
CAPITAL ALLOCATION POLICY

22 March 2024

Version 1.0

1. POLICY STATEMENT

- 1.1. Punakaiki Fund Limited (“PFL”) is committed to a policy of ensuring our financial resilience, as we continue to focus on investing into and enhancing the long-term value of our investment portfolio in order to deliver five year average annual returns of at least 20% net to shareholders (after all costs, fees and fund-level taxes).

2. CAPITAL FRAMEWORK

- 2.1. The framework of PFL’s sources and uses of capital are set out in the table below.

Sources of Capital	
External Capital New issues of Equity to new and existing investors Debt funding up to a 25% Debt to Net Asset Value ratio	Investment Returns Dividends & Distributions paid by Portfolio Companies Exit Proceeds from the sale of Portfolio Companies
Uses of Capital	
Maintaining Financial Resilience Fund an Operating Reserve to meet operational funding requirements for the 12 months following a material capital inflow	
Distributions to Investors Make no distributions to shareholders until such time as PFL reaches a suitable scale as assessed by the PFL Board from time-to-time	
Continued Investment into Our Portfolio Continue to make investments in order to target an average annual 20% net return to shareholders Investments governed by PFL’s SIPO and SRI Policy	

3. SOURCES OF CAPITAL - EXTERNAL CAPITAL

- 3.1. To achieve PFL's strategy and objectives, it will be necessary to issue new shares from time-to-time to fund its capital requirements. PFL may use retail or wholesale offers, including offers of ordinary shares, pro-rata rights issues and the issue of options over ordinary shares. The pricing of any such offer will be determined by the PFL Board having regard to the interests of PFL, any discount to the Net Asset Value of PFL (after the deduction of any accrued performance fee) and any potential impact on existing shareholders.
- 3.2. PFL may also borrow to achieve its funding strategy, subject to not exceeding a 25% Debt to Net Asset Value ratio, and the PFL Board being comfortable as to meeting the terms of the borrowing, including meeting interest payments and repaying principal.

4. SOURCES OF CAPITAL - INVESTMENT RETURNS

- 4.1. PFL receives funds from portfolio companies from distributions (including dividends) and, from time-to-time, proceeds from the sale of its investments. To date, these sources of capital are noted as being irregular and unreliable over the short to medium-term. While dividends and other distributions have the ability to provide a semi-regular inflow of capital to PFL, they are only paid by the more mature portfolio companies, generally at low yields. As such, dividends, if received at all, generally provide a small source of capital for PFL.
- 4.2. Divestments of investments can provide a larger source of capital, but are irregular and are more likely to coincide with periods of higher valuations. PFL does not generally drive divestment processes, as it generally:
 - a) is a long-term investor;
 - b) does not hold control over its investments; and
 - c) is guided by the divestment strategy of its portfolio company founders.

5. USES OF CAPITAL - MAINTAINING FINANCIAL RESILIENCE

- 5.1. PFL maintains an Operating Reserve, which is calculated in accordance with Appendix A, and is used to fund the non-investment activities of PFL for the 12 month period following a material inflow of capital.
- 5.2. The Operating Reserve allows PFL to manage its liquidity/solvency and reduces the frequency that PFL needs to raise capital to meet its non-investment expenses.

6. USES OF CAPITAL - DISTRIBUTIONS

6.1. PFL recognises the value of both increasing its scale, and also the importance of delivering cash returns to shareholders. At this time, priority is given to increasing the scale of PFL, and will have a policy of not making distributions to shareholders at this time.

7. USES OF CAPITAL - CONTINUED INVESTMENT

7.1. Capital not required to fund the Operating Reserve may be used for investment purposes in order to seek returns for investors.

7.2. PFL’s investment mandate, Investment limitations and targeted investment allocations are governed by PFL’s Statement of Investment Policies and Objectives and PFL’s Socially Responsible Investment Policy.

8. DEFINITIONS

8.1. The terms "Asset Value" and "Net Asset Value" used in this policy are as defined in the Management Agreement between PFL and 2040 Ventures Limited dated 22 March 2024.

9. REVIEW AND CHANGES

9.1. This Policy:

- d) will be reviewed in one years’ time, and then at least every third year thereafter;
- e) may be reviewed more frequently as considered appropriate by the PFL Board; and
- f) may only be amended as agreed by the PFL Board and 2040 Ventures Limited under the terms of clauses 14.2 and 14.3 of the Management Agreement between PFL and 2040 Ventures Limited dated 22 March 2024.

Version	Date Adopted
V1.0	22 March 2024

Appendix A – Operating Reserve Calculation

- 1.1. PFL'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 PFL completes a Milestone Funding Event (as defined in paragraph 1.3), it will create an Operating Reserve which will be used to meet the non-investing (i.e. operating) costs of PFL.
- 1.2. Immediately after a Milestone Funding Event, an Operating Reserve will be created that is equal in value to:
 - a) The annualised management fee based on the Asset Value immediately following the Milestone Funding Event plus net GST (i.e. any GST payments which are not recoverable); plus
 - b) The currently budgeted (as approved by the PFL Board) net cash outflows (excluding management fees) for the twelve months in which the Milestone Funding Event was completed.
- 1.3. A Milestone Funding 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; or
 - c) any divestment, or series of consecutive divestments, from which net proceeds (in the form of cash) is equal to or greater than 5% the Net Asset Value; or
 - d) any divestment, or series of consecutive divestments, which occur immediately after the Operating Reserve has fallen below 1% of Net Asset Value.
- 1.4. The Operating Reserve will comprise the following components:
 - a) The forecasted receipt of cash dividends expected to be received by PFL from its portfolio companies over the 12 months following the Milestone Funding Event;
 - b) A portion of the value attributed to the forecast receipt of cash amounts released from escrow (in relation to the sale of Portfolio Companies) over the 12 months following the Milestone Funding Event; plus
 - c) A portion of the value attributed to listed share investments held by PFL 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 1.4 a), the forecast escrow payments referred to in paragraph 1.4 b) and the portion of the value of listed shares referred to in paragraph 1.4 c), equals the value of the Operating Reserve calculated in paragraph 1.2.
- 1.5. The PFL Board will, at their sole discretion, determine the forecast receipt of cash amounts released from escrow that can be attributed to meeting the funding requirement of the Operating Reserve as referenced in paragraph 1.4 b). The PFL Board should have a high degree of certainty of receiving those amounts given any risk of retention of, or claim on, those escrowed amounts by counterparties reducing the amount ultimately received by PFL. Specific factors that the PFL Board may consider in setting a portion and resulting attributable value for those escrow amounts include:
- a) The likelihood of a claim by a counterparty on all or part of an escrow amount, including:
 - i. The type of protection sought by counterparties by having amounts held in escrow;
 - ii. The likelihood of the subject portfolio company meeting (or not) the requirement or action that allows the escrow amount (in part or full) to be released;
 - iii. The general track record and reputation of the counterparty in making claims on escrow amounts;
 - b) The general propensity for escrow amounts to be paid (typically in full) to escrow beneficiaries.
- 1.6. In respect of the portion of the value of any listed shares held by PFL that can be attributed to meeting the funding requirement of the Operating Reserve as referenced in paragraph 1.4 c), the PFL Board will, at their sole discretion, determine those portions and resulting values in such a manner that the PFL 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 PFL 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 PFL'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 PFL;
 - 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 PFL 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 PFL intends to raise new capital.
- 1.7. If it is anticipated that the Milestone Funding Event will be triggered by a series of capital raising events that will amount to equal or greater than 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 Funding Event.
- 1.8. 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 PFL 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.
- 1.9. The Operating Reserve will be spent over time and as such will reduce in value until PFL completes a subsequent Milestone Funding Event, at which time the Operating Reserve will be replenished based on the new Asset Value following that capital raise.
- 1.10. The PFL Board has the discretion to temporarily alter the policy set out in paragraph 1.2 in respect of the Operating Reserve in exceptional circumstances where:

- a) In the PFL Board's opinion, an investment opportunity that is of importance to PFL exists, and PFL 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 PFL's Board determines is likely to make raising capital materially more difficult for PFL, increase the amount of cash then allocated to the Operating Reserve, and/or declare that the most recent capital raise is a Milestone Funding Event, even if it does not meet the definition of a Milestone Funding Event as set out in paragraph 1.3.