

19 December 2019

Hon Grant Robertson  
Minister of Finance  
Parliament Buildings  
WELLINGTON

Dear Mr Robertson

### **VENTURE CAPITAL FUND ACT 2019: CONSULTATION ON POLICY STATEMENT**

1. We acknowledge receipt of the policy statement for the Venture Capital Fund (the **Policy Statement**), issued under section 19(1) of the Venture Capital Fund Act 2019 (the **VCF Act**).
2. As required by section 36 of the VCF Act, this letter sets out how the Guardians of New Zealand Superannuation (**Guardians**) proposes to (as applicable) “give effect” or “have regard” to the various directions in the Policy Statement.
3. The Guardians’ core role under the VCF Act is to manage and administer the Venture Capital Fund (**VCF**) using best-practice investment management that is appropriate for institutional investments in New Zealand’s venture capital markets. Guardians is required to do this in a manner consistent with the Policy Statement.
4. The Policy Statement is a critical document for the VCF, given that it specifies the broad manner and parameters within which the Guardians must manage and administer the VCF and therefore directly influences the VCF’s financial performance.
5. The VCF Act envisages that if the Guardians manages and administers the VCF in accordance with its best-practice duty, and within the parameters set out in the Policy Statement, then the longer term market development purpose of the VCF Act will ultimately be achieved.
6. For the market development to occur it will also be important for the Government to identify and successfully implement ancillary measures that may be required from time to time to support the further development of New Zealand’s venture capital markets. In that regard, we understand that the Ministry of Business, Innovation and Employment intends to enter into separate market development arrangements with New Zealand Venture Investment Fund Limited (**NZVIF**). Those arrangements are outside the Guardians’ role in relation to the VCF, but will be critical to the VCF’s success and the achievement of the VCF’s underlying market development purpose.

#### **Directions that Guardians must give effect to**

7. The VCF Act requires the Guardians to appoint NZVIF to undertake the investment of all of the VCF on a “fund of funds” basis.
8. Given this context, we will “give effect to” policies 1 to 5 of the Policy Statement by:

- (a) including appropriate provisions in the contractual arrangements with NZVIF, being the limited partnership agreement (**LPA**) and management deed in respect for the newly established Venture Capital Fund LP (the **VCF LP**); and
  - (b) undertaking our investment management and conviction oversight of NZVIF in our role as manager and administrator of the VCF and limited partner of the VCF LP.
9. The draft LPA includes an obligation for the general partner to ensure that the Limited Partnership acts in a manner consistent with the mandatory requirements of the Policy Statement. In addition, as part of the Guardians' "best practice" considerations, the Guardians has included certain more specific limits in the LPA to supplement the requirements in the Policy Statement.

#### **Directions that Guardians must have regard to**

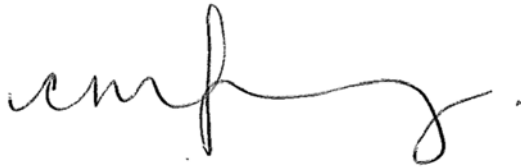
10. We will "have regard to" policies 6 to 8 of the Policy Statement by including appropriate provisions in the contractual arrangements with NZVIF and through our usual engagement with officials and the Minister as relevant.
11. The relevant provisions of the LPA include:
- (a) **Policy 6 and 7** – the LPA splits the "investment period" of the VCF LP into two periods:
    - (i) an initial investment period of five years, during which it is expected that all of the committed capital of the VCF LP will be committed by making investments and investment commitments into underlying funds and Foreign Fund Investments in accordance with the LPA;
    - (ii) a subsequent, indefinite period (referred to as the secondary investment period) during which period the VCF LP will continue to make investments utilising any uncalled committed capital at that time and is otherwise expected to be realising certain investments and then recycling the net proceeds of those investments where applicable; and
  - (b) **Policy 8** – the LPA expressly contemplates the VCF LP remaining in place (for a minimum investment term of 15 years) until the VCF is wound up in accordance with the VCF Act, including following completion of any divestment programme agreed between the Guardians and the Minister; and
  - (c) **Policy 9** – the LPA requires NZVIF, when considering and evaluating investments for the VCF LP, to have regard to the relevant matters in the Policy statement that the Guardians is required to have regard to.
12. We note that we have provided drafts of the LPA and management deed to Treasury and the Ministry of Business, Innovation and Employment and will shortly provide drafts to the Minister for any feedback as contemplated by Schedule 1 of the VCF Act.

#### **Monitoring and updated Policy Statements**

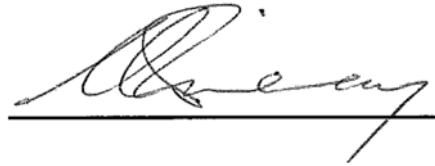
13. NZVIF is required to monitor compliance with the Policy Statement on an on-going basis and, as part of any request for capital from the VCF, will confirm any prospective investment's compliance with the relevant aspects of the Policy Statement.

14. If the Policy Statement is amended or replaced in accordance with the VCF Act, the relevant provisions of LPA (as summarised above) will, if Guardians provides notice, be deemed to be automatically updated to reflect the requirements of the new Policy Statement (to the extent reasonably applicable). As contemplated by section 34 of the VCF Act, any updated Policy Statement will only apply in respect of any committed capital of the VCF LP that has not already been committed to an underlying fund or any particular investment in accordance with the LPA.
15. We will provide progress reports in our Annual Reports for the financial year ending 30 June 2020 onwards in accordance with section 36(2) of the VCF Act.

Yours sincerely



Catherine Savage  
**Chair**



Matt Whineray  
**Chief Executive Officer**