Artesian Australian VC Fund
Investor Presentation

who are we?

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1986 | 1997 | 2004 | 2009 | 2014

UBS HSBC LEHMAN BROTHERS | ANZ | artesian

Quantitative Fixed Income Trading

Early Stage Venture Capital

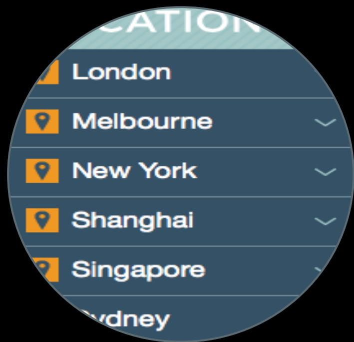
5 partners

19 employees

6 offices

50+ startup investments

100+ years collective financial markets & investment experience



stages of growth for an entrepreneurial company

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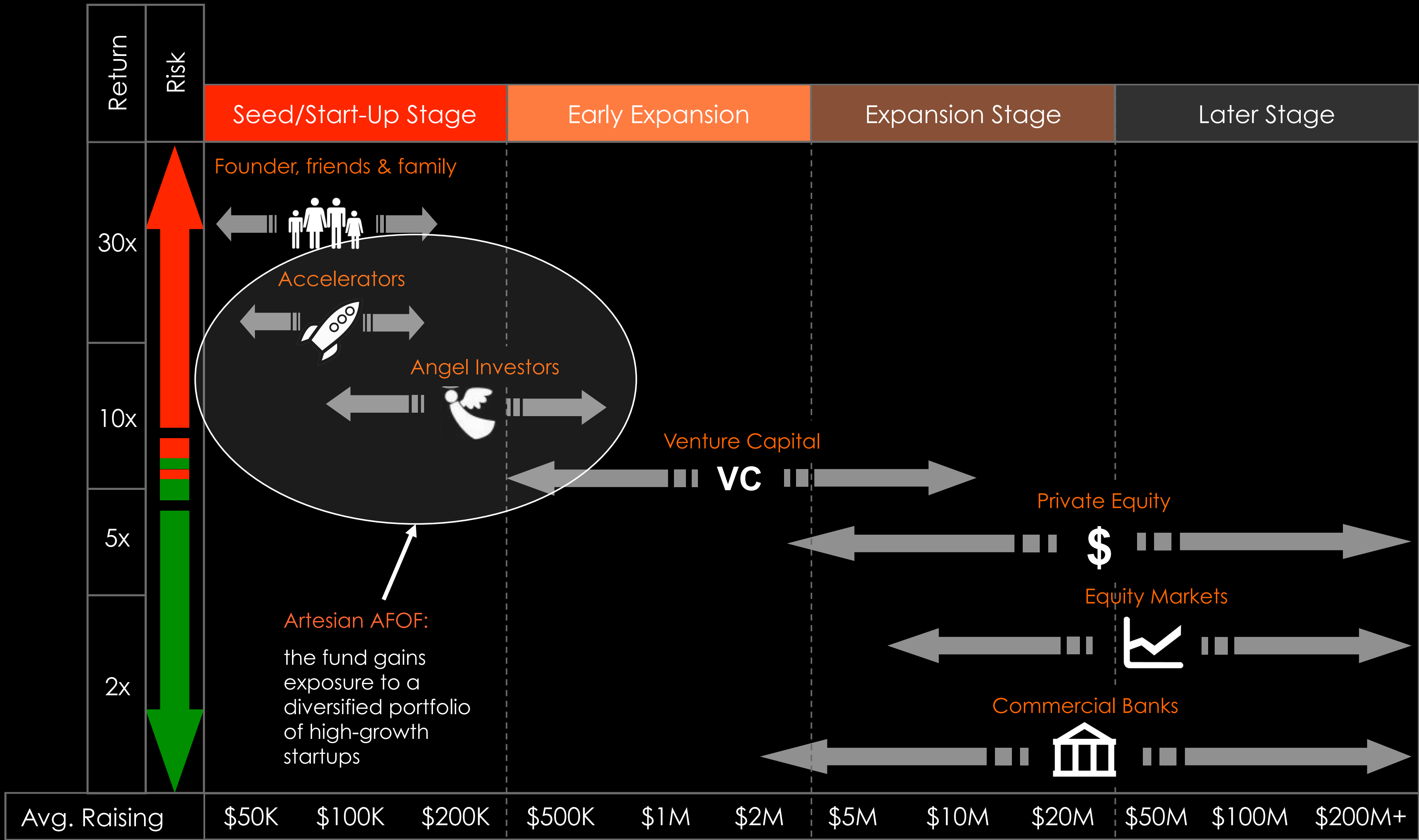

Background & context

speed of adoption & disruption

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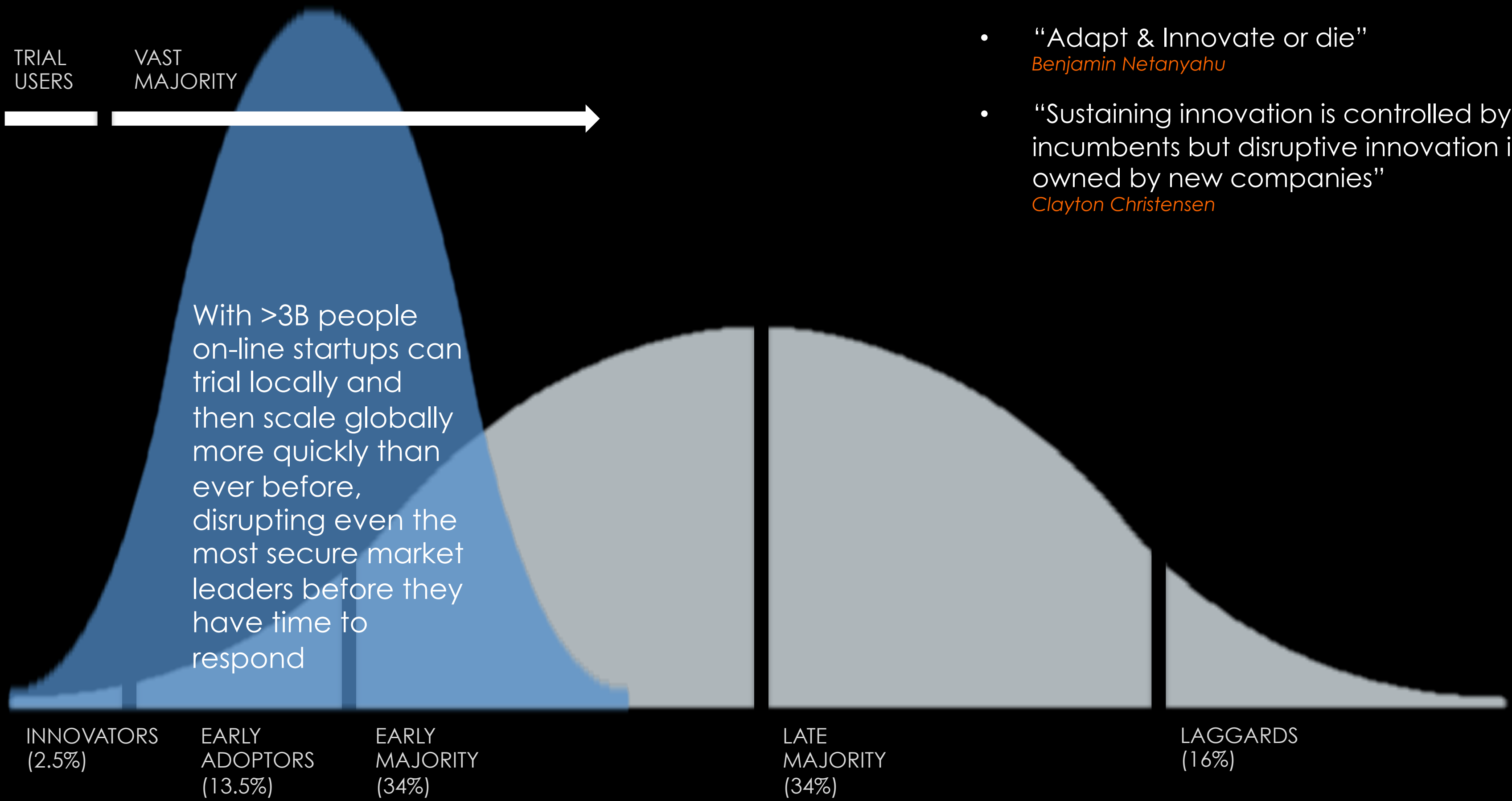
BIG-BANG TECHNOLOGY DISRUPTION

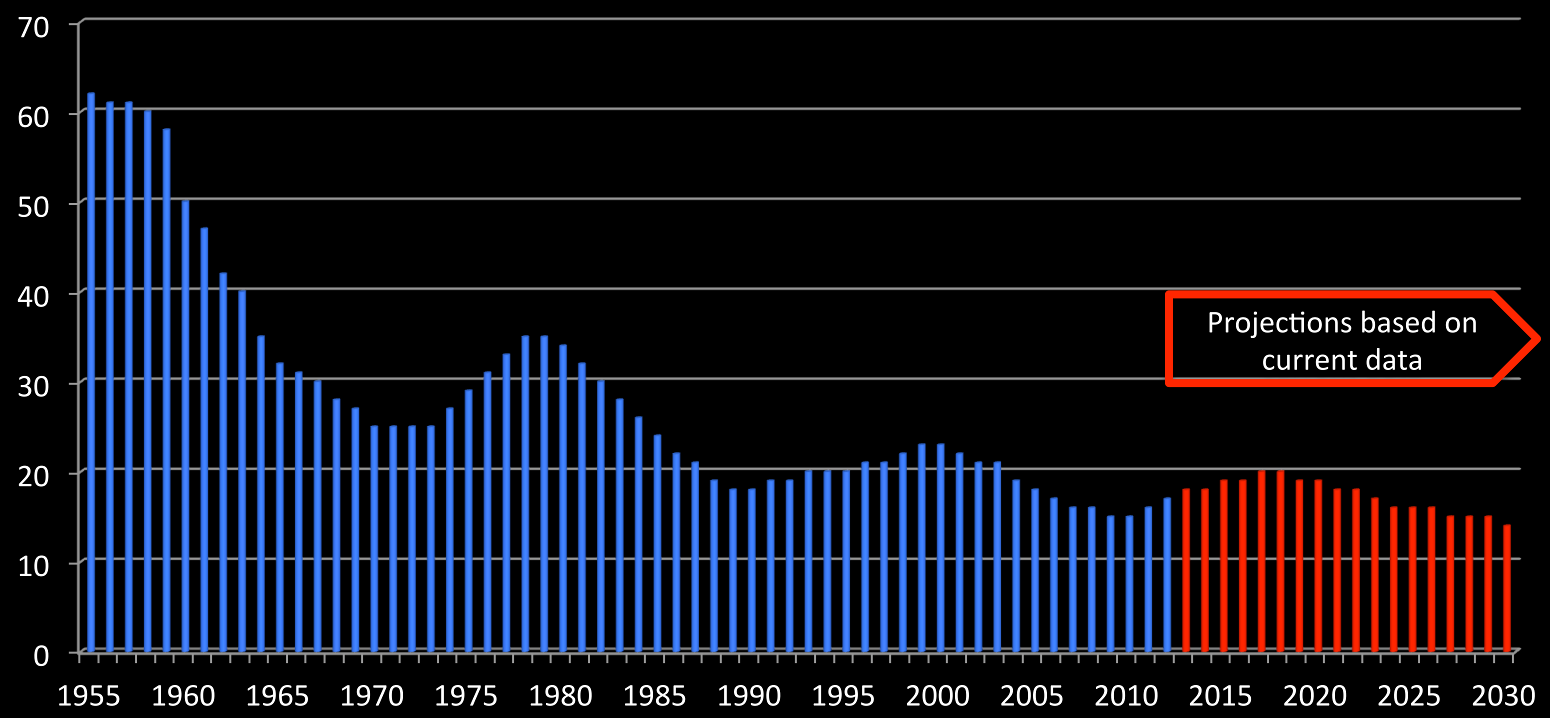


- "Software is eating the world"
  Marc Andreessen
- "Adapt & Innovate or die"
  Benjamin Netanyahu
- "Sustaining innovation is controlled by incumbents but disruptive innovation is owned by new companies"
  Clayton Christensen

TRADITIONAL TECHNOLOGY ADOPTION
(Roger's Market Segments)

company lifespan

Average Company Lifespan on S&P 500 Index (in years)



Year (each data point represents a rolling 7-year average of average lifespan)

Source: Innosight/Richard N. Foster/S&P

startup disruption

before 2000	now
sun servers, oracle db, exodus hosting	AWS, PayPal, cloud, open source software
12-24 month development cycle	3-90 day development cycle
6-18 month sales cycle	SaaS & online sales
<100m people online	>3b people online
$1-2m seed round	<$100k accelerate + <$1m seed
$3-5m series A	$1-3m series A
Sand Hill Road crawl	Global visibility via platforms/crowdfunding
big fat dinosaur startup	**lean little cockroach startup**

Source: 500 Starups

- low barriers to entry & big exits creating far more startup supply
- big exits occur with very small amounts of lifetime capital

traditional vc model not equipped to deal with new paradigm

vc market bifurcation

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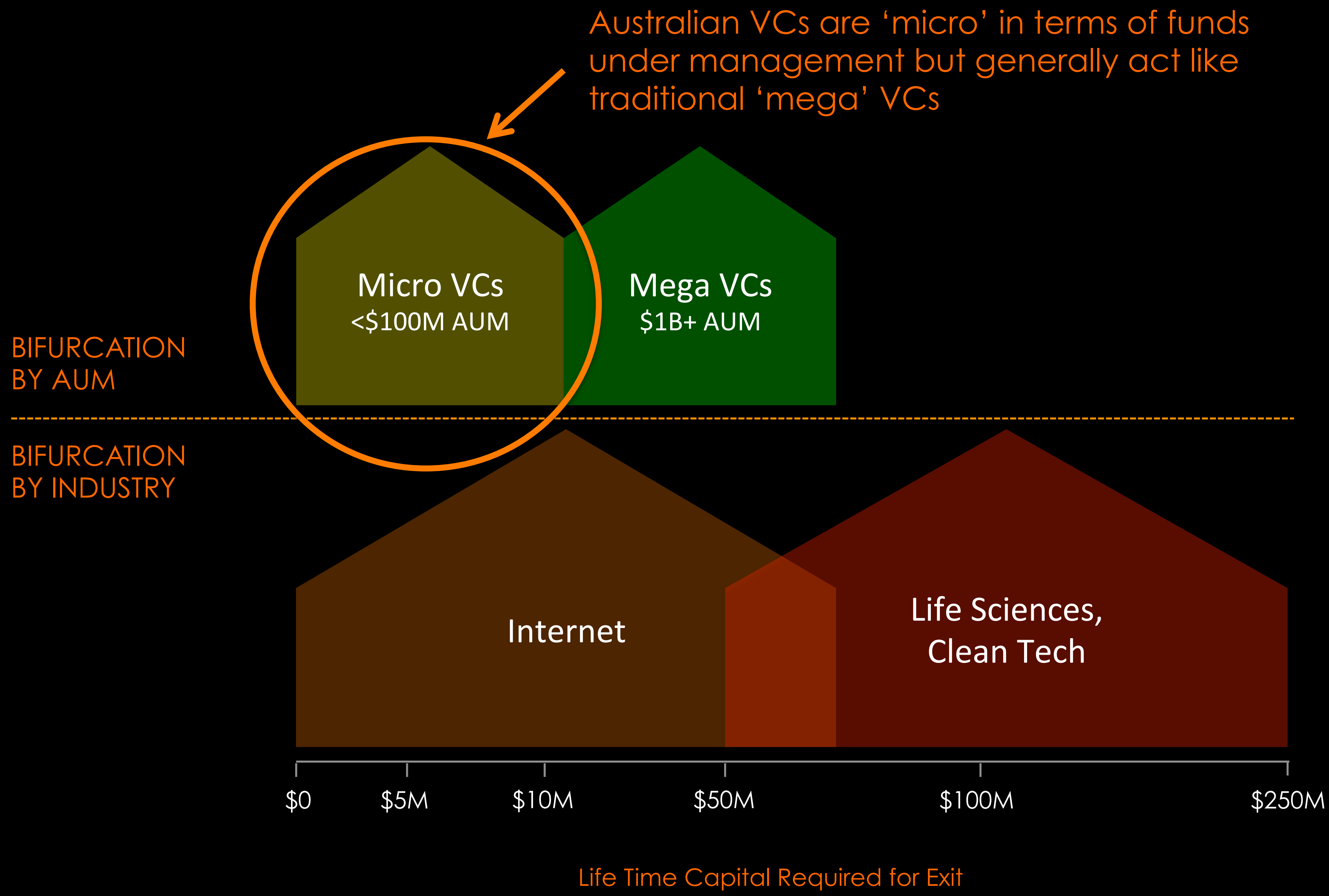

sweet spot for m&a activity

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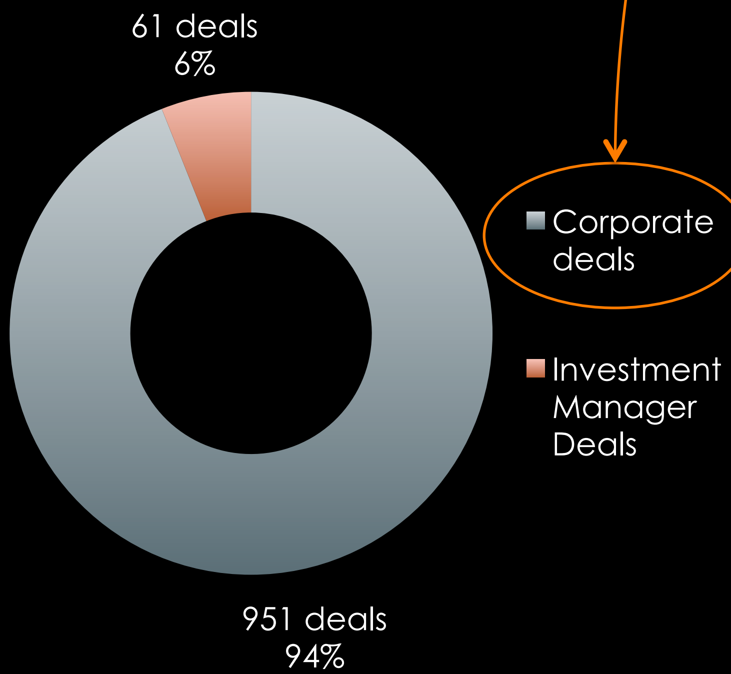
SWEET SPOT

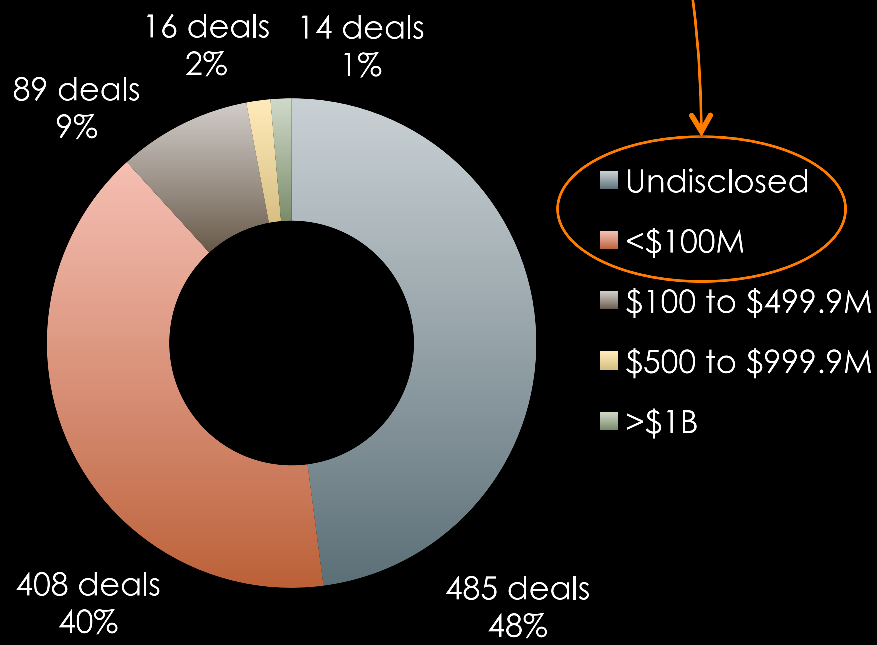
1,021 M&A deals

- 94% corporate purchaser
- 40-88% <$100M valuation

M&A DEALS BY ACQUIRER



M&A DEALS BY VALUATION



Source: Dealtracker – Grant Thornton: 18 months to 31 Dec 2012

challenges for traditional vc

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	CHARACTERISTICS OF TRADITIONAL VC	SYSTEMIC PROBLEMS	CHALLENGE
1	3-4 General Partners	Increased supply: 1,000-2,000 startups per year	How do you scale analysis?
2	Deep due diligence	Lack of information	Time is best due diligence for early stage ventures. How do you buy time?
3	Concentrated Portfolio (20-25 startups)	Greater uncertainty - Increasingly asymmetrical risk	What chance of picking winners if 90% of returns from 10% of startups?
4	\$5-10M investment (at a \$10-\$20M valuation)	Less lifetime capital required to exit	Bifurcation: Micro or mega VC?
5	10x return (requires \$100-\$200M exit)	Sweet spot for M&A activity in Australia \$15-\$50M	Where are the \$100M+ exits?

Our solution & approach

the hype vs the reality

Acquired for $1.0 billion by Facebook

Acquired for $1.1 billion by Yahoo

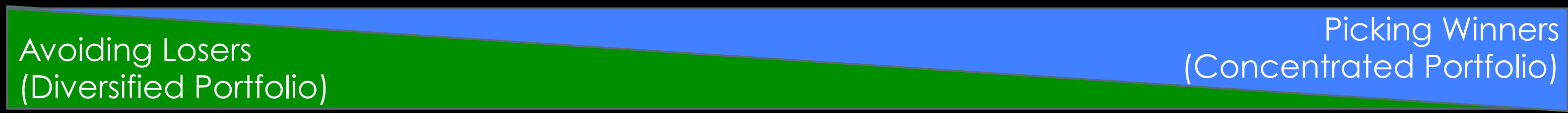
Acquired for $1.1billion by Google

Acquired for $19.0 billion by Facebook

There is a 0.00006% chance of building a $1B company[1]

1. First Round Capital

picking winners versus avoiding losers



Early Stage Investing: Avoiding Losers

- Diversification/Portfolio approach
- Due diligence difficult due to lack of information
- Outsource deal flow & due diligence
- Guild of entrepreneurs/mentors
- Co-invest with other early stage investors
- Buying 'options' to make concentrated follow on investments at later rounds when more information/traction

Later Stage Investing: Picking Winners

- Active investors / stock-picker
- Domain knowledge
- Effective due diligence
- Working with known entrepreneurs & investors
- Involved in strategy/management
- Insider can react quickly to good/ bad events to guide venture
- More relevant as investment matures and more performance data available

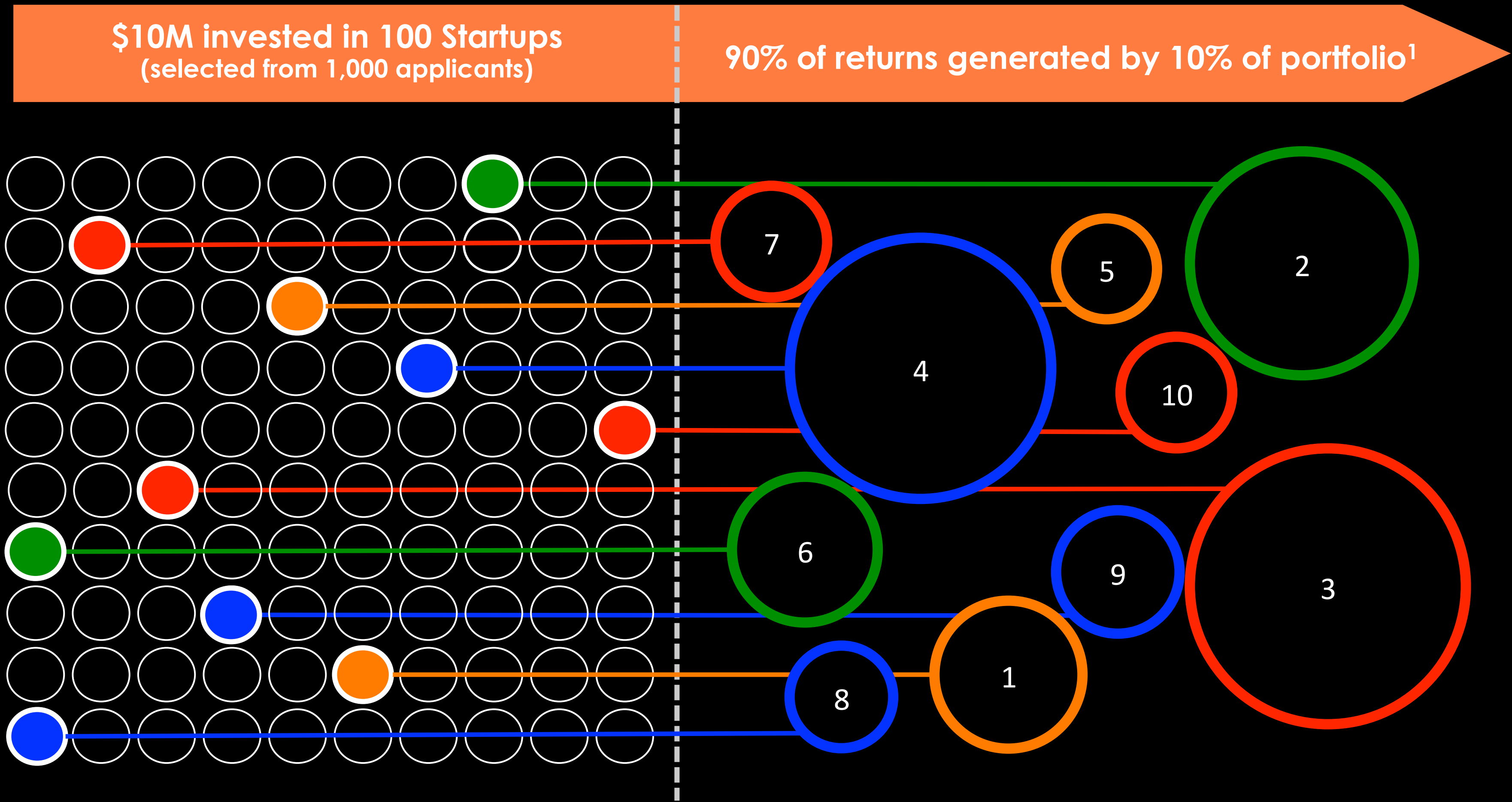
there are an infinite number of unpredictable exogenous factors that can derail technology startups

you need at least 15 early stage investments to have a 90% confidence of getting your money back [1]

"The production of cash is highly concentrated in winners; 90% of all cash returns are produced by 10% of portfolio" [2]

1. Kevin Dick (Rightside Capital) "How Many Angel Investments?"
2. Professor Robert Wiltbank (Kaufman Foundation)

◆ asymmetrical risk distribution



1. Professor Robert Wiltbank (Kaufman Foundation)

◆ focus targeting investment returns

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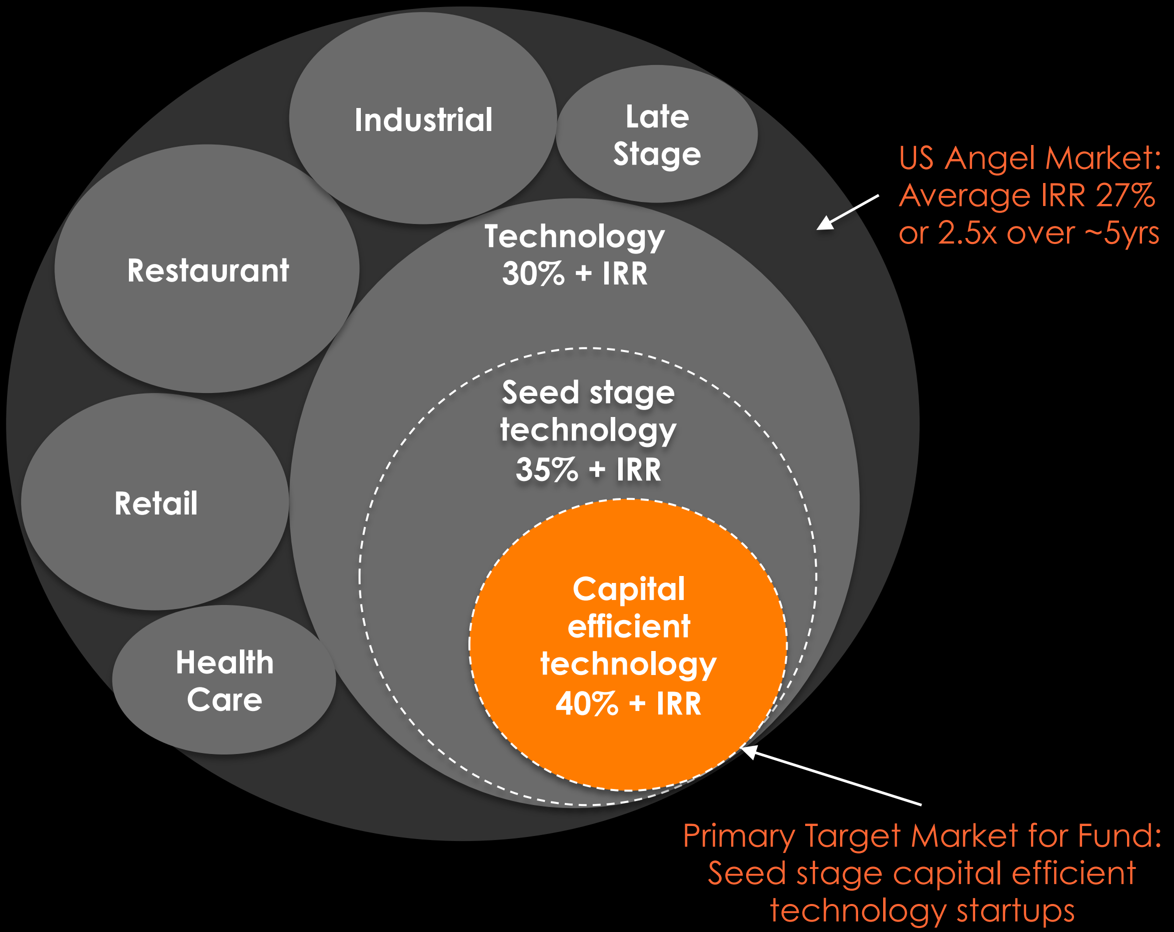

Data Sources: Right Side Capital Management, "RSCM Investment Strategy Backtest", January 2011, Robert Wiltbank & Warren Boeker, "Returns to Angel Investors in Groups", Kauffman Foundation, November 2007

◆ effect of portfolio size on return probability

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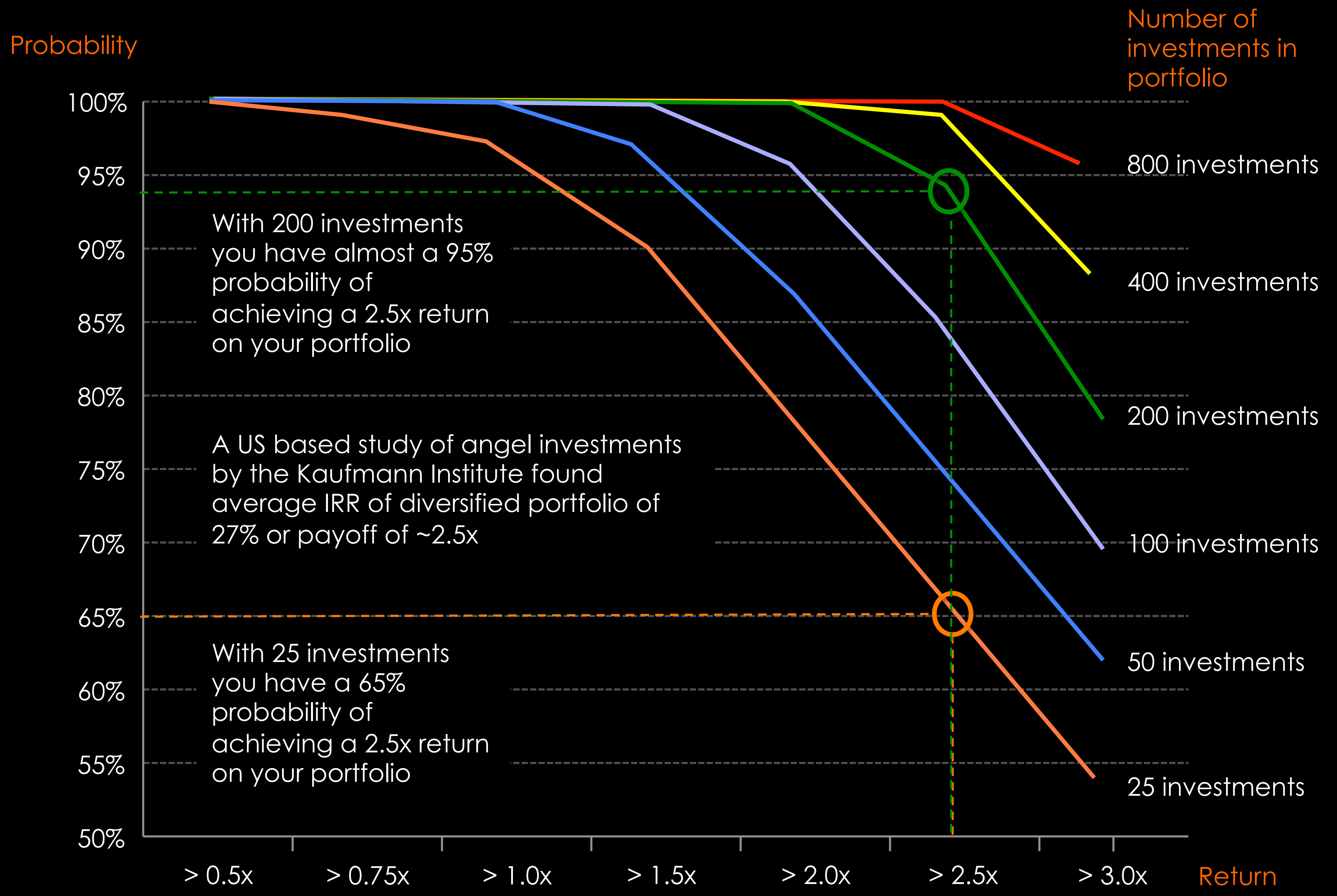

Source: Kevin Dick, Rightside Capital

challenges for traditional vc

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	CHARACTERISTICS OF TRADITIONAL VC	SYSTEMIC PROBLEMS	CHALLENGE	SOLUTION
1	3-4 General Partners	Increased supply: 1,000-2,000 startups per year	How do you scale analysis?	**Pre-screen via partnerships with accelerators/incubators**
2	Deep due diligence	Lack of information	Time is best due diligence for early stage ventures. How do you buy time?	**Optionality: right to follow-on in ventures that prove traction**
3	Concentrated Portfolio (20-25 startups)	Greater uncertainty - Increasingly asymmetrical risk	What chance of picking winners if 90% of returns from 10% of startups?	**Highly diversified portfolio (500-1,000 startups)**
4	$5-10M investment (at a $10-$20M valuation)	Less lifetime capital required to exit	Bifurcation: Micro or mega VC?	**Invest smaller amounts earlier an lower valuations**
5	10x return (requires $100-$200M exit)	Sweet spot for M&A activity in Australia $15-$50M	Where are the $100M+ exits?	**Target trade sale/M&A exits to incumbent (disrupted)corporates**

leveraging the early stage vc eco-system

PARTICIPANTS

INCUBATORS	ATP Innovations, RiverCityLabs, York Butter Factory, EXTO, Tank Stream Labs, ArdenPoint, BlueChilli, Creative Enterprise Fund, ilab, GCIC
ACCELERATORS	angelcube, iAccelerate, innovyz, muru-D, slingshot, Startmate, Incubate, Melbourne MAP Accelerator Program, Founder Institute, Ignition Labs
ANGEL GROUPS	Sydney Angels, Capital Angels, Brisbane Angels, Aurelius Digital, Innovation Bay, scale (connect. invest. succeed.), Rights House, melbourneangels, Hunter Angels, SA Angels
VC	Telstra Ventures, SingTel Innov8, ANU Connect Ventures, Starfish Ventures, Innovation Capital, Future Capital, MHC&C M.H. Carnegie & Co., Southern Cross, BlueSky Alternative Thinking, One Ventures, Blackbird, SquarePeg capital, Yuuwa Capital

- Artesian's unique co-investment model outsources the selection, mentoring and due diligence of startups to partners including accelerators, incubators, university programs, angel groups and digital agencies.
- By outsourcing these processes to its partners Artesian can scale its investment portfolio far beyond the capacity of a traditional venture capital firm.
- Portfolio size and diversification are critical for investments in startups in order to capture the10% of startups that generate 90% of all investment returns.

market validation follow-on funding

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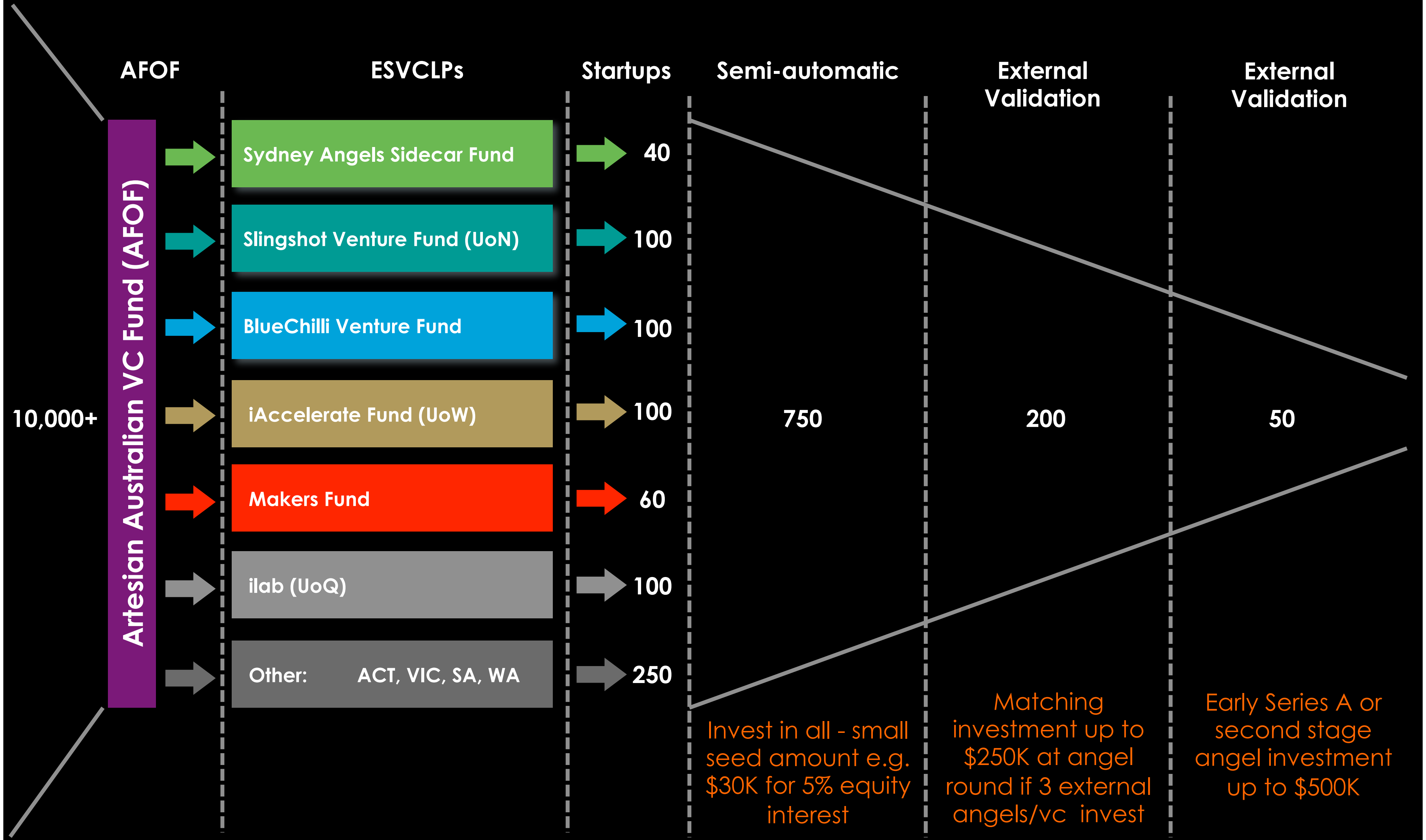

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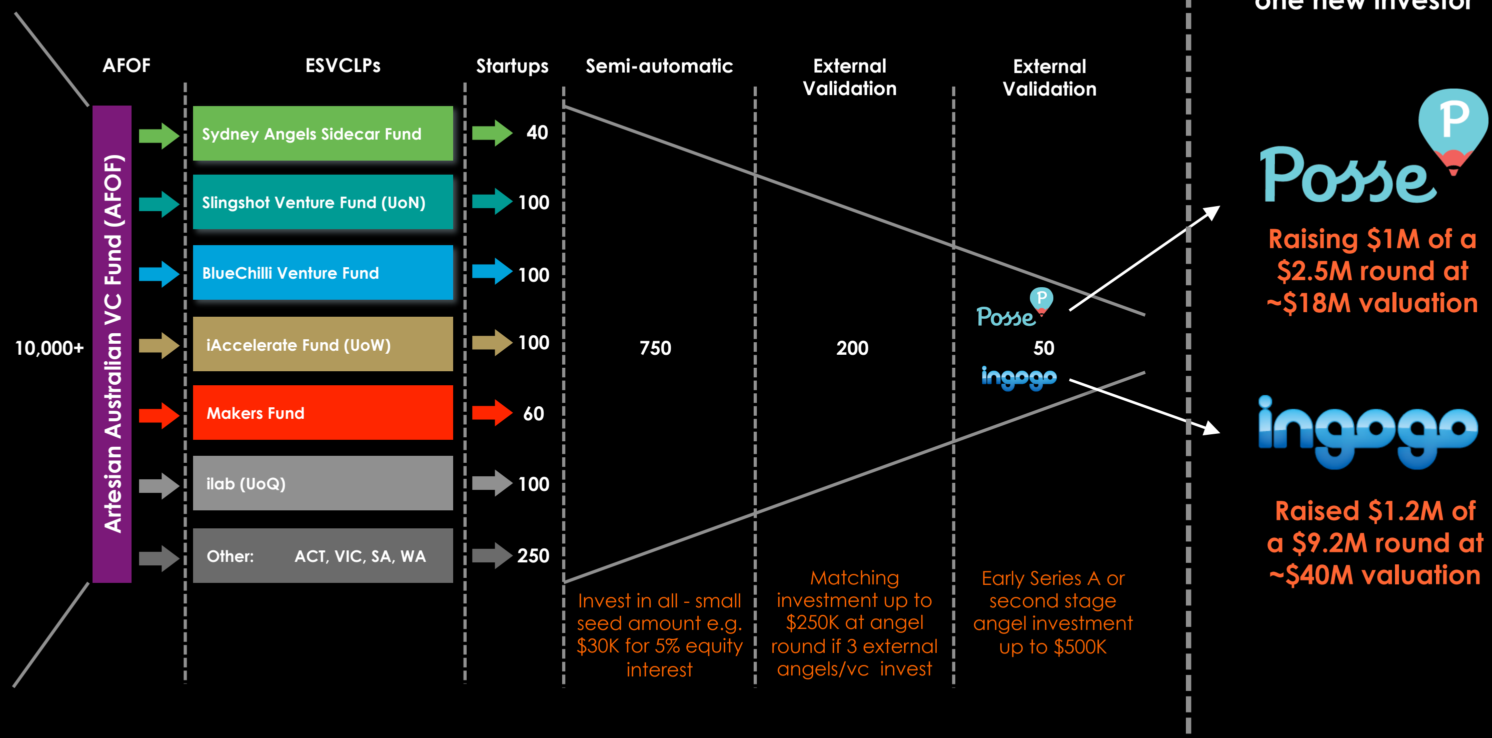
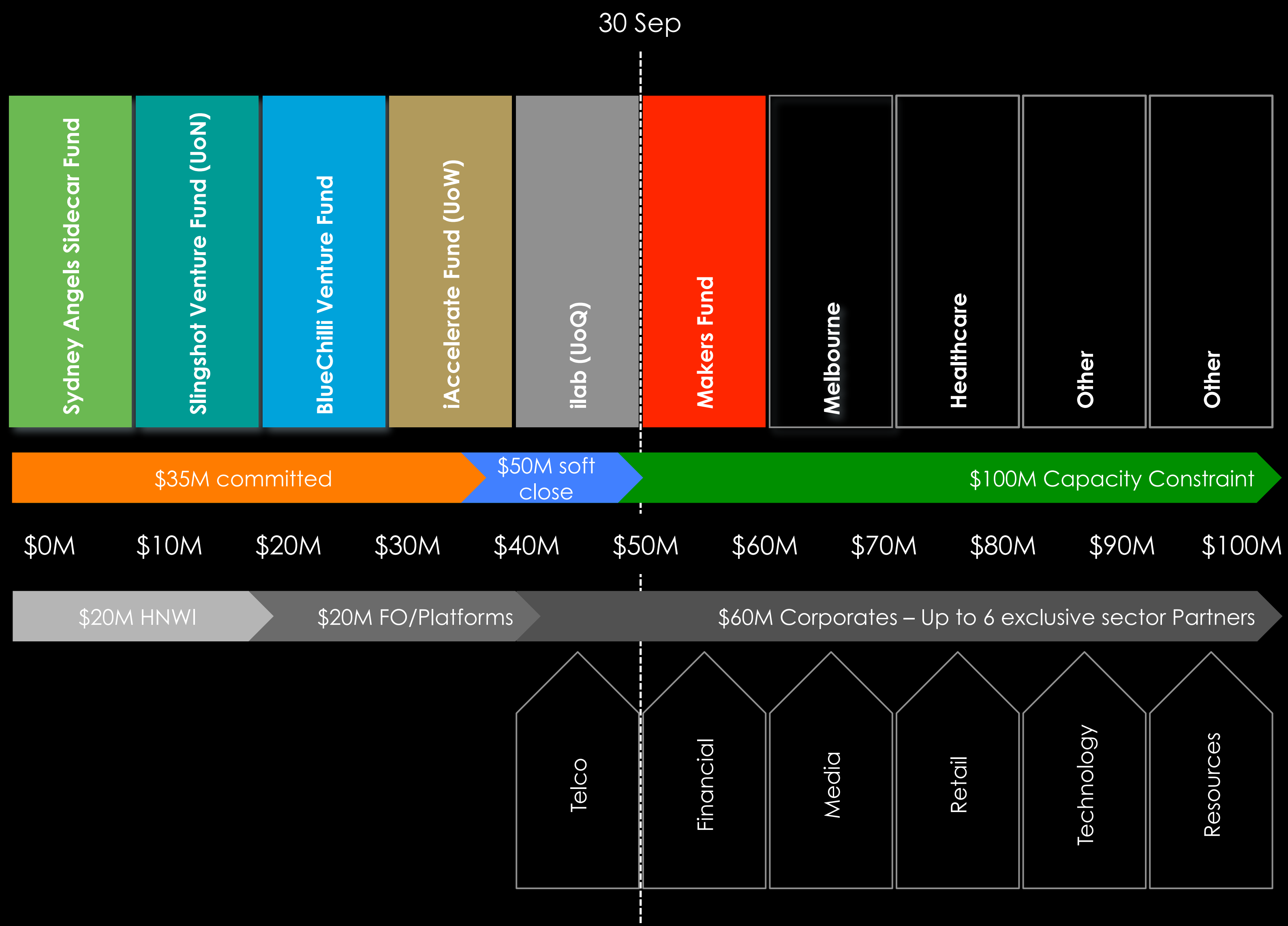
Investment in AFOF provides special opportunities for investors to participate in hard to access pre-IPO later stage VC rounds that have previously been inaccessible

VENTURE CROWD

facilitates roll-up of smaller investments so startup gains only one new investor



capital raise



investment approach

1 target early stage ventures

because:

- valuation is critical
- minimal 'professional' competition
- expected return on a successful exit is very high

2 employ a portfolio approach

because:

- expect >50% failure
- 10% of exits => 75% of total return
- diversification - difficult to pick winners, but filter to avoid losers

3 invest in capital efficient technology startups

because:

- highly scalable
- can produce 10x+ investment returns at sub-$50M valuations
- greater range of exit strategies and more flexibility for founders

4 pursue <$50M M&A exit market

because:

- sub-$50M M&A is an active and liquid exit market
- exits tend to come in 3-6 years rather than 8-12
- returns are not strongly correlated with traditional VC & PE returns

Financial + Strategic Returns

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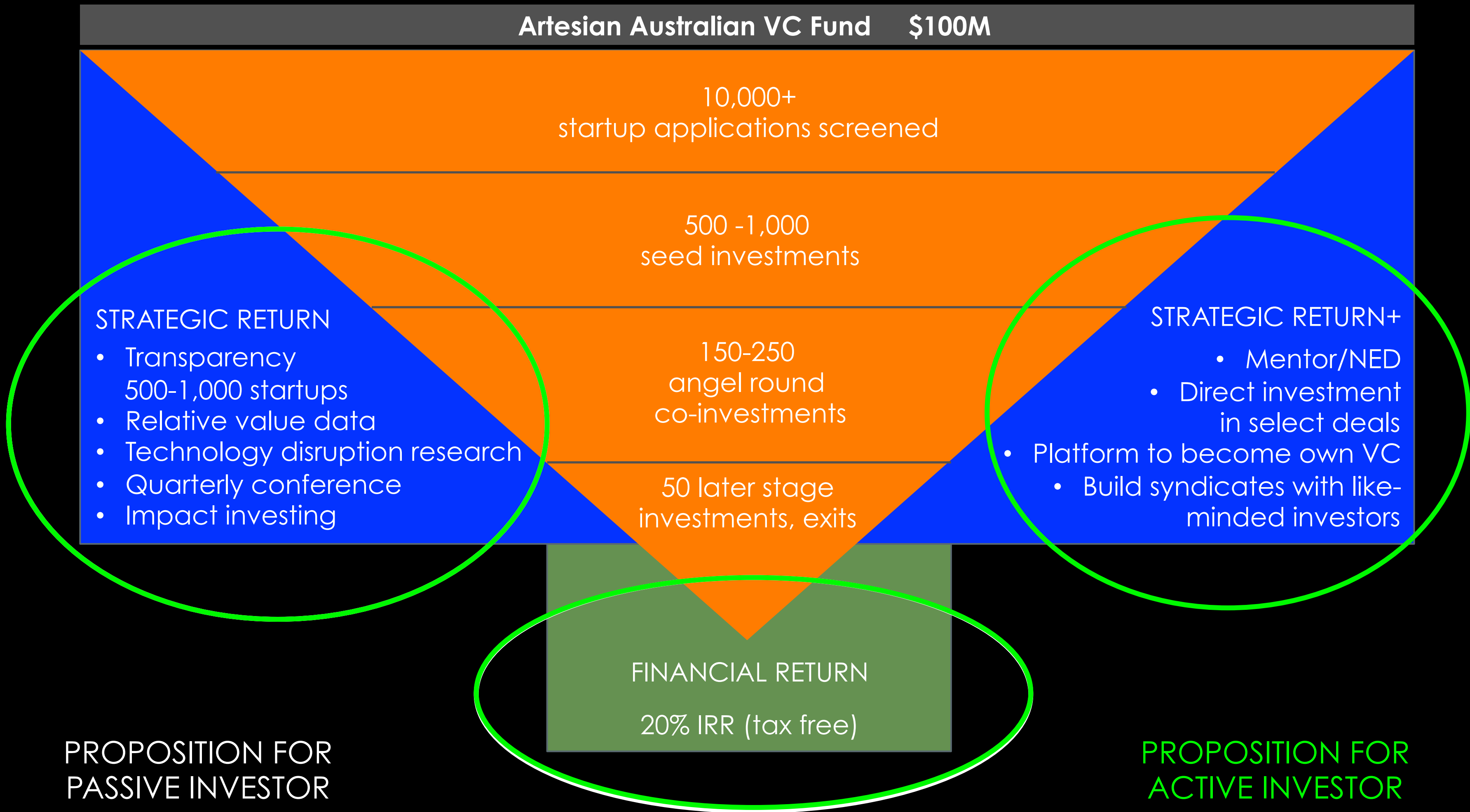
Opportunities for Passive and Active Investors



The Fund

fund summary

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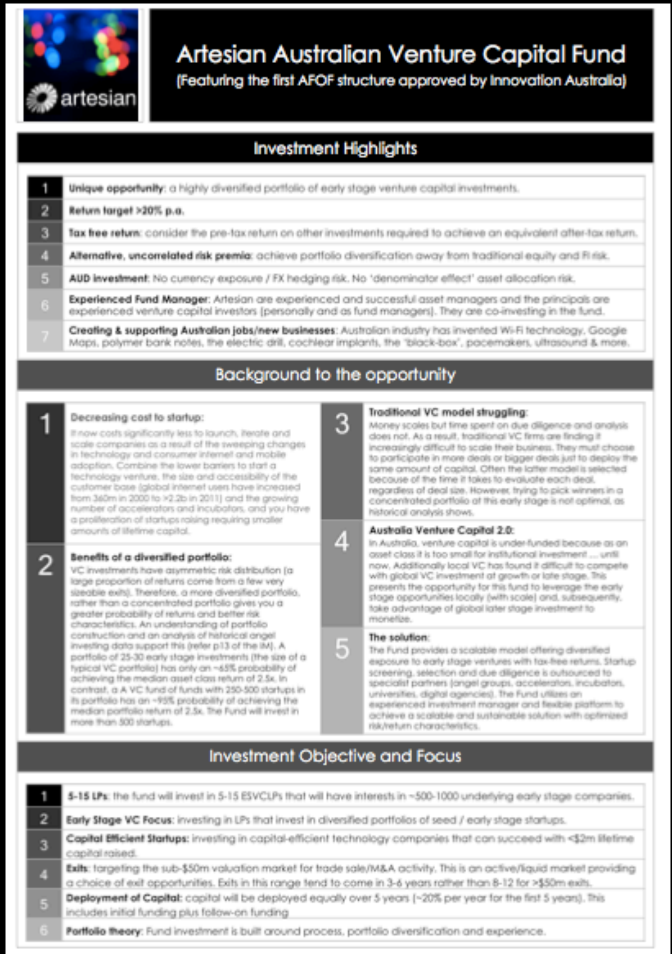
1	**Fund Size:**	up to $100 million
2	**Portfolio Size:**	5-15 underlying LPs (with total of 500-1,000 startup investments)
3	**Targeted Return:**	>20% p.a. **TAX FREE**
4	**Investment Return:**	7-10 years (5 year investment period from final closing)
5	**Management Fee:**	2% on committed amount
6	**Performance Fee:**	20% on profit (after 100% of capital returned)
7	**Minimum Investment:**	$100K (drawn down over 5 years – approximately $20K per year)
8	**Fund Structure:**	Australian VC Fund of Funds (AFOF) I.L.P. (returns are legislated as tax free)
9	**Investment Manager:**	Artesian AFOF Pty Ltd (ACN 164 410 673) an authorised representative of Artesian Venture Partners Pty Ltd (ACN 112 089 488) under AFSL No. 284492. www.artesianinvest.com

why this should be in a portfolio?

1	an alternative risk premia – low correlation to traditional asset classes
2	tax-free targeted returns of >20%p.a. (consider the pre-tax equivalent on other investments required to achieve an equivalent after-tax return)
3	research - consider disruption on core equity portfolios
4	complementary to direct investments - a good introduction and intelligence-gathering for direct investments
5	co-investment opportunities - transparency on entire portfolio allowing for concentrated conviction direct investment

more information

2 page summary



Artesian Australian Venture Capital Fund
(Featuring the first AFOF structure approved by Innovation Australia)

Investment Highlights

1. **Unique opportunity**: a highly diversified portfolio of early stage venture capital investments.
2. **Return target >20% p.a.**
3. **Tax free return**: consider the pre-tax return on other investments required to achieve an equivalent after-tax return.
4. **Alternative, uncorrelated risk premia**: achieve portfolio diversification away from traditional equity and FI risk.
5. **AUD investment**: No currency exposure / FX hedging risk. No 'denominator effect' asset allocation risk.
6. **Experienced Fund Manager**: Artesian are experienced and successful asset managers and the principals are experienced venture capital investors (personally and as fund managers). They are co-investing in the fund.
7. **Creating & supporting Australian jobs/new businesses**: Australian industry has invented Wi-Fi technology, Google Maps, polymer bank notes, the electric drill, cochlear implants, the 'black-box', pacemakers, ultrasound & more.

Background to the opportunity

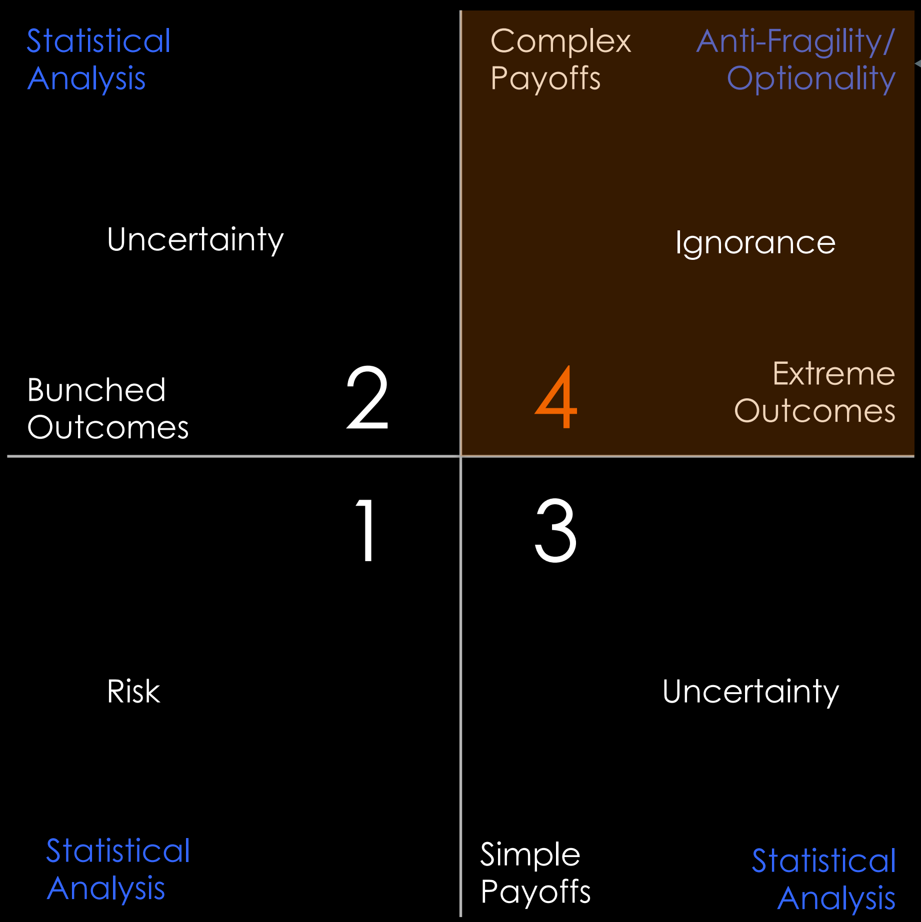
1. **Decreasing cost to startup:** It now costs significantly less to launch, iterate and scale companies as a result of the sweeping changes in technology and consumer internet and mobile adoption. Combine the lower barriers to start a technology venture, the size and accessibility of the customer base (global internet users have increased from 360m in 2000 to >2.2b in 2011) and the growing number of accelerators and incubators, and you have a proliferation of startups raising requiring smaller amounts of lifetime capital.
2. **Benefits of a diversified portfolio:** VC investments have asymmetric risk distribution (a large proportion of returns come from a few very sizeable exits). Therefore, a more diversified portfolio, rather than a concentrated portfolio gives you a greater probability of returns and better risk characteristics. An understanding of portfolio construction and an analysis of historical angel investing data support this (refer p13 of the IM). A portfolio of 25-30 early stage investments (the size of a typical VC portfolio) has only an ~65% probability of achieving the median asset class return of 2.5x. In contrast, a A VC fund of funds with 250-500 startups in its portfolio has an ~95% probability of achieving the median portfolio return of 2.5x. The Fund will invest in more than 500 startups.
3. **Traditional VC model struggling:** Money scales but time spent on due diligence and analysis does not. As a result, traditional VC firms are finding it increasingly difficult to scale their business. They must choose to participate in more deals or bigger deals just to deploy the same amount of capital. Often the latter model is selected because of the time it takes to evaluate each deal, regardless of deal size. However, trying to pick winners in a concentrated portfolio at this early stage is not optimal, as historical analysis shows.
4. **Australia Venture Capital 2.0:** In Australia, venture capital is under-funded because as an asset class it is too small for institutional investment … until now. Additionally local VC has found it difficult to compete with global VC investment at growth or late stage. This presents the opportunity for this fund to leverage the early stage opportunities locally (with scale) and, subsequently, take advantage of global later stage investment to monetize.
5. **The solution:** The Fund provides a scalable model offering diversified exposure to early stage ventures with tax-free returns. Startup screening, selection and due diligence is outsourced to specialist partners (angel groups, accelerators, incubators, universities, digital agencies). The Fund utilizes an experienced investment manager and flexible platform to achieve a scalable and sustainable solution with optimized risk/return characteristics.

Investment Objective and Focus

1. **5-15 LPs**: the fund will invest in 5-15 ESVCLPs that will have interests in ~500-1000 underlying early stage companies.
2. **Early Stage VC Focus**: investing in LPs that invest in diversified portfolios of seed / early stage startups.
3. **Capital Efficient Startups**: investing in capital-efficient technology companies that can succeed with <$2m lifetime capital raised.
4. **Exits**: targeting the sub-$50m valuation market for trade sale/M&A activity. This is an active/liquid market providing a choice of exit opportunities. Exits in this range tend to come in 3-6 years rather than 8-12 for >$50m exits.
5. **Deployment of Capital**: capital will be deployed equally over 5 years (~20% per year for the first 5 years). This includes initial funding plus follow-on funding
6. **Portfolio theory**: Fund investment is built around process, portfolio diversification and experience.

Information Memorandum

anti fragility



Operate in quadrant 4 by seeking to become "anti-fragile" rather than trying to predict outcomes that are not computable

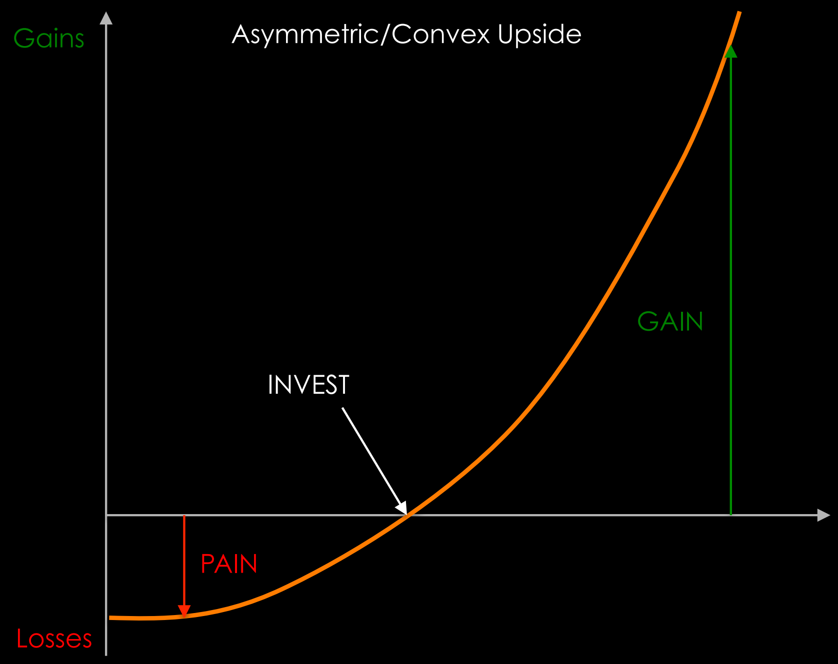
Nassim Taleb believes the wise venture capitalist is a flaneur:

"Someone who, unlike a tourist, makes a decision opportunistically at every step to revise his schedule (or his destination) so he can imbibe things based on new information obtained. In research and entrepreneurship, being a flaneur is called "looking for optionality."

Acquiring optionality is best accomplished via tinkering and a process that Taleb calls **via negativa**.

"If you 'have optionality,' you don't have much need for what is commonly called intelligence, knowledge, insight, skills, and these complicated things that take place in our brain cells. For you don't have to be right that often. All you need is the wisdom to not do unintelligent things to hurt yourself (some acts of omission) and recognize favorable outcomes when they occur. (The key is that your assessment doesn't need to be made beforehand, only after the outcome.)"

Source: Nassim Taleb quadrant-based model guide to decision making



Mispriced (Cheap) Optionality:
Financial options may be expensive because people know they are options and someone is selling them and charging a price. Optionality of early stage VC is misunderstood & mispriced (cheap). Traditional VC has been a stock-picking investment philosophy at a later stage and hasn't adapted to the new paradigm of low barriers to entry.

No Need for Knowledge or to Predict Future:
All you need is the wisdom to not do unintelligent things to hurt yourself (some acts of omission) and recognize favorable outcomes when they occur. The key is that your assessment doesn't need to be made beforehand, only after the outcome.

50%+ Of the startups will fail:
Optionality works by negative information, reducing the space of what we do by knowledge of what does not work. For that we need to pay for negative results.

NOT Pray and Spray & NOT buying "lottery tickets":
Lottery tickets are patently overpriced, reflecting the "long shot bias" by which agents overpay for long odds. This comparison, it turns out is fallacious, as the effect of the long shot bias is limited to artificial setups: lotteries are sterilized randomness, constructed and sold by humans, and have a known upper bound.

Return Comparison: ESVCLP Fund versus non tax free Fund

Capital Invested	$100,000
Investment period	5 years

Fund IRR	Untaxed Amount after 5 years	Profit	CGT Amount[1]	Non tax free fund post-tax profit	Non tax free fund post-tax Amount	Non tax free fund post-tax return	ESVCLP fund post-tax return	Additional return on investment through ESVCLP fund
15%	$201,136	$101,136	-$23,514	$77,622	$177,622	78%	101%	24%
20%	$248,832	$148,832	-$34,603	$114,229	$214,229	114%	149%	35%
25%	$305,176	$205,176	-$47,703	$157,472	$257,472	157%	205%	48%
50%	$759,375	$659,375	-$153,305	$506,070	$606,070	506%	659%	153%

◆ # comparison accelerators & incubators

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Name	Sydney Angels Sidecar Fund	BlueChilli Venture Fund	Slingshot Venture Fund	iAccelerate Seed Fund	ilab Venture Fund
Type	Angel Group	Incubator	Accelerator	University program	University program
Location	Sydney	Sydney	Newcastle, Hunter Valley	Wollongong, Illawarra	Brisbane
University Partner	ATPInnovations: Sydney University, University of NSW, Australian National University & University of Technology Sydney	Independent	Independent/University of Newcastle	University of Wollongong	University of Queensland/ Queensland State Government
Infrastructure	Investor group of ~70 high net worth investors	Located in own offices with team of ~ 30 employees	Private accelerator with shared office space & resources from UoN	Awarded $16M from NSW Government to build new purpose built accelerator infrastructure on UoW Innovation Campus;. Dedicated staff part of UoW.	Building is part of UoQ campus. 5yr funding for infrastructure from Queensland government. Staffing and administration from Uniquest.
Distinguishing Characteristics	Angel group sourcing early and later-stage angel investments from inside accelrators/incubators as well as startups that have boot-strapped or not participated in formal programs.	Technology incubator with internal team of developers designers. Attracts non-technical founders (40% female)	Accelerator runing 2 cohorts of ~10 startups through a 12-week program twice each year	Accelerator with 2 programs. Start and Advanced. Start is earlier stage and also operates a 300 seat co-working space. Advanced takes startups with proven traction and incubates/co-locates for up to 30 months. Modelled on Waterloo, Canada processl.	Accelerator runing 2 cohorts of ~10 startups through a 12-week program twice each year
Fund Size	$10M	$10M	$10M	$10M	$10M
Structure	ESVCLP	ESVCLP	ESVCLP	ESVCLP	ESVCLP
Seed Stage	✖	✔	✔	✔	✔
Angel Stage	✔	✔	✔	✔	✔
Early Series A / pre Trade Sale Exit	✔	✔	✔	✔	✔
Investments per year	6 to 10	20	20	20	20
Time operating	4 years	3 years	1 year	2 years	3 years
website	www.sydneyangels.net.au	www.bluechilli.com	www.slingshotters.com	www.iaccelerate.com.au	www.ilabaccelerator.com