

The Treasury

Cabinet Minute: Proposed Option to Deepen New Zealand's Early Stage Capital Markets Information Release

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Cabinet Economic Development Committee

Minute of Decision

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Proposed Option to Deepen New Zealand's Early Stage Capital Markets

Portfolio **Economic Development**

On 3 April 2019, the Cabinet Economic Development Committee (DEV):

Background

- 1 **noted** that on 12 December 2018, DEV:
 - 1.1 agreed that the government needs to deepen early stage capital markets and address the venture capital gap experienced by New Zealand firms;
 - 1.2 agreed that Treasury and the Ministry of Business, Innovation and Employment (MBIE) jointly investigate the options and prepare a detailed proposal;
 - 1.3 invited the Minister for Economic Development to report back to DEV on the details of the proposal;

[DEV-18-MIN-0316]
- 2 **noted** that the Treasury and MBIE have undertaken a detailed analysis of the strengths and weaknesses of funding and implementation options to address the identified capital gap;

Preferred option

- 3 **noted** the preferred and alternative funding and implementation options, as outlined in the paper under DEV-19-SUB-0063, and their trade-offs relative to the Minister for Economic Development's preferred option;
- 4 **agreed** to use \$240 million (being 3 percent) of the \$7.7 billion earmarked for the New Zealand Superannuation Fund between 2018 and 2022 (with the \$240 million being 0.6 percent of the total \$40 billion funds under management), together with \$60 million from New Zealand Venture Investment Fund Limited's available assets, to make \$300 million available for new government investment into venture capital funds (the preferred option);
- 5 **agreed** to amend the New Zealand Superannuation and Retirement Income Act 2001 to enable a 'New Fund' (separate to the New Zealand Superannuation Fund) to be set up and allow the Guardians of New Zealand Superannuation to administer this new fund;

- 6 **agreed** that \$240 million be transferred to the ‘New Fund’ to be administered by the Guardians, and that it invests in venture capital via New Zealand Venture Investment Fund Limited’s fund of funds;
- 7 **noted** that ongoing funding of the Seed Co-investment Fund (currently at \$8 million per annum less any returns) is also required;
- 8 **noted** that the creation of a new fund administered by the Guardians of New Zealand Superannuation does not require changes to the original New Zealand Superannuation Fund mandate;
- 9 **agreed** that a review of the programme be conducted after five years, and at the end of the term (fifteen years) to assess the performance and make recommendations for any changes to the structure and design of the programme;
- 10 **agreed** that at the end of the term (fifteen years), all funds (including both the principal and returns) are returned from New Zealand Venture Investment Fund Limited for funding of superannuation via the Crown;
- 11 **noted** that the preferred option does not require any new money to be found in the Budget 2019;
- 12 **noted** that the details of the specific role for the Guardians of New Zealand Superannuation and the New Zealand Venture Investment Fund Limited board will require clarification, but that the proposal is expected to deliver partnership, capability and an uplift in reputation as a signal to the market;
- 13 **noted** the risks associated with the preferred option and the proposed mitigation of those risks, as outlined in the paper under DEV-19-SUB-0063;
- 14 **noted** that the detailed design of the funds, their mandates, governance structure and qualifying criteria will be finalised in May 2019;
- 15 **agreed** that the Minister for Economic Development and Minister of Finance lead the detailed design process and implement the new fund;
- 16 **agreed** that the Minister for Economic Development and Minister of Finance engage with key stakeholders, including New Zealand Venture Investment Fund Limited and the Guardians of New Zealand Superannuation on different design options;
- 17 **noted** that these proposals are budget and market sensitive, and that any engagement or publicity relating to it will be coordinated through the Office of the Minister for Economic Development;
- 18 **noted** that an alternative option is to use \$60 million available from New Zealand Venture Investment Fund Limited as an interim step for a new fund, while signalling that work will commence as a matter of priority on identifying how to grow the fund, including working with New Zealand Superannuation, but that such an approach would lack scale;

Legislative implications

- 19 **invited** the Minister of Finance to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above paragraphs;

20 **authorised** the Minister of Finance and the Minister for Economic Development to make decisions on any minor or technical matters that may arise during the drafting process.

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 Stuart Nash
Hon Iain Lees-Galloway
Hon Jenny Salesa
Hon Damien O'Connor
Hon Shane Jones
Hon Kris Faafoi
Hon Julie Anne Genter
Hon Eugenie Sage

Officials present from:

Office of the Prime Minister
Officials Committee for DEV

Hard-copy distribution:

Minister for Economic Development