

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

16 October 2019

Version 2.2

1. INTRODUCTION

- 1.1. Punakaiki Fund Limited is an investor in high-growth New Zealand-based private companies. It is structured as a company and has a contracted external manager LWCM Limited (the “Manager”, “LWCM”) to source and manage its investments.
- 1.2. This Statement of Investment Policies and Objectives (“SIPO”) sets out the investment philosophy, strategies, objectives and policies of Punakaiki Fund. The SIPO is an integral part of Punakaiki Fund’s wider model of financial governance.
- 1.3. For policies in relation to the committing of Punakaiki Fund’s funds for **non-investment** purposes, reference should be made to Punakaiki Fund’s Delegated Authority Policy. For guidance in respect of sourcing, making and managing investments, reference should be made to Punakaiki Fund’s Investment Guidance document.

2. INVESTMENT PHILOSOPHY

- 2.1. Punakaiki Fund’s approach to investing is based on the following five philosophies. Together, Punakaiki Fund believes these philosophies provide the greatest opportunity to generate significant shareholder returns.
- 2.2. **Market Opportunity.** There is a significant opportunity in New Zealand to generate high risk-adjusted returns by investing in high growth private companies. We believe this because:
 - a) On average, high growth companies provide high shareholder returns over the long term;
 - b) The market for high growth private companies in New Zealand is relatively inefficient (including the presence of information asymmetries), resulting in mispricing;

- c) There is a shortage of growth capital in New Zealand, particularly in the Series A and Series B funding spaces; and
- d) Punakaiki Fund's Manager has access to many high quality investment opportunities.

2.3. **Fund of Choice.** We aim for Punakaiki Fund to be the preferred provider of capital by the founders of New Zealand's premier high growth companies. By attracting the best high growth companies to Punakaiki Fund's portfolio, Punakaiki Fund will seek to generate positive risk-adjusted returns for its shareholders.

2.4. **Long Term Investment Horizon.** We expect to generate higher risk-adjusted returns by holding for the long term. This means we can reduce the impact of short-term market fluctuations, capture the benefits of a strong environmental, social and governance policy, and benefit as companies execute their growth plans. This is discussed further in Appendix 1.

2.5. **Diversification.** We believe that diversification usually reduces the level of risk incurred for a given amount of return. Punakaiki Fund has a philosophy of actively diversifying its portfolio to avoid a significant concentration to any one company, very small companies, unprofitable companies or a particular industry, product or service.

2.6. **Financial sustainability.** We predominantly invest with the intent that companies are or will become financially sustainable without material further funding, or where there is a clear path to attracting greater amounts of capital from larger funders. We believe that companies that are not dependent upon large amounts of additional funding are better positioned to survive through market corrections and earn higher investment valuations when markets are strong. We also invest with the intent that any required funding due to underperformance versus expectations is likely to be within the capacity of Punakaiki Fund and any other investors in the company to meet.

3. INVESTMENT OBJECTIVES

3.1. Punakaiki Fund has a **primary objective** of delivering shareholders **significant returns over the medium to long term**. The current target is to deliver five year rolling annual returns of at least 20% net to shareholders (after all costs, fees and fund-level taxes). We note that the Manager does not receive a performance fee unless an average annual return (subject to high-water mark thresholds) of at least 10% net to shareholders is generated.

3.2. This level of return is expected to decline over time as Punakaiki Fund grows in size and its investments mature and have lower risk and return profiles. The Board will review this return target from time to time as the profile of Punakaiki Fund's portfolio changes.

- 3.3. Punakaiki Fund also has an objective of becoming self-sufficient (i.e. not relying on raising new capital on an on-going basis or selling its liquid investments to meet its expense obligations) by 1 April 2024. This will require Punakaiki Fund to invest in companies with a mix of strong short, medium and long term dividend flow prospects.

4. INVESTMENT STRATEGY

- 4.1. Punakaiki Fund has contracted LWCM to source, execute and manage investments, through a Management Agreement dated 25 March 2014. Punakaiki Fund aims to put its philosophies into practice via the activities of LWCM.
- 4.2. Punakaiki Fund aims to achieve its objectives by:
- a) **Supporting high growth companies and their founders:** We aim to find and support high-growth companies in New Zealand with capital and advice (as required) and be easy to work with for founders in order to attract the best investment opportunities to Punakaiki Fund;
 - b) **Having a low rate of investment failure:** We aim to invest in opportunities that have been significantly de-risked by displaying traits such as addressing a genuine end user need, minimum levels of revenue, a growing revenue curve, an effective and efficient company with strong people and culture, and a strong financial investment case;
 - c) **Having a long life:** We are a permanent capital fund and as such have a long-term investment mandate. We aim to hold our investments for considerable periods of time in order to allow our portfolio companies to grow and provide Punakaiki Fund both dividends and capital gains over time, although we may choose to divest underperforming investments;
 - d) **Strong and diverse portfolio:** We aim to lower Punakaiki Fund's market risk by having a well-diversified portfolio; and
 - e) **Holding for dividends:** We aim to hold Portfolio Companies over the long-term to receive ever increasing dividend payments.
- 4.3. This approach has been adopted as we believe that LWCM has the skills, expertise, alignment to Punakaiki Fund's philosophies and access to high quality investment opportunities required to give effect to this SIPO.
- 4.4. LWCM has a wide mandate to find and execute investments, subject to certain limits imposed by the Management Agreement and the Board, including the limits and operating procedures set out in this SIPO. The Board is responsible for monitoring the manager and updating this SIPO from time to time as required to reflect the evolving requirements of Punakaiki Fund.

- 4.5. Investment guidelines applicable to the Manager which reflect the philosophies and objectives of Punakaiki Fund are set out in Punakaiki Fund's Investment Guidelines document.

5. ASSET ALLOCATION

- 5.1. Immediately after a Milestone Fund Raising event, Punakaiki Fund's target asset allocation is:

- a) An Operating Reserve equal to:
 - i. The annualised management fee based on the Net Asset Value immediately following the Milestone Fund Raising event plus net GST (i.e. any GST payments which are not recoverable); plus
 - ii. The currently budgeted (as approved by the PFL Board) net cash outflows (excluding management fees) for the twelve months in which the Milestone Fund Raising event was completed.
- b) Equity securities and cash available for investing equal to the Net Asset Value (excluding performance fee liabilities) immediately following the Milestone Fund Raising event, less the Operating Reserve.

- 5.2. A Milestone Fund Raising event is either:

- a) any capital raising event, or series of consecutive capital raising events, from which new capital (in the form of cash) is raised equal to or greater than 5% the Net Asset Value; or
- b) any capital raising event, or series of consecutive capital raising events, which occur immediately after the Operating Reserve has fallen below 1% of Net Asset Value.

- 5.3. Punakaiki Fund aims to have a diversified portfolio when measured by the stage and size of companies in which Punakaiki Fund invests. Table 1 below sets out Punakaiki Fund's target diversification allocations for SaaS and Non-SaaS Technology businesses. There is no allocation for investing in other types of businesses. These targets are for the benefit of the Manager when making investments. If an investment will cause or exacerbate the breaching of these targets, Punakaiki Fund's Board approval will be required before making that investment. The definition of Target Stage categories and Target Profitability categories are contained within Appendix 2. The percentages stated are in reference to the total value of Punakaiki Fund's investments (excluding cash).

Punakaiki Fund Limited - Diversification Targets			
Stage Targets	Seed	Early Growth	Growth
<i>Revenue Range: SaaS</i>	<\$1m	\$1-\$3m	>\$3m
<i>Revenue Range: Non-SaaS Technology</i>	<\$5m	\$5-10m	>\$10m
Range	0-15%	20-70%	30-80%
Maximum for Individual Investment	10%	20%	20%
<i>Percentage of:</i>	<i>Total Investments</i>		

Profitability Targets	Unprofitable	Profitable (or near profitable)
Range	25-75%	25-75%
<i>Percentage of:</i>	<i>Total Investments</i>	

- 5.4. While Punakaiki Fund has an overall philosophy of diversification; targets or limits in respect of exposure to individual industries (based on the GICS definitions), individual business models or in companies that require additional rounds of funding before becoming cash flow positive (at the time of initial investment) do not form part of this document. Instead, these exposures will be monitored by Punakaiki Fund's Board.
- 5.5. Notwithstanding the previous paragraph, any investment which results in an individual company comprising more than 20% of the total value of Punakaiki Fund's investments (excluding cash) shall require the approval of the Punakaiki Fund Board.

Operating Reserve

- 5.6. Punakaiki Fund's assets will be managed in such a way as to ensure that it will have sufficient liquidity to meet its expense obligations. In order to achieve this aim, each time that Punakaiki Fund completes a Milestone Fund Raising event, it will create an Operating Reserve which will be used to meet the non-investing (i.e. operating) costs of Punakaiki Fund. This Operating Reserve will comprise the following components:
- a) The forecasted cash receipt of dividends by Punakaiki Fund from its Portfolio Companies over 12 months following the closing of the capital raise; plus
 - b) The value of any pre-paid management fees as at the closing of the capital raise; plus.
 - c) A portion of the value attributed to listed share investments held by Punakaiki Fund that can be sold at relatively short notice; plus
 - d) An amount of cash such that when added to the forecast dividends referred to in paragraph 5.6 a), the pre-paid management fees referred to in paragraph 5.6 b) and the portion of the value of listed shares referred to in paragraph 5.6 c), equals the value of the Operating Reserve calculated in paragraph 5.1 a).

- 5.7. In respect of the portion of the value of any listed shares held by Punakaiki Fund that can be attributed to meeting the funding requirement of the Operating Reserve as referenced in paragraph 5.6 c), the Board will, at their sole discretion, determine those portions and resulting values in such a manner that the Board has a high degree of certainty of being able to recover the cash equivalent of the resulting value in any one month period by way of the sale of those listed shares. Specific factors that the Board may consider in setting a portion and resulting attributable value for those listed shares include:
- a) Whether they are held as a long term investment (i.e. when Punakaiki Fund's shareholding was not originally listed), or whether the shares are the proceeds from the sale of a portfolio company to a third party listed company;
 - b) The size of the underlying company;
 - c) The prospects and risks of the underlying company;
 - d) The liquidity of the shares and how quickly they can be sold (including the number of days that it may take to sell the shares), taking into account the number of shares held by Punakaiki Fund;
 - e) The volatility of the share price;
 - f) The volatility of the relevant foreign exchange rate should the shares not be traded in New Zealand dollars;
 - g) The nature and jurisdiction of the market on which those shares are traded;
 - h) The strength of the relationships that Punakaiki Fund holds with any key brokers for those shares;
 - i) Whether those shares are restricted, held under escrow or are non-tradable for any reason;
 - j) Any discount that may be required to sell the shares in a block trade;
 - k) Any tax impact of selling the shares;
 - l) Any charges, commissions or other deductions associated with selling the shares; and
 - m) The frequency at which Punakaiki Fund intends to raise new capital.
- 5.8. If it is anticipated that the Milestone Fund Raising event will be triggered by a series of capital raising events that will amount to 5% of Net Asset Value, then sufficient proceeds from earlier capital raises in the series should be retained in

order to ensure that the Operating Reserve can be funded following the capital raise that triggers the Milestone Fund Raising event.

- 5.9. When assessing whether the Operating Reserve has fallen below 1% of Net Asset Value following any capital raising event (and thus triggering a reset of the Operating Reserve), the forecasted cash receipt of dividends by Punakaiki Fund from its Portfolio Companies should only be considered for the period from the most recent capital raising event until the 12 month anniversary of when the Operating Reserve was last reset.
- 5.10. The Operating Reserve will be spent over time and as such will reduce in value until Punakaiki Fund completes a Milestone Fund Raising event, at which time the Operating Reserve will be replenished based on the new Net Asset Value following that capital raise.
- 5.11. The Punakaiki Fund Board has the discretion to temporarily alter the policy set out in paragraph 5.2 in respect of the Operating Reserve in exceptional circumstances where:
- a) In the Board's opinion, an investment opportunity that is of importance to Punakaiki Fund exists, and Punakaiki Fund does not have the funds to otherwise invest in that opportunity (in which case a portion of any remaining Operating Reserve may be made available for investment); or
 - b) Following any event or events that Punakaiki Fund's Board determines is likely to make raising capital materially more difficult for Punakaiki Fund, increase the amount of cash then allocated to the Operating Reserve, and/or declare that the most recent capital raise is a Milestone Fund Raising event, even if it does not meet the definition of a Milestone Fund Raising event as set out in paragraph 5.2.

Rebalancing

- 5.12. From time to time increases or decreases in one or a number of Punakaiki Fund's Portfolio Companies' carrying values arising from revaluations may result in minimum or maximum thresholds for certain asset allocation categories being exceeded. In this situation, Punakaiki Fund is not required to rebalance its portfolio to be in-line with the asset allocations or diversification targets set out in this SIPO, however the Manager will need to ensure that subsequent investments are tailored to bring the actual asset allocation and diversification targets back into line with the SIPO.
- 5.13. Tactical Asset Allocation (relaxing the SIPO asset allocation to take advantage of short term market conditions) and Dynamic Asset Allocation (relaxing the SIPO asset allocation to take advantage of medium term market conditions) will not be permitted without the prior approval of the Board.

Reporting

- 5.14. The Manager shall report the actual asset allocation of Punakaiki Fund's investments to the Board on a quarterly basis. The Manager shall also immediately report to the Board in the event (to the best knowledge of the Manager) that any asset allocation thresholds have been breached.
- 5.15. The Manager shall report on the amount of capital raised since the last Milestone Fund Raising event occurred, and the level of the Operating Reserve, both in dollar terms and as a percentage of Net Asset Value, in each Capital Raising Report issued to the Board.

6. GENERAL INVESTMENT POLICIES

- 6.1. The following sets out general investment policies of Punakaiki Fund not previously discussed in this SIPO.

Performance Measurement

- 6.2. Investor Net Asset Value (iNAV) is defined as Total Assets less both the Total Liabilities and the Share-based Payment Reserve (i.e. the equity portion of the accrued performance fee payable to LWCM).
- 6.3. The change in Punakaiki Fund's share price (or if Punakaiki Fund is not listed on a recognised market, its iNAV per share) will be used as our return measure, which reflects the performance of Punakaiki Fund's portfolio after the deduction of all fees and other costs.

Management Agreement Restrictions

- 6.4. Clause 2.5 of the Management Agreement sets out certain restrictions on the Manager's ability to invest. These restrictions are paraphrased below:
- a) The Manager may not invest an aggregated amount (whether in a single transaction or series of related transactions) greater than 20% of the Punakaiki Fund's Net Asset Value in a single Portfolio Company; and
 - b) The Manager may not invest in a business where that business is not primarily associated with or carrying on its business in New Zealand.
- 6.5. Any departures from these restrictions require Board approval.

Divestments

- 6.6. One of Punakaiki Fund's philosophies is to hold Portfolio Companies over the long-term to receive ever increasing dividend payments. It is possible that the divestment of a Portfolio Company may occur, generally to follow the Founders

position on the sale, unless that position would result in the destruction of value in relation to Punakaiki Fund's investment.

- 6.7. In the event that a divestment is proposed and the Manager supports the divestment, the Manager shall seek approval for the divestment from the Board in accordance with clause 2.6 of the Management Agreement.

Socially Responsible Investing

- 6.8. Punakaiki Fund will invest in accordance with its Socially Responsible Investment Policy document, as updated from time to time.

Investing in Listed Companies

- 6.9. The Manager may not invest in a publicly listed company without the approval of Punakaiki Fund's Board.
- 6.10. For investments in publicly listed companies that have resulted from one of Punakaiki Fund's Portfolio Companies undertaking an Initial Public Offering, Punakaiki Fund may continue to hold that Portfolio Company with approval from the Board.
- 6.11. For investments in publicly listed companies that have resulted from an unrelated publicly listed company acquiring a Portfolio Companies for scrip (or for scrip and cash), then the scrip investment in the acquiring company needs to be considered as an investment on its own merits. Continued holding of these types of investments requires the approval of Punakaiki Fund's Board.

Investments

- 6.12. Punakaiki Fund will not directly invest in the following investment classes without prior Board approval:
- a) Real estate;
 - b) Speculative derivatives;
 - c) Hedge funds;
 - d) Speculative currencies;
 - e) Bonds and other debt types (e.g. mortgages); and
 - f) Commodities.
- 6.13. For clarity, Punakaiki Fund is permitted to invest in a Portfolio Company which has investments in 6.12 a) to 6.12 f), provided that Portfolio Companies are not in the business of investing in those types investments (i.e. those investments are

either only minor, or are essential in undertaking the Portfolio Company's primary business).

6.14. Punakaiki Fund will not invest in the following structures:

- a) Unincorporated Joint Ventures;
- b) Partnerships (limited or otherwise);
- c) Trusts; and
- d) Unit Trusts.

6.15. Punakaiki Fund will not invest using loans, unless these are quasi-equity such as convertible notes, however there is a strong bias to invest in ordinary or simple preference shares only.

Management of Cash Investments

6.16. Punakaiki Fund's cash balances are to be held in major New Zealand-registered trading bank accounts (or their wholly owned subsidiaries), either on call or as investments in short-term term deposits. The bank(s) at which Punakaiki Fund's cash balances are held should have a minimum investment rating of "AA-" or "A1" or higher as issued by Standard & Poors or Moody's respectively.

6.17. Punakaiki Fund's maximum exposure to any single bank or bank group shall not exceed the larger of \$NZ10 million or 35% of the cash held by the fund.

Hedging and Derivatives

6.18. With the exception of options and convertible notes held in respect of Portfolio Companies, Punakaiki Fund will not enter into any other type of derivative contract or undertaking, including interest rate or currency hedging, without prior Board approval. The hedging (if any) of Portfolio Companies interest rate or currency risk is the responsibility of those individual companies.

Leverage

6.19. The Management Agreement sets out that "Borrowing must not be incurred if, immediately afterwards, the aggregate principal amount of the borrowing of the Group would exceed an amount equal to 25% of the Net Asset Value."

6.20. All borrowing arrangements must be approved by the Punakaiki Fund Board.

Valuation Policies

6.21. Punakaiki Fund's portfolio valuation policies are contained within its Investment Valuation Policy.

7. BENCHMARKS

- 7.1. Punakaiki Fund targets a total shareholder return net of all taxes, fees and other charges of 20% per annum, over a rolling five year period. These return levels are absolute in basis and, in the long-run, are expected to be largely independent of general market movements. Given Punakaiki Fund's absolute return model, it does not compare itself to a benchmark or a reference portfolio.

8. CONFLICTS OF INTEREST

- 8.1. Conflicts can arise when the interests of the Manager or any officer (including directors and managers) or employees of the Manager are inconsistent with, or diverge from, some or all of the interests of Punakaiki Fund.
- 8.2. In particular the Management Agreement specifically prohibits the Manager engaging in the following activities:
- a) The Manager may not make any investment on behalf of Punakaiki Fund in which the Manager has an ownership interest (clause 4.1 of the Management Agreement); and
 - b) The Manager will not undertake their own investments into businesses which fall within the investment mandate of Punakaiki Fund without Punakaiki Fund having the first opportunity to invest (clause 4.2 of the Management Agreement).

In both of these cases, the Manager may apply to the Board for an exemption to these prohibitions on a case by case basis.

- 8.3. It is the responsibility of the Manager to disclose any potential conflict of interest to the Board prior to an investment, or if the conflict arises after an investment is made, as soon as is practical. The Board may require the Manager to undertake certain action(s) if it deems that improved conflict management is required.

9. MONITORING & COMPLIANCE

- 9.1. It is the responsibility of the Manager to comply with the policies and objectives set out within this SIPO. It is the responsibility of the Board to monitor the Manager's compliance with this SIPO on a quarterly basis or more frequently if warranted.
- 9.2. Should the Manager be found to be in breach of this SIPO or not adhering to the SIPO philosophies as a result of investment or divestment activity or other behaviours (or lack there-of as the case may be), the Board has a wide range of tools to caution or discipline the Manager including, but not limited to, the termination of the Management Agreement under clause 9.2 of the Management Agreement.

10. CONFLICTS BETWEEN DOCUMENTS

10.1. Should any clause in this SIPO conflict with any clause in Punakaiki Fund's Constitution or the Management Agreement, then Punakaiki Fund's Constitution or the Management Agreement (as the case may be) shall take precedence.

11. REVIEW

11.1. As the size of Punakaiki Fund grows we expect that companies will graduate to different stages and that the size of both our new and existing investments will become larger. These effects will see the portfolio gradually change to have more emphasis on later stage and larger companies. The requirements will also change after listing on a public exchange, including the need to provision for any cash component of a performance fee. As a result of this, this SIPO will require periodic review, particularly in respect of asset allocations.

11.2. This SIPO:

- a) will be reviewed at least every year by the Board; and
- b) may be reviewed more frequently as considered appropriate by the Board.

11.3. Any changes to this SIPO require prior approval of the Board.

APPENDIX 1 – WHY WE ARE A LONG TERM INVESTOR

- 1.1. Punakaiki Fund believes that there are many benefits from holding its investments over the long term. In relation to Punakaiki Fund's investments in both Portfolio Companies and companies in which it may invest in the future, these benefits include:
- a) Receiving an ever increasing stream of dividends from maturing portfolio companies;
 - b) Sending signals supporting the growing of a sustainable long-term businesses;
 - c) Preventing forced business exits which can lower value;
 - d) Avoiding short-term investment horizons that can force founders to sub-optimally accelerate the growth of their business and hence avoid wastage; and
 - e) Over time, capturing the full value of investments as they grow to maturity.
- 1.2. From the perspective of Punakaiki Fund and its shareholders, long-term investment horizons avoid the crystallisation of short-term fluctuation in value or the decoupling of value and price during periods of market instability. In particular, Punakaiki Fund believes that:
- a) The power of compounding growth over the long-term is a powerful value creation mechanism;
 - b) Risk and return are strongly and positively correlated over the long term;
 - c) Short-term returns may be significantly different to the long-term average returns for any particular period;
 - d) Fair value is driven over the long-term by business fundamentals, rather than by periods of extreme market optimism or pessimism; and
 - e) The value of an asset will return to its fair value over time.

APPENDIX 2 – INVESTMENT TARGET DEFINITIONS

- 1.1. Definitions of each of the Targeted Stage categories which Punakaiki Fund will seek to invest in are set out below:
- a) **Seed** investments are made in to or held in businesses with lower levels of sales. Any business with revenues below \$5 million over the last 12 months (or \$1 million in annualised last quarter recurring revenues for Software as a Service businesses) will be considered Seed investments;
 - b) **Early Growth** investments are made into or held in businesses with increasing revenue from customers who are buying a product that may be relatively unrefined but is becoming ever-more acceptable. Any business with revenues between \$5 million and \$10 million over the last 12 months (or between \$1 million and \$3 million in annualised last quarter recurring revenues for Software as a Service businesses) will be considered Early Growth investments; and
 - c) **Growth** investments are made to or held in businesses that have a successful product, who know how to sell it but need to build capability and capacity across the range of functions including sales, operations and product development. Any business with revenues over \$10 million over the last 12 months (or over \$3 million in annualised last quarter recurring revenues for Software as a Service businesses) will be considered Growth investments.
- 1.2. Definitions of each of the Targeted Profitability categories in which Punakaiki Fund will seek to invest in include:
- a) **Unprofitable** businesses are those which operate at a loss in pursuit of growth, and which typically have raised sufficient capital to grow revenues to a level which makes the business cash flow neutral. When this occurs, these business will typically raise additional capital in order to increase sales, marketing or product development in order to pursue additional growth, and will fall back into unprofitability as a result;
 - b) **Profitable (or near profitable)** businesses can be classified as being in one of the three following categories:
 - i. **Dividend Paying:** The business is profitable and can meet all of its sustainable growth costs from free cash flow, with the surplus distributed as dividends to shareholders;
 - ii. **Profitable (non-dividend paying):** The business is profitable but are investing all profits into growth and/or the repayment of debt; and

- iii. Near Profitable: The business has the ability to be profitable (and pay dividends) if it foregoes investment in growth. These businesses are expected to move into the Profitable and Dividend Paying categories over the medium term (1 to 4 years).

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