

**DRAFT Conviction Assessment** (For NZVIF Management Feedback)  
**New Zealand Venture Investment Fund**  
**September 2019**

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**NZ Venture Investment Fund - Conviction Review Summary – September 2019**

Factor	What do we look for?	
Viability	The manager is secure and stable	
Structure & Focus	The manager is appropriately focussed on and aligned to NZSF	
Trust & Transparency	The manager is trustworthy and transparent	
Risk Awareness & Management	The manager has an ability to manage the risks arising from its strategy	
People Capabilities	The manager’s investment personnel are suitably skilled	
Process Capabilities	The manager has appropriate systems, tools and networks	
Opportunity Consistency	The manager’s strategy delivers the risk-return profile in line with the opportunity	
Performance	The manager is performing to our expectations	
<b>OVERALL SCORE:</b>		

REVIEW COMMENTARY

<b>1 - Viability</b>	
<b>What does it mean?</b>	Is the manager secure and stable as an organisation?
<b>WHAT DO WE LIKE / NOT LIKE ABOUT THIS MANAGER?</b>	
<b>Background on the Manager</b>	
<p>New Zealand Venture Investment Fund Limited (<b>NZVIF</b>) is a Crown company established in June 2002. NZVIF Investments Limited is the entity that holds underlying fund and direct investments and is owned by the parent company New Zealand Venture Investment Fund Limited. The shareholders of NZVIF are the Minister of Economic Development (50%, the responsible Minister) and the Minister of Finance (50%). There are two other non-operating companies relating to a former JV angel fund established in 2009 – Halo Fund No1 Limited and Halo Investment Management Limited.</p>	
<p>NZVIF operates a venture capital fund of funds programme (<b>VIF 1.0</b>) established in 2002 and a seed co-investment fund (<b>SCIF</b>) established in 2006. Since inception, NZVIF has collectively invested over NZ\$223 million into 287 New Zealand companies through partnerships with venture capital and angel networks. NZVIF are currently holding approximately \$60-70m in cash from prior investment realisations, primarily from VIF 1.0.</p>	
<p>Via VIF 1.0, NZVIF has invested NZ\$155m (in drawdowns) with nine VC managers across 11 individual funds (plus annex funds).</p>	
<p>The other funds have either been fully realised or NZVIF has sold its interest. One fund, Valar Ventures was exited through buyout options exercised by another investor in the fund.</p>	
<p>The SCIF programme receives Crown funding of NZ\$8m p.a. with a limit of NZ\$1.5m per company (aggregate over multiple rounds).</p>	
<p><b>NZVIF Board</b> - the Board of Directors comprises five members: Murray Gribben (Chair – term ends 30 September 2019), David Flacks (Deputy Chair – term ends 30 June 2021), Richard Hughes (term ends 30 June 2020), Debbie Birch (term ends 30 June 2021) and Emma Loisel (term ends 30 June 2021). The immediate past responsible Minister had prepared Cabinet papers in late July to extend the term of the Chair. Bio's for the directors are available on the NZVIF website: <a href="https://www.nzvif.co.nz/about-us/board-of-directors/">https://www.nzvif.co.nz/about-us/board-of-directors/</a></p>	
<p>The Audit committee is the Chair (Murray Gribben) and Deputy Chair (David Flacks). The Chair of the Audit Committee is [TBC].</p>	

**Stakeholder commitment**

Crown backing for the new VCF is expected to be secured via an uncalled commitment facility for up to \$300m, meaning once established there will be certainty of this sum of capital becoming available over at least the initial five year investment period. VCF viability is subject to wind up directions by Ministers and/or a change/repeal of the legislation.

**Prior restructuring attempts**

In 2017 the government ceased funding for the VIF 1.0 programme.

**2 - Structure and Focus**

**What does it mean?**

Are the legal structure, terms and fees consistent with our interests being aligned with the manager? Does the manager have any motivations which conflict with them acting in our best interest?

WHAT DO WE LIKE / NOT LIKE ABOUT THIS MANAGER?

**Fund of Funds (FoF)**

The Government has determined the investment model for the VCF is to be a fund of funds. The VCF will establish a Limited Partnership with Guardians as sole Limited Partner. NZVIF will (most likely) be the General Partner and also be appointed as Investment Manager to the Limited Partnership. The Limited Partnership will invest into underlying venture capital funds managed by independent VC managers. These underlying funds will then invest into investee companies. Subject to final Policy Statement settings, NZVIF may be permitted to make some (e.g. up to 20%) co-investments directly into investee companies but only where this is a follow-on investment into an existing company that one of the VCF managers has already provided funding to. Further criteria on co-investments to be outlined in the Management Agreement between the Limited Partnership and NZVIF (“IMA”).

The Guardians’ has been part of the consultation process for the VCF Bill and Policy Statement thereby allowing us to provide input into the design of the programme. Our requirements for ESG investment considerations and reporting will be incorporated and cascaded down to the underlying funds (as appropriate for VC), as well as our usual restrictions list and “no surprises” expectation.

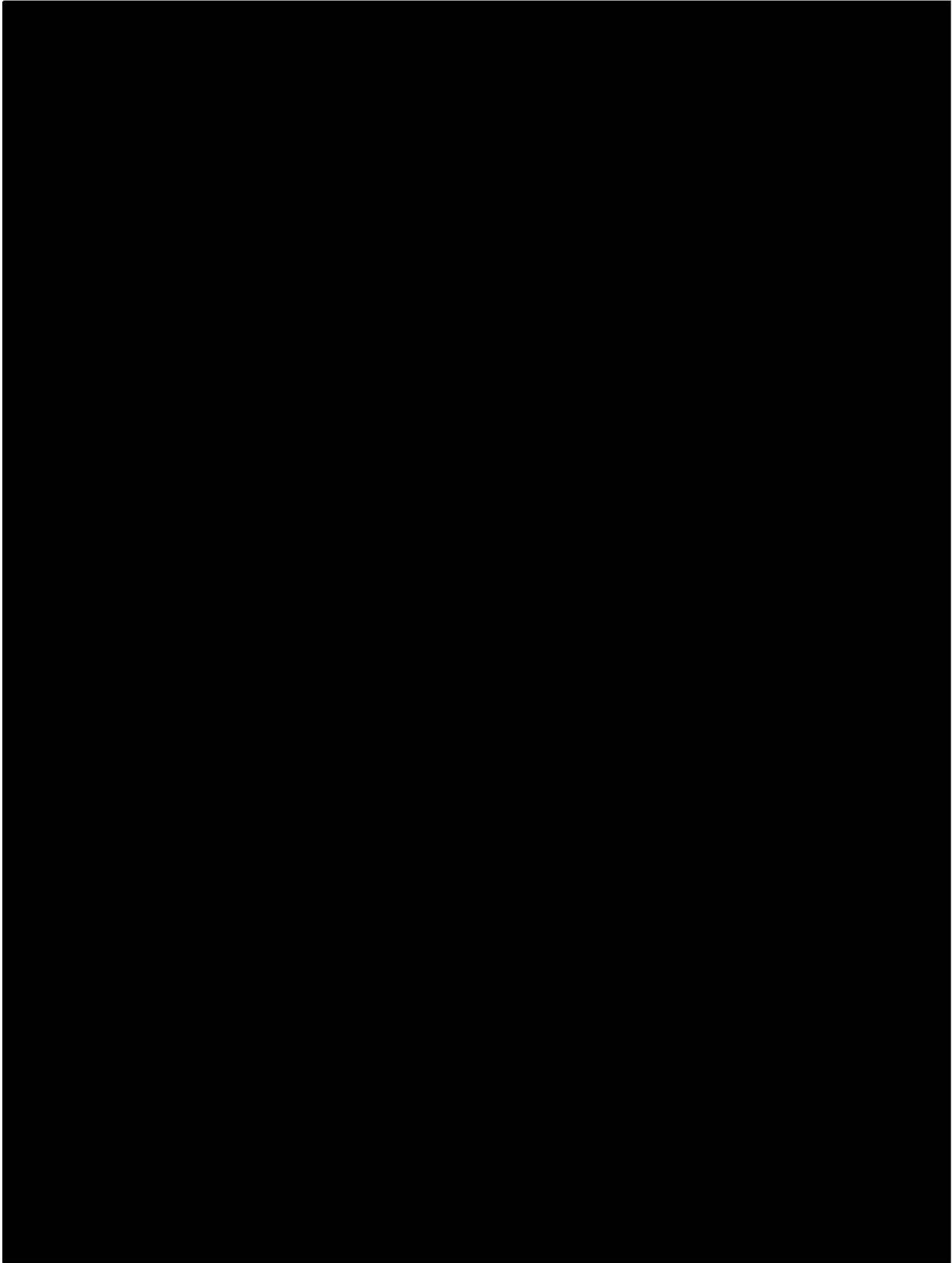
Key Limited Partnership structural terms (investment parameters and restrictions outlined in ‘Opportunity Consistency’ section below):

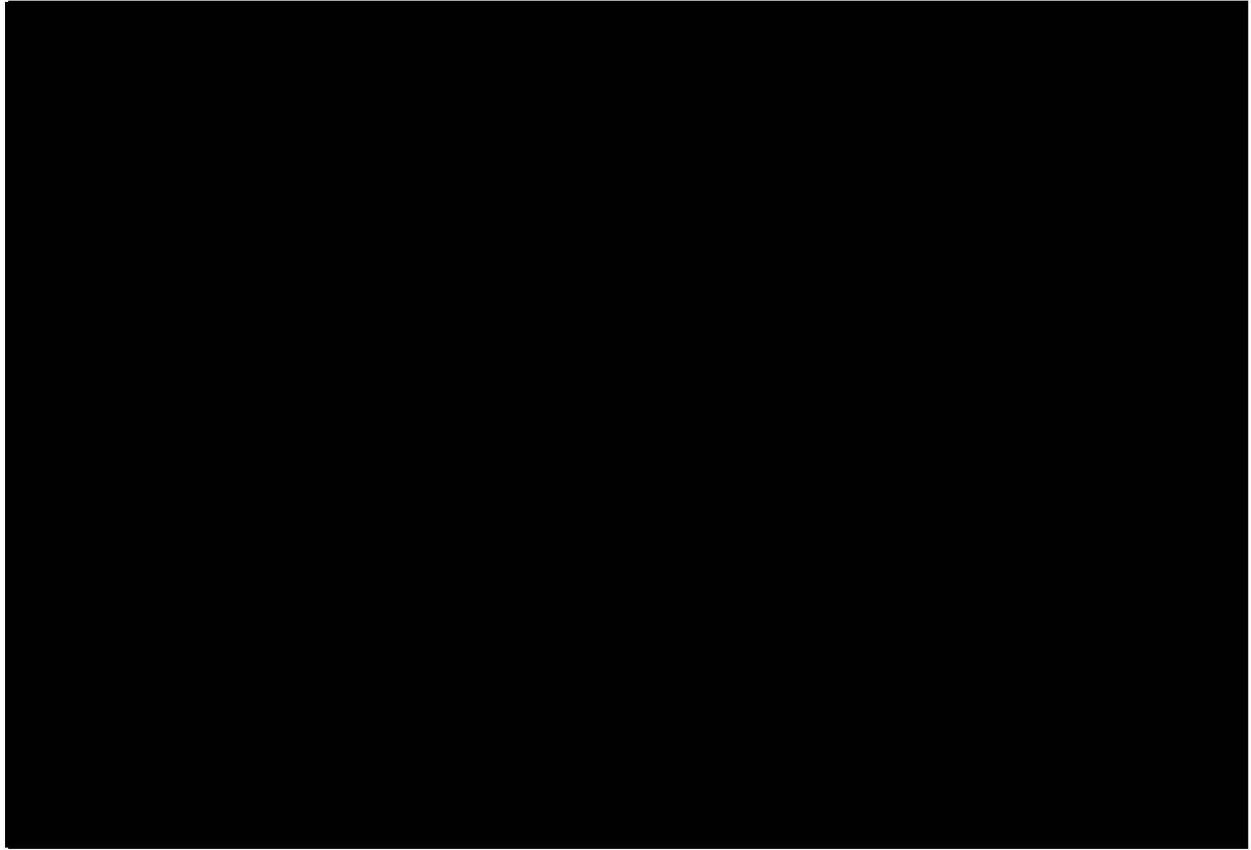
- General Partner and Investment Manager = NZVIF
- Limited Partner = Guardians of New Zealand Superannuation
- 5 year Initial Investment Period
- Secondary Investment Period (after the initial 5 years) open ended to allow deployment of residual capital and follow-on investments to support existing fund commitments and/or lean into winning investments through co-investments
- The Secondary Investment Period is indefinite although Ministers have indicated they are anticipating the programme will be returning money to the Crown after about 15 years
- Fees will be paid to NZVIF and Guardians to meet reimbursable costs. This will be paid out of capital.
- NZVIF can be terminated for appropriate default/insolvency events and if they do not meet the milestones of our Transition Plan comprising actions to be completed in the near term once the mandate goes live.

**Governance**

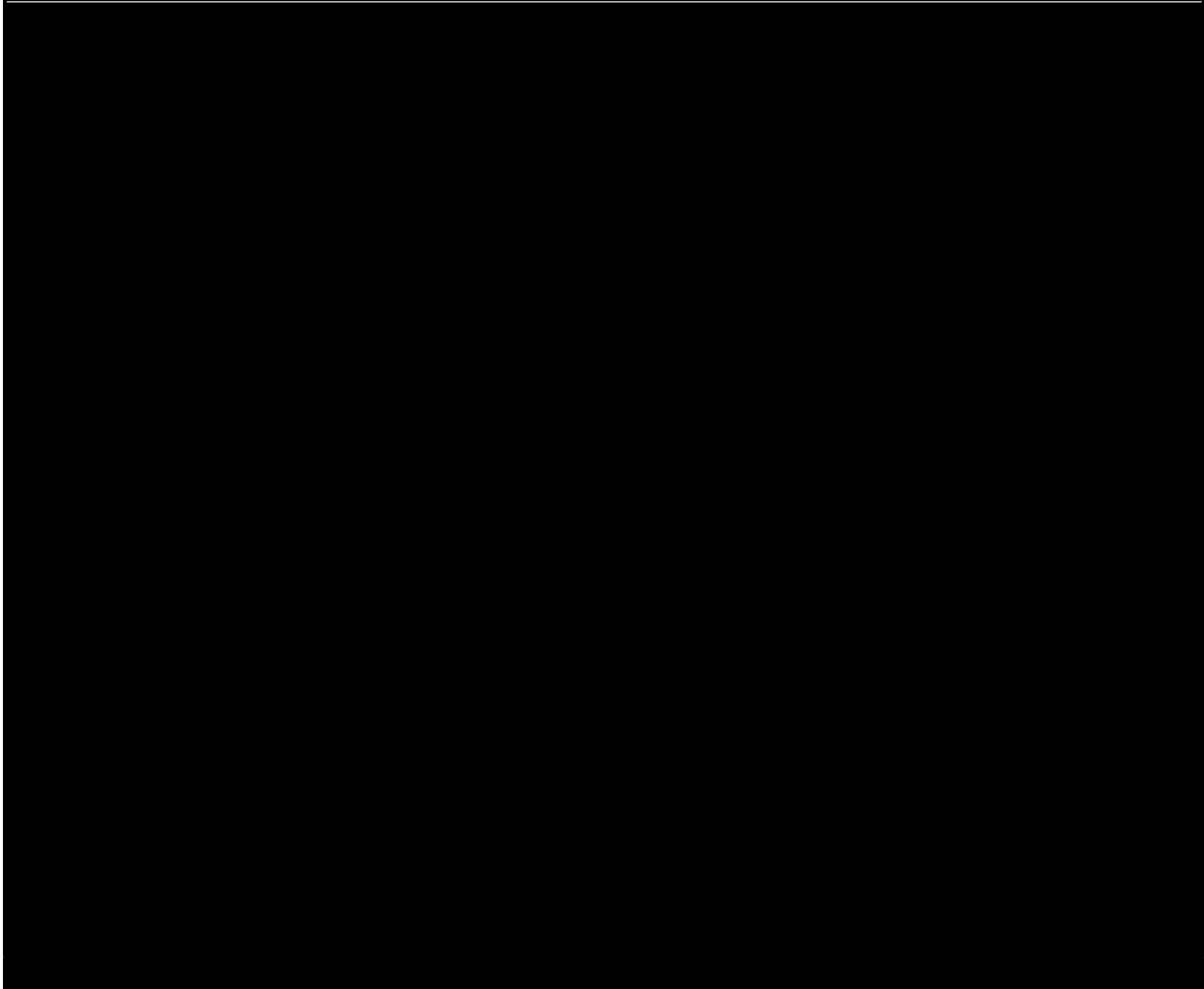
NZVIF’s role as Manager of the VCF will continue to be governed by its Board.

Historically the Board signed off on all VIF 1.0 investment decisions upon review of a Due Diligence Report and investment recommendation from the Investment Director responsible for VIF 1.0. Investment decision have now been delegated to the Investment Committee (see further details on IC approval process in “*Process Capabilities*” below).

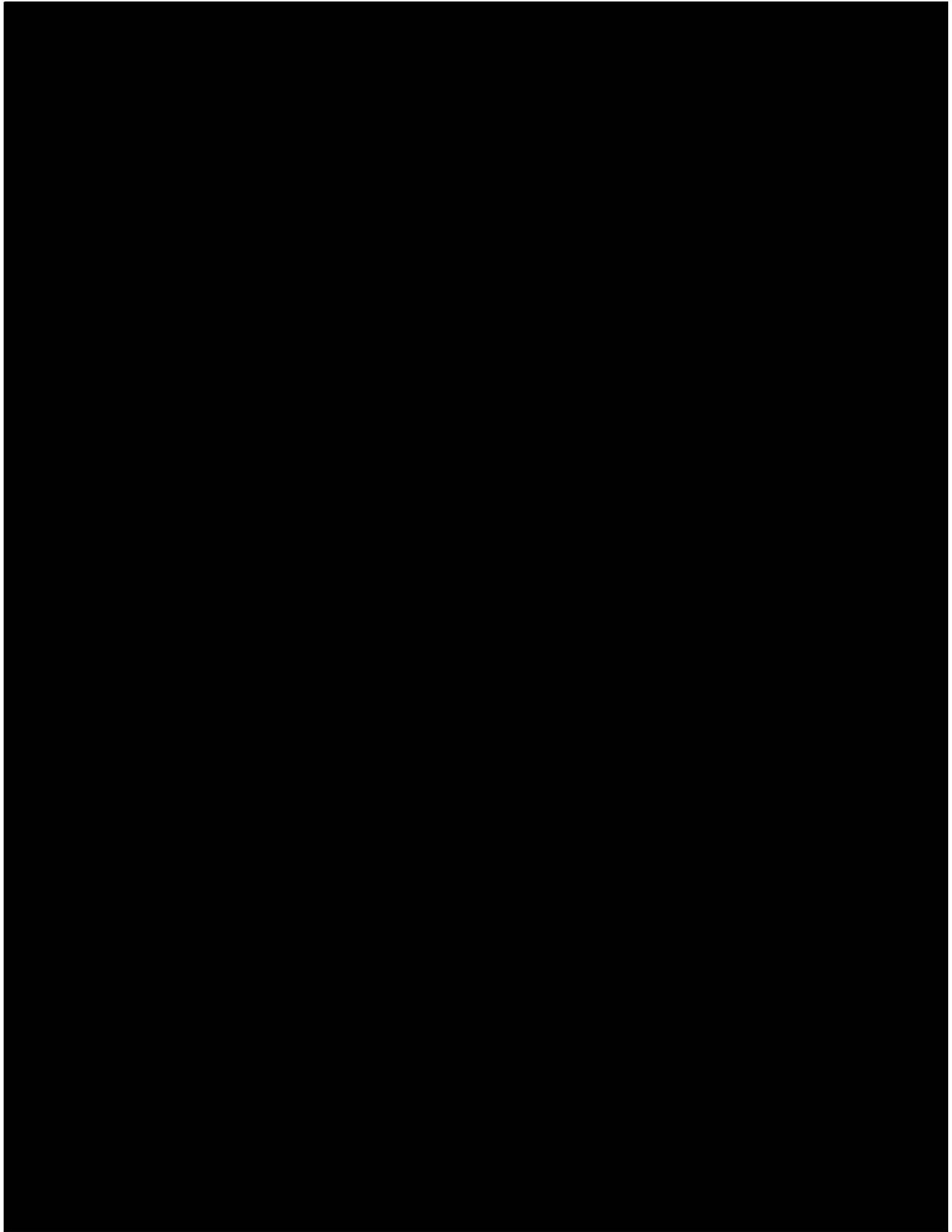




<b>3 – Trust &amp; Transparency</b>	
<b>What does it mean?</b>	We need to have confidence that our managers will do what they say they will do and that they consistently act in our interests. This is the key measure of the manager’s behaviour (whereas investment outcomes are the key measure of their capabilities).
<b>WHAT DO WE LIKE / NOT LIKE ABOUT THIS MANAGER?</b>	

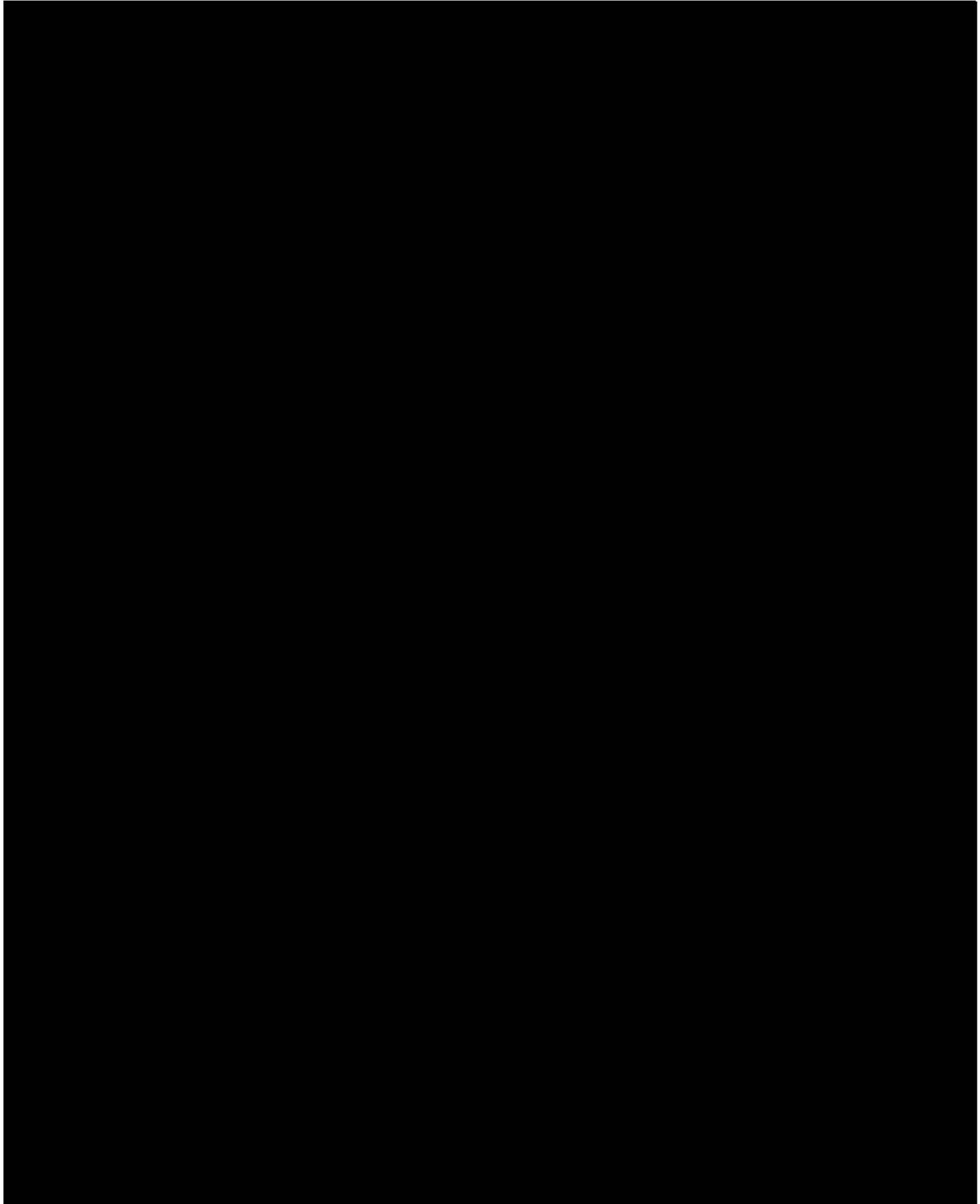


4 - Risk Awareness and Management	
What does it mean?	Robust identification, assessment, management and reporting of investment and non-investment risk
[Redacted]	
WHAT DO WE LIKE / NOT LIKE ABOUT THIS MANAGER?	
[Redacted]	





<b>5 - People Capability</b>	
<b>What does it mean?</b>	Does the manager have people with the necessary competence to execute on the Opportunity as we expect?
<b>WHAT DO WE LIKE / NOT LIKE ABOUT THIS MANAGER?</b>	
<b>List of current staff (employees and contractors):</b>	
Richard Dellabarca (CEO) – Joined in June 2016. After departure of former CEO Francesca Banga who held the role for [14] years.	
James Pinner (Investment Director) joined late August 2019. James was previously at Todd Corporation where he has worked as a Manager in Strategy and Corporate Development for the over 5 years.	



<b>6 - Process Capability</b>	
<b>What does it mean?</b>	Does the manager have the necessary tools, systems, networks and processes to execute on the Opportunity as we expect?
[Redacted]	
<b>WHAT DO WE LIKE / NOT LIKE ABOUT THIS MANAGER?</b>	
[Redacted]	

### Investment process for VIF 1.0

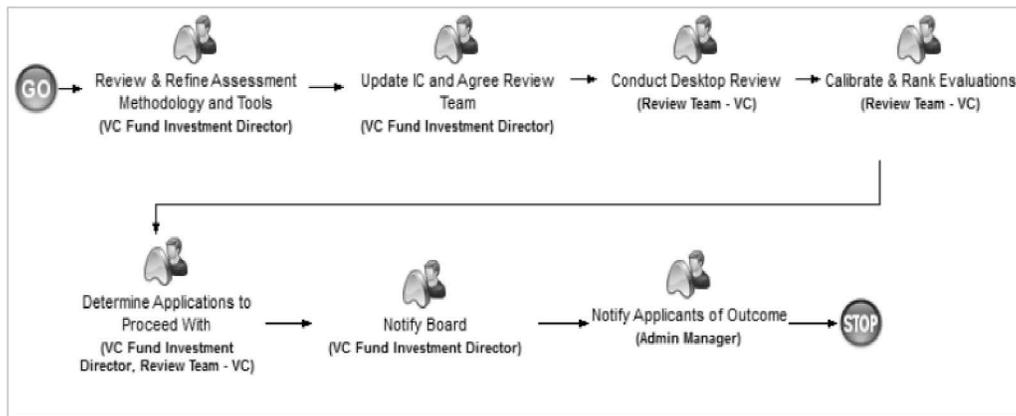
The VIF 1.0 programme was essentially managed by a single investment team member, [REDACTED]

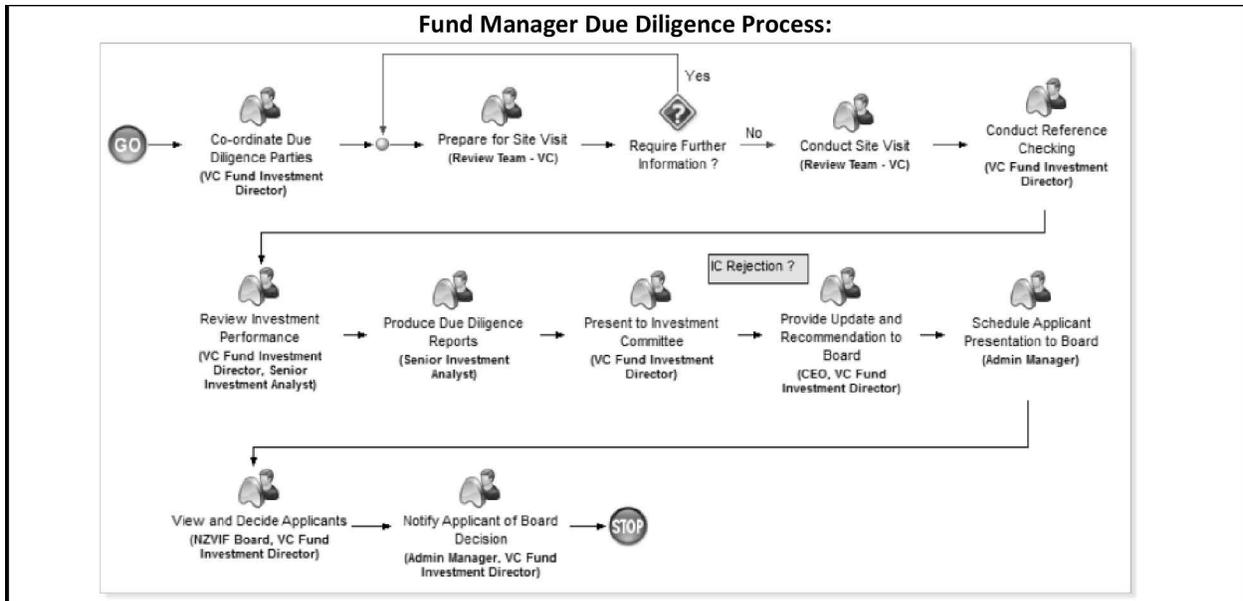
[REDACTED] The investment process outlined to GNZS in the DDQ was as follows:

- Engage with potential partners
- Screen opportunity including request for further information
- Present opportunity to Investment Committee for approval
- If approved request formal application
- Due diligence – internal desktop review, determine to proceed, seek Board approval
- Fund Manager Due Diligence – site visit, reference checking, review investment performance, seek Investment Committee and Board approval
- Contract negotiation
- Call notice
- Post investment monitoring and reporting
- Distributions

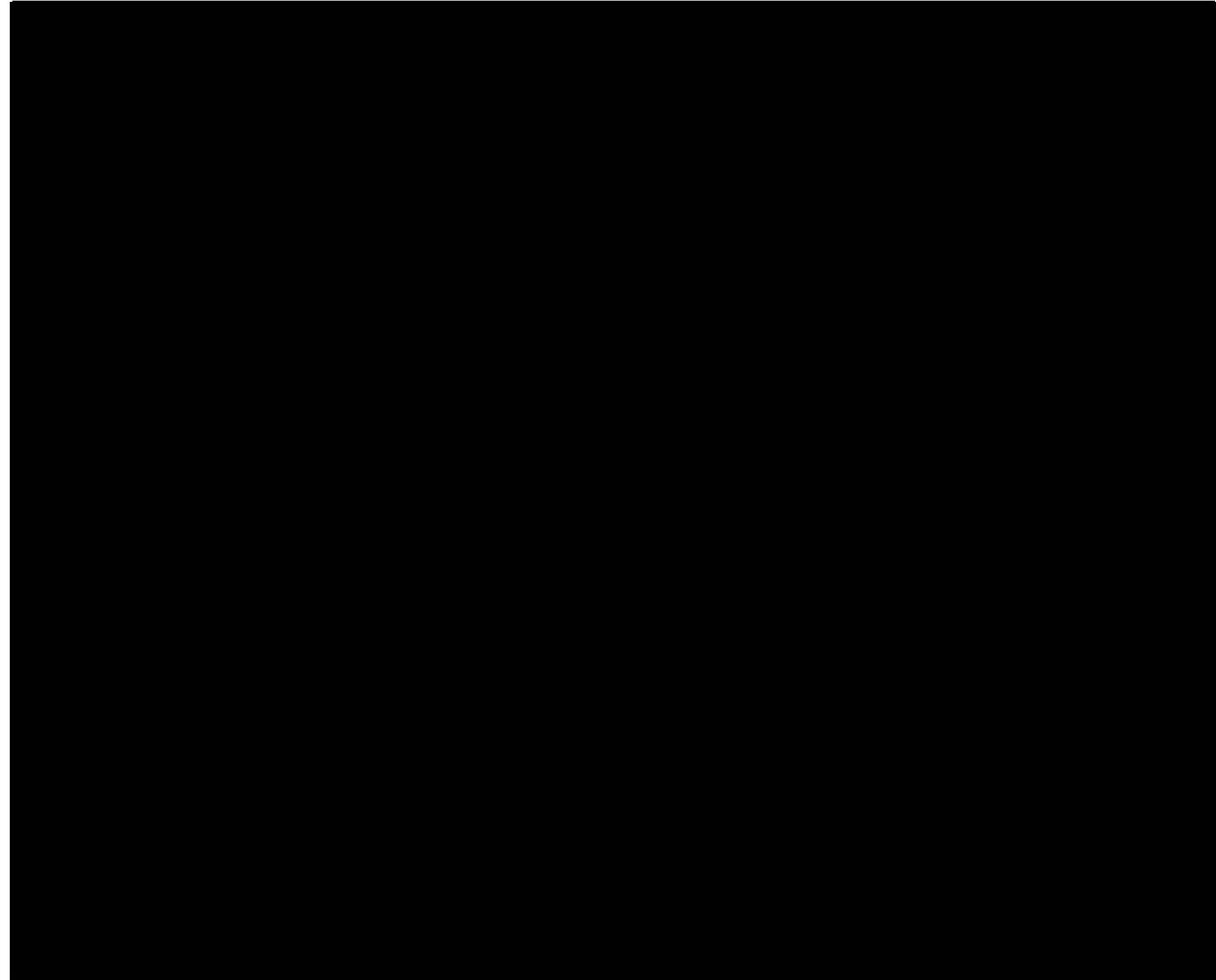
More specifically, NZVIF’s VIF 1.0 process is documented as follows (last updated May 2016):

#### Short List Selection Process:



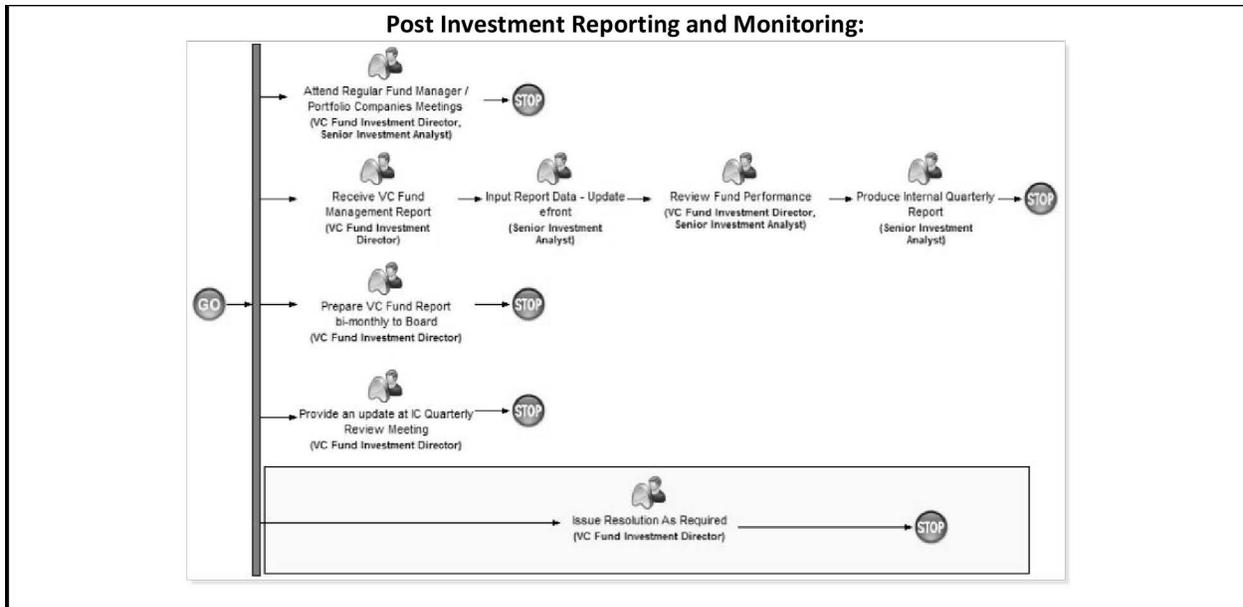


120. Process: Conduct Fund Manager Due Diligence



**Post-investment oversight and reporting**

NZVIF has LPAC positions on most funds it is invested in. NZVIF LPAC members read, review and collate data from quarterly reports and actively participate as required. Because of NZVIF's involvement in the SCIF program NZVIF staff are in constant contact with managers during the year regarding origination, corporate actions and transactions.



**7 - Opportunity Consistency**

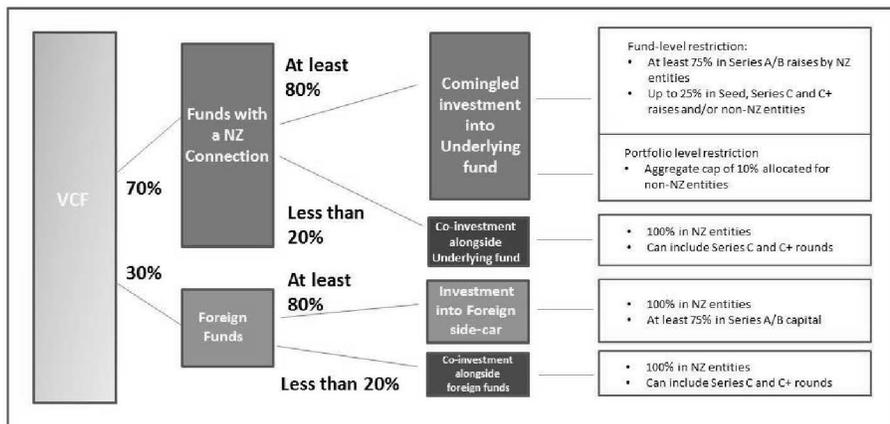
What does it mean?

Does the manager intellectually 'get' the Opportunity we have identified? Are they executing on it as we would expect?

**WHAT DO WE LIKE OR NOT LIKE ABOUT THIS MANAGER?**

The Policy Statement to be issued by the Minister of Finance comprises the broad parameters of what the VCF can invest in, including the required allocation of capital to funds with a New Zealand connection, foreign funds, co-investment with underlying funds and matching private capital requirements. Broadly (and still subject to industry consultation before being finalised by Ministers) the key aspects are:

- at least 70% of the VCF's investible capital must be allocated to funds with a New Zealand connection;
- up to 30% of investible capital may be allocated to foreign funds, but can only be applied to investments in New Zealand entities;
- of these allocations to either NZ connected or foreign funds, at least 80% must go into the commingled funds and up to 20% can be applied to co-investment alongside the relevant underlying funds;
- underlying funds must allocate at least 75% of their total investible capital to Series A and B Capital for New Zealand entities;
- in terms of private capital requirements, there will be a maximum ratio of 1:1 (VCF : private funding) for funds with a New Zealand connection. The MBIE discussion document seeks industry feedback on whether the same ratio should apply to investments in foreign funds or if a greater proportion of private capital should be required (e.g. a 1:2 ratio).



Once it is final, the Minister can make changes to the Policy Statement after consultation with the Guardians. Any changes to the Policy Statement will be forward-looking and will not apply retrospectively to existing investments/commitments, meaning that any change would practically have very limited impact.

<b>8 - Performance</b>	
<b>What does it mean?</b>	Is the manager performing as we expect relative to the opportunity and the relevant time period? Where we have agreed Segmentation outcomes, are these being delivered on time and to expectation?
<b>WHAT DO WE LIKE / NOT LIKE ABOUT THIS MANAGER?</b>	
[Redacted Content]	

**Schedule 1: Transition Plan**