



NEW ZEALAND
VENTURE
CAPITAL
ASSOCIATION INC

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Report of Council to NZVCA AGM

22 September 2004

Overview of the 2003/2004 year

The 2003/2004 year saw the NZVCA build significantly on the platform that has been created since the Association was re-established in November 2001.

Chris Twiss, Executive Director, has now been in his role for about 18 months. His hours were increased from 3 days to 3.5 days per week earlier this year. Chris is making an outstanding contribution to the industry and to the NZVCA.

The Council, consisting of ten members, continued to meet on a monthly basis through to the end of 2003. Late last year, we decided it would be more efficient to meet bi-monthly, and this has been the basis on which the Council has proceeded in 2004. There have therefore been 7 Council meetings since the last AGM. The number of Council meetings attended by each Council member during the past year was as follows:

Martin Turner	7
Gavin Lonergan	3
Steve Byrom	6
Steve Corbett	6
Mark Edwards	2
Jon Hooper	6
Mark Dossor	7
Tony Bishop	4
Andrew Lewis*	4
Brent Lawgun	5
Peter Hinton**	3

* Appointed February 04

** Resigned February 04

During 2003/2004, the NZVCA continued to be structured around five working committees and there have been several sub-committee meetings over the past 12 months:

- Industry Development
- Regulatory and Tax
- Annual Conference
- Member and Sponsor Services
- Finance and Operations

Looking back at the 2003/2004 year the highlights included:

- Success in retaining and attracting new members. Membership levels are now at 59 members (43 last year).
- Launch and ongoing development of the NZ Venture Capital Monitor. My thanks to Ernst & Young for their commitment to this survey. The NZ private equity industry now has comprehensive and reliable industry statistics. This is critical, among other things, to attracting institutional investor interest in our asset class. Thank you to all who have been supplying their data to the Survey. Please continue to give us every co-operation in compiling these statistics in the future.
- Significant engagement with Government officials on three specific tax and regulatory initiatives for the industry – in particular regarding the introduction of a Limited Partnership regime in NZ.
- Launch of the NZVCA website in December 2003.
- Launch of the monthly online NZVCA newsletter in February 2004.
- Generating around \$51,000 in income per year from membership fees.
- Generating sponsorship income of \$43,000 per year.
- Running several successful member events throughout the year, in particular the investment forums (“VC and PE success stories”) in July at which over 300 people attended in Christchurch, Wellington and Auckland.
- Running a successful and profitable industry conference in October 2003.

Overview of the year ahead

For the 2004/2005 year, the Executive Director and the Council continues to set ambitious goals for the development of the Association and for the venture capital and private equity industry generally. Much of the time that has been spent in the last year establishing proper administrative and financial systems can now be devoted to achieving a targeted set of key objectives within the NZVCA Business Plan for the 2004/2005 year.

It will be crucial to continue to strengthen the NZVCA’s financial footing to create the solid base needed to support its activities. This is a key issue for the Association at this stage of its development. While the continued generous support from members and sponsors over the last two years has enabled the NZVCA to firmly re-establish itself as a strong and successful advocate for the private equity industry, the Council is currently considering options for additional funding that would allow the NZVCA to participate in a broader range of activities with the aim of significantly increasing the number and reach of its activities. We will keep members informed on progress with this.

The NZVCA is looking forward to a further year with all but one of the current Council members. There is a good spirit within this Council and I believe the NZVCA will benefit from the continuity of retaining this group of people in the year ahead.

Key operational objectives for the NZVCA for 2004/2005 will include:

- **To make further progress on key regulatory/tax issues facing the NZ private equity industry**

The NZVCA continues to work actively with MED and IRD officials on a legislative initiative to introduce an appropriate Limited Partnership regime. A reasonable objective is to have the new legislation in place by early 2006. The Association is positive about the work being done in this area within Government and their understanding of the key issues involved. We believe there is currently a great opportunity for New Zealand to introduce a world-class Limited Partnership investment structure that will significantly benefit the private equity industry and New Zealand entrepreneurs and private company investors alike.

The NZVCA has also been working with IRD officials for several months looking at the issue of non-recoverability of GST paid on private equity fund management fees and we hope to have a decision from IRD on this matter by the end of this year. The Association is also maintaining a dialogue with IRD and MED officials regarding problems for the industry with the capital/revenue account boundaries. The NZVCA will continue to work with officials to achieve more certainty in this area for the industry.

- **Maintain and increase Association membership.**

The number of full (manager) members now stands at 12 (13 last year). There are currently 20 associate members (16), 12 incubator members (6), 1 Angel member (0) and 14 individual members (8). Total current membership therefore stands at 59 (43). We continue to actively seek new members to build the underlying strength of the Association. However, in my opinion, the scope to increase significantly the existing full and associate membership of the Association is now reasonably limited.

- **Hold several well attended networking events throughout the year.**

The key event this year will be the 3rd Annual NZVCA Conference in Auckland on 4 November 2004. Successful investment forums (“VC and PE success stories”) featuring high profile NZ entrepreneurs who have worked with venture capital and private equity firms were held in Christchurch, Wellington and Auckland in July this year. These forums attracted over 300 delegates, an illustration of the growing levels of interest in the industry. A core objective of the NZVCA is to establish, as soon as possible, a series of networking and educational events running throughout the year. In the last 12 months we have begun to see the benefits that can be gained from industry events that bring together a wide range of industry participants. This is one of the key areas we need additional funding to support further development.

- **Publish relevant industry statistics**

We are extremely pleased with the progress that the New Zealand Venture Capital Monitor survey has made in the last year. This was launched at last year’s AGM but already it has developed into a significant and highly credible source of information on our industry. The survey now has the support of all the significant venture capital and private equity managers in New Zealand. Thank you for your support and I ask for your continued support of the survey over the coming years. I would also like to thank Ernst & Young, NZVCA’s partner in this survey, for the excellent work they have done, and continue to do, on the survey. This is very much appreciated. The NZVCA regards this as an absolutely critical plank in its aim to help develop a vibrant, credible and sustainable private equity industry in New Zealand.

- **Enhance communications with all industry participants but particularly Association members**

The new NZVCA website went live on 19 September 2003 and is now developing as a key industry hub promoting both NZVCA and wider industry activities and events. The website regularly receives over 1000 visitors a week – another indicator of the high levels of interest in the industry (both within New Zealand and from offshore). In addition the monthly e-mail newsletter began in February 2004.

- **Run the 3rd NZVCA Annual Conference on 4 November 2004**

Plans for this year’s conference are now well advanced and we have confirmed a number of excellent speakers including Bill Day (Seaworks), Brian Peace (Peace Software), Dr Don Brash, Paul Costello (NZ Super Fund), Neville Jordan (Endeavour Capital), Howard Moore (Life Science Ventures), Eric Zimits (Granite Ventures, San Francisco) and Brian Gaynor. We are aiming to attract at least 150 delegates and to further develop the conference as the premier annual event of the New Zealand private equity industry.

Overview of 2002/2003 accounts

Income for the year amounted to \$147,398 made up of income from sponsorship \$43,333, annual conference \$47,517, membership fees \$51,475 and other events \$5,073. Expenditure for the year amounted to \$191,399 the majority of the expenses having been incurred in relation to appointment of the Executive Director \$131,318 and the running of the 2003 Annual Conference \$35,242 . No tax is payable. The Association’s operating deficit after tax was \$44,001. Cash balance as at 20 September 04 was \$70,678.

As can be seen, it will be necessary to increase the income of the Association as the operating deficit is not sustainable beyond the current financial year. The Executive Director and Council are actively seeking to achieve this.

Closing comments

On behalf of the Council, I would like to thank Chris Twiss for his outstanding contribution to the further development of the NZVCA and to the industry. I have enjoyed working with Chris this past year and look forward to his further substantial contributions to the development of the NZVCA and the New Zealand private equity industry.

I would also like to thank my fellow Council members for their contributions over the past year, including Peter Hinton who retired from the Council earlier this year. I have been particularly pleased that all but one of the members of the existing Council who are due to come up for re-election is standing again. With the large number of changes to the composition of the Council last year, I think a period of stability and consolidation within the membership of the Council is very valuable.

In particular, I would like to thank the Association's sponsors, ANZ, Ernst & Young, NZ Venture Investment Fund, Direct Capital, Pencarrow and Simpson Grierson for their support. The support of each of our sponsors is critical to the development of the NZVCA and their on-going sponsorship underlies their commitment to the development of a vibrant and growing New Zealand private equity market.

I have enjoyed being Chairman of the NZVCA this year. It is a bit of work – but I am pleased to have done it this year. I would encourage others in the industry to consider in future years taking on the Chairmanship of the Association for a year and making a contribution.

My key interest in joining the NZVCA Council, and taking on the Chairmanship this past year, was to assist with the discussions with Government on a Limited Partnership regime for New Zealand. Without the support of local and international institutional investors, the future of an independent, local New Zealand private equity industry is limited. And the development of an internationally acceptable Limited Partnership regime in New Zealand is a key pre-condition to achieving international institutional investor support for our industry.

As you know, working with Government for major legislative change is not a fast process. However, progress is being made and I look forward to having the opportunity to contribute to this through the next year.

As an industry we can be very pleased with the on-going development of the NZVCA this past year, and together we can look forward to further substantial growth and development over the next 12 months.



Martin Turner
Chairman