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31 January 2024

By email: misreview@treasury.gov.au

Dear Sir/Madam

Wade Institute of Entrepreneurship (Wade Institute) submission to the review of the regulatory framework for managed investment schemes: Consultation Paper (August 2023)

Introduction

Wade Institute of Entrepreneurship is a leading centre for entrepreneurial training located at Ormond College, University of Melbourne.

Established in 2015, we deliver a range of immersive education programs, including The University of Melbourne's Portfolio of Entrepreneurship Programs (including the Master of Entrepreneurship), the VC Catalyst Program, our investor education program supported by LaunchVic, and UpSchool, our professional development programs and sprints for educators and K-12 students. In addition, we host a portfolio of events and activities curating communities of practice and facilitating global thought leadership in the entrepreneurship and innovation space.

While Wade Institute very clearly has a vested interest in the wholesale investor threshold tests, we would nevertheless like to make submissions in relation to Chapter 1 of the Consultation Paper, given the depth of our experience in the small but important niche of startup investment which is likely to be deeply impacted by the proposed changes.

Introductory comments

Wade Institute was established to support innovation, entrepreneurship, and investment in early-stage businesses.

Over the last 6 years, Wade Institute has offered our VC Catalyst Program to early-stage venture investors, which in turn, has served the dual purpose of building a more robust and thriving ecosystem of young, high growth companies while ensuring that investors develop critical skills to understand and make more informed decisions in a high risk asset class.

As all early stage startup investments are by definition high risk and highly illiquid, having a diversified portfolio is key to success. Being able to 'fractionalise' startup investments - making smaller, more frequent investments - has been an important development in the Australian innovation ecosystem to provide both access to the asset class, and increase the statistical probability of achieving outsized returns.

Should the financial thresholds for the net assets and/or gross income in the individual wealth test be increased? If so, increased to what value and why?

We accept that there may be valid policy considerations to increase the thresholds to protect retirement savings and remain in line with inflation. However, wealth is a blunt measure of financial sophistication. While many investment syndicates have submitted guidance on whether thresholds should be increased, we offer the perspective that an education consideration outside of the income/asset means test warrants additional consideration in the totality of this important decision.

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Pathways for Non-Means tested Accreditation

It is not controversial to state that wealth is a blunt measure of financial sophistication. The USA has recognised this and passed legislation to enable the SEC Accredited Investor exam. A knowledge pathway to wholesale investor status seems to make sense for Australia.

An exam for across-the-board wholesale certification is certainly an option. Australian regulators however, can avail themselves of the already-existing excellent education offering available to investors in the startup investment space. We suggest that the easiest way to do this is to provide greater guidance on the relevant considerations to the section 761GA sophisticated investor test (which should in turn also be applied to Chapter 6 and other parts of the Corporations Act where the wholesale/retail distribution is relevant).

The well-established and highly regarded VC Catalyst Program addresses this exact problem. It is an investor education program developed by Wade Institute of Entrepreneurship, University of Melbourne in partnership with the Victoria State Government's startup agency LaunchVic. The first of its kind in Australia, VC Catalyst combines global best-practice with local expertise and ecosystem context. The program has been successfully delivered to 5 cohorts of diverse investors who are having a discernable impact on the early-stage startup ecosystem in Victoria and Australia more broadly. VC Catalyst alumni (120+) have collectively invested over $72m in early-stage startups in recent years, many of which are led by founders traditionally excluded from funding.

Early-stage investors are a unique and significant audience due to their potential impact on rapidly evolving startup ecosystems. The 'valley of death' in early-stage funding is a hole that can only be filled by this audience. VC Catalyst expands educational access to this audience by offering a bespoke program uniquely tailored to their needs. It gives them the confidence, knowledge, access, and networks to make informed and successful early-stage investments. By plugging the gap in early-stage investing, VC Catalyst is helping the Victorian and Australian ecosystem grow faster and ensures the pipeline of innovative ideas is given the chance to succeed.

VC Catalyst is an immersive 10-day program designed to give investor-ready individuals the knowledge, skills and networks to invest in Australia's next wave of groundbreaking businesses and ideas.

This course is one of a kind in Australia. Unique aspects include:

• Partnership with major government startup agency, LaunchVic

• Partnerships with faculty from globally top-50 institutions, including the University of Melbourne and Stanford Business School

• Partnerships with local angel networks, family offices, and venture capital firms and funds, provides instant participant access for deal flow and network building

• Combines global best-practice with local expertise and ecosystem context through the engagement of a diverse mix of 20+ practitioners, academics, and experts both domestically and from across the globe

• Scholarships offered for participants committed to building impact and supporting founders traditionally overlooked for early-stage investment (e.g. women, LGBTQIA+ and CALD founders)

• 'Learn by doing' experiential approach to instruction

• Ongoing mentorship and continuous learning through the 6-month mentorship component of the program and ongoing alumni development

• Unique cohort designed to maximise peer-to-peer learning and network formulation, with focused curation of regular inter year alumni activities to maximise the impact and netw across the four cohorts to date

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Expanding the timeframe for Means-Tested Eligibility

The Wade Institute works actively to promote diversity in the start-up community. The existing thresholds already frequently penalise and exclude women significantly more than men. We have seen that many women investors cease to satisfy the income test as they take parenting leave. This continues to act as a barrier to correcting the problematic under-representation of women investors that plagues the asset class. We would suggest that any income test be applied over a number of years, for example, that a person must satisfy the income test for 2 of the last 5 years. As per the section above, accreditation on the grounds of experience and/or education will provide an additional pathway for women to access these investment opportunities with equal measure to their male counterparts. Any changes to the policy must take into consideration the potential - and likely unintended negative impact - it will have on women, while the industry is simultaneously seeking to close the gender gap in the investment space. The benefits of closing this gap extends beyond the financial benefit of the individual female investor and unlocks broader societal benefits including financial empowerment and independence, as well as seeing more female founders access capital to support their growing businesses.

Grandfathering

Other submissions have referenced the need to grandfather existing investors. Any grandfathering arrangements need to take into account the longer time frame applicable to start up investments (sometimes over 10 years to realisation).

If the thresholds are increased, many investors will be ineligible to make further investments into the companies they already have interests in, as well as continuing to diversify their startup portfolio. This will impact the strategy many of the participants in our VC Catalyst Program have set out. Many investors prefer to invest a small amount in a company's first funding round, securing the ability to invest in a later round when the company has more revenue and is somewhat derisked. Ideally any grandfathering would preserve the ability of investors to access these pro rata rights, and continue to execute the portfolio strategy they devised when starting their investor journey.

We thank you in advance for your consideration of this submission and remain available for any further discussion as desired.

Yours faithfully,

Nick Kaye

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