



Statement of Intent 2014–2019

A vibrant and self-sustaining New Zealand angel and venture capital investment market, investing in high growth companies and contributing to New Zealand's economic prosperity.

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OVERVIEW

WHY WAS NZVIF ESTABLISHED?

In the late 1990s, it was apparent that there was a missing link between New Zealand’s innovation system and capital markets. Unlike the United States, Israel and Singapore, New Zealand had no venture capital market – there was a lack of investors skilled in selecting and investing in promising start-up companies, and helping them to achieve global success.

To rectify this, a policy and framework to catalyse the development of a local venture capital industry was initiated. Sporadic attempts to kick-start an industry in previous decades had failed. The challenge was to develop a structure with scale, which could be sustained and, unlike its predecessors, succeed.

NZVIF UNDERWAY

In 2002, NZVIF was established to turn that policy framework into a \$100 million venture capital fund-of-fund, investing 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.

NZVIF’s goal, drawing on the vision of the late Sir Paul Callaghan, is to be part of building an innovation ecosystem that enables promising New Zealand technology companies to become globally successful. In establishing NZVIF it was recognized that New Zealand’s economic growth and strength will come from both building on and diversifying away from New Zealand’s traditional strengths in food and agriculture.

Venture capital investment is inherently high risk. An industry rule of thumb is that one should only invest with fund managers with proven track records of success – the top quartile. But when building an industry from scratch, there is no success record by which to

judge. This made it essential that clear and robust structures were established to underpin the sector's development.

In 2008, NZVIF introduced a new investment product, the Seed Co-Investment Fund, to complement the venture capital investment programme and 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 support the development of very young companies, achieving scale and professionalism was the next step in building a sustainable angel investor community.

NZVIF NOW

Twelve years on, NZVIF is the Crown's lead equity investment agency addressing the capital market gap for New Zealand companies that require new risk capital for growth. In this role NZVIF works alongside Callaghan Innovation and NZTE to support New Zealand's most promising high growth companies, from start-up to global success. NZVIF now has \$300 million under management and investment partnerships with eight venture capital funds and 14 angel investment networks.

Together with its partners and private sector investors, NZVIF has invested over \$100 million into 167 New Zealand companies. To date those companies have earned \$1.5 billion in revenues and \$1.2 billion in export dollars. In 2013 the Seed Co-investment Fund and its investment partners contributed two thirds of the total \$53m of angel investment in New Zealand.

Of the 167 companies NZVIF has invested into, 36% are software companies, 19% biotechnology, 8% technology, 5% healthcare, and 5% produce capital goods.

Currently, nine companies have annual revenues of over \$10 million. Two of these companies now generate over \$50 million in revenues per annum, one of which has revenues close to \$100 million. Eighty percent of revenues generated are from exports.

Three companies in the NZVIF portfolio are listed on the NZX.

WHERE TO NEXT?

A lot has been achieved in New Zealand in the last decade, and the capability that has been built across early stage capital markets is now much stronger. To achieve sustainability New Zealand needs to build both scale and investment track record. It took the United States 40 years to build their venture and angel ecosystem. The aim for New Zealand is to achieve sustainability in 25 years, from inception.

High growth companies need investment of around \$200 million per annum – roughly double the current level. We want to see early stage capital markets scaling up to a core of 5–7 active local venture capital funds and 15 angel networks with 200–plus active investors.

The amount of capital which New Zealand institutional investors currently invest in private companies is low. This is partly historical and understandable – there hasn't been the right sort of investment structures, or sufficient evidence of investment track record, to make investing either easy or attractive. But that is changing – technology, and in particular software, has built a track record of success across a number of companies. NZVIF is looking to create new fund products to give large institutional investors (e.g. Kiwisaver funds) access to a diverse portfolio of technology opportunities.

In recent years, NZVIF has placed considerable emphasis on developing international linkages between New Zealand venture capital and angel investors and offshore counterparts in the United States and Asia. Attracting more specialised international investment – with 2–3 active offshore venture capital funds here – will continue to be a focus.

NZVIF also plays a significant role in market development, including strengthening investor resources and capability, adoption of investment best practice, industry based research and input on capital markets policy. This will continue.

Over the next 3–4 years it is NZVIF's objective to move towards a self-sustaining investment model, utilising returns flowing back from investment, to reinvest in the next generation of young New Zealand companies.

STATEMENT OF RESPONSIBILITY

This Statement of Intent is submitted by the Board of Directors of New Zealand Venture Investment Fund Limited (NZVIF) pursuant to section 141 of the Crown Entities Act 2004. It sets out the intentions and objectives of NZVIF for the period 1 July 2014 to 30 June 2019.

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.

All acquisitions of shares or investments must be approved by the Board of Directors before they occur.



Murray Gribben
Chair

May 2014



Anne Blackburn
Deputy Chair

May 2014

INTRODUCTION

NZVIF PURPOSE

NZVIF is a Crown Entity Company established in 2002 to catalyse the development of the New Zealand early stage capital markets, including both venture capital and angel investing activity.

For young high growth companies, venture or angel funding is often the first source of commercial equity investment. And while these first rounds of capital are critical for growth, they are often the most difficult to attract, due to the high investment risk.

NZVIF's purpose is to partner with private investors to attract greater levels of investment into New Zealand's most promising high growth companies of the future. This is best achieved through a public-private investment partnership model, which is intended to attract greater levels of private investment and capability.

Ultimately the goal is for New Zealand to have an early stage capital market that is vibrant and self-sustaining.

NZVIF ROLES-INVESTMENT MANAGEMENT & MARKET DEVELOPMENT

NZVIF is the Crown's lead equity investment agency addressing the capital market gap for high growth New Zealand companies that require new risk capital (equity and quasi equity) for growth. In this role NZVIF complements Callaghan Innovation and NZTE in building the pipeline of high growth New Zealand companies, from start-up to global success.

NZVIF manages \$300 million of equity capital¹ which is invested into companies that do not have ready access to capital markets.

¹ \$200 million commitment plus \$100 million underwrite

NZVIF also plays a significant role in early stage capital market development, including industry infrastructure development, supporting investment best practice, and investor capability building. NZVIF works closely with both MBIE and NZ Treasury, providing input on ways to ensure that New Zealand capital markets and regulatory settings support the emergence and growth of high growth young companies.

OUR INVESTMENT APPROACH

NZVIF establishes commercial partnerships with pre-qualified venture capital fund managers, and angel investors, who have the potential to deliver a commercial return to shareholders and investors over the long term investment horizon.

NZVIF uses a portfolio approach to investment to ensure NZVIF achieves investment diversification across different investors, sectors and stages due to the expected high investment failure rate, given the risks associated with high growth companies.

NZVIF targets investments that are high growth New Zealand companies aspiring to be globally successful.

NZVIF applies investment and governance best practice to all its investments.

OUR MARKET DEVELOPMENT APPROACH

NZVIF's approach to early stage market development includes:

- Building sound industry infrastructure, including a regulatory environment conducive to investment and a core of experienced industry professionals.
- Developing relationships with international organisations and networks such as ILPA², that lead the world in setting best practice venture capital and angel investment standards, and then applying the appropriate standards to all the investment partnerships that NZVIF establishes with private sector funds and investors.
- Partnering with venture capital fund managers and angel investors who have the potential to achieve investment success over a number of funds and investments.
- Attracting broader institutional investor support for early stage capital markets.
- Building scale and capability, so that early stage capital markets can sustain through different economic cycles.

NZVIF has contributed significantly to building industry infrastructure, investment best practice and capability building as outlined in Annex 1.

OUR OPERATIONS

NZVIF's Output Agreement with the Minister for Economic Development contains one output: 'Investment Fund Management – Governance and Operation'. \$2.33 million per annum has been appropriated for this output.

NZVIF has a small specialised fund management and administration team operating from offices located in Greenlane, Auckland.

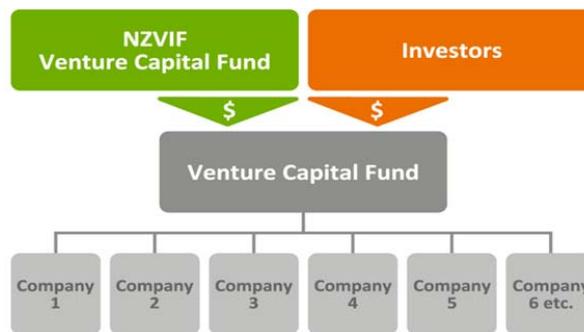
² *International Limited Partnerships Association is an international body that leads the world in setting best practise investment standards for institutional investors.*

OUR FUNDS

NZVIF manages two investment funds:

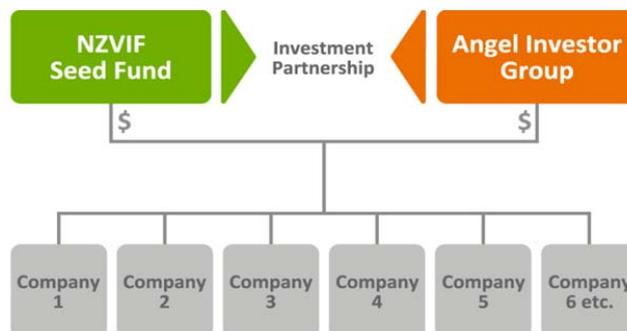
- The \$260³ million Venture Capital Fund (VIF); and
- The \$40 million Seed Co-investment Fund (SCIF).

VENTURE CAPITAL FUND



NZVIF partners with a range of institutional and individual investors, to make investments in venture capital funds, on a 1:1 or greater investment ratio. These funds are privately managed and commercially focused, typically \$30 – \$150 million in size. The venture capital fund manager then makes investments in a portfolio of 5–10 high growth companies.

SEED CO-INVESTMENT FUND



³Includes \$100m Government underwrite.

NZVIF enters into partnerships with angel investment funds and networks to make direct equity investments into young companies. NZVIF invests on a 1:1 ratio, alongside private investors, with NZVIF able to invest up to a maximum investment of \$750,000 per company. In practice, the ratio of private capital attracted to invest alongside the Seed Co-Investment Fund far exceeds the 1:1 required ratio.

Further details of the Venture Capital Fund and Seed Co-investment Fund are set out in Annex 2.

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



OUR OUTCOME

By 2025: A vibrant and self-sustaining New Zealand angel and venture capital investment market, investing in high growth companies and contributing to New Zealand's economic prosperity.

HOW WILL WE KNOW WE HAVE ACHIEVED OUR OUTCOME?

The New Zealand Market

- New Zealand consistently ranks in the top quartile of OECD countries for venture capital investment as a percentage of GDP⁴.
- A broad and stable base of investor support for New Zealand high growth companies, from angels through to institutions.
- An industry that is made up of a core of 10 fund managers and angel investor groups that have demonstrated investment success over successive investment cycles.
- Industry led best practise investment.

NZVIF

- A significant number of NZVIF's private sector partners will have delivered a commercial return on investments overall.
- NZVIF is less than 10% of the investment market overall, and is self-sustaining, reinvesting capital returns in new funds and companies.

⁴ *And a comparable measure for angel investing*

- 10 NZVIF portfolio companies will have achieved revenues in excess of \$100 million per annum.
- 10% of companies that have received investment from NZVIF will list on the New Zealand Stock Exchange.

It will take 20–25 years from inception to achieve the outcome of building a vibrant and self-sustaining early stage investment market, across the full spectrum of angel and venture capital investing. Based on overseas experience it takes time to build an ecosystem with the capability and capital to support high growth companies, from start-up through to global success, over successive economic cycles. While angel investing is likely to have a shorter timeframe to achieve scale, long term sustainability is dependent on networks and funds that have developed an investment track record over successive investments.

THE IMPACTS TOWARDS OUR OUTCOME

IMPACT ONE

- Increased levels of private capital successfully invested into high growth companies

HOW WILL WE DEMONSTRATE SUCCESS IN ACHIEVING THIS?

- Steady growth in the amount of capital being invested by VC and angel investors, annually, into high growth New Zealand companies.
- A decrease in the ratio of Government (NZVIF) investment to private investors.

IMPACT MEASURES

By 2025, if we have been successful in attracting private capital, the total amount invested into New Zealand high growth companies is expected to exceed \$200 million per annum.

By 2025, at least 90% of the angel and venture capital funding in the New Zealand market will come from private investors and other sources, with the balance of investment coming from NZVIF.

IMPACT ONE: INCREASED LEVELS OF PRIVATE CAPITAL INVESTED INTO HIGH GROWTH COMPANIES						
Measures	2013/14 Actual	2014/15	2015/16	2016/17	2017/18	2018/19
Total amount invested by the market into NZ high growth companies (pa) ⁵	\$118m	\$95m	\$115m	\$130m	\$143m	\$150m
NZVIF % of total market investment	19%	14%	13%	<10%	<10%	<10%

⁵ Includes up to 25% expected from off shore investors

NZVIF'S FIVE YEAR PLAN

To achieve the 2025 investment goal of \$200 million per annum, the total capital invested into high growth companies over the next five years will need to grow to at least \$150 million per annum by 2019. To catalyse this level of investment, NZVIF intends to continue to commit to new venture capital and angel investments, and initiate a number of new investment partnerships, as follows:

- Make new and follow-on investments through existing angel investment funds and networks.
 - Make investments through the NZVIF–Taiwan National Development Fund (NDF) Co-Fund. See Annex 3 for further details of the NZVIF–NDF Co-Fund structure.
 - Establish 2–3 new investment products that facilitate institutional investors accessing early stage investment opportunities.
 - Replicate the NZVIF–NDF Co-Fund model to establish at least one other “country Co-Fund”.
 - Make new investment commitments to at least one new venture capital fund each year.
- Currently the ratio of NZVIF to private investment, across both VC and angel investments is approximately 19%, taking account of all private capital.

Over the next 11–12 years it is expected that the ratio of Government capital invested, relative to private capital, will decrease to 10% or lower as a result of an increase in capital from private investors.

ACHIEVING THE OUTCOME

Achieving the stated impact (and subsequent outcome) within the 2025 timeframe is conditional on:

1. The establishment of a range of co-investment relationships, particularly with offshore investors.
2. The Seed Co-Investment Fund maintaining the current level of investment activity, until it is able to become self-funding from investment returns. At the current investment rate the existing capital of \$40 million is expected to be fully invested by the end of the 2016 Calendar Year. Achieving sufficient investment returns to become self-sustaining is expected to occur in 2019.

3. The establishment of 1–2 new fund of fund investment products, to make it easier for institutional investors to get access to a broad portfolio of New Zealand technology funds and investments, alongside NZVIF and other private investors.

IMPACT TWO

- Increased number of experienced and professional investors who are active in the industry

HOW WILL WE DEMONSTRATE SUCCESS IN ACHIEVING THIS?

- A growing pool of active angel investors and venture capital investment professionals with skills and experience in early stage, high growth company investment.
- Investment success of angel investors, venture capital fund managers and investors.

IMPACT MEASURES

By 2025, if we have achieved a self-sustaining industry of a scale that brings New Zealand in line with similar sized OECD economies, we can expect to see:

- A core of five to seven experienced local venture capital fund managers, who have been successful in raising capital for multiple funds, and are actively investing in New Zealand companies. A further two to three offshore venture capital funds managers who are active in New Zealand.
- 10 to 12 angel investment funds and/or networks, spread around New Zealand, actively developing and investing.
- Overall, 150 – 200 venture capital investment professionals and angel investors who are active and attracting capital alongside other investors. The multiplier effect (attracting other investors alongside) is expected to be five times.

IMPACT TWO: INCREASED NUMBER OF EXPERIENCED AND PROFESSIONAL INVESTORS WHO ARE ACTIVE IN THE INDUSTRY

Measures	2013/14 Actual	2014/15	2015/16	2016/17	2017/18	2018/19
Total number of NZVIF VC funds active in the market ⁶	9	6	7	7	8	8
Total number of active NZVIF angel investment partners ⁷	15	15	15	15	15	15

⁶ From 2013/14 onward the number of VC fund managers is net reflecting a combination of existing funds coming to the end of their life and new funds being established.

IMPACT TWO: INCREASED NUMBER OF EXPERIENCED AND PROFESSIONAL INVESTORS WHO ARE ACTIVE IN THE INDUSTRY

Number of venture capital investment professionals and active angel investors in the market	140–160	150–170	160–180	180–200	200–220	200–220
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7The number of partners is cumulative. The number remains constant after 2013 as new angel partnerships replace those that have ceased investing.

NZVIF'S FIVE YEAR PLAN

Venture Capital Funds

NZVIF expects that a further two to three new venture capital fund managers will enter the industry over the next five years and join a core of two to three existing managers who will have successfully raised a subsequent fund. The overall number of venture capital investment professionals will range between 20 and 25 as new fund managers replace those individuals who are no longer active in the market. NZVIF anticipates that the NZVIF–NDF Co–Fund will attract international venture capital fund managers to invest into the New Zealand market, alongside local fund managers.

Angel Networks and Funds

NZVIF expects that four to six new angel networks or funds will seek to become Seed Co–investment Fund partners over the next five years. The number of active angel investors is expected to grow steadily over the next five years as the profile and success of the industry continues to be raised.

Angel investing models are changing rapidly, as technology evolves and as changes in legislation allow new models of investing. A highly relevant recent development in the New Zealand early stage company investment market is the passing into legislation from 1 April 2014 (through the Financial Markets Conduct Bill) of the ability to establish accredited equity crowd funding platforms.

NZVIF will work with the industry and MBIE to support new investment platforms and models as they emerge, including:

- The establishment of angel led equity crowd funding platforms.
- New investment vehicles that can facilitate wider investor interest including international angel investors and specialist angel investor networks.

ACHIEVING THE OUTCOME

Attracting private capital is a pre–condition for achieving this impact – refer Impact 1.

NZVIF's success in achieving new investment partnerships, particularly offshore, is dependent on the support of NZTE personnel on the ground in selected markets, including the US, Taiwan and China.

Venture Capital Funds

The NZVIF–NDF Co–Fund needs to demonstrate success in establishing cross–border venture capital funds. Demonstrating success will attract other international investors seeking to form investment partnerships in New Zealand.

NZVIF needs to achieve a commercial investment return across the funds it invests in, to enable reinvestment of investment returns and the establishment of new funds.

Angel Networks and Funds

Continued Government support for the Seed Co–Investment Fund, until it can become self–funding from investment returns is required.

IMPACT THREE

- An environment conducive to early stage investment

HOW WILL WE DEMONSTRATE SUCCESS IN ACHIEVING THIS?

- Increased industry professionalism.
- International standard limited liability partnerships used as the preferred investment structure and standard investor protections included in shareholder agreements.
- Government policies that support angel and venture capital investing – across innovation, capital markets, savings and investment, immigration and tax.

IMPACT MEASURES

The New Zealand venture capital and angel investment environment is well advanced in its adoption of practices that are consistent with international best practice. All of the major apparatus expected of a professional industry are now in place including:

- Standard investor reporting guidelines;
- Standard investment valuation guidelines;
- Standard investment performance reporting; and
- A venture capital and private equity industry code of conduct.

Similarly, Government tax and regulatory settings are broadly conducive to early stage investing.

The next stage of industry development is demonstrating investment track record and building industry scale. In addition, attracting a broader base of investor support is required for long term industry sustainability.

NZVIF will continue to work alongside the industry in three major areas of market development:

- Profiling the New Zealand early stage investment market, to attract wider investor interest, both locally and internationally. This includes the Young Company Finance publication – STARTUP.

- Co-sponsor visits by venture capital and angel investor “gurus” who can assist in local capability building.
- Identifying new sources of investment capital, including offshore investors, who are seeking a credible New Zealand investment partner.

IMPACT THREE: AN ENVIRONMENT CONDUCIVE TO EARLY STAGE INVESTMENT

Measures	2013/14 Actual	2014/15	2015/16	2016/17	2017/18	2018/19
Market development initiatives and reports supported by NZVIF	2	2	2	2	2	2

NZVIF'S FIVE YEAR PLAN

Over the next five years, in conjunction with the AANZ and NZVCA, NZVIF will sponsor and support at least two specific market development initiatives each year, focused on building industry capability and attracting wider investor interest.

NZVIF will also report to Government annually and provide an update on progress, and challenges, in achieving the 2025 outcomes.

ACHIEVING THE OUTCOME

Continued Government support to ensure that capital markets regulation and the savings environment is conducive to attracting experienced venture capital fund managers and angel investors into the industry.

IMPACT FOUR

- Increased number of successful high growth companies

HOW WILL WE DEMONSTRATE SUCCESS IN ACHIEVING THIS?

- An increased number of NZVIF companies:
 - Generating significant offshore revenues and/or export growth.
 - Commercialised from universities and research institutes, that are successful in attracting private investment.
 - Generating revenues in excess of \$10 million per annum.
 - Operating in a diverse range of high growth sectors in the economy (including software, biotech and healthcare, telecommunications and technology hardware).
 - Employing highly skilled individuals.

IMPACT MEASURES

By 2025, if we are successful there will be a number of high growth New Zealand companies achieving commercial and global success. This will be evidenced by:

- At least 90% of portfolio companies' revenues will be earned offshore.
- At least 20% of the companies that NZVIF has invested in would have commercialised from universities or research institutes.
- At least 25 companies would be generating between \$10 million and \$20 million each year. At least 10 would be generating over \$20 million each year. Over the full investment period, 10 NZVIF portfolio companies will have achieved revenues in excess of \$100 million per annum.
- At least 75% of NZVIF's capital would be invested in high growth industries.
- The average revenue per employee would be at least double the national average, in the range of \$250,000–\$300,000 each year.

IMPACT FOUR: INCREASED NUMBER OF SUCCESSFUL HIGH GROWTH COMPANIES

Measures	2013/14 Actual	2014/15	2015/16	2016/17	2017/18	2018/19
Total number of companies invested in through NZVIF ⁸ VC and SCIF funds	167	186	204	217	225	232
Exports as a % of total revenues generated from NZVIF portfolio companies	>80%	>85%	>85%	>85%	>85%	>85%
Number of companies emerging from CRIs and universities	35	39	43	46	47	49
Number of companies with revenues >\$10m p.a.	9	10	14	14	16	17
High growth as % of total NZVIF portfolio ⁹	>75%	>75%	>75%	>75%	>75%	>75%
Average revenue per employee ¹⁰	\$200,000– \$240,000	\$210,000– \$250,000	\$220,000– \$260,000	\$230,000– \$270,000	\$230,000– \$270,000	\$230,000– \$270,000

NZVIF'S FIVE YEAR PLAN

- Greater than 50% increase in the number of companies NZVIF invests into.
- Export revenues of NZVIF portfolio companies to exceed 85% of total portfolio company revenues.
- Continued investment into companies commercialising from research institutes and universities, increasing the current number invested into from 30 to over 40 (22% of total NZVIF portfolio).
- The number of NZVIF portfolio companies generating revenue in excess of \$10 million is expected to increase to 16.
- Employees in the NZVIF portfolio companies will grow to be greater than 2,000 with average revenue generated by each employee will be in the \$230,000 – \$270,000 range.

⁸Number of investments made by NZVIF Venture Capital Funds is based on each manager making an average of 2 to 3 new investment each year. It is expected that each fund will make 8 to 12 investments over the 5 year active investment period.

⁹High growth includes all investment made into sectors and technologies that are innovation led, have protectable intellectual property and have a globally scalable investment proposition.

¹⁰NZVIF Venture Capital Fund portfolio companies only.

ACHIEVING THE OUTCOME

A sustainable early stage investment market requires a pipeline of intellectual property and innovative ideas from entrepreneurs, universities and research institutes that can be successfully commercialised on a global scale. Callaghan Innovation plays a critical role preparing companies for commercial investment.

Success also depends on those companies and entrepreneurs that show the most potential for growth receiving the support (capability and capital) they need to grow internationally. NZTE's role in supporting high growth companies to enter offshore markets, is highly complementary to the role of private investors providing capital for growth.

NZVIF FIVE YEAR PERFORMANCE FORECAST

Measures	2013/14 Actual	2014/15	2015/16	2016/17	2017/18	2018/19
NZVIF Operating Results						
NZVIF revenue (incl. interest)	\$2.35m	\$2.35m ¹¹	\$2.35m	\$2.35m	\$2.35m	\$2.35m
Less NZVIF operating expenses (excl. management fees)	\$2.64m	\$2.80m	\$2.80m	\$2.80m	\$2.80m	\$2.80m
NZVIF net operating surplus/(deficit)	-\$0.29m ¹²	-\$0.45m	-\$0.45m	-\$0.45m	-\$0.45m	-\$0.45m
NZVIF Investment Results						
Capital received from Crown for investment(cumulative since inception)	\$130m	\$136.6m	\$141.8m	\$146.8m	\$151.8m	\$156.8m
Value of NZVIF investments ¹³	\$111.6m	\$119.6m	\$129.0m	\$141.5m	\$143.7m	\$142.6m
Net asset value (\$ per share) ¹⁴	0.86	0.88	0.91	0.96	0.95	0.91
Interim performance since inception (IRR p.a.) ¹⁵	-1.15%	-1.33%	-0.91%	-0.29%	1.81%	1.81%
Distributions received from realisation of investments	\$3.6m	\$11.0m	\$16.9m	\$20.7m	\$9.2m	\$9.4m

Fund forecast assumptions are set out in full in Annex 4.

¹¹NZVIF will write to shareholding Ministers in respect of options for addressing our future operating revenue.

¹²Operating deficit will be funded from surplus carried forward from previous years.

¹³Value of investments represents the fair value of NZVIF investment portfolio – both VC and SCIF (as per IFRS and NZVIF forecast financial statements accounting policies) excluding cash at financial year end and is net of reported impairments, realisation of investments and forecast impairments.

¹⁴NAV is calculated by dividing the Crown's investment in NZVIF VC fund by the value of the investment.

¹⁵Interim performance is an IRR calculated since inception using actual and forecast investment cash flows using the unrealised value of the portfolio as the terminal value. This method has been recommended by the CFA Institute's Global Investment Performance Standards (GIPS) as appropriate for calculating performance during the life of a venture capital fund.

ORGANISATIONAL HEALTH AND CAPABILITY

Ensuring NZVIF is a good employer

NZVIF is a small organisation with eight permanent staff. Our flexible working environment enables staff to balance work, family and other commitments. NZVIF supports staff to develop their leadership skills and become the best they can be, in a positive working culture.

The values of the organisation ensure that all staff have the opportunity to engage and participate in organisational decisions.

Our good employer and personnel policies are formally recorded and include a commitment to equal employment opportunities. We do not tolerate harassment or discrimination of any type. We recognise the value of attracting employees of diverse backgrounds and talents, and the positive impact this has on our organisation.

Equal employment opportunity principles are incorporated in staff selection and management within the limits of our small size.

Measure

- EEO principles included in all relevant documents and practices.

Capability development

During the period covered by this SOI, NZVIF will continue to work on developing its capability.

NZVIF will:

- Maintain and increase the capability of its people and quality of its systems.
- Manage the risks that could prevent it from delivering its objectives and work programme.
- Aim to achieve reliable and cost effective operating systems.
- Maintain sound financial and governance systems.

To continue enhancing our capability, we will maintain and develop policies that ensure:

- Recruitment, training and remuneration policies focus on attracting and retaining skilled, flexible, efficient and knowledgeable team players.

Measures

- Individual staff training needs are assessed and supported.
- External salary comparisons and individual role assessments are conducted regularly.

Health and safety

NZVIF is committed to being a zero harm employer. Regular observations will be undertaken to identify hazards and unsafe workplace practices and any training required will be provided as appropriate. Any serious event will be notified to the CEO and Board Chair immediately.

Our office environment and equipment are safe and well maintained.

Measures

- Zero tolerance of harassment, bullying and discrimination.
- Each employee has an ergonomically suitable workspace.

ANNEX 1: NZVIF PROGRESS & ACHIEVEMENTS TO DATE

	2002	2003	2004	2005	2006	2007	2008
	\$100m: Crown commitment to VC			\$40m: Crown commitment to Seed	\$60m: Additional commitment to VC		
Increased levels of private capital		\$150m new private capital committed for VC investment		\$50m new private capital committed for VC investment		\$65m new private capital committed for VC investment	
Increased number of experienced and professional investors	First 2 NZVIF VC funds established	4th NZVIF VC fund established		5th NZVIF VC fund established	6th NZVIF VC fund established First SCIF partner established	5th SCIF partner established	9th SCIF partner established
A conducive early stage investment environment	NZVCA established	VC Fund investment template developed by NZVIF NZVCA Monitor established		YCFI established Venture capital tax exemption legislation enacted	Standardised investment agreements adopted by the Angel industry	Limited Partnership legislation enacted	AANZ established PE investment performance data published by NZVIF
Increased number of successful high growth companies				First successful realisation by NZVIF portfolio company	Total employees in NZVIF portfolio companies exceeds 500	Total NZVIF portfolio company revenue exceeds \$100m	Two NZVIF portfolio companies exceed \$30m revenue

2009	2010	2011	2012	2013	2014
	\$40m: Crown underwrite for VC			\$60m: Crown underwrite for VC	
	Angels invest over \$50m	Total of \$400m private capital invested		Establishment of Taiwan NDF Co-fund	NZVIF/Taiwan NDF Co-fund VC fund approved for investment Record annual investment by Angels of \$53m
11th SCIF partner established	12th SCIF partner established	16 active angel networks or funds	8th NZVIF VC fund established 14th SCIF partner established 2 partnerships renewed	9th NZVIF VC fund est.	15th SCIF partner established
NZVCA adopt Code of Conduct Changes to overseas investment rules	Power of Angel Investing seminars PE inv perf. data updated & published by NZVIF	Valuation of early-stage inv data presented by NZVIF	Early exits & valuations & market validation seminars IPEV intl. best practice reporting guidelines adopted Instn't'l inv in VC & PE report published PE investment performance data presented		Provided independent summary report (Fidato) on Instn't'l inv in VC & PE in NZ & barriers to participation
NZVIF portfolio company average revenue per employee is \$250k		100 companies invested into by NZVIF \$300m invested alongside NZVIF into high tech companies			167 companies invested into by NZVIF

ANNEX 2: NZVIF INVESTMENT FUNDS

NZVIF is responsible for managing two early stage investment funds on behalf of the New Zealand Government, the NZVIF Venture Capital Fund (VIF) and the NZVIF Seed Co-investment Fund (SCIF). The features of these two funds are set out below. :

NZVIF VENTURE CAPITAL FUND

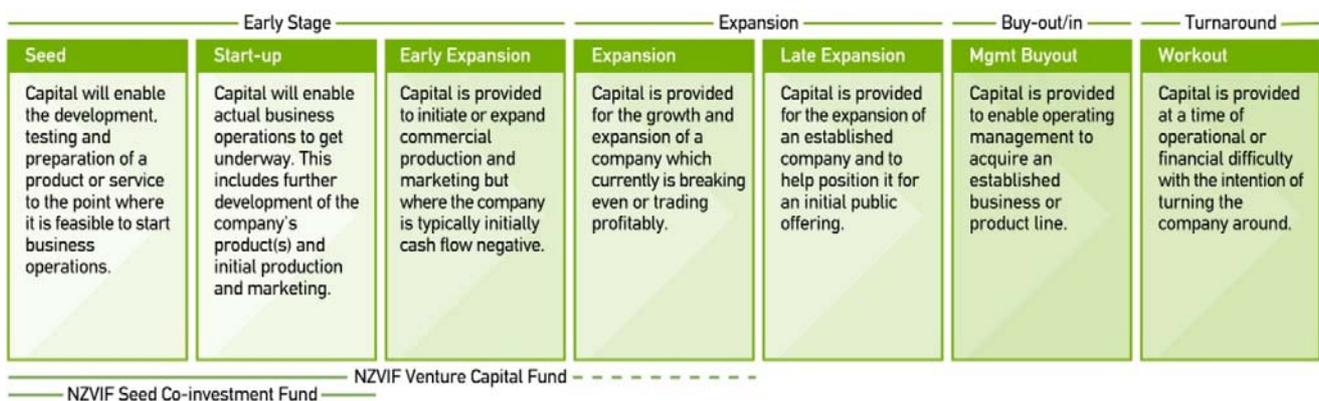
Size of Fund	\$260m (includes \$100m Government underwrite).
Type of Fund	A venture capital fund of funds. NZVIF invests indirectly through privately managed venture capital funds (managed by prequalified venture capital and private equity fund managers).
Investment Size	\$25m maximum into any single fund.
Investment Stage	Early stage venture capital.
Investment Type	Equity investment, alongside private investors, into venture capital funds.
Features	Option for investors to buy-out NZVIF interest in fund, up to midpoint of fund life. Option is priced based on five year bond rate.
Eligible Industries	New Zealand companies, technology and innovation.
Not Eligible Industries	Property, financial services, mining and retail.

NZVIF SEED CO-INVESTMENT FUND

Size of Fund	\$40m
Type of Fund	A passive co-investment fund. NZVIF invests directly into portfolio companies (alongside pre-qualified private investment partners).
Investment Size	\$250,000 initial \$750,000 maximum
Investment Stage	Seed and start-up.
Investment Type	Equity investment directly into companies.
Eligible Industries	New Zealand companies, technology and innovation.
Not Eligible Industries	Property, financial services, mining and retail.

VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENT CONTINUUM – WHERE NZVIF FITS

NZVIF invests alongside private investors through venture capital funds and angel investors into companies that are at the early stage of development. The following diagram provides an overview of the venture capital/private equity investment continuum and identifies where NZVIF’s investment funds fit within the continuum.



COMPANY STAGE OF DEVELOPMENT

Seed: An investee company is at the seed stage of its development if the investment will enable development, testing and preparation of a product or service to the point where it is feasible to start business operations.

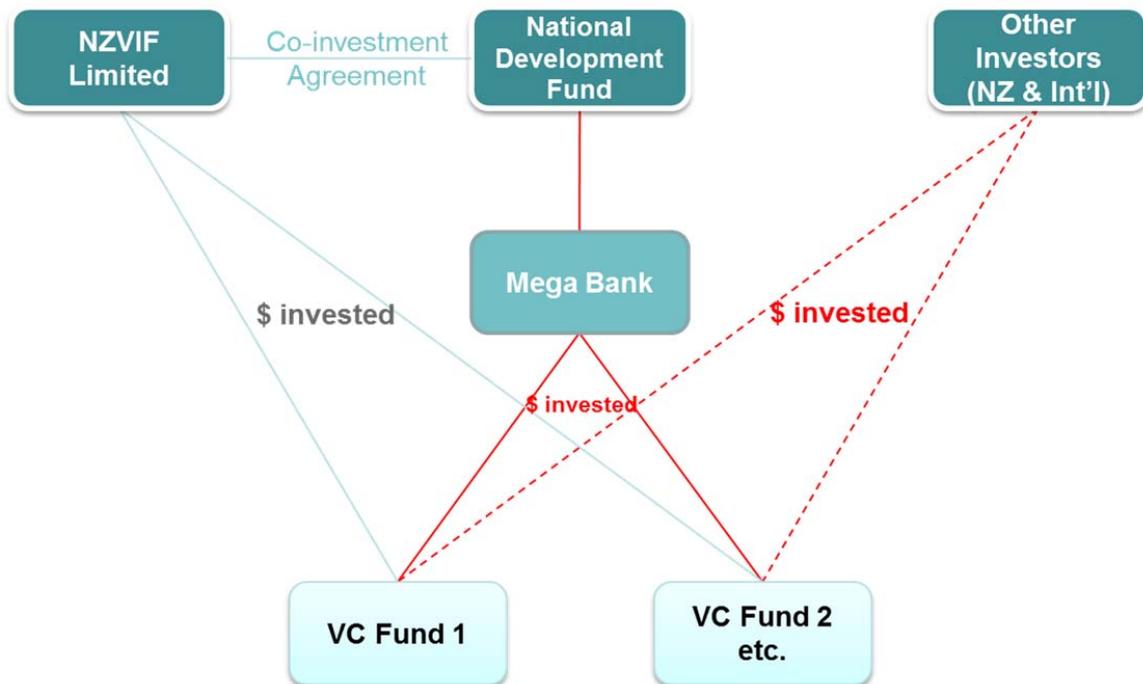
Start-up: An investee company is at the start-up stage of its development if the investment will enable actual business operations to get underway. This includes further development of the company’s product(s) and initial production and marketing.

Early expansion: An investee company is at the early expansion stage of its development if the investment provides capital to initiate or expand commercial production and marketing but where the company is normally still cash flow negative.

ANNEX 3: TAIWAN NDF–NZVIF CO–FUND PARTNERSHIP

This fund is a subset of the NZVIF Venture Capital Fund

Co-Fund commitment	NZ\$200m/US\$160m co-fund. (50%NZVIF, 50% NDF)
Investment size	NDF and NZVIF will each invest up to US\$20m in new VC funds from NZ or Taiwan.
Fund capital ratio	30%/30%/40% (NDF/NZVIF/private capital).
Investment stage	Early stage and early expansion investments.
Investment restrictions	VC funds will invest 50/50 in Taiwanese and NZ companies.
Eligible industries	All NZVIF eligible industries



ANNEX 4: FORECAST ASSUMPTIONS FOR NZVIF VENTURE CAPITAL AND SEED CO-INVESTMENT FUNDS

VENTURE CAPITAL FUND FORECAST ASSUMPTIONS

The performance forecasts for the NZVIF Venture Capital Programme are based on the expected investment behaviour of the selected NZVIF Venture Capital Fund Managers in the current market environment. As there are a wide range of variables that can influence these forecasts, certain assumptions have been made pertaining to:

- the number of managers appointed;
- the time taken for raising private sector capital;
- the average number and size of initial and follow-on investments; and
- the number of investments across the stages of development made by the managers.

The assumptions are based on the experience of the NZVIF Venture Capital Programme to date, as well as feedback from the NZVIF Venture Capital Fund Managers on expected future investment activity. Any substantial deviation from the assumptions underpinning these forecasts may result in actual performance being significantly different from these indicative forecasts.

NZVIF Venture Capital Fund Managers are fully responsible for making investment decisions, without influence from NZVIF. The exercise of the buy-out option will also influence NZVIF investment performance.

The forecasts and modeling included in this Statement of Intent are based on the following assumptions:

- Nine NZVIF Venture Capital Funds operating in 2014/15. A further four funds established over the next five years. Average number of investments per fund 8 – 12, based on anticipated fund sizes in a range of \$35 – \$75 million.
- Average range of investment size by stage:
 - a) Seed/Start up: \$1–2 million invested in tranches over two years;
 - b) Early Expansion: \$3–5 million invested in tranches over three years; and
 - c) Follow on and expansion investment: \$3–5 million, subject to portfolio limit.

- Follow-on investment is expected to be made after the end of the active investment period (first five years of a fund's life). It is assumed fund managers will on average reserve between 20 – 30% of a fund's capital for follow-on investment.
- NZVIF invests on a pre-agreed ratio with private sector investors; the level of matching capital is dependent on the investment stage focus of the fund.
- Forecast distributions resulting from the realisation of investments are offset against NZVIF Venture Capital Fund manager capital calls. This will impact on the level of capital drawn from the Crown and the value of the NZVIF investment portfolio. NZVIF assumes no realisation of investments in the first five years of a NZVIF Venture Capital Fund's life.
- Buy Out option – based on the current stage of development of the NZVIF Venture Capital Programme, NZVIF is forecasting one fund to exercise the buyout option.
- Change in value of investments:
 - a) Forecast impairments are based on the experience of the NZVIF Venture Capital Programme where the level of impairments to date average 15% of annual investment;
 - b) Unrealised increase in value of investments is based on 5% of portfolio companies achieving on average a 25% increase in value.
- Companies exporting – three out of four seed and start-up companies exporting within three years, one out of three early expansion companies exporting in year of initial investment with the balance in the year following the initial investment.
- Deals sourced or linkages with CRIs and Universities – one out of three of all seed and start up investments.
- All investments valued in accordance with industry guidelines.
- NZVIF Venture Capital Fund operating costs based on average management fees of 2.5% (of capital commitment) p.a., other fund costs of \$30,000 (per fund) per annum and an average establishment cost per fund to NZVIF of \$75,000 (only in the year that each fund becomes operational).

These assumptions are based on current conditions for venture capital investment globally, combined with the impact of the average fund size being relatively small when compared to international norms.

SEED CO-INVESTMENT FUND FORECAST ASSUMPTIONS

As the future outcomes are uncertain a number of alternative scenarios have been modeled based on the experience of the NZVIF Seed Co-investment Fund to date, as well as feedback from the NZVIF Seed Co-investment Fund partners on expected future investment activity. From these multiple scenarios a most likely case has been selected as the basis of the forecasts provided. Any substantial deviation from the assumptions underpinning the scenarios modeled may result in actual performance being significantly different from these indicative forecasts.

- \$40 million fund.
- A funding cap of \$750,000 per company drawn down in commitment amounts of no more than \$250,000 over a five year period and while maintaining an average investment across the Seed Co-investment Fund portfolio of no more than \$440,000.
- 15 – 20 new investments per annum with NZVIF Seed Co-investment Fund capital being exhausted by the end of 2016. The balance of the investment activity will be follow-on investments up to a cap of \$750,000 per investment.
- A target end portfolio of between 140 to 160 portfolio companies.
- Capital drawn down from the Crown on a 'just in time' basis.
- Material successful distributions are forecast to commence in the 2018/2019 financial year.

ANNEX 5: GLOSSARY

Angel fund: A professionally managed investment vehicle that evaluates and invests in entrepreneurial companies.

Angel investor: A wealthy individual who invests in entrepreneurial firms. Although angels perform many of the same functions as venture capitalists, they usually invest their own capital rather than that of institutional or other individual investors.

Angel network: A group of individual angel investors who join together to evaluate and invest in entrepreneurial companies.

Committed capital: Capital pledges made by investors, to a venture capital fund. This capital is drawn down progressively over the life of the fund for investments or to meet management fees.

Crown entity companies: One of the five categories of Crown entity. A company incorporated under the Companies Act 1993 that is wholly-owned by the Crown and named in Schedule 2 to the Crown Entities Act 2004.

Drawn down capital: The actual amount drawn down from the Crown for investment.

Fund of funds: A fund that invests primarily in other venture capital funds as opposed to individual investee companies.

Private equity: Private equity includes organisations devoted to venture capital, leveraged buyouts, mezzanine and distressed debt investments.

Self-sustaining: Fully integrated in capital markets and largely independent of Government equity investment assistance.

Successful realisation: When a company is either sold or listed at a price that exceeds the initial cost of investment.

Venture capital: Professionally managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high-growth companies.

Venture capital fund: A pool of capital raised periodically by a venture capital or private equity firm. Funds typically have a ten-year life.

Young Company Finance Index: A joint initiative launched by NZVIF and angel groups in 2006. The collection of YCFI data enables regular collation, analysis and dissemination of accurate information on the size and structure of the angel investment market in New Zealand.