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New Zealand Venture Investment Fund

# Statement of Performance Expectations 2016-2017

Start-up capital for New Zealand tech companies

# NZVIF – OVERVIEW

## HOW NZVIF OPERATES

NZVIF is the Crown's lead equity investment agency addressing the capital market gap for emerging high growth New Zealand companies that require new risk capital (equity and quasi equity) for growth.

Through the formation of commercially focused investment partnerships with venture capital fund managers and angel investors, NZVIF leverages its capital to attract increased levels of private investment into high growth New Zealand companies. Investments may be made from the point a new company becomes established, through to when the company has no further need for risk equity.

Selection of experienced and motivated private investment partners, together with the consistent application of portfolio construction and investment best practice, forms the core of NZVIF's investment approach. Through this approach, NZVIF aims to deliver positive returns to shareholders and investors over the long term investment horizon.

NZVIF also has a broader role in market development, including strengthening investor resources and capability, supporting industry based research, and input on capital markets policy.

Ultimately NZVIF's role is catalytic in building a self-sustaining venture capital and angel investor market in New Zealand.

## NZVIF UNDERWAY

In 2002, NZVIF was established as a $100 million[1] venture capital fund-of-fund to partner with the private sector to invest into private New Zealand venture capital funds which would then support the development of innovative companies, from start-up through to growth. NZVIF was also tasked with working alongside the private sector, to build investor capability and put in place best practice industry infrastructure.

In 2008, alongside the venture capital funds, NZVIF introduced the $40[2] million Seed Co-Investment Fund to fill the investment gap for entrepreneurs needing capital to get their business underway. Like venture capital, angel investing is a feature of vibrant start-up ecosystems from Boston, to Israel, to Mumbai. While New Zealand already had a number of wealthy entrepreneurs and investors willing to provide their own capital and expertise to speed to development of very young companies, achieving scale and professionalism was the next step in building a sustainable angel investor community.

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[1] *Through additional Crown allocations and underwrite facilities, the VC Fund has $260 available for commitment. Commitments are funded from Crown appropriations totalling $128 million, capital returns from VC fund investments and $100 million underwrite facility which will only be drawn if required. It is anticipated that future investments will be funded primarily from investment returns.*

[2] *Alongside the original $40 million commitment, an additional $12m has been made available 2015/16 through a transfer from the VC Fund.*

## PROGRESS TO DATE

For the last 13 years NZVIF has been focused on forming investment partnerships alongside private sector angel investors and fund managers, in order to increase the capital available for promising New Zealand start-ups. We have also worked closely with the industry to build professional capability and investment best practice.

NZVIF now has $280 million investment funds under management and investment partnerships with 10 venture capital funds and 15 angel investment networks.

There are currently three active venture capital funds investing into New Zealand companies, alongside ten angel funds and networks. Since inception, NZVIF has invested over $162 million into 211 New Zealand companies through partnerships with venture capital fund and angel networks. Those companies have raised a further $1.9 billion from private investors, and earned $3 billion in revenues and $2 billion in export dollars.

Of the companies NZVIF has invested into, 46% are software companies, 14% biotechnology, 7% technology hardware, 5% healthcare equipment & service, and 5% produce capital goods.

Currently, 12 companies have annual revenues of over $10 million. Four of these companies now generate over $50 million in revenues per annum, two of which has revenues of over $100 million. Eight companies in the NZVIF portfolio are listed on the NZX or other exchanges and two companies have been acquired by NZX listed companies.

## FOCUS FOR 2016/17

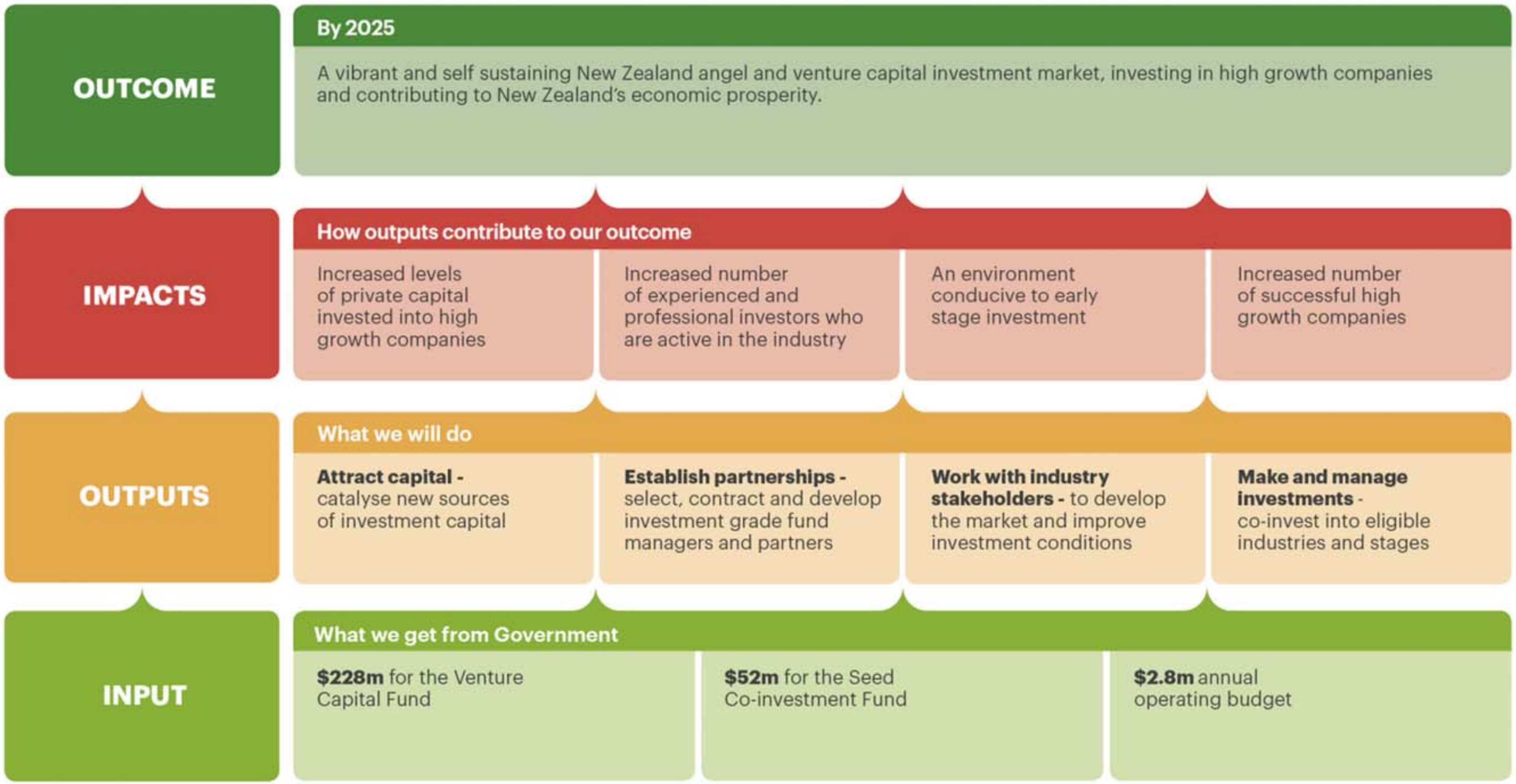
NZVIF will continue to prudently allocate the $2.8m p.a. revenue received from the Crown to undertake operations. This revenue will satisfy all annual operating expenditure for the year.

NZVIF also receives appropriations from the Crown for investment into venture capital funds and early stage companies. This funding is held separately to annual operating revenue and is only used for capital investments however, NZVIF will work with officials to determine a method by which capital returns may be available to contribute to operating expenditure going forward should the need arise.

NZVIF currently has access to a Crown underwrite of $100m to allow new commitments to be made to venture capital funds. NZVIF is working towards a position whereby it will not be necessary to call on the underwrite as future capital returns from existing investments will provide the required funding.

NZVIF are exploring a number of options as part of the ongoing strategic plan. The NZVIF board and management have been working closely with Ministers and officials to identify the timeframes and viable options for NZVIF to transition to a self-funding approach, while ensuring market development gains are retained.

# OUR STRATEGIC FRAMEWORK: WHAT WE ARE TRYING TO ACHIEVE AND HOW WE PLAN TO ACHIEVE IT



# SERVICE PERFORMANCE & FINANCIAL MANAGEMENT

The following statements provide targets, budgets and performance measures for the year ending 30 June 2017 in accordance with s142 of the Crown Entities Act:

- Statement of performance expectations.
- Statement of forecast comprehensive revenue and expense.
- Statement of forecast movements in equity.
- Statement of forecast financial position.
- Statement of forecast cash flows.
- Notes to the financial statements.

There are no other relevant statements which need to be devised or disclosed (ss142(1)(c) and (e)).

## STATEMENT OF PERFORMANCE EXPECTATIONS

NZVIF's output agreement with the Minister for Economic Development contains one output 'Investment Fund Management – Governance and Operation'. We will receive $2.80m[3] (GST exclusive) in Crown funding in 2016-2017 (2015/16: $2.80m) to undertake operations in relation to investments. This is sufficient funding to cover all NZVIF operating expenditure for the year.

NZVIF has two separate investment appropriations:

1. The Venture Investment Fund (VIF) which is $128[4] million. The purpose of the VIF capital appropriation is to invest with privately managed venture capital funds in order to catalyse the New Zealand venture capital market; and
2. The Seed Co-investment Fund (SCIF) which is $52 million. The purpose of the SCIF capital appropriation is to invest in seed and start up technology companies alongside qualified angel investors in order to assist more young technology companies to market.

In addition to the capital appropriations, NZVIF is able to reinvest proceeds received from exits into new investments.

To achieve our Outcome as per the Statement of Intent, we will provide the following four outputs:

1. **Attract capital** – catalyse new sources of investment capital.
2. **Establish partnerships** – select, contract and develop investment grade fund managers and investment partners.
3. **Work with industry stakeholders** - to develop the market and improve investment conditions.
4. **Make and manage investments** - co-invest into eligible industries and stages.

We deliver the output purchased by the Minister for Economic Development through the administration and monitoring of the NZVIF Venture Capital and the NZVIF Seed Co-investment Funds.

We will report against qualitative and quantitative measures in the 2016-2017 Annual Report.

[3] *$470,000 transferred from the SCIF appropriation in 2015/16 and 2016/17 years to cover increase in operational costs.*

[4] *Excludes $100 million underwrite.*

## **OUTPUT ONE:** ATTRACT CAPITAL - CATALYSE NEW SOURCES OF INVESTMENT CAPITAL

- We will implement mandate changes and develop new investment products that will attract additional investment to existing and new funds and partnerships.

| Quantity Measures | Actual 12/13 | Actual 13/14 | Actual 14/15 | Estimated Actual 15/16 | Forecast 16/17 |
|---|---|---|---|---|---|
| NZVIF mandate changes implemented | 1 | 0 | 0 | 1[5] | 1 |
| Investment products developed – Angel and VC | 0 | 0 | 0 | 0 | 1 |

**Quality Measure**

Venture Capital funds and angel partnerships successful in attracting capital from new sources.

Work with shareholder on finalizing changes to SCIF and VC mandate.

- The co-fund established with Taiwan's NDF will continue to operate.

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5a revised capital structure to enable investment flexibility across VC and SCIF investment

## **OUTPUT TWO:** ESTABLISH PARTNERSHIPS – SELECT, CONTRACT AND DEVELOP INVESTMENT GRADE FUND MANAGERS AND INVESTMENT PARTNERS

- We will perform a robust selection methodology and due diligence process, implement best practice investment documentation, play an active role in investor governance and select credible lead investors to represent us.

| Quantity Measures | Actual 12/13 | Actual 13/14 | Actual 14/15 | Estimated Actual 15/16 | Forecast 16/17 |
|---|---|---|---|---|---|
| Number of due diligence completed – Angel and VC | 1 | 3 | 2 | 3 | 4 |
| New venture capital funds contracted | 1 | 0 | 1 | 1 | 1 |
| New angel partnerships established | 0 | 1 | 1 | 1 | 2 |

**Quality Measure**

Funds and investment partnerships that NZVIF has entered into are supported by private investors.

- Consideration of new fund opportunities is dependent upon finalisation of strategy and access to capital funding.
- Complete due diligence on 3-4 new or existing SCIF partners.
- Contract new VC funds and SCIF partners as appropriate.

## **OUTPUT THREE:** WORK WITH INDUSTRY STAKEHOLDERS - TO DEVELOP THE MARKET AND IMPROVE INVESTMENT CONDITIONS

- We will support industry professional development programmes and one off initiatives that will assist in building industry standards and professionalism.
- We will advise Government on policy changes to improve the investment environment.

| Quantity Measures | Actual 12/13 | Actual 13/14 | Actual 14/15 | Estimated Actual 15/16 | Forecast 16/17 |
|---|---|---|---|---|---|
| Industry development initiatives undertaken in conjunction with NZVCA and AANZ. | 4 | 2 | 2 | 3 | 4 |
| Advice provided to Government to assist market development. | 2 | 1 | 1 | 1 | 1 |

**Quality Measure**

Best practice initiatives accepted and adopted by the industry; Dissemination of angel investing best practice to NZVIF investment partnerships.

- Publish the third Annual investment report for the industry.
- Publish the second Investment Snapshot report for the industry.
- Co-sponsor AANZ and NZVCA professional development programmes,
- Develop business case for increased investment flexibility to enable follow-on investment across both SCIF and VIF investment programmes. Implement changes subject to shareholder support.

## OUTPUT FOUR: MAKE AND MANAGE INVESTMENTS - CO-INVEST INTO ELIGIBLE INDUSTRIES AND STAGES

- We will make portfolio investments in line with our mandate.
- We will manage investments to optimize portfolio returns.

| Quantity Measures | Actual 12/13 | Actual 13/14 | Actual 14/15 | Estimated Actual 15/16 | Forecast 16/17 |
|---|---|---|---|---|---|
| Number of new companies receiving investment | 20 | 26 | 20 | 25 | 20 |
| Total number of investments in companies | 51 | 72 | 78 | 94 | 70 |

**Quality Measures**

Over 90% of the NZVIF investment portfolio (by number) in seed, start-up and early expansion stage investments.

- Currently over 95% of NZVIF investments are in seed, start-up and early expansion stage.

100% of investment transactions will meet NZVIF eligibility criteria.

- All investments are consistent with NZVIF mandate requirements.

# STATEMENT FROM THE BOARD OF DIRECTORS

This Statement of Performance Expectations for the period 1 July 2016 to 30 June 2017 is submitted pursuant to the Crown Entities Act 2004. The forecast financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Principles (NZGAAP).

The underlying assumptions of this document have been authorised as appropriate for issue by the Board of Directors of the New Zealand Venture Investment Fund Limited in accordance with its role under the Crown Entities Act 2004.

The Board and management of NZVIF accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

**Murray Gribben**
Chair

June 2016

**Anne Blackburn**
Deputy Chair

June 2016

# FORECAST FINANCIAL STATEMENTS

## STATEMENT OF FORECAST COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2017

| | Group 2017 | Parent 2017 |
|---|---|---|
| Operating revenue received from Crown | 2,800,000 | 2,800,000 |
| Interest and other revenue | 92,352 | 92,352 |
| **Total revenue** | 2,892,352 | 2,892,352 |
| NZVIF administrative expenses | (2,907,737) | (2,907,737) |
| Depreciation and amortisation | (117,453) | (117,453) |
| **Total expenses** | (3,025,190) | (5,790,216) |
| **Net operating income/(expense) incl. depreciation** | **(132,838)** | **(132,838)** |
| Management fees and costs paid to VIF fund managers[6] | (2,765,026) | (2,765,026) |
| Realised gain/(loss) on sale of investments | - | - |
| Net unrealised gain/(loss) in the value of investments | - | - |
| Impairment of related party loans | - | - |
| Deficit before taxation | (2,897,864) | (2,897,864) |
| Income tax expense | - | - |
| **Total comprehensive revenue and expense for the year** | (2,897,864) | (2,897,864) |

[6] *Fund management fees are paid to external fund managers from capital drawn from Crown for investment. These fees are classified as an expense of NZVIF for accounting purposes.*

# STATEMENT OF FORECAST MOVEMENTS IN EQUITY
# FOR THE YEAR ENDED 30 JUNE 2017

| | Group 2017 | Parent 2017 |
|---|---|---|
| Equity – at the beginning of year | 144,264,842 | 131,092,676 |
| Net operating revenue and expense for the year excl. depreciation | (15,385) | (15,385) |
| Depreciation expense | (117,453) | (117,453) |
| Net investing revenue and expense for the year | (2,765,026) | (2,765,026) |
| Increase in share capital | 4,915,023 | 4,915,023 |
| Operational equity (NZVIF management) - at the end of year | 123,789 | 123,789 |
| Investing equity (VIF and SCIF) - at the end of the year | 146,158,215 | 132,986,049 |
| **Total Equity – at the end of year** | **$146,282,004** | **$133,109,838** |

# STATEMENT OF FORECAST FINANCIAL POSITION
# AS AT 30 JUNE 2017

| | Group 2017 | Parent 2017 |
|---|---|---|
| Equity | **$146,282,004** | **$133,109,838** |
| Represented by | | |
| *Current Assets* | | |
| Cash and cash equivalents - operating | 26,005 | 26,005 |
| Cash and cash equivalents - investing | 2,508,520 | 2,508,520 |
| Receivables and prepayments | 22,286 | 22,286 |
| | 2,556,811 | 2,556,811 |
| *Non-current assets* | | |
| Property, plant, equipment | 139,476 | 139,476 |
| Intangible assets | 119,919 | 119,919 |
| Related Party Loans | - | 130,477,529 |
| Investments | 143,649,695 | |
| | **$143,909,090** | **$130,736,924** |
| Total assets | **$146,465,901** | **$133,293,735** |
| *Current Liabilities* | | |
| Payables and accruals | 183,897 | 183,897 |
| Total liabilities | 183,897 | 183,897 |
| Net assets | **$146,282,004** | **$133,109,838** |

# STATEMENT OF FORECAST CASH FLOWS
# FOR THE YEAR ENDED 30 JUNE 2017

| | Group 2017 | Parent 2017 |
|---|---|---|
| ***Cash flows from operating activities*** | | |
| Cash was provided from: | | |
| Revenue from the Crown | 2,800,000 | 2,800,000 |
| Interest & other income | 92,352 | 92,352 |
| | 2,892,352 | 2,892,352 |
| Cash was applied to: | | |
| Payments to suppliers | (4,090,329) | (4,090,329) |
| Payments to employees | (1,582,286) | (1,582,286) |
| | (5,672,615) | (5,672,615) |
| | (2,780,263) | (2,780,263) |
| **Net cash flows from operations** | | |
| ***Cash flows from investing*** | | |
| Cash was provided from: | | |
| Sale of investments through NZVIF Venture Capital Funds | 11,000,000 | - |
| | 11,000,000 | - |
| Cash was applied to: | | |
| Purchase of property, plant and equipment | (167,454) | (167,454) |
| Purchase of investments – Venture Capital Fund | (9,250,000) | - |
| Purchase of investments – Seed Co-investment Fund | (5,400,000) | - |
| Loans to subsidiaries | | (3,650,000) |
| | (14,817,454) | (3,817,454) |
| **Net cash flows from investing** | (3,817,454) | (3,817,454) |
| ***Cash flows from financing*** | | |
| Cash was provided from: | | |
| Increase in share capital | 4,915,026 | 4,915,026 |
| **Net cash flows from financing** | 4,915,026 | 4,915,026 |
| **Net increase/decrease in cash and cash equivalents** | (1,682,691) | (1,682,691) |
| Cash and cash equivalents at the beginning of the year | 4,217,003 | 4,217,003 |
| **Cash and cash equivalents at the end of the year** | **2,534,312** | **2,534,312** |

# NOTES TO THE FORECAST FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

New Zealand Venture Investment Fund Limited and its subsidiaries are companies incorporated in New Zealand under the Companies Act 1993.

The parent company - New Zealand Venture Investment Fund Limited - and its subsidiaries are referred to throughout these financial statements as NZVIF. NZVIF is domiciled in New Zealand.

The primary objective of NZVIF is the development of a vibrant early-stage capital market, both formal (venture capital) and informal (angel). NZVIF has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

The registered office for NZVIF is Unit 1B, Ascot Office Park, 93-95 Ascot Avenue, Greenlane, Auckland.

The forecast financial statements of the company are for the year ended 30 June 2017.

### BASIS OF PREPARATION

#### Statement of compliance

The prospective financial statements are prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Crown Entities Act 2004. They comply with New Zealand Generally Accepted Accounting Principles (NZGAAP) including FRS 42.

These are the second set of prospective financial statements presented in accordance with Public Benefit Entity (PBE) standards.

The prospective financial statements are for the Statement of Service Performance for the 2016/2017 year therefore, actual results are not reflected. NZVIF is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

The information contained in the financial statements is not suitable to be used for any purpose other than to give an indication of the magnitude of the company's financial requirements for the period of the Statement of Service Performance.

The actual financial results for the period covered are likely to vary from the information presented and the variations may be material.

#### Measurement base

These financial statements have been prepared on an historical cost basis, except where modified by the revaluation of certain items of property, plant and equipment, and the measurement of financial assets at fair value.

### Presentation currency

These financial statements are presented in New Zealand dollars ($).

### Judgments and estimations

In preparing these financial statements NZVIF has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## SIGNIFICANT ACCOUNTING POLICIES

The following specific accounting policies, which materially affect the measurement of financial performance, financial position and cash flows, have been applied consistently to all periods presented in these forecast financial statements.

### Basis of consolidation

Subsidiaries are entities in which the company has the capacity to determine the financing and operating policies and from which it has an entitlement to significant ownership benefits.

The consolidated financial statements include the parent company and its subsidiaries accounted for using the purchase method. All significant intercompany transactions are eliminated on consolidation. In the parent's financial statements investments in subsidiaries are valued at cost.

### Revenue recognition

Revenue is recognised as follows:

#### Revenue from the Crown

Revenue is recognised to the extent that it is probable that the economic benefits will flow to NZVIF and the revenue can be reliably measured. Revenue shown in the Income Statement comprises the amounts received and receivable by NZVIF for services supplied to the Crown.

#### Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial assets.

#### Dividend income

Dividend income is recognised when the right to receive payment is established.

### Goods and services tax

The forecast consolidated financial statements of NZVIF have been prepared on a GST exclusive basis except for receivables and payables.

### Taxation

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Current tax and deferred tax is charged or credited to the Income Statement, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

### Cash & cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks both domestic and international, other short-term, highly liquid investments, with original maturities of three months or less and bank overdrafts.

### Accounts receivable

Accounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment losses due to bad and doubtful accounts.

### Prepayments

Prepayments consist of management fees invoiced or paid, for the first quarter of the next year, and director's liability insurance paid in advance. Prepaid directors' liability insurance is expensed on a straight-line basis over the term of the insurance policy.

### Property, plant and equipment

#### Owned assets

Items of property, plant and equipment are measured at cost less aggregate depreciation and impairment losses.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

### Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

### Subsequent costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the company and the cost of the item can be measured reliably. All other costs are recognised in the Income Statement as an expense as incurred.

### Depreciation

Depreciation is charged using the diminishing value method at the following rates:

| | |
|---|---|
| Computer equipment | 33%-60% |
| Office equipment | 11%-60% |
| Leasehold improvements | 9%-48% |

## Impairment of non-financial assets

Assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## Intangible Assets

### Software acquisition

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the development and maintenance of the Company's website are recognised as an expense when incurred.

### Software development

NZVIF capitalises the direct costs associated with the development of network and business software for internal use where project success is regarded as probable. Capitalised costs include external direct costs of materials and services consumed, payroll and direct payroll-related costs for employees (including contractors) directly associated with the project and interest costs incurred while developing the software. Software developed for internal use is depreciated over its useful life.

### Amortisation

Computer software is amortised at a diminishing value rate of 60%. Amortisation begins when the asset is available for use and ceases at the date that the asset is disposed of. The amortisation charge for each period is recognised in the Statement of Comprehensive Income.

Where estimated useful lives or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated or the carrying value is impaired.

## Investments

Investment assets held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Income Statement.

## NZVIF Venture Capital Funds

NZVIF co-invests, alongside private sector investors, in primarily early-stage venture capital investments and these investments represent equity owned directly by NZVIF subsidiaries. These investments are made through venture capital funds (NZVIF Venture Capital Funds), which are managed by private sector venture capital fund managers (NZVIF Venture Capital Fund Managers), who make the investment decisions. NZVIF is not responsible for and does not exercise significant influence over these individual investment portfolio investments.

The fair value of NZVIF venture capital fund investments has been determined by NZVIF in accordance with IPEV guidelines.

The IPEV recommends that investors in private equity and venture capital funds should use the fund managers reported valuation as an input in determining the fair value of their interest in the fund's investments. The IPEV also recommends that investors have the appropriate processes and controls in place to monitor the fund manager and assess the data received. The NZVIF Venture Capital Fund Managers are contractually required to report to NZVIF on an on-going basis and NZVIF monitors the performance and valuation of the portfolio. The reported fair value of the investment by each fund manager has been used as an input for the fair value assessment performed by NZVIF.

NZVIF has reviewed the process undertaken by the NZVIF Venture Capital Fund Managers when valuing NZVIF investments and are satisfied that the valuation process complies with the fund managers' contractual requirements.

## NZVIF Seed Co-investment Fund

NZVIF co-invests, alongside private sector investors, in seed and start-up stage investments and these investments represent equity owned directly through a 100% owned NZVIF subsidiary. NZVIF is a passive investor and does not make the initial investment decision or take a seat on investee company boards; these roles are undertaken by NZVIF's co-investment partners. However NZVIF reserves certain shareholder rights and may make subsequent investment decisions in certain circumstances.

As at 30 June 2017 the valuation of the Seed Co-investment Fund's investments is based on the price of the most recent investment made by external investors, unless there is evidence that the value of the investment should be adjusted as the performance of the investment is significantly below the expectations on which the investment was based, leading to a diminution in value.

PBE standards make specific reference to investments held by venture capital organisations and that all investments must be recognised at fair value, except for those where control exists. Under PBE IPSAS 29 (AG 14), an investment by a venture capital organisation is considered to be a financial instrument. The appropriate standard dealing with investment in associates is not applicable and the financial instruments standard applies.

## Leased assets

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are recognised in the Income Statement in equal installments over the term of the lease.

## Foreign currencies

Transactions denominated in a foreign currency are converted at the functional currency exchange rate at the date of the transaction.

Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Income.

## Financial instruments

Non-derivative financial instruments comprise investments in shares, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Regular purchases and sales of financial assets are accounted for at trade date. i.e. the date the company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the company's obligations specified in the contract expire or are discharged or cancelled.

NZVIF classifies its NZVIF Venture Capital Funds and Seed Co-investment Fund investments under the category "financial assets at fair value through surplus or deficit" - designated as such upon initial recognition. This is because PBE IPSAS 29 (AG 14(a)) indicates that investments held by venture capital organisations whose business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or from changes in their value, should be designated at fair value through profit and loss. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through surplus or deficit' category are included in the Statement of Comprehensive Income in the period in which they arise.

### Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

### Employee entitlements

Provision is made for annual leave entitlements estimated to be payable to employees on the basis of statutory and contractual requirements. The provision is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

### Statement of cash flows

The following are the definitions of the terms used in the Statement of Cashflows:

Cash is considered to be cash and cash equivalents net of bank overdrafts.

Investing activities are those relating to the acquisition, holding and disposal of property, plant & equipment and investments. Investments can include securities not falling within the definition of cash.

Financing activities are those activities that result in changes in the size and composition of the capital structure of NZVIF Limited. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

Operating activities include all transactions and other events that are not investing or financing activities.

### Segment information

A business segment is a group of assets or operations engaged in providing products or services that are subject to risks and rewards that are different from those of other business segments. A geographic segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of a segment operating in other economic environments. NZVIF operates predominantly in the venture capital investment industry. All operations of the Company are carried out in New Zealand.

### Related party loans

NZVIF accounts for related party loans at their cost less impairment, with impairment based on the underlying value of the subsidiary's venture capital investments, which will have been purchased through the loan funding. This treatment is permitted following the assessment that the loans are outside the scope of PBE IPSAS 29 Financial Instruments: Recognition and Measurement. The accounting treatment for the loans is in accordance with the cost method of an investment in a subsidiary under PBE IPSAS 6 Consolidated and Separate Financial Statements, which gives an entity the option of accounting for an investment in a subsidiary either at cost (less impairment) or under PBE IPSAS 29. Furthermore, as disclosed in Note 15, the terms of the loans are no interest with limited recourse of repayment. Accordingly the loans have characteristics similar to an equity instrument. A further consideration in carrying related party loans at cost (less impairment) is that their fair value cannot be reliably determined at initial recognition due to difficulties in forecasting the obligations to repay the loans and the timing of such repayments.

### Significant assumptions adopted in the preparation of forecast financial statements

Fund management fees are paid to external fund managers from capital drawn from Crown for investment. They are not paid from operational funding received from the Crown. These fees are classified as an expense of NZVIF for accounting purposes only and are not part of the operational costs of NZVIF. The loss reported in the Statement of forecast comprehensive revenue and expense for the year ended 30 June 2017 does not reflect the actual loss of NZVIF.

Due to uncertainties on investment valuations, no realised/unrealised gains or losses are included in the forecast. However, there is a reasonable expectation that the overall portfolio will increase in value over the longer term. Previous annual reports indicate a possible performance return of up to $2,000,000 in a single year however this is highly likely to vary every year and some years may be negative.

## 2. CAPITAL COMMITMENTS

The following commitments have been made by NZVIF. This is the estimated capital expenditure contracted for at balance date but not provided for (VIF and SCIF):

| | Forecast 30 June 2017 | Actual 30 June 2016 |
|---|---|---|
| Firm commitment remaining | $45,000,000 | $52,500,000 |
| Conditional commitment | $15,000,000 | $20,000,000 |
| Total | $60,000,000 | $72,500,000 |

These commitments reflect the capital commitment in respect of future investments in current venture capital investments held. Due to the inherent nature of this type of investment, the time frame of these commitments cannot be predicted because capital can be called by investment managers at any time, however it is unlikely that NZVIF would be required to pay the entire outstanding commitment at one time. This is supported by historical trends.

The Crown has a $100 million underwrite facility in place for NZVIF committed until 2018, and will then continue at a reduced figure of $60 million until 2022.