

The Ākina Foundation
Venture Capital Fund Consultation Submission
20 September 2019

Please note that the Ākina Foundation requests an oral submission to support this document.

Background

1. The Government is establishing a new Venture Capital Fund (**VCF**) to support the development of New Zealand's early stage capital markets. The Government intends to invest up to \$300 million into the new fund over five years.
2. The VCF will be administered and managed by the Guardians of New Zealand Superannuation (the **Guardians**). The capital will be invested on a fund-of-funds model.
3. The New Zealand Venture Investment Fund is expected to be contracted by the Guardians to appoint fund managers who will make investment decisions and deploy capital to investee companies.
4. The Bill outlining the VCF has been referred to the Finance and Expenditure Select Committee after its First Reading in Parliament.
5. Industry participants have been invited to give our views on the draft Policy Statement.

Introduction to the Ākina Foundation

6. This submission is made by the Ākina Foundation (**Ākina**). Ākina is Aotearoa New Zealand's leading impact development organisation. Our mission is to make meaningful change for people and our planet by putting impact at the heart of our economy. We do this through building the capability of enterprises, impact consulting services, tapping into supply chains through social procurement and enabling change-making organisations to scale through impact investing. Ākina works with social and community enterprises, charities, corporates and government agencies.
7. In 2018, Ākina was named as the strategic partner to Government in a three-year programme to develop New Zealand's social enterprise sector. The Social Enterprise Sector Development Programme aims to enable a thriving social enterprise sector and map the way forward for government support.
8. Ākina is also a founding partner in the Impact Enterprise Fund, New Zealand's first impact investment fund. This submission wholeheartedly supports the separate submission made by the Impact Enterprise Fund. Ākina has deep experience in the impact investment sector, also supporting a number of organisations structure their own impact investments, as well as developing the capability of organisations and investors to engage in impact investing.

Our Response to the Draft Policy Statement

9. We agree with the proposed definitions in the draft Policy Statement.
10. The drafting of the Policy Statement objectives and definitions is clear and consistent.
11. While we agree in principle with the proposed policies as set out in the Policy Statement, we also think there is meaningful room for improvement, as set out below.

The Policy Statement // Living Standards Framework

12. We are pleased to see the Policy Statement open with the following sentence: "To transform our economy to be more productive, sustainable and inclusive, we need young and innovative firms to thrive in New Zealand". We couldn't agree with this more, and are strong supporters of the recently introduced Living Standards Framework as a ground breaking way to understand our country's sustainability and broader wellbeing. We see

significant alignment between this Living Standards Framework, and the intention of the VCF.

13. As we continued to read the Policy Statement, however, we were surprised to see that this opening ethos, and the clear potential this creates to align this VCF with the Living Standards Framework is not realised. The Government has committed to a Wellbeing Budget and the Living Standards Framework, as a way to more accurately understand the wellbeing of our economy. Treasury states that this requires growing the country's human, social, natural and financial/physical capitals which together represent New Zealand's economic capital.
14. Ākina firmly believes that this VCF is a significant opportunity to apply the Living Standards Framework, and in doing so create a wellbeing framework for this VCF that would enable Government to more accurately understand how the VCF contributes to its goal of creating a more productive, sustainable and inclusive New Zealand.

The Living Standards Framework // investment performance

15. It is also Ākina's position that incorporating the Living Standards Framework within this VCF will result in the capital allocation being invested in better performing investments, resulting in greater success of the VCF and greater achievements of its goals. There is strong evidence that businesses that embed strong sustainability practices, practices which align with (and are valued by) the Living Standards Framework, significantly outperform their counterparts over the long-term.
16. Businesses are increasingly being required to report their positive social, cultural or environmental impact to investors, consumers, staff and the broader community to maintain their social license to operate. It is no longer enough for business to pursue solely revenue generating objectives. New Zealand's Trade Me was recently purchased by a fund that will now require Trade Me to report its Environmental, Social & Governance performance – activity that delivers positive impact. Consumers are demanding businesses behave ethically with 90% of kiwis surveyed¹ reporting that they would not buy from a non-ethical company. Companies who sell goods or services to government agencies interested in social procurement are being asked to report how they are contributing to the agencies impact goals. 74% of Millennials and Gen Z say they would leave an employer who does not support the community².
17. For these reasons and many more, it is increasingly important for businesses to consider their actions against broader frameworks such as the Living Standards Framework rather than just considering GDP. If they don't, there is increasing evidence that they are less likely to survive. Considering this from an investment lens, this means that the stronger investment opportunities are those that consider and actively manage their broader impact on people and the planet. Aligning this allocation with the Living Standards Framework will also result in the capital being invested in better performing investments.

The Living Standards Framework // investment reporting

18. As discussed above, it is becoming the norm for investors to expect reporting on what positive impacts a business is having. This reporting needs to be informed by a broader framework from the Fund Manager, however, if it is to be coherent and really contribute to the growth of sustainable and inclusive business. The Living Standards Framework is a great starting point for such a framework for the VCF, and once the Living Standards

¹ According to 'State of the B, Business as a force for good in Aotearoa New Zealand', by B Lab Australia New Zealand (2019)

² Ibid.

Framework has been incorporated into the VCF, specific reporting measures which align with this should be required from each investment. If the Government requires businesses to articulate and report how they align with the Living Standards Framework, the Government will then be able to collect information on how its \$300 million is contributing to the Government's wellbeing objectives.

19. Similar business start-up investment funds have previously measured the success of the programme by collecting data on the revenue growth of the businesses and the numbers of employees those businesses have. These are somewhat blunt measures, and miss a great deal of the impact those businesses have on their communities and environment.

The Living Standards Framework // Te Tiriti o Waitangi

20. Incorporating the Living Standards Framework into the VCF will also create opportunities to specifically consider and incorporate Te Tiriti o Waitangi within the policy. Many Māori owned businesses report that achieving positive social impact or supporting environmental outcomes are integral to the way they run their business.
21. Māori business is a significant and growing segment of New Zealand's economy and yet we are seeing barriers between Māori business and many of the mainstream investment channels. By recognising and supporting the alignment between many Māori businesses and the wellbeing framework, the VCF could increase the alignment with Te Tiriti and Te Ao Māori and support the growth of Māori business.

The Living Standards Framework // international investment trends

22. Responsible investment practices are becoming the norm internationally. This is for a number of reasons, including the positive impact they have on the world and the stronger performance of these investments. Globally the responsible investment sector is estimated to have \$31 trillion in assets under management, while the impact investing sector is estimated to have \$500 billion assets under management, and has almost doubled in the past year.
23. Impact investing is investing with the intention of generating a measurable and beneficial societal and/or environmental impact alongside a financial return.
24. The recently released 'Impact Investor Insights 2019 Aotearoa New Zealand' report by Responsible Investment Association Australasia found that New Zealand respondents to its survey had \$889 million in assets under management in impact investments, and would allocate \$5.9 billion to impact investing in the medium term.
25. Investment practices are moving away from models that only look at financial outcomes, and are expecting to see broader outcomes. This VCF creates a real and timely opportunity for New Zealand to be a part of this movement, and intentionally support the growth of the increasing number of impact focused businesses in New Zealand.
26. Ākina also recommends that at least 10% of this VCF should be allocated specifically to impact investment opportunities. Governments internationally are seeing the long term potential of impact investing, and the broader impacts it enables for a country, and have therefore been supporting it for a long time. In Australia, over \$50 million has been dedicated to creating an enabling impact investing market. In Canada, \$800 million was recently announced. The impact investing market in New Zealand is growing, with multiple impact investing funds now in the market. The breadth of positive impact that businesses who receive impact investment contribute to in New Zealand, justify significant time and resource from the New Zealand Government in order to incentivise and grow this sector. This VCF is a tangible and timely opportunity to do this.

The VCF // investment readiness

27. Through our work within the investment sector across the past several years, Ākina has observed a significant capability gap around investment readiness. This includes capability around capital strategy, impact, and business modelling. This has been reported by both investors looking for the right opportunities to deploy capital, and businesses seeking investment, particularly at early stages of investment and impact oriented investments.
28. Ākina has delivered impact investment readiness grants pilot programmes over the last 2 years, and each year have had applications from over 100 organisations seeking support to get investment ready. Because of this large number, investment readiness is a real risk to the success of policies such as this and the NZ Green Investment Finance Company. Therefore, structured capability support should be factored into this Policy to ensure that the capital can not only be successfully deployed, but also accelerate the outcomes of the recipients, and therefore the success of the investment and the broader investment sector. We would be happy to share more about the outcomes of the investment readiness programmes we have run if interested.

OK, but how?

29. The first, and most important step, is for Government to adopt the Living Standards Framework for this allocation of capital that sets out how this \$300 million will contribute to government's priority areas of wellbeing. A wellbeing framework for this fund can be created by considering which of the existing capitals and indicators within them most align with the intentions of this capital, and incorporating them into a framework that more clearly sets out how the capital will create a productive, sustainable and inclusive NZ. This framework could also be supported by global best practice investment frameworks, such as the Impact Management Project as one example, linking into Indicators Aotearoa and through to the Living Standards Framework. A framework like this should be the primary foundation of this capital allocation, and inform the goals of any eventual managers of the capital.
30. While there are complexities to this process, these are significantly reduced now that the Living Standards Framework and Indicators Aotearoa have been completed. Importantly, this complexity should not be seen as prohibitive, and can be worked through quickly. Ākina is happy to engage further on this.
31. Secondly, the Living Standards Framework and Indicators Aotearoa include consistent measures of wellbeing. This VCF should take advantage of the work done to produce a national framework and invite both fund managers and investee companies to use these measures to report progress. Over time, this would set the programme up to be able to report its effectiveness compared to other Government initiatives.
32. Thirdly, a portion of this VCF should be allocated to impact investing, and policies set out around the purpose of this. It is a rapidly growing asset class internationally, and support from the Government would catalyse the growth of the sector in New Zealand. Plus, the positive impacts that impact investing enables is the best way to enable a more productive, sustainable and inclusive New Zealand.
33. Fourthly, resource should be set aside (whether from this allocation or elsewhere) to specifically support the investment readiness of organisations. Not only will this ensure that this capital can be successfully deployed, it will also support other Government funds and create a more enabling environment for the private sector to make investments.

Recommendations:

34. The Living Standards Framework should be specifically referenced and adopted as part of the VCF. Not only to ensure it will deliver on its goals, but also to increase the quality of businesses the funds are allocated to.
35. The objectives of the Living Standards Framework and associated measures should then be communicated to recipients of the capital so the objectives of this VCF are clear.
36. At least 10% of this VCF should be allocated specifically to impact investing.
37. Resource should be allocated towards investment readiness programmes to ensure the success of this and the investment sector more broadly
38. We support Option 2 of Policy 5, whereby, “for every Foreign Fund, the Underlying Fund must have an aggregate committed capital from other investors which is at least twice that of the VCF committed capital”.

39. We are happy, in conjunction with the Impact Enterprise Fund, to discuss this further with the Select Committee.
40. We thank you for considering our submission and look forward to contributing to the ongoing policy process.



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