



23. 10. 2003

**SUPPLEMENTARY REPORT BY THE
CHAIR OF THE STRATEGY AND FINANCE COMMITTEE**

PART A - MATTERS REQUIRING A COUNCIL DECISION

2. REGIONAL INVESTMENT IN VENTURE CAPITAL FUNDS – RECOMMENDED FUND

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The purpose of this report is to recommend to the Council the preferred Venture Capital Fund for a Council investment.

BACKGROUND

At its 29 September meeting the Strategy and Finance Committee considered a report outlining an opportunity for investment in a Venture Capital Fund which would attract a Government subsidy as part of the Government's VIF Fund Scheme. This report is included in the Strategy and Finance Committee's report to the present Council meeting.

The Strategy and Finance Committee established a subcommittee comprising the Mayor, the Chair and Deputy Chair of the Committee and the Chairperson of the Canterbury Development Corporation to interview representatives of two funds, namely 'Endeavour i-cap' and 'iGlobe Treasury' in order to make a recommendation to the Council on the most appropriate fund for the Council to invest in.

RESULT OF INVESTIGATION

Representatives of both Funds made comprehensive presentations to the subcommittee showing the strengths of their Fund and a desire to have a presence in the Christchurch region in order to be able to readily identify suitable Fund investments and nurture those investments to maturity. The Committee was impressed with the various strengths of both funds but on balance has decided to recommend to the Council that an investment of \$5m be made in the Endeavour i-cap Fund.

Endeavour i-cap Fund is a partnership of i-cap Equity Partners, a private equity firm with offices in San Francisco, Auckland and London and Endeavour Capital is a New Zealand-based private investment portfolio. In May 2002 the partnerships of these two funds were awarded a NZ Government Venture Investment Licence after being rated as investment grade by Wiltshire Partners. The Fund has already raised \$30m and is targeting a fund size of \$45 million.

Endeavour have indicated that they have an expectation that the Canterbury region is likely to attract 40% of the investments from their Fund. Endeavour Capital have worldwide contacts in Hong Kong, Taiwan, United Kingdom, east and west coasts of the United States and this international network provides opportunities for marketing of product from investments made by the Fund. The subcommittee felt confident that the partners in this Fund would identify well with the local community and noted that their particular interest is in investments based on science and technology and that it is likely that they would try to establish strong relationships with incubators, universities and Crown Research Institutes in the region.

Endeavour i-cap have indicated that if the Council invests \$5m in their Fund, they will be prepared to place a general partner in Christchurch. They are also prepared to consult with Council representatives on the proposed appointment.

The partners managing this Fund have committed 30% of the capital from the partner group and they clearly have practical experience relating to start up businesses and take a very practical hands-on approach to assisting companies to develop. They mitigate the risk by sitting on the Boards of the companies which they are invested in and expect to spend 1–2 days per week with each investment.

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OTHER ISSUES

The Fund will operate according to the rules established by the Government VIF Scheme and one of those key issues is that the maximum amount which can be invested in any one venture is 15% of the Fund. It needs to be noted that there is no guarantee that the Council's \$5m will be invested locally because it is up to the fund managers to make the selections of investments and they will do that based on a range of criteria, including likelihood of success and opportunities which present themselves. However, as noted above, it is likely that around 40% of the Fund could be invested in this region and that will be well in excess of the Council's investment contribution. If the Fund domiciles a general partner in this region it will significantly increase the likelihood of local investment as they build strong local networks and promote venture capital investments in the region. The Council's investment in the Fund will be what attracts the Fund to operate from Christchurch.

The Endeavour Fund has an advisory committee to which the Fund reports and an opportunity will be given for the Council to have a representative on that advisory committee if it makes an investment of \$5m. It should be noted, however, that this advisory committee does not have control over the operation of the Fund and is largely an accountability mechanism. The Council will not have any say in the selection of investments by the Fund because this is left to the entrepreneurial managers of the Fund based on their experience and skilled evaluation. The fact that the managing partners in the Fund have committed substantial funds of their own into the Fund is a good indication that careful decisions will be made.

Chair's

Recommendation:

1. That the Council make a \$5m investment in the Endeavour i-cap Fund on the condition that:
 - (a) A general partner be based in Christchurch;
 - (b) The selection of the Christchurch partner be made in consultation with the Council; and
 - (c) A Council representative be appointed to the Fund Advisory Committee.
2. That the Director of Strategic Investments (Director of Finance) be the Council representative on the Fund's Advisory Committee.
3. That the Director of Strategic Investments (Director of Finance) be authorised to review the legal documentation and approve all the necessary arrangements.

CONSIDERED THIS 23RD DAY OF OCTOBER 2003

MAYOR