Attachment 2: Co-investment fund options

1) Co-Investment Program Structure

A new co-investment program could be modelled on established structures using qualified fund managers. For example, in the life sciences and medical research area, the Federal Government's Biomedical Translation Fund is a program structure that is well recognised as a leading private and public sector collaborative model and could form the basis for a new national co-investment fund. There are alterative models for such programs which could assess the merits of a structure that is based on a 'fund-of-funds' type approach, versus direct investment into underlying investee businesses. The private capital industry is open to canvassing the relative merits of each approach, which takes account of the priorities of the government in this area of policy.

Governments co-investing to support early stage and high growth businesses is a well-tested policy response. Co-investment programs are heavily used in the UK, USA, Canada, New Zealand, Germany, France and many other countries across the globe. Domestically, various co-investment programs exist at the state level, complemented by targeted national programs.

Domestically and internationally, over the past 20 years governments have universally introduced successful co-investment funds to support the scaling-up and growth of early-stage businesses across many industry sectors. Some of the leading examples are included below for reference.

2) Domestic and offshore examples of co-investment programs

Biomedical Translation Fund (BTF)

Launched in 2016, the BTF provides companies with matched funding through private sector venture capital fund managers. The program is specifically targeted at biomedical discoveries to commercialise health and medical research outcomes.

The BTF Program policy objectives are to:

- invest in promising biomedical discoveries and assist in their commercialisation; and
- encourage the development of companies commercialising biomedical discoveries by addressing capital and management constraints.[1]

The Federal Government committed $250 million to the BTF alongside $251.25 million from private sector. The BTF was designed to have no fiscal impact on the budget, as it is an investment vehicle where the Government can obtain a return on the funds invested.

Queensland Business Development Fund (QBDF)

The Queensland Government-backed BDF is run by the Queensland Investment Corporation and is "focussed on the growth of innovative Queensland businesses, particularly in the emerging industries of tomorrow. It is aimed at creating high value, knowledge-based and skilled jobs now and into the future."[2] Applicants must be Queensland-based and require a co-investor to access the $80 million fund. If successful, they are provided with between $125,000 and $2.5 million in funding. The QBDF allows private investors to buyout the government's investment at a future date.

Victorian Business Growth Fund (VBGF)

In June 2020, the Victorian government launched the VBGF.[3] The $250 million fund, includes a direct $50 million investment from the Victorian government.[4] The VBGF "will operate for 10 years and will help to address barriers

[1] Biomedical Translation Fund

[2] Business Development Fund

[3] Victorian Business Growth Fund

[4] Business Victoria (2019) *$250 million Victorian Business Growth Fund Established*, June

faced by successful small and medium enterprises (SMEs) that are ready to grow their business but can't access the funds or find the right partner they need to take the next step."[5] Applicants must have between $5 million and $100 million in annual revenue and no more than $250 million in assets.

Victorian Clean Technology Fund (VCTF)

The VCTF is a Victorian government venture capital fund, established in 2003, "which invests in and assists the commercialisation of novel clean technologies… It generally invests at the pre-seed and seed funding phases where traditional venture capital sources are not readily available."[6] The VCTF generally co-invests and typically invests less than $1 million.

South Australia Venture Capital Fund (SAVCF)

The South Australian government's SAVCF is a $50 million co-investment fund which aims "to help build dynamic and innovative early-stage companies to accelerate their growth to a national and global scale."[7] The SAVCF provides initial investment in high growth and export potential companies that have at least demonstrated a market for their product or service and have either commenced generating revenue, or can demonstrate customer validation and evidence a route to revenue generation. Alternative criteria are provided for life science and biotech companies.

Innovation Investment Fund (IFF)

The IIF was established by the Federal Government in 1997 with the objectives of:

- Addressing capital and management constraints to encourage the development of new-technology companies which are commercialising research and development;
- Developing a self-sustaining Australian early-stage, technology-based venture capital market;
- Establishing, in the medium term, a "revolving" or self-funding scheme; and
- Developing fund managers with experience in the early stage venture capital industry.

The program raised over $640 million and awarded licenses to VC fund managers who, as part of the licensing process, were required to raise capital from private sources to match the capital provided by the Government. The IIF was designed to have no fiscal impact on the budget, as it is an investment vehicle where the Government can obtain a return on the funds invested.

New Zealand Venture Investment Fund (NZVIF)

In March 2020, the New Zealand government announced a $300 million co-investment fund – building on the earlier, 2002, NZVIF – which "invests into venture capital funds and partners with angel investor groups to drive investment into young New Zealand companies with high growth potential. The NZVIF was established to help build a vibrant venture capital market in New Zealand."[8]

Canadian Venture Capital Catalyst Initiatives (VCCI)

The Canadian government established the VCCI to build on the success of its previous CAD390 million fund of funds and direct investment Venture Capital Action Plan. Through three streams, the VCCI has injected CAD1.7 billion into the Canadian venture capital ecosystem.[9] The first stream of the VCCI, announced in 2018, provides fund of funds investments. The second steam focuses on underrepresented groups, such as women and emerging regions. The third stream invests in clean energy.

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[5] Victorian Business Growth Fund

[6] Victorian Clean Tech Fund

[7] South Australian Venture Capital Fund

[8] New Zealand Venture Investment Fund

[9] Canadian Venture Capital Catalyst Initiatives

The UK Experience

Following a 'Patient Capital Review' in November 2016, the UK government initiated a series of programs to support high-growth companies, including various co-investment programs. These aimed to unlock £20 billion of patient capital investment into innovative firms over ten years. The initiatives included:

- increasing total direct R&D spending to £12.3 billion per annum by 2021-22;
- establishing a new £2.5 billion Investment Fund incubated in the British Business Bank;
- investing in a series of private sector fund of funds, starting with an initial commitment of £500 million; and
- backing new and emerging fund managers through the Enterprise Capital Fund program, unlocking at least £1.5 billion of new investment.

More recently, in response to the COVID-19 pandemic, the UK government announced an additional program, the £500 million co-investment 'Future Fund'. An additional £750 million was made available specifically for R&D focused small businesses in the form of grants and loans. Similar schemes were implemented in mainland Europe, with France announcing a €4 billion package alongside Germany's €2 billion package.[10]

In an ideal scenario, the Commonwealth's response to support the industry would include a range of measures, as seen by the UK response.

[10] Financial Times (2020) *Government launches £1.25bn plan to help struggling UK start-ups*, 20 April