Dear fellow shareholder,

Bailador Technology Investments (Bailador) was listed on the Australian stock exchange in November 2014 to give retail and institutional investors the opportunity to invest in information technology companies at the expansion stage. Expansion stage companies in information technology have the following characteristics: several million dollars of revenue, an established customer base (usually international as well as domestic), proven technology and a proven management team. They are well past being 'start-up' businesses.

The companies of interest to Bailador have identified very large target markets they can sell into, have technology that is at least as good as anything else in the world, have highly profitable unit economics* and a demonstrated effective approach to acquiring new customers in their target markets. What these companies *don't* have is enough capital to invest in acquiring new customers rapidly and the experience of growing a company from revenue of something like $5 million to revenue of $50 million or more.

A brief history

Bailador (then called the Bailador Trust) was founded nearly five years ago in December 2010. We recognised an opportunity to invest in expansion stage information technology companies and established a private fund to do so. We made three successful investments and grew the value of the fund considerably. Most notably our $5.6 million investment in *SiteMinder* attracted a $33 million follow-on investment from the highly reputable Silicon Valley fund Technology Crossover Ventures (TCV) at a valuation 3.7 times higher than our investment only eighteen months earlier

Typically, fund managers presented with the opportunity to return virtually all of their investor's money early in the life of a fund will do so and use that excellent performance to raise a second larger fund. We thought about this, but decided it was not in our investor's interest to cash them out of an investment that we thought was likely to return a great deal more than we could realise back in December 2013. (We have been right on this).

Given the growth potential of the companies we invest in, we decided that the typical closed-end venture or buyout private equity fund structure was not the best approach for us. We needed a permanent capital structure. Furthermore we liked the idea of providing the opportunity for retail investors to invest in information technology at a stage (expansion, that is) otherwise unavailable to them. This stage is the traditional domain of Silicon Valley expansion capital funds and ultra-high net worth investors, often through family offices.

So in November last year we transferred our then current investments – *SiteMinder*, *Viocorp* and *SMI* – into a new company, Bailador Technology Investments, raised an additional $25 million to continue our investment program and listed on the ASX.

Why Bailador is different from a typical LIC

Bailador is what is officially known as a Listed Investment Company (or LIC for short). That is, we are listed on the ASX and we invest in other companies. That is about where the similarity to other LICs ends. Virtually all of the LICs listed on the ASX are listed companies that invest in other listed companies. Usually they have a theme (micro caps, small caps, emerging markets and international are some of the most common).

These LICs invest in ordinary shares in listed companies. Accordingly, the terms on which the managers of these LICs make investments are no different to the terms obtained by anyone else investing in listed companies. A typical equity investment in a listed company sits at the bottom of the capital structure after bank debt and occasionally a fancy hybrid or corporate bond. In a typical LIC the manager, speaking on behalf of all the investors in the fund, has no more rights than any other individual or institutional investor.

Bailador is very different from a typical LIC. Bailador invests in private companies not public companies. The only way to get access to these companies is through an investment in Bailador. The terms of Bailador's investment are bespoke. That is the terms on which we invest are tailored especially for Bailador and we negotiate the particular terms and rights attached to our investment very carefully. Almost all of the bespoke terms we negotiate are aimed at reducing the risk associated with equity investing while maximising our access to upside. For instance, we always have seniority in the capital structure. We achieve this through a convertible preference share or note. The companies we invest in do not have debt and as a consequence Bailador sits not at the bottom of the capital structure as investors in publicly listed companies do but at the very top. This means that in the event of a sale of the company in circumstances in which there is no benefit to Bailador in converting our preference shares into ordinary shares, we get our money out first.

"Almost all of the bespoke terms we negotiate are aimed at reducing the risk associated with equity investing while maximising our access to upside."

The difference between Bailador and typical LICs extends to valuation methodologies. All LICs publish a monthly Net Tangible Assets (NTA) per share statement to the ASX. Whereas the published NTA per share of typical LICs records the traded prices of their investments, Bailador's NTA per share is based on conservative valuations of the underlying private investments.

Since listing only one of BTI's portfolio investments has been revalued above cost plus accrued interest, reflecting the conservative nature of the valuations. Our specific aim is to sell our investments for higher values than we hold them in our books. It is in our and your interests that we do this in order to demonstrate that Bailador shares should trade at a premium to NTA per share not at a discount. All valuations are reviewed by an independent expert (this year, BDO) at 30 June, as well as reviewed by the Board of BTI.

One of the important benefits of investing in publicly listed equities is liquidity; investors can sell their shares when they want to and get their money back. There is certainly less liquidity investing in private companies, but Bailador cannot get 'stuck' in a company because another one of the terms we agree when we invest is the

** Unit economics is the analysis of the profitability of new and established customers. The analysis starts with the revenue the customer provides and subtracts the cost to acquire the customer and the cost to serve the customer to arrive at the profitability (before an allocation of fixed costs) of individual customers and the average for a large number of customers.*

right to initiate the sale of the whole company after a period of time. Important other terms we commonly negotiate include pre-emptive rights if others sell, control of debt or new equity issuance, anti-dilution if new equity is raised, access to detailed information at all times and a board seat. We will not invest your money without agreement that either Paul or I will sit on the board.

Sitting on the board helps us manage risk but that is not the only reason we make a board seat a prerequisite of a Bailador investment. If the founders, management and other shareholders of a potential investment do not recognise the value our experience and expertise can bring as they set about growing a small fast-growing company into a big fast-growing company, then we are not right for each other. We are wary of founders who are convinced they know it all already and are not open to advice and learning.

Investing in information technology

Now for a quiz. The S&P 500 Index is an index of 500 stocks listed on the NYSE and the NASDAQ. It captures roughly 80% of available market capitalisation and is widely considered the best measure of American stock market performance. Here are four sectors of the S&P500: Information Technology, Financials, Energy and Telecom, and here are four percentages, each of which corresponds to one of the sector's share of the S&P500: 20%, 17%, 7% and 2%. Now try to match the sectors with the shares. If you guessed that the sectors and the shares are in the same order from largest to smallest you were right! Information Technology is the single largest sector on the S&P 500 and it is 10 times larger than Telecom and nearly three times larger than Energy.

The make up of the Australian stock market reflects the small size of the country, its mineral wealth and competition policy that has for a long time been supportive of the four large banks and the two large retailers. The sector shares of the ASX100 do not remotely reflect what is going on in the everyday world for consumers and businesses. Growth and developments in information technology are hugely more influential for all of us than anything that is going on in a mine or a big bank or a supermarket. We know this in our daily lives but this has not yet filtered into investment decisions in Australia and New Zealand.

An investment in the ASX100 Index is an investment 49% into financials, 15% into mining and 7% into consumer staples, mostly food retailing. These are the three largest sectors on the ASX100. An investment in the three largest sectors in the S&P500 Index on the other hand is an investment of 20% into information technology, 17% into financials and 15% into healthcare. Australian investors, at least index investors, do not have the exposure to the information technology sector that is normal in other parts of the world. The ASX100 index has a miniscule 0.6% weighting to information technology. So we Australian investors need to find smart ways to access information technology investment.

Investing in the information technology sector in Australia and New Zealand requires a different approach. Bailador has been created to provide retail and institutional investors with an opportunity to add a portfolio of high growth information technology companies to their investment mix.

Recent investments

Since listing we have been busy. We have made a follow-on investment in portfolio company *Viocorp* and investments in three new companies. Our portfolio now numbers six. Since November last year we have added *iPRO*, *Straker Translations* and *Stackla* to our original three companies. We expect to add one more company before the end of the 2015 calendar year.

The real stars of the show

The real stars of the show are the founders of the businesses we invest in. What Paul, Andrea (our Investment Director) and I do is important. We constantly research markets and get to understand new technologies. We assess potential investments very carefully, and negotiate the terms of new investments. Then we sit on boards and work with management to improve company performance and develop relationships with potential funding partners as we head towards potential exits. But the real stars of the show are the founders of the businesses we invest in and the management teams that add customers, open new markets, develop new products and grow their businesses – fast.

"The real stars of the show are the founders of the businesses we invest in."

SiteMinder

Mike Ford and **Mike Rogers** at *SiteMinder* have grown and developed their business into the largest and most successful hotel room inventory management and distribution company in the world bar none. Mike Ford got the idea for the business after listening to a friend who owned a backpackers hostel complain about how time consuming and inefficient it was for him to deal with the increasing number of online travel agents he wanted to list his room availability on. Now with more than 16,000 hotel customers, cash in the bank, offices on four continents and a crack management team capable of continuing to take market share and expand rapidly in untapped markets *SiteMinder* is set to be become one of the great Australian information technology success stories.

VIOCORP

Ron McCulloch and **Ian Gardiner** founded *Viocorp* as a video mail business more than ten years ago. They were early. Really early. They quickly recognised government and enterprise video communications was a more prospective market and set about building a product for that market. Not long after, they landed a contract in Malaysia to provide a comprehensive catch-up television service for the largest television company. Not satisfied with two fronts they then entered into an agreement with SingTel to provide a video communications platform for their customers in Singapore. Being Scotsmen they have always been able to make a wee dollar go a long way, but even they would admit that at times biting off more than you can chew and chewing like hell is going to give you indigestion. We joined Ron and

Ian on the journey nearly five years ago now and it is fair to say it hasn't always been plain sailing. Malaysia provided important cashflow but selling to media companies is not the company's core business; SingTel is a great partner but corporate video communications in Asia is still nascent. And then it happened. If the product is the key – and it always is – the market opportunity is the lock. About a year ago we put the right key in the right lock and with a new CEO, **Greg Miner**, who had just the right experience, the key turned and we were through the door. It is now about scaling (what we know is) the world's best fully-cloud-based video communications solution for enterprise and government clients. 2015 delivered more than 50% growth in new licence sales and the momentum continues into 2016. The prospects have never been better for *Viocorp*.

Sue Fennessy and **Jane Schulze** recognised back in 2011 that the advertising spend information bandied about in the market was rubbish – inaccurate, incomplete and late. Sue and Jane decided to do something about it. They entered into agreements with media buying agencies (the companies that buy the time and space in media for advertising clients and hence know actual, not estimated, ad spend) and pooled all the data to provide the real numbers. Now every month *SMI* publishes actual advertising spend in great detail. *SMI* is now the dominant ad spend data source in Australia and New Zealand. Sue moved to New York to internationalise the business. A huge amount of progress has been made building the product and developing reference customers. The next step is working with other data providers to provide additional insights into advertising effectiveness for advertisers and revenue growth opportunities for media companies.

Founder **Mark Jackson-Knaggs'** company *iPRO* provides an online real-time platform linking hundreds of licensing and certifying bodies with clients and their contractors. Hospitals, universities, industrial contractors, miners and building contractors are just some of *iPRO's* clients. These businesses need to know that the vendors that come on to their sites have all the necessary licenses and insurances in place and that they comply with all the certification requirements for the site. *iPRO* has a strong tailwind from increasing regulation and the trend to out-sourcing. Add to that the opportunity *iPRO* provides for automation of manual checking processes and it is clear *iPRO* is in the right place at the right time with the leading product anywhere.

Grant and **Merryn Straker** are the founders of Auckland-based *Straker Translations*. Their company provides a hybrid machine translation and crowd-sourced human translation service on a purpose built workflow management platform. The global language translation industry has an unusual structure. There are a small number of large legacy providers and a huge number of very small businesses with less than 10 employees. Technology is changing the industry rapidly. Machine translation is cheap and inexpensive but alone does not provide the required accuracy or quality. *Straker Translations'* solution is gaining market share quickly and is now looking towards API integrations with major global commerce and other services platforms to deliver even faster growth. Offices in Auckland, Sydney, Denver and Barcelona support global sales reach with 80% of sales now coming from outside Australia and New Zealand.

It won't surprise you to know that unbiased referrals from people who have tried a product is a more effective way of advertising than the company itself shouting about how good its products are. Word of mouth is still the most trusted source of knowledge about a product. In 2012, as social media was taking off, **Damien Mahoney** and **Peter Cassidy** recognised an opportunity to help companies harness all the positive and informative things that were being said about their products in social media. They built and launched *Stackla*, a technology platform to seek out, curate and serve User Generated Content (UGC) from all over the social media space into the relevant company's marketing systems and programs. Damien and Peter moved to San Francisco to continue the company's growth and just this month came back for long enough to conclude an investment with us. We think *Stackla* and Peter and Damien are a great fit for the Bailador portfolio and we are delighted to be working together.

This then is the current roll-call of founders who, recognising a problem that information technology could solve, had the foresight, energy and risk appetite to bet their savings and a good deal of their working life to try and see if they could solve it.

The founders are all different people of course but they have at least two important things in common. None of them is going to die wondering and they are not going to stop until they have got where they want to go.

Annual General Meeting

We would like to thank all shareholders for their continued support and personally invite you to join us at Bailador's first AGM to be held at 11:00am (AEST) on 10th November at the offices of Gilbert + Tobin at Level 37, 2 Park Street Sydney.

David Kirk
Chairman and Executive Director

Paul Wilson
Executive Director