



Statement of Intent 2015-2020

Start-up capital for New Zealand technology companies

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OVERVIEW

WHY WAS 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 through 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 2013 it provided US\$2.2 billion of funding investment for promising start-ups.

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 venture capital 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 million¹ venture capital fund-of-fund to partner with the private sector to invest into private New Zealand venture capital funds

¹ Through additional Crown allocations and underwrite facilities, the VC Fund has \$260 available for commitment. Commitments are funded from Crown appropriations totalling \$128 million, capital returns from VC fund

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 2008, alongside the venture capital funds, NZVIF introduced the \$40² million Seed Co-Investment Fund to fill the investment gap for entrepreneurs needing 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 to development of very young companies, achieving scale and professionalism was the next step in building a sustainable angel investor community.

HOW NZVIF OPERATES

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

Through the formation of commercially focused investment partnerships with venture capital fund managers and angel investors, NZVIF leverages its capital to attract increased levels of private investment into high growth New Zealand companies. Investments may be made from the point a new company becoming established, through to when the company has no further need for risk equity.

Selection of experienced and motivated private investment partners, together with the consistent application of portfolio construction and investment best practice, forms the core of NZVIF's investment approach. Through this approach, NZVIF aims to deliver positive returns to shareholders and investors over the long term investment horizon.

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 \$12m has been made available 2015/16 through a transfer from the VC Fund.*

NZVIF also has a broader role in market development, including 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 venture capital and angel investor market in New Zealand.

NZVIF NOW

NZVIF has \$280 million of investment funds under management and investment partnerships with ten venture capital funds and 14 angel investment networks.

There are currently three active venture capital funds investing into New Zealand companies, alongside 12 angel funds and networks. Since inception, NZVIF has invested over \$140 million into over 180 New Zealand companies through partnerships with venture capital fund and angel networks. Those companies have raised a further \$1.2 billion from private investors, and earned \$1.5 billion in revenues and \$1.2 billion in export dollars.

Of the companies NZVIF has invested into, 35% are software companies, 14% biotechnology, 12% technology, 8% telecoms, 7% healthcare, and 5% produce capital goods.

Currently, 11 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. Eight 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 2014, the return on investment in the Venture Capital Fund was \$1.33 for every dollar invested (excluding the impact of the buy-out option³). For the Seed Co-Investment Fund, \$29.7m had been invested through the fund, and the total portfolio value was \$30.2m.

WHERE TO NEXT?

A lot has been achieved in New Zealand in the last decade, and the capability that has been built across early stage capital markets is now much stronger. To achieve sustainability New Zealand needs 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.

High growth companies need investment of around \$200 million per annum – roughly double the current level. NZVIF wants to see early stage capital markets scaling up to a core of 5–7 active local venture capital funds and 13 angel networks with 200-plus active investors.

In recent years, NZVIF has placed considerable emphasis on developing international linkages between New Zealand venture capital and angel investors and offshore counterparts in the United States and Asia. Attracting more specialised international investment – with 2–3 active offshore venture capital funds here – will continue to be a focus.

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 achieving this is to invest in building private investor capability and the pipeline of high growth companies that have the potential to achieve global success. The second stage is reaping the returns of

³ *The VC Fund was originally designed with a buy-out clause to attract private investors to invest into high risk venture capital investment opportunities, in line with NZVIF's core role of stimulating market activity. In funds established before 2014 private investors in the funds had the option to exercise the buy-out in the first five years of the fund life, at a price which returns NZVIF its capital invested plus a rate of return on that capital equal to the yield on the five year Government bond rate.*

successful investments and building private investor confidence, to support further investment.

In 2015 there will be a transfer of \$12 million from the appropriation for the Venture Capital Fund to the Seed Co-Investment Fund to match appropriations with investment activity and enable continuation of the Seed Co-Investment Fund. In each of the 2015/16 and 2016/17 years, there will also be a transfer of \$470,000 from the Seed Co-Investment Fund to NZVIF to cover increased operational costs.

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 July 2015 to 30 June 2020.

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

June 2015



Anne Blackburn
Deputy Chair

June 2015

NZVIF - OPERATIONS

OUR OPERATIONS

NZVIF's Output Agreement with the Minister for Economic Development contains one output: 'Investment Fund Management – Governance and Operation'. \$2.80 million per annum has been appropriated for this output.

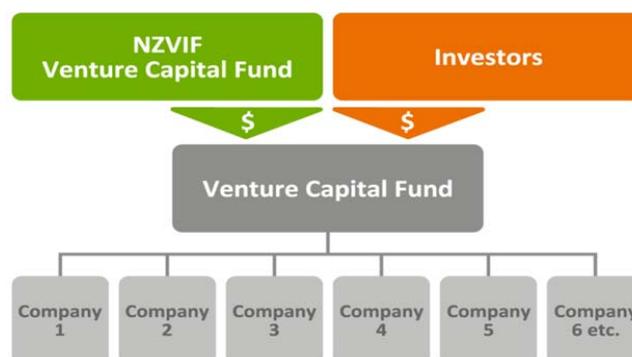
NZVIF has a small specialised fund management and administration team operating from offices located in Greenlane, Auckland.

OUR FUNDS

NZVIF manages two investment funds:

- The \$228⁴ million Venture Capital Fund (VIF); and
- The \$52⁵ million Seed Co-investment Fund (SCIF).

Venture Capital Fund

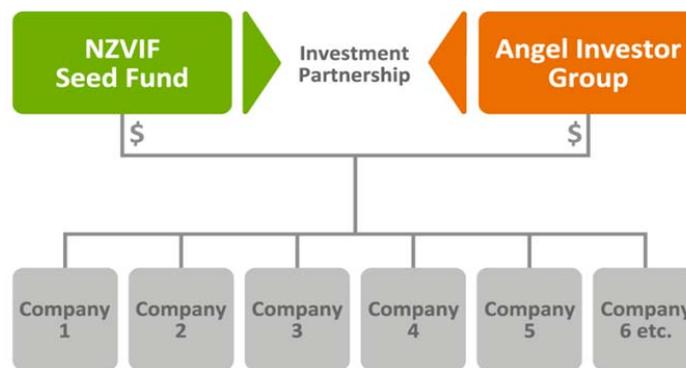


⁴Includes \$100m Government underwrite.

⁵Increased from \$40m in 2015/16 through a transfer from the VC Fund to rebalance funds to match market demands.

NZVIF partners with a range of institutional and individual investors, to make investments in venture capital funds, on a 1:1 or greater investment ratio. These funds are privately managed and commercially focused, typically \$30 – \$150 million in size. The venture capital fund manager then makes investments in a portfolio of 5–10 high growth companies.

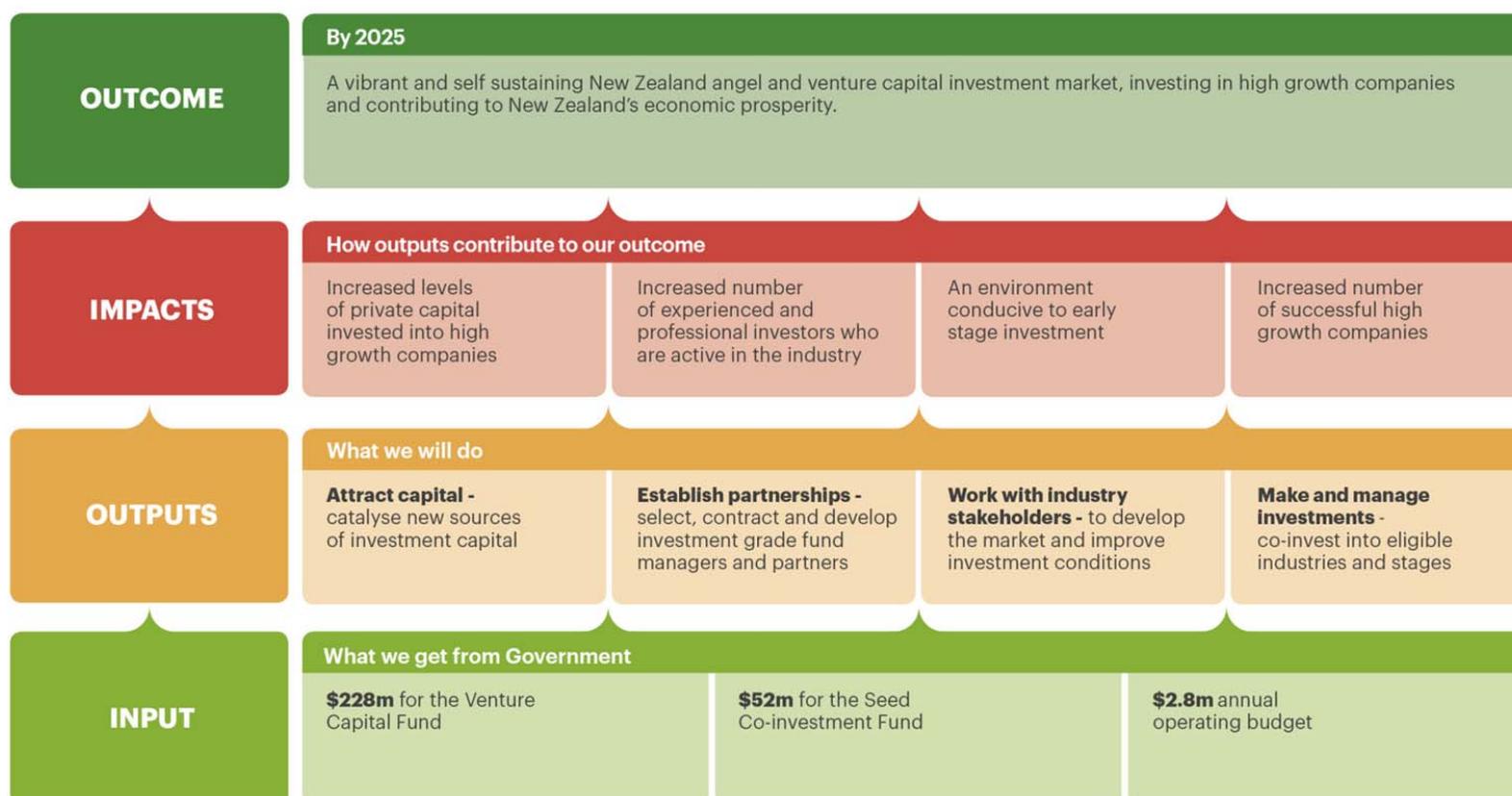
Seed Co-investment Fund



NZVIF enters into partnerships with angel investment funds and networks to make direct equity investments into young companies. NZVIF invests on a 1:1 ratio, alongside private investors, with NZVIF able to invest up to a maximum investment of \$750,000 per company. In practice, the ratio of private capital attracted to invest alongside the Seed Co-investment Fund far exceeds the 1:1 required ratio.

Further details of the Venture Capital Fund and Seed Co-investment Fund are set out in Annex 2.

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 angel and venture capital investment market, investing in high growth 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 quartile of OECD countries for venture capital investment as a percentage of GDP⁶.
- A broad and stable base of investor support for New Zealand high growth companies, from angels through to institutions.
- An industry that is made up of a core of 10 fund managers and angel investor groups that have demonstrated investment success over successive investment cycles.
- Industry led best practise investment.

NZVIF

- A significant number of NZVIF's private sector partners will have delivered a commercial return on investments overall.
- NZVIF is less than 10% of the investment market overall, and is self-sustaining, reinvesting capital returns in new funds and companies.
- 10 NZVIF portfolio companies will have achieved revenues in excess of \$100 million per annum.
- 10% of companies that have received investment from NZVIF will list on the New Zealand Stock Exchange.

⁶ And a comparable measure for angel investing

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. Based on overseas experience it takes time to build an ecosystem with the capability and capital to support high growth companies, from start-up through to global success, over successive economic cycles. 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 VC and angel investors, annually, into high growth New Zealand companies.
- A decrease in the ratio of Government (NZVIF) investment to private investors.

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, at least 90% of the angel and venture capital funding in the New Zealand market will come from private investors and other sources, with the balance of investment coming from NZVIF.

IMPACT ONE: INCREASED LEVELS OF PRIVATE CAPITAL INVESTED INTO HIGH GROWTH COMPANIES						
Measures	2014/15 Actual	2015/16	2016/17	2017/18	2018/19	2019/20
Total amount invested by the market into NZ high growth companies (pa) ⁷	\$100m	\$115m	\$130m	\$143m	\$150m	\$165m
NZVIF % of total market investment	13%	12%	15%	14%	13%	<10%

⁷ Includes up to 25% expected from off shore investors

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 \$150 million per annum by 2020. To catalyse this level of investment, NZVIF intends to continue to commit to new venture capital and angel investments, and initiate a number of new investment partnerships, as follows:

- Make new and follow-on investments through existing angel investment funds and networks.
- Make investments through the NZVIF–Taiwan National Development Fund (NDF) Co-Fund. See Annex 3 for further details of the NZVIF–NDF Co-Fund structure.
- Establish 1–2 new investment products that facilitate institutional investors accessing early stage investment opportunities.
- Replicate the NZVIF–NDF Co-Fund model to establish at least one other “country Co-Fund”.
- Make new investment commitments to at least one new venture capital fund each year.

Currently the ratio of NZVIF to private investment, across both VC and angel investments is approximately 13%, taking account of all private capital.

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 capital from 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 maintaining the current level of investment activity, until it is able to become self-funding from investment returns. At the current investment rate the initial \$40 million of capital is expected to be fully invested during 2015/2016. The transfer of \$12 million from the Venture Capital Fund will extend the investment period for a further 2 years.
3. The establishment of 1–2 new fund of fund investment products, to make it easier for institutional investors to get access to a broad portfolio of New Zealand technology funds and investments, alongside NZVIF and other private investors.

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.
- Investment success of angel investors, venture capital fund managers and investors.

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 five to seven experienced local venture capital fund managers, who have been successful in raising capital for multiple funds, and are actively investing in New Zealand companies. A further two to three offshore venture capital funds managers who are active in New Zealand.
- 10 to 12 angel investment funds and/or networks, spread around New Zealand, actively developing and investing.
- Overall, 150 – 200 venture capital investment professionals and angel investors who are active and attracting capital alongside other investors. The multiplier effect (attracting other investors alongside) is expected to be five times.

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

Measures	2014/15 Actual	2015/16	2016/17	2017/18	2018/19	2019/20
Total number of NZVIF VC funds active in the market ⁸	6	7	7	7	6	6
Total number of active NZVIF angel investment partners ⁹	12	13	13	13	13	13
Number of venture capital investment professionals and active angel investors in the market	140–160	160–180	180–200	200–220	200–220	220–240

NZVIF'S FIVE YEAR PLAN**Venture Capital Funds**

NZVIF expects that a further two to three new venture capital fund managers will enter the industry over the next five years and join a core of two to three existing managers who will have successfully raised a subsequent fund. The overall number of venture capital investment professionals will range between 20 and 25 as new fund managers replace those individuals who are no longer active in the market. NZVIF anticipates that the NZVIF–NDF Co–Fund will attract international venture capital fund managers to invest into the New Zealand market, alongside local fund managers.

Angel Networks and Funds

NZVIF expects that two to four new angel networks or funds will seek to become Seed Co–investment Fund partners over the next five years. 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.

⁸ 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.

⁹ The number of partners is cumulative. The number remains constant after 2015 as new angel partnerships replace those that have ceased investing.

Angel investing models are changing rapidly, as technology evolves and as changes in legislation allow new models of investing.

NZVIF will work with the industry and MBIE to support new investment platforms and models as they emerge, including:

- New investment vehicles that can facilitate wider investor interest including international angel investors and specialist angel investor networks.

ACHIEVING THE OUTCOME

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

NZVIF's success in achieving new investment partnerships, particularly offshore, is dependent on the support of NZTE personnel on the ground in selected markets, including the US, Taiwan and China.

Venture Capital Funds

The NZVIF–NDF Co–Fund needs to demonstrate success in establishing cross–border venture capital funds. Demonstrating success will attract other international investors seeking to form investment partnerships in New Zealand.

NZVIF needs to achieve a commercial investment return across the funds it invests in, to enable reinvestment of investment returns and the establishment of new funds.

Angel Networks and Funds

Continued Government support for the Seed Co–investment Fund, until it can become self–funding from investment returns is required.

IMPACT THREE

An environment 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 that from listing.

IMPACT THREE: AN ENVIRONMENT CONDUCIVE TO EARLY STAGE INVESTMENT

Measures	2014/15 Actual	2015/16	2016/17	2017/18	2018/19	2019/20
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 AANZ and NZVCA, 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.

IMPACT FOUR

Increased number of successful high growth companies

HOW WILL WE DEMONSTRATE SUCCESS IN ACHIEVING THIS?

- An increased number of NZVIF companies:
 - Generating significant offshore revenues and/or export growth.
 - Commercialised from universities and research institutes, that are successful in attracting private investment.
 - Generating revenues in excess of \$10 million per annum.
 - Operating in a diverse range of high growth sectors in the economy (including software, biotech and healthcare, telecommunications and technology hardware).
 - 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:

- At least 90% of portfolio companies' revenues will be earned offshore.
- At least 20% of the companies that NZVIF has invested in would have commercialised from universities or research institutes.
- At least 25 companies would be generating between \$10 million and \$20 million each year. At least 10 would be generating over \$20 million each year. Over the full investment period, 10 NZVIF portfolio companies will have achieved revenues in excess of \$100 million per annum.
- At least 75% of NZVIF's capital would be invested in high growth industries.
- 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	2014/15 Actual	2015/16	2016/17	2017/18	2018/19	2019/20
Total number of companies invested in through NZVIF ¹⁰ VC and SCIF funds	186	215	244	270	293	301
Exports as a % of total revenues generated from NZVIF portfolio companies	>80%	>85%	>85%	>85%	>85%	>85%
Number of companies emerging from CRIs and universities	35	46	52	58	63	64
Number of companies with revenues >\$10m p.a.	11	14	14	16	17	18
High growth as % of total NZVIF portfolio ¹¹	>75%	>75%	>75%	>75%	>75%	>75%
Average revenue per employee ¹²	\$200,000– \$240,000	\$220,000– \$260,000	\$230,000– \$270,000	\$230,000– \$270,000	\$230,000– \$270,000	\$230,000– \$270,000

NZVIF'S FIVE YEAR PLAN

- Greater than 50% increase in the number of companies NZVIF invests into.
- Export revenues of NZVIF portfolio companies to exceed 85% of total portfolio company revenues.
- Continued investment into companies commercialising from research institutes and universities, increasing the current number invested into from 35 to over 60 (22% of total NZVIF portfolio).
- The number of NZVIF portfolio companies generating revenue in excess of \$10 million is expected to increase to 16.

¹⁰Number of investments made by NZVIF Venture Capital Funds is based on each manager making an average of 2 to 3 new investment each year. It is expected that each fund will make 8 to 12 investments over the 5 year active investment period.

¹¹High growth includes all investment made into sectors and technologies that are innovation led, have protectable intellectual property and have a globally scalable investment proposition.

¹²NZVIF Venture Capital Fund portfolio companies only.

- Employees in the NZVIF portfolio companies will grow to be greater than 2,000 with average revenue generated by each employee will be in the \$230,000 – \$270,000 range.

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.

NZVIF FIVE YEAR PERFORMANCE FORECAST

Measures	2014/15 Actual	2015/16	2016/17	2017/18	2018/19	2019/20
NZVIF Operating Results						
NZVIF revenue (incl. interest)	\$2.35m	\$2.80 ¹³ m	\$2.80m	\$2.35m	\$2.35m	\$2.35m
Less NZVIF operating expenses (excl. management fees)	\$2.60M	\$2.80m	\$2.80m	\$2.80m	\$2.80m	\$2.80m
NZVIF net operating surplus/(deficit)	-\$0.25M	\$0m	\$0m	-\$0.45m	-\$0.45m	-\$0.45m
NZVIF Investment Results						
Capital received from Crown for investment(cumulative since inception)	\$139m	\$145m	\$156m	\$168m	\$181m	\$190m
Value of NZVIF investments ¹⁴	\$130m	\$138m	\$147m	\$160m	\$176m	\$186m
Net asset value (\$ per share) ¹⁵	0.93	0.95	0.94	0.95	0.97	0.98
Interim performance since inception (IRR p.a.) ¹⁶	-1.21%	-0.91%	-1.0%	-0.90%	-0.5%	-0.3%
Distributions received from realisation of investments	\$4m	\$10m	\$11m	\$10m	\$10m	\$8m

Fund forecast assumptions are set out in full in Annex 4.

¹³ Increase in revenue in 2015/16 and 2016/17 due to transfer from the SCIF appropriation to meet increased operating costs.

¹⁴ Value of investments represents the fair value of NZVIF investment portfolio – both VC and SCIF (as per IFRS and NZVIF forecast financial statements accounting policies) excluding cash at financial year end and is net of reported impairments, realisation of investments and forecast impairments.

¹⁵ NAV is calculated by dividing the Crown's investment in NZVIF VC fund by the value of the investment.

¹⁶ Interim performance is an IRR calculated since inception using actual and forecast investment cash flows using the unrealised value of the portfolio as the terminal value. This method has been recommended by the CFA Institute's Global Investment Performance Standards (GIPS) as appropriate for calculating performance during the life of a venture capital fund.

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. Our team gender ratio is 60/40 female to male. The age of employees in the organisation range from 30 to near 60 years with two of the eight staff from Pacifica and Asia.

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 PROGRESS & ACHIEVEMENTS TO DATE

Timeline

▼ YEAR

02 03 04 05 06 07 08 09 10 11 12 13 14 15

\$100: Crown
commitment to VC

\$40m: Crown
commitment
to Seed

\$60m:
Additional
commitment
to VC

\$40m: Crown
underwrite for VC

\$60m: Crown
underwrite for VC

▼ LEVELS OF PRIVATE CAPITAL

\$150m new private
capital committed
for VC investment

\$50m new private
capital committed
for VC investment

\$65m new private
capital committed
for VC
investment

Angels invest
over \$50m

Total of \$400m
private capital
invested

Establishment
of Taiwan NDF
Co-Fund

NZVIF/Taiwan
NDF Co-Fund VC
Fund approved for
investment
Annual investment
by angels of \$53m

Exceeded previous
Angel investment
record with \$55.9m
invested

▼ INCREASED # OF INVESTORS

First 2 NZVIF
VC Funds
established

4th NZVIF VC
Fund established

5th NZVIF VC Fund
established

6th NZVIF VC
Fund established
First SCIF
Partner
established

5th SCIF Partner
established

9th SCIF Partner
established

11th SCIF Partner
established

12th SCIF Partner
established

16 active angel
networks or funds

8th NZVIF VC Fund
established
14th SCIF Partner
established
2 Partnerships
renewed

9th NZVIF
VC Fund
established

15th SCIF Partner
established

First VC Fund of \$75m
established under
NZ-Taiwan Co-Fund
partnership

▼ INVESTMENT ENVIRONMENT

NZVCA
established

VC Fund investment
template developed
by NZVIF
NZVCA Monitor
established

YCFl established
VC capital tax
exemption
legislation
enacted

Standardised
investment
agreements
adopted by the
angel industry

Limited
Partnership
legislation
enacted

AANZ established
Private equity
investment
performance
data published
by NZVIF

NZVCA adopt Code
of Conduct
Changes to overseas
investment rules

Power angel
investing seminars
Private equity
investment
performance
data updated and
published by NZVIF

Valuation of early-
stage investment
data presented by
NZVIF

Early exits and
valuations and market
validation seminars
IPEV international best
practise reporting
guidelines adopted
Institutional
investment in VC and
private equity report
published
Private equity
investment
performance data
presented

Provided
independent
summary report
(Fidato) on
institutional
investments in VC
and private equity
in NZ and barriers
to participation

First annual
performance report for
the industry produced

▼ HIGH GROWTH COMPANIES

1st successful
realisation by
NZVIF portfolio
company

Total employees
in NZVIF
portfolio
companies
exceeds 500

Total NZVIF
portfolio
company revenue
exceeds \$100m

2 NZVIF portfolio
companies
exceed \$30m
revenue

NZVIF portfolio
company average
revenue per
employee is \$250k

100 companies
invested into by
NZVIF
\$300m invested
alongside NZVIF into
high tech companies

100 SCIF
company
milestone

180 + companies
invested into by NZVIF

2002/2015

ANNEX 2: 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

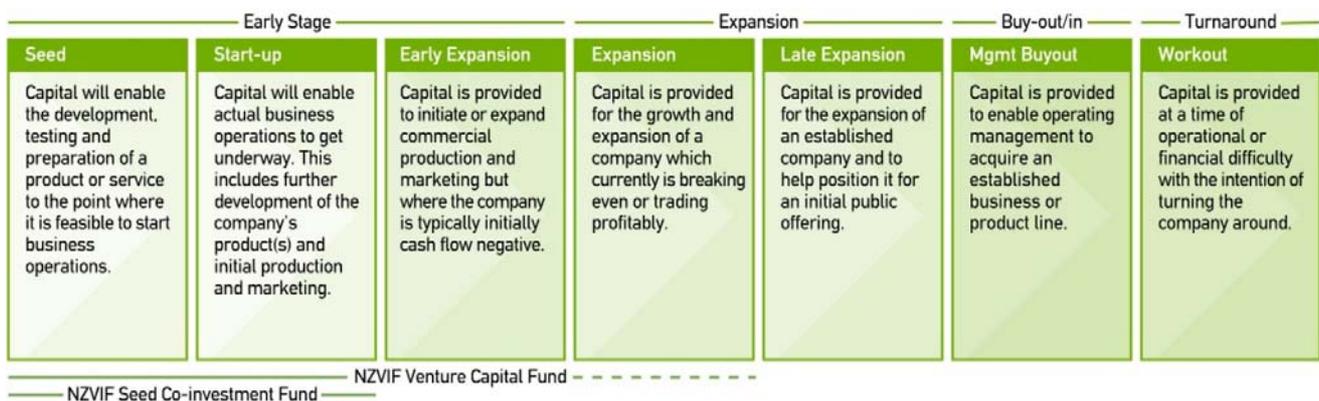
Size of Fund	\$228m (includes \$100m Government underwrite).
Type of Fund	A venture capital fund of funds. NZVIF invests indirectly through privately managed venture capital funds (managed by prequalified venture capital and private equity fund managers).
Investment Size	\$25m maximum into any single fund.
Investment Stage	Early stage venture capital.
Investment Type	Equity investment, alongside private investors, into venture capital funds.
	delete buy-out option
Eligible Industries	New Zealand companies, technology and innovation.
Not Eligible Industries	Property, financial services, mining and retail.

NZVIF SEED CO-INVESTMENT FUND

Size of Fund	\$52m
Type of Fund	A passive co-investment fund. NZVIF invests directly into portfolio companies (alongside pre-qualified private investment partners).
Investment Size	\$250,000 initial \$750,000 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.

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.

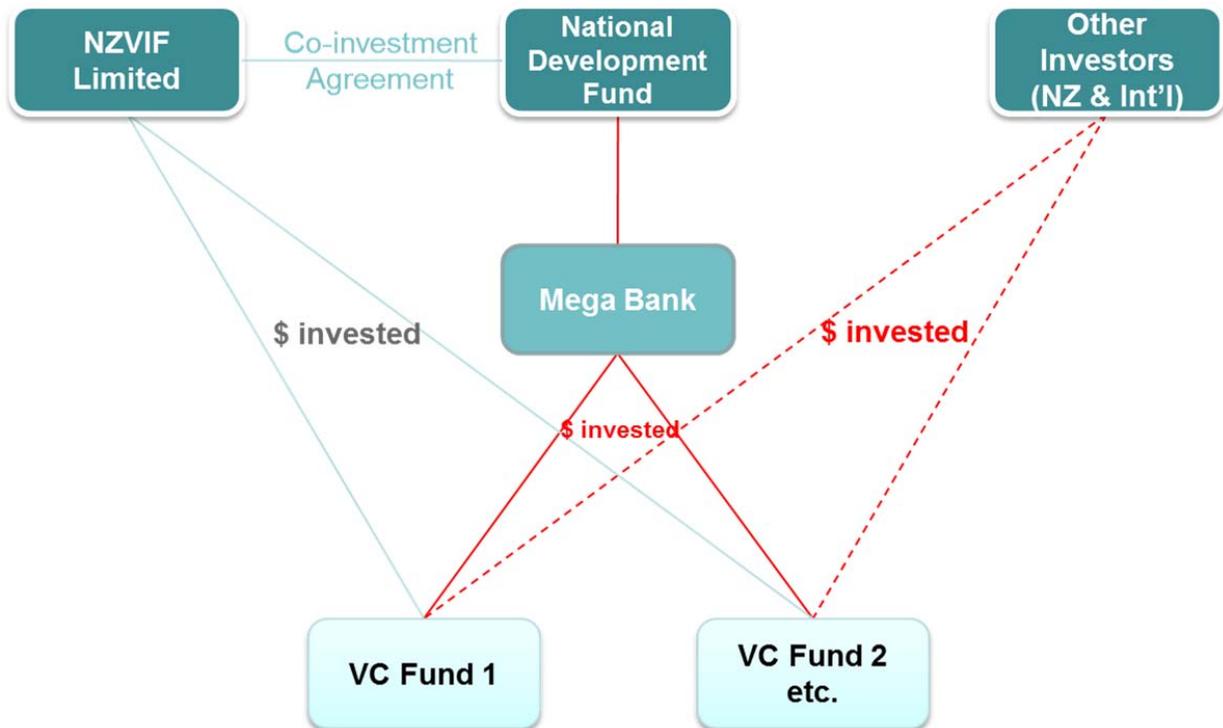
Start-up: An investee company is at the start-up stage of its development if the investment will enable actual business operations to get underway. This includes further development of the company’s product(s) and initial production and marketing.

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 3: TAIWAN NDF-NZVIF CO-FUND PARTNERSHIP

This fund is a subset of the NZVIF Venture Capital Fund.

Co-Fund commitment	NZ\$200m/US\$160m co-fund. (50%NZVIF, 50% NDF)
Investment size	NDF and NZVIF will each invest up to US\$20m in new VC funds from NZ or Taiwan.
Fund capital ratio	30%/30%/40% (NDF/NZVIF/private capital).
Investment stage	Early stage and early expansion investments.
Investment restrictions	VC funds will invest 50/50 in Taiwanese and NZ companies.
Eligible industries	All NZVIF eligible industries



ANNEX 4: FORECAST ASSUMPTIONS FOR NZVIF VENTURE CAPITAL AND SEED CO-INVESTMENT FUNDS

VENTURE CAPITAL FUND FORECAST ASSUMPTIONS

The performance forecasts for the NZVIF Venture Capital Programme are based on the expected investment behaviour of the selected NZVIF Venture Capital Fund Managers in the current market environment. As there are a wide range of variables that can influence these forecasts, certain assumptions have been made pertaining to:

- the number of managers appointed;
- the time taken for raising private sector capital;
- the average number and size of initial and follow-on investments; and
- the number of investments across the stages of development made by the managers.

The assumptions are based on the experience of the NZVIF Venture Capital Programme to date, as well as feedback from the NZVIF Venture Capital Fund Managers 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.

NZVIF Venture Capital Fund Managers are fully responsible for making investment decisions, without influence from NZVIF. The exercise of the buy-out option will also influence NZVIF investment performance.

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

- Seven NZVIF Venture Capital Funds operating in 2015/16. A further two to three funds established over the next three years. Average number of investments per fund 8 – 12, based on anticipated fund sizes in a range of \$35 – \$75 million.

- Average range of investment size by stage:
 - a) Seed/Start up: \$1–2 million invested in tranches over two years;
 - b) Early Expansion: \$3–5 million invested in tranches over three years; and
 - c) Follow on and expansion investment: \$3–5 million, subject to portfolio limit.
- Follow-on investment is expected to be made after the end of the active investment period (first five years of a fund's life). It is assumed fund managers will on average reserve between 20 – 30% of a fund's capital for follow-on investment.
- NZVIF invests on a pre-agreed ratio with private sector investors; the level of matching capital is dependent on the investment stage focus of the fund.
- Forecast distributions resulting from the realisation of investments are offset against NZVIF Venture Capital Fund manager capital calls. This will impact on the level of capital drawn from the Crown and the value of the NZVIF investment portfolio. NZVIF assumes no realisation of investments in the first five years of a NZVIF Venture Capital Fund's life.
- Buy Out option – based on the current stage of development of the NZVIF Venture Capital Programme, NZVIF is forecasting two funds (established prior to 2014) to exercise the buyout option.
- Change in value of investments:
 - a) Forecast impairments are based on the experience of the NZVIF Venture Capital Programme where the level of impairments to date average 15% of annual investment;
 - b) Unrealised increase in value of investments is based on 5% 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.
- NZVIF Venture Capital Fund operating costs based on average management fees of between 2.0 – 2.5% (of capital commitment) p.a., other fund costs of \$30,000 (per fund) per annum and an average establishment cost per fund to NZVIF of \$100,000 (only in the year that each fund becomes operational).

These assumptions are based on current conditions for venture capital investment globally, combined with the impact of the average fund size being relatively small when compared to international norms.

SEED CO-INVESTMENT FUND FORECAST ASSUMPTIONS

As the future outcomes are uncertain a number of alternative scenarios have been modeled based on the experience of the NZVIF Seed Co–investment Fund to date, as well as feedback from the NZVIF Seed Co–investment Fund partners on expected future investment activity. From these multiple scenarios a low case has been selected as the basis of the forecasts provided. Any substantial deviation from the assumptions underpinning the scenarios modeled may result in actual performance being significantly different from these indicative forecasts.

- \$52 million fund.
- A funding cap of \$750,000 per company drawn down in commitment amounts of no more than \$250,000 over a five year period and while maintaining an average investment across the Seed Co–investment Fund portfolio of no more than \$440,000.
- 15 – 20 new investments per annum. The balance of the investment activity will be follow–on investments up to a cap of \$750,000 per investment.
- A target end portfolio of between 140 to 160 portfolio companies.
- Capital drawn down from the Crown on a ‘just in time’ basis.
- Material successful distributions are forecast to commence in the 2019/2020 financial year.

ANNEX 5: 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.