

## **ELEVATE NZ VENTURE FUND – FAQs**

### **1 The Elevate NZ Venture Fund and its purpose**

#### **1.1 What is the Elevate NZ Venture Fund?**

The Venture Capital Fund or VCF was established under the Venture Capital Fund Act 2019 (**VCF Act**) which was passed into legislation on 13 December 2019. In March 2020, the Venture Capital Fund was formally launched as Elevate NZ Venture Fund (the **Elevate Fund**) was announced by the Government in May 2019 as a fund of funds programme designed to fill the capital gap for high growth New Zealand businesses at the Series A and B fundraising stage. The Elevate Fund will look to allocate up to \$300 million into venture capital firms over the next five years.

The Elevate Fund aims to stimulate a functioning venture capital industry and make sure that high-growth New Zealand businesses have access to the capital and connections that they need in order to be successful. This will be achieved primarily by investing into venture capital funds (alongside private investors) that have the capability and connections to help New Zealand businesses achieve success. In addition, New Zealand Growth Capital Partners Limited (NZGCP – formerly New Zealand Venture Investment Fund Limited) will also be undertaking market development activities to support the New Zealand venture capital market.

Under a Limited Partnership Agreement and Management Deed, New Zealand Growth Capital Partners Limited through a subsidiary (Elevate NZ Venture Fund GP Limited) has been appointed as the General Partner and Manager of The Elevate Fund. The Elevate Fund formally launched in March 2020 and more details about how fund managers can apply and the key parameters of the Elevate Fund are now on our [website](#).

#### **1.2 What is the purpose of the Elevate Fund?**

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 the young, dynamic firms, however, struggle to fully develop in New Zealand because of the shallowness of the specialised domestic early stage capital markets, and especially a lack of venture capital.

The purpose of the Elevate Fund is to increase the amount of capital available to New Zealand start-ups and to develop New Zealand's venture capital markets to function more effectively. If successfully implemented it is expected that over time more venture capital will become available to New Zealand entities from sources other than the Elevate Fund and that New Zealand entities that receive venture capital funding are more likely to grow into successful and sustainable businesses.

For more details on the purpose and structure of the Elevate Fund refer to the [VCF Act](#) and associated [Policy Statement](#).

### 1.3 What is a fund of funds programme?

This means that the Elevate Fund will invest directly into a portfolio of venture capital funds with the intent that those funds (the **Underlying Funds**) will then invest directly into New Zealand high growth companies, predominantly at the Series A and Series B fund raising stage. We will monitor those funds' performance and ensure that they are investing based on the guidelines we set out when we allocate funds to them.

The Elevate Fund will invest in these funds on commercial terms alongside private and institutional investors. The intended outcome of this matching capital model is that up to \$300 million of the Elevate Fund capital will be leveraged alongside that private capital to see in excess of \$600 million in total being committed in the next five years into these Underlying Funds.

The Elevate Fund will not be involved in the day to day decision making of the Underlying Funds. Our job is to find the most appropriate venture capital fund managers and to give them the flexibility to do their jobs. We will provide an oversight to ensure that the objectives of the Elevate Fund are being met.

The Elevate Fund may also co-invest directly into later stage companies alongside an Underlying Fund where they request us to do so and where we think it is in the best interest of the Elevate Fund and subject to certain other conditions as set out in the limited partnership agreement with the Guardians of New Zealand Superannuation (the Guardians).

### 1.4 What is the expected life of the Elevate Fund?

Our expectation is that up to \$300 million will be allocated, alongside private capital, within the first five years to the Underlying Funds. The Underlying Funds will then invest their capital over a similar or longer period from when they receive their allocation from the Elevate Fund.

The intention is that beyond year five the Elevate Fund will then start recycling returns from early funds and recycle that capital back into the market for a further 10 years. This will be dependent on (i) the performance of the Elevate Fund against its objectives which will be assessed on a regular basis and (ii) depending on this performance, the intended life of the Elevate Fund, which may be modified.

### 1.5 When will you allocate the money?

The Elevate Fund will have limits under its agreements with the Guardians as to how much can be allocated in any year and the intention is to phase allocations over the initial five years of the programme. We do not anticipate that the Elevate Fund will allocate more than 25% of the Elevate Fund's available capital in the first 12 months of the programme.

### 1.6 Who is responsible for running the Elevate Fund?

The Crown has tasked the Guardians with investing into the venture capital market in accordance with best-practice investment management approaches.

The Guardians have entered into a limited partnership agreement (as the sole limited partner) of the Elevate Fund and the Elevate Fund has appointed NZGCP (through its subsidiary Elevate NZ Venture

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Fund LP Limited) to manage the Elevate Fund and to allocate funds based on best-practice fund selection criteria, taking into account the VCF Act's objectives.

The Guardians, acting in their capacity as the sole limited partner, oversees and monitors the performance of the Elevate Fund and the GP.

### 1.7 Is the operating model of the Elevate Fund fixed?

As the New Zealand venture capital ecosystem evolves the Elevate Fund will look to adapt to the needs of the market and New Zealand entities. The Elevate Fund will seek to continually engage with all stakeholders in the eco-system, alongside Ministers and Officials, on a regular basis.

### 1.8 Who provides the funding?

The funding is from the New Zealand Government, including from contributions that would have been made to the New Zealand Superannuation and distributions made from realised investments by NZGCP. The Elevate Fund has to date received approximately \$260 million of capital contributions and NZGCP is anticipated to provide an additional \$40 million from realisation of existing investments over the initial five-year period. Going forwards as the Elevate Fund realises returns from its investments in underlying funds, the expectation is that these will be recycled into further allocations and/or co-investments.

### 1.9 What fees are you charging?

The Elevate Fund is paying the Guardians and NZGCP fees based on actual costs associated with running the programme, including some reimbursement of shared overheads from both entities. This cost recovery model there ensures there is no profit being made by either NZGCP or the Guardians.

Based on comparative fund of funds programmes, we believe the costs that the Elevate Fund will incur will be substantially lower.

## 2 Eligibility and guidelines

### 2.1 Is this programme only open to New Zealand venture capital funds?

We will seek to invest substantially all the capital available to the Elevate Fund into funds with a New Zealand connection. The [Policy Statement](#) requires us to invest a minimum of 70% of the available capital into such funds although we believe it is beneficial to target a higher proportion. The Elevate Fund may invest the remaining 30% alongside offshore funds, provided that they will invest this capital into New Zealand entities.

### 2.2 Is the programme only open to existing New Zealand Venture Capital funds?

Whilst past performance as a venture capital fund manager is an important part of our assessment criteria, we do want to encourage some new entrants into this space so we welcome existing and new funds, from both on and offshore, to consider participating in the programme.

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For first time managers, we will assess the individuals' track records of investing in high growth companies in the absence of fund performance. We will also work with first time managers to provide more guidance on the application process and feedback from our selection process to help them understand what (if any) changes or improvements need to be made.

### 2.3 If I've applied for funding from NZGCP's previous venture investment fund, can I apply again?

Yes, the Elevate Fund is a completely new programme with a new set of criteria.

In the future, we will also encourage successful funds to re-apply for funding their next vintage of fund.

### 2.4 Will the Elevate Fund only invest in funds with certain structures, investment styles etc.?

We have designed the programme to be as flexible as possible to enable us to consider different structures and investment styles. We welcome the opportunity to have different options presented to the programme for consideration.

### 2.5 How much matching capital does a fund need to raise?

Venture capital funds will need to raise matching capital from private investors that is at least equal to the commitment from the Elevate Fund. In this way the Elevate Fund aims to stimulate at least \$600 million of investment into Series A and B stage New Zealand businesses over the next fifteen years. While funds must raise matching capital at least equal to the Elevate Fund commitment, we will be targeting a higher level of matched capital where possible.

### 2.6 If I raise the necessary matching capital will I automatically get the Elevate Fund funding?

Unfortunately, it's not that simple. We are anticipating a lot of demand for funding over the five-year investment period of the Elevate Fund and want to ensure that the Elevate Fund is a success in the long-term. Therefore, we will be applying a rigorous due diligence and selection criteria to decide which funds best meet the objectives of the Elevate Fund. Simply raising matching capital is no guarantee that the Elevate Fund will invest in the venture capital fund applicant.

We will also use portfolio tools to ensure that the Elevate Fund is balanced across entire venture capital space and looks to address the key gaps that have been identified. Portfolio allocation may consider selection of first time vs. established funds, different vintages, different sector focus, different geographical network/market access etc.

All that we can promise is that we will be transparent in our process. Further details of the fund selection framework will be posted on our website when the Elevate Fund starts operating in early 2020.

### 2.7 Does money already raised qualify as matching capital?

We generally consider all private capital that has been raised within the six months prior to an application (and that had not been invested at that time of the application) as matching capital.

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However, we do appreciate that every fund is different and we have some flexibility over how we apply this rule so please get in touch to discuss your own situation.

## 2.8 How long will due diligence take?

This will depend upon the level of readiness of each potential fund and the number of funds being reviewed at that time. We anticipate full due diligence will take on average 1 – 2 months.

We are open to regular dialogue with potential funds to ensure that we screen and/or conduct detailed due diligence at the appropriate time and regular updates and informal feedback will be provided during each stage.

As conditional allocation letters will be time-bound and acknowledging the time taken to complete fund raising, we anticipate that detailed due diligence would only commence once the fund-raising process is significantly advanced.

## 2.9 What is the minimum fund size?

The minimum assets under management of any fund manager which the Elevate Fund will invest in (including the funds we commit) is \$50 million. The rationale behind this number is that we believe that this level provides sufficient management fees for fund managers to be sustainable throughout their funds' lives.

However, for first time managers, we may make concessions to enable the Elevate Fund to fund them on a minimum first close (including the Elevate Fund capital) of \$30 million provided that we believe that the fund will be able to achieve a minimum fund size of \$50 million at final close. We will assess this on a case by case basis to ensure that such funds can still be sustainable.

## 2.10 Will the Elevate Fund invest directly into companies?

The Elevate Fund is predominantly a fund of funds vehicle, investing directly into venture capital funds. The Elevate Fund may co-invest alongside some Underlying Funds in later stage rounds but only:

- at the request of an underlying fund and where that fund is also investing in the round;
- where we have high conviction of that individual opportunity will provide us with a positive return; and
- up to a maximum of the Elevate Fund's pro rata entitlements i.e. based on the Elevate Fund's share of the Underlying Fund.

The Elevate Fund's priority is to invest into venture capital funds so the Elevate Fund will only co-invest in limited circumstances where it is beneficial to the Elevate Fund meeting its overall objectives. The Policy Statement limits co-investment to 20% of the overall capital available.

Our expectation is that co-investment will play a limited part of our allocation and would only be considered in a few years' time. Our primary priority is to deploy the Elevate Fund capital to venture capital funds.

## 2.11 What fees will Underlying Funds charge?

Fees will be negotiated on a case by case basis however we expect fees to be consistent with best market practice for venture capital firms i.e. based on a low percentage of capital allocated together with a carry (or profit share) based on realised profits subject to a minimum return threshold (hurdle).

## 3 Policy Statement questions

### 3.1 What are the guidelines on what the Underlying Funds must invest in?

As outlined in the [Policy Statement](#), the Elevate Fund will invest into venture capital funds that are primarily looking to make Series A and B stage investments (round sizes of \$2 to \$20 million) into New Zealand entities. The Policy Statement sets out that a minimum of 75% of the Elevate Fund available capital should be invested in New Zealand entities in Series A and Series B rounds, but we do want this percentage to be as high as possible.

We will also be looking to have a diverse range of funds within the Elevate Fund portfolio so welcome funds with sector, geographical or other focuses, not just generalist funds.

### 3.2 How are Series A and Series B defined?

These are defined as investment rounds of between \$2 million and \$20 million.

### 3.3 Can funds invest outside the series A and Series B space

The Elevate Fund has some flexibility to allow funds to invest outside of Series A and B provided there is strong rationale for doing so. However, the Elevate Fund is designed to fill the funding gap in Series A and Series B so getting money into that space is our priority. The allowance outside of Series A and B permits investment in both earlier and later stage investments.

### 3.4 What is a fund with a “New Zealand Connection”?

A Fund established to invest predominantly in New Zealand Entities and in respect of which the locally established general partner and investment manager (or equivalent):

- is a New Zealand resident and has a permanent establishment in New Zealand; and
- employs at least two investment professionals, at least one of whom is a senior investment professional in a voting role in respect of investment decisions for the Fund, and whose principal place of work is New Zealand, and
- demonstrates significant commitment or contribution to New Zealand venture capital market development.

### 3.5 What does New Zealand Venture Capital market development look like?

For the purpose of assessing a fund with a New Zealand connection, we will assess this on a case by case basis. Some of the activities we would be looking for include:

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- senior investment personnel attend pitch events and/or networking events;
- providing exposure to global best practice;
- training and development of new and existing staff which might include:
  - the recruitment of graduate interns.
  - secondments for domestic employees into offshore offices;
  - performing or organising training (masterclasses) for founders or for domestic investors on investing in alternative asset classes.

We don't want to be too prescriptive here as there are lots of different ways to contribute to the local ecosystem. Let us know what you are thinking, or we are happy to provide suggestions.

NZGCP will also be working to establish a number of market development activities to support the venture capital ecosystem.

### 3.6 What is a New Zealand entity?

An Entity which (itself and/or through any of its subsidiaries, as the case may be), at or immediately following the time of initial investment, has:

- the majority of its full-time employees and independent contractors (by number) in New Zealand or the main operations based in New Zealand; and
- one or more of the following:
  - its shareholder (or equivalent) voting control held by one or more New Zealand residents (as defined for tax purposes); or
  - New Zealand residents (as defined for tax purposes) as the majority of its senior leadership team; or
  - its headquarters in New Zealand.

### 3.7 Can a fund invest in foreign entities?

The definition of a New Zealand entity is only tested at the time of first investment by an Underlying Fund. We anticipate that many of these companies will no longer meet these criteria as they move into international markets and grow. These criteria will not limit the ability of venture capital funds to provide follow on investment into companies that have subsequently moved offshore.

Our target is that all the capital allocated to the Elevate Fund will be invested into New Zealand entities (as defined above). We may allow investment into foreign entities on a very limited basis. This will be assessed on a case by case basis and we would need to be comfortable that there was some form of strong NZ connection or benefit to New Zealand to justify any investment into a foreign entity.

## 4 Investment process

### 4.1 What was the timeline for the implementation of the Elevate Fund?

The key milestones in the launch of the Venture Capital Fund were:

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- 30<sup>th</sup> May 2019 – The Crown announced the creation of the \$300 million Venture Capital Fund as part of Budget 2019
- 22<sup>nd</sup> August 2019 – The Venture Capital Fund Bill was introduced to Parliament
- September 2019 – Industry consultation and select committee process undertaken
- 13<sup>th</sup> December 2019 – Venture Capital Fund Bill received royal assent to become Act of Parliament
- 19<sup>th</sup> December 2019 – VCF Policy Statement published
- Late January 2020 – Venture Capital Fund entered into agreements with the Guardians and NZGCP and became operational.
- March 2020 – Official launch of the VCF as Elevate NZ Venture Fund and applications opened to potential fund managers.

#### 4.2 When will the Investment Committee meet?

It is anticipated that the Investment Committee will meet quarterly and that we will make recommendations at these meetings as to which funds to enter into the due diligence phase or to make a conditional allocation to on a quarterly basis. However, at the initial establishment of the fund, due to the high level of interest from potential applicants we expect that the investment committee will meet more frequently than this.

#### 4.3 What is the investment process of the Elevate Fund?

The Elevate Fund aims to provide a clear and robust due diligence process that can help to attract private capital into the New Zealand venture capital market. We will also apply portfolio allocation tools to ensure that we meet the fund's objectives over the long-term. Consequently, we expect that not all funds will be selected to be taken through to detailed due diligence and only a small proportion of funds will be ultimately allocated capital by the Elevate Fund.

We will ensure that any decisions we make are accompanied with detailed feedback to the applicants and we note that funds may be re-considered at subsequent investment committee meetings e.g. if a fund is not selected for portfolio allocation reasons, it may still be subsequently progressed/ selected in the future and similarly if a fund makes changes as outlined in any recommendations provided at the time of rejection.

An overview of the stages of our investment process is as follows:

##### 1. **Initial Screening:**

Once we have received a formal application, NZGCP makes an initial assessment of whether an allocation to a potential fund manager would meet the objectives of the Elevate Fund.

We will also use this initial screening process to determine which funds to recommend taking through to detailed due diligence at that stage. The Investment Committee will then determine which funds to progress to detailed due diligence.

Following the Investment Committee's decisions, all funds will then receive a formal letter confirming whether they qualify for the Elevate Fund (or if not, why not) and

either:



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- a. Confirmation that they have been selected to move to detailed due diligence and key areas of focus for due diligence; or
- b. if an applicant is not being taken through to detailed due diligence at this time, when they will be re-considered by the investment committee together with any recommendations for changes/modifications to the fund or application if applicable.

**2. Detailed Due Diligence**

Subject to the Elevate Fund Investment Committee approval and evidence of substantive progress with private capital partners, potential fund managers are assessed against the Elevate Fund conviction review framework and the Elevate Fund's portfolio allocation framework. Noting that for first time fund managers, the evidence of matching capital may be less than for established fund managers due to the extended conditional allocation timeframe for first time fund managers.

At this stage we will also look to negotiate and agree the terms of a potential allocation.

**3. Conditional Allocation Letter**

The Investment Committee review the outcomes of diligence and potential portfolio allocation. Those approved will be provided with conditional approval for an allocation. Proposals approved by the Elevate Fund Investment Committee will be issued with a time bound conditional allocation letter (six months for first time fund managers and three months for established fund managers).

Any funds that do not receive a conditional allocation will receive feedback on the reason(s) for this together with any recommendations for changes to their fund/application and if applicable, timeframes to be reconsidered at the next Investment Committee meeting.

**4. Conditions Satisfied**

Fund manager provides evidence of external capital and satisfaction of any other conditions as set out in the conditional allocation letter.

**5. Final Approval and Allocation**

Final documentation is agreed and executed. Funds will then be available for draw down in accordance with the terms.

Further details of the investment process and conviction review framework will be made publicly available in early 2020.

#### **4.4 How will the Elevate Fund assess prospective fund managers?**

The Elevate Fund will allocate capital to fund managers on a commercial basis using best practice fund of funds selection processes and portfolio allocation tools designed to meet the objectives of the program.

Potential fund managers will be assessed based on a number of factors including, but not limited to:

- Intention to allocate significantly all of capital to Series A and B stage New Zealand businesses.
- Track record of success as a venture capital fund manager and/or investing in early stage companies.

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- Connections and capability to support their portfolio companies on their growth journey.
- Fund fit within the wider the Elevate Fund portfolio.
- Ability to source matching capital from private investors.
- Commitment to developing the New Zealand venture capital industry.

We have developed a conviction framework, in conjunction with the Guardians, which will give further guidance on our assessment criteria. This will be published in early 2020.

#### 4.5 Who makes up the Elevate Fund Investment Committee?

We are currently in the process of finalising the Investment Committee but can confirm it will constitute:

- two people who are independent of both NZGCP (and any potential the Elevate Fund applicants) but whom have a strong track record in venture capital and/or fund of funds; and
- at least two senior members of NZGCP (initially being James Pinner, Investment Director and Richard Dellabarca, Chief Executive).

#### 4.6 What is the most you can allocate to a single fund?

The maximum we can allocate to any single fund is 20% of the available the Elevate Fund capital. However, the Elevate Fund does have the ability to increase its exposure above this amount by investing in future vintages i.e. subsequent funds of the same fund manager.

#### 4.7 How much will you allocate to first time fund managers

The Elevate Fund is limited to investing a maximum of 20% of the available capital in aggregate to first time fund managers. However, investment into second vintages of these funds does not fall under these restrictions.

#### 4.8 What are the reporting requirements of successful funds?

We will provide more details in the formal agreements for potential funds that are selected for full due diligence. However, most of the reporting requirements for Underlying Funds will mirror the standard ILPA reporting requirements.

Given our mandate and the objectives of the VCF Act, we will however also require Underlying Funds to collect and report a small amount of economic data from their individual investee companies. This reporting requirement will only be needed on an annual basis and will relate to domestic and export revenues, taxes paid and number of employees. At the time of initial investment, we will also require Underlying Funds to report some data on the makeup of the founders.

Finally, we are in the process of establishing an environmental, social and governance (ESG) policy which is likely to require underlying funds to report on risks and opportunities in these categories alongside their usual quarterly reporting.

We will also be issuing a responsible investments policy which will include a number of prohibited investments and it will be a requirement that all Underlying Funds comply with this policy.

#### 4.9 How do I apply?

Click [here](#) to download the application form.

If you are not a fund manager or prospective fund manager but are looking to raise capital for your start-up company, check out the NZGCP [website](#) for more information about access to capital.

#### 4.10 Who should I contact regarding a potential application or to find out more information about the Elevate Fund?

Please email <mailto:vcf@nzgcp.co.nz> or get in touch with any of the Elevate team.

### 5 Other questions

#### 5.1 How will you manage potential conflicts between the Elevate NZ Fund and other programmes you run e.g. Aspire NZ Seed Fund

In conjunction with the Guardians, we have developed a detailed Mandate Management Policy to ensure there are clear guidelines on how each programme is managed and to ensure any potential conflicts are correctly managed. Some of the details include:

- Establishment of separate investment committees for each of the Aspire NZ Seed Fund and the Elevate Fund and each with their own independent members
- Clear delineation between what each fund can invest in depending upon the stage of investment, noting that other than for co-investments, the Elevate Fund has no input into investment decisions made by the underlying funds.
- Guidelines for the Aspire NZ Seed Fund to ensure that its focus is primarily on pre-Series A rounds but with the ability to invest outside this space where it would not lead to crowding out venture capital funds and fits within the primary purpose and objectives of the Aspire NZ Seed Fund.
- Establishment of an Elevate Fund investment team that is separate from the Aspire NZ Seed Fund investment team.

#### 5.2 Where do I get more information?

Please check out the Elevate Fund [Policy Statement](#) and if you haven't done so already, please contact the NZGCP team for an initial discussion.

Also, keep an eye on the NZGCP [website](#) and email [info@nzgcp.co.nz](mailto:info@nzgcp.co.nz) to subscribe to newsletters.

We will also update these FAQs regularly based on questions we are asked regularly as the programme is implemented.