

MAKING INTERESTING ASSETS MORE INVESTABLE

November 2017

Syndex provides
capital markets with
a platform for the
private economy
and investors.



TRADING PLATFORMS FOR COMMON-INTEREST
INVESTMENT COMMUNITIES

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Introduction

Investors have a growing appetite for investing in alternative places to put their money – investments that haven't traditionally been available to individual investors. Simultaneously, business owners need access to capital in order to expand and export; it's not always easy to find that capital.

This white paper outlines the need for capital and the desire for alternative investments, and explains how proportionately owned private market assets traded on Syndex can bring the supply and demand together. Syndex's innovative platform helps to remove many of the barriers for proportionately owned assets, making them more liquid, more transparent and easier to transact.

Syndex meets the growing trend towards diversified portfolios and greater weighting toward real assets – reducing risk and decoupling returns from traditional markets.



Investors, both sophisticated and 'experimental', are looking at alternative investments — vehicles like hedge funds and private equity firms, and asset classes like commodities and real estate — but putting less weight on the brilliance of the manager. Instead, they push for analytics that drill into performance, not promises.¹

WHAT IS SYNDEX?

Syndex's mission is to use digital technologies to bring transparency, liquidity, independence and price discovery to disruptive and complimentary new markets — accessible via any standard browser on any device. Its three key modules work in unison:

1. Peer-to-peer exchange: investors can buy and sell their investments in real time, with Syndex facilitating the management of the settlement process.

2. Investor portal: a suite of portfolio management tools and services, including valuations, messaging and communications and access to syndicate or entity documentation.

3. Issuer Management module: provides for the end-to-end management of syndicates and company structures, including ownership registry, investor management and communication, document management and dissemination and events management. Also provides electronic identity verification to support Anti-Money Laundering ("AML") and other regulatory obligations.

Appetite for Finding Alternative Places to Invest their Money

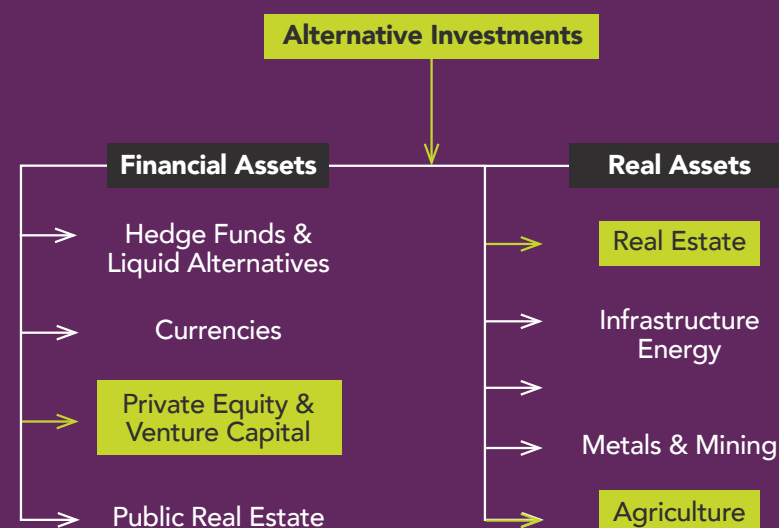
New Zealand's 500,000-plus² businesses across every sector are over-reliant on bank funding; our stock exchange is challenging for most companies to access; and our corporate debt market offers limited services. Our capital markets have failed in the past to provide an "engine of growth" for the economy, and very few companies grow large enough to compete on the world stage.³

However, New Zealand's export economy is becoming more diverse and more interesting as it expands into innovative technology across a range of industries. Emerging export industries like wine, horticulture, high-tech manufacturing, ICT and biotech have been growing rapidly.⁴ The opportunities for investors to diversify are multiplying fast.

Since the global financial crisis, investors are no longer looking to stick to the tried and tested traditional investments — the GFC showed those weren't as gold-plated as they once seemed. Low interest rates have become the new normal and there is less emphasis on personalities and more weight given to data and technology. A just released international PWC report on alternative asset management — states alternative investments will be propelled to centre stage by 2020, given desire for sustainable investments. They will grow to between US\$13.6–\$15.3 trillion with real assets and private equity making up 81% of this.⁵

By bringing together business owners who need capital and investors looking for other investment options, essentially private enterprise investment, Syndex provides a platform that solves a problem for both groups of people. The three sectors where its impact is most likely to be felt are the agrisector, commercial real estate property and private equity (PE).

Alternative Investment Universe



WHAT'S DRIVING INVESTORS TOWARDS ALTERNATIVES?

Around the world, investors are attracted to alternatives. Blackstone⁶ has identified some of the drivers of this shift in appetite:

1. Volatility increased

The US sharemarket saw high volatility over the 2000 to 2009 decade, with 'low probability' events occurring far more often than forecast. While this decade has been more stable, what Blackstone describes as "investor PTSD" continues to make investors sensitive to volatility. Solid alternative investments with steady returns look more appealing than ever.

2. It's harder to find true diversification

Diversifying a portfolio used to mean investing in shares across different industries and countries, but since the GFC correlation between key asset classes has increased, their performance is linked more closely than before. Alternative investments are attractive because they are usually less closely correlated with traditional asset classes.

3. Bond yields are tapering off

Bonds have supported well-balanced portfolios for decades, but this bull run seems to be coming to an end. Investors who have relied on bonds will need to find different asset classes to prop up their returns.

4. Returns on traditional investments look "anaemic" for the near future

Forecast returns are well below what institutions are seeking to cover their liabilities, causing them to look elsewhere for something better.

5. Alternative investments are a way to complement traditional strategies

Investors can use alternatives to balance out their portfolios.

Wine, Apples, Goats: Making the Agrisector More Investable

In 2012 the New Zealand Government set a goal to double primary industry exports from \$32 billion to reach \$64 billion by 2025. At the same time it was estimated that our exporting businesses would need an additional \$160 to \$200 billion in new productive capital to reach this goal. Raising this capital is difficult, according to ANZ:

"Farmers face significant challenges in raising sufficient capital to fund growth and support farm turnover... New structures for owning and operating farms need to be encouraged to attract investment from domestic and foreign investors and capital markets... In a world where capital with a long-term focus is in huge demand, agriculture in Australia and New Zealand needs to find innovative ways of attracting domestic and foreign investment."

One of those "innovative ways" to attract capital is to create proportional ownership of farms and other agrisector assets. This model is already being used successfully by MyFarm and Craigmore Sustainables to invest both foreign and local money into agrisector businesses. Andrew Watters, MyFarm CEO says while in the past commodities were produced seasonally and sold by the sackload, the future is in high-quality, sustainable food production.

"We need capital for these sectors to transform and be sustained," says Watters. His company put many millions into the dairy sector up to 2008, at which time the GFC led to a shift in spending. Recently MyFarm has been investing in sheep and beef, orchards and agricultural property. The next "horizon", he believes, will be goat milk, other types of horticulture and permanent crops and trees.

"Syndex is a win-win relationship. It makes this space much more accessible to this whole rural investment category, and it has the platform to

open up this sector of the economy – growing GDP but also opening the door for investors. And it helps address one of those frown lines people get when looking at an investment proposition. When you get that tough question, 'How do I get out?', we've got an answer."

While most MyFarm investors are holding onto their syndicate shares at present, Watters forecasts the platform will see more action over the next five years. At that point, he believes the track record of liquidity will give him the data he needs to reassure potential investors.

Ché Charteris, CEO of Craigmore Sustainables, agrees: "Once there are good historic numbers and good information available, it will show how investable farmland is."

Craigmore uses Syndex to underpin a customised Craigmore investment platform for its clients. Craigmore manages 15,000 hectares of dairy, horticultural and grazing farms, and earlier this year sold a Canterbury dairy farm for \$18.2 million to a syndicate of investors including institutions from Europe and Asia.⁸ For the Craigmore team, one of the greatest benefits of Syndex has been in having a place to provide the kind of hard-won information that shows the sustainability and environmental responsibility of its practices. Charteris says investors all over the world are increasingly interested in choosing ethical investments, and over time Craigmore aims to provide great transparency on its methods, including

data on details like nitrogen losses to water, cow deaths and near misses.

Having all the information in one place helps investors do their due diligence, and removes some of the hurdles faced by agrisector investors: "Farmland is quite hard to make investable, in terms of cashflow," Charteris says.

Syndex makes it investable because of the ways entities are structured, explains Syndex CEO Ross Verry. "The way agri assets are held is usually not in structures that lend themselves to being listed on more traditional exchanges. It's often wholesale funds or limited partnerships – they have no interest in being listed on the NZX. Overseas and locally, fund managers really want to get into the agri sector. Syndex therefore supports accessibility from anywhere as a piece of capital market infrastructure."

Using proportional ownership, between 1992 and 2014, MyFarm's investors purchased NZ\$829 million in farm assets. Recently this has been supported by Syndex, which has helped investors to buy and sell their portions in agricultural assets. The additional liquidity provided by the platform is something Watters is proud to be able to offer his investors. He says Syndex provides the potential to "fire up" the agrisector, opening the door to local and international investors.

Andrew Watters, My Farm CEO



NEW ZEALAND'S DIVERSIFYING EXPORTS



Source: Statistics NZ

Where New Zealand's exports have previously relied on dairy, the \$3.3 million drop in dairy revenue over the past two years has been more than offset by an uptick from other exports such as forestry, fruit and travel. The net result has been a 4% growth in export revenue.

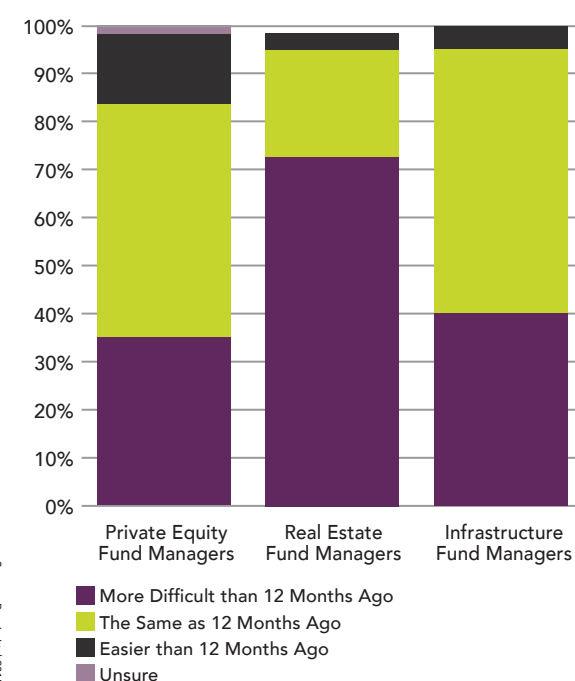
The economy continues to diversify, including into commodities and industries that are not tightly correlated with the sharemarket, making New Zealand an ideal location for investing in alternative asset classes.

"A UNIQUE HISTORIC OPPORTUNITY" FOR ALTERNATIVE INVESTMENT

The current economic climate presents a "unique historic opportunity" for the alternative investment market. Major forces – demographic, environmental and macroeconomic – are pushing the demand for real asset investment. Institutional investors are seeking higher yields, but struggling to find quality options; and they're still feeling nervous post-GFC.

All these factors add up to alternative investments looking increasingly appealing, and big institutional investors want help to guide them through this category and find new opportunities.⁹

Level of difficulty in finding attractive investment opportunities



Source: Preqin Ltd 2015

It may be a struggle to find these options, but the appetite remains strong. Credit Suisse found that Swiss Pensionskassens' allocation to alternative assets hit an all-time high in 2016. Major Swiss bank UBS increased its exposure to alternatives up to 8% in the same period.¹⁰ A 2017 global survey of limited partner investment entities found that:

- 35% of respondents said alternative investments made up over 30% of their allocation.
- 66% of those surveyed were planning to increase their allocation to alternatives by between 1% and 10% this year.
- 54% of respondents wanted better transparency from their fund managers.¹¹



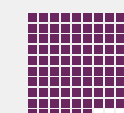
Image credit: https://www.123rf.com/profile_domenolomo

"We have pretty high standards when it comes to reporting – a lot of accounting rigour. Syndex is an efficient way of communicating with our investors to give them formal reports, keeping track of share registers, assets and summaries of businesses, all in the cloud. It's our one source of truth for our investors."

Ché Charteris, CEO of Craigmore Sustainables

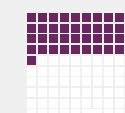
TAKING RESPONSIBILITY¹²

The PWC survey of 111 global private equity managers highlighted the importance of responsible investing:



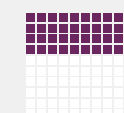
96%

of respondents said they have, or will soon have, a responsible investment policy



41%

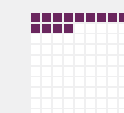
said poor ESG performance has seen them demand a material discount, or walk away from a deal



40%

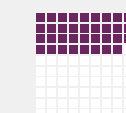
would be prepared to pay a premium for a target company with a strong environmental, social and governance performance

But while ESG is becoming increasingly important at entry, there is still some catching up to do at exit:



14%

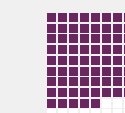
have received a premium for strong ESG performance at exit



38%

include ESG in the programme for exit

And although they have made progress in identifying key ESG factors, action to tackle them has been less forthcoming:



85%

of managers are concerned about cybersecurity, but only 46% have been taken action



64%

worry about gender imbalance within private equity firms, but only 46% have tried to mitigate it

Locally, ethical investment funds saw a huge jump in 2016, up from \$1.6 billion to \$42.7 billion, according to a report by the Responsible Investment Association of Australasia (RIAA).

Both MyFarm and Craigmore are increasing their reporting to reassure investors about on-farm practices: "We're all about farming or growing responsibly, thinking about our environment, being up on the play with animal welfare and in front of the game in health and safety," says Watters.

Watters and Charteris say they get more questions than ever on these subjects, and Syndex provides a platform to keep existing investors up-to-date and show prospective investors their performance.

Charteris says investors enjoy feeling an emotional as well as a financial connection to their investment.

"We give them enough info to get involved with the ride and make it a real business to them. They're more in the mindset, they take the ups and downs, and see that over the long term it's a good business. It's fascinating to see the work behind the scenes and the investors are a bit more forgiving when the market goes against you. They see the social, animal welfare and environmental picture, so if they lose a bit of cash, they understand it."

New Zealand is an ideal place to find responsible investments as the nation has a long track record of stable governance, entrepreneurship, transparency, lack of corruption and relatively unspoiled environment.

Improving Investability of Commercial Property Syndicates

Syndicated commercial property investment has always been a great way for smaller investors to get a piece of a multi-million-dollar asset. Since 2012, property syndication has seen a surge in popularity, with syndicates buying better-quality and larger buildings. This has partly been driven, once again, by the changing economic climate, characterised by low inflation and low interest rates. As the residential market has become overheated and borrowing has been increasingly restricted, former residential investors have turned to the commercial sector. Simultaneously, business owners have found it more economical to buy their own building than to own. Both these forces have pushed up prices in the sub-\$2 million bracket, leaving the \$5 million-plus category less competitive and with favourable returns.

According to Colliers, investors are asking the question: where are the high-yielding assets? The answer, for many, has been commercial real estate. Despite investor caution, prices have risen over recent years because the gap between interest rate lending (around 5% to 6%) and returns (10.4% in

the year to March 2017) continues to be lucrative. This is enabling purchasers to explore new markets, new sectors and new opportunities¹³."

The commercial property sector has experienced good yields and low vacancy rates in recent times, with investors encouraged to debt-fund investments. Commercial property yields have hovered around 1.5% above lending rates, leading to capital gains as prices have risen¹⁴. Investors want to get involved with commercial property, and proportional ownership offers an enticing way to do this, but the traditional liquidity issue remains off-putting.

This lack of liquidity can damage returns and may represent a conflict of interest for the syndicator. Syndex provides a platform to increase the liquidity of syndicated commercial property, by offering a place where syndicators can list their buildings and investors can resell their portions in a TradeMe-style auction. The investor is not reliant on the syndicator to sell their share in a building – and a market price can be achieved.

"For property syndicates, it's hard to trade your shares, and that's a real barrier for people," says Tony Falkenstein, CEO of NZX-listed company Just Water.

"People are put off. [Property syndication companies] are trying to do it on a big scale; it's a conflict of interest and investors are much better off being independent."

"Will Syndex give property syndicators more confidence? Logic would say they would love it."

It was that secondary market barrier which was the initial motivator of the launch of Syndex, and Mike Jenkins, Executive Director, says providing an independent secondary market will improve liquidity and make syndication more appetising for risk-averse investors across all industries. It's exciting that this platform will help contribute to growth across the private sector of both investing and growing these businesses.

"Liquidity risk is the risk associated with the uncertainty of how an investor can exit an investment in terms of the time it could take and at what price. Commercial property syndicates include liquidity risk by default and Syndex's key objective is to minimise exit uncertainty by operating an active secondary market that reduces both the time it takes to sell an investment and the discount at which it trades. An extremely valuable service for both buyer and seller."



Growth and Succession: Finding Private Equity Investment

The tsunami of baby boomer business sales has yet to reach its full strength, but it's being tipped as a force that will help to shape the world economy over the next 10 to 20 years. As baby boomers put their companies on the market, buyers will need finance and money to grow their new businesses. This presents an opportunity for all types of investors, from angel investors to family trusts to institutional investors.

Syndex provides a platform for information as well as an exchange, and represents a big step up in secondary market liquidity for proportionally owned assets. It provides price discovery for both buyers and sellers. Among respondents to the New Zealand Private Equity and Venture Capital Monitor 2016, "weak secondary share market liquidity for small companies" was named as a key challenge for the sector.¹⁵

One area where this may be ready to take off is by providing a secondary market for Crowdfunding capital. There's been tremendous growth in crowdfunding since 2012, "evidence of a really active private market where you've got lots of opportunity to invest and raise debt. There are many participants and it's incredibly competitive," says Jenkins.

"With crowdfunding, there's that feeling of 'Hey, we're locked'. For new investors it puts them off being in the market," adds Falkenstein. The platform also provides a place to store the documentation required

by the buyer, making the due diligence process run more smoothly and transparently.

Modest sums of money can perhaps be raised by grants or from personal wealth; big companies seeking major investment have their own channels. It's the NZ\$1 million to \$3 million funding gap which is the hardest to close and which prevents medium-sized businesses from reaching their full potential. Even the New Zealand Venture Investment Fund has been warned its government funding may be discontinued. Where can medium-sized business owners turn when they want to fund their growth? At the moment their options are limited.

"Small business are a big deal in New Zealand," says Tenby Powell, director of Hunter Powell Investment Partners and founder of the NZ SME Business Network. "Our small business ecosystem has the power to create massive value for the New Zealand economy."

If the current GDP contribution from SMEs could be lifted from its current 28% to 35%, that would represent a \$15 billion boost to the economy, according to Powell. Creating more businesses of international quality would have far-reaching positive effects, not only economic but also on society.

"An exchange that allows small and medium businesses to raise capital and provides transparency for buyers and sellers would help drive this growth," Powell says. "As well as providing the kind of interesting investments that make for great conversations and positive stories about New Zealand."

New Zealand's institutional investors are making the shift towards alternative investments and private equity has performed especially well in recent years, with funds returning more than 20% per annum not uncommon.¹⁶ The major stumbling blocks with private equity investment have been access and liquidity,

two factors Syndex goes some way to ameliorating. New Zealand institutional investors tend to be "underweight" on alternatives when compared to global averages, with Kiwisaver Funds typically allocating less than 2% to alternatives in 2015.¹⁷ As New Zealand catches up with international trends, this weighting is likely to increase and fintech success stories like Syndex will have an important role to play in that process.

A Bridge Between Investors and Business Owners

Technology is providing increasingly greater access to alternative assets, driving a shift toward becoming mainstream. "The surge of investment in alternative assets has made them a central focus in asset management – a business that itself is stepping out of the banking shadows."¹⁸

It's likely we'll see more institutional investors and national retirement funds looking to grow their balance of alternative investments, and Syndex offers those investors a chance to have greater transparency of information and pricing. Sharing information and trading opportunities means Syndex can bring a farmer in Invercargill together with a major investment fund in Germany. Similarly, investors in Invercargill can buy part of a kiwifruit enterprise in the Bay of Plenty.

"Syndex is solving problems for the private market," says Jenkins. "One challenge is fragmentation. There are pockets through the economy which are part of the fabric of the private markets. It's about recognising them and making them as efficient as possible. The coup de grâce is also recognising it collectively as a market."

With the cost of listing on the NZX prohibitively high for small businesses, Syndex is an affordable option for raising capital.

"What is happening with the NZX and other two exchanges is at the moment they are attempting to absorb them into the one exchange. If they do that there's even more opportunity for Syndex," says Falkenstein. The challenge with NZX is the cost of doing it. Compliance costs, as much as listing – it can cost more than \$100,000 in legal and accounting and other fees."

By comparison, it costs around \$3,000 – \$10,000 to list on Syndex, plus compliance costs, and syndicates can be online within a week or two of getting in touch with the Syndex team. As the software continues to prove its value, the value of listed assets keeps growing.

Syndex builds and operates primary and secondary markets for proportionally owned assets and the administration and communication services required to support them. The Syndex software utilises a platform provided by Salesforce, the world's number one CRM software. There is a public marketplace available at www.syndex.exchange, while clients are also able to use Syndex to create their own branded exchanges exclusively for their own products and customers. As the platform gains traction in the marketplace, Syndex is also able to give institutions more confidence in accessing otherwise uninvestable assets.

Syndex is bringing together a burgeoning demand for alternative investments with a previously untapped market of alternative assets. It uses world-leading software and Kiwi ingenuity to bring a unique fintech platform to the global marketplace. Syndex provides a way into and out of proportionally owned assets, price discovery and information for both buyers and sellers.



Image credit: https://www.123rf.com/profile_ellobo

"For any group of people seeking alternative investments, this is their best chance to see a reasonably efficient market," says Jenkins. "Currently, investors are looking at a big room through a keyhole. Syndex lets you step through the door and see the opportunities across the spectrum, while assisting and ensuring that they are, and continue to be, investable. We're trying to establish a market that is synonymous with alternative investment opportunities that provide high levels of investability enabled by the issuers' commitment to support the lot of the investors or shareholders. Without this commitment, it's extremely challenging to offer any consistent form of liquidity."

MANAGEMENT TEAM



Mike Jenkins

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Mike started his career as a software engineer, with a focus on financial services. From here he advanced to business development and management roles within various investment and funds management companies in New Zealand and South Africa. Mike is the founder of Syndex and is the key strategic developer of the software using his combined skills of software development and funds management understanding.

Ross Verry

CEO

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Ross's previous role was General Manager, Agri for ANZ where he had responsibility for the development and implementation of Agri business strategy between 2011 and 2016. Prior to that, he held several senior Commercial Banking roles, including General Manager Corporate Banking and General Manager Specialist Businesses, roles that were focused on providing solutions, services and support for Privately-Owned and Family businesses.

Ross is driving partnerships and strategy for the Syndex to establish key relationships.

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