



**Consultations of the Department of Innovation, Science and Economic
Development Canada on the Venture Capital Catalyst Initiative**

July 17, 2017

INTRODUCTION

At the time of presenting its 2017 budget, the Canadian government announced an investment of \$400 million for a new venture capital catalyst initiative. The venture capital industry plays a major role in our economy. A strong and mature industry has positive effects on innovation, employment and growth.

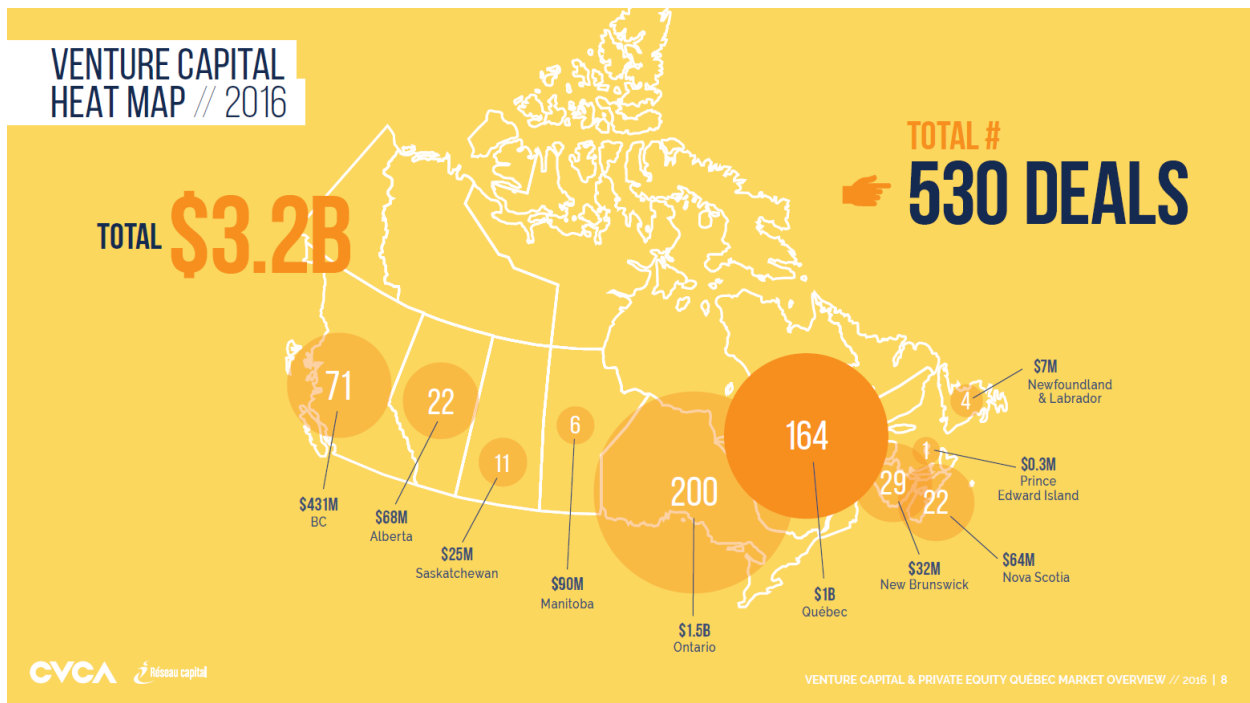
Réseau Capital is the only venture capital and private equity association that brings together all stakeholders in the investment chain in Quebec. Founded in 1989, it represents nearly 100 corporate members who are not only investment companies in private capital, tax-advantaged and public funds, but also banks, accounting firms, legal firms and the many professionals working in the industry. Its mission is to contribute to the development and dynamism of the venture capital and private equity industry, which plays a vital role in the development and financing of companies in Quebec.

Réseau Capital therefore welcomes the decision of the Canadian government to put innovation at the top of its list of priorities. We believe that a country that wants to be a world economic leader must ensure that innovation receives strong and continued support.

CONTEXT

For quite a number of years now, the Quebec venture capital and private equity industry has been working hard to offer financial resources to innovators, strongly believing that today's start-ups will be tomorrow's leaders. Quebec also has all stakeholders it needs, from both private and government/institutional funds, in order to ensure success.

The 2016 statistics for Quebec published jointly by the Canadian Venture Capital Association (CVCA) and Réseau Capital clearly demonstrates the prominent place that Quebec has within Canadian industry. Indeed, a billion dollars was invested in Quebec in innovative companies. This amount represents 31% of the Canadian total. In all, 164 venture capital transactions took place in Quebec over the year, out of a Canadian total of 530 transactions. (See the table *2016 Venture Capital Heat Map*)



In conclusion, we can say that the Quebec venture capital industry is developing dynamically and plays a major role in the Canadian and North-American industry. This momentum must continue and it is imperative to be able to continuously support innovation and the entire investment ecosystem.

This is why Réseau Capital welcomes the announcement of the Canadian government, through the Department of Innovation, Science and Economic Development Canada, that it will continue the initiative of the Venture Capital Action Plan (VCAP) launched in January 2013, by setting up the new Venture Capital Catalyst Initiative (VCCI).

COMMENTS ON THE DISCUSSION DOCUMENT

Key Principles

A priori, Réseau Capital has agreed with the major principles of VCCI, namely:

- Translating innovation into economic growth
- Increasing the availability of late-stage venture capital
- Improving the sustainability of the Canadian venture capital ecosystem and spurring private sector investment
- Deepening the pool of experienced venture capital fund managers
- Leveraging private capital

However, Réseau Capital would like to add a clarification regarding the availability of late-stage venture capital. We understand the federal government's concern to ensure that growth funds for Canadian companies are available, but it is essential to also keep funds available throughout the entire investment chain, in particular for the seed and start-up stages.

Competitive Process

Réseau Capital fully agrees with the idea of implementing a competitive process for seeking proposals in the sector and the need to create a private sector selection committee in order to evaluate the proposals and make recommendations to the Department.

However, in order to truly reflect the Quebec ecosystem and given its importance, we strongly recommend that representatives from the Quebec industry sit on the selection committee. Given the importance as well as the specific aspects of the ecosystem, Quebec must be represented on the committee given its knowledge of this ecosystem. This will be a major asset.

As already mentioned, venture capital has a major place in the Quebec economy. The Quebec government has already indicated its support for the federal government initiative by indicating the following in its economic plan, submitted in March 2017:

"... In order to ensure that Québec benefits from its share of federal investments and maintains its status as a Canadian venture capital leader, the Québec government will set up the necessary means for supporting Québec teams attempting to qualify for obtaining venture capital under this initiative..." (page B.137 of the Economic Plan)

The “Funds-of-Funds” Model: General Comments

The funds-of-funds model is a tried and true one. In Quebec, this model has existed since 2004. In 2013, the Venture Capital Action Plan was inspired by this model and chose four funds of funds from across the country, including one from Quebec.

Today, the Department of Innovation, Science and Economic Development Canada is asking for advice on the model to use for the VCCI. Réseau Capital believes that the funds-of-funds model must be retained. The principle of the funds-of-funds model is well integrated into Canada’s investment ecosystems, and the components are already in place to ensure its success. It would also be better to continue with what has already been developed rather than starting again with a new model.

The “Funds-of-Funds” Model: Specific Comments

The consultation document lists several items for the funds-of-funds model. Réseau Capital does not intend to comment on each of the elements given that these constitute the basic principles of a fund of funds, and each item should be discussed with potential candidates.

However, Réseau Capital puts forth certain comments:

- We stress the importance of acting quickly with experienced funds-of-funds managers. Supporting innovation means ensuring that funds are available during the development stages of companies. It is imperative not to break this investment cycle;
- This approach must be complementary to what the existing stakeholders in the Quebec ecosystem are doing;
- Moreover, we want to highlight the importance that the selection criteria favour funds-of-funds managers who would allow for sectorial and geographical diversification;
- In addition to having high-performing funds, the selection criteria should also favour emerging managers;
- And lastly, private capital is essential for the smooth functioning of an investment ecosystem, and therefore we reiterate the importance of attracting them with this new initiative.

Alternative Fund Models

The venture capital industry in Quebec and Canada is still young. Even if other models exist, it is very important to take advantage of VCAP’s momentum and ensure that the VCCI is up and running immediately. For these reasons, Réseau Capital believes that the funds-of-funds model is the best one to reach the goals set.

CONCLUSION

Réseau Capital would like to thank the Department of the Innovation, Science and Economic Development Canada for this opportunity to comment on the implementation of the Venture Capital Catalyst Initiative.

Réseau Capital strongly believes that continuity is necessary in government action in order to support the venture capital industry. The VCCI must continue the actions taken by the VCAP.

Réseau Capital believes that the funds-of-funds model is the most appropriate for ensuring the success of the VCCI.

We strongly believe that the Quebec and Canadian ecosystem has all the necessary assets to support innovation in Canada. The VCCI plays a key role here, and the Réseau Capital supports this initiative.

For any questions on this document of the venture capital ecosystem in Quebec, please contact Jack Chadirdjian, President and CEO of Réseau Capital, by telephone at 514-502-5225 or e-mail to jack@reseaucapital.com.