

ICE IDEAS CONFERENCE

8 July 2011

Speech by Franceska Banga, Chief Executive, NZVIF

Session theme:

Ideas to move the nation – one big idea to move the cheese over the next 10 years

Topic:

If the superfund just scratched itself.

My topic is about the money.

If we can get the major institutional investors in New Zealand to put a small percentage of their capital into young New Zealand companies, the impact could be substantial. It could move the cheese.

This is not a new topic, nor just a NZ issue. In 1945, the US Federal Reserve head said:

“We have the greatest number of possibilities for new investments. We have various means for selecting the most attractive possibilities and for spreading the risk on those selected. ...We need to marry some small part of our enormous fiduciary resource to the new ideas which are seeking support”

The US VC industry was founded and built on this premise and the key role that endowment funds have played. Hence the idea of: **“marrying some small part NZ Super’s enormous resource and the new ideas seeking support”**.

Icehouse is setting the challenge of building 3000 internationally capable businesses to change the economic game, to move the cheese.

So here is my big idea: We need to attract \$2 billion of new investment for young New Zealand companies, over the next 10 years.

That’s \$200m a year; \$2m each for a 1000 companies.

Rather than rely on one big cheese, I propose a \$200 million annual cheeseboard. Here it is.



Wealthy migrants, 2 per annum - \$20m. We have a migrant plus policy which grants permanent residence to individuals provided they invest \$10m in New Zealand assets, including property. The policy needs to change so that this money is directed fully to productive investment, into aspiring young companies.

International-NZ Co-Investment Funds, \$25m. Attracting offshore institutional investors requires that we offer them a vehicle for investing in a wide portfolio of NZ growth opportunities. NZVIF is in the process of establishing an investment partnership with Taiwan's National Development Fund, to co-invest in NZ companies. We need to establish a number of these partnerships.

Angels and Friends of New Zealand, \$50-\$75m (\$34m) Domestic angels have invested an average of \$34m per annum over the last few years. The opportunity here is not only to attract new domestic angels, but also to build links with wealthy offshore investors, including NZ expats and FoNZ. NZTE and KEA we look forward to working with you on how we might achieve this.

VC Individual Investors \$20-\$25m (\$28m) This market has been well tapped, but greater promotion of new funds, and profiling of the successes, will continue to yield new investors.

NZ Super/Institutional Investors, \$50m (\$10-\$20m) NZ Super have a mandate to invest in NZ growth opportunities – and they are interested, but they want unique opportunities – and scale. Think \$50m plus investments or fund commitments, from NZ Super and other institutions.

We need to understand their diversification needs, their risk-return profile, the scale of opportunities they are looking for, the deep veins of knowledge they are willing to support. We need to think much bigger, act collectively, and gather the excellence and capability to deliver. We are the constraint right now – not them. Stop feeding them rats and mice and offer a big piece of our cheese.

Kiwi Saver, \$30m or 1% of annual inflows This will take time to mature. The funds management industry is very unlikely to volunteer capital, as they have their own investment products, and anything they share reduces profits. Ultimately, this is a policy issue and it will require a fight.

NZVIF, \$25m (\$16m) Remember the Chesdale jingle? At NZVIF we really know our cheese. Over the last 8 years we have completed 524 individual investment transactions, and invested in 107 New Zealand companies. Along with Stephen Tindall, we are probably NZ's biggest investor into high growth start-ups. It's a thrill to be part of this.

We'd like to continue to be involved in building new investment products that attract greater investor interest. That will require your continued loud support for our role, and additional capital from government.

Conclusion

Those of us who have been around over the last 10 years have seen a big shift in interest and understanding of the market we populate. We've learnt a lot.

Venture capital investing is an increasing returns game – the more you do it the better you get. The 100th deal is more likely to succeed than the first deal. On that basis, I'm very optimistic about the next 10 years.

And if we can tap new capital sources, and provide the right suite of investment opportunities, we can attract **at least** \$2 billion for aspiring NZ companies.