

# Report of Council to NZVCA AGM

21 September 2006

## Overview of the 2005/2006 year

The 2005/2006 year again saw the NZVCA build significantly on the platform that has been created since the Association was re-established in November 2001.

We've continued to structure the council around five working committees, namely:

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

Looking back at the 2005/2006 year the highlights included:

- Great success in retaining and attracting new members. Membership levels are now over 100 members compared to 80 last year. This includes 23 VC and PE funds and four new Institutional Investor members.
- Ongoing development of the NZ Venture Capital Monitor. Maintaining comprehensive and reliable industry statistics is a critical function of the Association – validating that an industry does indeed exist in NZ but also providing benchmarking of the asset class and the managers within it. Further developing our market stats continues to be a key target for the Association going forward and we thank all the managers for their time and effort in supplying their data to the survey.
- Continued engagement with Government officials on specific tax and regulatory initiatives including Limited Partnerships, the proposed new Offshore Investment rules and GST on management fees.
- Completed a survey of all members on the effectiveness and key areas of focus for the Association – the results of this are displayed on the website and largely support the past and future direction planned for the Association.
- Ongoing upgrading of the NZVCA website.
- Generating \$320,000 in income from membership fees, sponsorship and our flagship event, the Annual Conference on 3 November 2005.
- Running a number of successful events throughout the year.
- Ongoing profile building for the industry through attendance at, and support of, industry related events and media exposure.
- A week long UK visit by the NZVCA Executive Director, Christopher Twiss - sponsored by UK Trade & Investment
- NZVCA representation at the AVCAL conference in Australia in September 2005 and the Melbourne Venture Capital conference in February 2006.

It's been another busy year and the momentum we've achieved so far can only be enhanced and accelerated by the firmer financial base that the Association now has.

## Overview of the year ahead

For the 2006/2007 year, the Council and Executive Director continue to set ambitious goals for the development of the Association and the industry generally.

The NZVCA is looking forward to the next year with a Council that has a high degree of continuity but also including two new members. The Government's Seed Co-Investment Fund is now underway and with the clear trend of growth occurring in the angel investment market in New Zealand Steve Hampson's role on the Council will be focused around this part of the industry in the year ahead rather than representing Incubators NZ as he has done in the past. Reflecting the increased levels of NZVCA membership and sponsors from Australian based funds the Council will also explore the opportunity to have a representative from one of those funds join the Council in the near or medium term.

Key operational objectives for the NZVCA for 2006/2007 will include:

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

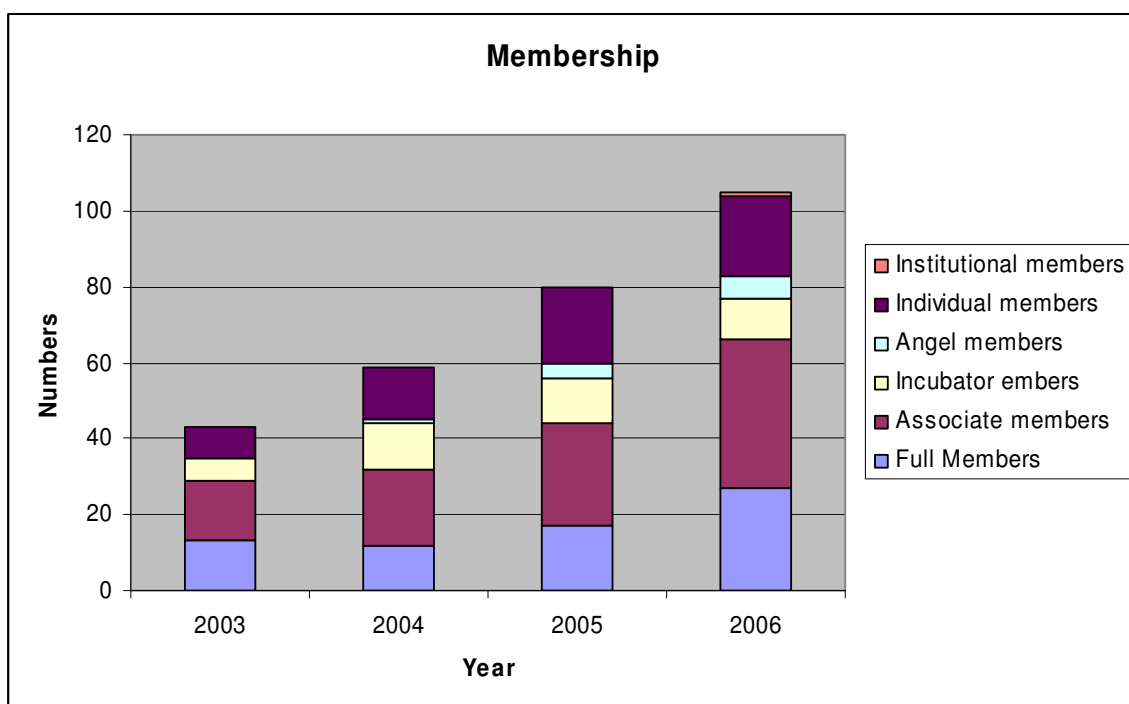
The NZVCA continues to work actively with MED and IRD officials on a legislative initiative to introduce a world-class Limited Partnership regime. We are currently focusing our efforts on having this new legislation finalised in 2007 in preference to the Q1 2008 date currently being projected by officials

The NZVCA has also been working with IRD officials for 3 years looking at the issue of non-recoverability of GST paid on private equity fund management fees and we made a final formal submission on this in early July. We aim to discuss this with the relevant Select Committee in early October and will then hopefully arrive at a final and positive result for the industry on this issue. We have had much advisory assistance along the way with this initiative but we would like to acknowledge, in particular, the efforts of John Cantin and Donna Huggard of KPMG who have stuck with us and supported us for the whole of this particular journey. The Association has also recently re-opened a dialogue with IRD and MED officials regarding problems for the industry with the capital/revenue account boundaries. IRD has asked us to provide more information on the impact/issues on investors arising from the current uncertainties in this area and we are working on that now. The NZVCA will continue to work with officials to try to achieve more certainty in this area for the industry.

Finally, the NZVCA continues to work with others in, and related to, the industry to secure an appropriate exemption for private capital investment from the proposed new offshore investment rules. The signs are there for a good outcome for the industry on this issue but we need to ensure that this is actually achieved and this is a priority for the Association.

- **Maintain and increase Association membership.**

The number of full (manager) members now stands at 23 (17 last year). There are currently 42 associate members (27), 11 incubator members (12), 6 Angel members (4), 22 individual members (20) and 4 Institutional Investor members (0). Total current membership therefore stands at 108 (80). We continue to actively seek new members to build the underlying strength of the Association but it is encouraging to see the large increase in membership over the past year. We believe that this reflects the growing value proposition of the Association as a key player in New Zealand's private capital market. It is also very good to see increased numbers of Australian based members and we are actively seeking more investment and investment advisory groups to join our newly created Institutional Investor membership category.



- **Hold events throughout the year.**

The key remaining event this year will be the 5th Annual NZVCA Conference in Auckland on 2 November 2006. An impressive line up of local and international speakers will provide unique insights into the current state of play and future direction of New Zealand's angel, venture capital and private equity investment markets.

Confirmed speakers include Stephen Tindall (Founder of The Warehouse), Wolfgang Reichenberger (General Partner, inventages venture capital, Switzerland), Robert Genieser (Managing Partner, Vertex Venture Capital, Europe), Pitch Johnson (Founder of Asset Management, Silicon Valley, USA), Brigitte Smith (Managing Partner, GBS Ventures, Sydney), Nikki Brown (MVISION, London), Mark Thomas, (President & Chief Technology Officer, Right Hemisphere) and Rod Drury.

Last year's conference proved to be something of a watershed for the Association. It was attended by over 250 people (up from 170 in 2004 and 70 in 2001). We will certainly be aiming to match, and hopefully increase, these numbers again this year and the conference is clearly a key contributor to the Association's finances.

The NZVCA member networking evenings have continued to be very successful and the Association will continue to hold these on a regular basis in Auckland, Wellington and Christchurch. An event is also being planned for Dunedin in November 2006.

- **Publish relevant industry statistics**

Progress continues to be made with the New Zealand Venture Capital Monitor survey. It is critical that the Association maintains a highly credible source of data for the industry. As I mentioned, the survey now has the support of all the significant venture capital and private equity managers in New Zealand. Thank you for that support and again, our thanks to Ernst & Young for their continued efforts in collating and publishing the survey.

As a "next step" in the development of the NZ industry data, the Association is actively exploring opportunities and avenues to strengthen the depth and accuracy of our data and to ensure that it reaches a wide local and international investor audience. Our primary goals are to ensure that NZ industry data gets to the right investor groups as well as to maintain a high level of local control over the collection and use of that data ourselves.

- **Develop a series of educational modules**

Starting towards the end of this calendar year the NZVCA will also begin the development of the first of a planned series of educational modules targeting entrepreneurs and other company owners and managers providing a comprehensive overview of venture capital, expansion capital, and buyout funding in New Zealand. This would focus on key issues including investment attractiveness and readiness and capital raising options.

It is anticipated that, once developed, the programme would be refined and repeated each year through a variety of business and educational channels. Elements of the programme would also be used as marketing/information collateral by private and public sector partners (such as Investment New Zealand) for their activities in international markets.

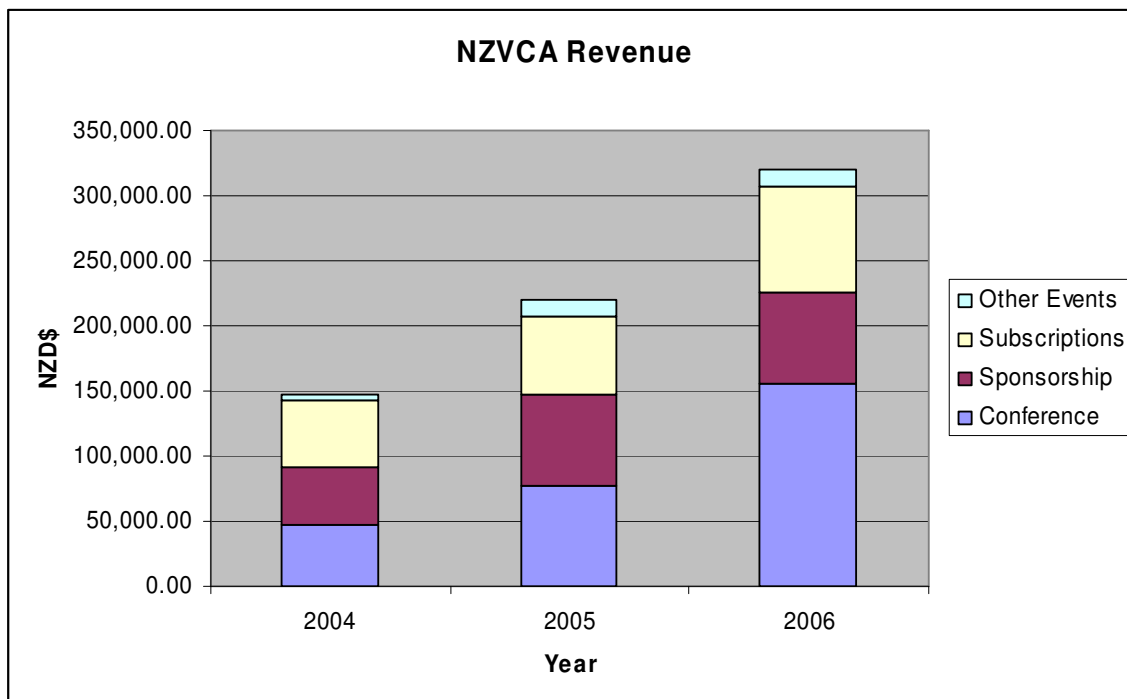
The first module to be developed will focus on NZ's angel and venture capital investment markets and it is anticipated that this will be completed by 31 March 2007.

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

The NZVCA website is becoming recognised as the key industry information hub and we continue to enhance and develop the site which regularly receives over 1700 visitors a week – another indicator of the high levels of interest in the industry (both within New Zealand and from offshore).

## Overview of 2005/2006 accounts

Income for the year amounted to \$314,567 (\$219,427) made up of income from sponsorship \$70,000 (\$70,000), annual conference \$154,835 (\$77,024), membership fees \$76,972 (\$59,767) and other events of \$12,760 (\$12,636).



Expenditure for the year amounted to \$289,938 (\$252,863) the majority of the expenses having been incurred in relation to appointment of the Executive Director and the running of the 2005 Annual Conference. No tax is payable. The Association's operating profit after tax was \$24,629 (-\$33,436).

The Association has added to its reserves in the last year and it is pleasing to see the strengthened financial base. While still heavily dependent on ongoing membership and sponsorship fees that will always be the nature of this type of organisation but the current and medium term projected financial situation should give the Association some scope to increase and improve its abilities in ways that have not been possible in the past. This is an exciting prospect – especially given what has been achieved to date under generally quite constrained financial circumstances

## Closing comments

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

I have enjoyed being Chairman of the NZVCA this year and I would encourage others in the industry to consider getting involved in the council and making a contribution. Over time, larger funds management groups become very self-sustaining but it is in our collective interests to grow the industry and the NZVCA lies at the heart of that through encouraging more firms to establish themselves, by attracting the very significant pools of capital we have in New Zealand into the asset class, and deepening the pool of management groups backing the entrepreneurial economy that we say we have.

I would like to thank Chris Twiss for his tireless energy in building this association to what it is today.

I wish my successor, Hamish Bell of ANZ Capital, all the best for his tenure as NZVCA Chairman in the year ahead. I know Hamish will bring a high degree of commitment and energy to the role.

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.

**Mark Dossor**  
Chairman