
Manager Report: Ross George,

Managing Director, Direct Capital

Investment Manager of Pohutukawa I and Pohutukawa II

Wednesday 13th May 2015

Thank you once again for coming to the Annual Meeting. There are a lot of familiar faces here. For those of you who haven't been to one before, my name is Ross George and I am Managing Director of Direct Capital, and we are managers of both PI & PII funds in conjunction with Craigs Investment Partners. We, as the manager, report to the Board, and John and Maurice are the independent directors of that board.

I am reporting to you on our two current funds, PI and PII. Those two funds invest pro-rata and on the same terms as our two institutional funds Direct Capital III and Direct Capital IV. You will recall the objective was for Pohutukawa to mirror the institutional funds as best we could.

I will talk about the individual companies in the portfolios.

We at Direct Capital are involved in the investment and management of both funds and I would like to introduce the team that does that. And those that are here are Mark Hutton, Gavin Lonergan, Andrew Frankham,

Chris Wills, Patrick Coyle and Craig Prosser. Tony Batterton is in San Francisco on Transaction Services, and attending top Private Equity Firm Hellman & Friedman's Annual Meeting, and Travis Sydney is in Australia with PF Olsen.

Hopefully, you will hear from all of the team in response to your questions, but we are all here after the meeting to discuss any Pohutukawa matters with you.

Bill Kermod – who will not be here for the first time. 20years. Founding partner and friend.

This is the investment Management presentation for both PI and PII.

PI was established in 2004 and invested through to the end of 2009 when Pohutukawa II commenced its investment activity.

Our focus in PI is now to execute the individual company game plans (which often involve additional investment) with a view to crystallising value when those game plans have grown shareholder value.

NZP's game plan is most advanced, then NZKS, then Stratex.

Our focus in PII has been to invest in new companies and we have invested in 8 companies in that programme.

In both funds we continue to be active in growth initiatives and particularly follow-on investments for the portfolio companies in PII. We have made follow-on investments in 5 companies in PII already.

So we spend the bulk of our time with the companies we invest in. We really only get an opportunity to meet investors once a year. We hope that through the Pohutukawa website, correspondence, and through Craigs and other advisers, you remain informed as we go through.

	Invested		Returned		Balance Value	
PI	53m	\$1	58m	\$1.08	22m	40c
PII	47m	57c	27m	32c	42m	47c

21 years ago when we established Direct Capital we started off with a philosophy that pretty much remains unchanged today:

Invest in good businesses

With good people

At reasonable prices

And grow them

If we get all of those right, and if we sensibly utilise bank debt, and grow the company successfully (often in Australia) the financial returns are usually very good.

That makes it sound like an unsophisticated business but it's not –

there is a lot of financial analysis involved as well.

But there are some common sense investment principles that we are good at sticking with.

We have always thought that growth is the least risky and highest path to increasing shareholder value.

Our company executives think similarly as well. Every 2 years we host the DC Portfolio co conference.

It is a good conference, and well attended with current and past company executives and directors. They all like meeting each other and they all speak enthusiastically about their companies. Last year we went to Rotorua Island in the Hauraki Gulf and they reiterated that growth focus strongly.

Our current aim is to double the value of investments every 4 years. The timeframe changes as we take into account the general economic environment. If the period is longer we seek higher growth. If we are able

double capital every 4 years, that provides a very good investor return, after all fund costs.

So we spend a lot of our time post investment in companies on the initiatives I've just outlined. That's our job day to day.

I would like to talk about a few industry changes in the private company investment market.

We have operated through three quite distinct periods.

Our first was when we were the only private equity fund. That was good and bad as it was hard to establish a new investment area on our own.

The second was the lead up and aftermath of the tech boom in 2000, and

The third was the lead up and aftermath of the GFC.

You can't time everything perfectly but with our common sense hats on we knew not to invest in tech companies at the incredibly high values. In the lead up to the GFC, we knew not to invest at high values with high leverage.

I will talk shortly about the current macro economic climate. But, we have not been aggressive investors over the last two years either.

So what is happening?

There are a number of new entrants in our industry.

Some of our institutional investors are establishing private company arms themselves.

Some venture capital players are moving into private equity.

Corporates are buying private companies as organic growth is not high enough in their industries.

This has led to a very competitive & expensive acquisition market and a resulting slowdown in our own investment activity. But it doesn't mean we have been inactive.

Direct Capital has a focus on crystallising value in PI and growth and follow-on / parallel investments in PII while also keeping an eye on crystallising values there too. In the PII / DCIV investment programme we have \$80m to support the growth of our 8 companies.

As a result of current sentiment factors driving values, we are looking to grow shareholder value through internal growth initiatives and acquisitions.

We also believe values at which portfolio companies can make acquisitions will outperform new platform investments in PII.

We are asking investors to back us through this period as you did in our cautious periods up to 2000, and up to 2008. I should add this is a decision NOT to invest your capital in new companies because we currently see a better return in the organic and add on investment growth strategy we are proposing.

It is a new strategy which we believe suits the current climate but it is business as usual at Direct Capital.

After this internal value growth initiative which we believe is probably a 1 – 2 year programme, we will look to the appropriate structure at that time to invest in new private companies in Australia and New Zealand.

That's what we do, and do well.

There are now and will be different structures that can optimise investor returns, and we will be looking to utilise them.

By way of example, all 4 DC funds have had different structures.

The first was listed,

The second was an investor club,

The third was under a bare trustee, and

The fourth a limited partnership programme.

Our next investment programme may well be different again but it will be a programme that suits the NZ and trans-Tasman investment market at the time.

CONCLUSION

Thanks again for attending. At Direct Capital we never lose sight of the fact that we are investing other people's money. It doesn't matter if it is a superannuation fund, a community trust, city council money or an individual's money. We take that responsibility seriously.

But you do have one other protection in that we invest our own money in these companies as well. Every one of the companies you saw on the logo page has our money in it too.

There is no doubt that you need to know what you are doing when investing in the private company market. There's not a huge overlap between our business and investing on the stock exchange at all.

After 20 + years we have built up a significant skill base. In addition, looking back, we have made the right calls when to aggressively invest and when to pull back a little. We are confident in our call to invest the balance of PII into the 8 portfolio companies.

We look forward to future shareholder meetings to discuss the fruits of that strategy.

Thank you again.