artesian

Artesian Australian Venture Capital Fund 1 (AFOF1)

Investment Highlights

1	**Unique opportunity**: a highly diversified portfolio of early stage venture capital investments.
2	**Return target >20% p.a.**
3	**Tax free return**: consider the pre-tax return on other investments required to achieve an equivalent after-tax return.
4	**Alternative, uncorrelated risk premia**: achieve portfolio diversification away from traditional equity and FI risk.
5	**Experienced Fund Manager**: Artesian are experienced and successful asset managers and the principals are experienced venture capital investors (personally and as fund managers). They are co-investing in the fund.
6	**Creating & supporting Australian jobs/new businesses**: Australian industry has invented Wi-Fi technology, Google Maps, polymer bank notes, the electric drill, cochlear implants, the 'black-box', pacemakers, ultrasound & more.

Background to the opportunity

1 Decreasing cost to startup:

It now costs significantly less to launch, iterate and scale companies as a result of the sweeping changes in technology and consumer internet and mobile adoption. Combine the lower barriers to start a technology venture, the size and accessibility of the customer base (global internet users have increased from 360m in 2000 to >2.2b in 2011) and the growing number of accelerators and incubators, and you have a proliferation of startups raising requiring smaller amounts of lifetime capital.

2 Benefits of a diversified portfolio:

VC investments have asymmetric risk distribution (a large proportion of returns come from a few very sizeable exits). Therefore, a more diversified portfolio, rather than a concentrated portfolio gives you a greater probability of returns and better risk characteristics. An understanding of portfolio construction and an analysis of historical angel investing data support this (refer p13 of the IM). A portfolio of 25-30 early stage investments (the size of a typical VC portfolio) has only an ~65% probability of achieving the median asset class return of 2.5x. In contrast, a A VC fund of funds with 250-500 startups in its portfolio has an ~95% probability of achieving the median portfolio return of 2.5x. The Fund will invest in more than 500 startups.

3 Traditional VC model struggling:

Money scales but time spent on due diligence and analysis does not. As a result, traditional VC firms are finding it increasingly difficult to scale their business. They must choose to participate in more deals or bigger deals just to deploy the same amount of capital. Often the latter model is selected because of the time it takes to evaluate each deal, regardless of deal size. However, trying to pick winners in a concentrated portfolio at this early stage is not optimal, as historical analysis shows.

4 Australia Venture Capital 2.0:

In Australia, venture capital is under-funded because as an asset class it is too small for institutional investment … until now. Additionally local VC has found it difficult to compete with global VC investment at growth or late stage. This presents the opportunity for this fund to leverage the early stage opportunities locally (with scale) and, subsequently, take advantage of global later stage investment to monetize.

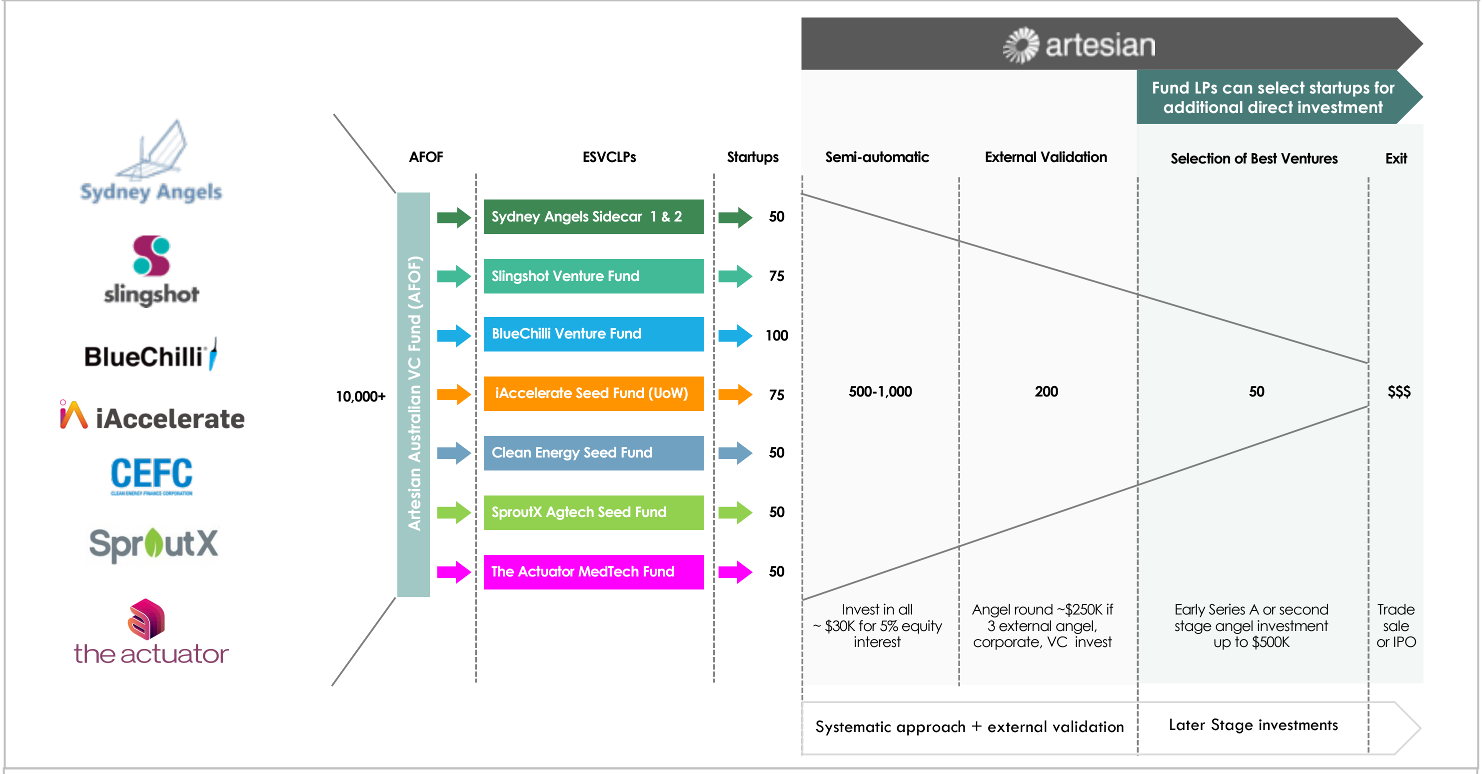
5 The solution:

The Fund provides a scalable model offering diversified exposure to early stage ventures with tax-free returns. Startup screening, selection and due diligence is outsourced to specialist partners (angel groups, accelerators, incubators, universities, digital agencies). The Fund utilizes an experienced investment manager and flexible platform to achieve a scalable and sustainable solution with optimized risk/return characteristics.

Investment Objective and Focus

1	**5-15 LPs**: the fund will invest in 5-15 Early Stage Venture Capital Limited Partnerships (**ESVCLP**) that will have interests in approximately 500-1000 underlying early stage companies.
2	**Early Stage VC Focus**: investing in ESVCLPs that invest in diversified portfolios of seed / early stage startups.
3	**Capital Efficient Startups:** investing in capital-efficient technology companies that can succeed with <$2m lifetime capital raised.
4	**Exits**: targeting the sub-$50m valuation market for trade sale/M&A activity. This is an active/liquid market providing a choice of exit opportunities. Exits in this range tend to come in 3-6 years rather than 8-12 for >$50m exits.
5	**Deployment of Capital:** capital will be deployed equally over 5 years (~20% per year for the first 5 years). This includes initial funding plus follow-on funding
6	**Portfolio theory**: Fund investment is built around process, portfolio diversification and experience.

Fund Structure



The Fund is structured as a limited partnership that will be registered as an Australian Fund of Funds (**AFOF**) with Innovation Australia. An AFOF raises capital and invests in high-risk start-up or expanding businesses, either indirectly through a VCLP or ESVCLP, or directly in eligible venture capital investments.

The AFOF program is a federal government initiative designed to stimulate investment into Australia's early stage venture capital sector by allowing generous tax concessions to investors of funds that meet the registration and investment criteria set out in the Venture Capital Act.

For investors, all income and capital gains received from an investment in the Fund will be tax exempt.

Fund Size:	Up to $100 million
Portfolio Size:	5-15 underlying LPs (with total of 500-1,000 startup investments)
Targeted Return:	>20% p.a. **TAX FREE**
Investment Return:	7-10 years (5 year investment period from final closing)
Minimum Investment:	$100K (drawn down over 5 years - approximately $20K per year)
Fund Structure:	Australian VC Fund of Funds (AFOF) I L.P. (Returns are legislated as tax free)
Investment Manager	Artesian AFOF Pty Ltd (ACN 164 410 673) an authorized representative of Artesian Venture Partners Pty Ltd (ACN 112 089 488) under AFSL No. 284492. www.artesianinvest.com

How to Participate

To participate in the Fund, please obtain an Information Memorandum from Artesian Venture Partners:

- Complete the Application Form in section 10 of the Information Memorandum; and
- Complete the Deed of Accession to the Partnership Deed in section 11 of the Information Memorandum.
- Send completed forms and a cheque for 20% of your total capital commitment to Artesian Venture Partners.

Further Information

artesian

Contacts:

Jeremy Colless	(02) 9037 4144	jeremy@artesianinvest.com
Stuart Fox	(02) 8999 8802	stuart@artesianinvest.com
Richard Case	(0409) 355 363	richard@artesianinvest.com
Tim Heasley	(03) 9288 9444	tim@artesianinvest.com