Purpose Capital Impact Principles Disclosure Statement

June 2024

Purpose Capital

Disclosure Statement

Operating Principles for Impact Management

Purpose Capital Ltd
53 Spring Street
Tauranga 3110
New Zealand

Purpose Capital Limited (the "Signatory") hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the "Impact Principles").

This Disclosure Statement applies to the following assets or business lines (the "Covered Assets"): Purpose Capital Impact Fund and related Impact Investment Syndicates.

The total Covered Assets in alignment with the Impact Principles is US$26m as of 30 June 2024.

Bill Murphy
Executive Director
Purpose Capital Ltd
30 June 2024

Signatory to:

Operating Principles for Impact Management

Disclaimer:
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Principle 1

Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

Purpose Capital Limited (PCL) is one of New Zealand's most experienced impact investment fund managers. We seek to drive positive environmental and social change within New Zealand, and in so doing, demonstrate a new way to make investment work, so that impact investing is mainstreamed, and positive outcomes maximised.

We are founded on the principle that we can effect positive change through well-run commercial investments that deliver positive impact as well as financial return.

Through demonstrating the effectiveness of our approach, we aim to increase the amount of capital invested in impact investments by both asset and fund managers, as well as private and philanthropic wealth.

By acting as lead investor in various investment opportunities, we provide confidence to third party investors to invest alongside us in impactful companies and projects.

PCL established and acts as the manager for the Purpose Capital Impact Fund (PCIF), one of the largest private impact investment funds in New Zealand. We also manage related impact syndicate co-investments.

We have set the focus of PCIF, our first fund, on creating the following impact objectives:

1. Sustainable, secure, affordable housing
2. Environmental regeneration
3. Climate change mitigation
4. Social equity

These focus areas were chosen for their importance and urgency, based on research studies in New Zealand, and the sector experience of our board, investment committee and Limited Partners (LPs).

This sector and financial expertise, along with our partnerships with the regional community trusts, business community and Māori have been key to our success - enabling us to play an intentional lead investor role. This strategy benefits both our co-investors and the investee companies.

Our assumptions include a view that impact investing is just one of many actions needed to drive social and environmental change in New Zealand, and that we will continuously refine and improve our investment and impact approach over time.

We conduct comprehensive assessments of opportunities, as well as undertaking in-house research on various sectors in New Zealand.

Investment strategy

PCL seeks risk adjusted, financial return investment opportunities which drive social and environmental change. All investments need to meet the following requirements: intentionality, contribution, financial return, impact measurement, and (ideally) contribute to systemic change.

Alignment with widely accepted goals

During the conception of our first fund (PCIF), careful consideration was given to whether we should align our impact focus areas with the Sustainable Development Goals (SDGs) or other widely accepted goals. Given New Zealand's status as a developed country, we felt that the emphasis, particularly with respect to climate related goals, needs to be less on development and growth and more on decreasing our emissions to allow for developing countries to develop.

While all our impact objectives align with the SDGs, as a fund manager investing exclusively within New Zealand, it was our view when establishing PCIF that we should prioritise the most relevant and urgent impact objectives in the New Zealand context. In the future, we may consider aligning with other frameworks like the New Zealand governments Living Standards Framework and the wellbeing indicators in Ngā Tūtohu Aotearoa – Indicators Aotearoa New Zealand.

We have also conducted a comprehensive analysis of “Project Drawdown” Solutions to inform our understanding of how to best leverage our investments related to climate change mitigation.

Asset classes

PCIF invests in: Equities (holdings in operating companies); Fixed income (debt held in operating companies); and Real Estate (affordable and social housing development).

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.

Our Theory of Change

Using the power of investment to drive social and environmental change and demonstrate a new way to make money work.

Inputs

- Lead Investor (actively source, prep and lead deals)
- Syndicate builder (attracting co-investment)
- Financial and commercial analysis
- Impact measurement, analysis and reporting
- Impact thought leadership and innovation
- Post investment management
- Investee governance
- Stakeholder engagement

Activities

- Use our skills and investment funds to create impact and financial return
- Invest in high quality lower mid-market businesses and projects that have clear intent and potential for systemic impact and ability to achieve liquidity within the Fund's term
- Seek to meet the Fund's targeted financial return
- Apply private equity best practice analysis and post investment management
- Deepen our understanding of te ao Māori

Outcomes	Impact
• More affordable, quality homes • More healthy, sustainable homes • Increased housing security for vulnerable populations	Sustainable, secure, affordable housing
• Restored water quality • Increased native biodiversity • Decreased invasive flora & fauna • Reduced harm	Environmental regeneration
• Decreased GHG emissions • Decreased energy & resource demand • Increased % of renewable energy • Increased carbon sequestration	Mitigating climate change
• Increased employment and training • Using wealth to address social issues • Stakeholders sharing in investment outcomes	Social equity

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.

Principle 2

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Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Our portfolio reporting is currently comprised of the impact progress of our individual, underlying investee companies. In future years, where we have the relevant data, we intend to aggregate impact achievements so that we can report on achievements like carbon emissions avoided, jobs created, and renewable energy generated on a portfolio basis.

When establishing our first fund in 2020, PCL felt impact measurement wasn't sufficiently tested or rigorous enough to be used as a measure for a staff incentive system. As a consequence, the Purpose Capital Impact Fund has no "carry" nor any other incentive system.

In late 2022, having gained significant experience with impact assessment, due diligence and measurement, we developed an impact-linked carry incentive for co-investment capital raised for our impact syndicates. Payment of the incentive fee is conditional on achieving satisfactory impact as well as meeting the financial return target.

In structuring future funds managed by PCL, careful consideration will be given to implementing incentive systems that align not only to financial return, but also impact.

Principle 3

Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.[1] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

One of the strengths of a private equity styled impact fund manager like PCL is the small number of investments made and the level of engagement which we have with each investee company.

All of the investments managed by PCL to date have been direct primary capital investments (where the investee was raising the required capital for its own purposes), rather than secondary share transactions (private equity shareholder buy-outs and listed stock market purchases of shares).

To illustrate the importance of this, our $17.4m NZD equity syndicate investment in Lodestone Energy Ltd goes directly into developing and constructing new renewable generation in New Zealand (specifically pioneering utility-scale solar generation in New Zealand). In contrast, a $17.4M investment into a renewable energy company, via the listed markets, would be a secondary share sale and would not provide the company with $17.4m of equity capital to develop and construct new renewable generation capacity.

Our investments encompass all the following levels of IMP Investor contribution:

- Signal that impact matters
- Engage actively
- Grow new & undersupplied Capital markets
- Provide flexibility on risk-adjusted return and contribution

Our specific potential contribution to the achievement of impact is documented as part our due diligence assessment (see Principle 4).

[1]For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

On a more general level, our contribution to the achievement of impact includes:

1. The provision of growth capital into private enterprises that are seeking to grow and scale their positive impact.
2. Ability to provide patient capital.
3. Flexibility to invest via whatever instrument is most appropriate i.e. equity, debt, or other. For example, with our most recent portfolio addition, we started with an equity investment and followed on with a convertible note.
4. Supporting enterprises by assisting them with raising capital in addition to capital from funds we manage. PCL currently has $20.9m NZD co-investment under management in addition to PCIF.
5. Providing impact related advice and connections.
6. Identification of unintended negative consequences, mitigation strategies and implementation.
7. Inclusion of specific requirements during due diligence or in the term sheet.
8. Providing governance where appropriate. This includes identifying what skills and experience the company needs and then finding and appointing suitable investor directors to support the enterprise or taking a board observer role, board seat, or an investor director position.

Given our small team size, and our varying level of financial control, we keep track of our ability to influence each company in our strategic planning so as best to prioritise our efforts.

Case Studies of PCL's Contributions to Portfolio Companies' Impact

A. Lodestone Energy Limited (LEL)

PCL raised and led a $10m NZD and a $7.4m NZD impact syndicate into LEL's Series B and Series C capital raise respectively. LEL is an example of an investee company where we have a small percentage of shareholding and no board representation, but as the impact investor, we have an outsized influence on the company's impact. This occurs through regular meetings with our board representative and senior LEL staff, including the chief executive. We would argue that our financial investment in a company pioneering utility scale solar in New Zealand, particularly in the Series B raise, though relatively small, helped give confidence to co-investors who invested alongside us.

Current impact areas of engagement with LEL include:

i. Greenhouse Gas (GHG) Emissions and Abatement
   - Refining the estimated abatement, abatement cost, and carbon payback period
   - Independent party verification
   - Options for lowering CO_2 emissions intensity
   - Scope 1 and 2 measurement and thoughts on Scope 3 implementation

ii. Modern Day Slavery / Supply Chain Emissions
   - Sharing our learnings to date and confirming which measures are currently in place e.g. audit, site visits, EPC and panel supply agreements
   - "Mapping" LEL's solar supply chain in order to:
     - Increase confidence regarding MDS
     - Assist in accounting for embedded emissions and Scope 3 emissions

iii. Wider ESG tracking
   - Confirming which practices and policies are currently in place and sharing of potential ESG Resources.

B. Cool Group Limited (Cool Group)

During the due diligence for this investment, extensive consideration was given to the potential contribution of our investment and involvement. We provided an initial $3m NZD investment by way of equity and followed on when the company needed it with a $1m NZD convertible note. This flexible capital was necessary for the company to utilise a $10m+ NZD loan facility from New Zealand Green Investment Finance. Additionally, we believed that we would be able to influence the company towards increased impact performance, particularly with regards to:

- The management of leakage & disposal of refrigerants
- Moving towards further reducing refrigeration charge and/or transitioning to even lower global warming potential (GWP) refrigerants
- Measuring, monitoring, and managing the company's environmental impact.

PCL personnel are currently engaged one day per week as the company's executive chair, assisting the company establish the foundation needed to scale its operation and impact.

Principle 4

Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[2] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions:

(1) What is the intended impact?
(2) Who experiences the intended impact?
(3) How significant is the intended impact?[3]

The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[4] and follow best practice.[5]

Prior to investment, we use an integrated assessment tool, designed in house, which combines commercial and impact factors. This includes confirming that the intended impact fits within our defined focus areas and assessing the deal against the IMPs five dimensions of impact: **What, Who, How Much, Contribution, and Risk**. [See overview in figure 1 below]

Where relevant, we undertake our own in-house detailed analysis regarding the potential scale of impact we can expect from the company. For example, detailed analysis of the potential CO_2 equivalent (CO_2e) abatement of Cool Group's refrigeration systems.

Our assessment of contribution includes consideration of opportunities we may have to increase the impact of the investment. The risk assessment includes considering risk factors that could result in the impact varying from ex-ante expectations and any other potential negative risks.

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[2]Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment. [3]Adapted from the Impact Management Project (www.impactmanagementproject.com). [4]Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others. [5]International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

The results of the above feed into the Impact DD report for the investment committee's consideration prior to investment.

In consultation with the company, we determine which metrics to track and how often these need to be reported. For the more recent investments, we also determine the level of "potential impact" against which we track progress. For example, with the solar farm financing, we use "Energy Capacity of Product'' in GWh p.a. as the target. More recently, we have begun incorporating impact reporting conditions into our term sheets. We align our metrics with IRIS+ indicators as much as possible while taking a pragmatic approach to using other, more context appropriate metrics, when needed.

For our last two investments, we assessed the relative size of the challenge addressed within our geographical context. In the case of Lodestone Energy, this entailed looking at the potential generation as percentage of New Zealand's overall electricity generation and equivalent number of homes that could be powered by the solar farms. For Cool Group, we looked at the number of dairy farms in New Zealand and estimated the abatement per refrigeration unit installed alongside how many installations could reasonably be expected during the intended term of our investment.

Where there is scope to do so, it is important to us engage with companies on an ongoing basis to increase the impact of our investment. See Principle 3 for recent examples..

WHAT	**What** tells us what outcome the enterprise is contributing to, whether it is positive or negative, and how important the outcome is to stakeholders.
WHO	**Who** tells us which stakeholders are experiencing the outcome and how underserved they are in relation to the outcome.
HOW MUCH	**How Much** tells us how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome.
CONTRIBUTION	**Contribution** tells us whether an enterprise's and/or investor's efforts resulted in outcomes that were likely better than what would have occurred otherwise.
RISK	**Risk** tells us the likelihood that impact will be different than expected.

Figure 1: Overview of the IMP's 5 Dimensions of Impact Framework. Reference: https://impactfrontiers.org/norms/five-dimensions-of-impact/

Principle 5

Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG[6]) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[7] As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

Prior to investment, we consider risks related to the investment, including any potential negative impacts. 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.

Where a risk is identified, this is included in our ongoing engagement with the company. Current examples include engagement on modern day slavery risk in the solar panel supply chain and leakage risk in the refrigeration industry.

To date, we have not required companies to report ESG metrics to us beyond the agreed impact metrics because of the burden this would place on some of the companies relative to their size and stage. This year, starting with Lodestone, we have begun working with our existing portfolio companies on which ESG metrics are feasible for them to report, both now and in the future. In the interests of reducing the burden on companies with multiple investors we researched what ESG measurement and reporting frameworks the Private Equity industry in New Zealand uses. As a result, we intend to adopt metrics from the ESG Data Convergence Initiative - a standardized, foundational set of ESG metrics established by a consortium of private investors to collect and compare meaningful, performance based ESG data from private companies.

[6]The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6. [7]Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).

Principle 6

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Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[8] The Manager shall also seek to use the results framework to capture investment outcomes.[9]

We monitor the progress of each investment in achieving impact against expectations through the collection of impact data against agreed metrics at least annually, and quarterly where practical. We report outcomes (finite, immediate, measurable results) with pre-defined metrics and impact (broader, long-term effects) using both qualitative and quantitative evidence.

The general metrics and narratives are made publicly available in Purpose Capital's annual impact reports, which are posted on our website. Our board, LPs, and investment committee receive more detailed updates. The predefined process for analysing impact metrics, data collection, reporting and performance reviews is agreed with each investee company and differs depending upon a range of factors such as company/project stage, industry, degree of control/influence.

Importantly, we take active stakes in the companies in which we invest. These include board observer roles and investor director positions as appropriate

To date, none of our investments are failing to achieve their intended impact. But it is early days, and unless our original impact metrics in type or performance expectations were faulty, we would openly report the failure while assisting the investee to improve performance.

[8]Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance. [9]Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).

Principle 7

Conduct exits considering the effect on sustained impact.

When conducting an exit,[10] the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

Due to the stage of the fund and our investments, we have not yet sold any of our shareholdings. Mapping the potential ways we can achieve liquidity / divestment is an important part of our initial deal assessment and due diligence. Each investee company's progress toward liquidity / divestment is reported on regularly to the fund's investment committee.

Each of our investments have their own particular characteristics, and while a strategy to ensure sustainability of impact may work for one, it may not work for another. Consistent with our approach of tailored post investment management for each of our investments, we develop an optimal, achievable divestment plan (as and when needed) for each of our investee companies that follows the general principles below:

1. If the impact is 'baked in' e.g. renewable energy development company, then we can divest to strategic, financial or retail investors
2. 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)

[10]This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

Principle 8

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

We work very closely with all our investee companies and put in place achievable, but aspirational, impact metrics for all. We educate, we watch and listen, we refine, and we draw companies into achieving greater impact. Examples of our engagement with Lodestone Energy and Cool Group are outlined in Principle 3.

More formally, our annual impact results are reviewed by the board, the Investment Committee and our LPs. Feedback from the LPs is received at our AGM and from regular meetings. The management team reviews the impact performance, along with financial performance, of each investee company on a regular basis, and improves and refines our practices based on what we learn.

Principle 9

Publicly disclose alignment with the Principles and provide regular independent verification[11] of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

This is PCL's first annual disclosure statement. Our intention is to have independent verification of our alignment completed by The Lever Room before 30 June 2025. The Lever Room is a New Zealand based advisory and specialist in impact measurement and management (IMM). They have not been involved in the development of our IMM processes.

[11] The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

Important Information

Investments managed by Purpose Capital Ltd ("PCL") are only available to qualified wholesale investors. This Disclosure Statement is for general information purposes only and does not constitute an offer or solicitation to invest, nor is it intended to form the basis of a decision to invest in future funds managed by PCL. It contains forward looking statements that are subject to risks and uncertainties, and actual results and events could differ.

Adherence to the Operating Principles for Impact Management does not guarantee specific impact or financial performance. The information provided is given in good faith and has been prepared from sources believed to be accurate and complete as at the date of issue, but such information may be subject to change. PCL reserves the right to update or revise this Disclosure Statement as necessary.

Purpose Capital

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For questions, feedback, or more information, please reach out to us at info@purposecapital.co.nz or follow us on LinkedIn.