

## Illiquid APL Inclusion – Off SMA Alternatives

Suitable for investors who do not require access to capital for at least 10 years.

### **Black Nova Venture Fund II** **APIR: BQC1757AU**

#### **FUND**

The **Black Nova Venture Fund II** (the “Fund”) is managed by Black Nova (‘the Manager’). Black Nova is an Australian-based investment firm focussed on early-stage venture capital.

The Fund is an actively managed private equity portfolio, typically consisting of 20-40 positions spread across development stages of venture capital investments.

#### **INVESTMENT OBJECTIVE**

The Fund aims for an annual return of 30%, net of fees. It operates without a benchmark, instead being evaluated against its absolute return target, a standard approach within private equity given the lack of relevant benchmarks and the opaque nature of these investments.

The Fund focuses on B2B (business-to-business) technology startups. The Manager takes a hands-on approach actively managing and mentoring to unlock value.

#### **GOVERNANCE AND COMPLIANCE**

##### **Responsible Entity**

Boutique Capital (‘the RE’) is the Responsible Entity of the Black Nova Venture Fund II. This is a related party RE, which can lead to conflicts of interest. Pleasingly since inception there have been no adverse findings regarding this relationship.

##### **Compliance**

The Responsible Entity’s Compliance Committee is responsible for overall compliance as part of its function in forming long-term alliances and supporting a stable of investment management businesses.

#### **FUNDS UNDER MANAGEMENT – Aug 24**

- ❖ Black Nova Venture Fund I - \$22.5M
- ❖ Black Nova Venture Fund II
  - \$7M in hard commitments
  - \$2M in verbal commitments

Black Nova manages a relatively modest level of funds under management (FUM) and has set a target of \$35 million for its final close in June 2024. The Manager estimates the Fund’s capacity at \$50 million, asserting that exceeding this threshold would detract from its core focus on pre-seed investments.

## PRODUCT FEATURES

The Fund will be structured as an incorporated limited partnership where people investing in the Fund will become limited partners (LPs) in the partnership and unitholders in the Trust. LPs contribute the majority of the Fund's capital and do not play a part in the day-to-day management of the fund. LP's financial risk is limited to their investment in the Fund. They are not liable for the fund's debts or obligations.

Black Nova will be the General Partner (GP), the GP is responsible for managing the fund, making investment decisions, and executing the fund's strategy. This includes sourcing deals, conducting due diligence, and managing portfolio companies. The GP will collect a management fee and a share of the Fund's profits.

### Management fee structure:

The Manager is entitled to receive the following management fees:

- a. during the Investment Period, **2.0% per annum** of the aggregate of the capital commitments of the Investors (excluding management team) (plus GST); and
- b. after the Investment Period, **2.0% per annum** of "adjusted capital commitments" of the Investors (plus GST).
  - "Adjusted capital commitments" means invested capital, less investments written down to zero.
  - Management Fees will be paid to the Manager quarterly in advance.

### Term of the Fund:

The Fund will have a term of 10 years from the date of first closing, which may be extended by up to (but not exceeding) five additional years with the approval of Investors whose capital commitments represent at least 50% of the Fund's capital commitments.

### Distribution Entitlements:

Distributions of income and gains will (subject to certain special cases like the distributions on subsequent closings described above) be made in the following order of priority:

- First, to the Investors until they have received their drawn capital from time to time;
- Second, to the Investors until they have received in addition to their drawn capital from time to time, an amount equal to an 8% IRR on such drawn capital;
- Thirdly, to the General Partner as carried interest, until the amounts that it has received under this provision equal 20% of the aggregate of the amounts it has received under this provision and those amounts paid to investors.
- Lastly, 80% to the Investors and **20% to the General Partner as carried interest.**

### Investor Redemption Policy:

The Manager will, on best endeavors but no obligation basis, seek to find buyers and facilitate transfers for fund investors wishing to exit. However, Atchison emphasises that investors should be mindful of the fund's intended 10-year duration and be prepared for its limited liquidity.

### Minimum Investment:

The minimum capital commitment for any Investor will be A\$100,000, unless specifically permitted by the Manager.

## BUSINESS

Black Nova Venture Capital is a dedicated venture capital ("VC") firm established in 2020. Black Nova is an early-stage VC fund manager with a focus on Australian B2B SaaS (business-to-business software as a service) companies, however the business may invest internationally.

Black Nova launched its inaugural fund, the Black Nova Venture Capital Fund, in 2020. Despite the relatively short track record of the business, Atchison holds a favorable view of the inaugural fund's performance, highlighted by an impressive gross IRR of 76% and a diverse portfolio of over 30 companies.

Black Nova is a high-conviction manager, as such, they target to lead at least 50% of their pre-seed and seed rounds.

## INVESTMENT TEAM

The Black Nova team is diverse in experience and backgrounds with a focus on having people who have founded, built, raised funds for, invested in, advised and exited start-ups. The team is led by managing partner, Matthew Browne. Browne has extensive experience as both a CEO and founder of a SaaS startup as well as being involved across various other businesses. As Managing Partner Matt oversees the qualification, proposal and selection of all startups entering the Black Nova portfolio. Atchison view Browne as highly experienced, sighting valuable skills in running startup businesses which can be applied to portfolio companies.

Browne is directly supported by Darcy Naunton, Alex Lennon, Jo Robyn, Alex Guyer and Tim Baker. Of the four supporting members, Partner, Darcy Naunton is the most senior. Naunton is viewed as the second in command and holds decision making authority along with Browne. Naunton is also considered highly capable with experience across investment rolls and startups.

Atchison notes with caution that three team members hold concurrent roles in other businesses. While this could pose potential challenges in terms of focus or time constraints, Atchison acknowledges that these roles are within early-stage startups and investment firms, which may complement their responsibilities at Black Nova.

The team brings extensive experience in working with startups, though their direct investing experience is considered below that of peers. However, Atchison notes that, given the collaborative and hands-on nature of venture capital investing, this is viewed as a relatively minor limitation.

Black Nova has established a panel of nine "Venture Partners," comprising company founders with significant industry experience and valuable networks and skills to support the portfolio. All investment decisions are made collectively by the investment committee, which includes both the Black Nova team and the Venture Partners.

Atchison views the involvement of the "Venture Partners" as a competitive advantage, offering an additional layer of oversight and strategic insight. Atchison believes this collaboration enhances the Fund's appeal, leveraging an extensive network of founders to identify, capitalise on, and execute investment opportunities effectively.

<b>Matt Browne</b> Managing Partner  Matt is the Former CEO & Co-Founder of Donesafe, a market leading global EHS SaaS startup with 15million+ paying users (exit: HSI). Co-Founder & advisor to Whispli, angel investor, VP at Antler.	<b>Darcy Naunton</b> General Partner  Darcy was partner at early-stage VC Adventure Capital and Co-Founder of coworking and incubator space YBF Ventures. Serial co-founder, angel investor, startup advisor, Chair of Tractor Ventures	
<b>Jo Robyn</b> Operating Partner  With over 10 years supporting and leading delivery and Executive Leadership teams at the likes of Atlassian, Afterpay and Brightie, she's had various roles within scaling tech organisations across PMO, Strategy & Operations and Change Management in global, cross-functional capacities.	<b>Alex Lennon</b> Talent & Investor Relations Principal  Recruited for startups and scaleups for 11 years across two global recruitment agencies; ConSol and Salt. Whilst at Salt, Alex built the largest and highest performing team in APAC and supported Matt building his Eng & Sales team at Donesafe	<b>Alex Guyer</b> Associate Partner  With senior experience including 1835i (ANZ's corporate venture fund) as Principal, IAG Firemark Ventures as Partner and investment bank JP Morgan, Alex is a major contributor to the investment process, deal assessment and investment committee.

## Key Person Risk

A departure of Browne or Naunton would be a considerable loss for the Fund and would trigger a reassessment of the investment case. However, given the significant co-investment in the Fund of these two and their equity stake in the business, an unexpected departure is an unlikely event.

## Remuneration and Incentives

The team are paid a base salary plus an incentive based on the performance of the Fund. Atchison considers the team to be adequately aligned with investors.

## INVESTMENT PHILOSOPHY AND PROCESS

### Investable Universe

The Manager invests in early-stage startup technology companies in the B2B SaaS space. The Manager will primarily invest in Australia, however, does have scope to invest globally if opportunities present themselves.

### Philosophy

The Manager prescribes to a well-defined philosophy with three clear pillars for investable companies. The first of which is seeking businesses with determined founders who have the right capabilities and teams behind them. The second pillar is looking for teams that solve acute and persistent business problems with novel vertical solutions. Lastly, products targeting global B2B customers with necessity to produce services.

### Deal Sourcing

The manager will primarily rely on the existing networks of the direct team members and the venture partners to generate ideas and source deals. This is in line with VC peers. Atchison highlights that the majority of deals are sourced via inbound inquiries with startups coming to Black Nova.

### Research and Investment Process

The team will conduct an initial screen on deals coming through looking to verify that the potential investment aligns with the fund mandate. The scree will focus on ensuring the deal is stage appropriate (pre-seed or seed), has a well-articulated pathway to success and is domiciled in Australia (whilst the fund can invest 20% internationally the preference is for domestic companies)

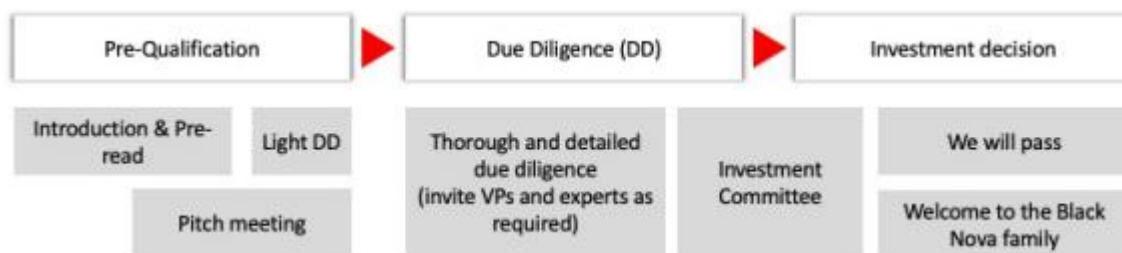
Once a company passes the initial scree the team will organise a meeting with the leadership team of the startup. During the meeting the founders will present their companies and respond to any questions posed by the Black nova team. Black Nova will aim questions towards how the company will succeed and selectively dig into areas of interest/concern. Atchison believe a question-and-answer approach is more beneficial as it allows the Black Nova team to avoid the founders presenting a rehearsed pitch. Black Nova will then present their point of differentiation and how they have the skill necessary to benefit the pitch company's business. Atchison note this is an important stage in the process given how competitive the early-stage venture capital market is.

Following a successful meeting and product demonstration the team will begin a thorough due-diligence process. This will include assessment of financial models, case studies, customer interactions and testimonies and any other relevant data. The purpose of this stage is to ensure there are no "leaps of faith" that Black Nova will be taking when investing.

Along with investment due diligence Black Nova will also conduct legal due diligence leveraging the expertise of a third-party general counsel to ensure the governance is in order. In various cases, Black Nova will also invite either a Venture Partner (VP) or independent expert to participate in the process where an element of the company assessment requires expertise not held by the investment team.

Atchison view the process as thorough, structured and repeatable whilst also allowing for the flexibility to deal with the nuances of early-stage companies. Atchison believe that whilst the research process is pivotal, the strength of Black Nova's execution lies with the experience the team has founding and working in startups. As such Atchison believe they have the skills to successfully identify target companies.

Final investment decisions are made via committee, with any one member having the ability to veto a company based on a valid concern. A unanimous positive vote is required for a company to receive investment.



### Portfolio Construction

The final portfolio will comprise approximately 25 to 30 companies. Black Nova aims to allocate 25% of its investments to pre-seed companies, 50% to seed-stage companies, and 25% to Series A companies. Furthermore, 35% of the capital will be dedicated to ethical, green, and impact-focused businesses.

### Risk Management

Risk management is primarily achieved through a rigorous bottom-up due diligence process. However, investors should recognise that early-stage pre-seed venture capital investing involves exceptionally high levels of risk due to the limited track record of companies and the inherent uncertainty of their projections.

## PORTFOLIO CHARACTERISTICS

### Portfolio Turnover

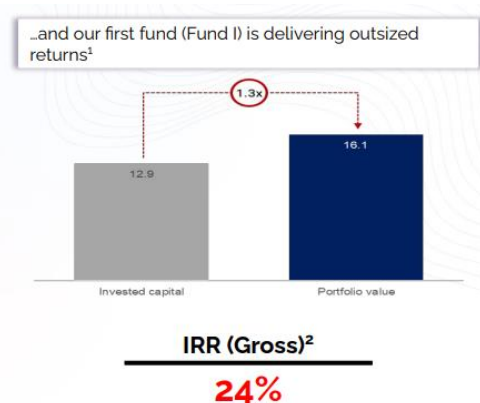
Portfolio Turnover will be low given the nature of the investments and the long-term horizon of the product.

### Liquidity

This product is designed for investors with an investment horizon of over ten years and no immediate liquidity needs. Venture capital investments are inherently illiquid, often requiring many years before returns or distributions are realised. Black Nova anticipates returning at least the original invested capital by year five, with the remainder of returns occurring between years six and ten. The Fund is expected to achieve approximately 85% liquidity by years nine to ten, subject to market conditions.

Investors should understand the unique dynamics of private market equity investments, including the uncertainty surrounding investment horizons. The General Partner (GP) retains the discretion to extend the Fund's life if prevailing market conditions are unfavourable for exits. Conversely, the GP may accelerate the Fund's timeline if market conditions present attractive exit opportunities.

## PERFORMANCE



\*Performance pictured is for the inaugural Fund\*

### Performance Opinion

The Fund is in its early stages and has yet to establish a performance track record. However, Atchison draws confidence from the alignment of its strategy with the inaugural Black Nova Venture Fund, noting the successful execution to date and the strong performance of the initial fund.

### Using Venture Capital

A venture capital (VC) fund can play a valuable role in a multi-manager portfolio by providing access to high-growth opportunities and diversifying the overall risk-return profile. VC investments typically offer the potential for outsized returns over the long term, complementing more traditional asset classes such as equities and fixed income.

Given their illiquid nature and longer investment horizons, VC funds are best suited as a satellite allocation within the portfolio, aimed at enhancing growth potential rather than meeting short-term liquidity needs. To optimise their impact, VC funds should be combined with other strategies, such as listed equities, to balance risk while benefiting from exposure to innovative, early-stage businesses. The allocation should align with the portfolio's overall risk tolerance, time horizon, and return objectives.

## CONCLUSION

- The business is in its early stages but has demonstrated a strong track record and sustainable, organic growth to date.
- The five-person team is highly capable, with most members possessing direct experience as founders or having worked in B2B SaaS companies. The nine-person “venture partner” team provides valuable oversight and insights, which Atchison views as a key competitive advantage for the Fund.
- Atchison has strong confidence in the team’s ability to source and select deals, drawing on their prior experiences and expertise.
- The investment process is grounded in a solid philosophy, with a well-defined, thorough, and repeatable approach. Atchison views the process as structured yet flexible, allowing for the necessary adaptability when managing early-stage companies.
- Atchison is confident in the Fund’s potential, supported by a capable and experienced team, a robust investment process, and the strategic advantage provided by the venture partner network.

# Atchison

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