

Guardians of New Zealand Superannuation Expansion Capital Strategy

What is it?

The Expansion Capital Strategy reflects the Guardians' view that there is a significant pool of smaller high-growth companies in New Zealand that are constrained by a shortage of long-term equity and a lack of access to skilled investment management. Specifically:

- there are around 3500 small to medium (SME) NZ companies with annual revenues of \$10-150 million and around 2500 companies in the \$10-50 million revenue range. SMEs are attributed with around 1/3 of NZ's GDP;
- SMEs have an estimated enterprise (debt + equity) valuation in the order of \$50-100 billion which is sizeable when compared to the NZ listed market capitalisation of around \$53 billion;
- SMEs employ over 30% of the New Zealand workforce; and
- Some 80% of NZ's top 200 companies (by enterprise valuation) are unlisted¹.

Where does it sit within the New Zealand Superannuation Fund?

The Expansion Capital Strategy is consistent with the Guardians' global private equity strategy and with our response to the Ministerial Directive on investment in New Zealand (see <http://www.nzsuperfund.co.nz/news.asp?pageID=2145831983&RefID=2141737892>).

The New Zealand Superannuation Fund has a strategic allocation to private equity with a range of 0-10% and a target weighting of 5% of the Fund. It is currently invested to about 1.1% or about \$150 million. Of that private equity allocation, 5-10% is targeted for New Zealand private equity. Also see the chart on the next page.

How will it be executed by the Guardians?

The Guardians' typical business model is to access investments by alignment of the Guardians' interests with those of skilled investment managers. Accordingly, the Guardians wish to appoint managers to execute the NZ expansion capital strategy and are seeking proposals from management groups with a relevant investment focus, appropriate skills and investment track record, and with interests that are aligned with the Guardians. Managers must meet a range of evaluation and selection criteria, in common with all managers of the Fund's money.

What sort of companies are the Guardians looking for?

- Enterprise value of \$15-50 million
- Clear and credible high-growth plan – typically >20% compound annual revenue growth. Investments will primarily support expansion through strategic acquisition, technology upgrades, or market expansion
- Defensible Intellectual Property, ongoing profitability growth and positive cash flow
- Opportunity to add operational value
- Sound governance
- Genuine investment liquidity opportunities over a 3-7 year timeframe through Initial Public Offering, trade sale or recapitalisation

¹ Data from sources including ANZ Business Barometer series; the Ministry of Economic Development; Statistics New Zealand, the New Zealand Venture Capital Association and the New Zealand Venture Investment Fund

Guardians of New Zealand Superannuation
Expansion Capital Strategy



Data ranges are illustrative, based on NZVCA data

