

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

## Bailador Technology Investments Limited (BTI)

November 2015

## WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

### INDEPENDENCE OF RESEARCH ANALYSTS

Research analysts are not directly supervised by personnel from other areas of the Firm whose interests or functions may conflict with those of the research analysts. The evaluation and appraisal of research analysts for purposes of career advancement, remuneration and promotion is structured so that non-research personnel do not exert inappropriate influence over analysts.

Supervision and reporting lines: Analysts who publish research reports are supervised by, and report to, Research Management. Research analysts do not report to, and are not supervised by, any sales personnel nor do they have dealings with Sales personnel

Evaluation and remuneration: The remuneration of research analysts is determined on the basis of a number of factors, including quality, accuracy and value of research, productivity, experience, individual reputation, and evaluations by investor clients.

### INDEPENDENCE – ACTIVITIES OF ANALYSTS

IIR restricts research analysts from performing roles that could prejudice, or appear to prejudice, the independence of their research.

Pitches: Research analysts are not permitted to participate in sales pitches for corporate mandates on behalf of a Broker and are not permitted to prepare or review materials for those pitches. Pitch materials by investor clients may not contain the promise of research coverage by IIR.

No promotion of issuers' transactions: Research analysts may not be involved in promotional or marketing activities of an issuer of a relevant investment that would reasonably be construed as representing the issuer. For this reason, analysts are not permitted to attend "road show" presentations by issuers that are corporate clients of the Firm relating to offerings of securities or any other investment banking transaction from that our clients may undertake from time to time. Analysts may, however, observe road shows remotely, without asking questions, by video link or telephone in order to help ensure that they have access to the same information as their investor clients.

Widely-attended conferences: Analysts are permitted to attend and speak at widely-attended conferences at which our firm has been invited to present our views. These widely-attended conferences may include investor presentations by corporate clients of the Firm.

Other permitted activities: Analysts may be consulted by Firm sales personnel on matters such as market and industry trends, conditions and developments and the structuring, pricing and expected market reception of securities offerings or other market operations. Analysts may also carry out preliminary due diligence and vetting of issuers that may be prospective research clients of ours.

### INDUCEMENTS AND INAPPROPRIATE INFLUENCES

IIR prohibits research analysts from soliciting or receiving any inducement in respect of their publication of research and restricts certain communications between research analysts and personnel from other business areas within the Firm including management, which might be perceived to result in inappropriate influence on analysts' views.

Remuneration and other benefits: IIR procedures prohibit analysts from accepting any remuneration or other benefit from an issuer or any other party in respect of the publication of research and from offering or accepting any inducement (including the selective disclosure by an issuer of material information not generally available) for the publication of favourable research. These restrictions do not preclude the acceptance of reasonable hospitality in accordance with the Firm's general policies on entertainment, gifts and corporate hospitality.

### DISCLAIMER

This publication has been prepared by Independent Investment Research (Aust) Pty Limited trading as Independent Investment Research ("IIR") (ABN 11 152 172 079), an corporate authorised representative of Australian Financial Services Licensee (AFSL no. 410381). IIR has been commissioned to prepare this independent research report (the "Report") and will receive fees for its preparation. Each company specified in the Report (the "Participants") has provided IIR with information about its current activities. While the information contained in this publication has been prepared with all reasonable care from sources that IIR believes are reliable, no responsibility or liability is accepted by IIR for any errors, omissions or misstatements however caused. In the event that updated or additional information is issued by the "Participants", subsequent to this publication, IIR is under no obligation to provide further research unless commissioned to do so. Any opinions, forecasts or recommendations reflects the judgment and assumptions of IIR as at the date of publication and may change without notice. IIR and each Participant in the Report, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither IIR nor the Participants are aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. This document does not constitute an offer of services in jurisdictions where IIR or its affiliates do not have the necessary licenses. IIR and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. IIR and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

IIR, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. IIR discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may affect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any).

However, under no circumstances has IIR been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report. The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.independentresearch.com.au/Public/Disclaimer.aspx>.

### THIS IS A COMMISSIONED RESEARCH REPORT.

The research process includes the following protocols to ensure independence is maintained at all times:

- 1) The research process has complete editorial independence from the company and this included in the contract with the company;
- 2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
- 3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
- 4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
- 5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

For more information regarding our services please refer to our website [www.independentresearch.com.au](http://www.independentresearch.com.au).

# Contents

1. Offer Overview .....	1
2. Investment View .....	1
3. Recommendation.....	1
4. SWOT.....	2
5. Structure .....	3
6. Management & Corporate Governance .....	4
7. Investment Process.....	5
8. Portfolio.....	8
9. Performance Analytics .....	9
Appendix A - Portfolio.....	12
Appendix B – Ratings Process .....	14
Appendix C – Managed Investments Coverage .....	15

**Note:** This report is based on information provided by Bailador Investment Management Pty Ltd as at September 2015



Key Investment Information	
ASX Code	BTI
Options Code	BTIO
Share Price (\$) as at 6 November 2015	0.97
Shares on Issue (M)	62.5
Options on Issue (M)	62.5
Market Cap (\$M)	60.6
Shares Traded (\$) year-rolling	6.5
12-month L/H (\$)	0.76/1.025
Listing Date	November 2014
<b>Fees:</b>	
Management Fee (p.a) ex-GST	1.75%
Performance Fee ex-GST*	17.5%

\*Performance fee is subject to an 8% compound annual increase in the NAV of the company.

**Fee Commentary**

The annual management fee is around the average of the peer group with the performance fees on the high side compared to it peers.

Key Exposure	
Underlying Exposure	Portfolio of private companies operating in the technology sector.
FX Exposure	The company invests in businesses founded in Australian and New Zealand, however they are seeking to grow operations internationally. As such, foreign exchange may impact the revenues and costs associated with the underlying investments.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

## 1. OFFER OVERVIEW

### PRODUCT SUMMARY

Bailador Technology Investments Limited (ASX: BTI) is a listed investment company that provides exposure to a portfolio of unlisted internet related businesses founded in Australia and New Zealand. The company invests in private companies that are in the expansion stage, with a demonstrated revenue and customer base. The company is prohibited from investing in start up companies and biotech companies. The company raised \$25m when it listed in November 2014. The company issued 25m fully paid ordinary shares at \$1.00 per share, each of which had an attaching option, which have been listed (BTIO). The options have an exercise price of \$1.00 and can be exercised on or before 31 March 2016. Bailador Investment Management Pty Ltd has been appointed as the Investment Manager of the portfolio. At the time of listing, BTI acquired three investments from the Bailador Fund and the Bailador Top Up Fund for 37.5m BTI fully paid ordinary shares as consideration. The Manager will be paid an annual management fee of 1.75% and a performance fee of 17.5% of the increase in the net asset value of the company, subject to the net asset value of the company increasing by 8% per annum. It's important to note that performance fees will only be paid on the receipt of cash from the exit from investments and not on unrealised gains. However, if there is not enough cash to pay the accrued performance fees when an investment is realised, the performance fees will accrue until there is sufficient cash available.

## 2. INVESTMENT VIEW

### INVESTOR SUITABILITY

An investment in the company is suitable for those investors seeking to diversify their portfolio to include exposure to unlisted investments in the technology sector. Investors should have a long-term investment horizon to realise the full potential of the underlying investments. The company is not expected to pay a regular distribution, with distributions only to be made when an investment is realised. As such, investors should not be seeking a regular income from an investment in the company. Investors should also be comfortable with the limited liquidity and transparency of the underlying investments.

## 3. RECOMMENDATION

Independent Investment Research (IIR) has assigned Bailador Technology Investments Limited (ASX: BTI) a **Recommended Plus** rating. An investment in BTI offers investors a unique opportunity of gaining access to a portfolio of private companies in the technology sector with ASX liquidity. BTI is the only LIC on the ASX that offers access to a portfolio of direct investments in private companies. The Investment Manager comprises two highly experienced people in the technology and investment industry. The capital structure of investments seeks to provide downside risk protection for investments in addition to the contractual rights negotiated with businesses. The Manager is able to negotiate these contractual rights given the desire for businesses to have the Manager personnel involved with the expansion of the business. While an investment in BTI offers access to investments not readily available to retail investors, there are some drawbacks. There is limited transparency associated with the financials of the underlying investments and as such we are reliant on the Manager providing the correct valuation information. We note valuations are verified by an independent valuer and auditor on an annual basis. While three of the investments had previously been held by Bailador funds, the portfolio is still largely in its infancy with four of the seven investments only made in 2015. The success of investments will not be known until an investment is exited. Fees are high as with all private equity funds, however, we approve of the performance fee requirement of only being paid when investment/s are realised. However, we note that in the event there is insufficient cash to pay the accrued performance fees when an investment is realised, the cash will be paid to the Manager and the remaining amount will accrue until there is sufficient cash. This may mean that shareholders do not receive any dividends until other investments are realised.

## 4. SWOT

### STRENGTHS

- ◆ The Investment Manager comprises highly experienced personnel with the key personnel having experience in both the investment and operational aspects of business.
- ◆ The company seeks to take seniority in the form of convertible preference shares as the capital structure for an investment. The company has been able to achieve this structure in the majority of investments. This capital structure provides some downside risk protection to investments.
- ◆ The Manager will only be paid performance fees when cash is realised from the exit of investments and not on unrealised gains.
- ◆ The Manager negotiates contractual rights to reduce the risk of an investment, including mandatory board representation by one or more of the members of the Manager to ensure they are involved in all important decisions.
- ◆ The largest investment in the portfolio (SiteMinder) was revalued at 3.7x the initial investment by the Bailador Fund and Bailador Top Up Fund for the acquisition by BTI, based on the value of a sizable investment from a third party. Since being acquired by BTI, the valuation has increased a further 33% as a result of a further sizable investment from a third party. This revaluation validates the investment selection.
- ◆ The Manager owns 9.1% of the ordinary shares on issue at 2 October 2015. This coupled with the performance fee aligns the interest of the Manager with shareholders.

### WEAKNESSES

- ◆ As with an investment in all private equity funds, there is limited transparency with respect to the financial performance of the underlying investments. While the company seeks to be as transparent as possible with respect to the businesses invested in, shareholders are not privy to the financial disclosure that is required for listed companies.
- ◆ The underlying investments have low liquidity and as such the Manager may not be able to exit an investment in a timely manner in the event the investment is not performing to expectations.

### OPPORTUNITIES

- ◆ BTI offers investors the opportunity to gain access to unlisted investments in the technology sector that are not ordinarily available to retail investors.
- ◆ The company may trade at a discount to NTA, enabling investors to get access to the portfolio for less than it is worth.
- ◆ BTI is the only LIC on the ASX that invests directly in a portfolio of private companies.

### THREATS

- ◆ The Manager has a small team with four members in the investment team, two of which have joined the team in 2015. Therefore key man risk is high.
- ◆ In the event the options are not exercised, the company may seek to raise additional capital. This may result in existing shareholder positions being diluted.
- ◆ The performance of the portfolio is heavily dependent on the ability of the Investment Manager to make sound investment decisions. Given there is no Board approval required for investments, the investment selection is left to the to members of the Investment Manager.
- ◆ The Manager may not get the capital or contractual protections it seeks with future investments, which may increase the risk associated with an investment.
- ◆ The Manager will be determining the monthly company valuations. While an independent valuer will review the value of investments on an annual basis, there is the risk that the Manager will overvalue investments throughout the year, which would have ramifications for fees.

## 5. STRUCTURE

### PRODUCT OVERVIEW

Bailador Technology Investments Limited (ASX: BTI) is a listed investment company that provides exposure to a portfolio of unlisted internet related businesses founded in Australia and New Zealand. The company invests in private companies that are in the expansion stage, with a demonstrated revenue and customer base. The company raised \$25m as part of the IPO in November 2014, through the issue of 25m fully paid ordinary shares at \$1.00. Shares were accompanied with an attaching option with an exercise price of \$1.00 and which can be exercised on or before 31 March 2016. The options are listed under the code BTIO.

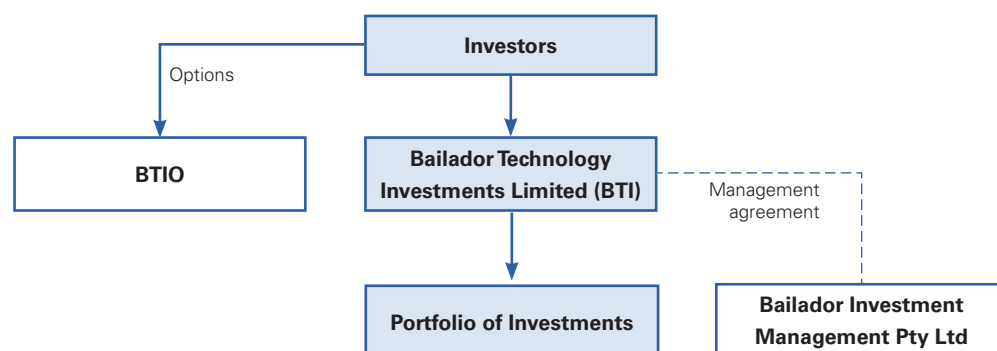
Balidor Investment Management Pty Ltd has been appointed as the Investment Manager of the portfolio. The Management Agreement is for an initial ten year period with the agreement automatically extended upon maturity unless terminated. The company acquired three investments (SiteMinder, Viocorp and Standard Media Index) from the Bailador Fund and the Bailador Top Up Fund for 37.5m shares, which equates to \$37.5m at \$1.00 per share. These investments were acquired to kick start the portfolio. See Section 8 below for further details regarding the portfolio.

The Investment Manager has a mandate to invest in unlisted internet related businesses with an enterprise value of between \$10m and \$200m. The company can not invest in start up businesses or bio-tech companies. The Investment Manager will be seeking to invest in businesses that have no long-term debt obligations and are looking for capital to grow the existing business. The company has a diligent investment process with the company selecting only seven investments out of ~400 companies reviewed. The Investment Manager will only invest in companies that have a proven recurring revenue stream.

The company currently has seven investments in the portfolio, with the portfolio largely invested. The company has stated it does not intend to raise additional capital until after the options on issue have expired (31 March 2016). The options are currently not in the money, however if the share price increases above \$1.00 before the exercise date, the company has the potential to raise \$62.5m to expand the portfolio.

The Investment Manager will be paid an annual management fee of 1.75% of the NAV of the company and is eligible for a performance fee of 17.5% of the increase in the value of the portfolio. The accrued performance fee will only be paid upon the realisation of investments and is subject to the NAV of the company achieving a compound annual growth rate of 8%. While the payment of the performance fee is subject to the hurdle rate, the performance fee applies to the whole increase in NAV and not just the increase above the 8%p.a hurdle rate. The performance fee applies to the whole portfolio. In the event there is insufficient cash realised from an investment to pay the performance fee, the fee will accrue until further investments are realised to make the payment.

### INVESTMENT STRUCTURE



<b>Product Leverage</b>	
Used:	The Manager does not intend to utilise gearing in the portfolio, however they can do so if they choose.
Cost (incl. Fees):	na
Recourse:	na
<b>Capital Protection</b>	na
<b>Tax</b>	
Disclaimer:	<b><i>Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Independent Investment Research's expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.</i></b>
Capital gains:	A capital gains tax (CGT) event will likely occur in the event the investor sells the company on market for a higher price than it was purchased for. Investors will likely be eligible for the CGT discount if the shares are held for more than 12 months.
Distributions:	Distributions will likely be on income account in the year earned.
<b>Legal Structure</b>	
Wrapper:	Listed Investment Company
Investment Manager:	Bailador Investment Management Pty Ltd
Capital vs. Income:	Returns will likely primarily be capital growth with capital returned to shareholders as investments as exited, after accrued fees are paid to the Manager.
<b>Investor Leverage</b>	
Available:	No
<b>Risks</b>	<b><i>The below is not a full list of all risks associated with the company but highlights what IIR considers to be the larger risks associated with the company. A detailed risk assessment can be obtained from the Prospectus.</i></b>
Lack of Transparency:	Given the company invests in private companies, there is limited transparency with respect to the financials of the underlying investments. They are not required to publicly release their financial statements.
Portfolio Liquidity Risk:	The underlying investments have limited liquidity and as such the company may not be able to exit investments in a timely manner.
Share Liquidity:	BTI ordinary shares on issue may have limited liquidity with 15m shares issued as compensation for the investments in the Bailador Funds in escrow. 11m of these shares will be out of escrow in November 2015, which the remaining 4m shares will remain in escrow until November 2016.
Key Man Risk:	The investment team is small with four members and no requirement for Board sign-off for investment acquisitions and exits. We note that two of the team members have only joined in 2015 and as such are still learning about the portfolio and its investments. Given the investment team are heavily involved with the investments, sitting on the boards of all investments, the departure of one of the team members will be detrimental to the Manager and the company, particularly if one of the two Partners were to depart.
Discount to NTA:	The company may trade a discount to NTA. This may result in shareholders having to exit for less than the portfolio value if the discount is not eradicated. However, this also provides the opportunity to acquire shares in the company for less than the portfolio value.

## 6. MANAGEMENT & CORPORATE GOVERNANCE

### BTI BOARD

The BTI Board has five members, with 60% of the Board independent from the company. All Board members have significant experience in business with all Board members holding senior management positions throughout their careers.

Board		
Name	Role	Experience
David Kirk	Executive Chairman	See below
Paul Wilson	Executive Director	See below
Andrew Bullock	Independent Director	Mr. Bullock is a partner at Gilbert and Tobin, an Australian law firm. Mr. Bullock specialises in mergers and acquisitions, fundraisings and strategic joint ventures and media sectors.
Sankar Narayan	Independent Director	Mr. Narayan is currently the CFO of Xero Limited. Mr Narayan has held senior management roles at a number of companies including CFO at Virgin Australia, Fairfax Media and Foxtel.
Heith Mackay-Cruise	Independent Director	Mr. Mackay-Cruise is a former CEO of Sterling Early Education, Study Group and ACP Media NZ. Mr. Mackay-Cruise has also held senior management roles at Australian Consolidated Press, Pepsi Cola Bottlers Australia and Fitro-Lay Australia. Mr. Mackay-Cruise is currently the Chairman of Hi-Pages Group.

## INVESTMENT MANAGER

The company has appointed Bailador Investment Management Pty Ltd as the Investment Manager for the portfolio. The Manager was founded in 2010. The Manager established two funds, the Bailador Fund and the Bailador Top Up Fund, which were largely acquired by BTI. Through these funds, the Manager made three investments totalling \$17.6m. The Manager has not exited any of the businesses it has invested in to date, although two of the three investments in the aforementioned funds were revalued upwards for the BTI acquisition.

The Manager has four members of the investment team, detailed below. Mr. Kirk and Mr. Wilson are co-founders of the Manager and have significant experience in business and the investment industry. These two members of the Manager hold 5.6m ordinary shares in BTI between them, representing 9% of the total ordinary shares on issue at 2 October 2015.

Ms. Kowalski joined the Manager in early 2015 with Mr. Johnstone being the newest member, joining the team in October 2015.

### Management Agreement

The Management Agreement is for an initial ten year period with the agreement automatically extended upon maturity unless terminated.

Investment Team		
Name	Role	Experience
David Kirk	Co-founder & Managing Partner	Mr. Kirk was the former CEO of Fairfax Media Limited, an ASX-listed media company. Through his tenure at Fairfax, he led the acquisitions of the internet related businesses, TradeMe and Stayz. Mr. Kirk is currently a director on the boards of TradeMe, Kathmandu Holdings Limited, Forsyth Barr Limited, SiteMinder, SMI, Viocorp and Rezdy.
Paul Wilson	Co-founder & Partner	Mr. Wilson has extensive private equity investment experience, formerly a director of CHAMP Private Equity. Mr. Wilson is currently a director on the on the boards of SiteMinder, VioCorp International, iPro Holdings, Straker Translations, Stackla, Yellow Pages (New Zealand), the Rajasthan Royals IPL cricket franchise, and Vita Group Limited.
Andrea Kowalski	Investment Director	Ms. Kowalski has 9 years experience in private equity and investment banking, working primarily with companies in the media, technology and engineering sectors. Prior to joining the Manager, Ms. Kowalski was a Principal at Boost & Co, a pan-European venture capital fund with assets under management of EUR\$200m. Boost & Co is focused on providing expansion capital to businesses in the technology sector.
James Johnstone	Investment Director	Mr. Johnstone has 14 years experience in strategy consulting, corporate development and building an online marketplace business. Mr. Johnstone has managed the corporate and product development programs for various Virgin Travel and Financial Services businesses and worked as a strategy consultant across a diverse range of Industries, both in Australia and the UK. Prior to joining the Manager, Mr. Johnstone was a founding Director of Mozo, an online marketplace business. Mozo grew to a team of 25 and has won multiple Deloitte Fast 50 and BRW Fast Starter Awards.

## 7. INVESTMENT PROCESS

### INVESTMENT OBJECTIVE

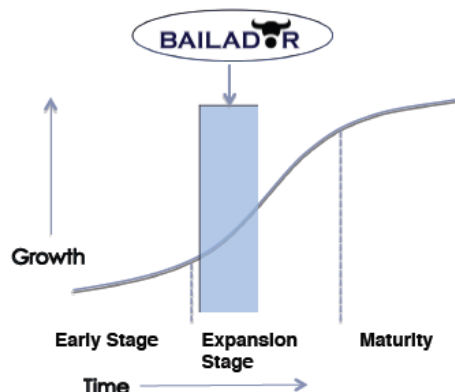
The company seeks to invest in unlisted internet related businesses that are seeking capital to expand the business. The company will focus on businesses founded in Australia and New Zealand but have a global addressable market. The company seeks to be actively involved with the expansion of the business through obtaining positions on the Board of investments and obtaining veto rights on important decisions.

### INVESTMENT PROCESS

- ◆ The Investment Manager sources investment prospects through its many formal and informal networks. Since establishing Bailador Investment Management Pty Ltd in 2010, the Manager has looked at over 400 deal leads, through which it has selected the current portfolio.



- ◆ The Manager is looking to invest in internet related businesses that require capital to expand the current business. The Manager has a focus on businesses in the expansion stage as they believe the risk of the business is reduced as the product has been launched and is generating revenue.



- ◆ The Manager has some key investment criteria that an investment opportunity must meet:
  - 1) Proven technology;
  - 2) Proven management;
  - 3) Proven business model;
  - 4) Repeating revenue;
  - 5) Globally competitive technology;
  - 6) Highly profitable unit economics;
  - 7) Large global addressable market;
  - 8) Rapid growth potential; and
  - 9) Potential to generate a sufficient return on investment.
- ◆ The Manager takes time to understand the business, the product, the market and the management before making an investment.
- ◆ The Manager seeks to take a minority interest in investments. While all investments currently have a minority position, we note that the investment is still a sizable portion of equity in some investments.
- ◆ The Manager focuses on businesses that have either a subscription or marketplace revenue models. The subscription revenue model refers to a business selling their product via subscriptions, which results in recurring annual revenue if customers are maintained. Marketplace revenue model refers to businesses charging fees to participants in a marketplace. Revenue is dependent on the number of participants on the platform.

### Investment Limitations

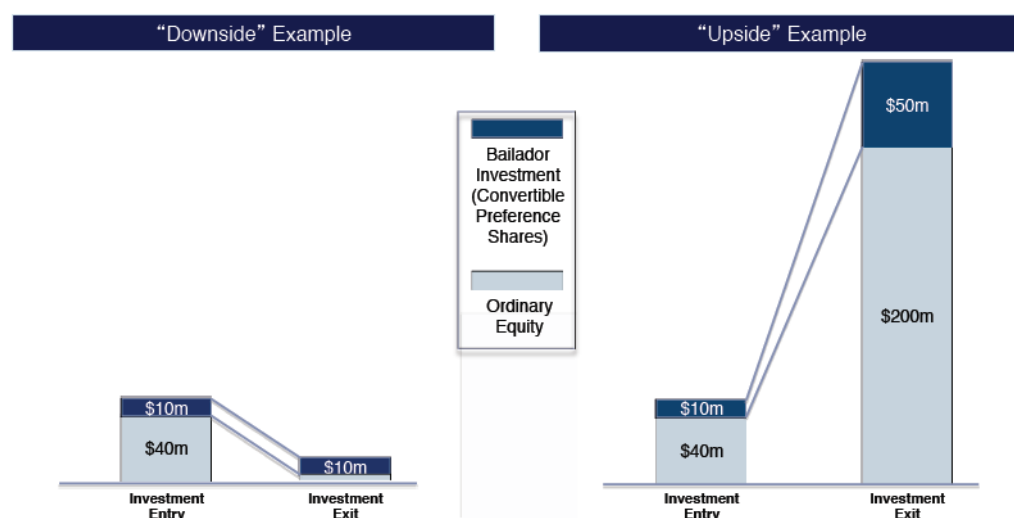
There are investment limitations with respect to future investments by the Manager for BTI. These include:

- ◆ The initial investment in a business cannot exceed 40% of the portfolio.
- ◆ The company may invest up to 15% of the portfolio in publicly listed technology companies and IPO's, excluding any investments in companies in the portfolio that have exited via IPO and which the company has retained an interest.
- ◆ The company cannot invest in start-up businesses.
- ◆ The company cannot invest in biotechnology businesses.
- ◆ The Manager can make follow-on investments in subsequent fund-raising rounds of businesses in the portfolio when further investment is assessed to be value creating for shareholders.
- ◆ The company can invest in a range of securities including but not limited to, convertible preference shares, convertible notes, preference shares, ordinary equity, warrants and debt-like instruments, with or without conversion rights.

## Capital Structure

- ◆ The Manager seeks to invest in a business through a Convertible Preference Shares structure. This gives BTI seniority in the capital structure given the Manager looks to invest in debt free businesses. The company can invest in a range of securities with or without conversion rights, however preference shares are the Manager's preferred structure.
- ◆ The Convertible Preference Share structure means BTI gets priority with respect to payment upon sale of a business. This structure provides some downside risk protection to investments.
- ◆ The below graphic provides a visual for the equity structure. As long as the business is sold for more than BTI's investment, BTI will receive its investment back in full and has the opportunity to participate in the upside potential if the business is sold for more than the initial investment. The structure means the only time BTI will not recover its investment is if the business is sold for less than the initial investment, or the business takes on debt in which case the lenders will likely have seniority.

Equity Structure Example



## RISK MANAGEMENT

The company manages the risk of investments through the capital structure (as detailed above), contractual protections and involvement in the management of the company. The contractual protections the Manager seeks with respect to an investment are detailed below.

### Contractual Protections

Investments are typically made with contractual rights that reduce the downside risk of the investment. These contractual protections typically include:

- ◆ **Mandatory Board Representation** - one or more of the members of the Investment Manager will be a representative on the Board after the investment to ensure they are privy to all information regarding the company and its performance. This also ensures they get a say on the company direction.
- ◆ **Control of Capital Structure** - the Manager typically must approve all new debt and equity issuance and has pre-emptive rights to invest over external parties. This ensures that the position is not diluted without the Manager agreeing to the issuance.
- ◆ **Veto Rights** - the Manager typically has the right to veto any important decisions that it does not see as value accretive.
- ◆ **Business Sale** - the Manager typically has the right to accelerate the sale of the business subject to time or performance hurdles.
- ◆ **The Right to Change Management** - the Manager will seek to appoint new management if the current management is underperforming or not able to deliver on growth expectations.

## 8. PORTFOLIO

- ◆ At 30 September 2015, the portfolio comprised six investments and was largely invested with 10.2% cash. The company acquired the positions in SiteMinder, VioCorp and Standard Media Index (SMI) at IPO. The remaining investments have been acquired post listing.
- ◆ SiteMinder is the largest investment, accounting for 37% of the portfolio. The Bailador Funds invested \$5.6m in SiteMinder in April 2012 in return for the issue of Series A Convertible Preference Shares. At the time of the IPO, the Bailador investment in SiteMinder was valued at \$18.8m, which is the price at which the investment was acquired by BTI. The increase in value was based on the investment by a third party in December 2013. We note since listing in November 2014, the investment has been revised upward further to \$25m at 30 September 2015, matching a further material third party investment.
- ◆ VioCorp is the second largest holding in the portfolio and has also been revalued upwards since the company listed. The valuation uplift includes the additional \$3m investment made in December 2014 plus the interest accrued on the Convertible Preference Shares and Convertible Notes.
- ◆ During October 2015, the Manager made a \$2.5m investment in Convertible Preference Shares in Rezdy, who have developed online booking software for tour and activity providers. We note we have not included this investment in the below table.
- ◆ The company is largely invested, with \$4.5m cash post the Rezdy investment. The company may make one or two more small investments, however given there is no income from the investments at this point in time, we expect the company hold some cash to pay expenses until additional cash is raised or investments are exited.
- ◆ We expect significant uplifts in valuations to occur only at half-year and year end, with valuation uplifts in between largely a result of accrued interest on capital invested.

Portfolio as at 30 September 2015				
Company	Industry	Invested Capital (\$m)	Current Value (\$m)	Portfolio Weighting
SiteMinder	Travel Technology	18.8	25.0	36.7%
VioCorp	Media Advertising	16.4	19.3	28.3%
Standard Media Index (SMI)	Video Communications Platform	5.5	5.5	8.1%
iPro Solutions	Compliance & Certification	5.5	6.0	8.7%
Straker Translations	Translation Services	3.6	3.7	5.4%
Stackla	Social Media	2.5	2.5	3.7%
		<b>46.8</b>	<b>62.0</b>	<b>90.9%</b>
Cash	-	-	7.0	10.2%
Other	-	-	-0.8	-1.2%
			<b>68.2</b>	<b>100%</b>

- ◆ The company has a Convertible Preference Share, Convertible Notes capital structure or contractual liquidity preference in all investments.

Investment Structure		
Company	Investment Structure	Equity Interest in Company
SiteMinder	Convertible Preference Shares	11.6%
VioCorp	Convertible Preference Shares & Convertible Loan Notes	57.0%
Standard Media Index (SMI)	Ordinary Shares	7.7%
iPro Solutions	Convertible Preference Shares & Ordinary Shares	45.3%
Straker Translations	Convertible Preference Shares	15.0%
Stackla	Convertible Note	Not Released
Rezdy	Convertible Preference Share	Not Released

## 9. PERFORMANCE ANALYTICS

### SUMMARY OF ANALYTICAL RESULTS

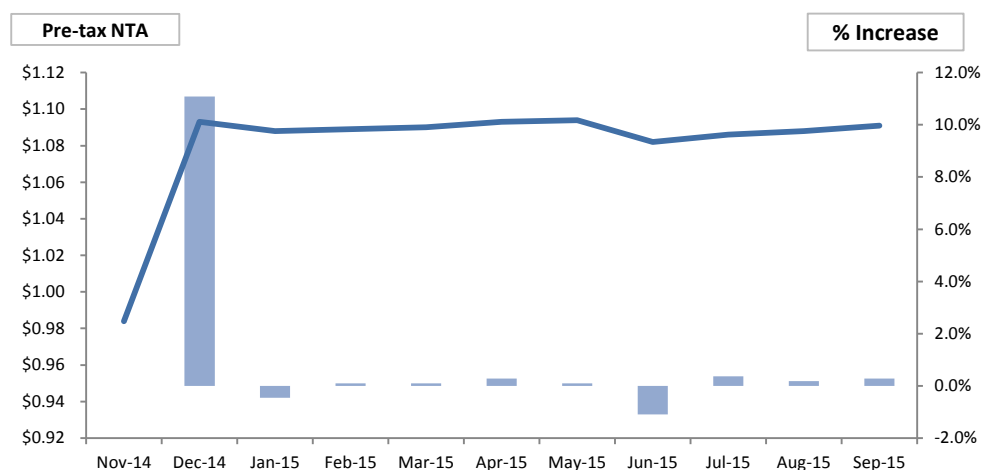
The company was only listed in November 2014 and so has limited performance history. The key findings include:

- ◆ The portfolio is still largely in its infancy with four of the seven investments made in 2015. As such there has been limited movement in the pre-tax NTA over the company's short trading history.
- ◆ The pre-trax NTA of the portfolio has increased 10.9% since listing to 30 September 2015. We expect the underlying investments to be revalued on a semi-annual or annual basis with minimal movement in between, unless there is an injection of capital from other parties.
- ◆ The investment in SiteMinder has been the strongest performer to date, with a 33% uplift in value since being acquired by the company in November 2014.
- ◆ BTI has traded at an average discount to pre-tax NTA of 21.5%. In the event an investment is sold for an amount greater than the value assigned to it, we would expect this to be a catalyst to narrow the discount or even for the company to trade at a premium.
- ◆ When compared to its peers, the BTI portfolio (pre-tax) has performed in the middle of the peer group. We note the performance of USF and USG to date is largely driven by the weakening Australian dollar, with the committed capital of their portfolios only half invested.
- ◆ BTI is not directly comparable to the other listed private equity companies and trusts, with BTI the only company that offers direct investment in private investments. The other three LICs and LITs, invest in a portfolio of private equity funds which in turn invest in private investments.

### PERFORMANCE HISTORY

- ◆ The company has invested in seven businesses to date, of which four investments were made in 2015. The other three investments were acquired from the two Bailador Funds when the company listed. As such, there has been little movement in the company's pre-tax NTA over its short trading history, as highlighted by the below graphic.
- ◆ We expect the Manager to only revise the valuation on a semi-annual and/or annual basis, post the release of the financial results of the underlying businesses. The Manager may also revise the valuation of an investment in the event there is an investment from an external party, as was the case with the uplift in value for SiteMinder. Until such a point the Manager will only be adding the accrued interest from the securities held to the relevant underlying investment values.
- ◆ The Manager will determine the monthly value of the underlying investments, which will be ratified by an independent valuer on an annual basis. The Manager has stipulated they intend to derive valuations on a conservative basis, however the independent valuer may not agree with the value assigned by the Manager.

#### BTI Portfolio Performance (30 November 2014 to 30 September 2015)



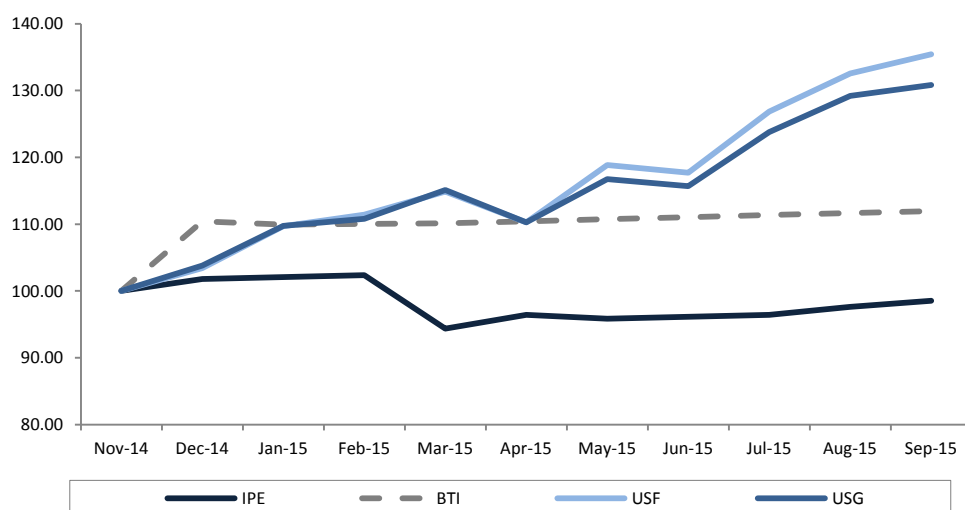
### PEER COMPARISON

- ◆ There are currently three other listed vehicles that provide access to a portfolio of private equity investments: (1) US Select Private Opportunities Fund; (2) US Select Private Opportunities Fund II; and (3) IPE Limited. A fourth LIC, Continuation Investments Limited (COT) also invests in private companies, however they are currently undertaking a review of their investment strategy and therefore we have not included COT in the peer group due to the uncertainty about the investment strategy moving forward. We note, BTI is the LIC/LIT that invests specifically in the technology sector, the other LICs/LITs have exposure to a range of sectors.
- ◆ BTI invests directly in private companies, while USF, USG and IPE have a fund of fund investment strategy. As such BTI investors do not incur the additional layer of fees that is inherent in fund of fund portfolios.
- ◆ The below table compares some of the key aspects of the peer group. BTI has the most concentrated portfolio with seven investments. The number of investments for the other LICs refers to the number of private equity funds invested in. The actual number of underlying investments is significantly greater than the number of investments indicated below.

Fund	ASX Code	Management Fee (%p.a)	Performance Fee (%)	Number of Investments in Portfolio
US Select Private Opportunities Fund	USF	2.33%	nil	9
US Select Private Opportunities Fund II	USG	2.36%	nil	12
IPE Limited	IPE	1.0%	10% of the outperformance of the S&P/ASX 300 Acc Index plus 3%	16
<b>Bailador Technology Investments Limited</b>	<b>BTI</b>	<b>1.75%</b>	<b>17.5% of the annual increase in portfolio value, subject to a compound annual return of 8%.</b>	<b>7</b>

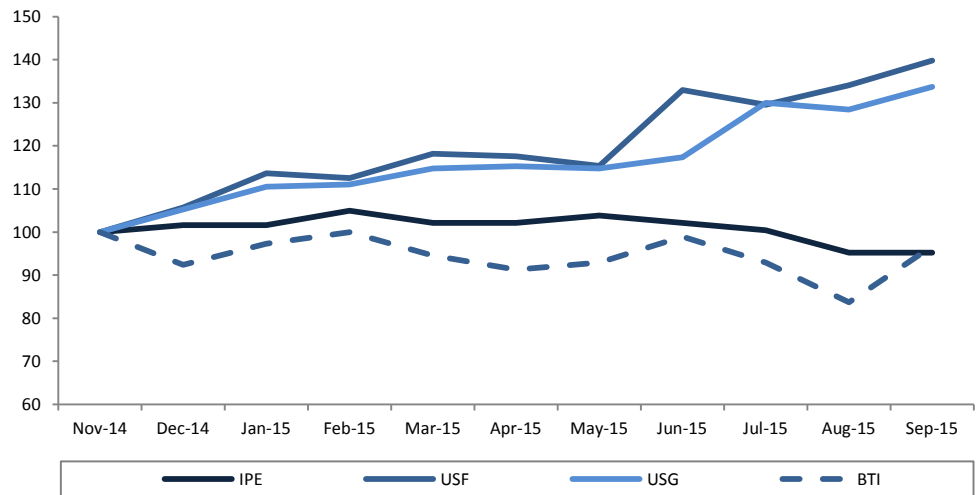
- ◆ The performance of the portfolios (pre-tax NTA) of the peer group is shown in the below graphic from the inception of BTI (30 November 2014) to 30 September 2015.
- ◆ Over the short trading history of BTI, the portfolio has outperformed IPE's portfolio, however has underperformed USF and USG's portfolios. We note that USF and USG invest in US private equity funds and therefore the weakening Australian dollar has had a positive impact on the value of the portfolio.

Peer Group Portfolio Performance (30 November 2014 to 30 September 2015)



- ◆ From a share price perspective, BTI has lagged the other LICs & LITs, although marginally surpassed IPE during September 2015. At 30 September 2015, BTI was trading at the largest discount to pre-tax NTA at 23.1%. BTI has traded at an average discount to pre-tax NTA of 21.5%.

Peer Group Share Price Performance (30 November 2014 to 30 September 2015)



## APPENDIX A - PORTFOLIO

The below provides an outline of the operations of the underlying investments. Detailed information can be obtained from the company's website [www.bailador.com.au](http://www.bailador.com.au).

**SiteMinder** - SiteMinder is the world leader in hotel solutions for online accommodation bookings, with a presence in more than 160 countries. SiteMinder's products include The Channel Manager, the industry's leading online distribution platform; TheBookingButton, a wholly-branded booking engine for direct bookings via the web, mobile or social; and GDS by SiteMinder, a single-point of entry to a six-figure network of travel agents and the world's major GDSs.

Channel management involves connecting hotels directly with distributors of hotel rooms, including travel agents, online travel agents and travel wholesalers, allowing real-time exchange of room pricing and room availability data. SiteMinder's channel manager platform provides an efficient 'clearing house', matching hotel room availability across all channels simultaneously. This streamlines and reduces the cost of inventory management for hotels, compared to the largely manual and expensive inventory management practices currently employed by much of the industry. SiteMinder has also developed market leading ancillary solutions for hotel room sales efficiency, with solutions for independents and groups alike.

**VioCorp** - Viocorp is a leading video platform provider for publishing and broadcasting video and audio content through the web, IPTV and mobile services. Viocorp's solutions give companies the tools to use video to reach, engage and convert viewers across web, email, social and mobile. The company has developed a suite of software products for this purpose that is stored and accessed from the cloud.

Viocorp connects content and viewers through a core software engine, Viostream, which delivers the ingesting and broadcasting functionality. Viomedia combines Viostream with a fully-integrated content management system and Vioad adds a platform for serving and managing multimedia advertising with comprehensive reporting, campaign management and sales tools. Viocast is an additional product that allows clients to broadcast live or on-demand video and audio content over the web with pre-recorded or real time synchronised slides and integrated interactivity options. Viocorp sells products and services to two major customer segments: corporate/government and media enterprises.

**Standard Media Index (SMI)** - SMI has established a unique, independent, source of advertising expenditure data. SMI is the exclusive aggregator of advertising booking data for all major media buying agencies in Australia. SMI harmonises, analyses and publishes the data, providing accurate and timely advertising spend information by media product (magazines, TV channels, websites, radio stations etc), media company and advertising category (retail, FMCG, banking and finance etc)

**iPro** - iPro provides real time legislative compliance verification. The system allows client-specific pre-requisites to be set covering vendor employee engagement, pre-qualification, compliance, online induction, site access, tendering and contract management. iPRO Live simplifies the management of compliance verification by locating it in an online central repository and greatly improves the effectiveness of verification through real time connection to several hundred external data sources. Non-compliance is identified immediately at any point prior to or during vendor engagement with the client.

iPRO provides its product offering through a Software-as-a-Service ("SaaS") model. The end beneficiary is the client, who is a large corporate or government organization with many vendors. The service provided is the maintenance of qualification information for the client's vendors.

**Straker Translations** - Straker provides translation services to customers ranging from SMBs (small- medium-businesses) through to large enterprises. It has more than 10,000 customers in over 20 countries, and generates more than 80% of its revenue outside of Australia and New Zealand. The business has a very strong repeat customer base.

Straker is headquartered in Auckland, New Zealand, with 50 global FTEs, sales offices in the US & Canada, Australia, Singapore, the UK, Ireland and Germany, and major production centers in Spain (Barcelona) and Auckland. Straker is the market leader in New Zealand and Australia, and ranks among the Top 100 language service providers globally (out of a total 27,000 vendors worldwide).

**Stakla** - Stackla aggregates UGC from sites such as Facebook, Twitter, Instagram, YouTube, and Wordpress. It provides marketing teams with an exceptional UI to curate and design, through manual or automated moderation tools, how their UGC is displayed throughout their website, and how this content is integrated with other parts of the marketing tech stack (e.g. CMS, CRM, email, social media management). Stackla provides tools for UGC to be categorised (e.g. grouped by themes, products, regions, events) and intelligently tagged and filtered.

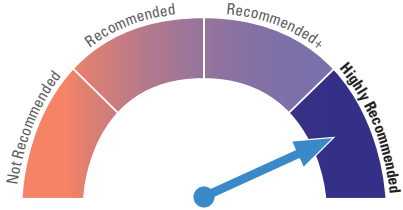
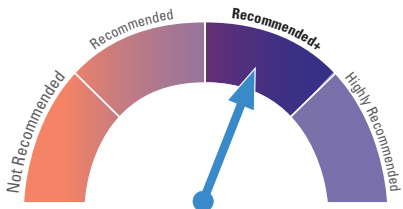
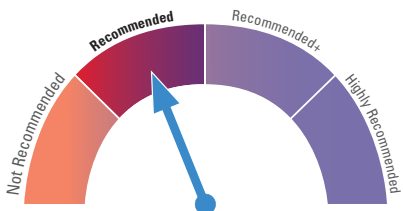
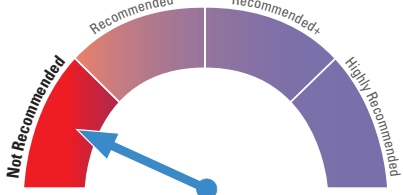
**Rezdy** - Rezdy is an online software package for Tours and Activity (TAA) providers and a Business to Business (B2B) marketplace aggregating tours and activities that are made available to resellers, such as travel agents, concierge desks, OTA's and reservation engines. The Rezdy platform simplifies back-end operations for customers with inventory, scheduling and reservation engines. It also provides marketing tools to sell TAA products online and distributes these products with integrated agents such as Viator, Redballoon, Ctrip, City Discovery and so on, as well as 1,000 independent travel agents and hotel concierges.



## APPENDIX B – RATINGS PROCESS

### INDEPENDENT INVESTMENT RESEARCH PTY LTD “IIR” RATING SYSTEM.

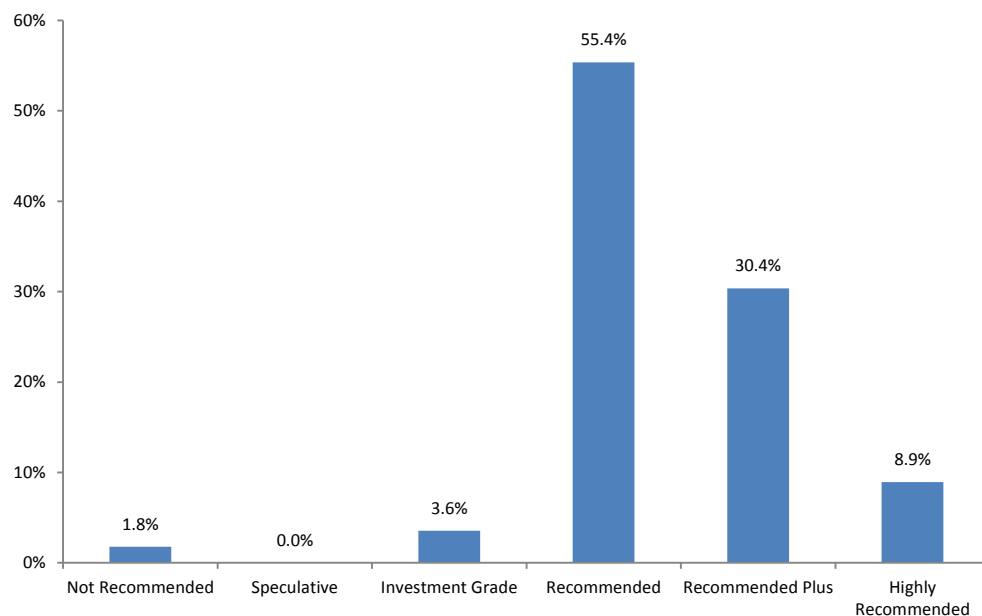
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p><b>Highly Recommended</b></p> 	<p><b>83 and above</b></p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p><b>Recommended +</b></p> 	<p><b>79–82</b></p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p><b>Recommended</b></p> 	<p><b>60–78</b></p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p><b>Not Recommended</b></p> 	<p><b>&lt;60</b></p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>

## APPENDIX C – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

### Spread of Managed Investment Ratings



# DISCLAIMER

## (a) Disclaimer

The information, reports, financial models, forecasts, strategies, audio broadcasts and other media (referred to as "Content" throughout this Legal Notice), provided on this web site has been prepared and issued by Altavista Research Pty Ltd trading as Independent Investment Research "IIR," Independent Investment Research Holdings Pty Ltd (ACN 155 226 074), as authorised to publish research under an Australian Financial Securities Licence (AFSL No 420170) which allows Independent Investment Research to offer financial service advice to retail and wholesale clients. Users of this web site should not act on any Content without first seeking professional advice. Whilst the Content contained on this web site has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by Independent Investment Research, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. Content on this web site is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. We are not aware that any user intends to rely on the Content provided or of the manner in which a user intends to use it. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Access by any user to this website does not create a client relationship between Independent Investment Research and the user. Users seeking to invest must obtain individual financial advice to determine whether recommendations are appropriate to their investment objectives, personal financial situation or particular needs, before acting on any recommendations. Any Content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of Independent Investment Research.

## (b) Disclosure of Interest

### General

Independent Investment Research, its officers, employees, consultants and its related bodies corporate have not and will not receive, whether directly or indirectly: any commission; fee; benefit; or advantage, whether pecuniary or otherwise, in connection with making any recommendation contained on this web site. Independent Investment Research, discloses that from time to time, it or its officers, employees and its related bodies corporate: may have an interest in the securities, directly or indirectly, which are the subject of these recommendations; may buy or sell securities in the companies mentioned in the Content; may effect transactions which may not be consistent with the recommendations in the Content; may have directorships in the companies mentioned in the Content; and/or perform paid services for the companies that are the subject of such recommendations.

However, under no circumstances, has Independent Investment Research been influenced, either directly or indirectly, in making any recommendations contained on this web site.

### Corporate Research

Independent Investment Research has or may have, received a fee either directly by a company itself or by a third party, to provide coverage and/or corporate research (the "Fee"). Where a Fee has been received, Independent Investment Research does not publish:

Buy / Hold / Sell recommendations for the security or managed investment schemes.

## (c) Copyright Protection

All Content at this web site is protected by copyright. Apart from any use permitted under the Copyright Act (Cth) 1968, you must not copy, frame, modify, transmit or distribute the material at this web site, without seeking the prior written consent of the copyright owner. Content on this web site is owned by the business Independent Investment Research. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes

Copyright 2010 Independent Investment Research. All rights reserved.

## (d) Trade Marks

The trade marks and logos displayed on this web site belong to Independent Investment Research or other parties. Such trade marks include registered trade marks and trade marks pending registration. Users are prohibited from using any of these trade marks, without seeking the prior written consent of IIR or such third party, which may own the trade mark content on this web site.

## (e) Limitation of Liability

To the fullest extent permitted by the law, Independent Investment Research and any of its officers, employees, agents, consultants or related bodies corporate disclaim any liability, whether based in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential or special damages arising out of or in any way connected with the use of any Content made available on this web site by any person or entity.

## (f) No Warranties

Independent Investment Research does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content made available on this web site. All information on this web site is provided to you on an as is basis, without warranty of any kind either express or implied. To the extent that research can be provided by third parties, Independent Investment Research makes no warranty or representation as to the accuracy or completeness of such information displayed on this site, and accepts no liability for errors or omissions arising from such third party information. To the fullest extent permitted by law, under no circumstances will Independent Investment Research be liable for any loss or damage caused by users reliance upon information obtained through this web site. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other content made available through this web site. Furthermore, Independent Investment Research does not warrant or represent that this web site is error free or free from viruses or defects. A user must do all that is necessary (including using virus checking software) to satisfy itself that accessing this website will not adversely affect its system.

For further information, please contact IIR at: [client.services@independentresearch.com.au](mailto:client.services@independentresearch.com.au)



**Independent Investment Research (Aust.) Pty Limited**

**SYDNEY OFFICE**

Level 10, 50 Pitt Street  
Sydney NSW 2000  
Phone: +61 2 8001 6693  
Main Fax: +61 2 8072 2170  
ABN 11 152 172 079

**MELBOURNE OFFICE**

Level 7, 20–22 Albert Road  
South Melbourne VIC 3205  
Phone: +61 3 8678 1766  
Main Fax: +61 3 8678 1826

**DENVER OFFICE**

1011 S Valentia 138  
Denver Colorado 80247  
Phone: +1 161 412 444 724

**MAILING ADDRESS**

PO Box H297 Australia Square  
NSW 1215