Responsible Investment Policy

Introduction

As New Zealand's largest private impact investment fund manager, Purpose Capital continuously seeks to incorporate best practice in all our investment practices. We also endeavour to be responsible investment leaders.

What do we mean by responsible investment?

Responsible investing generally incorporates five strategies, the definitions for which have been harmonised by a recent global collaboration to ensure consistency throughout the global asset and wealth management industries. We incorporate all five of these strategies into our approach:

1. **Screening:** the application of rules based on defined criteria that determine whether an investment is permissible.
2. **ESG integration:** ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.
3. **Thematic investing:** selecting assets to access specified trends. In Purpose Capital case, our focus areas are chosen for their importance and urgency and based on research studies in the Bay of Plenty, East Cape, and Waikato, and the deep sector experience of our board, investment committee, and Limited Partners (particularly the regional trusts).
4. **Stewardship:** The use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social and environmental assets on which their interests depend.
5. **Impact investing:** investing with the intention to generate a positive, measurable social and/or environmental impact alongside a financial return.

Purpose

This policy provides transparency on Purpose Capital Ltd's incorporation of responsible investment practices in the assessment, measurement and reporting of portfolio companies':

1. Impact
2. ESG performance

Scope

This policy refers to our approach to responsible investing, as defined above. Financial considerations like return on investment, while important, related, and integral to our overall monitoring, are not covered by this policy.

Background

Purpose Capital is primarily focused on investments that, in and of themselves, drive positive social and/or environmental benefits to society. However, we recognise that it is possible, for example, for a project or company in which we may have invested to be creating positive benefits to society, whilst failing to care or protect its employees.

Therefore, it is important that we not only measure and manage the intended positive impact of our investments, but we also assess, monitor, and where possible, enhance their ESG performance. Active ESG and Impact management enhances the positive impact which our companies add to society, while mitigating downside risk and potentially enhancing the real value of the company. ESG data collected during due diligence provides valuable insights to the investment decision process, including: how a company is positioned to compete and thrive in the transition to a low-carbon future and identification of risk outside the scope of traditional financial analysis.

Purpose Capital is a signatory to the Operating Principles of Impact Management (Impact Principles). Our Impact Principles Disclosure Statement is available on our website.

Our Responsible Investment Approach

Purpose Capital has designed a framework based on our Theory of Change (Appendix II) and the ESG factors which we consider the most relevant to our context:

Environmental

- Climate Change
  - GHG Emissions
  - Emissions Management
  - Risk & Opportunity Management
- Environmental Management Systems
- Waste and Pollution management
- Water
- Natural Resources & Circular Economy
- Nature & Biodiversity

Social

- Health and Safety
- Human Rights & Supply Chain
- Product Quality
- Employee Value Proposition
- Staff Wellbeing
- Diversity, Equity, and Inclusion (DEI)
- Stakeholder Engagement

Governance

- Sustainability Framework
- Investor Protections
- Audit & External Relationship Management
- Board Structure, Quality and Accountability
- Data Security and Tax
- Assurance and Ethics
- Risk management
- Compliance and Regulation

Implementation Across the Investment Lifecycle:

A. Pre-Due diligence

1) Sourcing: We actively looks for investments that align with our:

i) Investment Criteria (Appendix I) and
ii) Theory of Change (Appendix II)

2) Pipeline:

i) We maintain a database of impactful companies that may be investible by us in the future, but which are currently not ready for our investment
ii) Where possible, we assist with introductions, and where funding allows, may offer investment ready services.

3) Initial screens: companies need to pass through several nets, including that they:

i) Have an expected net positive impact in at least one of our four focus areas:
    - Social equity
    - Environmental regeneration
    - Mitigating climate change
    - Sustainable, secure, affordable housing
ii) Are New Zealand entities
iii) Are not on our exclusion list (Appendix III)

B. Due Diligence:

1) **ESG considerations:**
   i) We ask the company to answer a series of questions which allows us to assess their environmental and social performance, as well as their governance practices and structure. These may include, but are not limited to, the metrics used in the ESG Data Convergence Initiative (EDCI).
   ii) We consider if any additional negative ESG risks are present and conduct additional due diligence on the company and industry. For example, this may include both looking down supply chains in the solar industry and at waste disposal in the refrigeration industry. Any matters identified are included in our investment committee paper, and if necessary, more information is requested, and further conditions included in the term sheet.
   iii) Reference checks are conducted to assess key management and culture.

2) **Impact:**
   i) Prior to investment, we use an integrated assessment tool, which includes assessing the deal against the IMPs five dimensions of impact: What, Who, How Much, Contribution, and Risk.
   ii) Where applicable, we consider the companies individual theory of change and we undertake our own in-house detailed analysis regarding the potential scale of impact in relation to the problem they are solving and the context within which they are operating.
   iii) We look for potential negative environmental and social risk, and if applicable, how these can be avoided, mitigated, or managed.
   iv) Our specific potential contribution to the achievement of impact is documented as part of our due diligence assessment.

3) **Stakeholder engagement:**
   i) How we engage with stakeholders is determined by the nature of both the investee company and the stakeholders.

C. Portfolio Management:

1) **Engagement:** We engage actively with individual portfolio companies, including sharing best practices and resources for impact management.

2) **Metrics:** Both Impact and ESG metrics are collected at least annually (quarterly where possible). These are to be reviewed by the PCL team, the PCL board and the Investment

Committee with learnings documented and action taken as required. From FY 2025, we endeavour to collect the following metrics from our portfolio companies, as aligned with the ESG Data Convergence Initiative (EDCI):

i) GHG emissions
- Scope 1
- Scope 2
- Scope 3 (Optional)

ii) Renewable energy
- % renewable energy usage

iii) Diversity
- % women on board
- % women in C-suite (optional)
- % underrepresented groups on board (optional)
- % LGBTQ on board (optional)

iv) Work-related accidents
- Injuries
- Fatalities
- Days lost due to injury

v) Net new hires
- Net new hires (organic and total)
- Turnover

vi) Employee engagement
- Employee survey (yes/no)
- Employee survey response (optional)

3) **Monitoring:**

i) We monitor the achievement of impact and respond to any divergence from expectations.

ii) ESG concerns identified during due diligence will be subject to additional monitoring.

iii) Where ESG gaps or unexpected events are identified after investment, we will engage with the company to ensure they take appropriate action.

4) **Voting**: We will exercise our voting rights along similar lines as our investment decision – deciding how to vote based on financial implications as well as social, environmental, and governance implications.

5) **Public Reporting:** Annual public impact reporting began for FY 2023; wider ESG metrics expected to be added in FY 2025.

D. Exit:

1) When develop an optimal, achievable divestment plan (as and when needed) for each of our investee companies, we will consider the effect of the following on the sustainability of the impact:
    i) timing
    ii) structure
    iii) process

2) In general:
    i) If the impact is ‘baked in’ e.g. renewable energy development company, then we can divest to strategic, financial or retail investors
    ii) If the impact of the company needs to be supported and driven in order to achieve results, then we can:
        a) Divest to an existing medium to long term impact shareholder OR
        b) Divest to new impact investor(s)

Appendix I - Investment Criteria

Impact Investing Characteristics

- ❖ Intentionality - investor and investee intend to make a positive social or environmental impact.
- ❖ Additionality - investment creates desirable outcomes that would not likely have occurred otherwise.
- ❖ Expectation of Return - the investment is expected to generate a positive financial return.
- ❖ Impact Measurement - identifying and considering the positive and negative effects one's business actions have on people and the planet.

Investment Philosophy

- ❖ Partnering with investees to drive positive social and/or environmental impact
- ❖ Projects / businesses creating systemic change or developing innovative models
- ❖ Modelling new ways to make money / investment work – equitable benefit to all stakeholders, common cause
- ❖ Positive contribution to PCIF's investment return target
- ❖ Appropriate risk-return profile
- ❖ Repayment and exit horizons within the term of the Fund
- ❖ Play lead investor to encourage other impact capital and scaling of impact companies

Focus Areas

- ❖ Affordable Housing
- ❖ Regenerative Environment
- ❖ Climate Change
- ❖ Social Equity (often partnering with Māori)

Deal Metrics

- ❖ Investments of $.5 to $3M per deal
- ❖ Co-investment often sought (LP's and 3rd parties)

Deal Parameters

- ❖ Catalytic growth capital
- ❖ Large enough stake to insure impact
- ❖ Board representation
- ❖ New Zealand based
- ❖ Impact core

Target Business Attributes

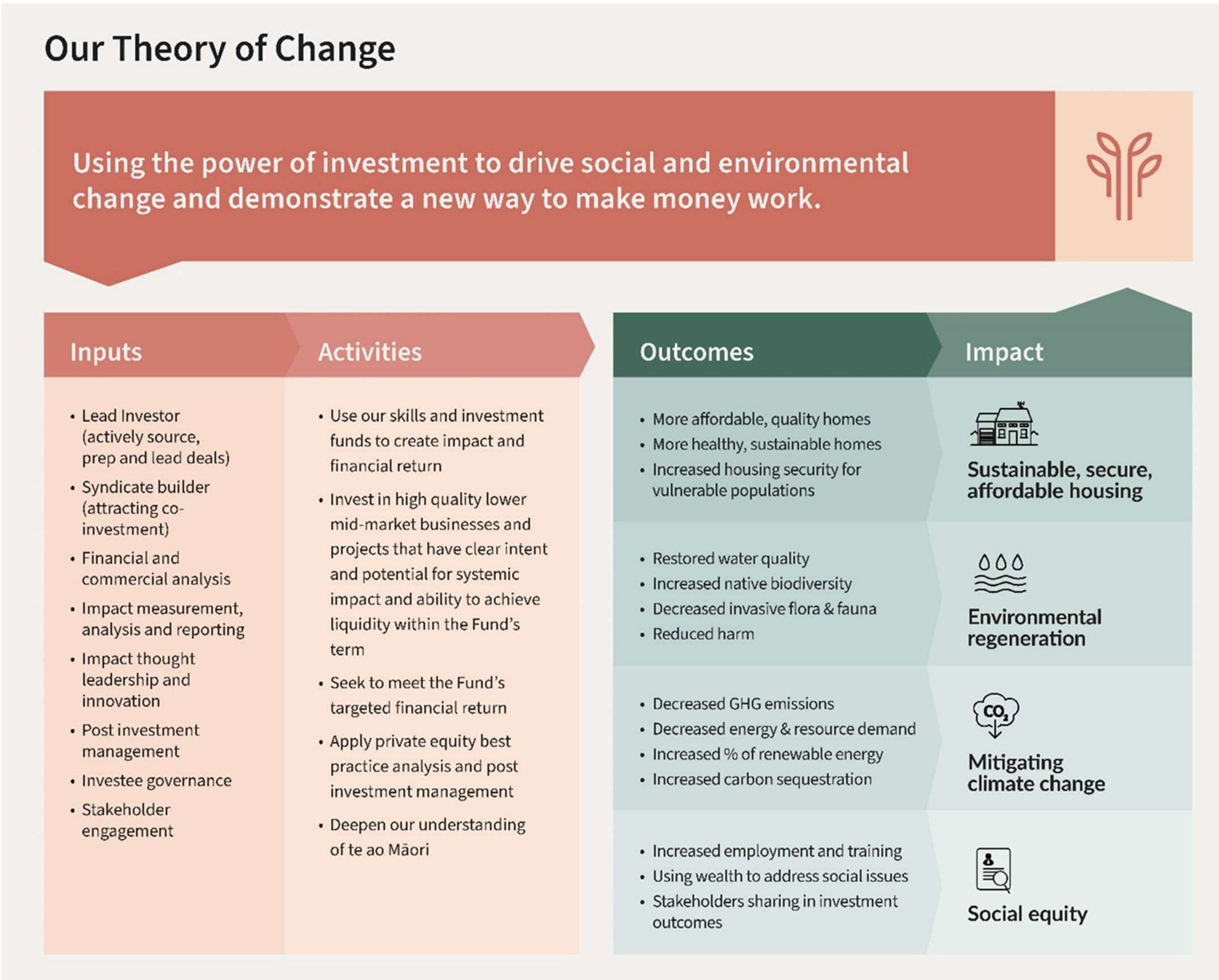
- ❖ Leading or scaling impact change
- ❖ High quality project / management teams
- ❖ If 'new' a founder who has years of experience and success in the same industry
- ❖ Comprehensive business and use of funds plan

Industries of Interest

- ❖ Primary industries including food
- ❖ Housing
- ❖ Carbon drawdown
- ❖ Alternative (to fossil fuel) energy

Appendix II: Our Theory of Change

Our Theory of Change shows the theoretical basis for how our impact objectives and investment strategy are consistent and designed to achieve the impact objectives.



Assumptions

- We recognise that Impact Investing is just one of many actions needed to drive social and environmental change in New Zealand, but we believe that strategic impact investment can play a key role.
- We aim to use knowledge, networks, investment, skills and leadership, working in partnership with others, including the commercial and philanthropic investment sectors and Māori to achieve our Vision.
- The intention is to provide confidence to the investment market so that investment funds flow into impact investments via our Funds, co-investment, syndicated investment and blended finance.
- This will be done intentionally, within the bounds of our Fund's mandates and with rigorous due diligence in the measurement of both financial and non-financial (impact) risk and return.
- We will refine and improve our approach to impact investment and measurement over time.

Appendix III: Exclusion List

For the elimination of doubt, we exclude investments related to, involving, supporting, or promoting:

- Manufacturing of tobacco or related products
- Gambling, casinos and equivalent enterprises
- Extractive industries (e.g. mining of minerals or other geological materials, water bottling, oil and gas) unless the investment is specifically related to decarbonising, or otherwise reducing harm, from these industries.
- The use of child labour, forced or compulsory labour, or other human right abuses
- Any form of discrimination based on race, culture, gender, sexual orientation, or other prohibited grounds
- Items that are illegal in the country in which the good or service is used or intended to be used
- Materially adverse impacts on the climate or environment
- Any type of weapon
- Adult entertainment