CVC Emerging Companies Fund

Quarterly Report
For period ending 31 March 2020

Fund update

Update of fund activities during the quarter

The March quarter of 2020 will go down as one of the most extraordinary in recent history, with the COVID-19 pandemic spreading across the globe, driving economic activity almost to a halt and resulting in the most volatile financial markets since the Great Depression. You will have read much about the impacts of the virus on economic and financial markets so this note will focus on the impacts on the CVC Emerging Companies Fund (**Fund**), our underlying investee companies (which are all unlisted) and the market for emerging companies in general.

Prior to the severe restrictions on economic activity over recent weeks we were seeing the usual level of deal flow. We had reviewed a number of investment opportunities and were in the late stages of determining whether to proceed to non-binding indicative offers and term sheets on four of those. In each case we judged the uncertainty to the company in the coming months, and in particular the risks associated with the forecasts and growth plans that had been presented to us, as too great to proceed. Private company deal-flow correspondingly slowed throughout March as companies reassessed their capital needs and deferred debt and equity raising plans where they could as the impacts of COVID-19 accelerated. As a result, there were no new investments made in the quarter. We are now seeing the first signs of new capital raising activity, in particular distressed and emergency raises, and we expect momentum to build as the June quarter proceeds. As discussed below, the current environment will present some attractive opportunities for the Fund and we are watching developments closely.

COVID-19 impact on the Fund's portfolio companies

There are currently seven companies in the portfolio, all of which are private. Our portfolio companies had typically been trading well throughout the quarter and sales declines were not apparent until the last two to three weeks of March. For at least the next six months, we anticipate they will experience significant impacts to both supply and demand, primarily resulting from the government-imposed stay at home restrictions. These impacts will not be felt evenly across industries but in general we feel the portfolio is relatively well positioned. We have no exposure to travel and leisure, very limited exposure to physical retail but a moderate exposure to the Australian property market. Several companies operate a "tech enabled service" and/or e-commerce business model which lessens the impact of the economic shutdown. Those companies may expect to gain market share from their physical competitors but will certainly be exposed to weakness in their specific sectors and an overall decline in consumer discretionary demand. We've made some specific comments about the impacts to our portfolio companies, both positive and negative, in the Investments section of this report.

We have maintained close communication with our portfolio companies since the crisis developed. Each is in the process of assessing the COVID-19 impacts and creating an action plan which includes:

- Ensuring the safety of staff and implementing work from home policies as required
- Imposing a headcount and capital expenditure (capex) freeze
- Focussing on cash management, assessing cost base and reallocating resources where appropriate whilst maintaining the ability to deliver on existing contractual obligations
- Scenario modelling of the cashflow impact of sales declines and reforecasting the 2020 and 2021 financial years
- Identifying any weakness in supply chain
- Assessing eligibility for government support programs such as the JobKeeper program and other tax relief.

Where necessary we are directly assisting with this process and that is where most of our and our investee companies' efforts lie right now.

Given the Fund commenced investing in May 2019, we are fortunate that all of the companies – with the exception of Cleanspace – have raised money within the last nine months and are sitting on historically high cash balances. This will provide a great buffer through at least the next six to twelve months and we don't anticipate any will face liquidity issues in the short to medium term. While Cleanspace has not raised capital since mid-2018, it is a major beneficiary of the need for high quality respirators in the medical and hospitals sector and is experiencing historically high demand for its product. We discuss Cleanspace in more detail below.

The market for emerging companies

IPO activity during the March quarter was relatively slow, dropping significantly in March as markets started to wrestle with intense volatility. At the time of writing we're starting to see the first wave of heavily discounted placements and emergency recapitalisations. We're cautious not to take problem investments into the portfolio while the downside is still difficult to measure, and we remain rigid on sticking to our process and maintaining our strategy. We are of a view that some excellent opportunities will come out of this as high-quality companies seek to strengthen balance sheets in preparation for what could be a prolonged recovery.

Looking ahead

The Fund has now invested ~$23.7 million, leaving ~$5.0 million to invest net of fees and expenses before making the third and final $15 million capital call. Overall the Fund is well positioned. We have a little over half the Fund's capital (including uncalled amounts) still undeployed. Our portfolio companies, despite the individual circumstances they each face, are running historically high cash balances and we don't anticipate any will require additional capital throughout the current crisis. They are each managed by experienced, high quality founders with significant shareholdings alongside the Fund on equal or subordinate terms and we are pleased with the proactive COVID-19 responses of our management teams. Expansion stage and pre-IPO investment remain an important part of the company funding lifecycle and we expect to see a number of high-quality investment opportunities on attractive terms including both expansion stage private companies and IPO candidates seeking bridging rounds before markets return to a normal state.

Portfolio hotspot – Cleanspace Technology

CleanSpace® RESPIRATORS

Everyone is talking about the global Coronavirus pandemic and in these challenging times we wanted to highlight a bright spot in our portfolio. One of the seed assets in the CVC Emerging Companies Fund was Cleanspace Technology (**Cleanspace**). Originally a manufacturer of industrial respiratory masks, Cleanspace added a healthcare mask to its portfolio in the past five years, which are now sold globally. Whilst these are challenging times, masks for the safety of healthcare workers are in high demand and Cleanspace has a been a strong beneficiary of this demand.

One of the key differentiators for Cleanspace is the respiratory safety they offer which is driven by the positive airflow the respirators produce. This is in comparison to the negative airflow in a normal paper face mask. What this means is that when you breathe in wearing an ordinary paper face mask you suck external air in, however, with a Cleanspace mask, the air you inhale comes via positive airflow with a small engine in the rear of the unit delivering air through a filter for the individual wearing the mask. Effectively, air is blown out as you breathe in whilst the reverse happens with an ordinary paper mask.

This makes the Cleanspace mask significantly safer (no air leakage), easier to use for extended periods (e.g. an entire shift) and customisable to individual workers which improves compliance. Each Cleanspace unit lasts up to five years with the mask and filter both able to be replaced as required (typically annually depending on usage), avoiding the need for authorities to stockpile millions of disposable masks with a limited storage lifespan in anticipation of a future pandemic.

Cleanspace is aiming to be a world leader in respiratory protection and the Coronavirus pandemic has significantly increased sales and awareness of their high-quality respirators across the globe.

With the continued global spread of COVID-19, Cleanspace has experienced revenue growth of +75% in March 2020 when compared with March 2019 and importantly, the installed base of respirators across the globe has risen by almost 40% in the same period. Continued global expansion into Europe and the US has helped these growth numbers and pleasingly, the US had its best month on record and was also the highest revenue generating region in March for the first time in the company's history.

If you are interested and want to read more about Cleanspace please take a look at https://cleanspacetechnology.com/.

Image 1

Full-face Cleanspace respirator.

Image 2

Half-face Halo (healthcare) respirator being worn by Dr. Sakurai on the Diamond Princess cruise ship. He is the chair of the Disaster Management Committee of Japanese Society for Infection Prevention and Control.

Fund activity and performance

The Fund has now called $1.20 per unit of the $1.80 per unit issue price ($44.8 million in total capital) committed by unitholders, or two out of the three anticipated $0.60 per unit capital calls. As discussed in our previous quarterly updates, a number of our portfolio companies were exploring or had commenced preparations for an IPO this calendar year. It is our view that these IPOs will likely be delayed and this may in-turn delay the timing of distributions back to investors, which we had expected to commence this calendar year. While our pre-COVID-19 investment trajectory had us expecting to make the third call sometime early in the June quarter, we now expect it may be later in the year.

Period	NTA per unit (31 March)	Return (%)
3-month performance (net of fees)^	$1.2189	-0.16%
Since inception performance (net of fees)^*	–	3.35%

^ Adjusted for the 2nd capital call of $0.60 per unit made on 27 November 2019.

* Fund inception date 1 May 2019. Future performance will be reported on a quarterly and year-to-date basis.

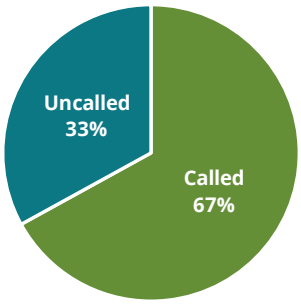
Investments

Investment	About the company
CleanSpace RESPIRATORS	**CleanSpace** designs, manufactures and markets a range of compact powered airflow personal respirators for protection from hazardous particulates and gases in mines and industrial workplaces as well against infectious diseases in healthcare. **Update:** Demand for Cleanspace's respirators has accelerated in response to the COVID-19 pandemic and the company is seeing record order volume and sales.
Deep Blue Company	**Deep Blue** is the #1 player in the fragmented Australian property conveyancing market with a scalable, low cost digital business model. Deep Blue has also begun to realise adjacent market opportunities in building inspections, insurance and utilities. **Update:** DBC is an online (ecommerce) service provider for property transaction conveyancing. DBC provides a large portion of its service via call centre operators located in the Philippines. While this service has been disrupted by government-imposed shutdowns, DBC have successfully transitioned its Philippines workforce to a work from home model. DBC can expect to see volumes decline as property sale activity falls in Australia but we would expect them to gain market share against traditional conveyancing service providers. DBC has raised over $30 million over the last 12 months and is taking measures to reduce costs in line with expected activity.
bellroy	**Bellroy** is a purpose driven Australian accessories brand that sells distinctively designed wallets, bags and other "carry" products to more than 100 countries, with the majority of sales conducted online through its website and digital marketplaces such as Amazon and Tmall. **Update:** Bellroy's carry items such as bags and wallets would be considered consumer discretionary items and will be impacted by a decline in household spending. They operate a predominantly ecommerce business model, and have limited exposure to physical retail. Bellroy continued to see strong, above budget growth throughout most of the March quarter but have experienced recent sales declines. They are watching the market closely and looking at what measures may be required from a supply and demand perspective. Bellroy completed a $12 million capital raise in June 2019 and have a very strong cash position.
moneytech FINANCE FOR GROWTH. AND THEN SOME.	**Moneytech** provides a multi-faceted treasury platform for SMEs offering working capital solutions, FX hedging and an enterprise-level payments platform to solve SME's cash flow requirements – a whole of wallet alternative to the banks. **Update:** Moneytech have moved to minimise risk in their foreign currency and finance segments, restricting new business and increasing risk thresholds. At the time of writing they have seen limited changes to their bad debt provisioning but expect this will increase as social and economic restrictions impact their client base. Moneytech are operating with a historically high cash balance and are monitoring the impacts on their client base closely.

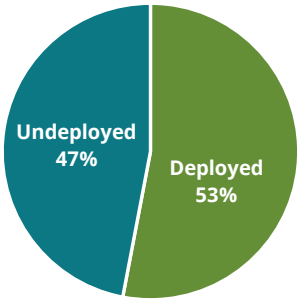
Investment	About the company
Portt	**Portt** provides a SaaS platform to support and enhance commercial teams in managing the procurement process, providing government and large enterprises with workflow efficiency, economic management, reporting, and probity and governance output. **Update:** First half, FY20 revenue was up +30% year-on-year, in line with expectations. The majority of Portt's clients are government departments and agencies. Portt was seeking to expand their core offering into the university and corporate sector this quarter but have now reallocated those resources to focus back on public sector upsell, partnerships and new sales. Portt management are actively adjusting their growth strategy to meet the potential declines in sales. Portt raised $4 million in December 2019.
lendi	**Lendi** is Australia's leading online home loan platform. Having digitised the origination phase of the home loan process, Lendi is now bringing the fulfilment phase onto its platform by launching direct decision engine integrations with a range of providers. **Update:** As a digitally led business, Lendi has managed to transition to 100% remote workforce with minimal disruption. They can be expected to gain market share from physical based mortgage brokers. Lendi finished the March quarter with record numbers for submissions, approvals and settlements but due to the lag effect, they expect activity to decline in line with the decline in broader real estate activity. They have instituted cost controls and taken resource reallocation to compensate. Lendi completed a >$50 million capital raise in December 2019 and have substantial cash reserves.
ai media	**Ai Media** is a global leader in speech-to-text providing high accuracy, technology-enabled live captioning, closed captioning, transcription and speech analytics to broadcast, education, government and corporate clients. **Update:** Ai-Media continues to prepare for an IPO in 2H 2020 and revenue growth for the March 2020 quarter was more than 25% ahead of the March 2019 quarter and in line with budgeted number. We continue to be optimistic about the growth prospects and have seen increased demand since the start of COVID-19 crisis.

Portfolio characteristics

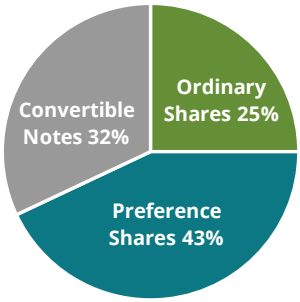
Called v Uncalled Capital



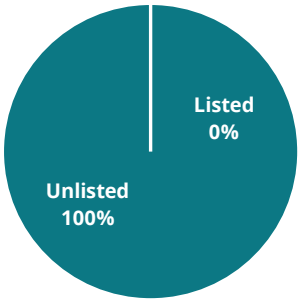
Deployed v Undeployed Capital



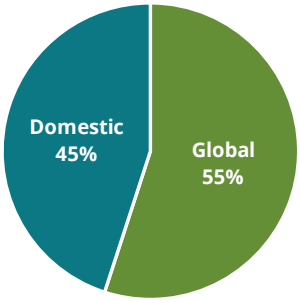
Security Structure (by Capital Deployed)



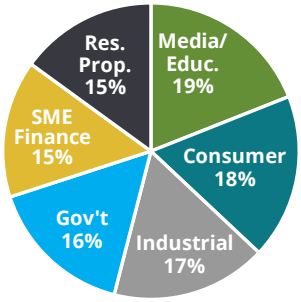
Listed v Unlisted (by Capital Deployed)



Business Footprint (by Capital Deployed)



Primary Business Sector (by Capital Deployed)



About the Fund

The Fund is a wholesale unit trust which invests in unlisted and listed emerging companies and is managed by CVC Emerging Companies IM Pty Ltd (ACN 631 673 740, CAR 1274 220) a joint venture entity of CVC Limited (ACN 002 700 361), and Walsh & Company Group Pty Limited (ACN 159 902 066), a division of Evans Dixon Limited (ACN 609 913 457) (Evans Dixon).

Fund details

Investment Vehicle
Unlisted wholesale unit trust.

Fund Term
Intended to be five years, with the option to extend for two consecutive one-year periods.

Fund Objective
The Fund's objective is to generate superior long term returns for Investors through investments in listed and unlisted growth and expansion stage companies:

Unlisted – Ordinary and preferred equity, convertible notes. Typically 6–24 month timeframe to liquidity

Listed – Pre-IPO investments, (potentially) held post-IPO for a period of time, micro/small cap IPOs and placements.

Investor Eligibility
Wholesale investors only.

Redemptions
Fund subject to lock-up period. All redemptions are at the sole discretion of the Trustee and Investment Manager. Transfers can be facilitated by the Trustee.

Distributions
The Trustee is expected to determine distributions semi-annually or more frequently subject to availability.

Portfolio Composition
Targeted portfolio composition of 15-25 companies. At the time of investment, a maximum weighting of 15% to any one investment.

Management Fee
1.75% p.a. on committed capital during Investment Period and on invested capital thereafter (plus GST and before accrued fees).

Performance Fee
20% p.a. (plus GST) subject to an 8.0% per annum cumulative (non-compounded) pre-tax preferred return.

Other Fees and Costs
Expense recovery for audit, legal, Trustee & custodian fees, administration, registry, tax and external investment due diligence advice.

Overall Expense Ratio capped at 2.50% (plus GST, excluding performance fees).

Investment Team

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