

Venture Capital Opportunities Fund (ARSN 625 636 473) (Fund or VCOF) December 2018 Half Year update

Welcome to the December 2018 Half Year update for the Venture Capital Opportunities Fund.

The Fund successfully completed its initial capital raising in July 2018, committing proceeds of the raising to the venture capital fund, Square Peg Fund II (**SPFII**), a fund managed by Square Peg Capital Pty Limited (the **Manager of SPFII**). For more information on the initial offer and for a disclosure of the risks involved in investing in VCOF or the venture capital asset class please [click here](#).

SPFII has, to date, made investments into three early stage technology businesses; **Deputy**, **FinAccel** and **Puresec**.

- **Deputy** has developed a Software as a Service (SaaS) product that lets organisations of any size manage their rostered workforce. It enables staff to be simply, and even automatically, scheduled based on stated preferences and availability. It acts as a system of engagement for rostered staff and employers to communicate and share information with each other. Deputy also links to other systems such as payroll and timesheets to automate manual processes.
- **FinAccel** uses technology to extend credit to prime consumers in one of the most underpenetrated markets for credit: Indonesia. Its core product, Kredivo, is a digital credit card and point-of-sale transaction engine that enables consumers to quickly and easily “buy now and pay later” on Indonesia’s leading e-commerce sites.
- **PureSec** was founded in 2016 and was the first company to identify the need for a new security solution and build an end to end product tailored for serverless applications. PureSec has first mover advantage and is seeking to be the dominant security solution as serverless computing grows.

Investment focus

The Manager of SPFII is continuously looking for ways to advance and support portfolio companies but is also continuously on the lookout for further investment opportunities. Current areas of interest, that align with the prior experience and skillset of the investment manager’s team, include elements of, but are not limited to:

- **Fintech**: driven by disruption of traditional banking services, the large financial sector profit pools and, in Australia, opportunities following the Royal Commission.
- **Marketplaces**: the “winner take all” economics, high profit margins and defensibility of marketplaces, together with ongoing innovation make these attractive business models.
- **Cloud**: The infrastructure that supports organisations’ IT has been one of the largest technological shifts of the last decade but still has an enormous amount of growth and evolution.
- **SaaS**: the market is still relatively early in the transition from traditional software models to virtually all software driven business models being offered as a service, and the Manager of SPFII continues to see exciting opportunities.

Looking to the future

The Manager of SPFII applies an investment process that is focussed on technology and involves the search for companies that have the ability to change the world, or at the very least, a part of it. With this

in mind, the investment professionals selecting companies spend considerable time focussing on what and how different aspects of society and business may change and where investment opportunities may arise, and from time-to-time they share their thought pieces with their investor base. Their latest piece on the **Future of Work** is both insightful and thought-provoking and we have chosen to share it with you.

Future of work – an insight into Square Peg’s thought processes

One broad theme that is a key area of focus for the Manager of SPFII is the Future of Work, which is experiencing change due to a number of trends. Some of the key questions they ask themselves are:

- What are the major trends we are seeing?
- What is driving these trends and are they likely to continue into the future?
- How does this impact how we think and invest in these areas?

Whilst not an exhaustive list, the Manager of SPFII is focussed on 3 important global trends we are seeing today. Some of these are more recent trends, and some have played out over the last 20+ years.

1. Shift to a flexible workforce

The Trend

The employment market is seeing a significant shift away from a regular 9-5 workforce to a freelance, or on demand model. Today over one third of US workers are freelancers, and this is forecast to grow to over 40% by 2020 and 50% by 2027; almost 50% of US millennials are freelancers. To be clear, freelancers aren’t necessarily working or earning less, they have just changed how they work; in 2017 ~29% of freelancers were working full time, up from 17% just 3 years earlier.

The Drivers

This new work model is driven mainly by social and cultural factors. It is the ability to be more flexible with work hours and locations, as well as have more freedom with types of work and clients, and the ability to earn additional money. For employers, it provides a model to access new skills and lower their cost bases by reducing the number of FTEs (full time employees).

Technology is a key facilitator enabling the flexible workforce, including those that make remote working much easier – explosion of mobile devices, cloud services, video conferencing software, better access to remote internet, etc. However, the more important trend is the convergence of on demand services and other platforms that allow freelancers to find customers – often the most important challenge they face.

Impact for SPFII

The questions the Manager of SPFII ask themselves are “what are the major problems faced by freelancers and those that seek their services” and “who is best solving them?”. This is exactly why they love businesses like Fiverr, Kaodim and Uber (not held by SPFII); these businesses are solving the critical freelancer challenge of finding demand for their services. On the other side of the equation, **Deputy** is playing a large role in workforce management/shift work by empowering employers and employees to easily schedule and swap shifts, communicate and manage payroll. It’s worth noting that a large share of these on demand models are marketplace businesses and the intersection of marketplace businesses and the future of work is a key area of focus for the Manager of SPFII. Previous investments in Fiverr and Kaodim (not held in SPFII) play to this theme and have increased our excitement about finding new business in the space.

To date the greatest impact has been seen in industries where the services are more easily delivered online – i.e. software development, creative & multimedia, writing and translation – as well as certain physical services where the level of customisation of the service is relatively low – e.g. home services, taxi/chauffeur etc. Looking forward the Manager of SPFI's view is that almost every industry will experience a shift, but those where disruption could be very large are where services can become much more tailored and personalised, particularly healthcare and professional services.

2. Impact of AI, robotics and automation

The Trend

Probably the largest technological shift impacting the world today is the rise of machine learning and AI (artificial intelligence). We are really only at the beginning – it's impossible to predict how advanced the technology will become and how large an impact it will have on almost all parts of our lives. *"It's probably hard to overstate how big an impact AI and machine learning is going to have on society"*- Jeff Bezos.

From the 'future of work' perspective AI is mainly having an impact through automation and prediction. In terms of automation it could be tasks ranging from those that are simple for humans (categorising invoices) through to the highly complex (large data analysis and manipulation) and including whether they are physical jobs (manufacturing) or not (accounting).

We may see even greater impact in the area of predictive technologies. Like automation, this includes improving on what is already possible today (such as Climacell (not held in SPFI) improving weather forecasting) as well as allowing things to be done that simply aren't possible today by either humans or computers – for example a recent study found AI algorithms could detect with 100% accuracy Alzheimer's disease from brain scans 6 years before human diagnosis.

There has also been a dramatic increase in robotics – which are often, but not always influenced by AI. Robotic manufacturing plants are nothing new, but the pervasiveness of robotics in industry is growing strongly and we are now seeing robots enter the home for personal/aged care, child education, entertainment and more.

The Drivers

We are on the precipice of an AI revolution as a result of massive technological gains over the last decade or so. Machine learning isn't new – machine learning algorithms have been around since the 1950s – but improvements in techniques, especially in machine learning, gains to computer power, rise of big data, and reduced data storage costs have dramatically pushed the industry forward.

From a robotics perspective, it is a mix of hardware and software that are driving a lot of the advancements. Improvements in performance and reduction in cost of hardware, sensors, batteries etc. combined with smarter more powerful computers and software mean robots are lighter, cheaper, smarter, stronger, can perform more complex tasks and can last longer than they ever could before.

Impact for SPFI

The question on everyone's mind from a workforce perspective is: will this result in the massive loss of jobs? There are mixed opinions, but the Manager of SPFI takes an optimistic view that more new jobs will be created to offset any losses, not to mention the productivity gains society will enjoy. Historically this has been the case through the agricultural and industrial revolutions, as well as the last 30-40 years since the birth of the PC. Either way the disruption caused by AI may lead to an enormous number of

really complex opportunities and threats, and this represents a thematic the Manager of SPFII is very focused on.

Because of its broad reaching applicability, they are not focused on a specific industry where AI will impact, but rather looking for very large problems where it is obvious to them that long term the solution will be solved through machine learning and AI rather than today's practices. The winners will most likely be those outstanding teams that have access to the richest proprietary data and best algorithms. There may also be horizontal players that support the wider industry, e.g. AI specific semiconductors, machine learning platforms allowing non-data scientists to make use of the technology, etc. These are all areas the Manager of SPFII are actively looking at and are extremely excited about.

3. Diversity

One final point which has less to do with technology but is no less important and something the Manager of SPFII is passionate about, is a huge movement towards more diverse and inclusive organisations. Research clearly shows non-homogeneous teams are more productive, more innovative and more efficient – and these are the organisations that can attract the best talent.

Whilst gender is the most obvious differential in the tech sector, with women dramatically underrepresented, diversity also includes religion, ethnicity and other demographics, including skill sets and age. Globally, the technology sector needs to improve in this area and we are proud to be trying to be part of that change. In Australia and Israel, the Manager of SPFII were part of industry wide initiatives to eradicate sexual harassment and create safe working environments for all employees; in Israel they were also a founding fund to support the Diversified Israeli Tech Industry initiative. Overall ~25% of the companies the Manager of SPFII has invested in have female founders and/or female CEOs – it's not perfect but it's a start; and the last 5 hires they've made at Square Peg Capital Pty Limited have all been women. It's an area the Manager of SPFII will continue to focus on internally, with their portfolio companies, and the wider industry.

We hope you found this update and the thought piece from the Manager of SPFII insightful and thought provoking. We look forward to providing further updates on the Fund in the future.

Important Information

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