INVESTMENT GUIDANCE

16 October 2019

Version 1.2

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 Investment Guidance provides an overview of the approach Punakaiki Fund undertakes when making investments. In particular, this guidance in respect of the types, life-cycle stage and profitability of the companies Punakaiki Fund will seek to invest in; the investment process and contract forming when investing in those companies; Punakaiki Fund's founder-centric focus, governance and voting in respect of those companies and Punakaiki Fund's ability to hold investments passively.

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").

2. TARGETED CHARACTERISTICS

2.1. Punakaiki Fund considers that its Portfolio Companies and potential investee companies will typically display the following characteristics:

a) Generating early but material revenues to validate a business model;

b) Following an attractive revenue (and/or profit) growth curve;

c) Have a significant part of its business focused on either a Software as a Service ("SaaS") or a technology market offering;

d) Focusing on creating value or meeting an unmet need for the end users of their products and services;

e) Offering a product or service for which customers are willing to pay a premium;

f) Implementing a sustainable and compelling business model;

g) Having strong leadership, culture and organisation structures

h) Compliant with Punakaiki Fund's Socially Responsible Investment Policy; and

i) Delivering long-term sustainable growth across a range of measureable indicators.

2.2. While the characteristics set out above are relatively broad, they do not preclude investment into companies which otherwise follow Punakaiki Fund's primary growth philosophy.

3. TARGETED STAGE

3.1. Punakaiki Fund believes that its high growth investment philosophy is best put into practice by investing the majority of its capital into Early Growth-stage and Growth-stage investments. Earlier Growth-stages have a lower portfolio allocation than Growth-stage investment as they are considered to be riskier and do not necessarily provide the required return to Punakaiki Fund given their risk profile and general failure rate. A small allocation has been made within Punakaiki Fund's asset allocation (refer to Punakaiki Fund's SIPO) to seed-stage investments to allow for investment for businesses with best-in-class potential.

3.2. In order to avoid the heightened risk associated earlier stage seed-type investments, Punakaiki Fund has a preference to only invest in SaaS or technology businesses with revenues above the following thresholds:

a) SaaS Businesses: Minimum annual recurring revenues of NZ$300,000; and

b) Technology Businesses: Minimum trailing twelve-month revenues of NZ$3,000,000.

Notwithstanding these minima, investments may be made in businesses with revenues below $300,000 for SaaS businesses and $3 million for Non-SaaS businesses with Punakaiki Fund Board approval.

3.3. Definitions of Targeted Stage categories are contained within Punakaiki Fund's SIPO.

4. TARGETED PROFITABILITY

4.1. In order to give effect to Punakaiki Fund's self-sufficiency objective, a proportion of the business in which Punakaiki Fund invests in will be profitable or near-profitable with the expectation that dividends will be paid to Punakaiki Fund over the medium term (this can be contrasted with non-profitable companies where dividend payments to Punakaiki Fund are only expected in the long-term).

4.2. Definitions of Targeted Profitability categories are contained within Punakaiki Fund's SIPO.

5. INVESTMENTS PROCESS

5.1. While the Manager has broad discretion to select and invest in potential Portfolio Companies providing the philosophies set out in Punakaiki Fund's SIPO 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 on new and follow-on investments.

Due diligence

5.2. 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

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

5.3. 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.

Size of Shareholding

5.4. Punakaiki Fund believes that it is primarily in the business of investing in rather than operating or controlling growth businesses. As such, it believes that better investment outcomes are achieved when it limits its shareholding in a Portfolio Company to no more than 30%. Shareholding limits should promote a more founder-driven business and is consistent with the founder focus philosophy of Punakaiki Fund.

5.5. It is, however, noted that there will be situations where shareholdings above 30% may be desirable for any (but not necessarily limited to) of the follow reasons:

a) In order to expedite follow-on investment rounds; or

b) When investing in attractive opportunities where a shareholding above 30% won't adversely impact the control or governance of the business.

Degree of Funding

5.6. For loss-making early-stage Portfolio Companies, Punakaiki Fund believes that it is preferable to invest small amounts of money in the earlier investment rounds, with investment amounts increasing only as the Portfolio Company grows and its business concept receives an increasing level of validation.

5.7. These amounts should generally be enough to fund the Portfolio Company through to a cash flow break-even position. Investing too much money at earlier stages can easily result in wasteful overspending on unnecessary technology, products, development or marketing.

Leading the Round

5.8. 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. It is noted that leading the round may not always be possible when Punakaiki Fund is only seeking a relatively small portion of a capital raising round.

Margin of Safety

5.9. While the nature of the Portfolio Companies which Punakaiki Fund invests in is such that failures resulting in total or partial loss of Punakaiki Fund's investment can be expected from time to time, Punakaiki Fund has adopted a "margin of safety" philosophy so that these types of losses are minimised. A margin of safety approach can be implemented in a number of ways:

a) Investing in companies where future growth prospects are strong;

b) Investing in companies at reasonable or low valuations;

c) Investing in companies with a profitable core business which underpins the investment value;

d) Investing in companies with a proven track record of revenue generation (i.e. have a minimum viable product which customer are paying for) that meet the minimum revenue levels set out in paragraph 3.2; or

e) Seeking contractual investing terms that protects Punakaiki Fund's investments.

5.10. The implementation of this philosophy is not intended to exclude investments in companies which do not have any of these characteristics, however it is expected that the majority of new investments made by Punakaiki Fund will adhere to this philosophy.

Co-investing – Other Industry Players

5.11. Generally, Punakaiki Fund will invest in businesses alongside other industry players (including other venture capital funds 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 this document; and

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

Co-investing – Punakaiki Fund Shareholders

5.12. 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).

6. CONTRACT FORMING

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

Liquidation Preferences

6.2. Punakaiki Fund may seek only modest or no 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;

b) The presence of 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.

6.3. 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.

Pre-emption of Governance

6.4. 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

6.5. 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

6.6. 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.

7. FOUNDER FOCUSED APPROACH

7.1. 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 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).

7.2. 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.

8. GOVERNANCE AND VOTING

8.1. 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.

9. PASSIVE HOLDINGS

9.1. The provision of advice and assistance by the Manager to certain Portfolio Companies is not always required. The Manager is permitted to hold certain Portfolio Companies on a passive basis where the on-going monitoring of the Portfolio Company is the only activity in which the Manager is involved.

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