

4 June 2021

SPECIAL OPPORTUNITIES FUND #1
INVESTOR NEWSLETTER
6 MONTHS TO 31 MARCH 2021

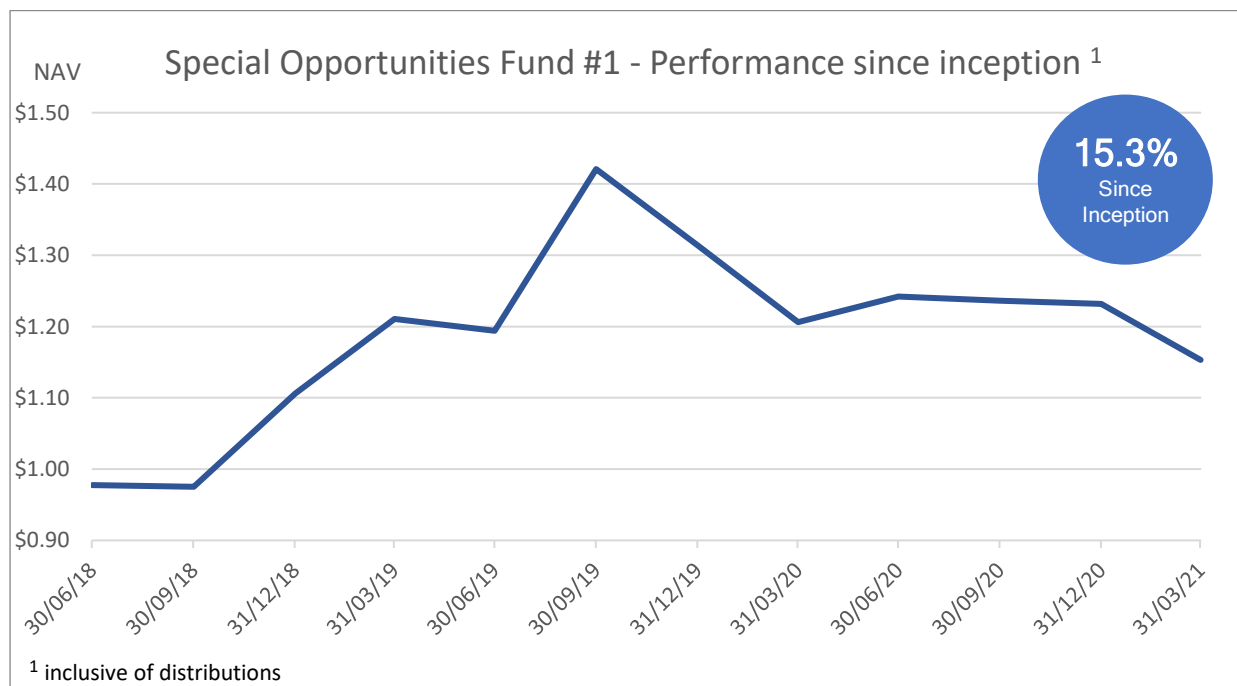
Dear Investors,

This investor newsletter details the activities for the Special Opportunity Fund #1 (**Fund**) for the six months ending 31 March 2021. Given the Fund is now in wind-up phase, this newsletter will continue to be published on a half-yearly basis going forward.

COMMENTARY

For the six months to 31 March 2021, the Fund generated a negative return of -6.75%. Since inception in June 2018, the Fund has delivered a positive gross return of +15.3% for unitholders. This gross performance includes 92c in distributions returned to unitholders to date (representing 92% of the initial capital invested by unitholders). These percentage return figures are net of all fees and charges.

The negative performance during the period was driven by the write down of the carrying value for Fund's investment in Smart Metering Services (SMS) by 85%. The rationale for the write-down is principally due to the loss of 2 contracts and is outlined in more detail overleaf. The other two remaining businesses in the portfolio, Art Money and Moneytech, have traded strongly over the last six months. With the Fund now in run-off, no new investments will be made, and all surplus capital returned to unitholders when available.



CURRENT INVESTMENTS

Art Money

	Fund's Investment Value	Valuation Date
Current Value	A\$517,708	June 2020
Value at time of investment	A\$287,498	June 2018

Art Money is a B2C interest-free loan product offered at art galleries, fairs and auctions to help fund artwork purchases. Founded in Sydney in 2014, Art Money is now a US-domiciled business with over 1250 gallery partners worldwide. Last October, Art Money successfully completed a A\$5m equity & convertible note offer to help fund its global growth aspirations. The Fund did not participate in this raising given it is now in run-off.

As at the end of March 2021, the loan book stood at ~A\$5m. In the March quarter, Art Money facilitated over 500 loans with a value of ~\$2.3m, which was up 75% on the year before in volume terms. Geographic revenue is currently split 61% Aust/NZ and 38% USA, with the USA contribution continuing to grow steadily.

The Fund invested \$250,000 equity in Art Money in June 2018 and a further \$30,000 in July 2019.

Smart Metering Services (previously Formway)

	Post Money Valuation	Valuation Date
Current Valuation	\$75,000	March 2021
Valuation at Investment	\$500,000	July 2019

Smart Metering Services (SMS) is an installer of digital electricity meters in Australia. The business is driven by the replacement of older accumulation meters by customers & retailers as part of the new Power of Choice (PoC) reforms underway in the 10 million meter national market.

As reported in the last newsletter, revenue for SMS was severely impacted by the loss of two major contracts in October 2020. The company has now completed a cost restructure and has closed its operations in NSW and QLD. Staffing has been reduced from 240 to 40. As a part of the restructure, the CEO also departed the business, and the National Operations Manager has been appointed as acting CEO by the Board. The revenue run-rate has now stabilised at approximately \$4.5m pa and the objective is now to grow the revenue through existing relationships to ensure break-even position.

Given the recent operating performance for SMS, KPIO has decided to write down the carrying value of its investment by 85% to \$75,000 which is in-line with the revenue decline. This investment is in the form of preference equity with a cumulative 10% fixed rate dividend.

If unitholders have any questions regarding the Fund's invest in SMS, please contact the Manager at info@kpinvestmentoffice.com.au

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Moneytech

	Post Money Valuation	Valuation Date
Current Valuation	\$500,000	March 2021
Valuation at Investment	\$500,000	December 2019

Founded in 2003 in Sydney, Moneytech is a provider of B2B working capital and payment solutions to the SME sector in Australia. It competes with the major banks by providing fast & efficient products including trade & receivables finance, payment services and foreign exchange.

In the quarter ending March 2021, the Finance division's loan book has bounced back to pre-COVID19 levels of over \$130m. Book quality remains high, with only 1 customer remaining in hardship out of 250 loans. The Payments business continues to grow strongly with revenues running significantly above budget for FY21 to date. The FX business is continuing to rebuild revenue following lower transaction volumes during the COVID19 slowdown last year.

The Fund made a \$500,000 equity investment in Moneytech in December 2019.

FUND PERFORMANCE

	30 September 2020	31 March 2021	% change incl distribution
Reported NAV (\$ per Unit)	\$0.3164	\$0.2329	
Cumulative Distribution (\$ per Unit)	\$0.9201	\$0.9201	
Gross Adjusted NAV (\$ per Unit)	\$1.2365	\$1.1530	
Gross Adjusted Assets (\$m)	\$7,103,388	\$6,623,960	(6.75%)

Your Fund Valuation Statement for the period ended 31 March 2021 as prepared by the independent trustee is attached. In line with the distribution policy over the last year, it is the Fund's intention to return capital to unitholders (including any gains) as each equity investment is realised.

As outlined in the letter of 17 April 2020, KPIO has commenced the process to wind up the Fund. Excess cash has already been distributed to the unitholders, and the Fund's remaining investments will be realised in an orderly manner to maximise returns for unitholders. As part of the wind-up process, the Manager reduced its annual management fee by 50% effective from 1st July 2020. The independent trustee, Columbus Investment Services, reduced their trustee and administration fees by 50% effective from 1st September 2020 onwards. Newsletters will continue to be published on a half-yearly basis until all the Fund's investments are realised.

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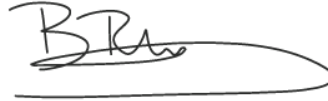
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If you have any queries regarding the Fund or its investments, please contact the undersigned at: info@kpinvestmentoffice.com.au

Yours faithfully



Brett Kelly
Director and Co-Chief Investment Officer
KPIO Pty Ltd



Brendan Lyons
Director and Co-Chief Investment Officer
KPIO Pty Ltd

Disclaimer

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