New Zealand Venture Investment Fund

Statement of Intent 2019-2023

@the epicentre of kiwi ingenuity, #backed 250+ companies

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OVERVIEW

WHY WAS THE NEW ZEALAND VENTURE INVESTMENT FUND (NZVIF) ESTABLISHED?

In the late 1990s, it was apparent that there was a missing link between New Zealand's innovation system and capital markets. Unlike the United States, Israel and Singapore, New Zealand had no venture capital market – there was a lack of investors skilled in selecting and investing in promising start-up companies and helping them to achieve global success.

A common feature of the United States, Israel and Singapore was the way they had developed venture capital sectors though partnerships between the private and public sectors. In the US, for example, the Small Business Investment Act of 1958 established federal funding for US venture capital firms which today underpin Silicon Valley. In its first decade, the programme invested US$3 billion into young firms – over three times the amount invested by private venture capital funds. The programme still exists and in total since inception has invested over $75 billion of funding investment into 116,000 companies, including such technology luminaries as Apple.

If New Zealand was to develop an investment environment that supported the growth of young technology companies, then the approach taken by other countries in building successful venture capital markets, suggested that the government needed to form investment partnerships alongside private sector investors. These investment partnerships would need to focus on selecting and investing in New Zealand's most promising technology start-ups.

NZVIF UNDERWAY

In 2002, NZVIF was established as a $100 million[1] venture capital fund-of-fund (VIF) to partner with the private sector to invest into private New Zealand venture capital funds which would then support the development of innovative companies, from start-up through to growth. NZVIF was also tasked with working alongside the private sector, to build investor capability and put in place best practice industry infrastructure.

In 2006 NZVIF introduced the $40[2] million Seed Co-investment Fund (SCIF) to fill the investment gap for entrepreneurs needing startup capital to get their business underway. Like venture capital, angel investing is a feature of vibrant start-up ecosystems from Boston, to Israel, to Mumbai. While New Zealand already had a number of wealthy entrepreneurs and investors willing to provide their own capital and expertise to speed the development of very young companies, achieving scale and professionalism was the next step in building a sustainable angel investor community.

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[1] *Through additional Crown allocations and underwrite facilities, the VC Fund has $260 million available for commitment. Commitments are funded from Crown appropriations totalling $128 million, capital returns from VC fund investments and $100 million underwrite facility which will only be drawn if required. It is anticipated that future commitments will primarily be funded from investment returns.*

[2] *Alongside the original $40 million commitment, an additional $12 million was made available in 2015/16 through a transfer from the VC Fund.*

In August 2017, following consultation with a range of stakeholders in the early stage investment market, the design of the SCIF programme was revised. These changes were aimed at improving its investment returns while continuing its cornerstone market development role of attracting more investors and capital to the sector. In addition, to support continued investment activity without relying on further Crown capital, NZVIF is now able to re-invest investment returns.

HOW NZVIF OPERATES

NZVIF is the Crown's lead equity investment agency addressing the significant capital market gap for emerging high growth New Zealand companies that require new risk capital (equity and quasi equity) for growth.

NZVIF leverages its capital to attract increased levels of private investment into high growth New Zealand companies. Investments may be made from proof of concept stage, through to when the company has no further need for risk capital.

Developing relationships with experienced and motivated private investment partners to access quality investment deal flow, together with the application of sound investment management practice forms the core of NZVIF's investment approach. Through this approach, NZVIF aims to (i) provide early stage growth capital, in conjunction with the private sector, to help support the aspirational growth ambitions of New Zealand entrepreneurs seeking to address global opportunities; and (ii) in doing so, deliver positive returns to its shareholder over the long-term investment horizon.

NZVIF also has a broader role in market development, including but not limited to strengthening investor resources and capability, supporting industry-based research, and input on capital markets policy.

Ultimately NZVIF's role is catalytic in building a self-sustaining early stage investor market in New Zealand. NZVIF aims to demonstrate that investing into emerging high growth New Zealand companies can deliver positive returns to shareholders and investors.

NZVIF NOW

For the last 16 years NZVIF has been focused on forming investment partnerships alongside private sector angel investors and fund managers, to increase the capital available for promising New Zealand start-ups. NZVIF has established investment partnerships with 10 venture capital funds and 18 angel investment networks. We have also worked closely with the industry to build professional capability and investment best practice.

Since inception, NZVIF has invested over $173 million into 239 New Zealand companies through partnerships with venture capital fund and angel networks. Those companies have raised a further $2.2 billion from private investors with 46% by international investors and earned $4.7 billion in revenues and $3.3 billion in export dollars.

Of the companies NZVIF has invested into, 45% are software companies, 13% biotechnology, 8% technology hardware, 5% produce capital goods, and 4% agritech.

Currently, 103 companies have annual revenues of over $10 million. Four of these companies now generate over $50 million in revenues per annum, one of which has revenues of over $100 million. Seven companies in the NZVIF portfolio are listed on the NZX or other exchanges, and two companies have been acquired by NZX listed companies.

As at 30 June 2018, despite structural constraints around both the VIF and SCIF business models that would not occur in a private sector investment fund, the financial return on the Crown's investment in NZVIF was $0.99 per dollar invested, which includes $100 million received in distributions from the sale of investments since inception. This does not take into account the indirect returns generated for the benefit of the Crown that include:

(i) the leverage multiplier observed above which has seen $2.2 billion of private sector capital invested alongside the Crown;

(ii) the 6,000 new employees in these new ventures; and

(iii) taxes paid of $175 million to the Crown from these companies.

WHERE TO NEXT?

Much has been achieved in New Zealand in the last 16 years, and the capability that has been built across early stage capital markets is now much stronger. To achieve sustainability New Zealand needs to continue to build both scale and investment track record. It took the United States 40 years to build their venture and angel ecosystem. The aim is to do it here in New Zealand in 25 years.

The Seed Co-investment Fund (SCIF) Programme:

When NZVIF was established in 2002, the annual level of early stage investment (venture capital and angel) was around $17 million and there were very few companies emerging from the considerable investment the government made in research at our universities and research institutes.

The annual investment level is now over five times that in the angel space alone at $87 million in the most recent financial year, with 111 investments made into early stage companies during that period. As a further illustration of the eco-system's development, of NZVIF's 273 portfolio companies, over 40 percent have emerged from Crown Research Institutes and universities, or incubators and accelerators.

In terms of like for like comparison, New Zealand's level of angel investment equates to $18 per capita invested into the early stage eco-system, which is favourable to Australia's $13 per capita. This significant progress in a short period of time should be celebrated. However, with the United Kingdom and United States at $45 and $107 per capita respectively, there is still further work, and opportunity, for New Zealand to get to where we aspire to be.

A key observation from the recently concluded Global Genome Startup Survey in 2017 was that market development and successful financial returns were not mutually exclusive, rather they were uniquely intertwined, and for a key catalyst for an early stage eco-system development was the generation of $100m+ company valuations.

In August 2017, following consultation with shareholders, the SCIF investment mandate was revised to provide more investment flexibility to reflect the changing requirements of the early stage investment ecosystem and to

[3] 2 companies in the NZVIF portfolio which have previously been reported with revenues greater than $10m have been sold off during the year.

help accelerate the amount of capital directed towards creating successful New Zealand companies. These changes included:

- Raising the investment cap per investee companies from $750,000 to $1.5 million
- Removing the $250,000 limit per funding round.
- Allowing NZVIF to be a more active investor, such as determining whether to co-invest alongside its partners in individual investments.
- Broadening the investment partner network by enabling NZVIF to co-invest with qualified investors, who are not current angel network partners.
- Removal of the investment caps with individual partners.
- The ability to co-invest up to $8 million p.a. into early stage investment opportunities with at least 25% of its annual investment amount reserved for new investment opportunities.

The objective from these changes is twofold (i) to create successful early stage $100m+ companies out of the eco-system; and (ii) to generate sufficient investment returns such that over the medium term, the SCIF capital programme could potentially be self-sustaining.

The Venture Investment Fund (VIF) Programme:

It is not only the growth in early stage companies and funding of those that should be celebrated. If we step back, over the last decade ten "billion dollar-plus" companies have originated in some form or another out of New Zealand - namely A2 Milk, Xero, Pushpay, Diligent, Trademe, Telogis, Anaplan, FNZ, Allbirds and Rocketlab. Collectively this equates to, at the time of writing, in excess of $27 billion of shareholder value created from what were once start-ups.

What this illustrates is that while the angel sector is buoyant in terms of participants and capital being applied to opportunities, there remains a significant structural failing in terms of New Zealand's venture capital sector.

The Global Genome Startup Survey further demonstrates this structural failing. It noted that the conversion rate of angel funded start-ups which go on to raise Series A funding in the US was 40% - i.e. 40 out of 100 firms receiving angel funding go on to get Series A venture capital funding. The median conversion rate globally was 25%. New Zealand's conversion rate is only 10%, or around four time less than the US and 2.5 times less than the global average. Recent work by our colleagues at MBIE noted a Series A/B capital gap per year in excess of $250 million per year. Extrapolated over a traditional five-year investment cycle for a venture capital fund, this equates to a $1.25 billion capital gap.

In the 2017 annual report we noted our observations with regard to VC funds established to date and the associated structural issues that contributed to poor returns – these were historically sub-scale fund size which meant an inability to attract appropriate institutional capital, failure to adequately capitalise companies and/or fund their journey, inability to achieve appropriate portfolio diversification, generation of insufficient management fees for appropriate teams, and in many cases first time teams with no company building or early stage investing experience.

This is only amplified by the increasing Series A/B round sizes which companies require to fund a global journey, coupled with the need for appropriately connected and skilled investors to support that company build against highly competitive and well capitalised competitors. It is no coincidence that nearly all those ten "billion dollar-plus" companies noted above each raised in excess of $100 million to achieve their global ambitions.

There is no doubt that there is sufficient institutional capital in New Zealand to support the next generation of potential New Zealand unicorns when you consider the significant capital pools of KiwiSaver, the New Zealand sovereign wealth funds (NZ Super, ACC and Annuitas), iwi, community trust, corporates and the brokerage into houses. There is also no doubt offshore institutional capital will be available to support these companies, if they see domestic institutional capital investing.

To date, none of these domestic institutions participated in any of the private investment rounds of the ten "billion dollar-plus" companies which have emerged out of New Zealand. These were significant multi-billion dollar return opportunities which were missed by these domestic investors. The challenge for New Zealand is to connect this capital with the substantial investment returns available from the next generation of potential New Zealand billion dollar-plus companies.

It is a challenge which has been addressed in Australia, where in excess of $1 billion of institutional capital - the equivalent to our Kiwisaver and sovereign wealth funds - has flowed into the sector over the last three years as these institutions recognise the investment opportunity, as well as the national imperative around investing to create and support domestic champions taking on global opportunities.

An Australian super fund manager explained their approach: '*The super sector has become so large in Australia that we need to think about our impact beyond just returns for our members. This is also about investing in the country, because we need lots of strong technology companies in the future, and if we can help them stay here, that's a win for everyone*.'

We remain of the view that New Zealand needs to build a fund (or funds) of appropriate scale – structured with the best chance of investment success and the scale to attract the big institutions the sector needs, and to create a team (or teams) acceptable to such investors and appropriately qualified to manage such funds.

We see the next step for New Zealand's venture capital sector, and a critical need for the New Zealand ecosystem, is to have funds of appropriate scale (which, quite frankly, is an average sized fund offshore). Such funds can back growth companies taking on global opportunities throughout their journey. Over time these funds will contribute to building an appropriate network of skilled investment professionals in New Zealand, provide a more systematic investment approach, and bring a diverse network connecting New Zealand funded early stage companies with offshore capital and capabilities. In recent years, NZVIF has placed considerable emphasis on developing international linkages between New Zealand early stage investors and offshore counterparts in the United States and Asia. Attracting more specialised international investment to co-invest with local investors, will continue to be a focus.

This work will continue in the coming years with our public and private sector partners, both domestic and international, as we seek to solve this NZ Inc challenge.

NZVIF Operationally:

NZVIF is a small organisation with eight full-time and three part-time staff at present, and will continue to prudently allocate the $2.33m p.a. revenue received from the Crown to undertake the multiple programmes it runs, being – SCIF, VIF, and market development activities, as well as working to comply with the significant reporting obligations that all Crown owned entities operate within.

NZVIF currently has access to a Crown underwrite of $60m through to 2022. NZVIF is working towards a position whereby it could potentially remove the need to call on the underwrite over time.

In parallel, the NZVIF board and management have been working closely with Ministers and officials to identify the timeframes and viable options for NZVIF to transition to a self-funding approach, while ensuring market development gains are retained. This work remains ongoing.

Concluding Remarks:

Ultimately the goal is to have a local venture capital and angel investor market that can be self- sustaining without government support.

The first stage of demonstrating this was to invest in building private investor capability and the pipeline of high growth companies that have the potential to achieve global success. We believe this stage is complete.

The second stage we are collectively embarking on is to generate the returns of successful investments and building private investor confidence to allocate capital at appropriate scale into this asset class, in order to build a self-sustaining, and indeed growing eco-system.

STATEMENT OF RESPONSIBILITY

This Statement of Intent is submitted by the Board of Directors of New Zealand Venture Investment Fund Limited (NZVIF) pursuant to section 141 of the Crown Entities Act 2004. It sets out the intentions and objectives of NZVIF for the period 1 January 2019 to 31 December 2023.

The underlying assumptions of this document have been authorised as appropriate for issue by the Board of Directors of the New Zealand Venture Investment Fund Limited in accordance with its role under the Crown Entities Act 2004.

All acquisitions of shares or investments must be approved by the Board of Directors before they occur.

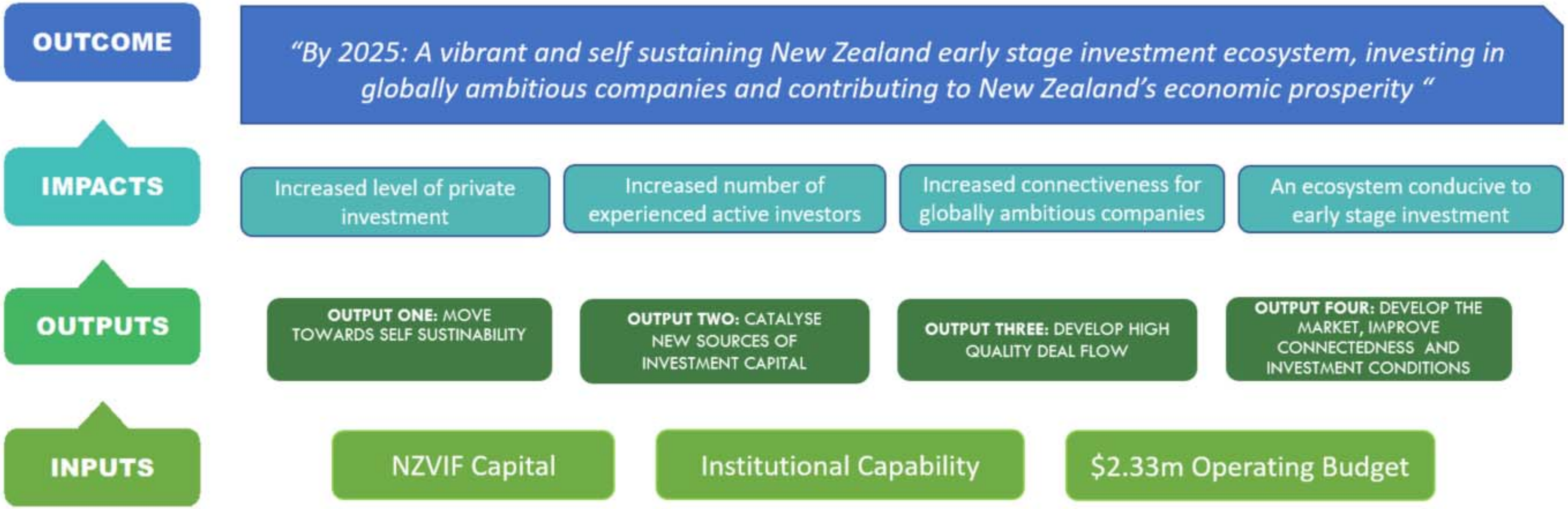
Murray Gribben
Chair

8 November 2018

David Flacks
Deputy Chair

8 November 2018

OUR STRATEGIC FRAMEWORK: WHAT WE ARE TRYING TO ACHIEVE AND HOW WE PLAN TO ACHIEVE IT



OUR OUTCOME

"By 2025: A vibrant and self sustaining New Zealand early stage investment ecosystem, investing in globally ambitious companies and contributing to New Zealand's economic prosperity "

HOW WILL WE KNOW WE HAVE ACHIEVED OUR OUTCOME?

The New Zealand Market

- New Zealand consistently ranks in the top half of OECD countries for early stage investment on a per capita basis.
  Globally connected New Zealand early stage ecosystem, that is attracting offshore follow on capital for high growth companies.
- The New Zealand early stage ecosystem is generating at least one >$100m exit per annum.
- The ecosystem has demonstrated investment success with over 65 full time professional angel investors and venture capital professionals.
- A quarter of companies that have raised seed investment in NZ successfully go on to raise Series A investment.

NZVIF

- NZVIF is self-sustaining early stage evergreen fund, re-investing returns into globally ambitious companies.
- The value of the Crown's investment in NZVIF is growing by 10% p.a. over a 5 rolling period.
- NZVIF has established long standing co-investment relationships with NZ and offshore Series A investors
- 10 NZVIF portfolio companies will have achieved revenues in excess of $100 million per annum.
- NZVIF is a trusted co-investment partner for NZ early stage investors, including but not limited to, angel groups, seed funds, family offices and experienced individual investors.

Offshore experience suggests that it will take 20-25 years from inception to achieve the outcome of building a vibrant and self-sustaining early stage investment market, across the full spectrum of angel and venture capital investing. While angel investing is likely to have a shorter timeframe to achieve scale, long term sustainability is dependent on networks and funds that have developed an investment track record over successive investments.

THE IMPACTS TOWARDS OUR OUTCOME

IMPACT ONE

Increased levels of private capital successfully invested into high growth companies.

HOW WILL WE DEMONSTRATE SUCCESS IN ACHIEVING THIS?

- Steady growth in the amount of capital being invested by early stage investors, annually, into high growth New Zealand companies.
- Increase in the number of companies that raise seed funding successfully going onto raising Series A funding from New Zealand and/or offshore investors.
- The value of the Crown's investment in NZVIF is growing by 10% p.a. over a 5 rolling period

IMPACT MEASURES

By 2025, if we have been successful in attracting private capital, the total amount invested into New Zealand high growth companies is expected to exceed $200 million per annum.

By 2025, 25% of companies that have attracted seed investment will go onto successfully raise venture capital investment.

IMPACT ONE: INCREASED LEVELS OF PRIVATE CAPITAL INVESTED INTO HIGH GROWTH COMPANIES						
Measures	**2017/18 Actual**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Total amount invested by the market into NZ high growth companies (pa)[4]	$142m	$150m	$160m	$170m	$180m	$190m
Total number of companies invested by NZVIF (pa)		25	25	27	30	30
Number of early stage companies raising Series A capital[5]	3	4	5	6	8	10
Total amount of domestic institutional capital committed to NZ venture funds	nil	$50m	$50m	$75m	$100m	$150m

[4] *Investment into early stage NZ companies as measured by Start Up Investment NZ published by PwC and NZ PE and VC Monitor published by EY*

[5] *Series A is defined as capital raises greater than $NZ 5 million and include a professional investor such as a venture capital fund.*

NZVIF'S FIVE YEAR PLAN

To achieve the 2025 investment goal of $200 million per annum, the total capital invested into high growth companies over the next five years will need to grow to over $190 million per annum by 2023. To catalyze this level of investment, NZVIF intends to continue to:

- Develop relationships and co-invest alongside new and existing investment partners, both in New Zealand and offshore, to increase the amount of Series A investment early stage, high growth companies.
- Subject to the outcome of the current strategic review and the availability of NZVIF capital consider a new investment commitment to at least one new venture capital fund of appropriate scale to attract institutional investor capital.
- Move towards a sustainable investment model such that NZVIF is generating sufficient returns to fund its ongoing investment activities.

Over the next 5-6 years it is expected that the ratio of Government capital invested, relative to private capital, will decrease to 10% or lower as a result of an increase in the number of private investors.

ACHIEVING THE OUTCOME

Achieving the stated impact (and subsequent outcome) within the 2025 timeframe is conditional on:

1. The establishment of new venture capital co-investment relationships, particularly with offshore investors.
2. The Seed Co-investment Fund increasing the current level of investment activity of $8 million per annum to $12 million per annum, to the point NZVIF has become self–funding from investment returns.
3. The recent growth in early stage investment in the New Zealand market is maintained and growing throughout the full economic cycle.
4. Attracting new sources of private capital to the early stage investment market, critical to achieving this objective to unlock the pools of domestic institutional capital such as KiwiSaver. This may require innovative investment structures that are better suited to meeting the requirements of these institutional investors, such as liquidity, valuation and management fee levels.

IMPACT TWO

Increased number of experienced and professional investors who are active in the industry.

HOW WILL WE DEMONSTRATE SUCCESS IN ACHIEVING THIS?

- A growing pool of active angel investors and venture capital investment professionals with skills and experience in early stage, high growth company investment.
- Evidence of sustainable Investment success of early stage investments into New Zealand early stage, high growth company investment.

IMPACT MEASURES

By 2025, if we have achieved a self-sustaining industry of a scale that brings New Zealand in line with similar sized OECD economies, we can expect to see:

- A core of two to three experienced local venture capital fund managers, who can demonstrate the following attributes:
  - have been successful in raising capital for multiple funds of global size and scale[6],
  - have produced investment returns that have exceeded institutional investors return thresholds,
  - and have actively invested in and grown New Zealand companies.
- Offshore venture capital funds managers are consistently co-investing with local investors in New Zealand.
- 14+ angel investment network and seed funds, spread around New Zealand, actively leading and investing into early stage, high growth companies.
- Over 70 full time angel investors and venture capital professionals who are active and attracting capital alongside other investors.

IMPACT TWO: INCREASED NUMBER OF EXPERIENCED AND PROFESSIONAL INVESTORS WHO ARE ACTIVE IN THE INDUSTRY

Measures	2017/18 Actual	2018/19	2019/20	2020/21	2021/22	2022/23
Total number of domestic funds >$50m active in the market[7]	0	1	1	2	2	3
Total number of domestic funds <$50m (micro/seed funds) active in the market	3	4	5	5	6	6
Number of active fulltime lead investors in the market (Angel & VC)	30	35	40	45	50	55

[6] *Offshore research suggest that the optimal size of a venture capital fund is $200 - $400 million*

[7] *The number of VC fund managers is net reflecting a combination of existing funds coming to the end of their life and new funds being established.*

NZVIF'S FIVE YEAR PLAN

The NZVIF board and management have been working closely with Ministers and officials to identify the timeframes and viable options for how NZVIF can address the lack of capital available to fund the growth of NZ companies post angel or seed investment. The preferred option is the development and sponsorship of a venture capital fund of appropriate scale (>$200 million), that can attract capital from local and offshore institutional investors. NZVIF may be required to make a significant capital commitment to facilitate the establishment of the fund, greater than the current $25 million limit under the existing mandate.

NZVIF expects a number of small micro VC (sub $50m) and seed funds will be raised over the next five years. These funds form an important link in the ecosystem between angel investors and local and offshore venture capital funds. NZVIF is not planning the investing into any new micro VC or seed funds.

The number of active angel investors is expected to grow steadily over the next five years as the profile and success of the industry continues to be raised. In addition, NZVIF will also co-invest with qualified investors, who are not current angel network partners.

ACHIEVING THE OUTCOME

Attracting private capital is a pre-condition for achieving this impact – refer Impact 1.

IMPACT THREE

Increased connectiveness for globally ambitious companies

HOW WILL WE DEMONSTRATE SUCCESS IN ACHIEVING THIS?

- An increased number of companies:
  - Generating significant offshore revenues and/or export growth.
  - Have received investment from offshore venture capital funds or corporate investors.
  - Have established offices offshore as a beach head for global growth
  - Have appointed offshore directors on their boards to bring industry expertise and/or networks
  - Generating revenues in excess of $10 million per annum.
  - Employing highly skilled individuals.

IMPACT MEASURES

By 2025, if we are successful there will be a number of high growth New Zealand companies achieving commercial and global success. This will be evidenced by:

- A significant amount of portfolio companies will have an offshore presence and have successfully attracted investment capital from offshore investors
- At least 90% of portfolio companies' revenues will be earned offshore.
- At least 10 NZVIF portfolio companies will have achieved revenues in excess of $100 million per annum.
- The average revenue per employee would be at least double the national average, in the range of $250,000-$300,000 each year.

IMPACT FOUR: INCREASED NUMBER OF SUCCESSFUL HIGH GROWTH COMPANIES

Measures	2017/18 Actual	2018/19	2019/20	2020/21	2021/22	2022/23
Total number of NZVIF companies with offshore investment	42	44	45	46	48	50
Number of NZVIF companies with offshore offices	52	54	56	58	60	63
Exports as a % of total revenues generated from NZVIF portfolio companies	79%	>80%	>80%	>85%	>85%	>85%
Average revenue per employee[8]	$270,000	$230,000-$270,000	$230,000-$270,000	$240,000-$280,000	$240,000-$280,000	$240,000-$280,000

[8] *NZVIF Venture Capital Fund portfolio companies only.*

NZVIF'S FIVE YEAR PLAN

NZVIF will continue to invest into developing deeper relationships with offshore investors who have expressed an interest in investing into New Zealand high growth companies. NZVIF will work with Government agencies, industry associations and private sector on accelerating the connectiveness of the New Zealand early stage ecosystem.

ACHIEVING THE OUTCOME

A sustainable early stage investment market requires a pipeline of intellectual property and innovative ideas from entrepreneurs, universities and research institutes that can be successfully commercialised on a global scale. Callaghan Innovation plays a critical role preparing companies for commercial investment.

Success also depends on those companies and entrepreneurs that show the most potential for growth receiving the support (capability and capital) they need to grow internationally. NZTE's role in supporting high growth companies to enter offshore markets is highly complementary to the role of private investors providing capital for growth.

IMPACT FOUR

An ecosystem conducive to early stage investment

HOW WILL WE DEMONSTRATE SUCCESS IN ACHIEVING THIS?

- Increased industry capability and professionalism.
- International standard limited liability partnerships used as the preferred investment structure and standard investor protections included in shareholder agreements.
- Government policies that support angel and venture capital investing – across innovation, capital markets, savings and investment, immigration and tax.
- Integration with broader capital markets.
- Industry research and performance is regularly reported to the market.

IMPACT MEASURES

The New Zealand venture capital and angel investment environment is well advanced in its adoption of practices that are consistent with international best practice. All of the major apparatus expected of a professional industry are now in place including:

- Standard investor reporting guidelines;
- Standard investment valuation guidelines;
- Standard investment performance reporting; and
- A venture capital and private equity industry code of conduct.

Similarly, Government tax and regulatory settings are currently broadly conducive to early stage investing. There is an opportunity however to consider how New Zealand's wealthy migrant policy can assist in attracting new venture capital and angel investment.

The next stage of industry development is demonstrating investment track record and building industry scale. In addition, attracting a broader base of investor support is required for long term industry sustainability. It is also the case that if there is to be a conducive environment, there needs to good integration with broader capital markets, including institutional investors and NZX.

NZVIF will continue to work alongside the industry in four major areas of market development:

- Profiling the New Zealand early stage investment market, both to broaden understanding and attract wider investor interest, both locally and internationally. This includes the Young Company Finance publication – STARTUP, and the NZVIF Annual Performance Report.

- Co-sponsor visits by venture capital and angel investor "gurus" who can assist in local capability building.
- Identifying new sources of investment capital, including offshore investors, who are seeking a credible New Zealand investment partner.
- Working with other NZ capital market participants to deepen understanding of early stage capital markets and ensure strong linkages that enable growth companies to attract follow-on capital, including from listing.

IMPACT THREE: AN ENVIRONMENT CONDUCIVE TO EARLY STAGE INVESTMENT						
Measures	**2017/18 Actual**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Market development initiatives and reports supported by NZVIF	2	2	2	2	2	2

NZVIF'S FIVE YEAR PLAN

Over the next five years, in conjunction with the industry, NZVIF will sponsor and support at least two specific market development initiatives each year, focused on building industry capability and attracting wider investor interest.

NZVIF will also report to Government annually and provide an update on progress, and challenges, in achieving the 2025 outcomes.

Achieving the Outcome

Continued Government support to ensure that capital markets regulation and the savings environment is conducive to attracting experienced venture capital fund managers and angel investors into the industry.

NZVIF FIVE YEAR PERFORMANCE FORECAST

Measures	2017/18 Actual	2018/19	2019/20	2020/21	2021/22	2022/23
NZVIF revenue (incl. interest)	$2.9m	$2.50m	$2.50m	$2.50m	$2.50m	$2.50m
Less NZVIF operating expenses (excl. management fees)	$2.50m	$2.80m	$2.50m	$2.50m	$2.50m	$2.50m
NZVIF net operating surplus/(deficit)	$0.45m	-$0.3m	0	0	0	0
NZVIF investments p.a.	$11.0m	$12.5m	$16.2m	$14.7m	$19.3m	$19.1m
Value of NZVIF investments[9]	$163m	$175m	$180m	$190m	$200m	$220m
Net asset value ($ per share)[10]	0.95	1.00	1.04	1.10	1.16	1.27
Return on Crown investment (five-year rolling)	2.1%	2.2%	2.4%	2.7%	4.8%	5.6%
Distributions received from realisation of investments	$42m	$16.7m	$17.1m	$13.3m	$12.9m	$16.7m

The overarching imperative for NZVIF over the next five years is to demonstrate that the entity is moving towards becoming a self-sustaining investment fund. The key indicators that will demonstrate that NZVIF is becoming sustainability is continuing to make sound new investment decisions, generating sufficient returns from existing investments and ultimately growing the value of the Crown's investment in NZVIF.

NZVIF will continue to prudently allocate the $2.33m p.a. revenue received from the Crown.

Fund forecast assumptions are set out in full in Annex 2.

[9] *Value of investments represents the fair value of NZVIF investment portfolio – both VC and SCIF (as per IFRS and NZVIF forecast financial statements accounting polices) excluding cash at financial year end and is net of reported impairments, realisation of investments and forecast impairments.*
[10] *NAV is calculated by dividing the Crown's investment in NZVIF VC fund by the value of the investment.*

ORGANISATIONAL HEALTH AND CAPABILITY

ENSURING NZVIF IS A GOOD EMPLOYER

NZVIF is a small organisation with eight permanent staff. Our flexible working environment enables staff to balance work, family and other commitments. NZVIF supports staff to develop their leadership skills and become the best they can be, in a positive working culture.

The values of the organisation ensure that all staff have the opportunity to engage and participate in organisational decisions.

Our good employer and personnel policies are formally recorded and include a commitment to equal employment opportunities. We do not tolerate harassment or discrimination of any type. We recognise the value of attracting employees of diverse backgrounds and talents, and the positive impact this has on our organisation.

Equal employment opportunity principles are incorporated in staff selection and management within the limits of our small size.

Measure

- EEO principles included in all relevant documents and practices.

CAPABILITY DEVELOPMENT

During the period covered by this SOI, NZVIF will continue to work on developing its capability.

NZVIF will:

- Maintain and increase the capability of its people and quality of its systems.
- Manage the risks that could prevent it from delivering its objectives and work programme.
- Aim to achieve reliable and cost effective operating systems.
- Maintain sound financial and governance systems.

To continue enhancing our capability, we will maintain and develop policies that ensure:

- Recruitment, training and remuneration policies focus on attracting and retaining skilled, flexible, efficient and knowledgeable team players.

Measures

- Individual staff training needs are assessed and supported.
- External salary comparisons and individual role assessments are conducted regularly.

HEALTH AND SAFETY

NZVIF is committed to being a zero harm employer. Regular observations will be undertaken to identify hazards and unsafe workplace practices and any training required will be provided as appropriate. Any serious event will be notified to the CEO and Board Chair immediately.

Our office environment and equipment are safe and well maintained.

Measures

- Zero tolerance of harassment, bullying and discrimination.
- Each employee has an ergonomically suitable workspace.

ANNEX 1: NZVIF INVESTMENT FUNDS

NZVIF is responsible for managing two early stage investment funds on behalf of the New Zealand Government, the NZVIF Venture Capital Fund (VIF) and the NZVIF Seed Co-investment Fund (SCIF). The features of these two funds are set out below.

NZVIF VENTURE CAPITAL FUND

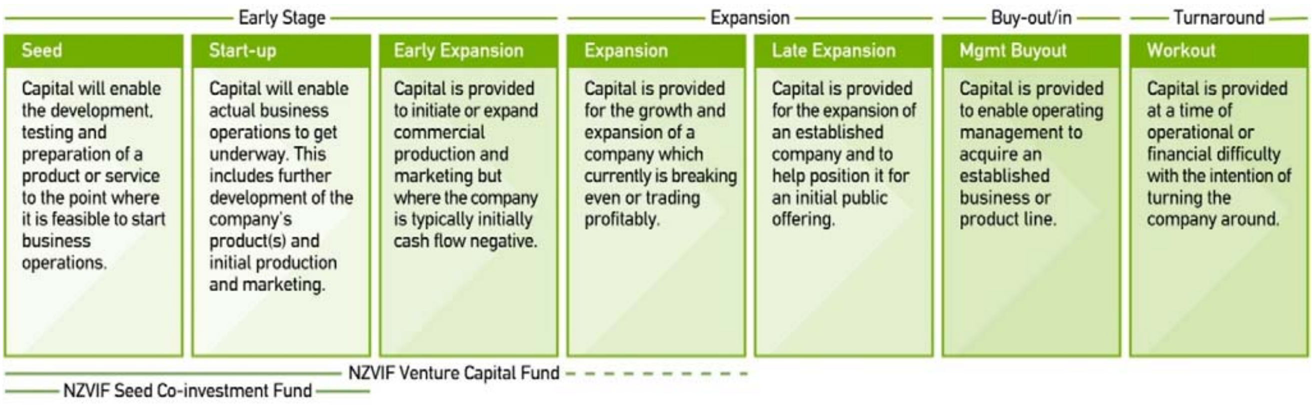
Size of Fund (NAV)	$100m
Type of Fund	A venture capital fund. NZVIF invests through privately managed venture capital funds, or co-invests alongside venture capital funds.
Investment Size	$25m maximum into any single fund. $5m maximum co-investment into any single company
Investment Stage	Early stage venture capital.
Investment Type	Equity investment, alongside private investors and venture capital funds.
Eligible Industries	New Zealand companies, technology and innovation.
Not Eligible Industries	Property, financial services, mining and retail (except where a company is applying innovation within these industries).

NZVIF SEED CO-INVESTMENT FUND

Size of Fund (NAV)	$60m
Type of Fund	A co-investment fund. NZVIF invests directly into portfolio companies (alongside private investment partners).
Investment Size	$1.5 million maximum
Investment Stage	Seed and start-up.
Investment Type	Equity investment directly into companies.
Eligible Industries	New Zealand companies, technology and innovation.
Not Eligible Industries	Property, financial services, mining and retail (except where a company is applying innovation within these industries).

VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENT CONTINUUM – WHERE NZVIF FITS

NZVIF invests alongside private investors through venture capital funds and angel investors into companies that are at the early stage of development. The following diagram provides an overview of the venture capital/private equity investment continuum and identifies where NZVIF's investment funds fit within the continuum.



COMPANY STAGE OF DEVELOPMENT

Seed: An investee company is at the seed stage of its development if the investment will enable development, testing and preparation of a product or service to the point where it is feasible to start business operations.

Start-up: An investee company is at the start-up stage of its development if the investment will enable actual business operations to get underway. This includes further development of the company's product(s) and initial production and marketing.

Early expansion: An investee company is at the early expansion stage of its development if the investment provides capital to initiate or expand commercial production and marketing but where the company is normally still cash flow negative.

ANNEX 2: FORECAST ASSUMPTIONS FOR NZVIF INVESTMENT FUNDS

The assumptions are based on the experience of the NZVIF to date, as well as feedback from the NZVIF investment partners on expected future investment activity. Any substantial deviation from the assumptions underpinning these forecasts may result in actual performance being significantly different from these indicative forecasts.

The forecasts and modelling included in this Statement of Intent are based on the following assumptions:

- A funding cap of $1.5 million per company
- Maximum investment rate of $8 million per annum, with at least $2 million allocated to new initial investments
- 15 - 20 new investments per annum. The balance of the investment activity will be follow-on investments up to a cap of $1.5 million per investment.
- A target end portfolio of between 140 to 160 portfolio companies.
- Material successful distributions are forecast to commence in the 2019/2020 financial year.
- Average range of capital raised by companies stage:
    a) Seed/Start up: 0.5 to $2m million;
    b) Series A (early expansion): $5 -10 million; and
    c) Series B (expansion): $>$10 million.
- Forecast distributions resulting from the realisation of investments are re-invested.
- Change in value of investments:
    a) Forecast impairments are based on the experience of the NZVIF where the level of impairments to date average 5-10% of annual investment;
    b) Unrealised increase in value of investments is based on 10% of portfolio companies achieving on average a 25% increase in value.
- Companies exporting – three out of four seed and start- up companies exporting within three years, one out of three early expansion companies exporting in year of initial investment with the balance in the year following the initial investment.
- Deals sourced or linkages with CRIs and Universities – one out of three of all seed and start up investments.
- All investments valued in accordance with industry guidelines.

These assumptions are based on the experience of NZVIF over the past 15 years of investing into the NZ early stage market taking into account current conditions for early stage investment globally.

ANNEX 3: GLOSSARY

Angel fund: A professionally managed investment vehicle that evaluates and invests in entrepreneurial companies.

Angel investor: A wealthy individual who invests in entrepreneurial firms. Although angels perform many of the same functions as venture capitalists, they usually invest their own capital rather than that of institutional or other individual investors.

Angel network: A group of individual angel investors who join together to evaluate and invest in entrepreneurial companies.

Committed capital: Capital pledges made by investors, to a venture capital fund. This capital is drawn down progressively over the life of the fund for investments or to meet management fees.

Crown entity companies: One of the five categories of Crown entity. A company incorporated under the Companies Act 1993 that is wholly-owned by the Crown and named in Schedule 2 to the Crown Entities Act 2004.

Drawn down capital: The actual amount drawn down from the Crown for investment.

High growth company: a company that has the potential to offer products which are attractive to a wide international market.

Management fee: The fee, typically a percentage of committed capital that is paid by investors in a venture capital fund to the fund manager to cover salaries and expenses.

Fund of funds: A fund that invests primarily in other venture capital funds as opposed to individual investee companies.

Private equity: Private equity includes organisations devoted to venture capital, leveraged buyouts, mezzanine and distressed debt investments.

Risk equity: The financial risk involved in holding equity in a particular investment.

Self-sustaining: Fully integrated in capital markets and largely independent of Government equity investment assistance.

Successful realisation: When a company is either sold or listed at a price that exceeds the initial cost of investment.

Venture capital: Professionally managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high-growth companies.

Venture capital fund: A pool of capital raised periodically by a venture capital or private equity firm. Funds typically have a ten-year life.

Young Company Finance Index: A joint initiative launched by NZVIF and angel groups in 2006. The collection of YCFI data enables regular collation, analysis and dissemination of accurate information on the size and structure of the angel investment market in New Zealand.