INVESTMENT VALUATION POLICY

9 February 2024

Version 3.0

1. BACKGROUND

1.1. Punakaiki Fund Limited ("PFL") is a private company which invests in growth companies. This document sets out PFL's policies regarding the valuation of PFL's investments in such companies (each company a "Portfolio Company").

2. REQUIREMENT FOR VALUATION POLICY

2.1. From time to time the investment assets of PFL need to be revalued primarily in order to:

a) Report on the financial performance and position of PFL to its shareholders and other interested parties; and

b) Fix the value of PFL for the purposes of raising new capital.

2.2. This Valuation Policy is intended to provide:

a) Guidance as to when valuations should be undertaken;

b) The preferred approaches when undertaking valuations; and

c) Guidance in respect of dealing with certain special valuation circumstances and events.

2.3. The goal of this policy is to implement a robust, repeatable valuation process that produces timely and reasonable valuations outputs.

2.4. This Policy document should be read in conjunction with the "Investment Valuation Methodologies" document as updated from time to time.

3. DELEGATIONS AND AUTHORITIES

3.1. Overall responsibility for this Policy rests with the PFL Board.

3.2. The Board of PFL may delegate the work of proposing valuations of its investments to:

a) The manager of PFL's investments, 2040 Ventures Limited ("the Manager"); and/or

b) One or more independent valuers of the Board's selection.

3.3. Independent valuations should be considered periodically when an individual Portfolio Company has a high value at risk, or when a Portfolio Company makes up a significant portion of PFL's total investment portfolio (i.e., there is concentration risk). However, the Board of PFL is not obligated to undertake a periodically independent valuation.

3.4. The Board may request that the Manager review any independent valuation, or for an independent valuer to review any valuations undertaken by the Manager.

3.5. The Board retains the authority and responsibility to make final decisions on the valuation of any investment.

4. VALUATION OBJECTIVES

4.1. There are two goals that underpin the reporting of PFL valuations:

a) **Accuracy**: Reported valuations should aim to communicate value information that is materially correct (neither overly aggressive nor overly conservative), notwithstanding the inherent uncertainty that is associated with growth company valuations. Reported valuations should also seek to avoid giving the impression of excess volatility, given the nature and size of PFL's portfolio companies, including their private market status; and

b) **Timeliness**: Reported valuations should be delivered in a timely manner such that they are useful to the users of valuation information at the time that they are released.

5. VALUATION TIMING

5.1. The **primary valuation** of PFL investments will occur throughout the year in accordance with the timing set out in Appendix 1. Each primary valuation will be subject to the scrutiny of PFL's auditor.

5.2. Any listed investments will be marked-to-market at the end of each month.

5.3. The order and timing of the **primary valuations** set out in Appendix 1 (including the addition of any new portfolio companies) shall be agreed from time-to-time between the Board of PFL and Manager with reference to:

a) Maintaining a distribution of valuations across the year when measured by value and by number;

b) The capacity of the Manager to undertake valuations at any particular time of the year (including considering when the Manager's office is closed for holiday periods);

c) A preference to have independent valuations undertaken as close to the end of the financial year as possible in order to avoid those valuations becoming dated; and

d) A preference for Portfolio Companies that are generally only valued once per year to be valued closer to the end of their financial year to avoid significant ageing in their valuation, unless the seasonality of their business indicates that a different valuation timing is likely to provide a more accurate valuation assessment.

5.4. If it is found that a scheduled time for a primary valuation for a Portfolio Company is unworkable due to Portfolio Company-specific issues (e.g. a lack of sufficient quality financial information) or other constraints (e.g. timing conflicts), then the Manager may propose the following to the PFL Board, with PFL Board approval for such a proposal not to be unreasonably withheld:

a) Delaying the timing of the primary valuation of the Portfolio Company by 1-2 months, or such other time agreed between the Manager and the Board; or

b) Swapping the valuation timing of the Portfolio Company and one or more other portfolio companies, provided that the requirements of paragraph 5.3 above are considered in any such proposed schedule change.

5.5. While the previous paragraph provides a temporary mechanism to change the scheduled timing of primary valuations, the Manager may request that any proposed changes are permanent at the time any valuation timing change proposal is made.

5.6. For the purposes of this policy, a primary valuation incorporates a full review of a Portfolio Company's operating performance, requires detailed financial information (including working capital calculations), includes all aspects of the Portfolio Company's capital structure (including options and convertible notes), and incorporates an assessment of any necessary valuation adjustments (e.g. calibration factors and multiple adjustment factors).

5.7. In order to avoid valuations becoming out of date, all Portfolio Companies will be reviewed against the following set of criteria on the frequency indicated to test whether a potential valuation change has occurred. When one or more of these criteria is met, a **secondary valuation** is to be undertaken:

a) <u>A material capital raising event</u> (*monthly review*) – where a Portfolio Company raises at least $3 million or 10% of its capital base in a single, or series of, linked capital raising events from a qualifying investor;

b) <u>A significant growth in revenue</u> (*SaaS Portfolio Companies only – quarterly review*) – where the company's quarterly annualised recurring revenues show a change of more than 30% since the previous valuation;

c) <u>A material adverse event</u> (*monthly review*) – where a Portfolio Company experiences a material adverse event (as determined by the Manager in consultation with the Board), including abandoning or materially delaying major milestones;

d) Changes in comparable company multiples (*quarterly review*) – where there is a more than 20% change in the adjusted (e.g. including caps) comparable company valuation multiples that would be used to value a Portfolio Company ;

e) A credible written offer to acquire (*monthly review*) – where an offer to acquire a significant amount of shares in a Portfolio Company that is either above holding value, or, in the case of offers that are not above holding value, where 2040 Ventures believes that it otherwise has the potential to be capable of acceptance; or

f) Discretionary revaluation (*monthly review*) - in any other circumstance where the Manager deems it appropriate to undertake a secondary revaluation, including where directed to do so by the PFL Board.

5.8. For the purposes of this policy, a secondary valuation will use the preceding valuation as a starting point, with changes to valuation inputs and assumptions generally limited to financial performance, market multiples and any material changes to the capital structure, such as capital raising events. Minor changes to a Portfolio Company's capital structure, working capital position and most valuation adjustment factors can generally be ignored, unless the change would result in a material misstatement of the resulting valuation.

5.9. Secondary Valuations will typically occur on a quarterly basis (in line with the criteria that triggers a secondary valuation), although there is the ability to undertake secondary valuations at other times. If a secondary valuation changes the holding value by more than **1%** of the total assets of PFL, then the new valuation should be adopted, otherwise the existing valuation should be retained.

5.10. It is intended that a mix of primary and secondary valuations will be used to determine the value of PFL investments at any particular point in time, including for:

a) Disclosure in PFL's full year audited financial statements;

b) Disclosure in PFL's interim (half year) financial statements;

c) Disclosure in PFL's monthly reporting to shareholders; or

d) When determining the pricing of new share issues.

6. VALUATION BASIS

6.1. The annual financial statements of PFL are prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit-oriented entities.

6.2. In accordance with these requirements, the financial statements will be prepared on a 'fair value' basis. NZ IFRS defines fair value as an estimate of the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

7. IPEV GUIDLINES

7.1. In order to provide guidelines for determining fair value, PFL has adopted the International Private Equity and Venture Capital Valuation Guidelines ("IPEV"). PFL will also adopt any supplementary IPEV guidelines published to provide guidance with specific valuation issues, such as the Coronavirus Special Valuations Guidance published in March 2020 and the IPEV Board's views on estimating fair value release on 31 December 2020. All PFL valuations are to be undertaken in accordance with these guidelines and associated guidance.

7.2. The December 2022 edition of the IPEV currently applies to PFL's valuations.

8. VALUATION POLICIES

8.1. Any adopted valuation methodology will be applied consistently across all investments with similar characteristics wherever possible. The valuation methodology will also be applied consistently between financial periods. A change in the valuation methodology will only be made if it results in a value measurement that is equally or more representative of fair value.

8.2. The fair value of PFL's investment portfolio shall be the sum of the fair values of its individual investments. Techniques that attempt to estimate or make adjustments to the portfolio in aggregate generally do not comply with accounting standards, and such techniques are therefore not applied for PFL.

8.3. The International Private Equity and Venture Capital Valuation Guidelines (December 2022 edition) sets out the following preferred valuation techniques:

a) Multiples (Market Approach);

b) Industry Valuation Benchmarks (Market Approach);

c) Available Market Prices (Market Approach);

d) Discounted Cash Flows from Earnings of Investee Company (Income Approach);

e) Discounted Cash Flows from an Investment (Income Approach); and

f) Net Asset Value (Replacement Cost Approach).

8.4. There is a preference to use Market Approaches as opposed to Income Approaches or Replacement Cost Approaches when valuing PFL's investments. It should be noted that the IPEV guidelines no longer allow the use of the Price of Recent Investment approach. Instead, recent transactions are to be used only to calibrate other valuation methods.

8.5. Preference will be given to the various Market Approaches to valuation as follows:

a) All investments quoted in active markets should be valued based on their observed share price (Available Market Price approach), specifically being the last traded price of the investment on that investment's most liquid market (if applicable) on the valuation date; and

b) For investments not quoted in an active market, a Multiples approach should be used where possible, such techniques to be calibrated against any recent transactions in the shares on an individual company-by company basis.

8.6. Any evidence of impairment in the fair value of an investment arising from the poor performance or negative changes to aspects of the Portfolio Company (as opposed to changes in the Multiples used to value that Portfolio Company) should be investigated immediately and, if the assessed impairment is either at least **25%** of the value of the underlying asset or **1%** of the value of the total assets of PFL, then the fair value of an investment will be impaired as soon as a value can be reasonably determined. This impairment may be assessed by way of an independent valuation.

8.7. Further discussion and guidance on valuation methodologies is contained within the Valuation Methodology & Approach document.

9. INDEPENDENT THIRD-PARTY VALUERS

9.1. Where an independent valuation is required by the Board, an external valuer will be engaged by the Board. Prior to engagement, the valuer must be assessed for suitability in a number of areas including, but not limited to: relevant qualifications, experience, industry expertise, capacity to undertake the work, reputation, value for money, and independence.

9.2. Independent valuers will be assessed for rotation, at a minimum, every three years.

9.3. PFL may appoint more than one independent valuer, and may request more than one independent valuation of any single investment.

9.4. Independent valuations will be prepared in line with the relevant accounting standards, relevant legislation and these policies, except as is set out in clause 8.5. An independent valuation need not adhere to the Valuation Methodologies & Approach document as an independent valuer will be expected to be proficient in their own valuation methodologies.

9.5. In the case where an independent third-party valuer prefers the use of discounted cash flows as their primary valuation method, this will be permitted provided that a cross-check using the Multiples approach is also undertaken.

10. REVIEW AND CHANGES

10.1. This Policy:

a) will be reviewed in one years' time, and then at least every second year thereafter, by the Board; and

b) may be reviewed more frequently as considered appropriate by the Board.

Version	**Date Adopted**
V1.0	2 February 2016
V2.0	27 November 2017
V2.1	10 May 2019
V2.2	23 July 2020
V2.3	3 February 2022
V3.0	9 February 2024

Punakaiki Fund

Appendix 1
Schedule of Primary Valuation Timing

Portfolio Company	Primary Valuation Month*
Projectworks	January
Orah	February
Whip Around	February
Devoli	March
EverEdge	March
Vend	March
Get Home Safe	April
NZAW	April
Quantifi Photonics	May
QUBEdocs	May
Formus Labs	June
Astute Access	June
Mobi	July
Raygun	July
Couchdrop	August
Onceit	August
Conqa	September
RedSeed	October
Core Schedule	November
Frello	November

**Valuation Date as at the end of the month.*
Reported early the following month.