



ipgroup

Ministry of Business, Innovation & Employment

Via email: [vcf@mbie.govt.nz](mailto:vcf@mbie.govt.nz)

20<sup>th</sup> September 2019

Dear Sir/Madam,

## Re: Policy Statement on the Venture Capital Fund Act 2019

Thank you for the opportunity to participate in the development of the Venture Capital Fund. It is with pleasure that we submit our views on the proposed definitions and policies as they relate to the Policy Statement on the Venture Capital Fund Act 2019.

IP Group Australia is supportive of the New Zealand Government's initiative to assist the early stage capital markets develop and thrive.

Through our long-term partnership with the University of Auckland, IP Group has a keen appreciation of the early stage opportunity in New Zealand as well as the shortcomings in the market. We established our partnership with the University of Auckland precisely because of New Zealand's world class science, its innovative people and its good track record of commercialising ideas. It is desirable to have a healthy local venture capital market in order for this partnership to result in world class and sustainable businesses.

With our expertise in commercialising world leading science and access to global capital partners we believe we can play a valuable role in helping to develop the early stage capital market in New Zealand. Accordingly, we are supportive of Government's intention to enable foreign entities to participate in the Venture Capital Fund to allow for additive capital and experience to invest in, and help develop, the local venture capital market.

Whilst we will specifically address definitions and policies below, we make the general comment that for the Venture Capital Fund to be successful we believe its structure needs to truly address the problem identified. That is, will the structure encourage the introduction of capital to the market that currently is not there? We make this point because it is our understanding the structure does not include an incentive mechanism for investors. The key question that arises is will dollar matching alone be enough to encourage investors into the market? In our experience the answer is no if all other factors are unchanged. Accordingly, we would encourage Government to consider introducing a mechanism either to provide a return uplift for investors or risk mitigation. In our dealings with structures of this nature in Australia and the UK an incentive mechanism of some description has been helpful in achieving policy objectives.

Our specific comments on the definitions and policies are set out below.

### Definitions

1. **Co-investment** – We encourage Government to reconsider allocating capital for the purposes of the Venture Capital Fund co-investing with Underlying Funds and Foreign Funds. See comment below under Policy 4.
2. **Foreign Fund Investment** – We are supportive of this definition as it provides foreign entities with sufficient flexibility to structure investments in New Zealand in order to participate in the Venture Capital Fund. Though we recommend that the scope of the definition be broadened and clarified to ensure it can accommodate transactional investments. That is, investors such as ourselves invest from our balance sheet which may not be captured by that part of the definition that references: “...**a side car or similar investment vehicle.....**”.
3. **New Zealand Entity** – We believe this is a sensible criterion to ensure there is sufficient local presence at the time of initial investment. It is implied that post the initial investment a business is free to decide where it locates its people and assets in accordance with its business plan and model. It would be helpful to have this clarified as it is critically important for local businesses to be allowed this flexibility. Attempts to constrain a business by forcing a long-term local presence will ultimately harm its prospects and limit returns to investors, including the Government.

## Policies

1. **Policy 1: Investment Model** – There are advantages and disadvantages of a fund of fund model, however, it is relatively simple from an administrative perspective and would be fit for purpose in this context.
2. **Policy 2: NZ Fund Investments, clause (ii)** –
  - a. We understand Government's rationale for allowing a portion of capital to be allocated to Seed Capital. However, if the Seed Capital market is presently adequately supported, then it would seem managers would be able to raise funds to seed investments. These investments could then be eligible for Series A and B capital from the Venture Capital Fund. We encourage Government to reconsider allowing capital to be allocated to the Seed Capital stage in order to maximise capital applied to the Series A and B stages. Structurally, this change could be accommodated simply within an Underlying Fund.
  - b. We understand Government's rationale for allowing Underlying Funds to invest at the Series C/C+ stage. However, we recommend this be restricted to Follow-on Investments to ensure managers do not weight initial investment to later stage deals to attempt to improve their risk/return profiles and divert capital away from the Series A and B stages.
3. **Policy 3: Foreign Fund Investments** – We understand the policy position would allow for up to 25% of NZ Foreign Fund Capital to be invested in the Series C/C+ stage. We recommend that Foreign Fund investments in the Series C/C+ stage be restricted to Follow-on Investments for the same reasons given above in 2b.
4. **Policy 4: Co-Investment with Underlying Fund** – The rationale for the Venture Capital Fund to co-invest is not apparent to us. If we understand the policy correctly, this will reduce capital that can be allocated to Underlying Funds and Foreign Funds. Maximising capital allocated to Underlying Funds and Foreign Funds would better align with the policy objectives of the Venture Capital Fund. We encourage Government to reconsider this policy.
5. **Policy 5: Private Capital Requirements** – It is not clear to us why Government would make a distinction between an Underlying Fund with a New Zealand connection and a Foreign Fund in relation to the matching capital requirement. We recommend Government has the same matching capital requirements for both types of funds, with both set at 1:1.

Should you wish to discuss any aspect of our submission we would be more than happy to do so. Please contact Alistair McCreadie via:

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We wish you every success in this exciting and necessary policy initiative.

Yours faithfully,



Alistair McCreadie  
Chief Investment Officer, Asia Pacific  
IP Group Australia