



The NZVIF Venture Capital Fund is an equity investment vehicle investing \$195 million into a series of privately-managed venture capital investment funds.

The venture capital funds we invest in are fixed duration, private equity investment vehicles, typically operating for ten years, investing in a portfolio of New Zealand-originated high growth potential companies.

NZVIF only invests in funds which have been successful in raising matching capital from private investors. The amount that NZVIF invests in a fund is dependent on the overall fund size as well as the investment stage and focus of the fund. The maximum amount that NZVIF is able to invest in any venture capital fund is NZ\$25 million.

The venture capital fund managers we invest in - not NZVIF - make decisions about which companies to invest in. Investments are likely to be focused on technology companies with potential for high growth.

Investments must be in New Zealand-originated businesses through the seed, start-up and expansion stages of their development.

Overview

NZVIF makes investment commitments into venture capital funds which are managed by professional venture capital fund managers. The fund manager is fully responsible for making portfolio investment decisions.

We undertake a full due diligence process on each fund manager before making an investment commitment.

NZVIF welcomes informal discussion with prospective venture capital fund managers at any time about potential new fund investment opportunities. Following initial discussions, if it appears that a new fund investment proposal is a good fit with NZVIF's investment mandate, NZVIF will then provide further information on our due diligence process and requirements to invest at the time NZVIF calls for new Venture Capital Fund investment proposals. NZVIF will also consider Venture Capital Fund investment proposals outside a formal Venture Capital round, under certain circumstances.

Please email venture@nzvif.co.nz to receive a copy of the relevant guidance and background documents.



Fund Manager Due Diligence



Post-Selection



Investment Criteria

In conjunction with other investors, NZVIF negotiates key management and investment terms with each VIF venture capital fund manager as part of the appointment process. Standard contracts, developed in line with international best practice for venture capital funds operating at the early stage, are the basis of co-investment arrangements that are agreed with each VIF Venture Capital Fund Manager.

There are also standard investment criteria for each of the VIF Venture Capital Funds:

- Initial capital investments are to be made in innovative New Zealand businesses. A New Zealand business is defined as having the majority of assets and employees in New Zealand at the time that initial investments are made.
- Initial capital investments can be made in early stage (seed, start-up and early expansion) through to expansion stage (expansion, late expansion) venture capital investments.
- Total investment in any one company must not be more than 15 per cent of the total capital in the fund.
- A maximum of \$25m of NZVIF capital can be committed to any single fund, with the amount of NZVIF investment commitment being determined by:
 - the investment strategy of the Venture Capital Fund; and
 - the amount of capital committed by private investors.

Fund Exclusions

Fund investment terms will normally exclude investment in the following classes of businesses:

- property development;
- retailing;
- mining;
- hospitality-industry businesses;
- re-investing and re-lending; and
- businesses associated directly with other investors in the fund or directly with the fund managers.ⁱ

NZVIF Mandate

The NZVIF Board is expected to exercise judgement with respect to implementation of the Venture Capital Investment Programme and establishment of contractual agreements with VIF Venture Capital Fund Managers in line with venture capital industry best practice.

Structure of Funds

The VIF Venture Capital Funds which have been established to date have typically been unincorporated and do not involve the establishment of any legal entity which is separate from the individual investors. However with the advent of the Limited Partnership Act 2008, it is anticipated that a limited partnership will become the industry standard.

As a limited partnership, funds can generally be taxed on a flow through/look-through basis for New Zealand Investors. Offshore investors into limited partnerships are exempt from paying New Zealand tax on any investment gains. In addition, offshore investors into VIF Venture Capital Funds (whether they are limited partnerships or not) are exempt from paying New Zealand tax on any investment gains.

NZVIF Investment Terms

NZVIF's investment commitment is conditional on the successful Fund Manager(s) raising a minimum fund of \$30 million for investment in early stage high growth New Zealand companies. Funds established under the NZVIF Venture Capital Programme are fixed in duration (generally 10 years) private equity investment vehicles that are managed in line with internationally accepted commercial terms. VIF Venture Capital Funds focus on New Zealand investment opportunities, but could be part of an existing or new Fund that has a wider investment mandate.

NZVIF invests into venture capital funds on a predetermined investment ratio, alongside private investors. NZVIF's expected investment commitment to each VIF Venture Capital Fund is pre-agreed taking into account the investment stage of the fund and the level of matching private capital committed for investment.

The highest potential investment ratio of NZVIF to matching private capital is 1:1 where a Venture Capital Fund intends to invest entirely in seed and start-up investment opportunities. The lowest possible investment ratio of NZVIF to matching private capital is 1:5 for Venture Capital Funds that intend to invest only in late expansion stage investment opportunities. For Venture Capital Funds which intend investing in a portfolio of companies at different stages, a blended ratio will be determined.

Fund Manager Attributes

Prospective Fund Managers are required to demonstrate their skills and experience in venture capital investment and fund management together with how they will contribute to the goals of the NZVIF Venture Capital Programme. Attributes we look for include:

- relevant investment experience;
- a track record of building successful companies; and
- willingness to meet industry standard of investment.

Commercial Terms

NZVIF negotiate terms with prospective Fund Managers, as part of the final selection and appointment process. Full guidelines are included with the Expressions of Interest documents. Consideration is given to the overall structure and investment strategy of the VIF Venture Capital Fund in negotiating final terms.

ⁱIn order to manage conflicts of interest. This may not be relevant to all investors but does include those investors that are directly involved in the investment decisions of the fund and therefore may have a conflict of interest.