

The Treasury

Cabinet Minute: Deepening New Zealand's Early Stage Capital Markets Information Release

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Cabinet Economic Development Committee

Minute of Decision

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Deepening New Zealand's Early Stage Capital Markets

Portfolio **Economic Development**

On 12 December 2018, the Cabinet Economic Development Committee (DEV):

Background

- 1 **noted** that the government needs to transform the economy to be more productive, inclusive and sustainable;
- 2 **noted** that one of the government's priorities is to address thin capital markets;
- 3 **noted** that a broad work programme has been developed to ensure that investment plays its role in this transformation, and that the Minister for Economic Development intends to submit a paper to DEV in early 2019 on this work programme;
- 4 **noted** that the work programme is linked to the government's new approach to industry policy, which is being discussed concurrently;

Early stage capital markets

- 5 **noted** that well-functioning early stage capital markets are a critical element in shifting the economy to be more productive, sustainable and inclusive, and investing in new points of comparative advantage;
- 6 **noted** that the government has intervened in this space since 2001 through the Venture Investment Fund and, since 2006, with the Seed Co-Investment Fund;
- 7 **noted** that:
 - 7.1 many start-ups continue to struggle to develop to potential because of the shallowness of New Zealand's venture capital markets;
 - 7.2 this leads to excessive reliance on foreign investment to overcome this funding gap, and encourages many start-ups to sell down prematurely and move abroad;
- 8 **noted** that the shallowness of the venture capital market limits the economic benefits to be gained from the government's research, development and science programmes;
- 9 **noted** that the role of institutional investors is key to shifting investment patterns, as they exert control over a significant share of managed funds and provide signals to smaller New Zealand based or overseas investors on where to invest;

- 10 **noted** that New Zealand’s institutional investors have not invested in the early stage capital market space;
- 11 **agreed** that the government needs to deepen early stage capital markets and address the venture capital gap experienced by New Zealand firms;
- 12 **noted** that it is proposed to use \$300 million of public money, to be invested to support the deepening of early stage capital markets;
- 13 **noted** that there are options on where to source the funds and how to disperse them;
- 14 **noted** the following two options:
- 14.1 Option 1: using \$240 million of the \$7.7 billion earmarked for the New Zealand Superannuation Fund between 2018 and 2022, and combining it together with \$60 million from New Zealand Venture Investment Fund Limited’s available assets to make \$300 million;
- 14.2 Option 2: using \$240 million of new money available from a forecast budget surplus, and combining it together with \$60 million from the New Zealand Venture Investment Fund Limited’s available assets to make \$300 million;
- 15 **noted** that choosing Option 1 above does not require any new money to be found from Budget 2019;
- 16 **noted** that two of the potential options for dispersing the funds, where a new fund is created and administered by the Guardians of New Zealand Superannuation Fund, protect the existing fund and its mandate, and do not direct or influence them on where to invest the existing fund;
- 17 **noted** that the two options that create a new fund administered by the Guardians of New Zealand Superannuation Fund will require legislative change to the New Zealand Superannuation and Retirement Income Act 2001, but do not require changes to the original Fund’s mandate;

Next steps

- 18 **agreed** that Treasury and the Ministry of Business, Innovation and Employment jointly investigate these options and prepare a detailed proposal;
- 19 **invited** the Minister for Economic Development to report back to DEV in February 2019 on the details of the proposal, including:
- 19.1 a range of options, the strengths and weaknesses of each option, and a preferred option;
- 19.2 the role of New Zealand Venture Investment Fund Limited and the New Zealand Superannuation Fund in the proposed solution;
- 19.3 how the money will be deployed through a ‘fund of funds’ model;
- 19.4 mandates for any individual fund development, such as the sector focus of the funds, the minimum scale of funds, and local representation;
- 19.5 performance monitoring and evaluation requirements;
- 19.6 the regulatory changes (and governance) needed to implement these proposals;

- 20 **noted** that the Minister for Economic Development envisages the deployment of this fund to be across multiple years and investors, and with a focus on developing new areas of advantage, such as Agritech;
- 21 **noted** that as shareholding Ministers, the Minister of Finance and the Minister for Economic Development will be informing New Zealand Venture Investment Fund Limited to stop its market testing of the VIF2.0 proposal;
- 22 **noted** that the above proposals are budget and market sensitive, and that any engagement or publicity will be coordinated through the office of the Minister for Economic Development;
- 23 **agreed** that the Minister for Economic Development is able to consult with New Zealand Venture Investment Fund Limited and the New Zealand Superannuation Fund on these proposed changes.

Janine Harvey
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Kelvin Davis
Hon Grant Robertson (Chair)
Hon Phil Twyford
Hon Dr Megan Woods
Hon David Parker
Hon Nanaia Mahuta
Hon Iain Lees-Galloway
Hon Jenny Salesa
Hon Damien O'Connor
Hon Shane Jones
Hon Kris Faafoi
Hon Willie Jackson
Hon Eugenie Sage

Officials present from:

Office of the Prime Minister
Officials Committee for DEV

Hard-copy distribution:

Minister for Economic Development