MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Policy Statement on the Venture Capital Fund Act 2019

Draft for Consultation

August 2019

New Zealand Government

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Annex 1: Draft Policy Statement on the Venture Capital Fund Act 2019

Deepening New Zealand’s early stage markets

To transform our economy to be more productive, sustainable, and inclusive, we need young and innovative firms to thrive in New Zealand. These firms are agile and introduce disruptive technologies that well established large corporates are not well suited to achieve.

We have seen these firms being born in New Zealand, however they often struggle to further develop their businesses in New Zealand.

One of the key reasons is the shallowness of the early stage capital markets in New Zealand especially in the Series A and B space to fund their development.

The Ministry of Business, Innovation and Employment estimates the Series A and B capital gap to be around $150 million per annum.

The government established the New Zealand Venture Capital Fund in 2002 to develop the venture capital markets. In 2006, the Seed Co-Investment Fund programme was established to provide funding in the seed / start-up space.

These programmes have seen some success in developing early stage capital markets in New Zealand, which did not exist prior to the establishment of the New Zealand Venture Investment Fund (NZVIF).

We now see more promising firms being developed in New Zealand, and have a more sophisticated and mature early stage ecosystem in New Zealand. We have, for example, more angel groups and active angel investors, and a number of growing and successful seed funds. We have a growing ecosystem of entrepreneurs, and emerging areas of expertise in research and commercialisation, and we have a growing pipeline of high growth companies, with many firms who have received Seed and Start up capital now ready to raise Series A capital. The Seed Co-Investment Fund, and various other government initiatives, have played a critical part in this.

This success also poses a great risk: firms that cannot raise Series A capital might run out of critical funding or be unable to compete in highly competitive and disruptive global markets, or they might look to raise capital offshore. Where 80 per cent of angel and other capital is tied up in follow-on investment in firms that need Series A capital, we run the risk of damaging investor returns and confidence, and having too little capital to recycle back into new start-ups.

Therefore, now is an appropriate time to reinvigorate the early stage markets to help New Zealand firms realise their potential.

The Government is making a $300 million investment into the early stage capital markets. The majority of the capital will be invested through a new Venture Capital Fund which is based on a fund-of-funds model. This Fund will be administered and managed by the Guardians of New Zealand Superannuation (the Guardians). The NZVIF will be contracted by the Guardians to appoint fund managers who will make the investment decisions. This way, we can leverage expertise from both the Guardians and NZVIF.

Through the Venture Capital Fund, we want to increase the supply of capital to New Zealand firms and develop the early stage capital markets in New Zealand. There are two broad purposes in forming the Venture Capital Fund:

- in the short term to get more capital to these high-growth firms (and particularly Series A capital), and
- in the long term to build a sustainable venture capital market that has capability and connectivity, crowds in private domestic capital including institutional investors, and ensures that future start-ups have a more accessible capital pathway.

The Venture Capital Fund is at an implementation stage, and there are some choices to be made in designing the policy directions of it.

We encourage you to provide your views on the proposed definitions and policies included in the draft Policy Statement, and help us to ensure the Venture Capital Fund is designed to achieve its purpose.

What is this consultation document about?

The Government has recently agreed to a $300 million investment in New Zealand's early stage markets to address a capital gap in the Series A and B venture capital space that is experienced by New Zealand firms.

An Amendment Bill (the Venture Capital Fund Bill) has been drafted to implement the Government decision. The Bill:

1) amends the New Zealand Superannuation and Retirement Income Act 2001 to enable a new fund to be set up – separate to the New Zealand Superannuation Fund – and to allow the Guardians to manage and administer the new fund, and

2) establishes the Venture Capital Fund in separate legislation to use Crown capital to deepen New Zealand's early stage capital markets.

In addition, the Bill allows the Minister of Finance to issue a Policy Statement to the Guardians that sets out various policy directions containing high-level requirements for the investment of the Venture Capital Fund. The Policy Statement reflects what has been outlined in the Bill (e.g. key definitions and investment directions that are intended to support the policy objective). In other words, the Policy Statement can contain only certain matters prescribed in the Venture Capital Fund Bill.

The Ministry of Business, Innovation and Employment has prepared a draft Policy Statement with inputs from the Treasury, the Guardians and NZVIF. The draft Policy Statement is attached as Annex 1.

The draft Policy Statement contains a preamble, outline of objectives, definitions, policies and some information about when the Policy Statement will come into effect and the process for reviewing it.

We are seeking industry feedback on the proposed definitions and policies included in the draft Policy Statement. Your feedback is very important to ensure that those definitions and policies are thoroughly tested.

Please note that any feedback on the Bill should be provided via the select committee process. If you have feedback on the scope of what is covered in the Policy Statement, that would need to be raised by submission to the select committee. Consultation related to this document concerns only the contents of the draft Policy Statement.

How can you contribute?

We invite you to give your views on the draft Policy Statement attached to this consultation document. You can do this by:

- attending one of the following two workshops
  - Auckland on 12 September 2019 (Venue: TBC)
  - Wellington on 16 September 2019 (Venue: TBC)
- completing a written submission and emailing it to vcf@mbie.govt.nz.

If you would like to attend the workshops, please register via https://mbie.wufoo.com/forms/industry-consultation-venture-capital-fund/

We are seeking written submissions in two stages: before and after the workshop. If you would like us to have a discussion on specific points at the workshops, please send us your submission elaborating on these points by 6 September 2019. If your submission is to provide feedback on the draft Policy Statement (without intention to influence the workshop agenda), you can send us your submission by 20 September 2019.

You may request a separate meeting with officials to discuss your views during the consultation period (28 August 2019 – 20 September 2019). Please contact us via vcf@mbie.govt.nz.

Your submission will not be shared with anyone unless you give us approval to do so.

Your submission, however, can be subject to an Official Information Act request. If you have any objection to us releasing any information in your submission, please identify the parts that you consider should be withheld and state reasons for withholding the information. Under the Official Information Act 1982, commercially sensitive or personal information can be withheld. We will take your objections into consideration and consult you if your submission becomes subject to an Official Information Act request.

The Venture Capital Fund

Purpose

The purpose of the Venture Capital Fund, as specified in the Venture Capital Fund Bill, is to contribute to a sustainable and productive economy by:

- increasing the venture capital available to New Zealand entities; and
- developing New Zealand's venture capital markets to function more effectively so that over time:
    - more venture capital is available to New Zealand entities from sources other than the Venture Capital Fund, and
    - New Zealand entities that receive venture capital are more likely to grow into successful and sustainable businesses.

Implementation approach

To implement the Venture Capital Fund, we have adopted an implementation model which consists of three instruments: legislation, a Policy Statement, and a contract between the Guardians and NZVIF. The table below summarises the function of each instrument.

Legislation	Policy Statement	Contract
• Amends the Superannuation Act and introduces a new Venture Capital Fund Act • enables and defines the boundaries of the policy goal • sets out a governance structure, and • fixes terms that are not expected to change.	• Aids interpretation of the purpose and investment statements in the legislation • provides transparency of key terms and definitions for the market • is designed to be an enduring statement but can be adapted from time to time, and • is future-facing – does not alter the terms of capital	• Mechanism to deploy capital • Guardians appoint and monitor NZVIF as manager • best practice facilitated through to Fund managers • is responsive to the Policy Statement.

The rationale for introducing a Policy Statement is to balance where the prescription sits between legislation and a contract. Legislation will set out a clear purpose and investment statements but prescribing key terms at this level would bind the policy too tightly. It is also desirable to be transparent to the market on the key terms of the contract, but to enable some flexibility in these settings by adjusting the Policy Statement from time to time. The legislation notes that the terms of the contract should be consistent with the Policy Statement.

The Policy Statement would be forward-looking only. This means that capital committed to the market under a contract would remain under the terms of that contract. Any changes in the Policy Statement could only affect a future investment.

Implementation status and next steps

The Venture Capital Fund Bill was introduced to Parliament on 22 August 2019. Once the first reading is agreed, the Bill will be referred to a select committee. The select committee will then call for public submissions on the Bill, and hear evidence on those submissions. The Bill is available through www.legislation.govt.nz.

Other workstreams have been running concurrently alongside the legislation process. The draft Policy Statement (Annex 1) has been prepared and we are now seeking industry feedback. Please note that this the consultation document remains in draft form and is subject to further change, including following any feedback received.

The legislation process is the key factor in determining when the Venture Capital Fund could go live. We envisage the Venture Capital Fund Act will come into effect in late 2019.

Draft Policy Statement on the Venture Capital Fund Act 2019

Proposed definitions

Many of the key definitions of the draft Policy Statement are of a technical nature with a specific interpretation applied by the venture capital industry (for example co-investment or fund-of-funds, Seed capital, Series A and B capital).

There are different names for the different stages of investment. To avoid confusion we have decided to classify the stages using monetary bands. In New Zealand most Series A rounds are currently around $2 million to $5 million, and Series B is up to around $20 million.

There are also multiple definitions for what constitutes a high-growth firm, a start-up or scale-up business. Our approach is to not define these, but leave this up to the venture funds and the fund-of-funds to determine whether they fit their criteria.

Other key definitions include what constitutes a New Zealand fund and what constitutes a New Zealand entity. On the New Zealand fund definition, we have adopted a broader concept of a fund with a *New Zealand Connection* (as included in the Venture Capital Fund Bill).

Most of these funds will be funds that originate in New Zealand. But it recognises the potential benefit to be gained from exposure to international best practice venture capital funds (which may be better connected, specialised and offer more 'smart capital' services). Funds with a New Zealand Connection include funds which may have originated outside of New Zealand but commit to being involved in the New Zealand industry through setting up a New Zealand domiciled fund, and committing senior investors (partners) to reside and operate here.

We would like to ensure the longevity of the funds contributing to the New Zealand ecosystem by incentivising them to be present in New Zealand to enable diffusion of the best practice into the local ecosystem.

The definition of New Zealand entities is important as it will inform the underlying funds' investment mandates if they apply to receive the Venture Capital Fund funding. Your views on the current definition of New Zealand entities will be useful on whether it is practical to use, taking into account the type of entities the underlying funds are planning to invest in. New Zealand entities are currently defined as:

- the majority of its employees and independent contractors (by number) in New Zealand, or
- the majority of its [tangible assets][assets] (by value) located in New Zealand, or
- [where at least 20 per cent of [tangible assets][assets] (by value) or employees and independent contractors (by number) are located in New Zealand, and both (1) the voting control is held by one or more New Zealand residents for tax purposes, and (2) the majority of its senior leadership team are New Zealand residents for tax purposes.

We encourage you to consider the proposed definitions in the draft Policy Statement in conjunction with the proposed policies and provide us feedback.

Proposed policies

The section on policies of the draft Policy Statement sets out various directions containing high-level requirement for the investment of the Venture Capital Fund. The policies that will be specified in the Policy Statement can be categorised into three groups, the policies the Guardians must:

- give effect to
- have regard to
- give effect to but only if both the Minister and Guardians agree.

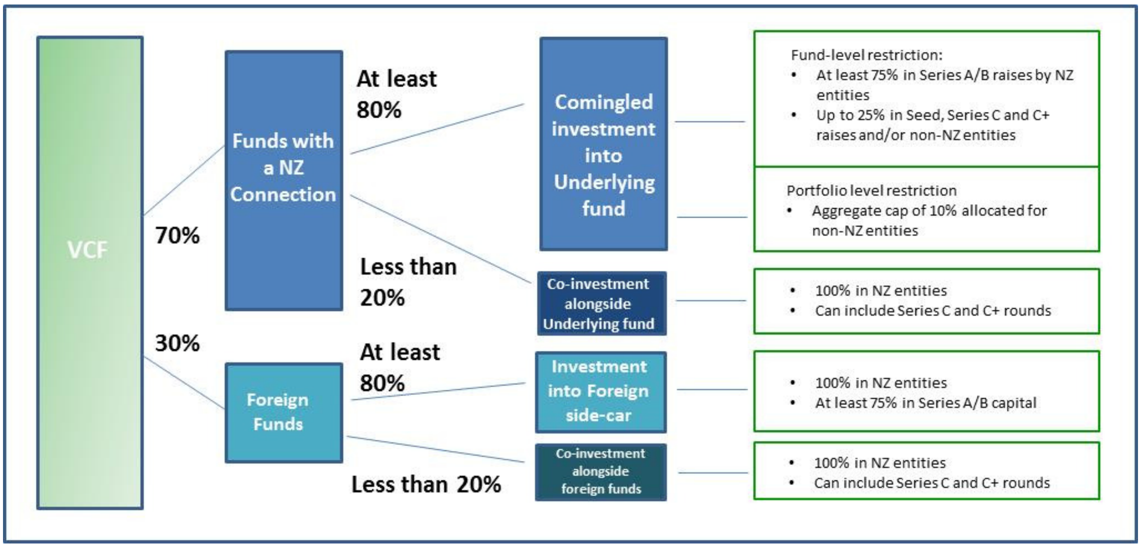
The third category is intended to allow future changes in approach, should the need arise. This would be to add other key policies considered critical to successful delivery, but which are either unknown or not chosen at this stage.

Allocation of capital

Currently, the draft Policy Statement specifies that a minimum of 70 per cent of the net committed capital of the Venture Capital Fund must be allocated for investment in funds with a New Zealand Connection. We are proposing that up to 30 per cent of the capital is invested alongside foreign funds by virtue of side car arrangements (this can only be invested into New Zealand entities).

- This 30 per cent allocation allows for foreign funds with specific skill sets, industry focus, or value propostion that benefits the New Zealand ecosystem, but where:
    - a New Zealand domiciled fund is impractical, or
    - domestic deal flow is insufficient to justify a stand-alone fund (or may result in a sub-scale fund).

Underlying funds are then required to invest a minimum of 75 per cent of the aggregate investable capital in New Zealand entities raising Series A and B capital. The draft Policy Statement allows flexibility for the rest (25 per cent) to be invested in New Zealand and foreign firms in Seed and Series C and C+ capital. No more than 10 per cent of the capital may be allocated for investment in foreign entities. A picture below illustrates the capital allocation based on the proposed policies.



The reason for allowing investment in Seed rounds is because many, if not most, venture capital funds like to start investments in firms at a slightly earlier stage than traditionally considered Series A and B.

- This enables them to invest earlier in a business, develop relationships with founders, and spend more time guiding them (and de-risking the investment).
- Importantly being an earlier investor (and being on the share register) greatly increases their ability to raise capital at Series A stage.
- For foreign or first-time funds it alleviates fears that New Zealand start-ups are over-diluted with investors at an earlier stage who have prohibitive preemptive rights.

The rationale for the allowance for investing in foreign firms is to cater for foreign-owned firms that set up and operate in New Zealand or the firms / founders that originated in New Zealand that are no longer considered New Zealand companies.

The other key proposal is for some capital (up to 20 per cent of the total committed) to be retained by the fund-of-funds, to be co-invested alongside the underlying funds in follow-on investments.

- This would be only in funds that already received investment from the fund-of-funds, and in companies that have already received support at the Series A or B fundraising stage.
- The intention is for the private fund to lead the investment.
- A lot of these investments might be in the Series C and beyond space.

Private capital requirement

The draft Policy Statement contains two options that we are considering. We would welcome your feedback on merits of each option.

Government expectations about capital deployment and choices on recycling

The Guardians must have regard to government expectations on timing for:

- an investment period (i.e. an initial investment period of five years to deploy capital and a secondary period starting from the end of the initial investment period to deploy any uncommitted capital and recycled funds), and
- a time period (i.e. a minimum of 15 years) for the return of the investment to the Crown.

In addition, the Guardians must have regard to the Government's commitment to a low-emissions economy and wider economic policy. These requirements will cascade down to underlying funds as appropriate.

Questions for you to consider

Below is a set of questions that we would like to you to consider in assessing the proposed definitions and policies included in the draft Policy Statement.

Proposed definitions

1. Do you agree with the proposed definitions? If not, please explain why.
2. Is the overall drafting of the Policy Statement objectives and definitions clear and consistent?

Proposed policies

3. Do you agree with the proposed policies as set out in the Policy Statement? If not, please explain why.
4. Do you think the policies will achieve the objectives of the Venture Capital Fund as set out in the objectives section of the Policy Statement? If not, please explain why.
5. Do you have any other comments?

DRAFT ONLY

ANNEX 1.

Policy Statement

on the Venture Capital Fund Act 2019

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Preamble

Young, dynamic firms are important in building a knowledge economy and transforming our economy to become more productive, sustainable and inclusive. These firms are agile and introduce disruptive and innovative technologies, which large corporates are often not well suited to achieve.

Many of these young, dynamic firms, however, struggle to fully develop in New Zealand because of the shallowness of specialised domestic early stage capital markets, and especially a lack of venture capital. The Government introduced the Venture Investment Fund in 2002 and the Seed Co-Investment Fund in 2006 via the New Zealand Venture Investment Fund to develop these markets. These programmes have succeeded in catalysing the early stage capital markets in New Zealand which did not exist prior to the programmes. However, they have not yet enabled the early stage capital markets to be self-sustainable.

While the Venture Investment Fund and the Seed Co-Investment Fund have seen important success, the supply of the capital in New Zealand has persistently fallen short of the increasing demand for capital by firms in the Series A & B venture capital space, and therefore the capital funding gap has remained.

The conversion rate between seed and Series A rounds in New Zealand is 10 per cent, which means 10 per cent of firms that have raised a seed round are being successful in raising a Series A round. This figure is well below the global median conversion rate (i.e. 25% as measured by the Startup Genome Project). This low conversion rate reflects a lack of venture capital available in the New Zealand eco-system. The Ministry of Business, Innovation and Employment estimated the capital funding gap to be around $150 million per annum.

The new Venture Capital Fund, which is enabled by the Venture Capital Fund Act 2019, aims to increase the capital available to New Zealand entities and develop New Zealand's venture capital markets to function more effectively. The new Venture Capital Fund is a Crown-owned fund that is managed and administered by the Guardians of New Zealand Superannuation.

The Venture Capital Fund Act 2019 allows the Minister of Finance to give to the Guardians of New Zealand Superannuation a Policy Statement that sets out various directions containing high-level requirements for the investment of the Venture Capital Fund.

The Guardians of New Zealand Superannuation have been consulted on this Policy Statement as required in section 35(1) of the Venture Capital Fund Act 2019.

Purpose

This Policy Statement provides high-level policy directions to the Guardians of the New Zealand Superannuation for the Venture Capital Fund. It will guide the core parameters and settings under which the Venture Capital Fund is to be operated.

Title

This Policy Statement is the Policy Statement on the Venture Capital Fund Act 2019.

Commencement

This Policy Statement comes into force on xx xxx 2019 / 2020

Objectives

The purpose of the Venture Capital Fund (section 24) is to contribute to a sustainable and productive economy by:

1. Increasing the venture capital available to New Zealand entities; and
2. Developing New Zealand's venture capital markets to function more effectively so that over time:
    - more venture capital becomes available to New Zealand entities from sources other than the Venture Capital Fund, and
    - New Zealand entities that receive venture capital become more likely to grow into successful and sustainable businesses.

Increase capital available to New Zealand entities

Many high-growth early-stage New Zealand entities struggle to access the capital that they need to further develop, especially after showing progress in building a business model and the potential to grow and generate revenue (the investment in businesses at this early stage is often known as Series A and B capital). Many of these entities have successfully raised initial start-up or seed funding domestically. However, in New Zealand there is currently a shortage of available investment in the Series A and B space which affects their ability to raise funds and continue their development in New Zealand.

These entities are aware of the capital funding gap in New Zealand, and often look for capital offshore where venture capital funding is significantly more advanced and large pools of capital are available. As the number of start-ups in New Zealand continues to grow, this has led to the increased the reliance upon foreign capital to support New Zealand early-stage entities, which increases the risk of earlier-than-necessary sell off of New Zealand innovation to offshore interests. This also results in the substantial potential gains that investors can make in successful start-up businesses also being made overseas.

More developed venture capital markets, with better resourced and connected fund managers that generate returns appropriate for the sector, should help attract private capital and new investors into this sector. The potential investors in this space may include domestic institutions, KiwiSaver funds, corporates, iwi, private family investments, retail investors, and some offshore investors.

Through the Venture Capital Fund, the government aims to address the Series A and B funding gap to provide a continuous capital pathway to those high-growth early-stage New Zealand entities to support their growth in New Zealand.

Providing a capital pathway for New Zealand's high-growth early-stage entities should create better returns for the government Research and Development investments and enable more of the technologies to be commercialised. It may also encourage some of entities to stay longer in New Zealand. Potential benefits of entities staying longer in New Zealand include:

- the creation of more jobs in New Zealand
- an increase in exports from New Zealand, and
- growth of the knowledge economy.

These benefits will contribute to transforming our economy by making it more productive, sustainable and inclusive.

Develop New Zealand's venture capital market

To achieve the objective outlined in the previous section, we need to have a well-functioning New Zealand venture capital market. Successful venture capital markets not only provide the capital that firms need to fund their growth, but also the capabilities and connections that are key elements in business development. Many jurisdictions around the world have similarly intervened to develop their domestic venture capital markets.

The Guardians will manage and administer the Venture Capital Fund utilising best practice investment management that is appropriate for institutional investments in the New Zealand venture capital market, subject to high level Government policy requirements.

It is intended that the Guardians and the New Zealand Venture Investment Fund will enter into an arrangement which will enable the Guardians to leverage its existing frameworks and expertise to apply best-practice investment management oversight of New Zealand Venture Investment Fund as the initial designated manager of the Venture Capital Fund. In turn, the intent is for New Zealand Venture Investment Fund to facilitate best practice with underlying venture capital fund managers.

The underlying venture capital fund managers will be required to, among other criteria, prove their management capability and their ability to raise a certain minimum amount of private capital before receiving investment from the Venture Capital Fund.

The expectation is that a self-sustaining domestic venture capital market with sufficient capacity to service the demand that is expected to develop as a result of this programme. The overall programme aims to establish a well-functioning New Zealand venture capital market which will:

- have a deep pool of capital and capability including specialised expertise
- have a competitive market structure including multiple funds operating at an appropriate fund size and mixed vintages of funds
- build strong international connections for the purpose of increasing the expertise available to New Zealand markets
- produce better returns and reputation, and
- attract additional institutional and other investors to the market.

Definitions

In this Policy Statement –

Terms not defined have the meaning given to them in the Act.

Act means the Venture Capital Fund Act 2019.

Co-investment means an investment made by the VCF directly into a New Zealand Entity alongside an Underlying Fund, where that Underlying Fund is completing a Follow-on Investment and the VCF is not the lead investor and relies on the due diligence of the manager of that Underlying Fund.

Entity means any company, limited partnership, body corporate or other similar entity wherever formed or established.

Follow-on Investment means additional investments into existing portfolio Entities that the Underlying Fund manager determines are required or reasonably advisable in order to protect, support or enhance an investment made by that Underlying Fund during its investment period.

Foreign Fund means a Fund which does not have a New Zealand Connection.

Foreign Fund Investment means an investment in a Foreign Fund (or in a side car or similar investment vehicle alongside a Foreign Fund) in respect of which the VCF committed capital is invested only in New Zealand Entities. For the avoidance of doubt, the Foreign Fund may have a wider mandate than the New Zealand Entities into which the VCF committed capital is invested.

Fund means an investment vehicle established to pool capital and invest in early stage Entities (or, in the case of the VCF, other Funds) with an objective of maximising returns to its investors.

Fund-of-funds means a Fund that primarily invests in Underlying Funds and may also invest via Co-investment with an Underlying Fund and/or through a Foreign Fund Investment. The Fund-of-funds manager is responsible for the evaluation, selection, monitoring and management of the investment in each of the Underlying Funds in which the Fund-of-funds invests in accordance with the terms of its governing document(s).

Net Committed Capital means the total funds committed to the VCF (including any Recycled Funds available for reinvestment), minus the anticipated fees, obligations, expenses and liabilities to be incurred by the VCF.

New Zealand Connection means a Fund in respect of which the general partner and investment manager (or equivalent):

- is a New Zealand resident for tax purposes or has a permanent establishment in New Zealand, and
- has at least one senior investment professional who [is ordinarily resident in New Zealand (as defined in the Overseas Investment Act 2005)] [**Note: Section 6 interpretation, sub-section 2B of the Overseas Investment Act: if the person holds a residence class visa, is domiciled in New Zealand or is residing in New Zealand**

with the intention of residing there indefinitely and has done for the immediately preceding 12 months.

New Zealand Entity means an Entity which (itself and/or through any of its subsidiaries, as the case may be), at the time of initial investment, has:

- the majority of its employees and independent contractors (by number) in New Zealand, or
- the majority of its [tangible assets] (by value) located in New Zealand, or
- [where at least 20% of [tangible assets] (by value) or employees and independent contractors (by number) are located in New Zealand, and both (1) the voting control is held by one or more New Zealand residents for tax purposes, and (2) the majority of its senior leadership team are New Zealand residents for tax purposes.

New Zealand Venture Capital Market means the ecosystem of investors, funds and fund managers involved in Venture Capital investing in New Zealand Entities together with those New Zealand Entities which are the recipients of that Venture Capital.

Recycled Funds means the net amount of any cash distribution received by the VCF from investments from time to time.

Seed Capital means capital provided in a capital raising in which the total amount being raised in that round is from (and including) NZ$100,000 to (but excluding) NZ$2 million and where that capital is being raised for the purposes of early stage growth.

Series A and B Capital means capital provided in a capital raising in which the total amount being raised in that round is from (and including) NZ$2 million to (and including) NZ$20 million and where that capital is being raised for the purposes of early stage growth.

Series C and C+ Capital means capital provided in a capital raising which is not Seed Capital or Series A and B Capital.

Underlying Funds means comingled funds in which the VCF invests.

VCF means the Venture Capital Fund established under the Act. In the context of any investment made by the VCF, a reference to the VCF shall include any VCF investment vehicle into which the VCF is directly invested.

Venture Capital means Series A and B Capital provided to early stage Entities together with any permitted Seed Capital or Series C and C+ Capital.

Policies

I. Investment directions

Guardians must *give effect to* the Policies 1-5 (inclusive) by including appropriate provisions in the contract or other arrangement put in place to manage the VCF.

Policy 1: Investment Model

The Guardians must invest the VCF in the New Zealand Venture Capital Market based on a Fund-of-funds model.

Policy 2: NZ Fund Investments

(i) The VCF must be invested wholly or substantially in Funds with a New Zealand Connection. To be substantially invested in Funds with a New Zealand Connection, a minimum of 70% of the Net Committed Capital made available to the VCF must be allocated for investment in Funds with a New Zealand Connection (the **NZ Capital**).

(ii) Underlying Funds with a New Zealand Connection will be required to invest wholly or substantially in New Zealand Entities. To be substantially invested in New Zealand Entities, a minimum of 75% of the aggregate investable capital of the Underlying Fund must be allocated for investment in Series A and B Capital in New Zealand Entities (with the intent of achieving as high an aggregate allocation as possible across all such Underlying Funds as commercially practicable, recognising, however, that investments in Seed Capital, Series C and C+ Capital and Entities that do not qualify as a New Zealand Entity may be necessary or desirable to improve the returns of Underlying Funds).

(iii) Notwithstanding (ii) above, no more than 10% of the aggregate investable capital of all Underlying Funds with a New Zealand Connection may be allocated for investment in Entities that do not qualify as New Zealand Entities.

Policy 3: Foreign Fund Investments

The VCF may be invested up to an aggregate of 30% of Net Committed Capital via Foreign Fund Investments (the **NZ Foreign Fund Capital**) of which a minimum of 75% of the aggregate investable capital of the NZ Foreign Fund Capital must be allocated for investment in Series A and B Capital.

Policy 4: Co-Investment with Underlying Funds

Notwithstanding Policy 2 and 3, the VCF may be invested in an amount up to:

- an aggregate of 20% of the NZ Capital via Co-investment alongside Underlying Funds with a New Zealand Connection; and
- an aggregate of 20% of the NZ Foreign Fund Capital via Co-investment alongside Underlying Funds which are Foreign Fund Investments.

And, to avoid doubt, this may include Co-investments in capital raising stages for Series C and C+ Capital).

Policy 5: Private capital requirements

[Note: two options are being considered]

Option 1:

For every Underlying Fund, the Underlying Fund must have aggregate committed capital from other investors which is at least equal to the VCF committed capital (i.e. up to half of total Committed Capital may be sourced from the VCF).

[Or]

Option 2:

For every Underlying Fund with a New Zealand Connection, the Underlying Fund must have aggregate committed capital from other investors which is at least equal to the VCF committed capital (i.e. up to half of each Underlying Fund's total committed capital may be sourced from the VCF).

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 (i.e. up to one third of each Underlying Fund's total committed capital may be sourced from VCF).

II. Government expectations

The Guardians must *have regard to* Policies 6-9 (inclusive):

Policy 6: Government's expectation as to the timing in which VCF capital is deployed is that the VCF should commit capital for investment into Underlying Funds and Foreign Funds Investments for an "Initial Investment Period" of 5 years from the effective date of the contract or other arrangement entered into between Guardians and the New Zealand Venture Investment Fund Limited pursuant to Schedule 1 of the Act (the **Commencement Date**)). The Government's expectation is that Co-investment and Follow-on Investment is likely to occur outside of this Initial Investment Period.

Policy 7: Government's expectation as to continued investment is that the VCF may commit further capital for investment for a "Secondary Investment Period" starting from the end of the Initial Investment period. During the Secondary Investment Period capital committed will comprise capital made available to the VCF which remains uncommitted at the end of the Initial Investment Period (if any) together with any Recycled Funds.

Policy 8: Government's expectation as to the return of capital invested through the VCF is that at the completion of the programme all residual funds should be returned to the Crown (net of any costs and fees), which is expected to be a minimum of 15 years from the Commencement Date.

Policy 9: In setting out terms with the VCF manager, the Guardians must have regard to the following aspects of the Government's economic strategy and plan to transition to a low carbon economy:

- ***[Note: Specific list of requirements to be included]***

Implementation

The Guardians of New Zealand Superannuation will be responsible for implementing this Policy Statement as provided under the Act. The Guardians must *give effect to* the Policies 1-5 (inclusive) by including appropriate provisions in the contract or other arrangement put in place to manage the VCF. Initially this is the contract or other arrangement between the Guardians (or VCF investment vehicle) and the New Zealand Venture Investment Fund Limited.

Review of this Policy Statement

This Policy Statement will be reviewed if the policy objectives of the Venture Capital Fund are not being achieved. Any future changes to the Policy Statement will only be able to be applied to future commitments of the Venture Capital Fund, and therefore will not affect any existing investments, matters, commitments or contracts at the time the Policy Statement is amended.

The Guardians must be consulted on the Policy Statement before it is issued, reviewed and/or re-issued. The effect of the above is that the Guardians will have a reasonable degree of certainty as to what the Policy Statement will contain, and will also have an opportunity to comment on how the proposed directions will affect the Venture Capital Fund and the wider market.