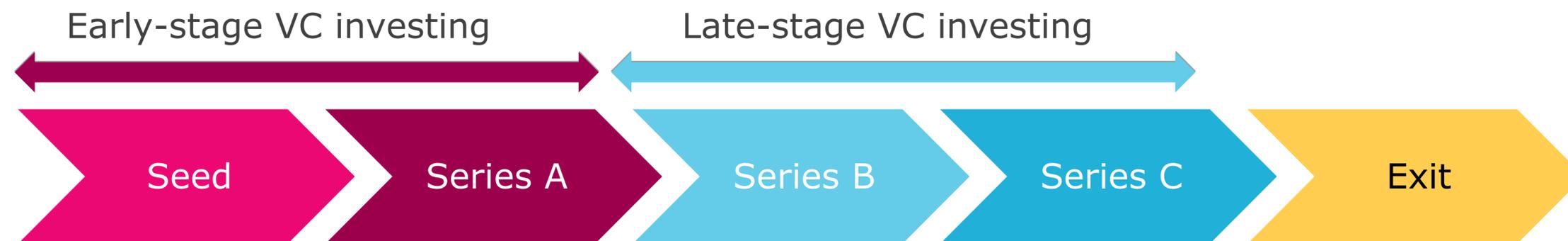


VICTORIAN STARTUP CAPITAL FUND

NOVEMBER 2020

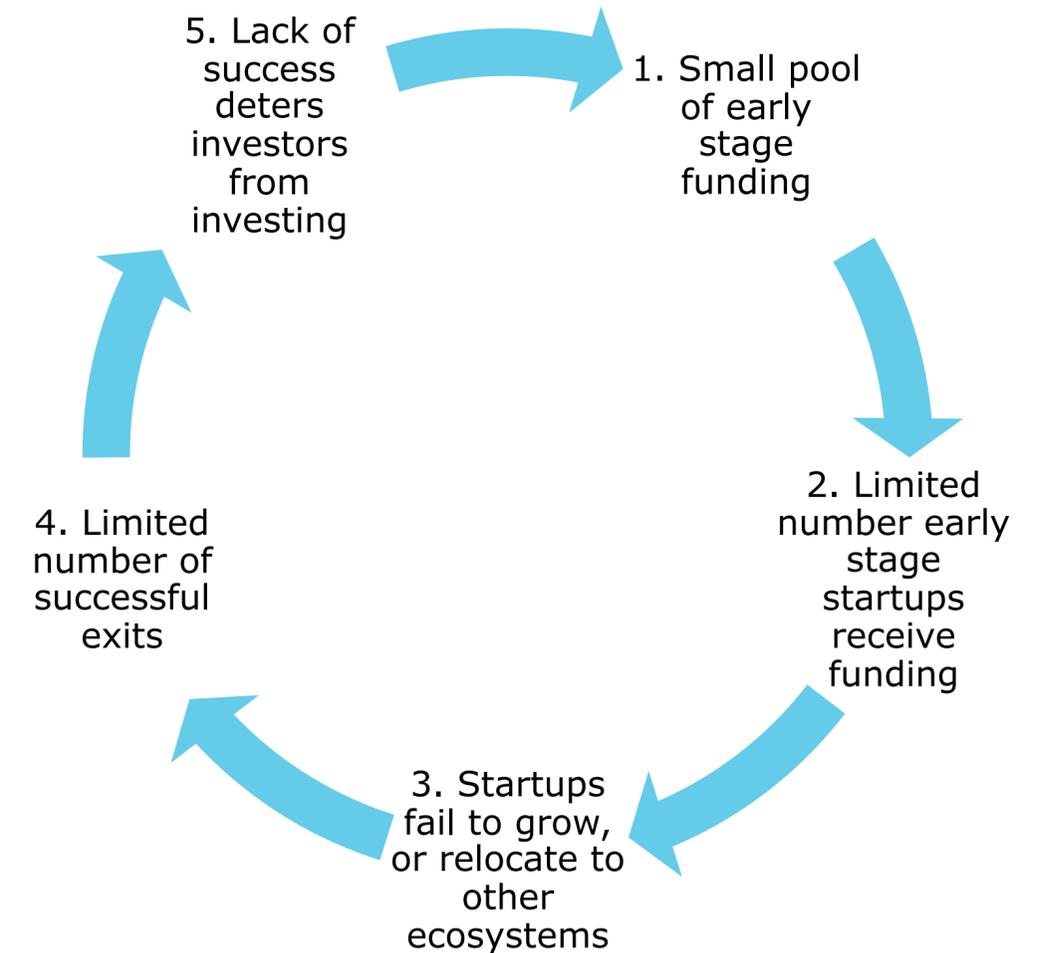
INTRODUCTION TO EARLY-STAGE STARTUP INVESTING

- Most startups require investments to grow but without significant traction or assets, traditional financing models such as small business lending or private equity investments are inaccessible.
- Early-stage startup capital is the finance that enables startups to grow. It is generally provided by:
 - **Angel Investors** – people who invest individually or through syndicates providing capital, advice and mentorship.
 - **Early-Stage Venture Capital (VC) Funds** - independently-managed pools of capital run by a fund manager that raises capital from Limited Partner (LP) investors to invest in early-stage startups.
- Angel investors and venture capital funds seek exits to realise investment returns, including trade sales, Initial Public Offerings (IPO) or through Mergers and Acquisitions (M&A).



VICTORIA LACKS EARLY-STAGE STARTUP CAPITAL

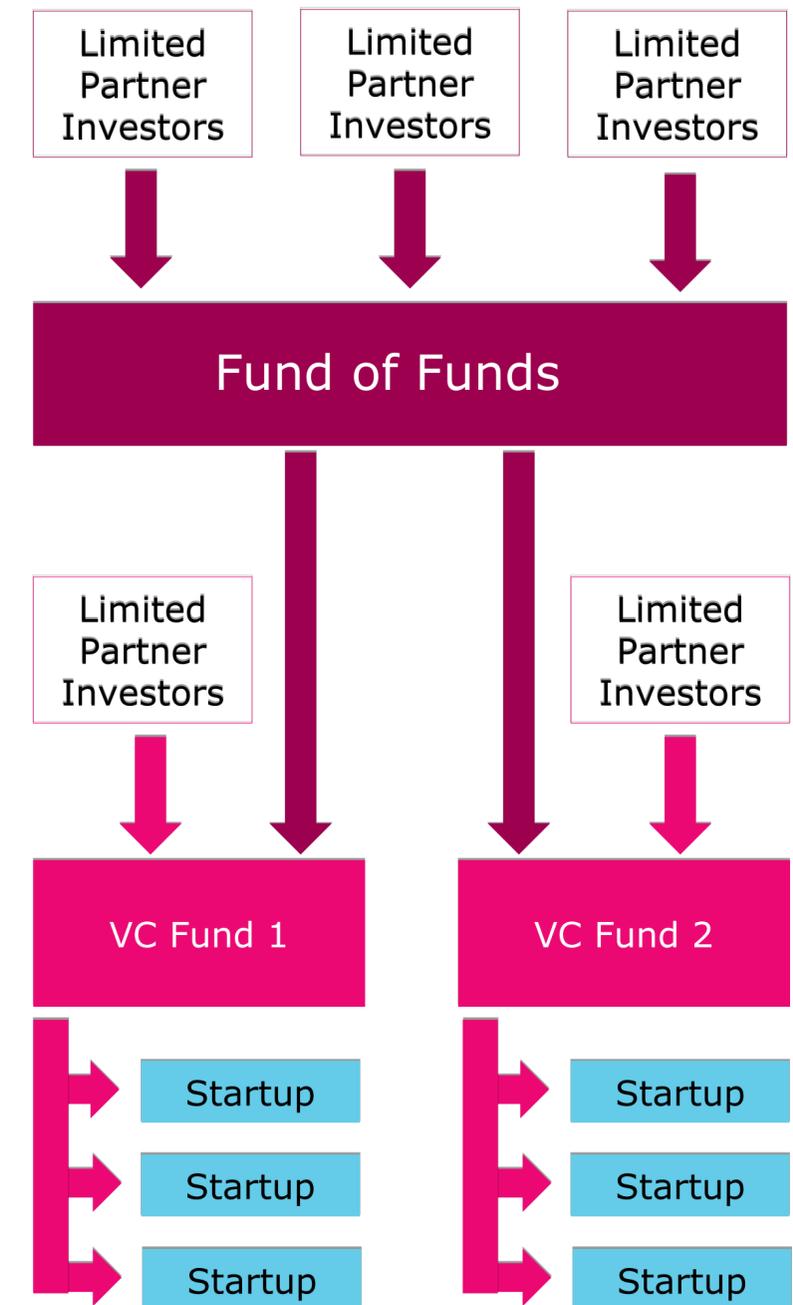
- Victoria's early-stage investor landscape is underperforming:
 - The average seed investment per capita is just \$3.60 for Australia, \$5.14 for New Zealand and \$12.01 for the United Kingdom [2]
 - Startup Genome estimates a \$96 million shortfall per annum in early-stage funding [1]
 - This shortfall is decreasing as local VC funds move into late-stage investments [2]
 - It is further exacerbated by the COVID-19 pandemic with a 20% drop in global VC in the first half of 2020 [3]
 - Melbourne is home to just 20% early-stage VC Funds in Australia
- Too few Victorian early-stage startups receive funding to scale. This results in less high-growth firms and fewer exits, which disincentivises investors.
- Lack of access to capital is impeding ecosystem growth and economic returns including job creation and export opportunities.



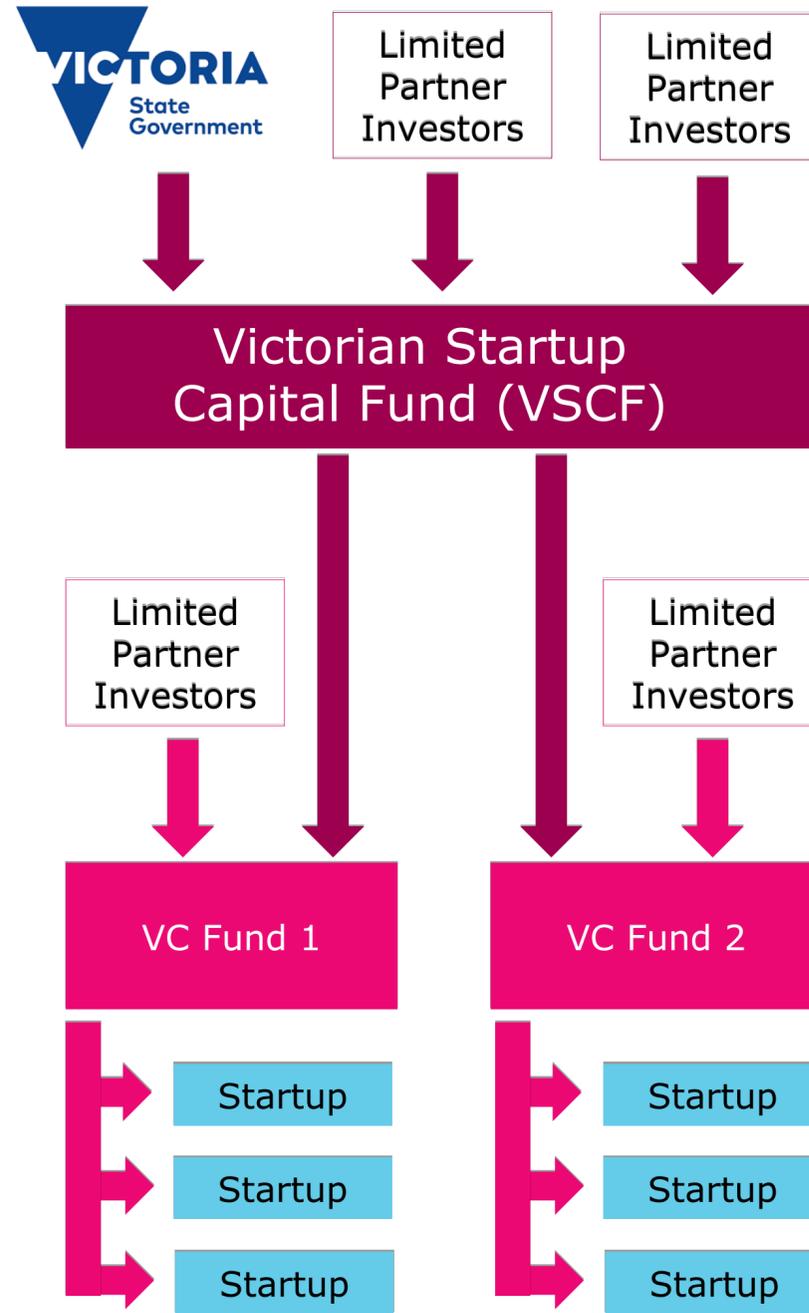
FUND OF FUNDS CAN CATALYSE EARLY-STAGE CAPITAL

A Fund of Funds is a fund that invests in other funds. Benefits include:

- Injecting investment capital into the local startup ecosystem.
- Supporting startups to create jobs and contribute to economic recovery.
- Growing local VC capabilities by attracting new funds to build talent and invest locally.
- Expanding the early-stage investor community by exposing new investors to the early-stage startup asset class, and building their confidence to invest directly in startups or VC funds in the future.
- Enabling investors to access a more diversified portfolio (limiting risk). Small LPs can access quality VCs that they might otherwise be inaccessible, and large LPs avoid the need to due diligence multiple VC firms.
- Saving investors time and expense by providing access to FOF professional back-office services (including tax and compliance reporting).



INTRODUCING THE VICTORIAN STARTUP CAPITAL FUND



The VSCF is the first VC Fund of Funds established by a State Government in Australia.

- The Victorian Government will invest \$60.5m as a Limited Partner (LP) into the Victorian Startup Capital Fund of Funds (VSCF).
- These funds will be matched 1:1 by new private sector LPs investors including superfunds, family offices and high net worth individuals.
- The total fund size of the VSCF will be up to \$120m. `
- VSCF Fund Manager selects and invests as an LP into a number of VC Funds.
- These funds are further matched by private sector LP investors in the VC Funds.
- Each VC Fund Manager invests in a number of early-stage startups, supporting them to grow, create jobs and create returns for investors.

The Government investment of \$60.5m will catalyse up to \$180m in early-stage capital to address the lack of early-stage capital in Victoria.

ESTABLISHING THE VSCF

LaunchVic commissioned an Operational Plan in December 2019, that informed the Victorian Government's decision to allocate \$60.5m to establish the VSCF.

With funding announced, plans will progress on a detailed Business and Implementation Plan in consultation with the VC community, and startup sector more broadly with the intention of raising capital and starting investments in the second half of 2021.

In supporting the development of a detailed Business and Implementation Plan LaunchVic will continue to advocate for the following principles:

- The VSCF will focus on supporting early-stage VC funds based in Victoria
- The VSCF must be market-competitive in order to catalyse early-stage investments
- The VSCF must be independent of Government control, while recognising the important role Government has as a cornerstone investor
- VC Funds in which the VSCF invests will be required to invest in startups based in Victoria

The key performance metrics of the VSCF are yet to be determined but are expected to include:

- An increase in early stage funding for Victorian startups
- Increase in job creation in Victoria
- An increase in active angel and early-stage venture capital investors in Victoria
- An increase in skilled VC talent in Victoria
- Return on Investment
- Contributing to Victoria's economic recovery

WHY GOVERNMENT SUPPORT IS REQUIRED

- The early-stage startup investment sector is inherently difficult and slow to establish organically.
- Without intervention the vicious cycle set out in Slide 3 will continue.
- Governments that have catalysed their early stage capital markets include global leaders such as Silicon Valley, Israel and London.
- VC Fund of Funds used to successfully grow startup ecosystems and realise economic gains for investors include Israel's US\$150m Yosma FOF Program (1993), New Zealand's \$195m Venture Investment Fund (2002) and Canada's US\$303m Venture Capital Catalyst Initiative (2018) of US\$303 million.

CASE STUDY: The New Zealand Venture Investment Fund (NZVIF)

- NZVIF was established in 2002 to build a stronger VC and startup ecosystem, which includes a \$195 million FOF.
- By 2009, NZVIF had invested in six funds, and by 2019, NZVIF had \$245 million in funds under management in 12 venture funds, representing 282 investee companies.
- NZVIF created almost 6,000 new jobs from their portfolio companies, \$173 million in tax revenue, \$773 million in exports.



FURTHER INFORMATION

INVESTORS

If you are a sophisticated investor, family office, superfund or institutional investor and are interested in investing in the VSCFF contact us at FOF@launchvic.org.

If you are a VC with headquarters or offices based in Victoria or are a VC who intends to relocate or open an office in Victoria and would like to register your interest please email FOF@launchvic.org.

STARTUPS

If you are a startup seeking funding you will need to engage with VC funds as the VSCF will not invest directly into your startup without VC backing. We recommend you register your startup at <https://findingstartups.launchvic.org/dashboard> and use the platform to investigate the local VC industry.

If you are a startup that is based interstate and are interesting in relocating to Victoria to take advantage of the support in our ecosystem please contact Andrew Lanigan at Andrew.Lanigan@launchvic.org.

If you have more questions, please see our FAQ's <https://launchvic.org/fund-of-funds>

GLOSSARY OF TERMS

Limited Partners

Limited Partners (LPs) invest into VC funds. They have limited decision-making power in terms of what investments to make, hence are “Limited Partners”. LPs also have limited liability.

General Partners

Fund managers are the general partners (GPs) and make the investment and general management decisions of the fund.

Venture Capital Funds

Independently-managed pools of capital run by a GP fund manager that raises capital from LP investors to invest in startups.

Fund of Funds

A Fund of Funds (FOF) is a fund that aggregates capital from a number of LPs to invests in other funds. FOFs add a layer to the investment process, as a FOF acts as both a GP and an LP. The FOF is run by a fund manager (GP) raising money from its own LPs. The FOF manager then decides which VC funds to invest in. The FOF manager acts as an LP in the VC funds where it has invested. Investment returns flow from the venture funds, through the FOF, and back to the LPs.

Angel Investor

People who invest individually or through syndicates providing capital, advice and mentorship.