

17 September 2019

Ministry of Business, Innovation and Employment

vcf@mbie.govt.nz

Submission - Policy Statement on the Venture Capital Fund Act 2019

Thank you for the opportunity to comment on the Policy for the NZ government's venture capital fund.

Introduction

For background, [Finistere Ventures](#) (Finistere) is a global agritech focused venture capital investor with strong existing NZ connections. Finistere has offices in San Diego, Palo Alto (Silicon Valley), Tel Aviv (Israel), Dublin (Ireland) and is establishing a dedicated NZ operational presence. Finistere has been an active investor in NZ agrifood technology companies and has led investments in several companies resident in NZ or connected to NZ technology platforms and markets. These companies include Zeakal (plant science), Crop-X (irrigation and nutrient management, digital farm platform), BioLumic (plant science), Invert Robotics (industrial automation) and AgGenetics (animal genetics).

Finistere is currently raising its third Fund (FVIII) which is planning a first close in Q42019 (fund size s9(2)(b)(ii)) and will invest in North America, EU, Israel, Australia and New Zealand as priority markets, focused on in agrifood tech start-ups. FVIII includes a mandate for investment into NZ start-ups and NZ-domiciled investors are among the LPs investing in the Fund. Our investment plans include an FVIII allocation of s9(2)(b)(ii) and the establishment of a NZ advisory board, NZ operating company (which will employ local staff and advisors) based in Palmerston North (located alongside Sprout). The NZ team will be focused on deal sourcing, investment and post-investment support while leveraging the deep expertise and experience of Finistere's global team in technical diligence, market expansion, syndication and links to the talent, PR and wider ecosystem services.

Finistere have a very good understanding of the stage of development of the NZ agritech start up market and our investment approach is to provide capital for series A and B stage companies but also, importantly, access to syndication with qualified investors and partners/channels into global agrifood markets. With NZ co-investment and these global networks we expect to make a step change in the capital and connections available to NZ agrifood start-ups and accelerate their speed to meaningful scale.

General Comments

Overall, we find the Policy Statement thoughtfully written and it clearly articulates the VC ecosystem objectives and shows a good understanding of market workings. In that context, our specific comments are:

1. We would advise very limited prescription towards investment strategies and rely on the NZVIF's ability (as FoF manager) to select qualified and capable investment managers who are targeting deployment in the Series A&B round companies that are the target of the Policy. Our view is that being overly prescriptive for example on the percentage of investment directed towards other stages of investment, runs the risk of curtailing market innovation and unintended outcomes. We favour the Policy being permissive not prescriptive.
2. We understand and support the objective of building NZ based capability. To be successful both NZ capability and NZ start-ups have to be connected to global capital and markets. Finistere will be an active member of the local investment community and our operating model is a blend of local presence and international reach. We agree that international investors should have a clear and tangible commitment to NZ in order to be considered "NZ-connected" but we would encourage the Policy settings to not excessively differentiate between local and international as both are needed to develop a healthy local industry and to provide the quantum of capital needed to achieve world-class status in the field.

Specific Comments

1. Investment Metrics
Objectively speaking, the metrics for Series A and B noted in the Policy are underweight relative to comparable funding rounds in the major venture financing markets like the USA, EU and Israel. "A" is defined as NZD \$2-5M but our data for agritech is an A average of \$6-10M USD which is NZ \$9-15M or 3-4X the policy statement. Our two most recent investments in NZ, BioLumic and Invert Robotics closed Series A rounds of \$7.2m and \$8.8m USD respectively. The importance of this is that to win in international markets NZ companies need to be sufficiently capitalized relative to their competitors. We would suggest raising the upper end of 'B' rounds to NZ\$30m.
2. We think the definition of NZ entities looks fine.
3. Policy 1
We readily agree the model should be a Funder of Fund approach investing into competent managers.
4. Policy 2 – "New Zealand Connection"
FV would expect to be considered as a fund with a 'New Zealand Connection' in that:
 - FVIII is based outside NZ, but
 - A NZ operating company is established which employs local investment senior director and staff/team domiciled in NZ.
 - We are proposing in previously circulated documents to NZVIF and MBIE a co-investment / side car arrangement where NZVIF are a single LP in a Limited Partnership (NZ tax resident) that invests on a 1:1 quantum in NZ companies alongside FVIII.

Our interpretation of the Policy is that such a model would qualify for 'NZ Connection' and view it as important that the Policy allows and explicitly envisages this type of model which goes



beyond the description of a Foreign Fund and sidecar noted in the Policy, as it creates a local entity and team to support the investment in NZ entities, but also the development of the local ecosystem, while blending international and national expertise.

5. Policy 4 – Co-Investment

We understand the benefit to ROI of on-going co-investment rights but would not support this becoming a mandatory term for all Fund relationships. Such an arrangement can have the effect of crowding out the Funds committed capital and could limit the amount of Fund capital that is available for the targeted A&B stage. We also note that 20% is a large allocation and would also expect any co-investment arrangement to be in concert with the underlying manager and on a 1:1 basis.

One area the Policy could consider relative to Fund performance is the ability to recycle capital returned into Series C after the active investment period is completed. We agree that the 15 year return of all capital is appropriate but the 25% allocation of committed capital (that is not A or B round) should be expanded to allow recycling into Series C as the portfolio matures, allowing the fund manager to potentially increase total returns in growth stages of companies they've invested time and money supporting in the higher risk phases of A/B.

6. We note that typical investment period is six years in VC funds, not five. Ideally there is room to be more flexible to align with international standards.

7. Policy 5

We would support all underlying funds with a NZ presence having 1:1 matching vs the foreign fund 2:1 proposal.

We thank you for the opportunity to comment and are available to further discuss any item.

Yours sincerely

A Kukatui

Arama Kukatui
Managing Partner

s9(2)(a)

D Tilyard

Dean Tilyard
Venture Partner – NZ

s9(2)(a)

Released under the Official Information Act 1982