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Startup Advisors Council
C/O Ministry of Business, Innovation and Employment

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Submission to the Startup Advisors Council

1. This submission to MBIE's Startup Advisors Council is from the Guardians of New Zealand Superannuation (the **Guardians**). Based on our experience as governors of the Elevate NZ Venture Fund (**Elevate Fund**) mandate, the submission is predominantly focused on issues of capital and funding in New Zealand's venture capital markets.

The Guardians

2. The Guardians was established by the New Zealand Superannuation and Retirement Income Act 2001. At the time the Guardians' sole function was to manage the New Zealand Superannuation Fund (the **Super Fund**). In 2019 the Government, in addition, entrusted the Guardians with a second mandate, overall responsibility for the Elevate Fund.
3. The purpose of the Guardians is: "sustainable investment delivering strong returns for all New Zealanders (kia toitū te haumi hei hua mā ngā tāngata katoa o Aotearoa)".
4. The Super Fund is a NZ\$60 billion global investment fund established by the New Zealand Government. A long-term, growth-oriented investor, the Fund has returned 9.5% per annum since inception in 2003. In the context of an aging population, its purpose is to help pre-fund universal superannuation.
5. The Elevate Fund was established by the Venture Capital Fund Act 2019 to focus on promoting innovation and productivity through investment in New Zealand companies which, having moved past their "start-up" or "angel" investment phase, require capital for the next stage of their development.
6. The underlying policy behind the Elevate mandate was the view that making deeper pools of capital available to invest in New Zealand's early stage markets is key to fostering innovation and encouraging innovative firms to expand, which will in turn help New Zealand's productivity, wages and drive export growth.
7. While the Elevate Fund is administered by the Guardians, we have appointed fellow Crown Entity, New Zealand Growth Capital Partners (**NZGCP**), to manage it. NZGCP adopts a fund-of-funds model to the management of the Elevate Fund, which involves them allocating capital to external fund managers who in turn invest in New Zealand growth companies. The following section provides a more detailed description of the Elevate Fund, its purpose, approach and performance.

Elevate Fund

8. The Elevate Fund was launched in March 2020, now consisting of \$259.5 million of Crown capital commitment, with this expected to increase to \$300 million over time. Currently the remaining \$40.5 million of capital remains unsourced, as do any funding commitments beyond that.

9. Under the Venture Capital Fund Act, the Guardians are required to invest the Elevate Fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets. The Guardians are also required to comply or give effect (as applicable) to a range of directions in a [Ministerial Policy Statement](#) which sets out certain high level parameters in respect of the mandate.
10. With the Elevate Fund nearing its currently funded capacity, such additional capital will be necessary if it is to maintain momentum and its growth trajectory in order to continue to grow the domestic venture capital market and contribute to building innovative industries in New Zealand.
11. Through its fund-of-funds investment model, the Elevate Fund is designed to increase investment into venture capital funds, specifically those focusing primarily on Series A and B rounds, for New Zealand high growth businesses. The Elevate Fund is expected to continue to operate until such time as New Zealand's venture capital markets have developed and matured to the extent that Government support or involvement is no longer required. This is expected to take a minimum of 15 years.
12. Since its launch, the Elevate Fund has made commitments of \$198 million into 8 venture capital funds resulting in 97 New Zealand businesses being backed. As at February 2023, 46% of commitments have been called (i.e. paid into the underlying funds).
13. All underlying funds are required to raise matching capital from other investors that is, at least, equal to the commitments from the Elevate Fund. Well in advance of this minimum requirement, we have seen \$2.43 raised privately for every dollar invested from the Fund. As a result, the total capital raised by Elevate-backed funds, since inception, has been \$680 million.
14. As well as managing the Elevate Fund on behalf of the Guardians, NZGCP also operates its own separate fund, the Aspire Fund, which is focused on co-investing in seed and pre-seed (Angel) businesses. NZGCP also receives an appropriation for other market development activities to supplement the market development arising naturally from its investment activities.

Submissions

15. In this section we outline our submissions to the Council as they continue their work in developing advice to the Government.

Capital and Funding

16. We understand that in its work to date the Council has concluded that New Zealand remains materially underfunded relative to other eco-systems for our start-ups and Series A funded businesses. Constraints have been identified including New Zealand's geographic distance to market, a lack of consistent institutional investment, the start-stop nature of government support, and the fickle nature of international capital, especially during difficult economic times. Addressing issues such as these is exactly what the Elevate Fund was established for and is focused on.
17. The Council's observations are consistent with our experience in that a key challenge for growth firms is the ongoing access to capital in order for them to continue their growth trajectory and remain competitive against well-funded offshore competitors. If insufficient funds are available, early-stage companies will need to significantly reduce or even curb their growth plans and potential (reducing productivity and potentially missing the market opportunity) or migrate offshore.
18. There remain significant challenges in terms of the availability of growth capital within the New Zealand market and eco-system. In a difficult international environment, New Zealand venture capital funds are experiencing increasing difficulties in raising capital. Compounding this, while overseas venture funds had been becoming increasingly interested in New Zealand, there is no certainty they will remain active in a more challenging market, with there being concerns (and some early evidence supporting this concern) that they will refocus on their home markets.

19. The Elevate Fund is nearing capacity in terms of currently committed funding. What this means is, in a time of challenging market conditions, the Fund will have committed materially all of its initial Crown contributions and will be unable to further contribute to meeting the capital market challenges New Zealand faces. This represents a serious public policy issue in that without further funding, there is a serious risk that the significant progress made to date in the development of venture capital markets will be lost.
20. Sourcing the currently unfunded \$40 million of the initial commitment would enable Elevate to make investments into an additional one or two more funds. Without additional funding beyond that, however, Elevate would then need to move from active origination/deployment into a period of portfolio management, until such time as it is able to realise investments, providing capital for further funding activity. NZGCP does not currently expect any material realisations until year seven of the Fund, meaning this portfolio management phase would last for several years. Given that the New Zealand venture capital eco-system remains in its own early-stage phase, with significant development, deepening and maturing still necessary, this would have a material constraining and contracting impact on both the New Zealand venture market and funds, and on innovation and productivity.
21. Most or all of Elevate's funds are likely to raise a further vintage during the "portfolio management" period in which Elevate will (on its current Crown contributions) have no/limited capital to deploy. Moreover, these are likely to be critical vintages for the fund managers, in the sense that many of the underlying funds will still be optimising and overseeing the portfolio companies in their earlier fund(s) for several more years and will not have completed their exits to demonstrate a track record of returns that can be used to attract greater institutional and other investment.
22. If further funding was provided, this would "bridge" the gap until the Elevate Fund begins to receive realisations that it can continue to reinvest (i.e. essentially becoming self-sustaining). It would also enable the Elevate Fund to support underlying funds in a more challenging period of the market cycle, and enable those funds to continue their fund-raising cycle and maturation of their business and teams until they can achieve exits and fund returns which can be used to attract more private capital into subsequent vintages.

Diversity and Inclusion

23. The Guardians is of the view that the startup ecosystem (like the broader finance and investment sector) is insufficiently diverse and that more needs to be done to make it inclusive. It is for this reason that both the Guardians and NZGCP are active in advancing related objectives.
24. From the perspective of the Guardians, diversity, equity and inclusion is identified as a strategic priority. As a result, a new role of Head of Diversity, Equity and Inclusion was created as part of our senior leadership team and filled in March 2022. We are in the process of developing our Diversity, Equity and Inclusion Strategy and roadmap. Our organisational objective is to move towards best practice in this area, and to achieve that the Guardians Board has agreed five principles that will guide us on the way forward, specifically:
 - we build the Guardians to reflect the communities we serve as we believe it is the right thing to do to enable better outcomes and decision-making
 - we promote all aspects of diversity including ethnic diversity, and we have a particular focus on Māori and Pasifika representation, and women in leadership
 - a Te Ao Māori approach is integrated into our approach and ways of working
 - leadership accountability and transparency will drive our diversity, equity and inclusion progress
 - we will build our diversity, equity and inclusion maturity through bottom-up and top-down support.
25. We support the Government's objectives to accelerate the growth in diversity within New Zealand's venture capital mandates and, for the reasons set out below, we suggest that further consideration be given to separate initiatives that complement the Elevate Fund.

26. The principal focus of the Elevate Fund is on applying best-practice investment management to assist in developing New Zealand's venture capital markets. As such, the mandate is required to include robust commercial investment criteria in assessing underlying managers, and the Guardians has included best practice measures such as a prudential restriction on exposure to first time fund managers.
27. While these requirements are necessary to give effect to the Elevate Fund's statutory mandate and objectives, they do constrain the extent to which it contributes to diversity outcomes. This does not mean, however, that the success of Elevate in meeting its statutory requirements does not in itself play a role in contributing to improved diversity outcomes, working alongside, and in support of, other more directly focused initiatives and interventions. Indeed, Elevate's primary focus of building a strong, deep and sustainable venture capital market, will mean that investment is available to support and grow the more diverse range of growth businesses those other initiatives are a catalyst to. This, in our view, is the most significant contribution Elevate is equipped to make in this area.
28. We understand that NZGCP and MBIE are also in discussions in respect of a separate mandate that would support more diverse or first time fund managers that would currently not meet the Elevate Fund investment criteria and enable them to develop the systems and experience required for later investment by Elevate Fund.

Other initiatives

29. As noted above, we have focused our comments primarily on areas within our core role in New Zealand's early stage markets.
30. However, the Elevate Fund was always intended to be one part of a range of policy initiatives and interventions that were required to develop New Zealand's venture capital markets over time. Developing a successful venture capital ecosystem is highly dependent on attracting appropriate talent and capital, both of which are influenced by broader policy settings.
31. While we do not comment on these initiatives in detail as part of this submission, we note that other areas that can be considered are the attractiveness of tax and immigration settings for venture capital GPs/investors and the extent to which KiwiSaver settings and incentives are conducive to investment in private growth assets.

Conclusion

32. Thank you for inviting us to submit to the Council. We would be happy to meet with you to discuss the issues and raised in our submission in more detail.

Guardians of New Zealand Superannuation