



Landon McMillan
Ministry of Business, Innovation and Employment
landon.mcmillan@mbie.govt.nz

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

Dear Mr McMillan

Quayside Holdings Limited CEO was an attendee at the workshop in Auckland on 12 September 2019.

This submission pertains to the Policy Statement on the Venture Capital Fund Act 2019, not to the legislation for the Venture Capital Fund Act consider by Parliaments Select Committee.

Background

Quayside Holdings Limited (**'Quayside'**) is the investment arm of the Bay of Plenty Regional Council. Quaysides portfolio is corner stoned on a majority holding in the Port of Tauranga. Quayside has in recent years focused its efforts on creating greater diversity in the portfolio and growing the region through investment.

Quayside is a 20% stakeholder and investor in WNT Ventures, a technology incubator based in Tauranga under the programme supported by Callaghan Innovation. Quayside was a founder investor in 2014, focused on creating the institutional knowledge in WNT, via which early stage companies can be supported. WNT has raised two funds to date and is looking to raise a third fund s9(2)(b)(ii) .

Quayside is also the founding shareholder of Oriens Capital Limited, a Private Equity (**'PE'**) firm based in Tauranga. Quayside underwrote the Information Memorandum for the fund and is a corner stone in the fund. Oriens raised over \$50m in 2016, and like WNT now has well established institutional knowledge. Oriens will also likely raise a second fund s9(2)(b)(ii)

Quayside is a supporter of the local angel community. Additionally, Quayside is an investor directly into the Venture Capital (**'VC'**) space, filling the gap, with investments in recent years in the regional, environmental, and agri-tech sectors.

Overall Objective

Quayside is very supportive of the Crown initiative to create depth in the Venture Capital markets in New Zealand.

We acknowledge the requirement in the short term to support both company investment whilst building up NZ Venture Capital institutions. We feel the policy need to ability to pivot over time to support more local management.

Creating Local Institutions

In the Bay of Plenty we have seen the value in creating local financial service institutions. Much of the success is based around the management team and the right level of funding support.

To this end, it would be worth having some form of minimum value of capital raised for a local institution to be supported. VC is more intensive than PE in that the contribution from the VC manager is higher per investment. This requires more staff to look after a portfolio of companies.

An operating budget of \$1m per annum equates to a fund of \$50m based on a standard 2% management fee. It would be better the support (perhaps to 50% of funds raised) a smaller subset of well funded NZ managers than to spread the resource to wide. This provides the best chance of recruiting good people into the sector, thus creating the institution.

Recommendation – Set minimums for fund sizes to be supported.

Access to Foreign Markets

A potential weakness for NZ institutions will be access to foreign VC and PE markets. The building of these relationship will take time and is incumbent on the management teams of NZ VC teams to build these. Similar to the issue above, capital is required to build these relationships.

The funding through the Venture Capital Fund should be treated as an equal Limited Partner with other investors. There may be value however in the Crown finding mechanism through MBIE / NZTE to support the building of relationships for C and D capital rounds.

Recommendation – Look for mechanisms to ensure NZ institutions are globally well connected.

Phasing

It will take time for new NZ institutions to be created and effective. The opportunity to support Foreign Funds investments buys time for the NZ institutions to be fully established.



NZ Funds may need to be supported through two rounds of capital raising as it is unlikely that a full track record from the first investment round will be established at the time of fund two capital raising. Pivoting the fund to more fully support NZ investment entities towards the second half of the funds investment cycle would focus recycled capital on NZ institutions.

Recommendation – Retain flexibility to support more NZ institutions over time, particularly second round funds.

If desired I am happy to talk to the points raised above.

Your sincerely

Scott Hamilton
Chief Executive – Quayside Holdings Ltd
enquiries@quaysideholdings.co.nz