Punakaiki Fund

INVESTMENT GUIDANCE

2 December 2022

Version 2.0

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 2040 Ventures Limited (the “Manager”) to source and manage its investments.

1.2. This Investment Guidance provides an overview of the approach Punakaiki Fund undertakes when making investments. In particular, this document provides guidance in respect of the investment process and contract forming when investing; Punakaiki Fund’s founder-centric focus, governance and voting in respect of those companies.

1.3. For Punakaiki Fund’s investment philosophy, strategies, objectives and policies, please refer to Punakaiki Fund’s Statement of Investment Policies and Objectives (“SIPO”). For Punakaiki Fund’s environmental, social and governance approach to investing, please refer to Punakaiki Fund’ Socially Responsible Investment Policy (“SRI”).

2. INVESTMENTS PROCESS

2.1. While the Manager has broad discretion to select and make investments providing the philosophies set out in Punakaiki Fund’s SIPO and SRI policies are adhered to, this section provides additional guidance to the Manager in respect of the process and other matters relating to new investments. This guidance is general in nature and is not considered applicable in all cases; however, the Manager will be expected to adhere to this guidance for the majority of new and follow-on investments.

Due diligence

2.2. Generally, the intensity of due diligence will be commensurate with the size of the investment. However, the amount of due diligence undertaken will be modified by factors including:

a) how familiar the Manager is with the target business, especially where Punakaiki has previously invested in that business;

b) the industry and market the business operates within;

c) the historical track record of the management team;

d) whether a co-investor has taken the lead on the due diligence process and whether this due diligence is shared; and

e) the number/complexity of the products and/or services being produced by the business.

2.3. It is acknowledged that in respect of earlier-stage investments, a significant proportion of the investment decision may be based on qualitative factors or judgement rather than more traditional analytical or quantitative due diligence processes.

Leading the Round

2.4. Punakaiki Fund will have a preference to be the lead investor in any capital raising round in order to exert influence over the pricing and terms of the capital raising round (included Punakaiki Fund's on-going rights), ensure an appropriate level of capital is raised, and be in a position to provide on-going assistance to the investee business. It is noted that leading the round may not always be possible when Punakaiki Fund is not the largest investor in a capital raising round.

Co-investing – Other Industry Players

2.5. Generally, Punakaiki Fund will invest in businesses alongside other industry players (including other venture capital funds, institutional investors and individual investors), providing that:

a) The proposed terms of investment are generally aligned with Punakaiki Fund's philosophies as contained in the SIPO and SRI policies and this document;

b) The target business is able to maintain workable capital and governance structures; and

c) We trust that the co-investor has the necessary capability and integrity to be an appropriate co-investment partner to the business ad Punakaiki Fund.

Co-investing – Punakaiki Fund Shareholders

2.6. From time to time Punakaiki Fund may invite its institutional and high net worth (eligible) shareholders to participate alongside Punakaiki Fund when investing. This invitation will usually only be made:

a) where Punakaiki Fund is leading the round; and

b) where Punakaiki Fund cannot or does not want to invest additional funds itself (i.e. Punakaiki Fund will always prioritise the investing of its own funds above those of individual Punakaiki Fund shareholders).

3. CONTRACT FORMING

3.1. In order to model preferred behaviour within the high growth investment landscape in New Zealand, the Manager (where possible) will be encouraged to follow the following guidance.

Liquidation Preferences

3.2. Punakaiki Fund may seek only reasonable liquidation preferences as part of an investment given that:

a) Liquidation preferences are typically ineffectual in downside cases, as in the case of a liquidation of high growth companies there is typically little or nothing left to distribute to shareholders, while noting that in certain exit scenarios, liquidation preferences may result in the return of a meaningful level of capital to Punakaiki Fund;

b) The presence of onerous liquidation preferences can make future capital raising rounds harder for the business to complete, usually requiring all shareholders to waive or subordinate their liquidation preferences for the benefit of new shareholders. This is at odds with Punakaiki Fund's founder focus philosophy;

c) Liquidation preferences with more than a one-times (x1) preference have the potential to distort valuations, as investors can be less concerned with the valuation of the business at the time of investment and more concerned with the liquidation preference multiple as the primary method of creating a return for that investor; and

d) Liquidation preferences with more than a one-times (x1) preference have the potential to be inequitable to founders and other earlier shareholders as the liquidation preference holder may receive a significantly higher upside in the event of a company sale than other shareholders.

3.3. Punakaiki Fund notes that liquidation preferences are now more common and acceptable in the New Zealand market, and as such does not have material concerns in seeking x1 liquidation preferences in most investment circumstances, while also noted that for some investments, investing in ordinary shares with no liquidation preferences (whether arising from a new issue of shares or from the purchase of existing shares) is also acceptable.

Pre-emption of Governance

3.4. Punakaiki Fund will not generally entertain investments which reduce the powers of the investee companies' board of directors, including their ability and or freedom to monitor management, manage risk or set strategy. Examples of reductions in board powers include:

a) Subscription agreements which require the investee company to formulate and adhere to business plans or budgets prior to the investment with no ability for the board to reasonably amend or replace the business plan or budget; or

b) Subscription agreements which provide an individual investor veto rights over any investee company board decision; or

c) Subscription agreements which set dividend policies.

Money-go-rounds

3.5. Punakaiki Fund will not generally entertain subscription agreement under which investment in an investee company is conditional on the investee company having to pay back a portion of an investment back to investors or their related parties. In the event that Punakaiki Fund does enter into a subscription agreement of this nature, any amounts paid back by the investee company will be on account of Punakaiki Fund.

Anti-dilution Arrangements

3.6. Anti-dilution arrangements which protect the investor from subsequent capital raising rounds at lower valuations are acceptable providing that these rights persist for finite periods of time.

3.7. The mechanics of any adopted anti-dilution arrangement should be appropriate for the type and risk attached to an investment. If an anti-dilution arrangement is used, generally a weighted average approach should be adopted, however a full rachet approach may be used in high-risk investments, although a full rachet approach is only expected to be used infrequently.

3.8. Regardless of the type of anti-dilution arrangement used, the mechanics and impact of such an arrangement should be readily understandable, especially to founders.

4. FOUNDER FOCUSED APPROACH

4.1. Punakaiki Fund believes that there are significant shareholder return benefits from positioning itself as being founder focused. In this context, founder focused means:

a) Being easy and timely to deal with;

b) Giving good advice as and when required to founders throughout all stages of growth;

c) Investing using fair and simple term sheets which do not attempt to unfairly capture value or that potentially impede future capital raising events;

d) Making decisions (investment and otherwise) quickly, such that the founder's focus can remain on growing the business rather than raising capital or dealing with shareholder issues; and

e) Have patience to wait for long term returns (i.e. not forcing the premature sale of a business).

4.2. Punakaiki Fund believes that by adopting a founder focus, it will become the fund of choice for growth companies seeking capital in New Zealand. This will provide access for Punakaiki Fund to invest in some of the most attractive growth companies in New Zealand and deliver the returns from those companies to its shareholders.

5. GOVERNANCE AND VOTING

5.1. Punakaiki Fund will generally seek representation on the boards of investee companies in the following case:

a) When Punakaiki Fund has a shareholding of 10% or more;

b) The investment is material to Punakaiki Fund; and

c) The Manager is not satisfied that adequate independent director representation able to protect Punakaiki Fund interests is present on the investee company's board.

Version	Date Adopted
V1.0	18 August 2016
V1.1	15 February 2019
V1.2	16 October 2019
V2.0	2 December 2022