Impact Enterprise Fund

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Venture Capital Fund Consultation Submission
19 September 2019

Background

1. The Government is establishing a new Venture Capital Fund (VCF) to support the development of New Zealand's early stage capital markets. The Government intends to invest up to $300 million into the new fund over five years.

2. The VCF will be administered and managed by the Guardians of New Zealand Superannuation (the Guardians). The capital will be invested on a fund-of-funds model.

3. The New Zealand Venture Investment Fund (NZVIF) is expected to be contracted by the Guardians to appoint fund managers who will make investment decisions and deploy capital to investee companies.

4. The Bill has been referred to the Finance and Expenditure Select Committee after its First Reading in Parliament.

5. Industry participants have been invited to give our views on the draft Policy Statement.

Introduction to the Impact Enterprise Fund - Who We Are

6. We support this legislation and, with the exception of our recommended improvements below, the draft Policy Statement.

7. The Impact Enterprise Fund (IEF) is New Zealand's first domestically focused impact investment fund. The Fund provides growth capital to businesses that deliver social and/or environmental impact, alongside attractive financial returns. This Fund has two, joint primary objectives: delivering market-rate financial returns, and delivering tangible societal and environmental outcomes.

8. The IEF is a collaboration between the Ākina Foundation, New Ground Capital and Impact Ventures. The $9m Fund boasts a highly experienced board and team, and is pioneering the development of impact investing in NZ.

9. Impact investing is investing with the intention of generating a measurable and beneficial societal and/or environmental impact alongside a financial return.

10. Although Impact Investment is a relatively small part of the overall scene at this stage, it is a growing trend locally and internationally. Supporting this growth has been a focus of our fund. There are clear opportunities for the VCF to stimulate Impact Investment directly, and with it attract new capital into the New Zealand early stage capital markets. New capital will be critical to achieving the purpose of the VCF as set out in section 24 of the Bill which reads:
"The purpose of the VCF is to contribute to a sustainable and productive economy by—
    (a) increasing the venture capital available to New Zealand entities; and
    (b) developing New Zealand's venture capital markets to function more effectively so that over time—
        (i) more venture capital becomes available to New Zealand entities from sources other than the VCF; and
        (ii) New Zealand entities that receive venture capital become more likely to grow into successful and sustainable businesses."

Our Response to the Draft Policy Statement

11. We agree with the proposed definitions in the draft Policy Statement.

12. In our view, the drafting of the Policy Statement objectives and definitions is clear and consistent

13. We agree in principle with the proposed policies as set out in the Policy Statement and have identified improvements that are set out below.

Allocation of Funds for Impact Investment

14. We have identified policy improvements that can increase the likelihood of achieving the stated objectives. First amongst these would be to include a specific allocation of funds to Impact Investment as part of Policy 2.

15. The draft Policy could be improved to include:

    (i) The VCF must be invested partly in Funds dedicated to measured societal or environmental impact. A minimum of 10% of the Net Committed Capital made available to the VCF must be allocated for investment in Funds with an identified Impact Investment Strategy, provided such Funds meet all the other criteria required by the VCF.

16. We support the submission by the Ākina Foundation which sets out how an allocation of dedicated Impact Investment funds would contribute to the objectives of the wellbeing budget. We also support the recommendation in the same submission for a wellbeing framework for this fund, linking into Indicators Aotearoa and through to the Living

Standards Framework.

17. It is important to note that an allocation of funds for Impact Investment does more than contribute to the objectives of a sustainable and inclusive economy. Local and international experience tells us that Impact Investment activates new investors and new capital.

18. This aligns with the purpose of the VCF as we believe the growth of the sector is about activating new capital into our early stage markets. Some of this can happen through increased profile and professionalism but ultimately, we must generate interest and activate new investors. Impact Investing has been proven to achieve this.

19. Impact Investing has been growing internationally for several years and the Global Impact Investing Network now estimates the market to be worth US$502 billion. Our own experience of raising a new fund in the last couple of years is that we have succeeded where others have not by providing additionality to our investors.

20. We have successfully brought new investors and new capital into the venture market for the Impact Enterprise Fund. We are the first Venture Fund investment for each of our cornerstone investors.

Allocation of Funds for Foreign Funds

21. We believe in the objective of developing New Zealand's venture capital markets and we believe this is best achieved by focusing on local venture capital funds. We believe that a more appropriate upper limit for Foreign Fund Investments would be 15%. We acknowledge that is currently drafted as "up to 30%". Although this is not a target, it is still likely to guide decision making.

22. The Bill and the draft Policy Statement exist because we acknowledge that the development of our local industry is behind that of other countries. There is therefore risk that those more established funds and markets will activate quickly to take advantage of the VCF opportunity. This would quickly take up the maximum allocation, likely before the full development of the NZ organisations that we hope to grow through the VCF.

23. To create meaningful growth of New Zealand funds and local expertise, we believe that significantly more than 2 in 3 invested dollars should be in the category of NZ Capital. Our recommendations in paragraphs 24 and 25 below provide for a greater focus on NZ Capital and still require the same level of Foreign Fund contributions to the market.

24. The draft Policy Statement could be improved in this regard by adjusting as follows:

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a. policy 2 to read "...a minimum of 85% of the Net Committed Capital made available to the VCF must be allocated for investment in Funds with a New Zealand Connection...", and;
b. policy 3 to read "...up to an aggregate of 15% of Net Committed Capital via Foreign Fund Investments…".

25. For the same reasons, we support Option 2 of Policy 5, whereby, "for every Foreign Fund, the Underlying Fund must have an aggregate committed capital from other investors which is at least twice that of the VCF committed capital".

26. We would like, in conjunction with our partners at the Ākina Foundation to be heard by the Select Committee.

27. We thank the Select Committee for considering our submission and look forward to contributing to the ongoing policy process.