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# **SOCIALLY RESPONSIBLE INVESTMENT POLICY**

## **PUNAKAIKI FUND LIMITED**

**13 September 2021**

**Version 1.2**

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### **1. INTRODUCTION**

- 1.1. Punakaiki Fund Limited (“PFL”) is an investor in high-growth New Zealand-based companies. It is structured as a New Zealand Limited Company and has contracted LWCM Limited (“the Manager”) to source and manage its investments.
- 1.2. PFL’s primary objective is to deliver significant returns to shareholders over the medium to long term<sup>1</sup>. Investing for a longer time horizon requires a wide range of risks to be considered and managed (both financial and non-financial), which includes Environmental, Social and Governance (“ESG”) risks and opportunities.
- 1.3. The intent of this policy is to express PFL’s ESG principles, and to provide guidance to enhance PFL’s ability to invest in a manner that allows PFL to be an industry leader in its ESG investment approach. This includes ensuring that we proactively manage the conflict between generating returns and implementing ESG best practice.
- 1.4. PFL believes that investing in a socially responsible way, and considering and managing ESG risks, will help deliver greater returns to shareholders. It also means investing to avoid unacceptable harm, and contributing positively to society, the environment and the economy.

### **2. ESG RISKS AND OPPORTUNITIES**

- 2.1. Environmental issues are at the forefront of many of today’s ESG concerns. Carbon emissions and the associated climate crisis are considered by many to be the single most pressing issue facing the world today. There are also a number of other environmental issues that are becoming an increasing focus of the public, including the improper disposal of plastics and other wastes, declining biodiversity and habitat loss. There is a decreasing tolerance for investment in these types of businesses from an environmental perspective, as well as from business sustainability and long-term financial return perspectives.

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<sup>1</sup> See the [Statement of Investment Policies and Objectives](#) for more details on PFL’s investment objectives.

- 2.2. Social issues play an important role in the public's perception of investments. Poor health and safety records or oppressive labour practices can damage a company's reputation, which can impact its social or legal licence to operate and thus its long-term profitability. Similarly, social trends, such as a growing concern about obesity, are likely to affect the long-term prospects of such sectors as food.
- 2.3. Weak corporate governance is a common thread found in many company failures. A lack of proper oversight by the board of directors, engagement in activities that are criminal or undesirable in nature, and incentives that promote excessive risk taking are just a few of the examples that can be problematic for a company. This is a difficult balance when governing small and underfunded companies with an intrinsic chance of failure.
- 2.4. Examples of categories of ESG risks, considered by the Manager in its management of the fund, are set out in the table below.

<b>Environmental Risks</b>	<b>Social Risks</b>	<b>Governance Risks</b>
<ul style="list-style-type: none"> <li>• Climate change</li> <li>• Pollution</li> <li>• Energy efficiency</li> <li>• Waste management</li> <li>• Water scarcity</li> <li>• Biodiversity</li> </ul>	<ul style="list-style-type: none"> <li>• Data protection/privacy</li> <li>• Diversity, equity and inclusion</li> <li>• Employee engagement</li> <li>• Community relations</li> <li>• Human rights</li> <li>• Discrimination</li> </ul>	<ul style="list-style-type: none"> <li>• Board composition</li> <li>• Bribery and corruption</li> <li>• Executive compensation</li> <li>• Political contributions</li> <li>• Protected disclosure schemes</li> <li>• Taxation payments</li> </ul>

- 2.5. We recognise that the ESG risks noted above can also be turned into opportunities associated with shifting consumer expectations, creating new markets, and establishing new innovations, technologies and practices to meet the 21<sup>st</sup> century challenge of transitioning to a low-emissions, sustainable and socially fair economy.
- 2.6. Examples of categories of ESG opportunities are set out in the table below.

<b>Environmental Opportunities</b>	<b>Social Opportunities</b>	<b>Governance Opportunities</b>
<ul style="list-style-type: none"> <li>• Circular economy practices</li> <li>• Meeting consumer expectations</li> <li>• Adopting green technologies</li> <li>• Breaking into 'disruptive' emerging sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Investing in worker wellbeing</li> <li>• Social licence to operate in communities</li> <li>• Healthcare (including mental health)</li> </ul>	<ul style="list-style-type: none"> <li>• Greater diversity on Boards</li> <li>• Strengthening the voice of employees in decision making</li> <li>• Increasing transparency and accountability of the investor's current and future risk profile</li> </ul>

### 3. POLICY

3.1. There are a multitude of approaches to Socially Responsible Investment. PFL uses a combination of such approaches alongside its traditional investment methodology in the delivery of its investment objectives, including:

- **Exclusion** – negative screening involves avoiding investment in any sector or industry which causes unacceptable harm to people, animals or the environment (see Section 5 for PFL’s current exclusions);
- **Inclusion** – positive screening highlights potential investments that can contribute to real world solutions while also offering compelling return potential. For clarity, not all investments are positively screened;
- **Engagement** – through the close relationships the Manager maintains with portfolio companies, PFL uses ownership leverage to encourage founders and management to consider their own ESG risks and engage in establishing their own ESG policies, approaches and reporting frameworks.

### 4. ROLES AND RESPONSIBILITIES

4.1. The **Punakaiki Fund Board of Directors** is responsible for:

- a) Ensuring the appropriate implementation of this policy by the Manager throughout their evaluation and ongoing management of potential investment opportunities.

4.2. The **Manager** is responsible for:

- a) Applying the various approaches noted above and appropriately managing potential risks such as those outlined in paragraph 2, when evaluating and managing both potential and existing investments.
- b) Checking that portfolio companies have appropriate levels of governance, engaging and assisting where applicable, and taking action (including resigning from a company’s board) where unable to effect meaningful change.
- c) Monitoring and encouraging the consideration and management of ESG risks and opportunities by portfolio companies, such as through engagement with management and/or the Board.

### 5. EXCLUSIONS

5.1. The Manager will undertake reasonable due diligence to understand the companies that PFL is investing in. If any company has revenue that is generated as a result of engaging in any of the below activities or industries, investment by PFL is precluded, unless such investment will still demonstrate a commitment to,

and compliance with, PFL's ESG principles. Any such investments must be first approved by the PFL Board:

- a) Pornography;
- b) Gambling;
- c) Alcohol;
- d) Tobacco;
- e) Uranium (including nuclear power);
- f) Human rights abuses and violation of internationally accepted labour rights;
- g) Weapons;
- h) Activities that have a materially negative direct or indirect environmental impact, including but not limited to:
  - i. fossil fuel extraction and/or sales of fossil fuel;
  - ii. the production, use, or improper disposal of plastics;
  - iii. non-sustainable farming practices;
  - iv. pollution; or
  - v. the production of significant greenhouse gas emissions.

5.2. The PFL Board will keep the above industries under review and may consider adding industries, products or services for exclusion at any time.

5.3. PFL will not invest in any business or enterprise where its senior employees, its directors or the business itself can be characterised as, or has a history of, the following, unless such investment will still demonstrate a commitment to, and compliance with, PFL's ESG principles. Any such investments must be first approved by the PFL Board:

- a) Ineffectual governance (unless this can be remedied as part of a PFL investment or if it is appropriate or desirable for the size of the company);
- b) Criminal activity (including bribery and/or corruption);
- c) Performing or aligning with anti-social behaviour;
- d) Mistreatment of employees;
- e) Acting unfairly with customers or suppliers;

- f) Having a poor approach to respecting human rights;
- g) Having poor due diligence over supply chain management with respect to paragraph 5.1 a-h (inclusive) or a-f (inclusive) above;
- h) Making poor ethical choices; and
- i) Acting in a manner which may jeopardise its social or legal licence to operate.

5.4. The Manager will proactively review PFL's portfolio companies from time to time, to ensure that PFL's investments remain consistent with our ESG principles and this policy. In the event that there is any cause for concern in relation to a portfolio company, the matter shall be escalated to the Board. The Board will consider whether PFL can demonstrate ESG leadership by working with the identified company to remedy the identified issue, undesirable behaviour or practice. In the event that this is not possible, the Board will consider potential options, which may include divestment.

## 6. REVIEWS

6.1. This Policy shall be reviewed:

- a) every second year, on or near to the second anniversary of the previous review; and
- b) may be reviewed more frequently as considered appropriate by the Board.

Version	Date Adopted
V1.0	August 2018
V1.1	November 2020
V1.2	September 2021