The decision was made to stop building bespoke software and focus its limited development resources on creating the Mobi2Go as we know it today. This transition took 18 months, a tough period in which growth slowed significantly, but which set Mobi2Go onto its current course to (hopefully) becoming a sizeable company. Once Mobi2Go went through this transition and started selling a SaaS product, it become significantly more investable, with Punakaiki Fund making its first investment in October 2015.

Onwards and Upwards

Since that first investment by Punakaiki Fund, Mobi2Go has figured out a lot about their target market, including how to sell, who to sell to, which type of customers generate value for the business and what functions and features the software needs to deliver. Initially, Mobi2Go found that they were really good at selling to smaller customers, which they initially pursued as a means to grow the business. However, having a large number of lower value customers did not really allow the company to grow to where they wanted to be. Mobi2Go had also started getting more and more interest from enterprise-scale customer (that is, chains with more than 100 stores) and about 12 months ago when they felt that they had developed a really good product for their market, they made a concerted effort to win these bigger customers. About nine months ago, enterprise sales started to fire and Mobi2Go's revenue growth has significantly increased since then. This success is creating its own bottleneck issues with on-boarding, customer success and support, but this is nothing that Tarik can't handle with the help of his 18-strong team (and growing by the day).

And just to show you the larger chains that use Mobi2Go today, here is a sample.

Hang On - What Is It?

Good question. In a nutshell, it is a digital ordering platform for hospitality businesses, principally those in the quick service restaurant sector. It allows customers to order and pay online or through their mobile device.

"That's great", you might say, "but isn't that sort of thing fairly common?"

At first blush, on-line ordering is not that uncommon, but once you take a closer look at the options, they become a bit limited for stores and chains looking for a solution. From the stores' perspective, there are three main options available:

1) ***Use an Aggregator*** (like UberEats). This is a single website that lists the menus of many restaurants. This is relatively simple to set up, but has a number of downsides, not least of which is the up to 40% share of the sales that the aggregator takes. In addition, the restaurant operator doesn't own their own customers' data and they can't control the customer brand experience (as the ordering customer is sent to the aggregator's website).
2) ***Build it Yourself***. You can build your own online ordering solution (like Mobi2Go used to do for its customers), but it can be expensive, especially if you are a smaller operator. This option is okay if you are McDonalds and have over 36,000 stores world-wide, but if you have between 50 and 200 stores and you do not have the necessary expertise in software in-house, you do not normally get a great outcome.
3) ***Mobi2Go*** (or similar). Mobi2Go can offer its restaurants a completely self-branded experience and control over all of its customer information, all at a reasonable price. It also importantly allows the restaurants to concentrate on building their business rather than becoming a software development shop.

Now, that's not to say that Mobi2Go doesn't have competition. There are a few other players floating around in the space like Olo (which serves the same market as Mobi2Go, but only in the US, only for very large customers and it takes 12-18 months to put together a solution for a customer), OrderUp (the Australian-based ordering software company that has a much broader customer base focus) and ChowNow (another US-based company, but with a focus on 1-10 store customers).

The lot of an entrepreneur is never an easy one, with the responsibility for the company sitting squarely on your shoulders. There are two schools of thought about whether it is optimal to have a single founder or a group of two or more co-founders running a start-up. Those in the single founder camp prefer the ability to make decisions and pursue their own vision for the business. Those in the co-founder camp prefer to share burden and pressure of start-up life and assume that the wisdom of the group will lead to better decision making and will give better outcomes. Looking back at his experience with Mobi2Go, Tarik has said that he is unlikely to do a start-up solo again and will look for a co-founder next time, although he knows of founders from other companies who say that they will never start another business with a co-founder again. Go figure.

Could It...?

There is always the risk with a company that looks like it could have high growth potential that it actually ends up being a BBB company (or worse!). What is a BBB company you ask? It stands for Beach, Bach and BMW, and is referring to a (usually) small, low growth, but profitable company that keeps its owner in a very comfortable existence, but without any other aspirations for greatness. This ‘good enough’ approach to business is perceived as a bit of a problem in New Zealand due to it being a handbrake on growing the economy to its full potential.

There was a risk that Mobi2Go could have turned into a BBB, but Tarik is driven to see how big Mobi2Go can get. In particular, Tarik wants Mobi2Go to be the Shopify of hospitality. Given that Shopify is currently worth US$15 billion, it is a lofty goal. There is still a long way to go for Mobi2Go, but the potential is definitely there.

...It Could!

So what ingredients do you need to make a billion dollar company? The laconic reply would be start with a $10 billion company and go downhill from there. But in all seriousness, you need a whole lot of stuff, including more than a little luck.

But the basics:

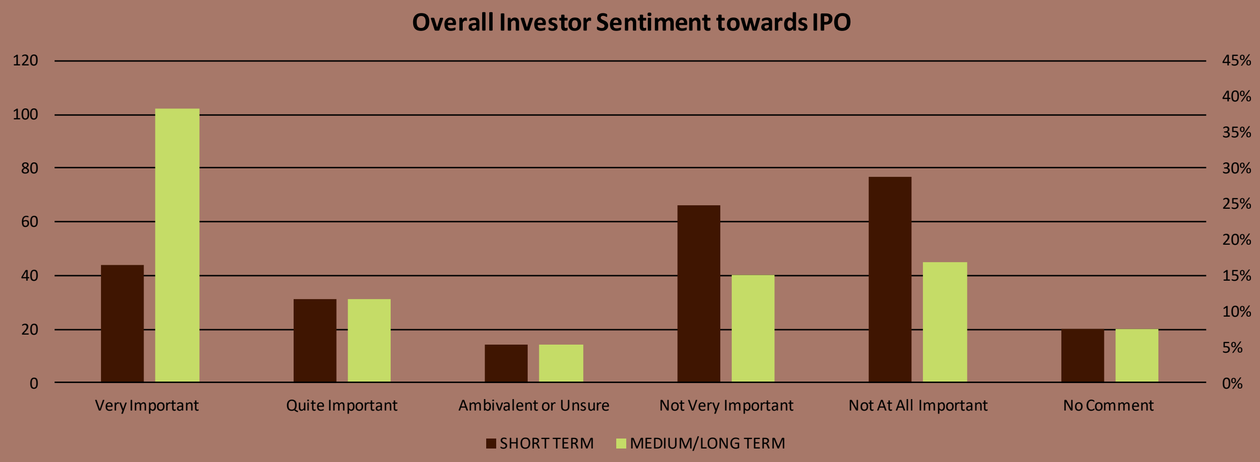
- A decent sized market (✓);
- Limited competition (✓);
- An immature market (✓– hospitality is about a decade behind retail in respect of using on-line channels and is just moving out of the early-adopter stage);
- Demand from end-users (✓ - people are savvy when it comes to on-line ordering and demand it from their hospitality provider);
- A good product that is getting better by the day (✓– in addition to the core ordering functionality, Mobi2Go also has payments, vouchers, digital stamp cards and partnerships with loyalty providers); and
- A great value proposition for the customers (✓ – a low cost product that leads to 15-20% of new revenue per store – Mobi2Go actually makes their customers significantly more money!).

So it’s so far so good, and now they are off to the markets... more exactly to the key English-speaking markets of AsiaPac – Australia, the USA and Canada. To date, Mobi2Go has not had a marketing team and growth has been organic/by word of mouth. But now the company has an outbound sales team and offices open in Sydney and Melbourne.

So, watch this space...

Path to IPO

During the March quarter, we undertook a shareholder survey to understand (among other things), shareholders' appetite for Punakaiki Fund to proceed with a listing of its shares on a recognised exchange such as the NZX and/or the ASX. The feedback from this survey was that many shareholders did not place particular importance on a listing occurring in the short-term, but placed greater importance on a listing occurring over the medium and longer term. This result was somewhat unexpected.



A report regarding the results of the survey will be sent to shareholders in due course.

Additional work was undertaken during the quarters including the Board compiling and sharing with shareholders a paper setting out the basic advantages and disadvantages of an IPO. If you missed this paper, you can download it here. LWCM also developed high-level draft prospective financial information for Punakaiki Fund (i.e. forecasts) and shared this with the Board so we can test how good we are at making these forecasts well before any IPO. Finally, we will be surveying investors again with a more formal question to determine with more clarity just what perspectives are on the prospect of an IPO.

Share Trading

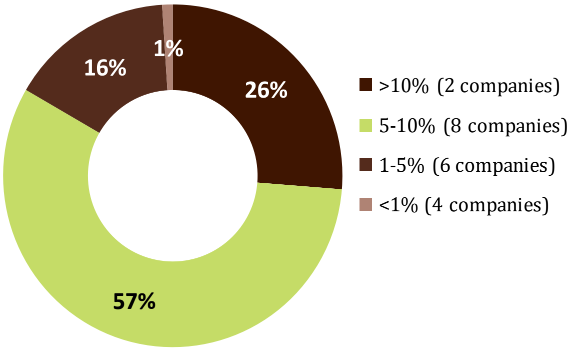
The June Quarterly Share Trading Windows will open on Monday, 13 August 2018 and will close on Thursday, 16 August 2018. We will email all shareholders a reminder closer to the time.

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

Portfolio Valuation Splits (as at 30 June)

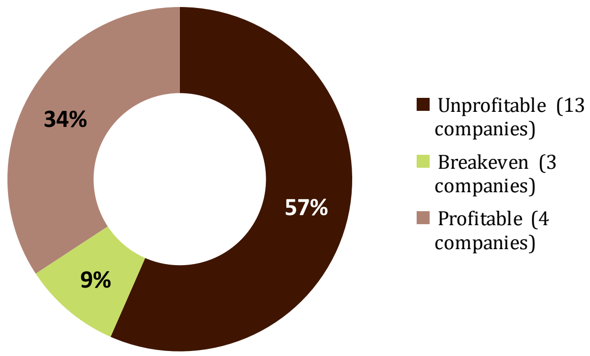
The value ascribed to Punakaiki Fund's investments excluding cash is $33.8 million. The diagrams below show various splits of this valuation by differing methods.

Valuation Split By Concentration



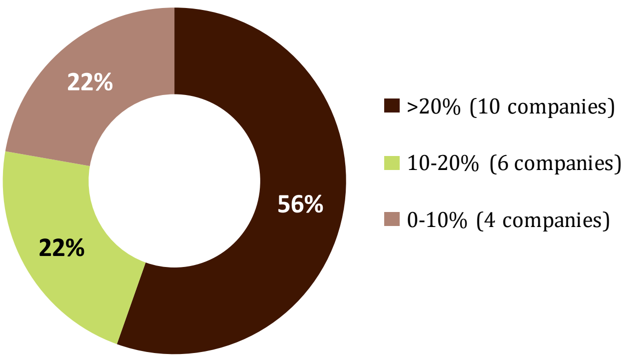
Punakaiki Fund has 26% of its investments by value in two companies which each contribute at least 10% by value to Punakaiki Fund's total portfolio value.

Valuation Split By Profitability



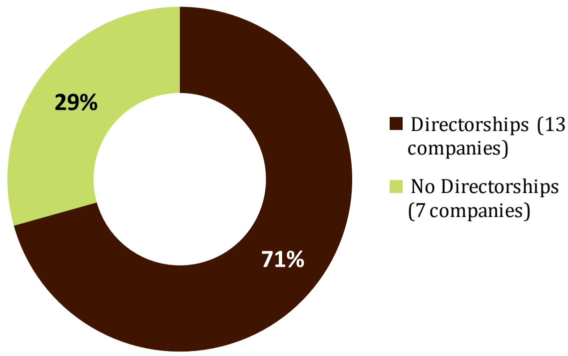
57% of Punakaiki Fund's investments by value are in unprofitable companies. 9% are in breakeven companies and 34% are in profitable companies.

Valuation Split By Ownership %



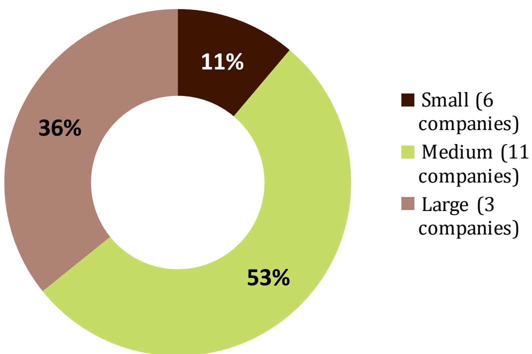
The companies in which Punakaiki Fund owns more than 20% comprise 56% of the total portfolio value. Those between 10-20% comprise 22% of the value.

Valuation Split By Directorship



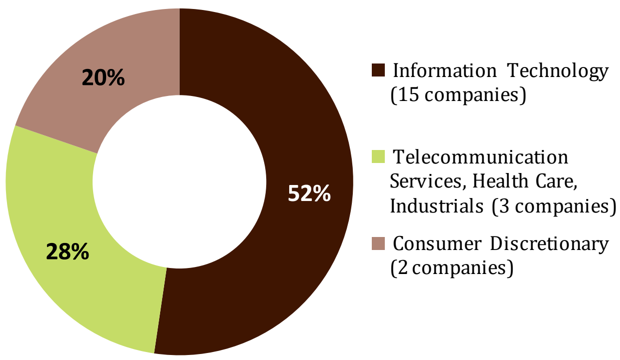
71% of Punakaiki Fund's investments by value have Punakaiki Fund board representation provided by the manager.

Valuation Split By Revenues



Punakaiki Fund holds 11% of its portfolio in Small companies (less than $1 million in revenues p.a.), 53% in Medium companies ($1-10 million) and 36% in Large companies (more than $10 million).

Valuation Split By Industry



52% of Punakaiki Fund's portfolio is held in the Information Technology industry, 20% in Consumer Discretionary and 28% in Telecommunication Services, Health Care and Industrials combined.

In the News

Boardingware	Two New Zealand founders bootstrap a software for boarding schools
Coherent Solutions	A coherent strategy for raising capital (page 12)
	World-Leading Technologies for Optical Communications Test
	NI and Coherent Solutions introduce optical test to the PXI platform
	Coherent Solutions and National Instruments Introduce Optical Test Capability to the PXI Platform
Conqa	Signal & Hobbs Roofing Specialists Review Conqa
Devoli	Devoli taps Mitel channel expertise to drive trans-Tasman growth
	Stuff buys out Stuff Fibre
EverEdge	The Great Economic Inversion: Why Balance Sheets Have Been Turned Upside Down
Linewize	Family Zone Cyber Safety continues to build sales momentum
	New school year brings commercial boost to Family Zone
Melon Health	New online help for Rotorua residents with osteoarthritis
	Melon Health lands major new US customer, looks to raise up to $5m
Raygun	Getting the basics right is everything in business
	Failing to succeed: Why anything is possible if you're just willing to try
	The How's Why's and What's of Monitoring Microservices
	Getting the Basics Right is Everything in Business
	DevOps and Error Monitoring: An Introduction to the Calms Model
Timely	Apple goes on Auckland hiring spree
Vend	Encouraging signs of more Kiwi women in tech
	Vend brings pioneering payment option Afterpay to shop floor
	The future is here
	The top five iPad POS systems for the UK
	Trends in Retail 2018
	Intelligent EPOS
	Vend founder Vaughan Rowsell on the best way startups should hire
	Looking at retail inside and out
	The 5 tools that revolutionize the retail sector
	Best IPad POS Systems
	How Vaughan Rowsell brought Point of Sale software into the 21st century (article) and (audio)
	New Zealand retail a step ahead in global comparison
Weirdly	Another Kiwi startup making the leap over the ditch
	Meet the Kiwi software recruitment firm eyeing up the Aussie market
	Is self-selection the best way to recruit?
	Creating unique and personal conversations: Soul Machines' Greg Cross on its new creative conversational designer role
Punakaiki Fund:	Picking trendy investments can backfire
	Kiwisaver could breathe new life into the private sector

Corporate Update

Governance

The Board convened on 11 May 2018 for the quarterly Board meeting to consider, among other matters:

- A review of the LWCM portfolio year-end valuation (this was the main focus of the meeting);
- The progress of independent valuations undertaken for Punakaiki Fund;
- A review of Punakaiki Fund's investment portfolio;
- The adoption of new Diversity and Socially Responsible Investment policies; and
- Punakaiki Fund's path to IPO.

The Board also convened on 27 June 2018 for the quarterly Board meeting to consider, among other matters:

- The finalisation of the FY2018 year-end valuation;
- To review the 2018 Annual Report;
- To receive the Audit Close report from Ernst & Young; and
- A review of Punakaiki Fund's investment portfolio.

The Board's next meeting is scheduled for 9 November 2018.

Financial Reporting (March Quarter)

The Investor Net Asset Value of the fund after all contingent performance fees at 31 March 2018 was $33,102,450 (or $19.99 per share), a small increase from the 31 December 2018 Net Asset Value of $32,710,196. The Accounting Net Asset Value (which includes only the cash component of the performance fee and is used to calculate the management fee) was $34,397,921, slightly up from $34,360,980 in December.

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 2018 of $2,626,980;
- $[redacted] was invested in Melon Health and Mobi2Go (all new shares), Conqa (new and existing shares) and Coherent Solutions (existing shares);
- $1,970,979 was recognised as a net decrease in the value of Punakaiki Fund's investments at the end of the March 2018 quarter compared to those values set out in the December 2017 quarterly report;
- $[redacted] in cash was raised as part of the share swap agreements with EverEdgeIP Global and New Zealand Artesian Water shareholders, which increased Punakaiki Fund's equity capital by a total of $1,911,976;
- A cash dividend of $192,188 was received from Onceit;
- Management fees of $211,270 including GST were paid to LWCM;
- $7,905 were paid for accounting fees;
- Directors Fees of $16,197 were paid;
- GST refunds of $23,510 were received;
- Sundry costs of $4,107 were incurred; and

- A closing cash balance of $734,440.

Punakaiki Fund Limited - Unaudited Financial Position as at 31 March 2018	NZ$
Current Assets	
Cash on deposit	734,440
Accounts Receivable	32,068
Prepayments	26,069
Non-current Assets	
Investments	34,160,000
Total Assets	**34,952,577**
Current Liabilities	
Accounts payable	50,861
Non-current Liabilities	
Accrued Performance Fee	503,794
Equity	
Retained earnings - Operations	(1,202,731)
Retained earnings - Accrued Performance Fee	(1,799,265)
Share-based Payment Reserve	1,295,471
Asset revaluation	11,334,202
Share capital	25,450,899
Capital Raising Costs	(680,654)
Total Equity and Liabilities	**34,952,577**
Accounting NAV	34,397,921
iNAV (after deduction of the performance fee)	33,102,450
iNAV per Share	$19.99

Punakaiki Fund Limited - Cash Flow Summary for the quarter ending 31 March 2018	NZ$
Operating Cash Flows	
Gross Interest received	452
Withholding Tax on Interest	(149)
Bank Fees	(28)
Payments to External Advisors	(11,355)
Management Fees	(211,270)
Other Expenses	(16,854)
GST Refunds	23,510
Total Operating Cash Flows	**(215,694)**
Investing Cash Flows	
Investments made	(1,886,053)
Investments realised	-
Dividends received from investments	192,188
Total Investing Cash Flows	**(1,693,865)**
Financing Cash Flows	
New capital received	17,019
Brokerage Fees	-
Dividends paid	-
Total Financing Cash Flows	**17,019**
Total Cash Movements	**(1,892,540)**
Opening cash balance	2,626,980
Closing cash balance	734,440

Financial Reporting (June Quarter)

The Investor Net Asset Value of the fund after all contingent performance fees at 30 June 2018 was $34,541,143 (or $19.88 per share), an increase from the 31 March 2018 Net Asset Value of $33,102,540. The Accounting Net Asset Value (which includes only the cash component of the performance fee and is used to calculate the management fee) was $35,710,014, also up from $34,397,921 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 January 2018 of $734,440;
- $939,239 was invested in Mobi2Go (all new shares) and Melon Health, RedSeed and Devoli (all existing shares);
- Net proceeds of $1,109,458 was received from the sale of Punakaiki Fund's Family Zone shares;
- $169,781 was recognised as a net decrease in the value of Punakaiki Fund's investments at the end of the June 2018 quarter compared to those values set out in the March 2018 quarterly report;
- $1,712,130 in cash was raised in a new share offer to wholesale investors. Associated brokerage of $51,364 was paid to LWCM;
- Management fees of $212,105 including GST were paid to LWCM;
- $4,044 were paid for accounting fees;
- $17,250 was paid for independent valuations;

- Directors Fees of $3,300 were paid;
- GST refunds of $19,730 were received
- An income tax refund of $6,086 was received;
- Sundry costs of $805 were incurred; and
- A closing cash balance of $2,353,852.

Punakaiki Fund Limited - Unaudited Financial Position as at 30 June 2018	NZ$
Current Assets	
Cash on deposit	2,353,852
Accounts Receivable	27,277
Prepayments	14,756
Non-current Assets	
Investments	33,820,000
Total Assets	**36,215,885**
Current Liabilities	
Accounts payable	51,311
Non-current Liabilities	
Accrued Performance Fee	454,561
Equity	
Retained earnings - Operations	(1,430,858)
Retained earnings - Accrued Performance Fee	(1,623,431)
Share-based Payment Reserve	1,168,870
Asset revaluation	11,164,421
Share capital	27,163,029
Capital Raising Costs	(732,018)
Total Equity and Liabilities	**36,215,885**
Accounting NAV	35,710,014
iNAV (after deduction of the performance fee)	34,541,143
iNAV per Share	$19.88

Punakaiki Fund Limited - Cash Flow Summary for the quarter ending 30 June 2018	NZ$
Operating Cash Flows	
Gross Interest received	293
Withholding Tax on Interest	(97)
Bank Fees	(82)
Payments to External Advisors	(22,099)
Management Fees	(212,105)
Other Net Expenses	2,786
GST Refunds	19,730
Total Operating Cash Flows	**(211,573)**
Investing Cash Flows	
Investments made	(939,239)
Investments realised	1,109,458
Dividends received from investments	-
Total Investing Cash Flows	**170,219**
Financing Cash Flows	
New capital received	1,712,130
Brokerage Fees	(51,364)
Dividends paid	-
Total Financing Cash Flows	**1,660,766**
Total Cash Movements	**1,619,412**
Opening cash balance	734,440
Closing cash balance	2,353,852

Expected Cash Flows for the September 2018 Quarter

Following the end of the June quarter, Punakaiki Fund has made additional investments in Coherent Solutions, Devoli and Weirdly totalling $274,898. Further investments may be undertaken before the end of the quarter.

The payment of the September Quarterly Management Fees to LWCM of $191,015 including GST occurred in late July 2018. This included the impact of a small refund from LWCM relating to the June 2018 quarter management fee which was required after the year-end valuation was set.

Audit fees of approximately $40,000, accounting fees of approximately $8,000 and valuation fees of approximately $30,000 are expected to be paid in the September quarter.

Capital Raising Plans

Punakaiki Fund is considering a wholesale capital raising later in the September 2018 quarter or early in the December 2018 quarter.

Additional Disclosures / Conflicts

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

Contact

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