



MEDIA RELEASE

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Investment boost for NZ's early stage companies and venture capital market

Following last month's Budget announcement of a new \$300 million, 15 year venture capital (VC) fund, work has begun to consider how to set up the new fund, intended to be managed by the New Zealand Venture Investment Fund (NZVIF).

NZVIF CEO Richard Dellabarca said the new fund aimed to attract private sector investors to the domestic VC market and help innovative, knowledge-intensive businesses to grow.

"This an exciting time for VC and for New Zealand's growth businesses. The additional Government funding, coupled with private sector investment, will deliver a significant boost in the amount of capital available to help New Zealand's early stage companies expand."

Mr Dellabarca said the new fund would help develop the depth and capability of the VC investment manager ecosystem in New Zealand. The model proposed by the Government would involve the Guardians of New Zealand Superannuation (Guardians, the Crown entity that manages the \$42 billion NZ Super Fund) appointing NZVIF to manage a fund-of-funds, with NZVIF in turn appointing a number of private sector VC fund managers. These fund managers, which will include both domestic and international investors, will select the companies to invest in.

"The funds will be committed over an estimated five years as investment managers meet our appointment thresholds and identify suitable companies to invest in," said Mr Dellabarca. "They will be required to source private capital in order to receive Government funding."

"The new fund's purpose is a long-term one: to address the Series A/B capital gap for New Zealand companies and get New Zealand's VC markets working efficiently to contribute to the development of a more productive national economy. As highlighted by the Government's Future of Work programme, New Zealand must address the economic and social challenges presented by rapid technological change. This initiative is an important step towards future-proofing the New Zealand economy."

The Treasury, MBIE (Ministry of Business, Innovation and Employment), the Guardians and NZVIF are working together to progress the required legislative changes and design the governance frameworks for the new fund. Legislation is projected to be in place late in the 2019 calendar year.

Under the proposed model, the Guardians would monitor NZVIF's performance in line with the best practice approach it has developed to manage relationships with other local and international investment managers, as applicable to the New Zealand venture capital market.

Mr Dellabarca said there had been a lot of market interest in the initiative, from both international and domestic fund managers.

"There is now a legislative process to go through as well as finalising the commercial arrangements between NZVIF and the Guardians, and subsequently between NZVIF and the VC fund managers. The legislative process will involve public submissions and market participants are invited to have their say. We will keep the market updated."

Meanwhile, the Seed Co-Investment Fund (SCIF), which NZVIF established to invest in early stage companies alongside angel investment groups, will continue. “SCIF has seen considerable success in the last two years since the mandate was evolved, and will continue to seek opportunities for direct investment in companies alongside 3rd party investors.”

NZVIF, the Guardians and Government officials want to ensure appropriate consultation with industry stakeholders around implementation of the programme, and will be setting up an industry round table to undertake this post August once the legislative process is largely underway.

For more information visit: www.nzvif.co.nz

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Q&A

What isn't working in the venture capital markets at the moment?

The Government wants to develop New Zealand's venture capital market and see more private sector investment managers, both domestic and international, active in the sector in New Zealand. This funding is designed to encourage those managers to invest in New Zealand, and to address a related shortage of Series A and B capital - these are the investment rounds which follow the initial seed and start-up capital invested into young companies. When companies are showing promise after those early funding rounds, larger Series A and B rounds of indicatively between \$2 million to \$10 million are needed.

Where does the \$300m come from?

The Government announced in the Budget that the \$300m fund would consist of \$240 million of contributions redirected from the New Zealand Super Fund and \$60 million of NZVIF's existing assets. At the end of the fund's lifetime, funds will be returned to the Crown to pay for superannuation.

When will capital be deployed?

The legislative changes and governance arrangements are currently being worked on. We're hoping those processes can be completed by the end of the calendar year, with initial mandates signed up and capital flowing into the market after that. The Government has said it expects to see the majority of funds committed within five years.

What would a more successful local venture capital market look like?

- The Series A and B capital gap for New Zealand's high growth early stage companies being significantly addressed (these are the stages beyond seed or angel investment where companies with proven product market fit are looking to scale, and usually require between \$2 million and \$10 million of investment to grow).
- Higher conversion rates of angel-backed companies that go on to receive Series A funding.
- Market engagement undertaken in line with best practice for venture capital.
- Fund managers able to secure private capital alongside Government funding and ultimately without Government funding.
- Fund managers developing a wide range of skills and expertise.
- New fund managers, domestic and international, attracted to the VC sector.
- Develop further capacity (skills and capital base) in the VC market over time.
- VC managers able to raise second funds.
- Additional jobs in NZ via growth of NZ companies.
- Viable options for New Zealand companies to progress and develop in New Zealand.

- Sector-appropriate investment returns by those VC funds.

A full range of measures will be developed prior to implementation.

What is the role of NZVIF?

The intention is that NZVIF will manage the fund-of-funds and appoint private sector fund managers.

How long will the fund operate for?

The duration of the initial round of investments is still to be determined, but is likely to span approximately 15 years. The Government has indicated that any capital and returns will go back to the Crown for the purposes of funding superannuation.

What size will the VC funds be?

NZVIF wants to see a range of fund types and sizes, among other considerations. Further work on this will form part of the legislative and governance framework workstreams for the new fund.

What investment returns are expected?

This fund's purpose is a long-term one: to get New Zealand's early stage capital markets working efficiently, attract private sector investment to venture capital and to contribute to the development of a more productive national economy. The fund will operate on a commercial basis, although it needs to be recognised that its primary purpose is market development, not short-term investment returns.

Does this replace the Seed Co-Investment Fund?

No, the Fund is complementary to SCIF, which is seen as a critical programme to support the development of a healthy pipeline of investable opportunities for VC Fund managers operating in the Series A/B space. [Click here for more information on SCIF.](#)

Who are the private funds that will make the investments?

There are several local and international VC fund managers which have expressed initial interest in the scheme. Once legislative changes and governance arrangements have been finalised, NZVIF will go through a commercial process of selecting these managers.

Does the money come with conditions?

The VC fund managers will need to attract private sector capital in order to receive the Government money from the fund-of-funds. NZVIF will negotiate contractual arrangements with VC fund managers on normal commercial terms.

I am a VC manager, how can I be involved in the process?

NZVIF will engage with local and international VC fund managers on a formal basis once the legislative and governance arrangements have been put in place. NZVIF will, however, engage with managers in advance of that, as required, both to keep the market informed of progress with regard to the process, as well as understanding developments in the VC market.

I am a business looking for capital, what do I need to do now?

Businesses seeking investment should get in touch directly with VC fund managers once they have been selected by NZVIF.

What is the role of the Guardians of NZ Superannuation?

The Government has tasked the Guardians to apply a best practice approach to support NZVIF in making venture capital investments. The Guardians' role is to administer and provide governance oversight to NZVIF in managing the new VC fund and to ensure that it is managed in line with best

practice standards, in the context of venture capital markets.

The Guardians will negotiate a contract with NZVIF to deliver the Fund-of-funds model and be responsible for monitoring NZVIF's performance. The Guardians will use the investment expertise it has developed over its 15 year history in managing the NZ Super Fund on a commercial basis. The NZ Super Fund currently manages 30+ relationships with local and international investment managers.

What is the role of the NZ Super Fund?

The NZ Super Fund, the pool of assets that is managed by the Guardians of NZ Superannuation on behalf of taxpayers, is completely separate and not involved in this initiative.