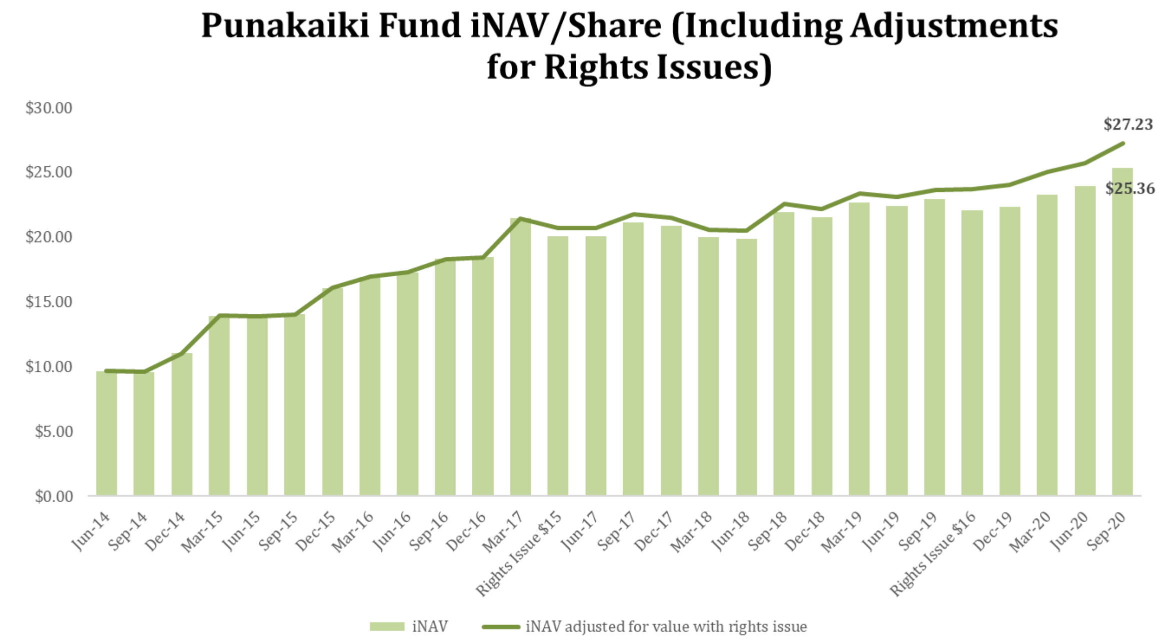
Punakaiki Fund Limited

September 2020 Quarterly Report

Key Statistics	
Total Asset Value	$64.24 million
Investor Net Asset Value (iNAV)	$59.64 million
Shares on issue	2,351,822
Total Asset Value / share	$27.31
iNAV/share	**$25.36**

Performance	
Annualised Share price Return – last 12 Months[1]	15.0%
Annualised Share price Return - Since Inception[1]	16.8%
Annualised Internal Investment Returns[2] – All Investments	21.2%
Internal Total Value to Paid In Capital (TVPI)[2] – All Investments	1.9x



[1] Assumes full participation in option and rights issues.
[2] Internal performance measures are exclusive of all fund costs.

Dear Investors,

A turbulent 2020 continues, now with two elections resolved, New Zealand and Australia (along with Asia and Africa) continuing to win the battle against COVID-19 and stock markets that seem to defy the laws of gravity. It looks like COVID-19 vaccines will arrive, but it's no immediate panacea and we still forecast years of uncertainty.

In this letter we first cover the sale of two of our businesses, Mindfull and Everedge, each of which occurred after the last report, with Everedge happening within the September quarter and Mindfull after the end of the quarter.

We report on our investment returns so far and then on the overall revenue growth from companies. Combined revenues reached $141 million for the last twelve months (to September) for our 14 core companies (we have now removed Mindfull, Everedge and non-core company NZ Artesian Water from the revenue and employment charts).

Finally, I am re-introducing the team we have here at LWCM, a team that has grown considerably in the last few months.

This Quarterly Report pre-dates the Product Disclosure Statement (PDS) for the 2020 retail offer and reflects the numbers as at September 30, 2020.

1: Sale of Two Businesses

Since the last report we have communicated the sale of our shares in Everedge and the sale of the Mindfull Limited business by Mindfull Group.

While the two companies have very different cultures, they have similar business models. Each relies on building a talented group of staff to assist their clients, principally through projects (IP advisory, valuation or business intelligence) and also by reselling other companies' software (Mindfull). As a result, the growth of the companies is limited by the capacity of the people, as well as the markets they sell to.

We prefer to invest in companies that build products or software as services, and see that the natural owners of business like Mindfull Limited and Everedge are the internal executives. Each of these two exits allowed the new or existing executive owners to increase their control, and we see that they are set up well for future success.

Business intelligence consultancy and reseller Mindfull Limited was sold to Fusion5, a full-service provider of IT and business solutions to enterprise clients. Our Everedge shares were acquired in return for sums from a Singapore-based investor, which confers advantages on the company, as well as from the company itself. For each sale, we see that the deals were in the best interest of both the founders and the companies, and that they were driven by the founders. Mindfull's Belinda Johnson is currently working with Fusion5, where she will stay for a few months, and then will be a free agent. I can't wait to see what she will do next.

We lost money on the Everedge investment, which is a shame as we were tracking well until the COVID-19 hit. We expected to book a reasonable return in 2020, but instead had to initially write down the value of the company, and then take a loss as our investment was converted to cash and debt – at a lower face value. Founder Paul Adams and his executive team saw several years of re-building ahead, along with strong advantages arising from the new Singapore-based ownership. We in turn saw that there were other places where we could better deploy our funds. We are happy to no longer be part of the equity or governance journey and can focus our energies elsewhere too.

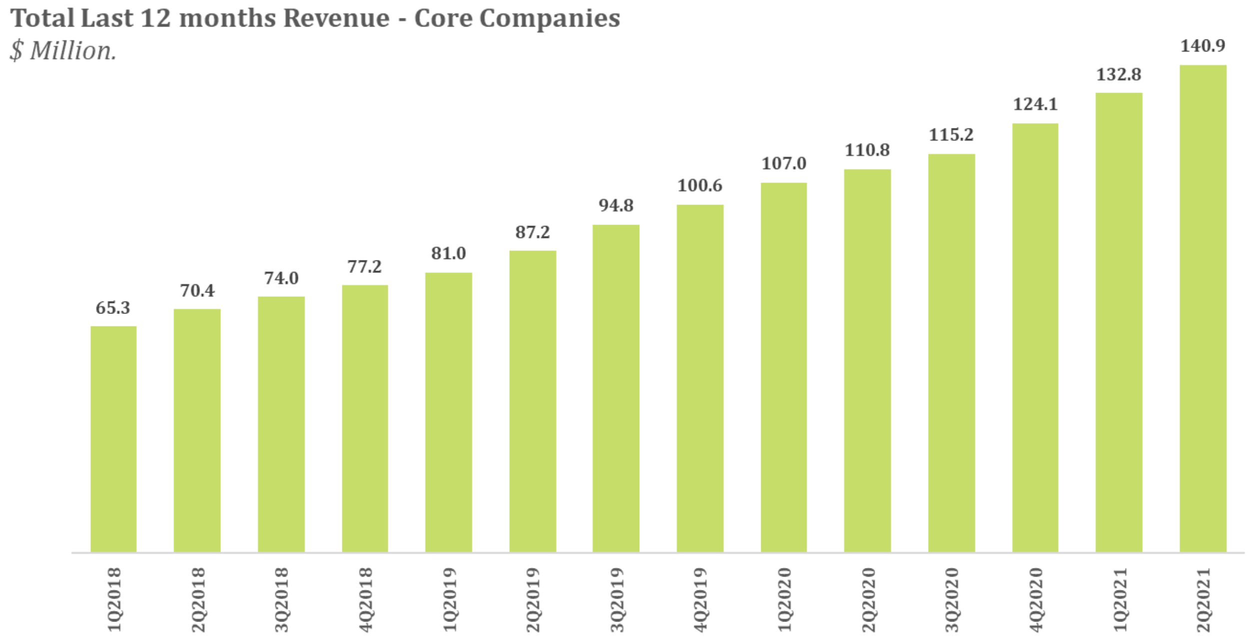
We performed very well on the Mindfull Group investment, as the sale of Mindfull Limited should more or less return our original investment, but also leaves behind QubeDocs, a software as a service business. QubeDocs, which we report on separately for the first time in this report, has eight staff split evenly between the USA and New Zealand, and recurring revenue that is over double our revenue investment thresholds. QubeDocs is run, and will keep being run, by Richard Johnson.

2: Company Revenue

The good news is that our portfolio companies, as at September end, had largely recovered, or better, from the impact of COVID-19. Some, like Quantifi Photonics, saw demand shift to the future, while others saw an immediate drop and then a return. Overall, COVID-19 accelerated the shift to digital services, benefiting all companies in our portfolio.

The result is some strong gains in revenue from some portfolio companies, and even profitability from companies that have operated (deliberately) at a loss for some time. Indeed, just under three quarters of our investment asset value is derived from companies that are currently profitable. The frugality and cautiousness of New Zealand companies, in no small part due to the lack of funding here, certainly helped endure the crisis and set companies up well for the future.

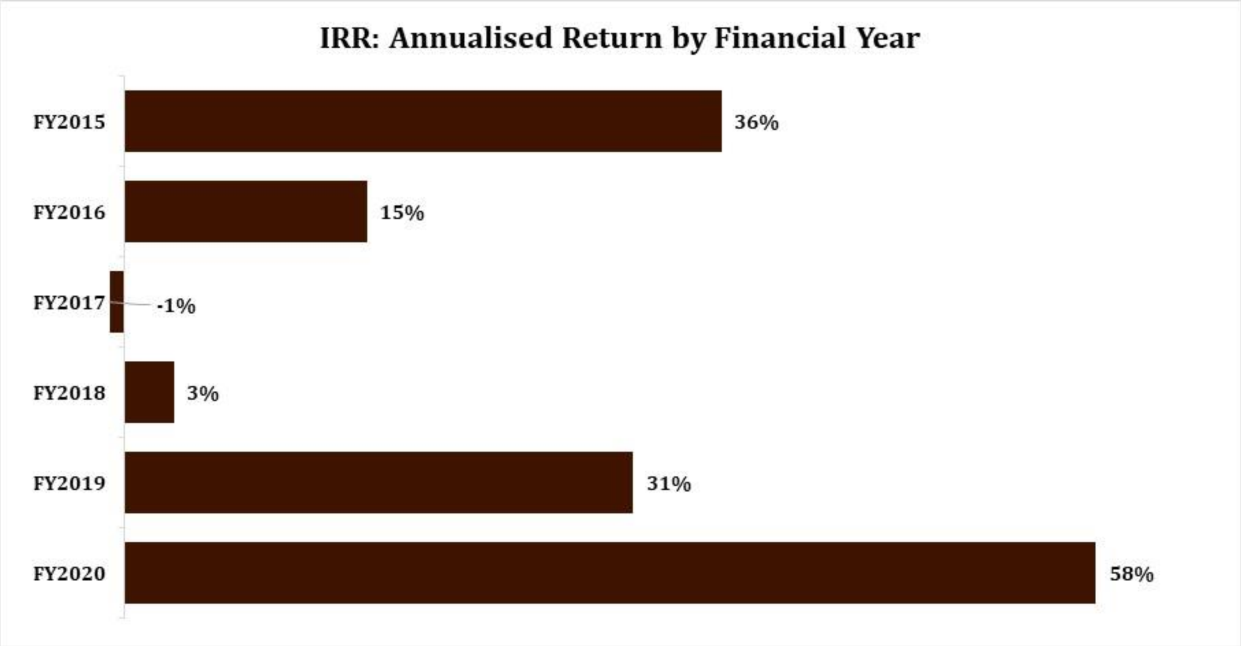
With the sale of Everedge and Mindfull Limited we will now present revenue only from the core companies – currently 14. The core companies are the active investments excluding operating companies that are not within the technology mandate, of which there is only one – NZ Artesian Water. The chart below is one of my favourites, and shows the impact that your investment is helping to make.



Increasing revenue normally means increasing ability to hire people and grow even further. Not all revenue is equal of course – we prefer the repeatable and high margin sort derived from technology and SaaS companies.

3: Our Investment Returns

It's a good time to take stock of our returns from investments. Let's start with our assessed annualised return from our investments by the year that each investment was made. This includes the value of all business exits, dividends as well as company revaluations – up or down.



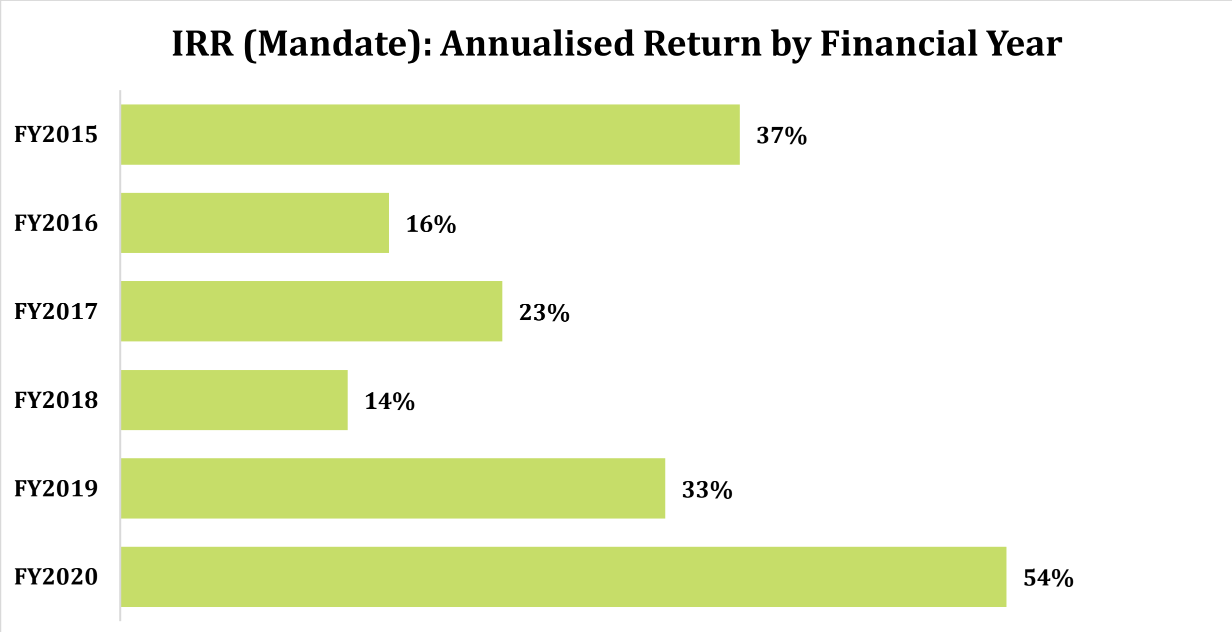
Quite clearly, we had a poor year in FY2017. We didn't invest a lot that year – just $3.4 million, but we placed just over 42% of the funds into companies that today would be considered out of mandate. These out of mandate companies included substantial investments into NZ Artesian Water and smaller investments in Populate and Hayload, which have all been written down or written off completely.

We also show a poor year for FY2018, again as a result of investments into NZ Artesian Water and Everedge, investments that would today be considered out of mandate.

Taking loses is part of venture capital investing, as sometimes things just don't work out. Our role is to make the best of each situation, and also to make sure we learn and change our investment behaviour, which we have through our mandate changes.

We also made some very good investment decisions in those years. In FY2017 we invested into Linewize (since sold), Mobi2Go, Conqa and Devoli, and these have all performed very well. In FY2018 we made large investments into Quantifi Photonics (formerly Coherent Solutions), Conqa, Melon Health and Devoli. We see that the first two are relatively early in their journey, and Melon Health has yet to hit its potential, and we are happy with our progress.

The chart below shows the adjusted results if we remove the investments that today would be out of our mandate. We expect the FY2020 number to fall as IRRs are hard to sustain over time, but we are pleased with our performance within mandate, and see encouraging signs for future returns.



We did cover a version of this analysis at the annual shareholder meeting, and it was wonderful to see so many people – over 100 – attend, albeit virtually. We made the video available online and it's had another 100 views there, although I'm not sure how many people made the full 2 hours. If you do want to watch, I recommend skipping directly to the presentations from the founders.

The other analysis presented at the annual shareholders meeting showed the gap between listed valuations and our own. While we cannot immediately list all of our portfolio companies on share markets (and most are too small), the share market multiples we continue to see are somewhat staggering. We apply caps to the market multiples we observe and apply to our own valuations, and have done for some time, so there is a healthy margin of safety should markets crash - many of our company valuations will show resilience. But that does not mean we are unaffected by a crash – or the ongoing and worsening impacts of the COVID-19 pandemic. We sometimes forget that life in Asia, the Pacific and Africa is not the same as that experienced in Europe, North and South America. We can, must, expect to see further impacts on those societies. We also see that our exports, be they products or services, have benefited from a halo effect of our effective management of COVID-19. Long may that continue.

4: (Re)Introducing the LWCM team

We observed that those poor investments mentioned above were made in FY2017 and FY2018 when we were still a very small team of just me, Chris and perhaps an intern (we had two). Small and under a lot of pressure.

We had achieved scale, shall we say, in our administrative burden, and had a very high degree of rigour in our retail offers, board papers, valuation and audit processes. Especially the audit processes, which did take a lot of our time.

I also had to spend a lot of time helping some of the companies that we had invested into – ironically in particular the ones that did not perform.

That didn't leave a lot of capacity for making considered investment decisions, and we failed to live up to our own high standards in those years.

However, as Punakaiki Fund (and any other funds under our management) grows, so too does LWCM's income. The management fee is set at 2% of net asset value up to $50 million, and

1.5% after that. And from last financial year we also started receiving an administration fee, set for FY2021 at $165,000.

We are now 10 people – five full time and five part time, and it's beyond time to introduce, and reintroduce them to you.

Chris Humphreys – LWCM Principal

Chris and I co-founded LWCM and Punakaiki Fund, starting work near the end of 2012. Chris is a CFA charter holder, and I met him via Pacific Fibre, where he recreated and ran the complex financial model, amongst other tasks. Chris's glass is always a bit empty – that's his role, and he keeps being grounded by being from and educated in the South. He is now based in Te Anau, delivering that Southland conservatism from what is now a Labour stronghold.

Chris has a few qualifications in finance, but also one in land surveying, and he spent his early career behind construction vehicles on the West Coast. He doesn't eat whitebait, and isn't very good at catching them either, but does go fishing with his two sons, who are at the high school stage.

Yvonne Gao – Finance Manager

Yvonne started with us a year ago, and works closely with Chris delivering operational, financial, regulatory and reporting activities for LWCM and Punakaiki Fund. I'm also glad she is here, she has not only taken on a lot of that burden, but has also proven valuable in connecting and communicating with our Chinese investors and co-investors. Yvonne was a financial analyst at Harmoney before coming to LWCM, and maintains an interest in debt funds. She has two finance degrees from Otago and is frantically studying (at a surprisingly high cadence) towards her CFA Level 2 exams. Yvonne was married just two years ago, and is surrounded by parents at work. No pressure Yvonne.

Nadine Hill – Investment Manager

Nadine started with us recently, and she has landed bringing wide experience with start-up companies and finance from NZTE (New Zealand Trade & Enterprise) and Westpac. She has certainly landed on her feet – including as a director of Core Schedule and Melon Health. Nadine was an NZTE investment manager assisting companies in their investment journeys, and to NZTE's credit they would be happy to see more of their people move across to help manage Punakaiki Fund. Nadine has two young children, and brings a Massey degree, and extensive experience in debt and deal structuring, including in clean-tech, from her time at Westpac.

Anum Malik – Investment Analyst

Anum joined the team in late 2019, in the midst of her PhD in Finance at Massey University. It's just a coincidence that Anum, Nadine and I from the investment team all have or are going to have Massey degrees. She brings experience in accounting, financial analysis, investment cases and due diligence from Pakistan, and now here in New Zealand. We have been enjoying her work on building investment cases and performing due diligence for investments. Anum's degrees are from the UK, Pakistan and soon Anum soon, New Zealand. Anum has one young child.

Let's turn to our talented group of part timers.

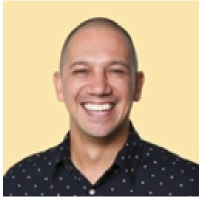
Olo Brown – Investor Relations Manager

Olo studied accounting and worked for PwC from while he was also on the rugby field for New Zealand, back in the days before and as rugby turned professional. He keeps a low profile, but does bring many years of experience in private equity, including venture capital. Olo leads conversations with a wide range of investors and potential investors, and is unafraid to give his own and investor feedback about our mandate, helping us to revise our approach last year. As rugby fans would expect, Olo has his commerce degree from Auckland University. His children are adults.

Vincent Heeringa – Venture Advisor

Vincent was the co-founder of *Idealog* magazine, the Innovator Awards and Science Media Centre. He has a knack of finding and writing about innovative companies early, and has just started helping us and our investment companies with communications. He has a BSc and a BA, from Victoria and Auckland and his four children are almost all graduated from home life.

Alex Fala – Venture Advisor



Alex should be familiar to many of you, as he stepped down as the CEO of Vend after 5 years there earlier this year. Before that he had time at Les Mills International, Trade Me and McKinsey & Company. Alex is offering a perspective that combines fresh experience with intellectual rigour to PFL portfolio companies, and he is getting great feedback. He has degrees from Auckland and Oxford, where he was a Rhodes Scholar and has two children.

Rohan MacMahon – GP CVCF

Rohan has been working with LWCM for a year as a general partner of a new Climate VC Fund, but he is also a director of our largest investment - Devoli. He is a long time management consultant and telecommunications executive with experience in Australian (Telstra) and New Zealand (Crown Fibre). His more recently focus is on climate impact. He is Chair of Lifewize, founder and leader of the Auckland Street Choir and a sometime resident of Great Barrier Island. He brings economic and law degrees from Sydney University and has two teenagers .

Dr Jez Weston – GP CVCF

Jez is the other general partner of the slowly emerging Climate VC Fund, and brings a background in science, policy and climate advice, and investment and commercialisation. Jez's other role is with MBIE, and I met him through his work as a Return on Science committee member. His degrees are from Cambridge, Bath and Victoria in Wellington, and they include engineering, materials science and economics.

Bridget Winstone-Kight

Sadly, we very recently said goodbye to Bridget Winstone-Kight, who has moved on to a role with PwC, Chris's alma mater. Bridget was been invaluable for us over the time before and after her maternity leave, evolving her role from investment manager to assisting with a variety of projects, as well as being a director of Melon Health. We will also miss her contribution to our culture, but she tells us she has landed in a good place, helping to set up a Family Office business for PwC. We have reminded her that venture capital is an important part of any family's investment portfolio, no matter the size of their portfolio . Bridget has degrees in law, science and business from Canterbury and London and is raising two pre-school children.

Lance Wiggs

I'm really delighted to be able to work with the team we have. Would you like to join us? We are quietly looking for one or two more people over the next few months, somewhat dependant on ongoing fund performance and fund raising. My own degrees are in technology (essentially production engineering) and business, and they are from Massey and Yale. We have two young girls, with the first, Ada, entering school next year and the second, Edna (named after her grandmother and force of nature Edna Wiggs) is focusing on learning to walk.

But wait – there is more.

We were very happy to see [Teressa Betty] formally appointed to the Board of Punakaiki Fund at the Annual meeting. Teressa is a lawyer with extensive experience at the executive level across banking in the UK and New Zealand. She is currently an ERM and Strategy consultant, Director of the NZ and Pacific Islands Chapter of the Risk and Insurance Management Society (RIMS), Chair of RIMS Global Diversity & Inclusion Advisory Council, founder of NZ Diversity in Risk and a member of Global Women New Zealand. She obtained her degree from Victoria University and is a Barrister and Solicitor of the High Court of New Zealand.

The LWCM business has evolved a long way, and we intend to continue to increase our capacity and capability, to match the needs of our investors and investments. Chris and I want to create a lasting firm, and we see that venture capital investing is an apprenticeship game. We aim to provide experience and tenure to a diverse set of people, and look to them to guide our future.

Quarterly Webinar and Quarterly Share Trading Auction

We are not holding these for this quarter due to the Retail Offer.

As always please reach out by email (lance@punakaikifund.co.nz) phone, text or WhatsApp (021526239), Twitter (@lancewiggs) or WeChat (lancewiggs) if you have any questions. Yes, in today's world we do business through all of these channels, as well as a host of video applications.

My very best wishes to you and your family.

Lance

Portfolio Company Update

Key highlights for the September quarter for each company, where received, are below:

Shareholding: **1.9% (1.7%*)**

First Investment: **Aug 2015**

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

- Vend continues to operate remotely from all their global offices apart from Auckland. Their business has adapted well to the new normal;
- COVID-19 has increased uncertainty, but also presented opportunity, as cloud adoption has accelerated and lockdowns provide time for retailers to upgrade systems;
- Vend continued to see inbound demand from larger (Enterprise) customers with their largest recent deal being a 6-year deal for 83 stores; and
- Vend's unit economics continue to improve.

**Fully diluted shareholding after accounting for employee options*

Shareholding: **53.9%**

First Investment: **Jun 2014**

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

- Contact Energy is now onboard as a major new customer;
- Revenues continue to grow rapidly; and
- Devoli welcomed Mark Ellis as the new Heald of Business Development.

Shareholding: **25.6%**

First Investment: **Feb 2015**

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

- Onceit is continuing research into a new Purchase Order / Stock system - high level implementation and operational costs have been received;
- Developing an Open-To-Buy model to help improve forecasting stock levels; and
- Onceit commenced a project to review and improve the management of returned items.

Shareholding: **19.6%**

First Investment: **Dec 2015**

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

- Mindfull Group has sold the Mindfull Limited business to Fusion5; and
- Although our original investment is returned, Mindfull Group, where we remain as 19.6% shareholders, retains ownership of Qubedocs Limited. Qubedocs is run by Richard Johnson, and is mainly focused on the USA, but also sells software to Mindfull Limited, now Fusion5.

Shareholding: **19.6%**

First Investment: **Dec 2015**

QUBEdocs is s a software as a service business that automates documentation for IBM TM1 on premise and Planning & Analytics in the cloud.

- Quebedocs is working to launch Qubedocs for Hyperion - an Oracle product.

Shareholding: **3.8%**

First Investment: **Jun 2014**

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

- Timely Consult launched on 8 September, extending the previous iOS-only Consult app to all Timely customers, on any device;
- Client Login has been released (beta) giving online booking clients the ability to login and manage their upcoming appointments (this is an area of ongoing focus and development for Timely);
- TimelyPay continues to improve with the addition of storing cards (beta) and ability to issue partial refunds; and
- Timely received $400k from Callaghan under the R&D loan scheme (in response to COVID-19).

Shareholding: **6.3%**

First Investment: **Apr 2014**

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

- Raygun won the 2020 Duncan Cotterill Most Innovative High-Tech Software Solution Award; and
- Raygun received a R&D loan, Growth Grant and Student Grant from Callaghan Innovation.

Shareholding: **17.7%**

First Investment: **Nov 2017**

Quantifi Photonics develops and manufactures advanced laser test equipment for the global fibre optic communications market.

- The big news is that in September Coherent Solutions changed their name to Quantifi Photonics. This name better reflects the broader market segment they now address and reflects the first step of their larger rebranding exercise; and
- Recruited a new VP of Sales for North America who brings over 25 years of sales management experience in the Test & Measurement market.

Shareholding: **15.0%**

First Investment: **Oct 2015**

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

- Improvements to the onboarding process continue to show results with 105 locations onboarded in September;
- Hired a new VP of Growth; and
- Series B capital raising round conversations are progressing with investment interest shown by multiple parties.

Shareholding: **20.0%**

First Investment: **Feb 2017**

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

- Conqa's Native App has been released to customers this quarter to excellent qualitative and quantitative feedback. The app will continue to be pushed to greater numbers of customers in the next quarter.

Shareholding: **48.5%**

First Investment: **Mar 2015**

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

- RedSeed is supporting two charities with access to their platform and some training around producing their own content - Student Volunteer Army and Limitless;
- Signed two new deals and have done the related filming and production - these programmes have now been launched;

- Hired a new Instructional Designer;
- Reignited a search for a new salesperson in Australia and NZ; and
- Signed off work on their new App (that has a 3-month production cycle) and received a Callaghan booster voucher for $5,000 towards this.

Boardingware

Shareholding: **31.1%**

First Investment: **Feb 2015**

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

- Boardingware experienced a degree of church in recent months as a number of schools closed or operated remotely. However, due to their new pricing model, they have increased their net recurring revenue by 20%;
- They have seen more adoption within the day school both from their current customer base and from new schools due to the new solutions that they have released to help schools cope with the COVID-19 environment - contact tracing and symptom surveys; and
- Their team is going to work on a fully remote basis to expand hiring options and reduce overheads.

melon

Shareholding: **32.3%**

First Investment: **Dec 2014**

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

- Extended their COVID-19-related contract with Ministry of Health.

weirdly

Shareholding: **37.7%***

First Investment: **Feb 2015**

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

- Weirdly's revenue recovered from the impact of Covid-19 and there has been a definite uplift in sales during the quarter;
- Progressed to the third stage pitching to IKEA global and is awaiting feedback for whether they will get to the final stage next quarter; and
- Moved forward with a new customer and candidate communications tool - customer.io. This means they will be able to be even more focused on specific target candidate markets (i.e. 14-21 year olds) by utilising alternate communication channels such as SMS, Whatsapp and Messenger.

**Fully diluted shareholding after accounting for employee options*

CORE SCHEDULE
It's About Time

Shareholding: **17.5%**

First Investment: **Jun 2020**

Core Schedule is a SaaS-based scheduling software that allows hospitals and other medical service providers to develop and administer staffing rosters.

- Core Schedule won a formal RFP for four Emergency Departments on the Sunshine Coast;
- The company has seen intense interest in their Anaesthesia and Operating Theatre Modules; and
- They are now fully hired up with the addition of a Data Scientists / Program Engineer.

The Rostering Pool

Let me introduce to you Stephen C. Pool: entrepreneur, Alaskan Malamute owner and the founder of Core Schedule. But that's not all, Dr Pool is also an Emergency Medicine Specialist. You know - the guy that patches you up when you have an accident, or in my case, when your oldest son accidently guillotines the end of your youngest sons finger in a door (I won't go into the gory detail, but we did need a helecopter ride to the hospital). It's not a job that I could ever do – I have a thing about needles. Apparently, you also need some type of qualification and apparently a finance degree just won't cut it…

But let me take you back to the start of the Core Schedule story. To do that we need to go back to late nineties New York, a place of crime, grime, and bulletproof glass in taxis. It was in this setting that a fresh-faced Stephen had just come out of New York University and started his emergency medicine residency at Bellevue Hospital.

Sleep is Optional

We've all seen the TV shows - residency is gruelling work. Long shifts, 100+ hour weeks and being at the bottom of the pecking order are all part of the job. Most people in that situation would usually just put their head down, focus on the job at hand and get on with it. But not Stephen…

With an interest in computers and programming that can be traced back to his childhood in Mobile, Alabama, Stephen continued to tinker and learn new programming languages, and was continuously on the lookout for ways to apply his knowledge. In the end, he decided that it would be a good idea to set up an internet start-up partway through his residency. It sounds like sleep was obviously an optional nice-to-have for Stephen back then!

Medical Web Solutions specialised in developing websites for GP offices. Back then the World Wide Web was still in its infancy, so there was plenty of opportunity to grow and Stephen made the most of it. It started with basic websites for friends and colleagues who were willing to pay for it, and then got more sophisticated and attracted new customers. The company's software got better too, and Stephen started looking to building in billing functionality, where he saw a lot of potential. The business was growing really well, even to the point where Stephen was having advanced discussed with US venture capital funds about raising money to expand the business. Then it happened…

Bubbles Always Burst

For those of you that are old enough, you will remember the terms like "dot-com bubble" and "tech wreck" that were in common usage at the turn of the millennium. They refer to a period when there was a lot of speculation in internet-related businesses and those companies' valuations were sky-high. In 2000, those valuations crashed and sent those businesses out of business. For Stephen it meant a double whammy of no venture capital funding and sales drying up. Medical Web Solutions was dead in the water.

That hurt. Stephen had been funding the business up to that point out of his own pocket and found himself in a serious hole. Stephen took stock and decided that it was time to refocus purely on medicine. He completed his residency and then worked in a number of hospitals around New York.

Things We Love to Hate

It was at one of these earlier jobs that the painfulness of hospital rostering was made clear to Stephen. He wanted to take leave and when he asked how to go about it, he was handed a transparency (that's a clear plastic piece of paper used for overhead projectors, for those born more recently than Lance) that had a bunch of red lines on it and then another form which had some sort of calendar on it, along with a two-page list of instructions. It worked by holding the calendar up to a window and moving the transparency across it in a certain way until you find a spot on the calendar that lines up with a certain line on the transparency. This represented the days when you could actually take leave.

So Stephen took it home and it took him and his husband 30 minutes to figure out how it was supposed to work. Not much later at work there was a discussion about their leave system and Stephen mentioned that the current system was really embarrassing. Their response was "*well, if you think you can do better, have at it…*"

Oh… It's On!

That single comment made eleven years ago was a red rag to a bull. The system was about to be computerised and Stephen had the right programming skills and the medical experience to do the job.

This overhaul started as an online system to request leave, which was followed (after requests) with work scheduling outputs so staff could see more easily when they were rostered on to work. Over the next two years, Stephen built the first iteration of what would become the Core Schedule software.

Stephen treated this as a hobby project in the early days. Initially the software was only used in his department, but pretty soon the doctors that were using it at his hospital would ask Stephen about building a system for other hospitals where they also worked. With organic demand increasing, the amount of time that Core Schedule required became too much for Stephen to manage alone, so he engaged a developer from a firm in India to do a lot of the basic programming and software updating. By this point Core Schedule was being used by single departments across a dozen hospitals.

A Year of Big Decisions

2013 was a pivotal year for Stephen. He had just married long-time partner Neil and they were deciding where to go for their honeymoon when they got an ad the weekend after the wedding for a South Island action adventure/white-water rafting tour. It was an easy decision to come to New Zealand for a holiday and when they arrived they fell in love with the country. They had no thoughts of living here at that point, thinking that it wouldn't be possible.

After the honeymoon, Stephen went back to work in New York and was raving to a colleague about like how much he loved New Zealand, how much fun they had and how great the people were. His colleague responded that it is actually really easy for American doctors to go and practice in New Zealand. Stephen's immediate response was that he was too old to re-sit his medical exams again, but his colleague said that wasn't an issue. New Zealand would recognise his American certification as being equivalent to the New Zealand certification, and all he would need to do is pay the fees and jump through a lot of administrative hoops.

That was news to Stephen, and he later found out that of all the other countries in the world, only New Zealand and Australia has this recognition arrangement for American doctors in place. He looked into it and found there were a lot jobs available in emergency rooms in New Zealand, with many of them for six month terms. So a plan was hatched to come to New Zealand – a sort of a six month working vacation. A position in Wellington became available and once the decision was made to take it up, they had thirty-two days to sell all of their stuff in New York and make the move.

Stephen didn't really know what he was getting himself into with the New Zealand health system. He wasn't expecting it to be as modern as the US system, but he what he actually found was actually on a par. He was shocked by his first day working in the Wellington Emergency Department. He recalls that apart from the accents, you wouldn't be able to tell the difference between Wellington Hospital and any other ER in the US - the skills and the training where probably better and we have all the equipment you would expect to see in an US emergency room. The set up was also very similar in terms of how it was equipped and how it was operated – right down to the staff rostering system. And the only things that were different was the lack belligerent patients on PCP, the heroin overdoses and the people threatening to shoot you, which was a daily occurrence in New York.

It's All Good

The six months in Wellington was a great experience. So good in fact, that Stephen and his partner pondered why they ever would go back to the US. Sure, the pay was about 50% lower in New Zealand, and the cost of living was about the same, but Stephen had long paid off his student debt in the States, so didn't need to earn a whole lot. And Stephen was ready for a change. The constant stress, lower staffing levels and the sicker patients in the US weren't worth thinking about (not to mentioned that he would be up to his eye-balls in COVID-19 patients if he had stayed).

So as you do, they bought a house, got dogs and went through the immigration process. This raised a question of what to do with Core Schedule. By that point, the ER department at Wellington Hospital was their only non-American customer (Stephen was in charge of the roster there and said if he couldn't use Core Schedule, he wouldn't do the rostering).

Up to then, Stephen had never marketed Core Schedule, so they decided that they should go to a medical conference as a vendor to do so. So Stephen and his husband went to Australasian Emergency Medicine Doctors conference, got a table, and handed out flyers that they had made up the night before.

All In

In that single conference, they doubled the size of the business overnight and started thinking, wow, we actually might be on to something here. They went to that same conference the following year and the exact same thing happened. It was at this stage that Stephen realised that Core Schedule was now too big and running too fast to operate as a hobby business anymore. Eight years in, Stephen knew that he needed to decide what to do with the business. It wasn't going to work to put a manager in the business,

The Other Half

I going to tell you a bit about Stephen's husband, just because he is also interesting. Neil is both a professional and a teacher, previously lecturing English Literature at universities in New Orleans and New York. He had also started a stand-up comedy career in the States which, in Stephen's word (and I'll probably get him in trouble for this), was going "okay".

Almost right from the start Neil supported Stephen with Core Schedule, helping with product development ideas, administration and, from time-to-time, sales. He doesn't consider himself a co-founder as he wasn't nearly as involved in the business as Stephen was.

Neil followed Stephen to New Zealand for their first six months stint under the assumption that he would have no right to work and that it would be a sort of extended vacation. As it turned out, because he was married to Stephen, he had full work rights. No other country allows that (in Stephen's view New Zealand makes it very easy to come to New Zealand for work and also get your spouse into work). Neil got various jobs and also started performing stand-up comedy gigs and teaching comedy online.

Neil's stand-up career here just kind of took off. He was able to do way more here than in New York and as a result he was able to started the New Zealand Comedy School. Neil works less in the business now and spends his time teaching classes for budding comedians.

so it was either sell it or fully commit himself. Realising that he was having more fun doing Core Schedule than clinical medicine, it was time to go into pure start-up mode.

Their first New Zealand hire was software developer Richard, who Stephen's husband had first met in a bar. When they worked out that Richard had php programming experience, he was invited in for an interview. Richard wasn't sure what he was turning up for – he thought maybe some casual or contracting work. Immediately after the interview he was offered a permanent full-time job on the spot and has been with Core Schedule ever since.

The Build Up

At this stage Stephen was spending most of his time on sales. The next two hires for the business where Vaughan, a business development manager, and Nicole, a finance manager. They found Vaughan through a friend of a friend. And they knew a partner of a doctor that Stephen worked with that had a finance background - that was Nicole.

The company had that team for the next year as the business continued to grow. Soon after, they hired a fulltime support person and another software developer. At that stage, there were seven people in total, all working out of Stephen's home, which kept the costs down. That arrangement lasted for a year before they bit the bullet and moved into their current office.

That was two years ago, a time when the company was generating around $200,000 in annual revenues. Since then revenues have more than doubled and in June Core Schedule took its first round of external funding, lead by Punakaiki Fund, along with investment from K1W1 and the Aspire NZ Seed Fund (part of the Government's NZ Growth Capital Partners). In these COVID times, the company has a unique opportunity to help manage health workers through these stressful times. While selling the Core Schedule software has become harder in the short-term (because of travel restrictions), the future is looking bright for this ex-US start-up.

Get Out!

I asked Stephen what he would say to a US-based entrepreneur who was potentially looking to relocate to New Zealand but thought that maybe New Zealand was a bit far away from the Northern Hemisphere markets, a bit far away from the venture capital funders in Silicon Valley and generally a bit of a backwater?

It hasn't been a conversation that Stephen has been having. Instead he has been talking to a lot of US start-ups who want to flee the United States and come here right now. New Zealand is seen as a really good getaway plan, with New Zealand's international standing really improving over the last three or four years. In the week I talked to Stephen for this story, he had already fielded two calls from different US start-up founders wanting to know how they could move to New Zealand.

So why has this happened? Certainly New Zealand's dealing the Christchurch terror attack and COVID-19 has done it no harm at all, and in Stephen's words, New Zealand is "almost kind of seen as this preeminent destination" with the reasonable cost of living, a reasonable lifestyle and without the "bunch of the bullshit going on in the States". But it is probably the BS in the US which is the real issue. In Stephen's view the election result will make it a little bit better in terms of who was running the government, but it won't change the fact that the nation is deeply divided. And this is not going to change just because they have a different leader.

"I think Americans have a very hard road going forward, and I think it will eventually Balkanise and split apart at some point."

Welcome Home

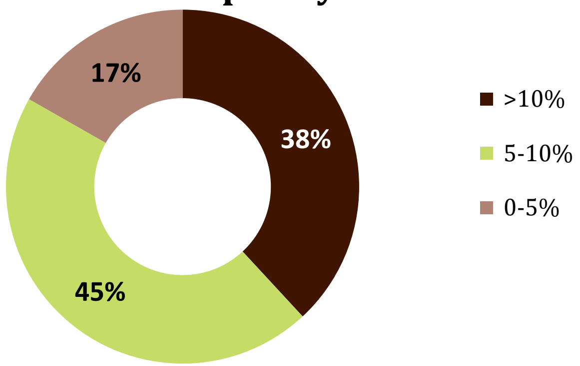
Stephen notes that one of the big differences between the United States and New Zealand for start-ups (and he has done start-ups in both countries) is that the level of support and initial funding for start-ups in New Zealand is just phenomenal. From the support offered by Government organisations like NZTE and Callaghan Innovation, formal angel groups, accelerators and incubators, through to subject matter experts and CEOs and CTOs of many New Zealand companies that are willing to take an hour or two out of their time and chat with you and give advice. This isn't something that you often see in the States. There really is a huge difference in the mentality and the culture of the two countries relating to business.

Stephen's advice for very early stage start-ups, is tap into these resources early on, to seek out their help and talk to those organisations and those government agencies. It will save you a lot of pain trying to figure it all out by trial and error.

Portfolio Valuation Splits (as at 30 September)

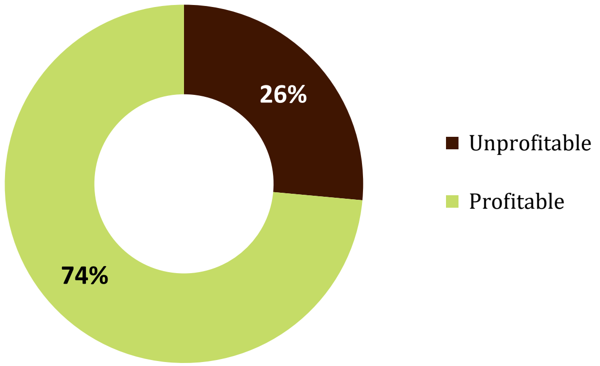
The diagrams below show various splits of the valuation of our 14 core portfolio companies.

Valuation Split By Concentration



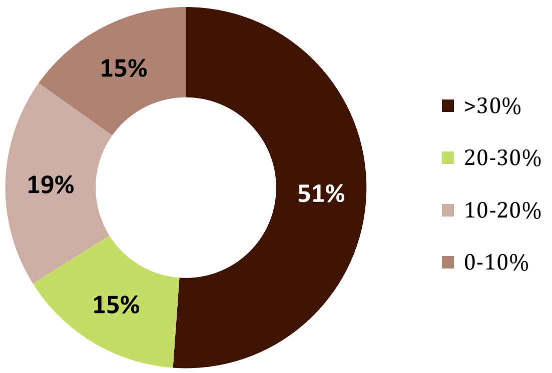
Investments in eight companies represent 81% of the value of Punakaiki Fund's portfolio.

Valuation Split By Profitability



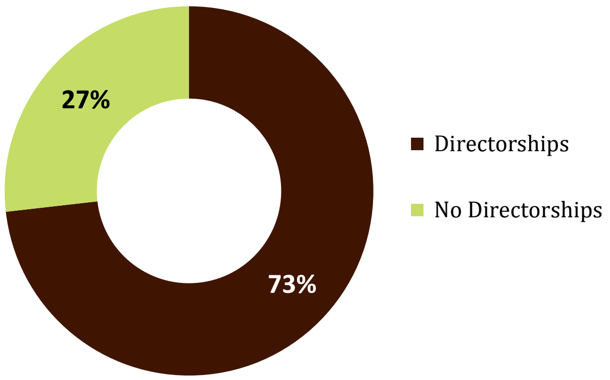
There is a good mix of profitable and unprofitable (investing for growth) companies. We are comfortable with the sustainability of the companies for now, given each's cash reserves.

Valuation Split By Ownership %



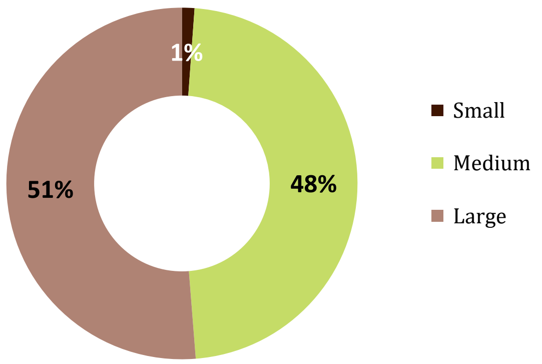
Unusually for a venture capital firm, we have large shareholdings in a number of companies – and that is where the value is increasingly concentrated.

Valuation Split By Directorship



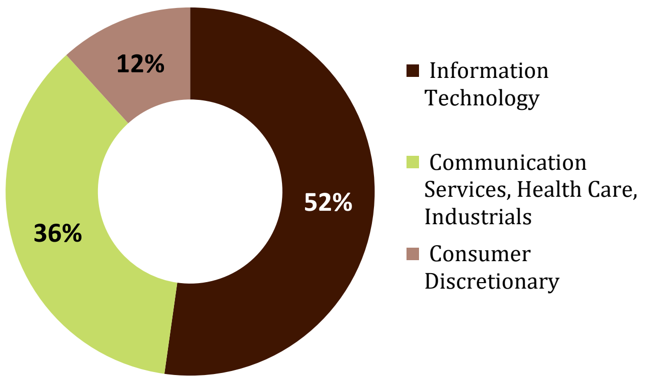
Directorships reflect that we are able to contribute where we have larger shareholdings, and thus have more visibility of and influence on company performance.

Valuation Split By Revenues



As companies grow in revenue, so, in general, does their value and the amount we can invest. We expect that over time the portfolio value held by medium and large companies will increase, unless those investments are sold.

Valuation Split By Industry



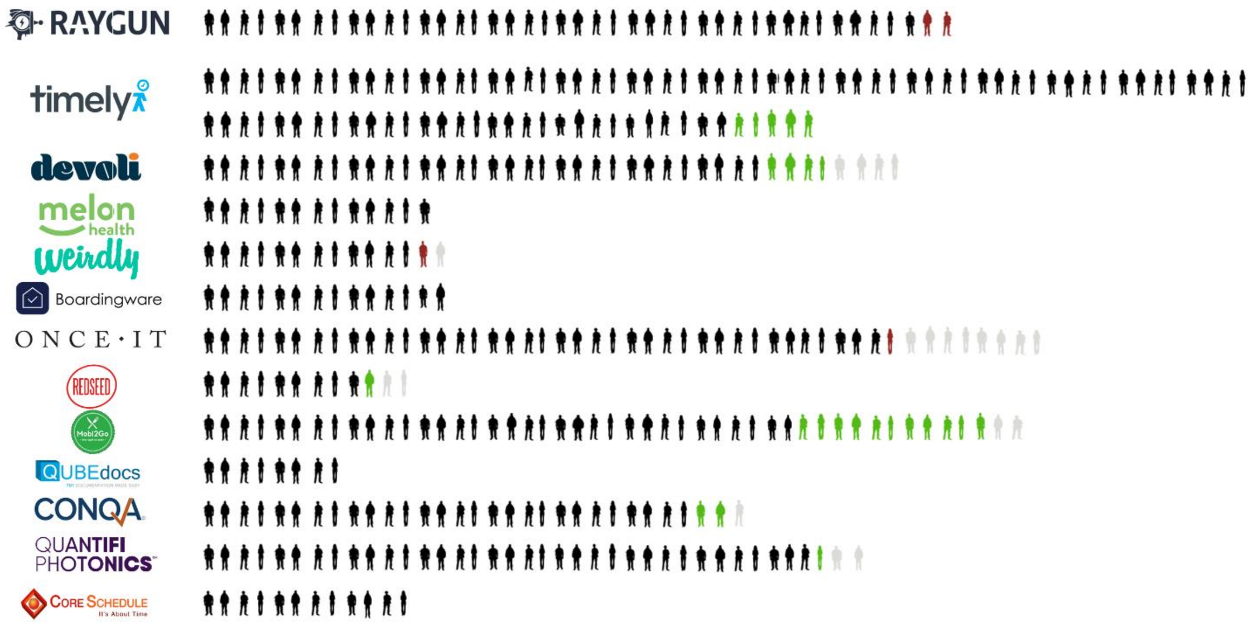
We have a deliberate strategy of diversifying across industries, and that provides resilience to external shocks, such as the COVID-19 pandemic.

In the News

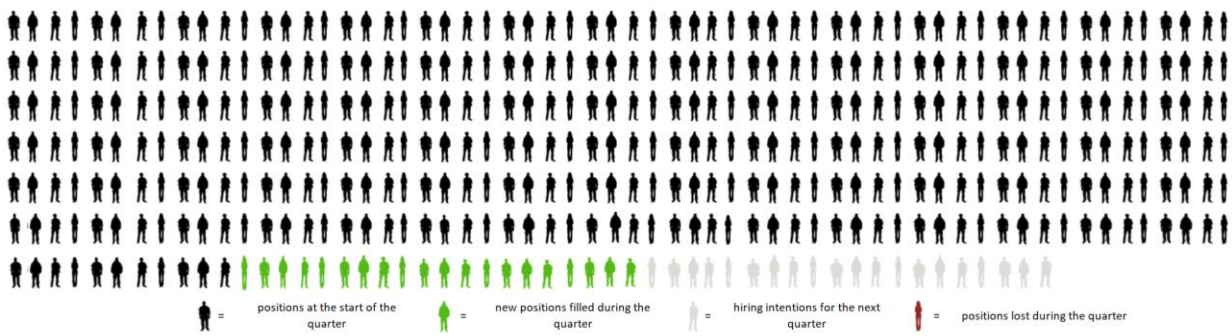
Quantifi Photonics	Coherent Solutions rebrands as Quantifi Photonics, ponders series-B capital raising Kiwi-made 'spy' tech a sign of our quantum future Quantifi Photonics And Sets Sights On US$2.4 Trillion Global Market
Conqa	Digital Tools Take QA Beyond 'Box-Ticking' Exercise
Mindfull	Fusion5 continues its growth trajectory with acquisition of leading corporate performance management business Fusion5 buys Mindfull, extends client base by 100 Fusion5 expands professional services portfolio with acquisition of Mindfull Fusion5 acquires consultancy Mindfull
Raygun	Serko takes out top spot at Hi-Tech awards Raygun Wins Duncan Cotterill Most Innovative Hi-Tech Software Solution Award Raygun APM Support For Ruby
Vend	What is contactless shopping, and what does it mean for Kiwis? The future of work is flexible
Punakaiki Fund	Venture Capital – Investment Fix (audio)

Employment Monitor (September Quarter)

Here is a snapshot of our portfolio companies' employment situation at the end of September2020:



That's 391 jobs as at the end of the September quarter – a net 20 more than at the end of June.



Vend's employment figures are not included, and nor are companies that are sold or inactive. In fact, you'll notice that this list is a bit shorter this month. That's because we sold EverEdge during the September, Mindfull after the quarter end and also removed NZ Artesian Water due to it being classified as a core holding. We have also adjusted the June quarter-end number so that they are comparable to the September quarter numbers.

Corporate Update

Governance

The Board convened on 13 November 2020 for the quarterly Board meeting to consider, among other matters:

- The value of Punakaiki Fund's investment portfolio as at 30 Sep 2020;
- A review of Punakaiki Fund's investment portfolio;
- The Punakaiki Fund shareholder survey results;
- The Punakaiki Fund Future Growth and Management paper;
- The amended Communication Policy;
- The draft Risk Management Policy;
- The periodic review of the Business Continuity and Disaster Recovery Plan, Socially Responsible Investment Policy, and the Statement of Investment Policies and Objectives; and
- This quarterly report.

The Board's next meeting is planned to be held on 12 February 2021.

Financial Reporting

The Investor Net Asset Value ("iNAV") of the fund after all contingent performance fees as at 30 September 2020 was $59,640,491 (or $25.36 per share), an increase from the 30 June 2020 iNAV of $56,264,686 (or $23.92 per share). This change results from a net increase in portfolio company valuations, which had an upward impact on both the iNAV and iNAV per Share. The Accounting Net Asset Value (which includes only the cash component of the performance fee and is used to calculate the management fee) was $62,925,096 at the end of the quarter, compared to $58,834,131 at the end of the June quarter.

Punakaiki Fund's unaudited financial summary metrics are set out in the tables below. Financial highlights from the quarter include (all including GST where applicable):

- An opening cash balance on 1 July 2020 of $1,415,327;
- A net upward revaluation of $4,750,000;
- Management fees of $339,533 were paid to LWCM;
- An administration fee of $47,438 was paid to LWCM in relation to the September quarter administration services provided to Punakaiki Fund;
- $27,488 was paid for audit services;
- $19,874 was paid for legal services to complete the sale of EverEdgeIP shares;
- $7,475 was paid for accounting services in relation to FY2020 financial statements preparation;
- $3,269 was paid for other accounting services;
- $32,664 was paid for independent valuation services;
- GST refunds of $19,409 were received; and
- A closing cash balance of $1,506,805.

Punakaiki Fund Limited - Unaudited Financial Position	
as at 30 September 2020	NZ$
Current Assets	
Cash on Deposit	1,506,805
Accounts Receivable	15,106
Prepayments	3,391
Non-current Assets	
Investments	62,710,000
Total Assets	**64,235,302**
Current Liabilities	
Accounts Payable	32,860
Non-current Liabilities	
Accrued Performance Fee	1,277,346
Equity	
Retained Earnings - Operations	(4,068,134)
Retained earnings - Accrued Performance Fee	(4,561,950)
Share-based Payment Reserve	3,284,604
Asset Revaluation	30,474,150
Share Capital	38,833,248
Capital Raising Costs	(1,036,822)
Total Equity and Liabilities	**64,235,302**
Accounting NAV	62,925,096
iNAV (after deduction of the performance fee)	59,640,491
iNAV per Share	$25.36

Punakaiki Fund Limited - Cash Flow Summary	
for the Quarter Ending 30 September 2020	NZ$
Operating Cash Flows	
Gross Interest Received	138
Withholding Tax on Interest	(16)
Bank Fees	(41)
Payments to External Advisors	(90,771)
Management Fees	(339,533)
Administration Fee	(47,438)
Other Net Expenses	(270)
GST Refunds	19,409
Total Operating Cash Flows	**(458,521)**
Investing Cash Flows	
Investments Made	(1)
Investments Realised	550,000
Dividends Received from Investments	-
Total Investing Cash Flows	**549,999**
Financing Cash Flows	
New Capital Received	-
Brokerage Fees	-
Dividends Paid	-
Total Financing Cash Flows	**-**
Total Cash Movements	**91,478**
Opening Cash Balance	1,415,327
Closing Cash Balance	1,506,805

Expected Cash Flows for the December 2020 Quarter

Following the end of the September quarter, Punakaiki Fund has not raised any new funds or yet made any new investments, although nearly completed a small investment into a new portfolio company.

Since the September 2020 quarter end, a payment of $8,970 has been made for legal fees and total GST refunds of $2,945 has been received. The payment of the final December quarterly Management Fees and December quarterly Administration Fee to LWCM, which together total $386,970 including GST, was paid in November.

A dividend of $165,224 was received from Onceit in November.

Punakaiki Fund's annual insurance expense of $58,620 including GST will be paid at around the time that this report is sent to shareholders.

Capital Raising Plans

PFL plans to open a Retail Offer for ordinary shares in December 2020.

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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