Zino Ventures

Submission on Policy Statement on the Venture Capital Fund Act 2019

September 2019

Introduction

This submission has been prepared by Zino Ventures Limited ("Zino") which is the manager of the Zino Growth Fund I. ("ZGF") This is a Series A/B venture fund which targets investing in NZ tech companies that have potential to expand into the Chinese speaking markets of China , HK, Taiwan and Singapore. The Fund is targeting those sectors in which it believes NZ has a competitive advantage which includes enterprise SaaS and the broad digital communications sector.

To date the Fund has raised $6.1m which has been 75% deployed across 3 investments being Parrot Analytics, Montoux and Merlot.aero. The Fund is an impact fund which focuses on actively assisting NZ companies to expand into the Chinese speaking markets.

s9(2)(b)(ii)

[redacted]

Proposed Policies

We think the key omission in the policies is any reference to how the policies will attract additional investment and investors to the market. Given the matching requirements of the VCF, the market will need to attract $300m to $500m of private capital. This will require:

- An allocation to venture from domestic institutional investors such as ACC, AMP and the Kiwisaver funds who have not to date invested in the sector with the exception of NZ Super
- Participation of international institutional investors who have not to date invested in NZ venture nor in NZ expansion capital funds such as Waterman and Direct Capital
- A much wider participation in the sector of domestic family offices and HNW's.

While there are a range of broader regulatory solutions to incentivizing domestic investors such as tax or Kiwisaver liquidity requirements we have assumed these are outside the scope of the policy statement so have chosen not to comment on these.

In attracting international institutional investment we have to be cognizant that none of these investors have to invest in NZ or NZ venture. It will be a discretionary investment so will need to stand on its own merits.

We have had early discussions with institutional investors in China and Taiwan. The strong feedback from these investors is that if they were to invest it would be in an Australasian venture fund. The investors considered Australia and NZ one market and thought investing in a NZ only fund carried additional risks in regard to economic volatility and quality of deal flow.

To accommodate this preference we propose the following amendments/clarifications to the policies:

- VCF policy to provide for side-car arrangements with a core fund that invests in qualifying NZ Entities and a side car fund that can invest more broadly in Australasian venture. Funds raised in both the core and side car funds to qualify as matching private capital;

- The 10% limit on Underlying Funds investing in entities that do not qualify as NZ Entities to be relaxed so as to enable up to 25% -30% of the fund to be invested elsewhere. We note that the Australian Venture Capital Limited Partnership structure has a 20% limit. We understand that the 10% limit on non NZ Entities is across the NZVIF portfolio and selected Underlying Funds could have a higher threshold. We are not sure if this will provide sufficient capacity across all Underlying Funds that have the desire and capacity to invest outside NZ.

- International institutional investors will require a domestic institutional investor to cornerstone any offer by an Underlying Fund before committing. This means it will be important that NZVIF commit early in the fund raising process. This could be a conditional commitment which requires certain conditions precedent to be fulfilled such as minimum matching funding or build out of the complete team.

We believe that making the policy tweaks outlined above will materially improve the Underlying Funds ability to raise funds offshore.

Definitions

The definition that in our view requires the most work is that of the NZ Entity. Our comments here are as follows:

- For most of the investable start-ups in NZ or elsewhere, the largest tangible asset would be office equipment. It would be relatively easy to manipulate this so that the majority of these assets were located in NZ. So we think this is a poor test.

- A key feature of every NZ start-up that we have considered for investment is that the parent company is domiciled in NZ. There are material advantages for NZ investors including tax and familiarity that drive this legal outcome. To us this is a simple and effective way of identifying a NZ Entity. The importance of domicile is confirmed by US venture funds requiring NZ companies to "flip" to Delaware as part of their investment process.

- The location of employees and contractors is a crude measure of NZ domicile. This is because of the need for NZ companies to build out in–market sales and marketing resource globally much earlier in their life-cycle than companies domiciled in larger markets. A good example of this is Merlot.aero a company which is domiciled in NZ, owned by NZ tax residents, has the majority of its senior management and top development talent in NZ but due to having a contracted coding team in Manilla and sales resources globally has more than 50% of its employees and contractors offshore.

In our view the NZ Entity definition could be simpler and less subject to manipulation by making the domicile of the parent company the primary test.