

Tuesday, 3 September 2019

From  
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To

The Venture Capital Fund Consultation Team,  
The Ministry of Business, Innovation and Development  
(vcf@mbie.govt.nz)

Dear VCF Consultation Team,

### **Our Feedback on the Draft Policy Statement in the Venture Capital Fund Act 2019**

Thank you for the opportunity to provide our feedback to you. We have outlined below our views on the proposed definitions and policies contained in the Draft Policy Statement.

#### **Proposed Definitions**

- 1 We generally concur with the proposed definitions outlined in the Draft Policy Statement on the Venture Capital Fund Act 2019.

In respect of the proposed “New Zealand Entity” definition (Annex 1, page 8, “New Zealand Entity”, sub-paragraph 3), there could be some fringe risk of overseas entities structuring themselves through NZ proxies to meet the “voting control” thresholds, and thus qualify to potentially receive capital under the guise of “New Zealand Entities” from Fund-of-funds and Underlying Funds, which clearly is not the intent or the spirit of the VCF objectives. While it is difficult to deter or counter deceptive behaviour, for the protection of all parties’ interests, it may help to apply the term “ultimate voting control” in your definition.

- 2 We found the objectives and definitions outlined in the Draft Policy Statement on the Venture Capital Fund Act 2019 to be generally clear and consistent.

#### **Proposed Policies**

- 1 In respect of policy statements 1 – 3, we understand and agree with the purpose of the prescribed investment composition thresholds (seed capital, series A & B, C and C+, and non-New Zealand Entities) for the Underlying Funds portfolio.

- 2 In respect of policy statement 4, the rights reserved for VCF to co-invest alongside New Zealand domiciled Underlying Funds or Foreign Funds investments would be constructive in some instances. However, depending on deal flows, this could have a “crowding out” effect on the functioning of the New Zealand early stage investment ecosystem.
- 3 In respect of policy statement 5, our view is that Option 2 has more merit for the overall objective of VCF, as the higher capital-match requirement on Foreign Fund could increase the pool of capital available for investments in New Zealand Entities. We acknowledge that the consequence of a larger pool of capital without a commensurate increase in investment opportunities may dilute the overall percentage return in the New Zealand venture capital fund ecosystem.
- 4 In respect of policy statements 6 – 8, we generally agree with the prescription of the initial investment period for capital commitment (5 years), secondary investment period (after the end of the “initial investment period”), and the “minimum period” before the return of capital (15 years from commencement of the “initial investment period”).
- 5 As the list of requirements for policy statement 9 - Crown’s expectation that New Zealand Entities receiving capital from Funds-of-fund and Underlying Funds to have practices that are consistent with the Government economic strategy and plan to transition to a low carbon economy - is pending at this point, we have no feedback for you on this matter.

If you require any clarification on our submission, please do not hesitate to contact myself

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or our representative Kar Yue Yeo

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Yours faithfully,



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