

KIWINET INVESTMENT COMMITTEE PROCESS GUIDE

FOR ORGANISATIONS POOLING THROUGH KIWINET

JUNE 2013

INTRODUCTION

This document will outline the KiwiNet Investment Committee processes around the allocation of PSAF funding. It is intended to act as a guide for organisations who are applying for PSAF funding, and should be read alongside the KiwiNet Investment Committee Operations Policy. This document will be modified and redistributed over time as required.

The new Investment Committee process involves four pools of funding. These can be summarised as:

- **Seed/Kill** – PSAF will reimburse up to 50% of a project’s eligible technical development costs to a maximum of \$15k. Prior approval is not required from the Investment Committee however you are required to notify KiwiNet when you start the project and report on the project outcome at the end. The aim of this fund is the reduction of technical risk, proof of concept development and prototype development. This fund is ideal for projects where the technology requires further development before commercialisation activity can commence.
- **Tier One** – PSAF will reimburse up to 50% of a project’s eligible costs to a maximum \$25k PSAF, and will cover costs incurred in market validation, business case preparation, securing IP and technical development at proof of concept stage. Prior approval is not required from the Investment Committee however you are required to notify KiwiNet when you start the project and report on the project outcomes at the end. This funding can be used to support full commercialisation of a small project, or preparation of a business case for a larger Tier Two or Tier Three project.
- **Tier Two** – PSAF will reimburse up to 50% of the projects eligible costs to a maximum \$100k. Prior approval from the Investment Committee is required. Organisations should submit a Project Development Plan. This plan can be lighter on detail than required for Tier Three funding, and is subjected to a lower level of scrutiny by the Investment Committee.
- **Tier Three** – PSAF will reimburse up to 50% of the projects eligible costs over \$100k. Prior approval of the Investment committee is required. Organisations should submit a detailed Project Development Plan.

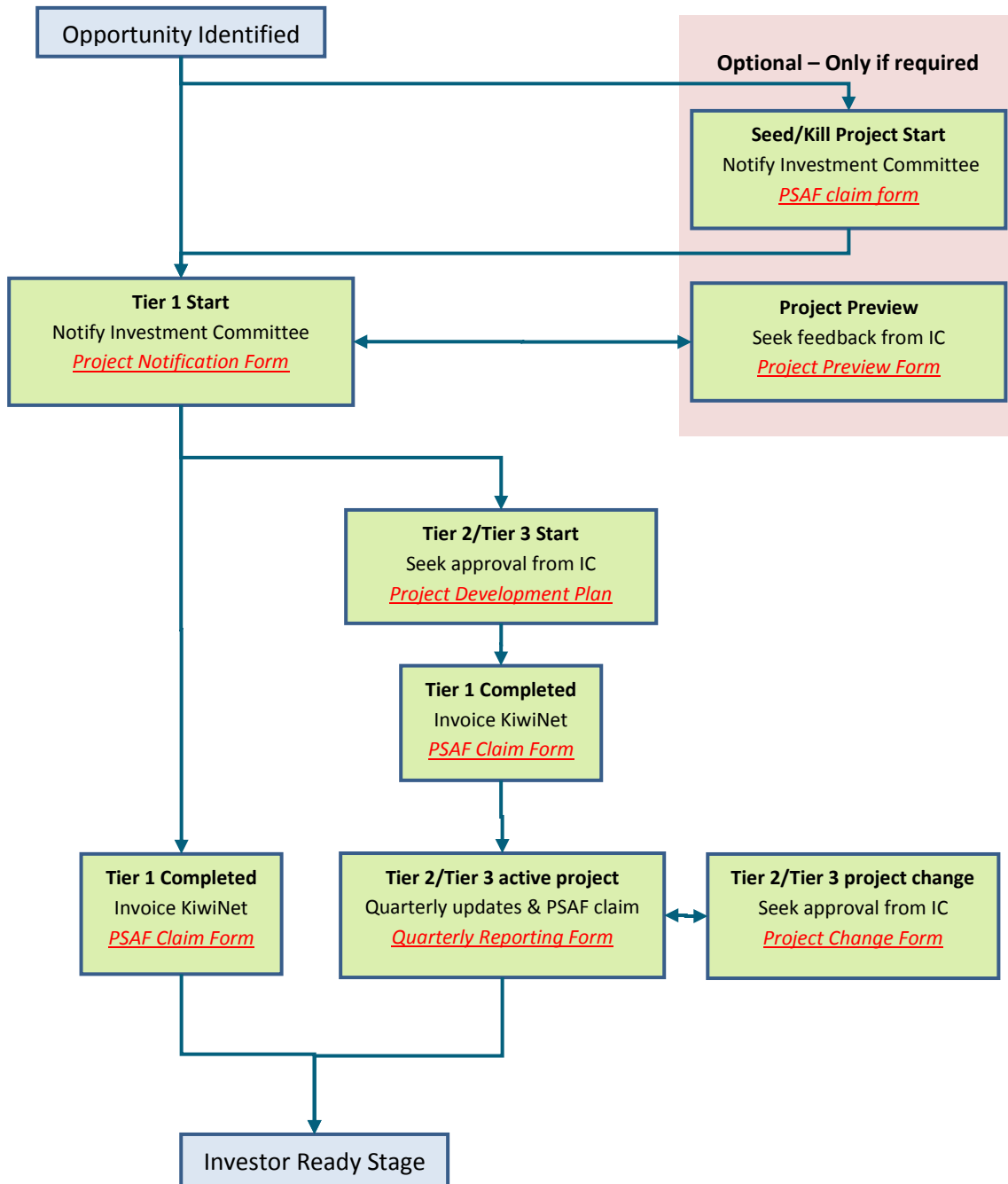
The table below provides a summary of the key aspects related to each level of funding.

Template Forms for use in reporting on projects are included with this document. These forms include:

- Project Notification Form
- Project Preview Form
- PSAF Claim Form
- Project Development Plan
- Quarterly Project Progress Report
- Project Change Form

DIAGRAM

The diagram below illustrates the KiwiNet Investment Committee processes.



SUMMARY TABLE

The table below provides a summary of the key aspects related to each level of funding.

	Seed/Kill (\$5k - \$15k PSAF)	Tier One (Up to \$25k PSAF)	Tier Two (Up to \$100k PSAF)	Tier Three (\$100k+)
Amount	PSAF will reimburse up to 50% of eligible costs, for \$5k-\$15k PSAF per project with a maximum of \$30k PSAF per organisation per annum.	PSAF will reimburse up to 50% of eligible costs with a maximum of \$25k PSAF per project.	PSAF will reimburse up to 50% of eligible costs between \$25k-\$100k PSAF per project.	PSAF will reimburse up to 50% of eligible costs greater than \$100k PSAF per project.
Description	To spend on project costs related to technical development targeted at the collection of critical data or to achieve proof of concept/proof of prototype that will facilitate eventual commercialisation.	For costs incurred in assessing market & technical opportunity for a technology & preparation of the business case. Use this fund to commercialise a small project, or prepare a Project Development Plan for Tier Two or Three investment.	For eligible costs incurred in executing the business plan and achieving the commercialisation objective. Tier 2 applications will be subject to less scrutiny than Tier 3 applications and applications can contain less detail than is required for Tier 3 investment.	For eligible costs incurred in executing the business plan and achieving the commercialisation objective. Tier Three application will be subject to a higher level of scrutiny by the Investment Committee.
How to apply	Prior approval is not required from the Investment Committee, but the committee will monitor how the funding is used.		Obtain approval from the Investment Committee by submitting a Project Development Plan.	
Minimum requirements	All projects must be derived from publically funded research and only PSAF eligible expenses can be claimed.			
	Nil	Nil	<ul style="list-style-type: none"> Budget & milestone plan Feedback from 1 external expert encouraged 	<ul style="list-style-type: none"> Budget & milestone plan Feedback from 1 external expert required
Eligible Costs	Technology development costs only incl. wages for development staff, materials and equipment.	Costs can include wages, travel, materials & consumables, securing IP (e.g. provisional patent), technical development, and business case preparation.		
Expected Outcome	Overcoming major technical barriers and achieving a proof of principle demonstration of the technology.	Possible outcomes include: <ol style="list-style-type: none"> Reaching "Investor Ready stage" Completing a Project Development Plan Project is closed/abandoned 		Technology reaches an "investor ready" stage.

<p>Process forms and reporting requirements</p>	<ol style="list-style-type: none"> 1. Submit Project Notification Form to admin@kiwinet.org.nz on starting the project. 2. At end of project, send a PSAF Claim Form with a summary of the outcomes and attached invoice for PSAF costs to admin@kiwinet.org.nz 3. If applicable, proceed to Tier One, Two or Three funding streams. 	<ol style="list-style-type: none"> 1. Submit Project Notification Form to admin@kiwinet.org.nz on starting the project. 2. [Optional] Submit a Project Preview Form to get feedback from the committee. 3. If continuing to Tier 2/3 submit a Project Development Plan. 4. If Tier 1 completed, submit PSAF Claim Form with a summary of the outcomes and attached invoice for PSAF costs to admin@kiwinet.org.nz 	<ol style="list-style-type: none"> 1. Written exception reporting to the Investment Committee at any time if milestones and budget are no longer achievable. 2. Submit Quarterly Project Progress Report & verbal presentation by a representative of the research organisation to the Investment Committee at end of each quarter. 3. Submit invoice with Quarterly Project Progress Report to admin@kiwinet.org.nz at the end of each quarter. 4. Submit a Project Change Form to admin@kiwinet.org.nz if the project requires a change in budget, end date, or major change of outcomes.
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OTHER RULES

- Full project reporting must be provided quarterly for all Active Tier Two and Tier Three Projects by submission of a Project Progress Report to the Investment Committee. Written exception reporting must also be provided for Active Projects prior to each mid-quarter investment committee meeting. Such reports must be submitted ten days before an Investment Committee meeting.
- The Committee are currently budgeting that no more than 10% of the total amount of PSAF invested will be spent on Tier 1 Market Validation.

CASE STUDY EXAMPLES

CASE STUDY ONE

Project A appears to have a strong market opportunity that you want to pursue. However, the inventor hasn't yet demonstrated that the technology will actually work in the way proposed. You believe there is a high risk that it won't work and you'd like the inventor to do more technical development before you invest resources into market validation and commercialisation activities. Using the KiwiNet Investment Committee processes, how can you fund the research to overcome these technical issues, validate your market and develop a business plan to submit to the Investment Committee to gain funding for the project?

1. **Seed/Kill** – use \$5k-\$15k (PSAF) from the Seed/Kill pool to overcome your major technical barriers and reach a proof of principle.
2. **Tier One** – use up to \$25k (PSAF) from the Tier One pool to cover costs of market & technical validation & preparation of the business case.
3. Use your business case to apply for either **Tier Two** or **Tier Three funding** (depending on the size of the budget for Project A).

CASE STUDY TWO

Project B has an industry partner interested in licensing technology X, however, the partner has requested certain features that require further research. You've reached an agreement with the partner that if those features are built into the technology they will licence it. You've budgeted the work at \$30k (total budget) at which time a prototype will be produced for trial by the partner. How can you fund this work using the KiwiNet Investment Committee processes to cover costs of making these technical adjustments?

1. **Tier One** – use up to \$25k PSAF (\$50k matched) to validate the commercialisation strategy, make those technical adjustments and get the technology to an "investor ready stage" where your industry partner will make the deal.

CASE STUDY THREE

Project C required some minor technical development at the proof of concept stage and the market opportunity for the technology needed to be validated. Your organisation received \$25k PSAF from Tier One funding to achieve the market and technical validation required and develop a business case with the aim of eventually applying for Tier Two or Three funding. During the course of Tier One, it became clear that there was minimal commercial opportunity for the project. What does this outcome mean for your project?

1. Since you will no longer be developing a business case to apply for Tier Two or Tier Three funding, you are required to report to the Investment Committee on the outcomes of the Tier One funding and let them know what the results of the market validation were.

FREQUENTLY ASKED QUESTIONS

Below are some questions that are frequently asked about the KiwiNet Investment Committee processes:

Question: What if my project requires less than \$50,000 (\$25,000 PSAF) to reach investor ready stage?

Answer: That's great, you can use Tier 1 investment for this, however you must provide a brief report on the project at the next investment committee meeting and keep the committee up to date on progress according to normal reporting requirements. The committee will provide feedback, but are not expected to stop funding to that project unless funding is being used for purposes outside of the PSAF guidelines.

Question: If the Tier 1 funding is devolved, what measures can the investment committee take to ensure that this investment is used as expected by the committee?

Answer: It is not expected that the committee will withdraw investment to a Tier 1 project part way through, as long as expenses claimed are within PSAF guidelines and the project aligns with PSAF objectives. However, the committee must have the ability to monitor and regulate how the PSAF investment is allocated through KiwiNet is being used to ensure it meets the standard expected of the consortium. The committee will regularly monitor how investment is being used by each organisation to ensure the investment is being used appropriately. If a project is not considered to be of suitable quality the investment committee can notify the research organisation of this and suggest ways to mitigate the issue. If the committee continues to be dissatisfied with the way Tier 1 investment is used, they may choose to alter the policies to ensure that in future it is used as they require.

Question: What if an inventor has an idea with good market demand, but you're not sure if it will work?

Answer: If the market opportunity for that idea seems strong, you can use Seed/Kill funding to provide a small block of investment that can help the inventor hire a student, buy some equipment, and demonstrate an early prototype. If it is successful, you can then proceed to Tier 1.

Question: Can I use Seed/Kill repeatedly on the same project?

Answer: No. If more than \$15,000 (\$7,500 PSAF) is required to technically de-risk the project, then the committee require that a Project Development Plan should be prepared and submitted. Tier 1 funding is available to support the preparation of a Project Development Plan.

Question: What if the first time a project is submitted to the investment committee it is not approved, but then a new opportunity for the same technology is identified and I want to resubmit a new proposal on that same technology for a different market opportunity?

Answer: If the cost of preparing the old business plan plus the cost of preparing the new business plan is likely to exceed the Tier 1 guidelines, the research organisation should consult the committee first to ensure Tier 1 investment will be provided. In general, it is a good idea to consult with the committee for feedback prior to resubmitting a project anyway, however this is not necessary if you're within the Tier 1 guidelines.

Question: What if the costs of completing Tier 1 are higher than \$50,000 (\$25,000 PSAF)? The high costs of pre-clinical trials or patent costs may push the Tier 1 costs over this limit.

Answer: The committee have set the limit of \$50,000 (\$25,000 PSAF) as it is considered that this is high enough to carry out the necessary market validation and business case development prior to submitting to the Investment Committee. If expenses like pre-clinical trials or patenting mean the

project costs will be higher than the Tier 1 limit, then the committee would rather consider the full project plan before allocating more investment.

Question: What if I don't have enough information yet to budget the cost of reaching investor ready stage? Perhaps I need to do some pre-clinical trials before I have enough information to submit a full proposal, but the trials will cost more than is available through Tier 1.

Answer: Any project that is submitted to the investment committee must have some indication of the plan and the projected cost to reach "investor ready". The committee recognises that this can be difficult since the projects are high risk and that these budgets will probably change as the project is carried out. However, the committee needs to avoid situations where \$100,000 is invested in a project now, only to find that another unrealistic amount (e.g. \$10,000,000) would be required to get to investor ready, and that this could have been worked out before the \$100,000 was committed.

Question: I'm confused about the limit on Tier 1 claim. Is the 10% limit per project a hard limit, and what if my project budget is higher than \$600,000 (\$300,000 PSAF), does this mean I can use up to \$60,000 on Tier 1?

Answer: The KiwiNet Investment Committee has set a limit of spending no more than 10% of PSAF allocation on Tier 1. This limit is considered prudent for this type of allocation. As part of managing the fund so that this limit is not exceeded, a guideline has been set that recommends spending no more than 10% of the anticipated total project budget on Tier 1. However, this is only a guideline as it can be difficult to predict the total project budget until the end of Tier 1. The \$50,000 (\$25,000 PSAF) limit on Tier 1 is a hard limit that cannot be passed without approval from the investment committee.

Question: Tiers 2 and 3 seem very similar, why are they different?

Answer: The separation reflects that fact that the amount of due diligence required prior to project approval should be proportional to the amount of investment requested. For projects with budgets less than \$200,000 (\$100,000 PSAF), research organisations can submit proposals that are lighter in detail. The committee will review these proposals for less time (e.g. 10-20 mins Tier 2 versus 30-45 mins Tier 3).

Question: The investment committee meets every 6 weeks. What if I need a decision faster than that?

Answer: There are a number of options to address this issue. Firstly the Tier 1 funding is designed to enable each research organisation to carry out early development until the next investment committee meeting. If the research organisation wants more long term certainty of investment quickly to take advantage of a short term opportunity, it may be possible to call a meeting on short notice if enough committee members are available.

Question: The policy includes the following guideline: *"Tier One investment applications are expected to cost no more than about 10% of the total funding required under Tier Two or Three to get the project to investor ready stage."* This guideline could turn out to be overly restrictive, how can we be certain what the end budget will be until we have completed the market validation?

Answer: While the 10% limit across the whole portfolio is a policy of the investment committee, the 10% per project limit is only a guideline to try to ensure that the 10% limit on the portfolio is not exceeded. Because it is only a guideline, the research organisations can exceed the 10% limit on individual projects. However, in the case where the 10% guideline is significantly exceeded, the committee may ask for an explanation.

Also, as with all the other policies around the Investment Committee, this policy will be regularly reviewed and may be changed if it is found to be inappropriate.