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# **The Role and Performance of Labour-sponsored Investment Funds in the Canadian Economy: An Institutional Profile**

November, 1995

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This document was prepared for discussion purposes for CLMPC's Task Force on Access to Capital. It does not necessarily represent the views of the CLMPC Board of Directors or the members of the Task Force on Access to Capital.

The Canadian Labour Market and Productivity Centre (CLMPC) is an independent national bipartite organization working to build business-labour consensus and joint approaches to major social and economic issues. Through the CLMPC, the two parties develop policy recommendations to government aimed at improving the labour market and overall economic performance of Canada. The CLMPC also seeks to influence the policies and practices of business and labour.

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# Executive Summary

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This research report was prepared to assist the CLMPC's Task Force on Access to Capital, which has examined issues pertaining to the financing of Canadian high value-added investment. CLMPC research into labour-sponsored investment funds reflects original, detailed study of these relatively new actors in Canada's financial system.

## Selected facts and figures

- At the end of the 1980s, the funds accounted for less than 10 percent of venture capital under management. By 1994, labour-sponsored investment funds collectively managed 33.3 percent of all institutional venture capital. By late 1995, assets held by the funds, in aggregate, rose to over \$2.0 billion. Furthermore, they are responsible for 15 percent of the total number of venture investments and 28 percent of the dollars invested in the market (1994);
- by the end of 1995, fund investment projects totalled 228 valued at almost \$823 million. This reflects an increase in the number of those labour-sponsored funds actively investing since the year's beginning (from seven to eleven) as well as investment dollars committed (up by over \$240 million);
- In 1995, the funds had attracted the savings of 378,600 individual Canadians — 51 percent of whom were organized workers affiliated with sponsoring union bodies;
- At the beginning of 1995, the two largest funds — the *Fonds de solidarité des travailleurs du Québec* with \$1.3 billion in assets and Working Ventures with \$500 million — were the first and second largest venture capital institutions in Canada respectively;
- Since the late 1980s, the funds have been a pre-eminent source of new venture capital — in 1994, 53% of \$1 billion in new capital raised for the venture market was acquired by labour-sponsored funds;
- Total federal tax revenues foregone due to the tax credit are estimated at more than \$140 million in 1995 (a more precise calculation would have to estimate the cost of fund-inspired deposits into RRSPs). Two cost-benefit analyses done in 1994-95 show that government recovers its expenditure on labour-sponsored funds within approximately three to four years;
- According to a 1994 Québec study, the *Fonds de solidarité* was directly responsible for creating or preserving over 15,000 jobs in 167 enterprises in 1993 and stimulating \$1 billion in additional value-added. The employment universe of the portfolio of Working Ventures reached 5,600 in late 1995.

## **Background: The Origins Of Labour-Sponsored Investment Funds**

The CLMPC report traces the evolution of international models of investment and financing that involve unions and workers, such as the spread of tax-subsidized employee share ownership plans (ESOPs) in the United States. Sweden's supplementary pension system (ATP) and Denmark's employee capital pension fund (ECPF) reveal traits similar to those identified by the CLMPC for Canadian labour-sponsored funds.

In Canada, it was the 1981-83 recession, and persistently high unemployment, that led union leaders to seek alternative ways to support growth and job creation. The *Fédération des travailleurs et travailleuses du Québec* developed a completely new vehicle, namely, a labour-sponsored fund with a multi-faceted investment mandate. Since the inception of the *Fonds de solidarité* in 1983, this model has been emulated and adapted to other Canadian jurisdictions. In 1988, the federal government amended the Income Tax Act to set up the first national version, the Working Ventures Canadian Fund. Legislation has also been promulgated to establish funds in all provinces except Newfoundland and Alberta.

At the time of this report, there were eighteen funds in existence. A few are fully active, while most are at the early stages of capitalization and institutional/portfolio development.

### ***TEN SALIENT QUALITIES OF LABOUR-SPONSORED INVESTMENT FUNDS***

CLMPC research has identified ten broad characteristics that are shared, to varying degrees, by all labour-sponsored investment funds. CLMPC drew heavily on the performance of the *Fonds de solidarité* to illustrate these salient features, given its comparatively long evolution and history.

#### **(i) Responsiveness to public policy concerns**

By definition, all labour-sponsored funds must be accountable to public policy concerns as set out in their respective statutes. In all cases, inception has been made possible because of enabling legislation, tax credits and other incentives provided by Canadian governments at both the federal and provincial levels.

Governments elected to support the funds because they appeared to offer a means of advancing certain public policy goals, such as strengthening the national venture capital market and provincial sub-markets, addressing alleged gaps in financing for small business, employment creation and protection, and facilitating a new role for workers and unions in the economy. The funds operate under fairly explicit and enforceable guidelines and sanctions.

## **(ii) Interest in Canadian private equity markets geared to risk**

Labour-sponsored funds may be described as a financial hybrid with characteristics derived from structures in both public and private equity markets in Canada. By 1994, labour-sponsored funds had become a formidable collective force in the institutional venture capital market. “Patient” venture capital is being acknowledged as indispensable to new generations of enterprises and jobs in a changing Canadian economy. By attracting a new supply source — the savings of Canadian households — the funds have helped create large, relatively stable pools of equity capital.

The CLMPC found that, the impact of the funds has been felt chiefly in the area of supply, thus far. In particular, they have provided an important counter to the negative effects of volatile capital flows - in fact, without the shareholder recruitment efforts of labour-sponsored funds in recent years, total national venture market resources probably would have declined. As well, with greatly intensified investing by Working Ventures and British Columbia’s Working Opportunity Fund, among others (on top of the already extensive portfolio of the *Fonds de solidarité*), the presence of the funds as an investor type grew in 1994-95.

## **(iii) Interest in addressing capital supply barriers to firms in certain sectors**

Finding solutions to capital availability problems is a main rationale behind government assistance of labour-sponsored funds. CLMPC research shows that firms facing barriers to sufficient, affordable capital form the client base of the funds. Along with sole financing of small and medium-sized companies, CLMPC research indicates that the role assumed by the funds in leveraging investment and syndication cannot be underestimated. In particular, the experience of the *Fonds de solidarité* with its specialized, regional and local funds reflects an innovative approach that combines expertise among different financial and industrial partners.

Labour-sponsored funds are taking additional steps to accommodate entrepreneurs and enterprises with special requirements, such as seedings, small dollar deals, and micro-firms. Indeed, this is apparent in the investment mandates of some new funds, such as the Canadian Medical Technologies Fund, which concentrates on early stage health sciences and technology projects.

## **(iv) Organization and direction by a legitimate labour body**

CLMPC research has concluded that a crucial feature of the funds is the degree to which genuine control is exercised by the sponsoring union. This usually involves a labour body that is organized centrally, such as a national or provincial labour federation or union/unions. Along with officially initiating a fund, sponsor representatives must direct all major decision-making through boards of directors and related structures. Unions and union members have been found to play a constructive role in the investment process.

## **(v) Mandates that guide investments according to economic and social goals**

A unique aspect of labour-sponsored funds is that investment decisions are marked by a commitment to socio-economic goals — i.e., obtaining the widest possible array of benefits to the Canadian economy and society. For instance, the investment criteria of all funds emphasize the creation and/or maintenance of employment. This explains their emphasis of small and medium-sized enterprises which have been responsible for most net job growth in Canada in recent years.

The funds tend to give priority to investment projects that feature both job quantity and quality. This is often achieved by concentrating on companies in specific, high value-added sectors, such as manufacturing and processing and knowledge-intensive or technology-intensive industries. CLMPC research found that the funds also highlight other critical economic variables, such as research and development spending and export capability.

Other socio-economic criteria include economic diversification of disadvantaged regions and communities, workplace improvements through employee participation and new human resource strategies, sustainable development, and consumer protection. These goals are pursued through various mechanisms, such as social auditing.

## **(vi) Capital resource mobilization on a provincial basis**

All labour-sponsored funds are bound by strict statutory requirements to turn savings acquired locally over to investments in local production. Some funds, such as Manitoba's Crocus Investment Fund, have featured this as essential to a provincial "capital retention" strategy.

CLMPC research discovered that the funds are having a visible and positive impact on the regional supply of venture capital in Canada. The *Fonds de solidarité* has been central to making the Québec sub-market the largest in the country. Other funds have helped resurrect weakened sub-markets in the Prairies and the Maritimes. Working Ventures, for example, was responsible for almost 100% of institutional venture capital and investment in Atlantic Canada in 1993-94. Through new vehicles, several funds have also advanced financing for community economic development within provinces.

## **(vii) Participation by a broad base of average working people**

A key objective of labour-sponsored funds is to offer lower and middle income working Canadians a new savings and investment opportunity. The primary way this is accomplished is by attracting shareholders from among the membership of affiliated union sponsors. Taken together, the *Fonds de solidarité*, Working Ventures, Working Opportunity and the Crocus Fund, for instance, have potential access to an investors pool of over 1 million organized workers.

Through various union-based and at-arms-length strategies (including payroll deduction plans), several funds have been particularly successful in meeting this objective. 40 percent of the shareholders of the *Fonds de solidarité*, for instance, are blue collar workers.

### **(viii) A commitment to provide market returns to shareholders**

Labour-sponsored fund tend to emphasize capital appreciation for shareholders as an overriding aim by which other social and economic goals are made possible. CLMPC research concludes that fund rates of returns must be considered in the context of venture capital investing which is long-term and high risk in nature. All funds hire venture and finance professionals to ensure good investment returns.

### **(ix) Involvement of workers and unions in enterprise-based decisions**

Many labour-sponsored funds give priority to high performance enterprise techniques and strategies that include employee participation and ownership. A key element for some, such as the *Fonds de solidarité*, is the delivery of financial and economic training to workers. CLMPC research has found that such training and other innovative workplace programs are productivity-enhancing.

The practice of some funds to also encourage share ownership among employees in investee firms is sometimes an important tool in large-scale restructuring and rescue operations in mature industries. Several new funds will follow the lead of the *Fonds de solidarité* in acting as a friendly equity partner in partial or full worker buyouts linked to protecting existing employment.

### **(x) Facilitation of co-operation between business and labour**

Labour-sponsored funds also support the objective of increased co-operation between business and labour. Most funds welcome the input and involvement of the business and financial representatives on boards of directors and advisory committees. Some actively promote dialogue and joint action between employers and employees in diverse contexts.

## ***CONCLUSION***

While this CLMPC paper concentrates on a first-time identification of the common institutional features shared by labour-sponsored investment funds — providing data about mandates and investment standards, illustrations of related programs and activity, and documented evidence of performance — the research also suggests specific matters that merit further research.

Above all, it is concluded that as the targets of significant public treasury dollars, labour-sponsored funds should be subject to close observation and assessment based on the ten salient qualities outlined in the preceding.



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# Preface

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Access to affordable capital resources is a key determinant of economic growth and the creation of jobs, wealth and income. Historically, it has been the function of government-regulated financial institutions and capital markets to supply this resource, along with attendant services, to industry. In a national economy, diverse financial structures and instruments channel savings to investment and capital formation. Hence, finance is frequently described as being an intermediary or facilitator.

Most institutional members of Canada's financial system — banks, trusts, insurance companies, credit unions and *caisses populaires*, and securities dealers — are as old and established as the country itself. A much newer member is the labour-sponsored investment fund. Born in Québec in 1983, relative youth may explain how little is actually known about this institution and its history; those influences that led to its rise; its very distinct socio-economic mandate and statutory frameworks; its investment standards, practices and programs; and, the role the institution occupies in the venture capital market.

This is nonetheless surprising since, today, the labour-sponsored fund is already a leading private equity institution in Canada. Its two largest representatives — the *Fonds de solidarité des travailleurs du Québec (FTQ), inc.*, and the Working Ventures Canadian Fund, Inc. — are also the two largest venture capital institutions nationwide. With over \$2 billion in assets, collectively, labour-sponsored funds manage approximately one-third of total venture capital and are responsible for close to 30 percent of the dollar value of total venture investments. In 1995, the funds attracted the savings of nearly 379,000 individual Canadians — a plurality of whom were unionized workers affiliated with sponsors.

These are just some of the facts about labour-sponsored funds uncovered in a 1994-95 research project investigating their role and performance in the Canadian economy. This work was undertaken by the Canadian Labour Market and Productivity Centre (CLMPC) on behalf of the business and labour members of its Task Force on Access to Capital. Set up in 1993, this body's agenda is to discuss and make recommendations concerning the issue of capital availability for high-value added investment.

*The Role and Performance of Labour-sponsored Investment Funds in the Canadian Economy: An Institutional Profile* was written to assist Task Force deliberations. The paper does not necessarily reflect, however, any consensus views of business and labour on this topic.

This research project was undertaken at a time when the profile of labour-sponsored funds was very high. They have inspired close scrutiny and divergent commentary. Attention has been focussed on associated tax preferences, and to a lesser extent, on the activity of the funds in capital markets. It is not the intention of this document to make a case for or against the use of the tax system in support of the funds (or for and against

alternative uses of public dollars). Neither is it intended to look at the impact of the funds on the investment decisions of individual buyers. Rather the intention is to provide much-needed information that yields a multi-dimensional picture of this new and unusual financial institution. In general, CLMPC research has sought to collect and present data about the funds, touch on relevant concerns, point to strengths and weaknesses — where there is evidence — and, it is hoped, increase popular understanding.

Above all, the research aims to help determine a set of appropriate and informed parameters by which the effectiveness of labour-sponsored funds may be analyzed and evaluated over time. In this way, the CLMPC wishes to contribute positively to ongoing debate.

When research began in 1994, there was very little intelligence about labour-sponsored funds that existed in written form, particularly outside of Québec. This changed recently with the publication of several reports, such as the report of the federal Standing Committee on Industry (*Taking Care of Small Business*, 1994), a study of the *Fonds de solidarité* by the *Institut national de la recherche scientifique* (1995), and the CLMPC's *The Role and Performance of Labour-sponsored Investment Funds: Some Preliminary Findings* which was presented to the federal Standing Committee on Finance in April, 1995.

The range of quantitative and qualitative data on the funds will be advanced further by publication of the companion piece to this paper — *Adding Value: The Economic and Social Impacts of Labour-sponsored Venture Capital Corporations on their Investee Firms*, written by Ted Jackson and François Lamontagne of Carleton University's Centre for the Study of Training, Investment and Economic Restructuring (CSTIER).

For this report, the CLMPC overcame an information gap only with the co-operation of the funds and sponsors. The leading funds gave the CLMPC complete and unprecedented access to confidential files and records. These data were supplemented by exhaustive interviews with senior directors and officers as well as, in many cases, their written answers to CLMPC-drafted questionnaires.

In reading this document, it should be remembered that the legal and market environment for labour-sponsored funds is in a constant state of flux. With respect to many factual details, what follows is best seen as a snapshot of the funds taken in the period 1994-95.

The CLMPC would like to thank participants in this exercise and, especially the following: Fernand Daoust, président du conseil d'administration, Pierre Laflamme, premier vice-président, Denis Leclerc, vice-président, Michel Blondin, directeur, Michel Coulombe, directeur, Angèle Houle and Raynald Aubin, the *Fonds de solidarité*; Ron Begg, President, Working Ventures; David Levi, President and CEO, Mike Phillips, Vice-president, and Anne Cameron, Manager, Working Opportunity Fund, Ltd.; and, Sherman Kreiner, President and CEO, the Crocus Investment Fund, Inc. Other directors, officers, and staff of all eighteen funds and sponsoring labour centrals/unions, are also warmly acknowledged.

Other key participants include the following labour leaders: Ken Georgetti, President, British Columbia Federation of Labour; Clément Godbout, président, *Fédérations des travailleurs et travailleuses du Québec*; Susan Hart-Kulbaba, President, Manitoba Federation of Labour; James McCambly, President, Canadian Federation of Labour; and, John McEwen, President (former), New Brunswick Federation of Labour,

Provincial government legislative and regulatory officials were also interviewed. Their co-operation is also acknowledged, with thanks — and particularly that of Joe Lambert of the Ontario Ministry of Finance. At the federal level, senior officials from Finance Canada, Human Resources Development Canada, and Industry Canada, also provided considerable assistance.

The CLMPC also sincerely appreciates the contribution of Canadian venture capital expert Mary Macdonald and her colleague at Macdonald and Associates, Ted Liu, who provided data and analytical feedback.

Other significant sources of advice to the researcher included Ted Jackson of CSTIER, François Lamontagne of the New Economy Development Group, and Dwight Justice of the International Confederation of Free Trade Unions (ICFTU). In addition, Mr. Justice provided current ICFTU data contributing to the development of this paper's Introduction.

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The views expressed in this report do not necessarily reflect those of the Government of Canada.

The CLMPC researcher and writer of this report is Kirk Falconer. Mr. Falconer was ably assisted in research work by Andrea Colleta.



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# Introduction

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The Canadian labour-sponsored investment fund concept has been around for twelve years now. For many observers (and particularly those outside of Québec), it seems like a more recent phenomenon that was unmistakable, at least, since 1990 when there began a steady and unabated proliferation in the number of funds. Actually, by the middle of 1995, labour-sponsored funds — also known in legal terms as labour-sponsored venture capital corporations — existed or were emerging in virtually all parts of Canada. Indeed, in June of 1995, as many as eighteen funds were either:

1. fully or near fully established, meaning that they have been raising capital, making investments, and developing programs for at least two years. This includes the *Fonds de solidarité des travailleurs du Québec (FTQ), inc.*, the national Working Ventures Canadian Fund, Inc., the Working Opportunity Fund (EVCC), Ltd., and the Crocus Investment Fund, Inc., of Manitoba. These funds are referred to periodically in subsequent pages as the “leading funds”;
2. in an early phase of institutional development, meaning they had just begun raising capital and making investments in 1994. This includes the Integrated Growth Fund, Inc., and the DGC Entertainment Ventures Corporation, Inc., both of Ontario, or;
3. in a phase of institutional start-up, meaning they are currently embarking on initial capitalization, etc., in 1995. This includes a total of twelve registered funds, eleven of which reside in Ontario — including Capital Alliance Ventures, Inc., the Canadian Medical Discoveries Fund, Inc., the First Ontario Labour-sponsored Investment Fund, Ltd., and the Vengrowth Investment Fund, Inc., — and one in New Brunswick, the Workers Investment Fund, Inc.

Today, only two provinces — Alberta and Newfoundland — have not introduced legislative frameworks to create and direct one or more labour-sponsored funds, assisted by federal and provincial tax and spending subsidies. Figure 1 identifies each of the eighteen funds, their official labour sponsors, and corresponding statutes, by jurisdiction. Additional fund inceptions are anticipated for 1996, situated chiefly in Ontario.

At the end of 1994, over 281,700 individual Canadians owned shares in six labour-sponsored funds. The net asset size of these funds, in aggregate, was \$1.3 billion. By the end of the second quarter of 1995, this statistical profile had already changed markedly. Following sales associated with the season for contributions to registered retirement savings funds (RRSP's), close to 378,600 Canadians (over 60 percent of whom live in Québec) owned shares in fourteen funds. And by the year's end, the net asset size of the funds, in aggregate, rose to just over \$2.0 billion.

# Figure 1

## Eighteen Labour-sponsored Investment Funds in Canada, Sponsor Names and Corresponding Legislation, by Jurisdiction, 1995

Name and Founding Year	Union Sponsor(s)	Governing Legislation
Fonds de solidarité des travailleurs du Québec (FTQ), Inc. (1983)	Fédération des travailleurs et travailleuses du Québec	Act to create the Fonds de solidarité des travailleurs du Québec (FTQ)
Working Ventures Canadian Fund, Inc. (1988)	Canadian Federation of Labour	Federal Income Tax Act and provincial statutes
Working Opportunity Fund (EVCC), Ltd. (1991)	Working Enterprises, Ltd. (owned by eight unions including the British Columbia Federation of Labour)	Employee Investment Act (British Columbia)
Crocus Investment Fund, Inc. (1992)	Manitoba Federation of Labour	Manitoba Employee Ownership Fund Corporation Act
Integrated Growth Fund, Inc. (1993)	United Food and Commercial Workers Int'l Union; Labourers Int'l Union of North America, Amalgamated Clothing and Textile Workers Union; United Brotherhood of Carpenters and Joiners of America	Labour-sponsored Venture Capital Corporations Act (Ontario)
DGC Entertainment Ventures Corporation, Inc. (1993)	Directors Guild of Canada	Labour-sponsored Venture Capital Corporations Act (Ontario)
Active Communications Growth Fund, Inc. (1994)	Alliance of Canadian Cinema, Television and Radio Artists	Labour-sponsored Venture Capital Corporations Act (Ontario)
Canadian Medical Discoveries Fund, Inc. (1994)	Professional Institute of the Public Service of Canada	Labour-sponsored Venture Capital Corporations Act (Ontario)
Capital Alliance Ventures, Inc. (1994)	Professional Association of Foreign Service Officers	Labour-sponsored Venture Capital Corporations Act (Ontario)

**Figure 1 (Cont'd)**  
**Eighteen Labour-sponsored Investment Funds**  
**in Canada, Sponsor Names and Corresponding**  
**Legislation, by Jurisdiction, 1995**

Name and Founding Year	Union Sponsor(s)	Governing Legislation
CI-CBA Business Ventures Fund, Inc. (1994)	Canadian Police Association	Labour-sponsored Venture Capital Corporations Act (Ontario)
FESA Enterprise Venture Capital Fund of Canada, Ltd. (1994)	Federation of Engineering and Scientific Associations	Labour-sponsored Venture Capital Corporations Act (Ontario)
First Ontario Labour-sponsored Investment Fund, Inc. (1994)	Communications, Energy and Paperworkers Union of Canada; United Steelworkers of America; Service Employees Int'l Union	Labour-sponsored Venture Capital Corporations Act (Ontario)
Sportfund, Inc. (1994)	Canadian Football League Players Association	Labour-sponsored Venture Capital Corporations Act (Ontario)
TCU Development Fund, Inc. (1994)	Transportation-Communications Int'l Union	Labour-sponsored Venture Capital Corporations Act (Ontario)
Trillium Growth Capital, Inc. (1994)	Brewery, General and Professional Workers' Union	Labour-sponsored Venture Capital Corporations Act (Ontario)
Vengrowth Investment Fund, Inc. (1994)	Association of Public Service Financial Administrators	Labour-sponsored Venture Capital Corporations Act (Ontario)
Workers' Investment Fund, Inc. (1994)	New Brunswick Federation of Labour	Act respecting Workers' Investment Fund, Inc.
Retrocomm Growth Fund, Inc (1995)	Int'l Brotherhood of Electrical Workers/Construction Council of Ontario; Labourers' Int'l Union of North America; Ontario Pipe Trades Council	Labour-sponsored Venture Capital Corporations Act (Ontario)

**Source: CLMPC, based on fund data, 1995**

**Figure 2**  
**Labour-sponsored Investment Funds**  
**in Canada, Profile for End-of-year, 1995**

<b>Fund</b>	<b>Asset Size (\$ million)</b>	<b>Total Shareholders</b>	<b>Portfolio Value (\$ million)</b>	<b>Current # of Investments</b>
Fonds de solidarité des travailleurs du Québec	\$1,300.0	239,300	\$641.0	131
Working Ventures Canadian Fund	\$498.0	91,000	\$133.4	52
Working Opportunity Fund	\$82.7	15,000	\$20.6	15
Vengrowth Investment Fund	\$32.8	7,900	\$4.0	3
Crocus Investment Fund	\$26.2	6,600	\$9.0	7
Retrocomm Growth Fund	\$22.5(1)	n/a	n/a	n/a
Canadian Medical Discoveries Fund	\$17.3	4,400	\$5.3	5
CI-CBA Business Ventures Fund	\$16.5	4,100	\$4.5	3
Integrated Growth Fund	\$15.3	3,900	\$3.1	6
Capital Alliance Ventures	\$5.8	1,500	\$1.0	2

**Figure 2 (Cont'd)**  
**Labour-sponsored Investment Funds**  
**in Canada, Profile for End-of-year, 1995**

<b>Fund</b>	<b>Asset Size (\$ million)</b>	<b>Total Shareholders</b>	<b>Portfolio Value (\$ million)</b>	<b>Current # of Investments</b>
Trillium Growth Capital	\$4.7	1,500	\$0.3	1
DGC Entertainment Ventures Corporation	\$4.3	1,100	\$0.8	3
Sportfund	\$3.5	850	n/a	n/a
FESA Enterprise VC Fund	\$3.3	800(2)	n/a	n/a
First Ontario LI Fund	\$2.1	650	n/a	n/a
Active Communications Growth Fund	n/a	n/a	n/a	n/a (3)
TCU Development Fund	n/a	n/a	n/a	n/a (3)
Workers Investment Fund	n/a	n/a	n/a	n/a (3)
<b>Total</b>	<b>\$2,035.0</b>	<b>378,600</b>	<b>\$823.0</b>	<b>228</b>

(1) In 1995, Retrocomm's assets derived from pension funds primarily.

(2) CLMPC estimate.

(3) These funds have not yet begun raising capital.

Source: CLMPC, based on fund data, Fall/Winter, 1995

Close to two-thirds of the eighteen labour-sponsored funds have made investments so far. By the end of 1995, the total number of investment projects was 228 in portfolios valued at approximately \$823 million (see Figure 2). These data represent an increase in the number of actively investing funds (from seven to eleven — and at least two more are on the verge of making a first investment) since the first quarter of 1995, as well as an increase in dollars placed in eligible small and medium-sized firms of over \$240 million.

It should be noted that total amounts invested still appear out of proportion with assets under management due partly to the majority of funds that have not yet reached capitalization thresholds necessary to prudent deal-making. Another impediment has been unresolved legal and regulatory hurdles in some jurisdictions. Investment activity is expected to intensify substantially over the remainder of 1995 and throughout 1996.

## **Labour and capital markets**

Some observers of labour-sponsored investment funds are surprised by the seemingly new desire of unions for a place in Canada's financial system. Actually, some interest in matters of investment and financing has been present among workers and unions for most of this century. Until very recently, interest has been somewhat more pronounced in labour movements abroad than it has been in the Canadian labour movement. However, since the 1950s, there has been steady growth in the number of workers, organized and unorganized, entering capital markets everywhere. Moreover, this has transpired through an ever wider spectrum of financial institutions and instruments in most industrialized countries.

These trends are confirmed in data and illustrative national profiles provided to the CLMPC by the International Confederation of Free Trade Unions (ICFTU).

Internationally, there have been two conventional routes by which workers can become capital market entrants. First, as individuals, they can subscribe to various measures facilitating employee financial participation and ownership. Such measures are frequently sponsored by employers and allow employees to share in profits or to purchase and own some portion of a company itself. Second, enlargement of financial influence and rewards for workers can be obtained, on a collective basis, through their control over industrial pension and superannuation plans.

### ***Models of labour involvement***

Before 1990, there was little diffusion of employee financial participation and ownership outside of industrial structures in a few countries. One of the exceptions is the United States where the continuing spread of employee share ownership plans (ESOPs) since the 1980s has been stimulated by legislation and tax expenditures. Under the primary ESOP model, a tax deduction enables worker trusts to borrow money by which shares in enterprises are bought. This has resulted in millions of participating Americans in over 10,000 firms, though the model does not always confer voting rights or other decision-making authority.

Similarly, government advocacy of the “share economy” has led to popular tax-subsidized programs in France and the United Kingdom. In recent years, there are indications of still greater incidence of employee financial participation and ownership. For instance, the European Community, prompted somewhat by French and British experiences, is urging all member states to grant fiscal incentives for this purpose.<sup>1</sup>

Pension funds have historically been labour’s main vehicle for collective capital formation. This activity has been more prevalent in Europe than in North America mostly because of a well-ensconced tradition in the former whereby labour joins in bipartite or tripartite control over plan management. For instance, since 1960, Swedish representatives of business, government and labour constituencies have overseen disbursements of the huge assets of centralized pension schemes based on employee earnings and benefits. Known as the supplementary pension system (or the ATP), this model consists of five funds that invest broadly in Swedish socio-economic goals, including a fixed amount of venture financing projects.

Unions in Denmark have perhaps gone furthest in exercising influence over pension investments. The employees capital pension fund (ECPF) does considerably more share-buying than does Sweden’s ATP system and is more actively engaged in investment performance. Along with sending representatives to boards of directors of investee firms, ECPF organizes informational networks and support services, promotes co-operation between employers and employees, and delivers economic and financial training (traits this CLMPC research report identifies with Canadian labour-sponsored funds). Like the Swedish ATP, the ECPF is a large and formidable institutional investor in Denmark’s capital markets.

Danish and Swedish institutions for mobilizing and directing the accumulated savings of pension and superannuation plans have been studied and duplicated by labour and public policy-makers elsewhere in Europe and in Australia.<sup>2</sup>

Another significant union experiment in collective capital strategy is wage earner funds. Though debated at great length in labour movements in Germany, Austria and Scandinavian countries, such funds were only implemented in Sweden in 1983. At that time, five regionally-based funds, capitalized by profit sharing and a payroll levy, were established to take minority shareholdings in different enterprises on behalf of workers. Notwithstanding its demise in 1991, following the withdrawal of government support, the Swedish conception of wage earner funds suggests new potential for effective worker ownership that has a collective — as opposed to an individual — foundation.

Workers and unions also have a stake in roughly four decades of the Mondragon co-operative system in the Basque region of northern Spain. Once again, through collective action, labour has helped initiate the Mondragon group of self-managed firms which have consistently increased jobs in manufacturing, technology and other production despite regional economic constraints and downturns. This success has depended on heavy investment supplied largely by a credit co-operative — *Caja Laboral Popular* — which draws on local savings.

Prior to about two decades ago, labour's financial innovations worldwide were predominantly small in scale and focussed on industrial and workplace democracy or the distribution of wage-related benefits to workers. These objectives have since been overtaken by concerns about the mounting consequences to national societies of cyclical and structural changes in the global economy since the early 1980s.

Increasingly, union leaders everywhere are expressing the need for more productive investment to aid national wealth generation, economic growth and development. Such investment, they have surmised, must be ascertained if existing jobs are to be protected and new jobs created. Furthermore, it is argued that a fresh effort is required with new and alternative financial tools — influenced by labour — that are well-resourced enough to make diversified, high risk investments with long time horizons. This is all the more important in the current global environment of financial liberalization where capital is very mobile, but, according to some economists, may not necessarily be available to meet specific national priorities.<sup>3</sup>

With the exception of wage earner funds and a few additional vehicles, so far only the mobilization of collectively-held pension savings is sufficiently large in scale to give labour in many countries the opportunity and ability to shape macro-economic outcomes. This may be increasingly true as fragmentation and differentiation of national labour markets make comparable strategies more complicated for unions to undertake.<sup>4</sup>

### ***Emergence of labour-sponsored funds***

To repeat, Canada's labour movement has less experience than others with the organization of savings, investment and capital formation. Many Canadian unions remain skeptical about the American ESOP system and some ill-fated versions of employee financial participation and ownership. Only recently has worker ownership been more seriously considered, given the demonstrated utility of buyout transactions to preserve employment in restructuring industries, among other things.

For different reasons, even less attention has been paid to harnessing the investment power of pension plans in Canada, though the \$750 million Vancouver Land Corporation, run by several jointly trustee pensions, is a prominent exception.

Like their counterparts abroad, however, some senior Canadian labour leaders were convinced of the appropriateness of more direct capital market involvement in the wake of the 1981-83 economic recession and continuing high unemployment. In Québec, for example, labour was alarmed by permanent employment losses, plant closures, production and investment relocation, and other blows to the economy unseen since the depression of the 1930s. These circumstances led Louis Laberge and other leaders of the *Fédération des travailleurs et travailleuses du Québec* (FTQ) to search for alternative ways of fostering Québec economic development.

Unlike labour abroad, however, the FTQ proposed a completely new vehicle. After studying international models for collective capital formation, the FTQ designed the first labour-sponsored investment fund — the *Fonds de solidarité* — with a domestic reference in mind. The *Fonds de solidarité* derives from Québec capital markets and,

more particularly, the *Régime d'épargne-actions du Québec* (the Québec Stock Savings Plan) which gave individual investors a tax deduction on the public offerings of Québec-based small business. Laberge said that the then sitting *Parti Québécois* government should co-operate in providing another program that was more clearly beneficial to non-traditional investors, such as workers.<sup>5</sup>

The *Fonds de solidarité* model was also distinct from the *Régime d'épargne-actions* in that it geared share purchasing towards inception of an FTQ-controlled institution and equity pool with a similar mandate for financing small and medium-sized enterprises. On top of this, the new fund would have a multi-faceted investment mandate to which other social and economic objectives are integral.

Following its creation in 1983, the *Fonds de solidarité* model has been emulated and adapted to other Canadian jurisdictions. In 1988, for instance, the federal government amended the Income Tax Act to establish the first national labour-sponsored investment fund — Working Ventures — under the auspices of the Canadian Federation of Labour. Like its Québec predecessor, the origins of Workings Ventures lie in the recession.

More provincially-based funds followed. This began in 1991 with Working Opportunity, sponsored by a multi-union group that includes the British Columbia Federation of Labour, and in 1992 with the Crocus Fund, sponsored by the Manitoba Federation of Labour. Since then, most provinces have confined themselves to a so-called “home” fund or have allowed for the introduction of Working Ventures or have done both (e.g., New Brunswick). The passage of legislation in Ontario in 1992 heralded a new trend — that of numerous funds in a single jurisdiction (again, see Figure 1).

As is the case with equivalent institutions in other countries, the inception of labour-sponsored funds in Canada has always occurred with the strong advocacy of public policy. In fact, enabling legislation, tax credits and other incentives have been implemented and endorsed by Canadian governments of all political stripes — Conservatives, Liberals, New Democrats, the *Parti Québécois*, and Social Credit — which suggests something of the perceived value of the funds in the deployment of public policy requirements.

Research conducted by the CLMPC indicates that, despite some key differences, labour-sponsored funds share several qualities in common — to a greater or lesser extent. These qualities reflect founding principles contained in the statutes of government and/or in the private mandates developed by the funds themselves. It is critical to examine these characteristics in order to understand the many aims the funds were conceived to meet, including requirements made of them by legislators both at the provincial and federal levels. This is the task assumed in the following sections.



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# Salient Features of Labour-sponsored Investment Funds

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The following are ten salient characteristics of labour-sponsored investment funds. Along with a description of each of these is some evidence of the relative success of the funds in addressing public and private requirements. Such evidence draws predominantly on the performance of the *Fonds de solidarité* given its comparatively long history and evolution.

## **(i) Responsiveness to public policy concerns**

The key to the exponential asset growth of labour-sponsored investment funds is no secret. Much has been made of the fact that funds benefit from generous indirect — or tax-delivered — and direct financial assistance from government. This has been a cause of considerable criticism of the funds and government in an era of fiscal restraint and deficit/debt reduction. This remains an issue which legislators may be addressing. As was earlier indicated, comment on the size of the tax preference is not an objective of this paper.

It is useful to recollect the stated reasons why governments in Canada elected to support labour-sponsored funds at the outset. Of course, motivations differ among jurisdictions, but as was mentioned earlier, diverse political administrations identified public utility in the concept. The funds have been seen, for example, as a means of strengthening the national venture capital market and provincial/regional sub-markets. They are expected to address alleged gaps in financing for the small business sector and others on the demand side. In all cases, it was hoped they would produce tangible economic rewards, such as jobs. And in most cases, funds were supposed to facilitate a new role for unions and workers in the economy.

These are just a few reasons — others will be referred to in succeeding sections. What is material in this discussion is that while decisions are made at arms-length from government, labour-sponsored funds must, by definition, always remain relevant and accountable to public policy concerns. To ensure responsiveness, Canadian governments have crafted detailed regulations, standards, milestones and restrictions about investment and related matters in legislative frameworks. It is imperative that funds act within these frameworks. Indeed, it is arguable that, so far as government tax expenditure programs go, labour-sponsored funds function under fairly explicit and enforceable guidelines.

## *Government fiscal support*

Prominent among the incentives of value to labour-sponsored funds are federal and provincial tax credits. Available to individual Canadians to offset the cost of share purchases in the funds, each credit is worth 20 percent.

Access to both credits is almost universal across the country. Full availability depends, of course, on the promulgation of tax legislation in all provinces. Presently, Alberta and Newfoundland have not enacted such legislation, though residents in these jurisdictions can still subscribe to a national labour-sponsored fund using the federal credit. Where funds are provincially-constituted, complete access is assured. This gives a 40 percent reduction in personal outlays for the net cost of share acquisitions, or savings worth \$2,000 on a \$5,000 investment, for example.

Both the federal and provincial credits are not automatically available, however, to investors in a national fund. In this instance, provincial authorities offer a matching credit only under conditions that are amendable to them. Working Ventures, for example, must negotiate with provincial governments to make credits available if it is to enter a given jurisdiction to both raise capital and invest.

All governments impose limits on tax subsidization and, by extension, on overall buying, though these may vary in size and nature, by jurisdiction. To illustrate, the federal credit functions with a \$1,000 maximum limit per individual in a given tax year. In British Columbia, the total cost of the fund program to the provincial treasury is controlled, in part, by a lifetime limit on each person's ability to trigger the credit when acquiring shares (currently, this is \$10,000 on cumulative investments totalling \$50,000).

Labour-sponsored funds also benefit from the federal tax deduction for transferring or otherwise keeping an individual's shares in RRSPs. For the \$5,000 investment — made by a person with a \$35,000 income, taxable at recent rates — this results in a further \$2,000 plus in tax savings (and, as with all deductions, total savings rise with income). Shares also qualify as contributions to registered retirement income funds (RRIFs).

Availability of the federal deduction explains why the most intensive period for capital accumulation among labour-sponsored funds is the RRSP season ending in March of every year. Moreover, the generosity of the tax savings package to many thousands of participating Canadian taxpayers explains the frequent doubling and tripling of initial fund assets — combined with well-organized and well-executed sales campaigns.

Given that the bulk of this year's fund capital has already been raised, and stands at a minimum of \$700 million, total federal tax revenues foregone (due to the credit) doubtless is in excess of \$140 million in 1995. A more precise tax calculation would also have to estimate the cost of fund-inspired deposits into RRSPs (evidence suggests that not all money placed in a fund would otherwise go into an RRSP). According to the federal Standing Committee on Industry, this renders labour-sponsored funds the "largest single instrument of federal support for venture capital formation in Canada."<sup>6</sup>

Labour-sponsored funds also enjoy other forms of public treasury support, the nature of which varies individually. The *Fonds de solidarité*, for example, is exempt from paying any annual Québec corporate taxes. This status is an anomaly, however, as other funds are subject to the same federal and provincial taxation applied to Canadian private corporations.

More common is direct assistance. This comes in many kinds, such as grants, loans and loan guarantees for institutional start-up, early development and promotion. In some cases, governments also acquire shares (typically, these are a special class without dividend entitlement or other rights) to help overcome capitalization difficulties. Finally, government may contribute directly to specific fund initiatives, such as education and training programs.

### ***Requirements of statutes***

Along with giving labour-sponsored funds resources, participating governments have accorded them legal status. Enabling statutes permit them to exist as private entities rendering decisions about investment and related matters without interference by public authorities. The funds must nevertheless abide by very important constraints. Such constraints include issues pertaining to solvency, conflict of interest, and consumer protection as determined by securities law and enforced by regulators at provincial securities commissions. Equally important are legislative strictures which, to paraphrase Louis Laberge, reflect the responsibilities that must accompany tax privileges.<sup>7</sup>

Federal and provincial legislation giving life to funds usually contain a mixture of labour aspirations and government specifications. Originally, these statutes were conceived and drafted, sometimes line by line, through extensive collaboration between union leaders, politicians, and bureaucrats, thus establishing useful prototypes for other jurisdictions in Canada.

Sometimes, statutes contain a summary of a fund's philosophy and essential goals. This is the case in Québec, where the 1983 act to create the *Fonds de solidarité* sets out the fund's four basic aims to (1) make investments that create or maintain jobs; (2) stimulate the provincial economy; (3) give average working people an investment opportunity; and, (4) provide economic and financial training to workers.

This was similarly done in 1994 in the preamble to the New Brunswick legislation initiating the Workers Investment Fund, which reads:

*“WHEREAS the New Brunswick Federation of Labour recognizes the need to support economic development and renewal and considers it to be in the public interest to promote long-term capital formation and broad understanding of local ownership;*

*AND WHEREAS it is in the public interest to provide the Workers Investment Fund, Inc., with certain authorities for the purposes mainly of making investments with a view to earning income and promoting and maintaining capital retention, job creation, job retention, economic stability and the awareness and involvement of workers in economic matters...”<sup>8</sup>*

Such statements defining the mandate of the new institution are generally followed by enumeration of legislative requirements that pertain to:

1. determination of fund decision-making, such as a definition of the union sponsor and scope of powers;
2. definition of an eligible shareholder, such as terms and conditions of common shareholding and tax credit access;
3. investment eligibility and requirements, such as the nature, timing and level of small business financings and liquid reserves.

The most substantial demands made of labour-sponsored funds have to do with the latter concern about investments made in small and medium-sized companies. For instance, the law usually stipulates that a clear proportion of fund assets (e.g., 60-80 percent) be applied to eligible equity disbursements within a fixed time frame (e.g., one to two years from the moment shares were first bought). The balance of assets are expected to be put into liquid securities (e.g., government securities and bonds) that contribute to diversification of the investment portfolio and provide a ready source of capital for share redemptions by investors at the end of specified shareholding periods (e.g., five years in Ontario, the age of retirement in Québec).

Furthermore, a fund may be confined to investing in industrial activity taking place within a certain set of boundaries, such as a province (e.g., eligible firms in Ontario must have 50 percent of its employees and salaries provincially-based). In most instances, a fund is restricted to special circumstances under which it may assume majority voting shares in a firm. In general, minority control (i.e., less than 50 percent of total voting shares) is the prevailing rule.

Depending on the government jurisdiction, further stipulations may be attached, such as small business financing in certain industries that are oriented towards growth (e.g., high technology) or high value-added employment (e.g., manufacturing and processing). Most funds are also prohibited from entering certain kinds of transactions, such as investment in land development or real estate holdings. In other jurisdictions, such as the federal government and Québec, there exist broad legal parameters for a fund to invest in projects of its choosing.

Statutory frameworks for labour-sponsored funds also include some performance enforcement measures. For example, penalty taxes and charges may be applied to a fund if it fails to meet investment standards and deadlines. Some public authorities can also temporarily suspend or permanently revoke the registered status of a fund. Ceilings on the annual asset growth of funds are also imposed in some jurisdictions; however, these are fiscal measures and are not normally tied to performance.

Interestingly, as a national fund, Working Ventures has the special challenge of responding to non-harmonized standards and regulations on a multi-jurisdictional basis, but without the support of a central securities commission. Currently, the fund is fully operative (i.e., it both accumulates capital and invests) in five provinces where matching tax credits are provided.

Further details about government requirements are contained in subsequent sections and in the individual profiles of leading funds (see Appendix).

### ***Public policy concerns***

With the exception of the *Fonds de solidarité*, labour-sponsored funds have not been around long enough to determine an investment record for which they may be properly assessed. Indeed, like the *Fonds de solidarité*, most funds have expended energy and resources in the early years in capitalizing and gaining a foothold in an unfamiliar financial environment. This point notwithstanding, there have been several recent attempts at the federal level to review and evaluate the leading funds. In part, these took place because of calls from different quarters for a more regular review of the performance — and performance specifications — of labour-sponsored funds in light of combined monetary incentives.

For instance, in 1994, the federal Standing Committee on Industry examined the funds and, in particular, the activities of the *Fonds de solidarité* and Working Ventures, in the context of a number of issues regarding current capital supply and demand trends. Based on its deliberations, the Standing Committee proposed a measure to match the annual capital raising of the funds with investment records of kinds of financings deemed to be in the public interest. This was intended as a self-regulating mechanism, subject to a yearly audit and is not dissimilar to some existing provisions.<sup>9</sup>

The federal Auditor General made the same argument, noting that incentives should be more closely tied to specific performance criteria and targets. It is important to mention that this view is consistent with the general critique made by the Auditor General about all federal direct and indirect expenditure programs, both personal and corporate.

Concern has also been expressed about how some new labour-sponsored funds have departed from the concept as originally envisioned and enacted. Recently, the head of the Ontario Securities Commission criticized several provincial funds that may be diluting the control of union sponsors (see Section iv below). This concern is associated with a growing practice among some funds to pay fees or a percentage of income to sponsors as a substitute for their involvement.<sup>10</sup>

Directors of leading labour-sponsored funds have articulated similar disapproval and have further argued that all funds should observe distinct benchmark standards — for example, on union control/influence and employment objectives — considering the degree to which they rely on public dollar infusions.

As they evolve, labour-sponsored funds will doubtless be subject to increased government scrutiny. Whatever major changes to statutory regimes such scrutiny brings cannot be unilateral at this juncture but must be co-ordinated between provincial and federal jurisdictions.

## **(ii) Interest in Canadian private equity markets geared to risk**

Labour-sponsored investment funds may be described as a financial hybrid with characteristics derived from institutions in both public and private equity capital markets.

### ***Links to public markets***

For instance, labour-sponsored funds are often compared with mutual funds — money market, fixed income and equity funds — which invest across the risk scale of securities in publicly-traded exchanges. The chief resemblance of the two is in a shared method of capital raising. Both species of funds operate in a public venue for soliciting and subscribing thousands of individuals from all walks of life and all corners of Canada (one quarter of Canadian households have invested in mutual funds). In other words, the asset base of both depends on a large body of small shareholders.

In actuality, many labour-sponsored funds, such as Working Ventures and Working Opportunity, utilize the same public market channels, resources and licensed personnel as mutual funds in the distribution of shares located predominantly in Toronto, Montréal, Vancouver and other Canadian financial centres.

A critical difference between labour-sponsored funds and mutual funds exists, however, in methods for liquidating investments. With the latter, individual investors have the utmost flexibility in selling their shares. Shares acquired in the former, on the other hand, must be held for a much longer spell. Persons wanting to redeem their investment earlier have no market for this purpose and must forfeit tax savings. This difference suggests something of the exigencies faced by labour-sponsored funds in the venture capital market.

Fund officers must take pains to remind potential share buyers of such distinctions. In fact, it is with regard to this issue that provincial securities commissions are most likely to monitor labour-sponsored funds, or have them investigated, out of concern for consumer protection.

### ***Links to private markets***

Financial institutions are often delineated from one another according to function — or functions — and inherent risks. The top chartered banks, for example, concentrate on low risk consumer and commercial lending. If a lending institution seeks to enter riskier financial territory, such as venture financing, it may establish a separately-capitalized entity governed by rules and procedures inapplicable to credit. With greater risk, of course, comes the possibility of higher returns. Such rewards are what drew some banks and near-banks to join, through subsidiaries, those institutions traditionally involved in private equity markets — venture capital institutions, merchant banks, informal venture capitalists (also known as “angels”), institutional investors making private placements, and so on.

From the beginning, labour-sponsored funds chose the latter route. As Section (v) discusses, this had less to do with profits than it did the perception that conventional

financial institutions could not — or would not — aid Canadian companies that promised jobs, but that also promised exceptional risk. The FTQ founders of the *Fonds de solidarité* believed that venture capital was key to economic development and perhaps was more accurately termed “development” capital.

### ***Venture financing***

Simply put, venture financing is the supply of high risk capital to developing enterprises. Unlike low risk financing, such capital is not secured by assets and is most commonly provided as an equity investment (common or preferred shares) and as convertible debt or debt to which equity is otherwise attached. Venture financing is also distinguished by its residence in deals for long duration, usually three to ten years, and hence, is known as “patient” capital.

Developing enterprises — seed projects, start-ups, early stage and growing firms, rapid expansions, companies undergoing restructuring and buyouts, turnarounds, etc. — rely heavily on venture capital to facilitate their special long-term requirements. Such industrial activity always carries risk, sometimes because a product idea is in its infancy or because firm assets are intangible and, consequently, are not seen as being suitable for conventional financial backers. It could be also that the pace of firm growth is exceptionally fast.

Venture capitalists do not just supply money. As temporary shareholders, they bring other crucial resources of knowledge, experience, infrastructure, and networks to developing enterprises. They are active investors, taking seats on boards of directors of investee firms and providing expert guidance on matters of business strategy and financial management. Venture professionals are frequently sought for these very qualities, especially those that have backgrounds in certain sectors, such as high technology, as they add tremendous value to the growth process. For this reason, venture capital is also known as “knowledgeable” capital.

The number and types of institutional participants in the venture capital market has steadily increased over the years. Principally, these are private independent firms, the subsidiaries of corporate organizations or financial institutions, and institutions operated by government or supported by it. The latter category has been defined by Canadian venture capital expert Mary Macdonald as “hybrids” and encompasses labour-sponsored funds, though there are other significant hybrid varieties situated mostly in the western provinces.<sup>11</sup>

Increasingly, venture financing is being acknowledged as indispensable to new generations of companies and jobs in a changing Canadian economy. The resource and structural needs of a struggling venture capital market of the 1980s and 1990s served as a primary impetus for Canadian government legislative and monetary aid of labour-sponsored funds as an alternative to direct government intervention.

Prior to 1990, the presence of labour-sponsored funds in Canada’s venture capital market was almost exclusively that of a young *Fonds de solidarité*. However, in subsequent years, the dramatic climb in the assets, shareholders and investment activity of the *Fonds*

*de solidarité*, and the appearance of Working Ventures, Working Opportunity and the Crocus Fund, this picture was completely altered. By 1994, labour-sponsored funds had become a formidable collective force in the market.

### ***The funds and venture supply***

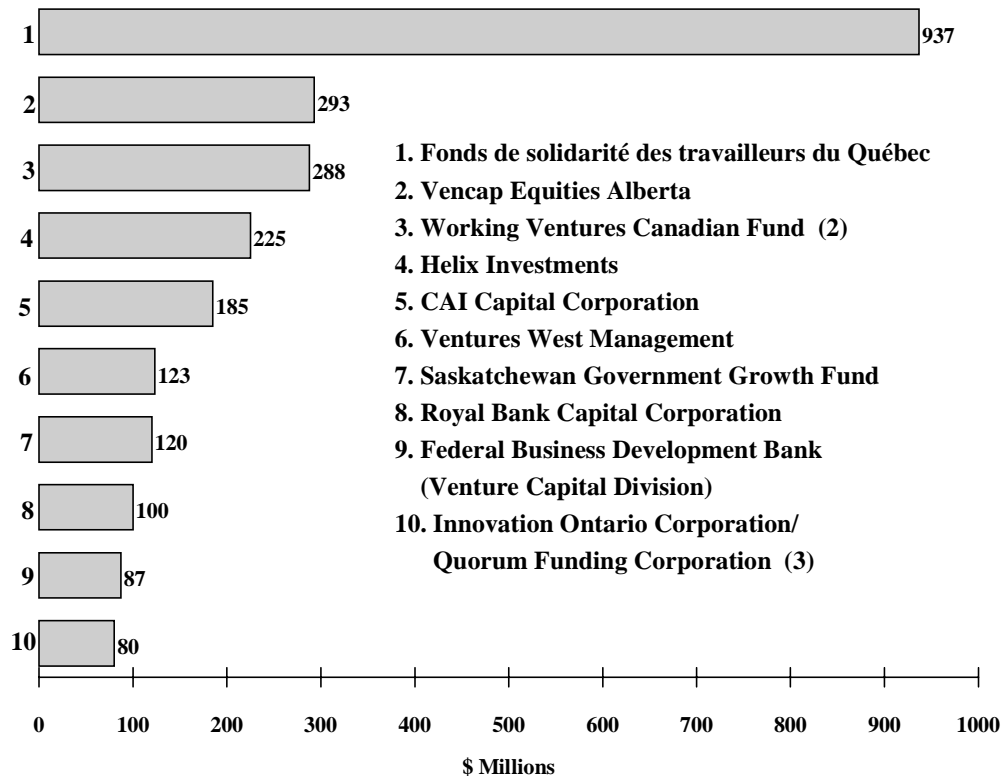
This development is seen in the position of the *Fonds de solidarité* and Working Ventures among the top three largest venture capital institutions in Canada in 1994 (see Figure 3). Indeed, at the beginning of 1995, these funds, at \$1.3 billion and \$500 million in assets respectively, were the first and second largest overall (as well, at over \$80 million, Working Opportunity is almost certainly among the ten or so largest institutions in Canada).<sup>12</sup>

This trend is further observed in the share of aggregate market resources, by investor type. At the end of the 1980s, labour-sponsored funds accounted for less than 10 percent of capital under management. This period was characterized by a burgeoning *Fonds de solidarité* and its leveraging of an above average share of resources and disbursements for Québec. Within four years, the share of capital held collectively by the funds quadrupled to 31.5 percent or just under one-third of all resources (see Figure 4).

In terms of sheer size, this made the funds second only to private independent firms as an investor type in 1993. All indications are that this strong market position will most certainly advance in the years ahead. CLMPC analysis of 1994 statistics prepared for the Association of Canadian Venture Capital Companies (ACVCC) suggests that in a national market grown to nearly \$5 billion, approximately \$3.30 in every ten dollars of venture capital was held by labour-sponsored funds (see Figure 5).

Moreover, the funds are making a positive contribution to the market's organization and direction. For instance, a major problem in Canadian venture financing in the past has been the cyclical volatility of capital flows which undermines the quantity and quality of long-term venture-backed deals. By attracting a new source of resources — the savings of households — labour-sponsored funds have created large, relatively stable pools of equity.<sup>13</sup>

### Figure 3 Top Ten Venture Capital Institutions in Canada, by Asset Size, 1994 (1)



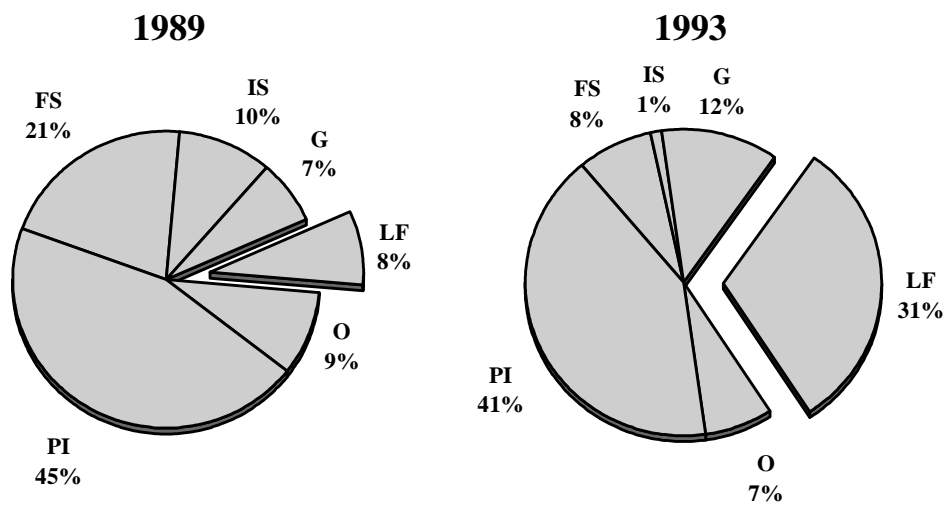
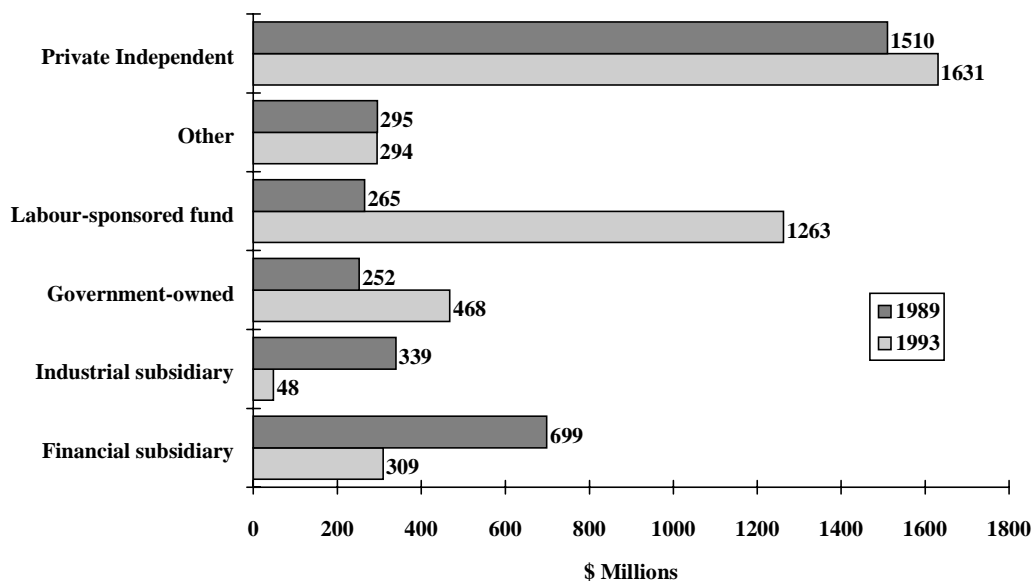
(1) assets are committed to a variety of financial functions, including venture financing.

(2) it is possible that Working Ventures finished 1994 in second spot due to considerable end-of-year growth.

(3) Innovations Ontario Corporation and Quorum Funding Corporation are separate and distinct venture capital firms, both with an 1994 asset size of \$80 million.

**Source: Association of Canadian Venture Capital Companies (ACVCC), 1994**

## Figure 4 Total Venture Capital, by Investor Type, 1989 and 1993



Source: CLMPC, based on Macdonald & Associates, 1994

Actually, according to data received from Macdonald and Associates and the ACVCC, without the shareholder recruitment efforts of the funds, market resources would certainly have declined due to outflows caused by institutional investors, such as pension funds and the subsidiaries of financial/industrial entities (in 1990-91, the market experienced net capital outflows, and in 1992, outflows and inflows were roughly even). Labour-sponsored funds have thus provided an important counter to negative cyclical effects.

It seems clear from 1994 data that the existing market share captured by labour-sponsored funds would be more sizeable still if inflows from elsewhere had not returned to pre-1990 levels in the last two years. However, even as broader supply has been restored, the funds still contribute most to a sharpening annual rise in total capital under management. In 1994, 53 percent of \$1 billion in new capital was acquired by labour-sponsored funds, as was 52 percent of \$775 million in new capital in 1993.<sup>14</sup>

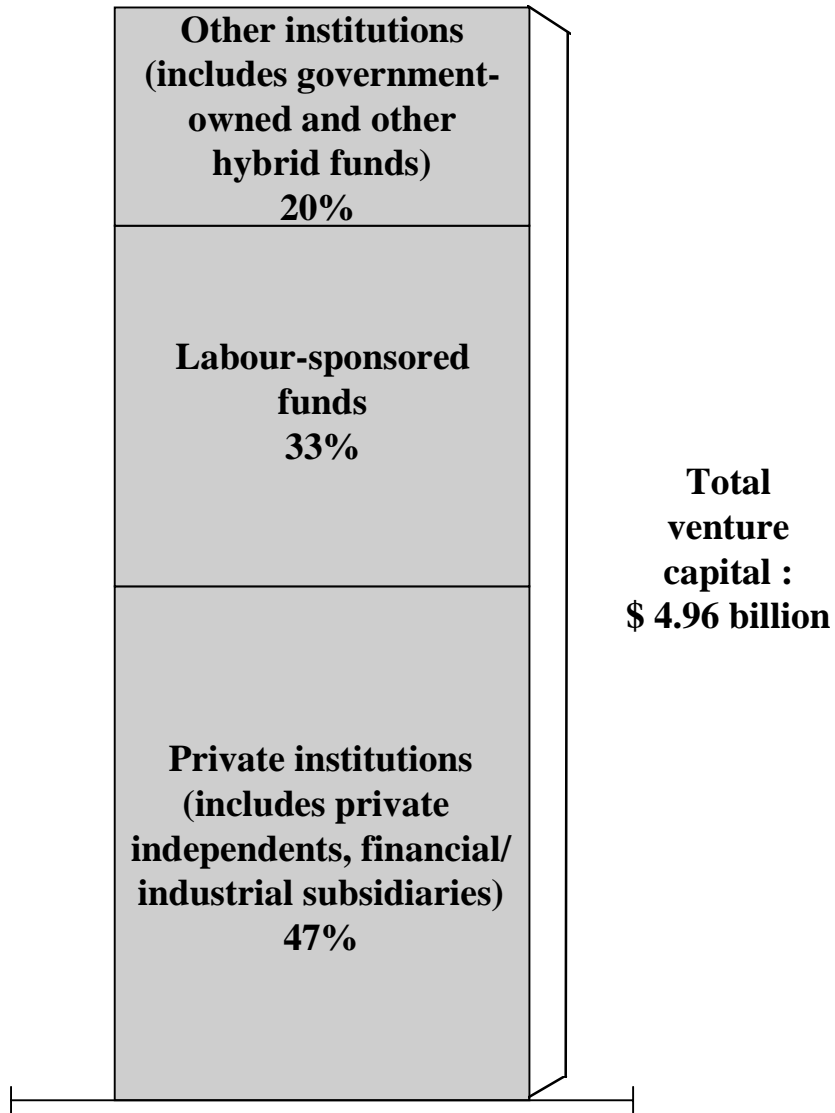
Finally, by having this supply impact, the funds have commensurately increased the role played by individual Canadians in the venture capital market. Indeed, as Figure 6 reveals, the recent entry of tens of thousands of individual investors (close to 100 percent of these entrants are fund shareholders — the remainder hold shares in publicly-traded institutions) has made them the overwhelming source of new resources at present. Along with those accrued benefits already noted, this trend ensures more diversity in supply. Prior to the emergence of labour-sponsored funds, the chief non-government suppliers were institutional investors — pension funds, large mutual funds and insurance companies, etc.

### ***The funds and venture investing***

Labour-sponsored funds have also become one of the market's biggest investors. According to Macdonald and Associates, in 1993 the funds were responsible for more than one in every ten new and follow-on venture investments and approximately 25 percent of the dollar value of all such investments.<sup>15</sup> In that year, as in previous years, the lion's share of this investment activity was that of the *Fonds de solidarité*.

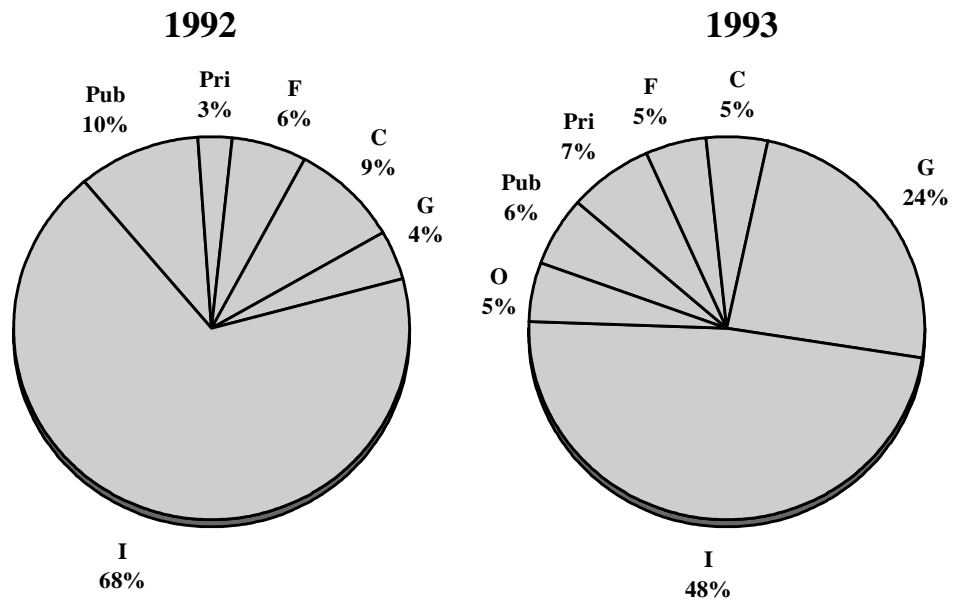
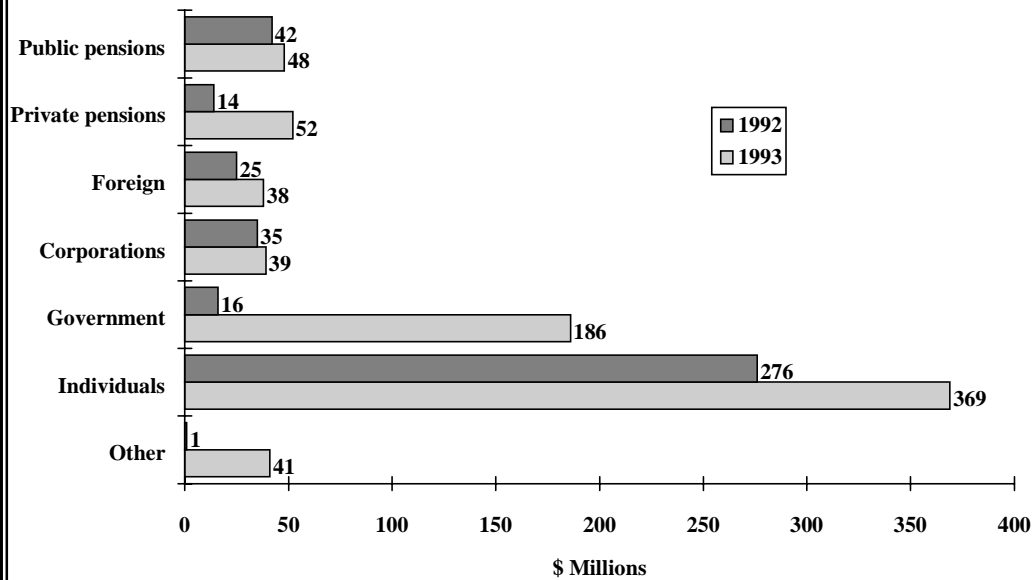
The subsequent year was something of a watershed for labour-sponsored funds as an investor type when the *Fonds de solidarité* was joined by relative newcomers Working Ventures and Working Opportunity, among others (e.g., the Integrated Growth Fund). Intensified investing on the part of these two — Working Ventures, for example, began adding to its portfolio at an accelerated rate of \$5 - \$10 million per month in 1994-95 after having dispensed with initial capitalization and the removal of some legal and regulatory obstructions — greatly augmented the collective market representation of the funds.

**Figure 5**  
**Total Canadian Venture Capital,**  
**by Investor Type, 1994 (estimated)**



Source: CLMPC, based on ACVCC, 1995

## Figure 6 New Sources of Venture Capital, 1992 and 1993



Source: Macdonald & Associates, 1994

Based on data from the ACVCC's annual profile, CLMPC research estimates that the fund contribution to the number of new and follow-on venture investment — totalling over 400 in 1994 — was 15 percent. In dollar terms, the contribution was even more substantial. Second only to private independent firms, the share of labour-sponsored funds of \$460 million invested in 1994 was 28 percent (see Figures 7 and 8). Furthermore, the funds were a critical source of increased aggregate venture investment in 1994, as compared with 1993.<sup>16</sup>

Again, this position will certainly advance in forthcoming years as upwards of fifteen new and emerging labour-sponsored funds begin launching investment portfolios. In fact, as of the second half of 1995, the Crocus Fund and six of the newest Ontario funds (e.g., the Canadian Medical Discoveries Fund) were approving early initiatives at a brisk pace.

Beginning with the *Fonds de solidarité*, labour-sponsored funds have adapted a set of policies, programs and structures for the purpose of reinforcing effective venture investing, as outlined earlier. For instance, most funds conduct a strategy of wide diversification of investment portfolios to balance risk. CLMPC research has discovered that, as a result, several funds, such as the *Fonds de solidarité* and Working Ventures, finance a wide variety of business initiatives, including start-ups, early stage development projects, acquisitions, turnarounds and restructuring deals. This approach, though common today, is at odds with historical trends whereby start-up and early stage targets received a smaller share of resources than, say, mid-market deals (e.g., expanding, mature firms).<sup>17</sup>

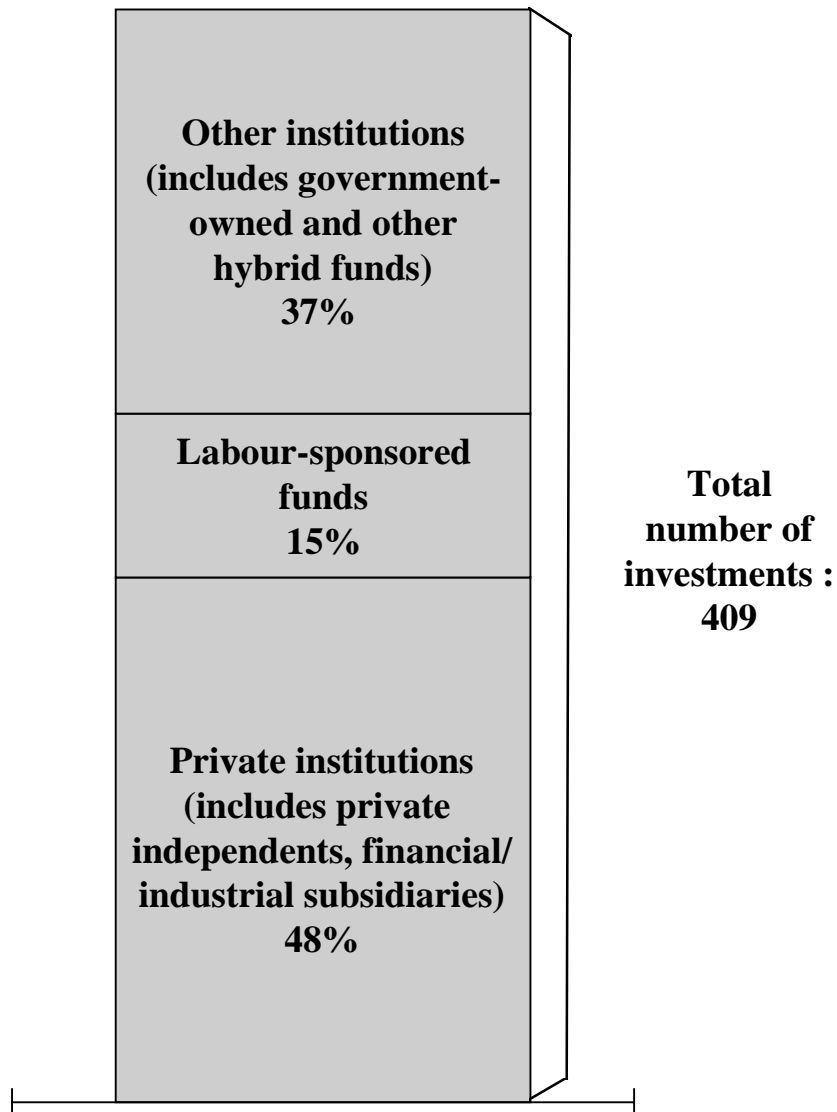
Another illustration of prudent policy is the long-term shareholding of some funds. For instance, individual investors keep their shares in the *Fonds de solidarité* until the age of retirement. Where such policies translate into actual long-term transactions, it is likely that certain labour-sponsored funds are among the most patient investors in the venture capital market. Fund shareholding of lengthy duration — say, above five years — also contributes to overall market stability, as investment patterns are closely linked to secure pools.

On average, the leading funds tend to have investment project lifespans of between four and nine years. Some funds may well stay with certain investee firms even longer. The *Fonds de solidarité*, for example, will often support individual rescues and restructurings for ten years or more.

Moreover, while labour-sponsored funds will locate, negotiate and structure deals on their own, frequently where other venture capital institutions will not go, they are also disposed to leveraging financial syndication. For instance, the *Fonds de solidarité* has for several years conducted extensive co-investments with Québec-based institutions, such as the *Caisse de dépôt et placement*, as well as institutions overseas (e.g., the fund occasionally co-invests with French institutions). The early investments of Working Ventures and Working Opportunity also give evidence of joint activity with venture capital institutions and other equity partners, both domestic and international.

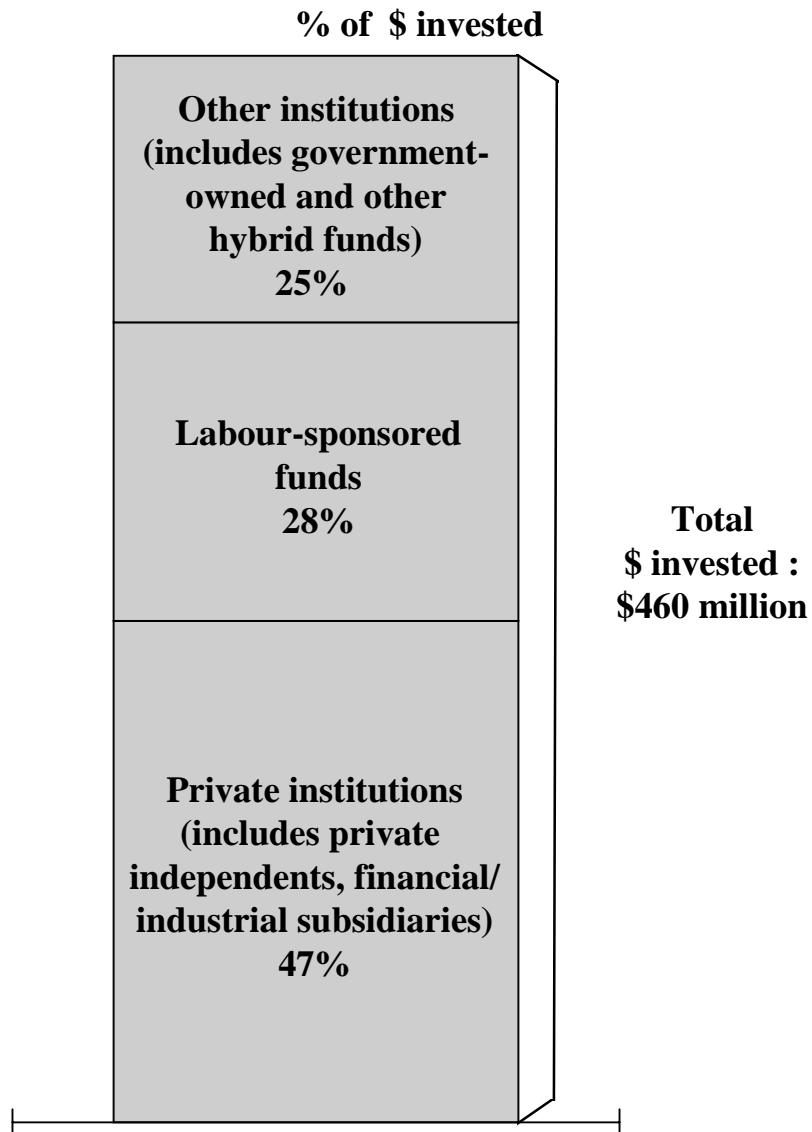
**Figure 7**  
**Total Canadian Venture Investment,**  
**by Investor Type, 1994**

**% of number of investments**



Source: CLMPC, based on ACVCC, 1995

**Figure 8**  
**Total Canadian Venture Investment,**  
**by Investor Type, 1994**



Source: CLMPC, based on ACVCC, 1995

Interestingly, the first co-investment between two distinct labour-sponsored funds brought together Working Ventures and the Canadian Medical Technologies Fund (and two other partners) in a \$4.5 million deal involving the Ontario-based Life Imaging Systems, Inc., in 1995.<sup>18</sup> There has also been extensive co-investment within the family of equity pools (i.e., specialized, regional and local funds — see next Sections iii and iv) linked under the *Fonds de solidarité*.

### ***The impact of labour-sponsored funds***

The above data and analysis suggest that labour-sponsored investment funds are having a very profound — and, in many cases, a positive — influence in Canada's institutional marketplace for venture capital with regard to organization, supply and investment activity.

So far, the impact of the funds is most palpably felt in the area of capital supply. Additional information highlighting the contribution of the leading funds to venture investment, available in 1996, is required to draw more definitive conclusions about this investor type beyond those that might be made solely about the *Fonds de solidarité*. Conclusions that rely on investment records of the majority established in 1994 is, of course, still a few years down the road. The importance of labour-sponsored funds to provincial and regional sub-markets is covered in Section vi.

Understanding of the precise effect of labour-sponsored funds on the nature of Canadian venture financing requires research on investor-investee relationships and a comparison of findings with the traditional behaviour of institutions. This work was substantially advanced with the micro-level study performed by CSTIER in 1994. Certainly, directors and officers of the leading funds believe they are adding value to the investment process and expanding the mentoring role assumed by venture backers, through unique efficiency-enhancing policies and services, such as those that deliver skills formation and modern workplace techniques. Illustrations of this can be found in succeeding sections.

It is vital to mention that labour-sponsored funds have also helped to precipitate unintended effects in the venture capital market. With fast growth in the number and size of funds, for example, comes the danger of concentration of resources in too few hands. Over time, this may lessen the influence and representation of other investor types (e.g. private independents) that make different, but equally positive, contributions to market competition, specialization, syndication and deal flows.

Rapid fund expansion may also affect the pricing of venture capital. Some venture capitalists have expressed the concern that tax-subsidized funds could alter the cost of capital and, by extension, overall competitive trends. A true picture requires independent study which, of course, must account for government support for all investor types, including the funds.

Market analysts also say that some funds may be too strongly emphasizing certain kinds of investment — for example, large restructurings and turnarounds. While such projects suit the employment mandates of some labour-sponsored funds, another result may be somewhat less focus on smaller financings and smaller companies. These and other

issues must be dealt with by the funds, other venture capital institutions, and public policy-makers, in a manner that does not jeopardize benefits.<sup>19</sup>

### **(iii) Interest in addressing capital supply barriers to firms in certain sectors**

CLMPC research shows that enterprises facing barriers to sufficient, affordable capital form the client base of labour-sponsored investment funds, as they do for most venture capital institutions. Such companies tend to be described as coming from the small business sector since size is a pervasive characteristic of underfinanced concerns, though obstacles may exist due to other factors, such as the innovative or technical nature of products and production, location in a disadvantaged region, or the gender of owners.

Small and medium-sized companies are often defined according to work force size (i.e. 50 employees or less and 500 employees or less, respectively). The investee firms of the leading funds fit this definition. For instance, only a handful of all of the investee firms of the *Fonds de solidarité* are larger employers. Also, enterprises employing no more than 50 persons currently constitute roughly one-half of the investments of Working Ventures.

A 1994-95 survey of close to 1,500 small and medium-sized firms completed by the CLMPC and the Canadian Chamber of Commerce confirms the ongoing requirements of this sector about access to capital. More than one-half of survey respondents said their financing circumstances were only somewhat adequate or were not adequate. The CLMPC — Chamber report concluded that a major financing gap was the minor role occupied by external equity sources in filling commercial demand in Canada.<sup>20</sup>

#### ***Overcoming barriers to capital***

Finding solutions to capital availability problems is one of the main rationales of public policy assistance of labour-sponsored funds. The funds are intended to fulfill this by providing for entrepreneurs in Canadian industry in one of two ways.

First, a fund can act independently to finance an enterprise in need. In this case, it offers a viable equity alternative to dependence on collateralized debt. In the past, this alternative has been resisted by those seeking external capital because it implies some loss of control by owners/managers, however temporary this situation may be. On the other hand, many owners/managers turn to labour-sponsored funds in recognition of the value-added yielded by such collaboration as a firm passes through development stages and moves towards new organizational goals (e.g., public offering, reliance on retained earnings).

The second way a fund can offer support is through leverage of various supplementary financing sources. In this case, it may act as the first-in supplier of equity capital that, in turn, attracts co-investment from a wide gamut of private and public sector financial institutions, including lending institutions. It was mentioned earlier that co-investment is a key element in market activity as it produces benefits to both investors, such as reduced

cost and risk through diversification, and investee firms, such as flexibility and capital strength. Such syndication also unites institutional players with different, but complementary, qualities relevant to specific projects.

CLMPC research has found that the role assumed by labour-sponsored funds in leveraging investment cannot be underestimated. The 1994 CSTIER study discovered that the *Fonds de solidarité* had considerable experience leveraging assorted transactions, from start-ups to restructurings and rescues. CSTIER calculated that since 1983, on average, every one dollar put up by the fund was met by three dollars from other sources. It also points out that *Fonds de solidarité* leveraging entails not only recruiting new investors, but persuading existing investors to remain with a deal.<sup>21</sup>

Data from the *Fonds de solidarité* show that an even more potent lever exists in its separately-capitalized and mandated pools of equity, known as specialized, regional and local funds. Most of these pools (there were twenty-four at the start of 1995, valued at \$124 million) reflect co-investment with financial and industrial partners. It is estimated that every one dollar supplied by the *Fonds de solidarité* to specialized, regional and local funds leveraged, on average, an additional \$4.50 from other Québec sources.<sup>22</sup>

There is evidence that widening of the capital supply spectrum, implicit in the creation of labour-sponsored funds, is having an impact. A recent survey of owners/managers of small and medium-sized companies in Canada (though respondents tended to represent mid-sized concerns and not a broader universe) revealed a dramatic increase in the use of venture capital between 1993 and 1994. In the latter year, almost one in ten companies in this sample group were utilizing some form of venture financing. Venture capital deployment was at its highest in Québec — 12 percent of total respondents. These data are highlighted in Figure 9.

Arthur Andersen survey analysts note that a catalyst for this development was probably some recent disenchantment among businesspeople with public securities exchanges. The high profile of labour-sponsored funds has been cited as another possible cause.

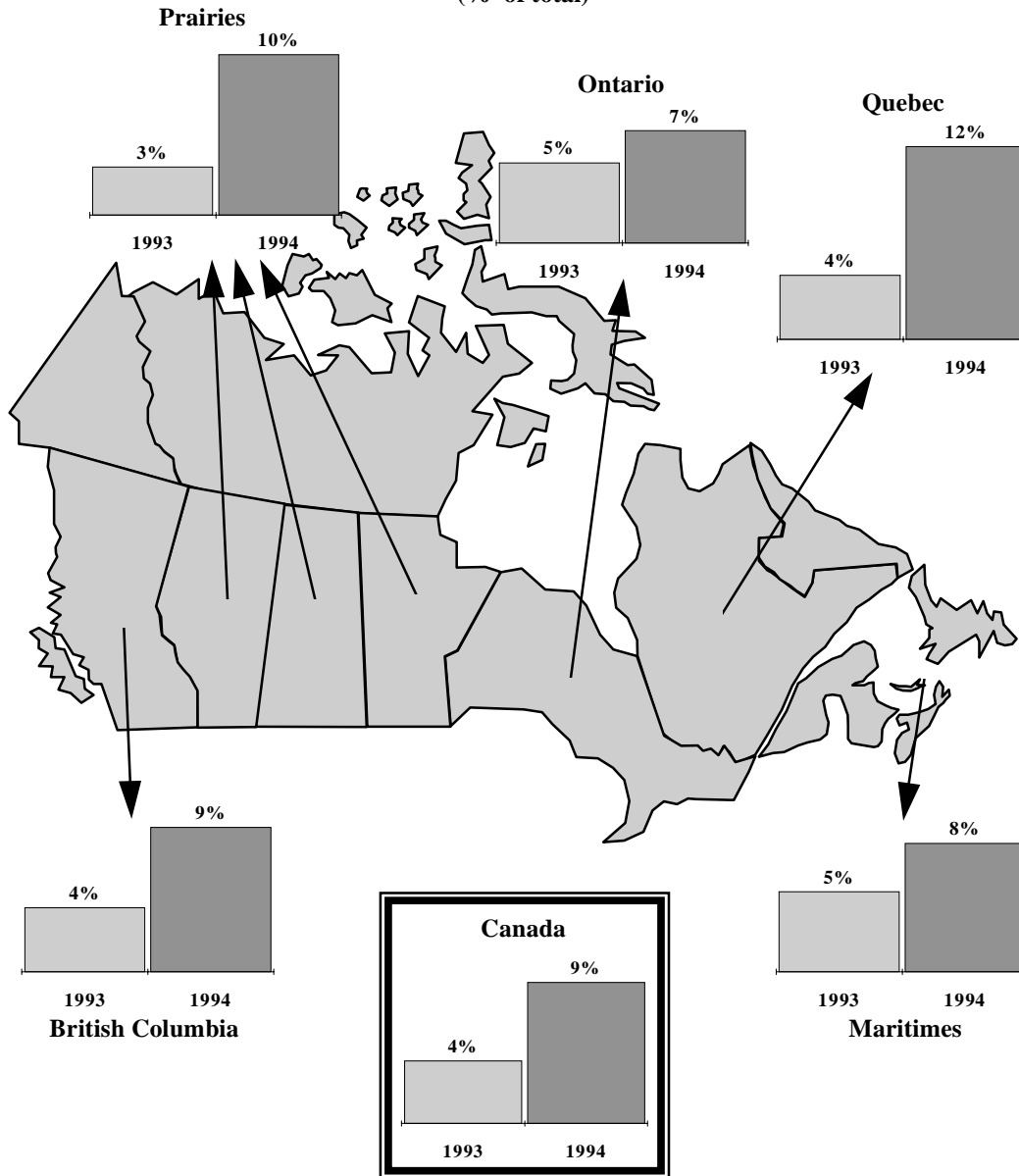
This has been confirmed by officers in leading funds who say that increasing inquiries are motivated — according to inquirers — by extensive fund advertising and media coverage. Working Opportunity itself received about formal 375 business plans and financial proposals from across British Columbia in 1994. Working Ventures received approximately three times this amount from across the country in the same year.<sup>23</sup> This high level of demand is typical among the leading funds.

Finally, ACVCC gives new evidence of the impact of labour-sponsored funds in making capital available to small business. The 1994 report states that of the 296 enterprises (two-thirds of which had fewer than 50 employees) financed by venture capital institutions in that year, 64 percent were accessing such capital for the first time. The large volume of new venture capital introduced in recent years, triggered by labour-sponsored funds, is credited with this level of new users.<sup>24</sup>

# Figure 9

## Small Business Use of Venture Financing in 1993 and 1994, Nationally and by Region

(% of total)



Source: Arthur Andersen, *Post-Budget Survey of Canadian Private Companies*, 1993 and 1994

### *Specialized financing*

Labour-sponsored funds are taking new steps to accommodate entrepreneurs and enterprises with special financing challenges, including seedings and small dollar projects, micro-firms, and fledging technology companies. For instance, some funds are developing new equity pools and infrastructure for these investment priorities. In some instances, what is created are intermediary structures to which certain decisions about investments or related arrangements are delegated.

A version of this can be seen in the network of specialized funds of the *Fonds de solidarité*. In 1994, this network comprised nine funds initiated to serve chiefly innovative and growth sectors of the provincial economy, such as biotechnology, aerospace, producers of environmental goods and services, and other high technology industries. Some also exist for real estate and construction projects and for manufacturing industries derived from agriculture and forestry. These funds operate semi-autonomously — drawing on the advice of committees of industry experts, scientists, and academics, etc., established for those that are technology-intensive — and within an investment range of \$50,000 to \$500,000.

The *Fonds de solidarité* has enjoyed success with specialized funds. Consequently, they have proliferated — for example, *Biocapital I* of Laval, spawned *Biocapital II* — and, along with those designed to promote development in Québec regions and communities (see Section vi), have received ever larger resources. To illustrate, capital commitments to specialized funds were \$98 million in 1995. Hence, these intermediary structures, which admit new financial actors and expertise to decision-making of the *Fonds de solidarité*, now rival direct investing as a mode of investment.

Recently, directors of the *Fonds de solidarité* decided to forgo initiation of more specialized funds and instead attend to development of those already in place. Two exceptions are the new \$2 million *Corporation Financière Brome* which specializes in financing and management of accounts payable for investee firms and \$2 million *Fonds Transferts Technologiques* which supports adaption of offshore innovation to Québec production.

Working Ventures has developed a similar vehicle in its Metro Ottawa Investment Venture (MOTIVE). Like the Québec funds, MOTIVE combines capital depth with financial and industrial expertise in the technology-intensive Ottawa Valley. With a \$2.5 million commitment, Working Ventures hopes to strike deals beginning at \$100,000 with local investors, including angels.

Another trend in this area is the emergence of specialized or sector-specific labour-sponsored funds, such as DGC Entertainment Ventures Corporation which invests in entertainment and communications industries; the Canadian Medical Discoveries Fund which finances early stage health sciences and technology projects; Capital Alliance Ventures which focuses on high technology industries residing primarily in eastern Ontario; and Sportfund which targets sports, fitness and related entertainment fields. In 1995, the Retrocomm Growth Fund joined this category. Capitalized partially by the pension money of union sponsors, this fund will promote environmental conservation and

reuse by financing specific retrofit and construction activities that also create jobs for affiliated Ontario workers.

#### **(iv) Organization and direction by a legitimate labour body**

In theory and practice, labour-sponsored investment funds provide a mechanism by which Canadian unions and union members can become involved and positively influence matters of investment and financing at the highest levels. This, argues American economist Michael Porter, is valuable in itself considering the necessary realignments of decision-making that must occur in a national economy to manage prosperous change. The Porter thesis is that critical investment decisions, and those related to capital allocation to investment, cannot be left in future to a handful of individuals. Instead, they must be extended to other socio-economic stakeholders, especially labour given its role in production.<sup>25</sup>

As such CLMPC research has concluded that a crucial feature of labour-sponsored funds is the degree to which genuine control is exercised by the sponsor. Indeed, this imperative is enshrined in government legislation in all jurisdictions which stipulates that a bona fide union body be a fund's parent institution.

While different jurisdictions use different definitions, usually this involves a union body that is organized centrally, such as national or provincial labour federation (e.g., the CFL, in the case of Working Ventures, and the FTQ, in the case of the *Fonds de solidarité*) or union/unions (such as the multi-union groups sponsoring the First Ontario Fund and the Integrated Growth Fund). Sometimes sponsor organizations have taken completely new forms, such as the eight unions owning the financial institution Working Enterprises, Ltd., the sponsor of Working Opportunity.

#### ***The role of labour sponsors***

Along with officially creating a fund, the sponsor must provide clear and continuous guidance, ensured through union control over major decision-making structures, such as boards of directors and committees, though the sponsor may also delegate this authority in certain circumstances.

As suppliers of capital, the Canadian labour movement has assumed an important new role and set of responsibilities whereby it can knowledgeably and constructively facilitate economic change. Participating union leaders and representatives seem to appreciate the nature of this challenge by giving priority to development of their expertise in investment and financing issues and systems.

This occurs formally and informally. Working Ventures, for instance, invites regular interaction between its labour directors and expert practitioners in the national venture capital market. Also, the economic and financial training program of Working Opportunity as much targets union leaders as it does rank-and-file union members (e.g., the fund has conducted courses at the leadership school of the Canadian Labour Congress at Harrison, British Columbia). Finally, the comprehensive activity of the

*Fonds de solidarité* dictates that FTQ representatives be experienced enough to sit on investment bodies, such as local and regional funds.

The *Fonds de solidarité* has greatly broadened the decision-making capacity of its labour sponsor and affiliated membership. Along with helping to establish fund policy, FTQ members are frequently involved in the hands-on planning and operational aspects of investment, sales, and the delivery of programs and services. Apart from the use of volunteers (e.g., in the promotion and distribution of shares), this happens through fund staffing which includes numerous individuals with union backgrounds. For the *Fonds de solidarité*, this ensures sponsor input at all decision-making levels as well as integration of staffpersons with different outlooks (e.g., labour and finance). Other labour-sponsored funds organize staff complements similarly.

Indications are that labour uses this new influence in capital markets responsibly. Contrary to a well-travelled myth, for instance, labour-sponsored funds do not exercise leverage as investors and shareholders to force unionization on investee firms. Neither do they reject companies looking for financing where workers are unorganized. Furthermore, the funds do not interfere in labour disputes or otherwise get involved in collective bargaining.

The beneficial role played by unions and union members in identifying and referring quality deal flows to labour-sponsored funds has been acknowledged recently by finance and investment professionals.<sup>26</sup> They also have proven to be an invaluable information source for the funds in the due diligence process. In fact, all of the leading funds interview workers and/or their elected representatives when undertaking a detailed examination of the performance and attributes of a potential investee firm.

It was stated previously that directors of leading funds are concerned about a trend among some new funds that may be undermining the principle of labour control and influence. It is alleged that a few funds may be labour-sponsored in name only with little union representation on boards of directors or otherwise exercising decision-making powers. It has been proposed that such changes to the concept of labour-sponsored funds as pioneered warrants further investigation and action.<sup>27</sup>

## **(v) Mandates that guide investments according to economic and social goals**

As indicated above, labour-sponsored investment funds are market-based institutions. However, they are not institutions with a singular interest in profit maximization. Indeed, fund founders, such as Louis Laberge of the FTQ, eschewed some investment activity that has characterized the venture capital market in the past. An illustration is the spate of high profile acquisitions, mergers and takeovers of the late 1980s which, from the perspective of labour, may have contributed merely to “paper entrepreneurship”, or worse, to the destruction of some employment.<sup>28</sup>

As originally conceived in Québec, labour-sponsored funds reject what appear to their directors as examples of financial speculation and capital waste. Rather, limited or scarce

capital resources should be allocated to productive investments that generate the widest possible array of benefits to the Canadian economy and society. Hence, in addition to concentrating on providing optimal financial rates of returns (to shareholders) from investments, the funds also focus on obtaining optimal non-financial — or socio-economic — returns.

CLMPC research has discovered that, in this context, socio-economic performance is broadly defined. It can mean that the investment must yield durable employment and income opportunities for Canadians generally. It can also mean specific investment returns to the economic life and development of disadvantaged regions and communities (see Section vi). It can also mean workplace improvements through, for instance, greater employee participation and new approaches to human resource management issues (see Section ix). Finally, it can also mean advancing corporate citizenship with regard such social priorities as sustainable development, cultural enrichment, and consumer protection — achieved through social auditing and the conscientious investor role of some funds.

To a greater or lesser extent, all labour-sponsored funds operate with reference to economic and social criteria. It is important to recognize, however, that no two funds look exactly alike in this respect. At the very least, frameworks determined by government legislators ensure that funds in their jurisdictions will be attentive to basic aims, such as making job-producing investments in the small business sector. Additionally, some boards of directors have developed comprehensive private mandates for bettering aspects of the social status and economic position of Canadians through investing.

### ***Economic performance goals***

It is well known that the economic recession of the early 1980s heralded the rise of national and provincial unemployment rates from which the Canadian economy has never fully recovered. It was also discussed earlier that this event, more than any other, precipitated the renewed interest of workers and unions in capital markets. Consequently, all labour-sponsored funds function with a jobs mandate.

All labour-sponsored funds emphasize the creation of employment. This explains the significance attached to small and medium-sized companies, both new and established, since, by all accounts, it is they that have been predominantly responsible for net job growth across the country for the past decade or longer. Furthermore, according to Statistics Canada, it is the youngest of such enterprises that generate the most jobs, despite encountering impediments to financing.<sup>29</sup>

Along with job creation, some funds also identify the maintenance and protection of existing employment as a priority. This usually translates into investments in small and medium-sized firms situated in mature and traditional industries that are undergoing profound restructuring and disruption. In the contemporary Canadian economy, high profile illustrations of these can be observed in all settings, both central and regional,

urban and rural. Since the mid-1980s, the *Fonds de solidarité* has invested strategically to pre-empt permanent job losses incurred through plant shutdowns or downsizings.

The optimal number of jobs realized by a single investment is material to most fund directors and officers. When there is a range of potential deals available, employment quantity is frequently a guiding criterion in the selection process. Many labour-sponsored funds, for instance, target companies in labour-intensive manufacturing and processing. The quality of employment is also meaningful to the funds. In this case, an investment may be preferred where a firm's current or projected jobs are well-paying and reflect high educational attainment and skills. Hence, knowledge-based enterprises, which may represent future economic advantage, are also compelling from a jobs standpoint.

Labour-sponsored funds also seek to reinforce other economic fundamentals through investment, such as export capacity and expenditure on research and development. Such qualities strengthen the competitiveness of the investee company — and, by extension, national competitiveness in a global economy — that can, in turn, fuel growth and employment over time.

As venture capital institutions, the funds contribute to the general macro-economic effects of this market. Because of its application to industrial activity that frequently involves new goods and services, innovation, and value-added production, venture financing has a impact on the economy that is out of proportion with its small size. 1993 research published by the Federal Business Development Bank (FBDB) showed that between 1987 and 1992, 259 enterprises backed by venture capital created over 23,000 Canadian jobs. In fact, despite recessionary pressures, the work forces of investee firms increased at a compounded rate of 40 percent. Equally impressive growth rates in sales, research and development spending, and exports were also reported.

Such outcomes, which outstrip performance in the rest of the Canadian economy, are typical for projects receiving venture capital infusions in the first years, as most of the 259 were. However, the study concluded that more positive outcomes were just as likely down the road.<sup>30</sup>

As an investor type, labour-sponsored funds are a critical contributor to this effort. By specifically concentrating on employment sectors with particularly high value-added (the difference between production value and costs), labour-sponsored funds attempt to maximize the probable economic spin-offs, including the spin-off of indirect and induced jobs, to local communities and environs.

### ***The economic impact of funds***

There are as yet few studies on the economic impact of labour-sponsored funds. Existing studies, using different methodologies, have reached different conclusions. Additional research on this subject would be very helpful in clarifying effects in the longer term.

1994 saw some empirical consideration of the economic effects of labour-sponsored funds. A study done by the *Institut national de la recherche scientifique* (INRS) of the *Université du Québec à Montréal* (and supervised by Pierre Lamonde) found that the

*Fonds de solidarité* has had a positive employment impact in Québec. To illustrate, 167 investee companies (representing the 1993 investment portfolio) produced 15,372 direct, indirect and induced jobs that are clearly attributable to the involvement of the fund. From these data, the INRS concluded that for every one job created by an investment of the *Fonds de solidarité*, another job was realized elsewhere in the provincial economy.

These broad effects were also discovered in the \$964 million in value-added generated by these same investments. Interestingly, the study also revealed value-added to be concentrated in manufacturing (61.5 percent), as was employment (57 percent). This evidence suggests that, by preferring investments in manufacturing and processing industries, the *Fonds de solidarité* has apparently succeeded in providing an exponential job and value-added impact on the Québec economy.<sup>31</sup>

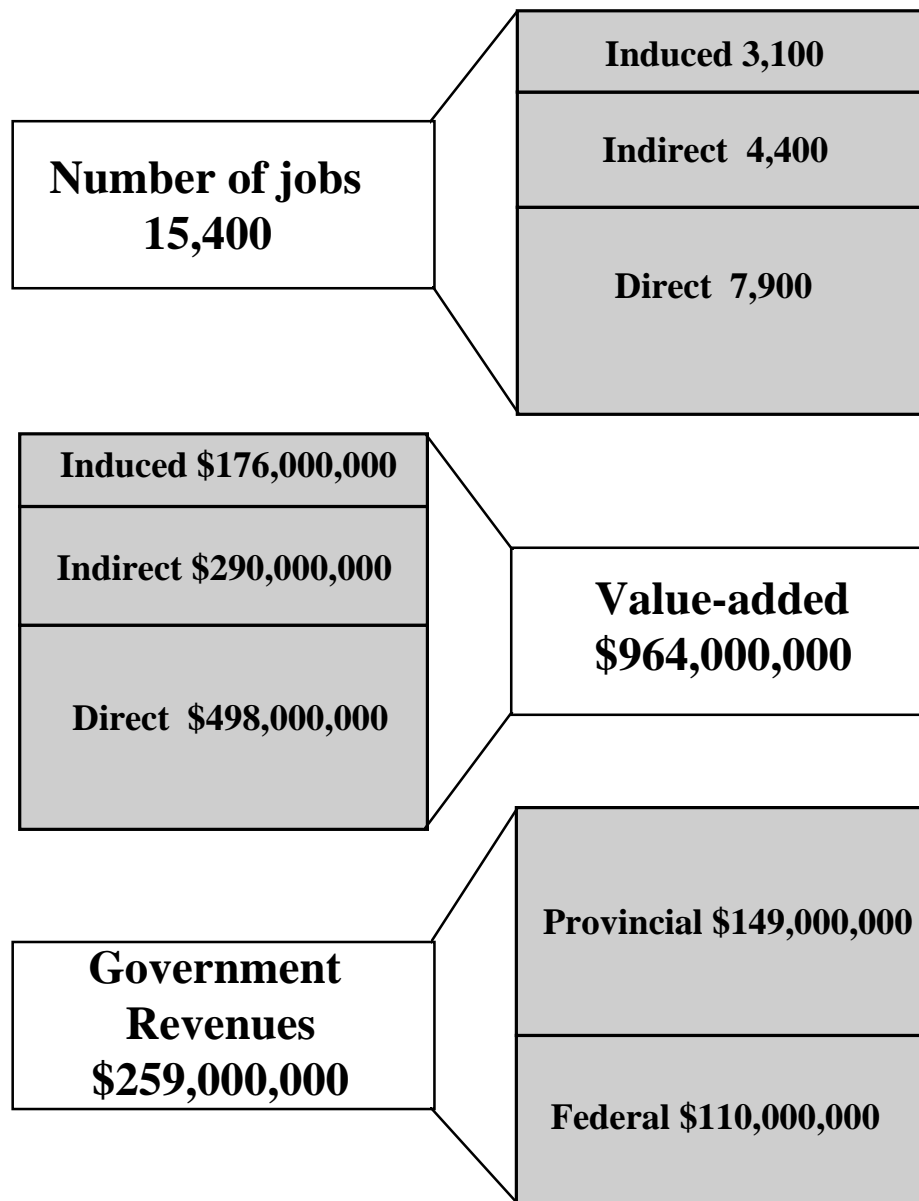
The INRS also reported that employment, created or preserved, and other economic benefits were spread to underdeveloped or disadvantaged regions. In the Mauricie - Bois-Francs region of Québec, fund investments in four illustrative cases were found to have prevented otherwise inevitable plant closures and protected approximately one-half of the original workforces — or 720 jobs — in these plants from permanent layoff. The prime beneficiaries of this result were resident older workers (45 years of age and older).<sup>32</sup>

Finally, positive economic effects were realized at a minimal cost to the public treasury - that is also recovered within an average of three to four years - according to researchers. Actually, if INRS calculations are correct, an initial fiscal cost of \$1.35 per investment dollar should become a net government gain following the recovery period due to sustained tax revenue collections.<sup>33</sup> A summary of INRS finding is presented in Figure 10.

CSTIER also conducted a cost-benefit analysis of labour-sponsored funds with reference to the *Fonds de solidarité* and Working Opportunity using an INRS-adapted methodology. The government payback period determined in this study was less than three years.<sup>34</sup>

The INRS study was commissioned by the *Fonds de solidarité* in response to a piece of research conducted by Jean-Marc Suret of *Université Laval*. Contrary to the INRS, Suret found that public treasury costs of the Québec labour-sponsored fund seemed very high when performance indicators were taken into account. Suret argued that fund efficiency in making investments was restricted by sizeable administration expenses and failure to allocate a proportion of assets. He also said that some of the most commercially successful investee firms, such as Biochem Pharma, Inc., could have found money elsewhere.<sup>35</sup> On the other hand, Suret acknowledges that his analysis does not weigh some of the economic positives (covered by the INRS).

**Figure 10**  
**Economic Impact of Investments Made by the**  
**Fonds de Solidarité on the Quebec Economy,**  
**1984-1994**



Source: INRS, October, 1994

The *Fonds de solidarité* also keeps its own tally of the employment universe of current investee companies. According to fund officers, this consists of over 31,000 jobs created or maintained, directly or indirectly. An additional 17,900 jobs are forecast as emerging from these investments in the longer-term and, more predominantly, from new projects of specialized, regional and local funds (see Figure 11).

In the above research, methodological differences have no doubt contributed to the distinct conclusions. It is clear that further studies will make important contributions, not only through new findings, but also in establishing accepted technical approaches to this kind of study.

In the meantime, evidence of the economic impact of early investments of other labour-sponsored funds, though limited, appears promising. For instance, both Working Ventures and Working Opportunity have released data to the CLMPC which show rapid expansion in sales and employment among investee firms. These results, along with the strong orientation of firms towards exports and research and development, are consistent with the pattern identified for other prosperous venture capital institutions in the aforementioned FBDB study. Working Opportunity, for example, has investee companies demonstrating the same job growth of 40 percent.<sup>36</sup> At the end of 1995, the cumulative investment portfolio of Working Ventures reflected almost 5,600 jobs, including jobs created (an economic profile of the initial 52 investee firms of Working Ventures is contained in Figure 12).

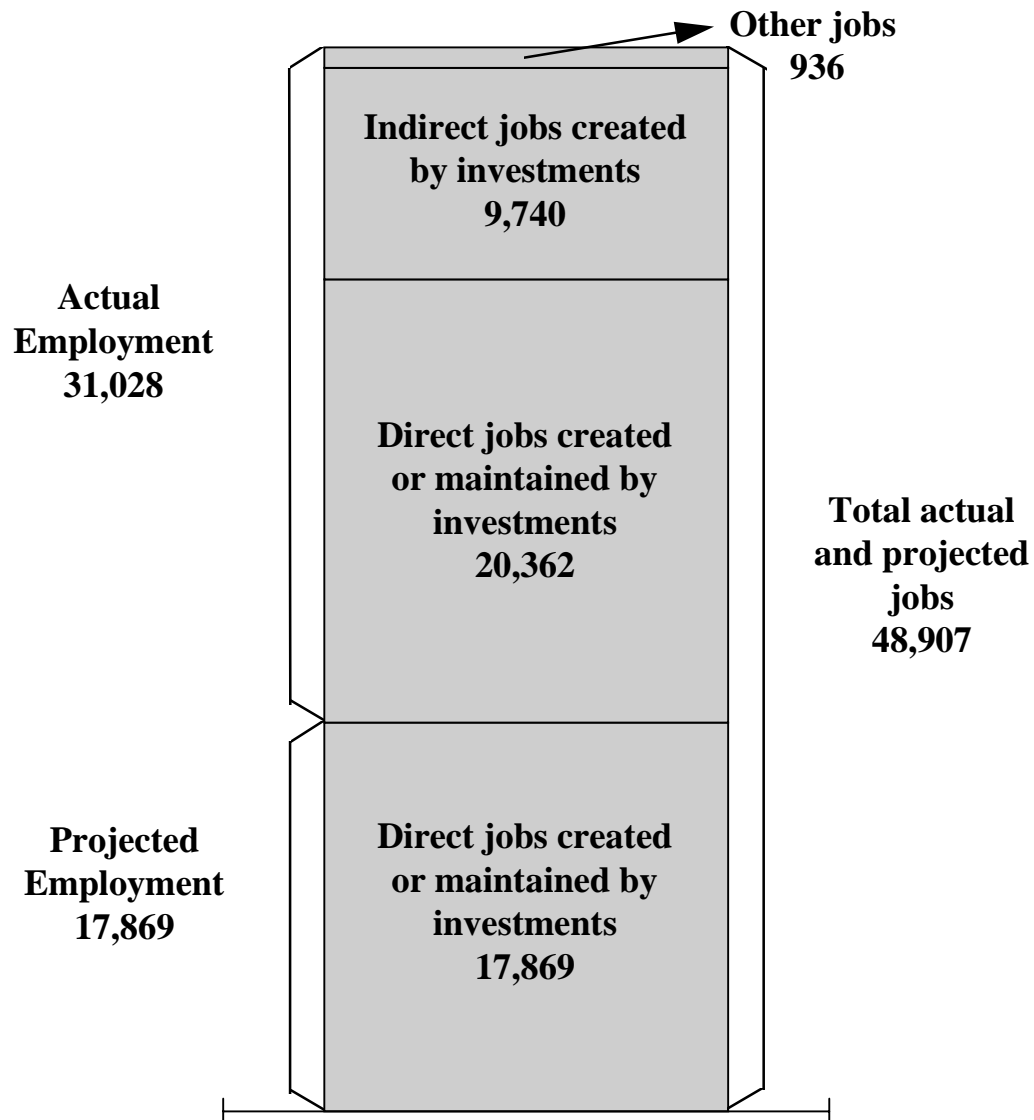
### ***Social performance goals***

Some (but not all) labour-sponsored funds also link investment activity with corporate social responsibility. This concept, which is achieving greater currency in Canada's business and financial constituencies, is closely associated with a growing species of ethical and environmental mutual funds and other financial instruments directed primarily at public securities exchanges. Such funds use indices for screening tradeable shares on behalf of conscientious individual and institutional investors. In 1995, there were sixteen ethical and environmental funds operating in Canada with assets of approximately \$500 million and a shareholder base of 90,000.<sup>37</sup>

Corporate social responsibility is encouraged by other means as well. Where unions exercise clout over pension plans there is often some procedure for ensuring investment accountability. The American Federation of Labour — Congress of Industrial Organizations, for instance, has advanced the concept of “economically targeted investments” whereby plan managers must balance financial expectations with such criteria as job security and regional development. In France, large companies are legally required to perform audits of internal operations to ensure compliance with national social standards. Such practices are also being undertaken voluntarily in industry worldwide as a tenet of better business.

Whatever version it assumes, the essential premise of all programs for socially responsible investment is that those factors which make an enterprise profitable cannot be separated from the well-being of the surrounding community, its inhabitants, and its ecosystem. Practically speaking, this involves encouraging firm owners/managers to move away from attitudes and behaviours grounded in traditional philanthropic definitions of corporate citizenship and towards those acknowledging mutual benefit, such as support for community economic development.

**Figure 11**  
**Estimated Jobs (Actual and Projected)**  
**in Current Investments of the**  
**Fonds de solidarité (1)**



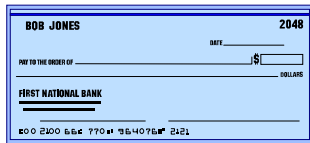
(1) Estimates are based on existing investee firms supported directly by the Fonds de solidarité and by specialized, regional and local funds.

Source: Fonds de solidarité des travailleurs du Québec (FTQ), 1995

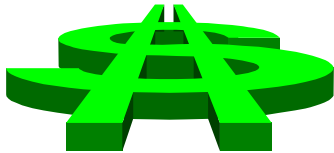
## Figure 12 Economic Profile of Fifty Two Investee Firms, Working Ventures Canadian Fund, 1995



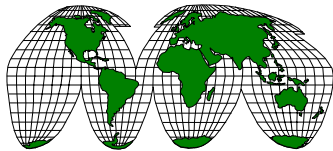
**Employment = 5,575**



**Payroll = \$178.9 million**



**Sales = \$895.2 million**



**Exports = \$371.4 million**



**Research and Development  
Spending = \$40.4 million**

Source: Working Ventures Canadian Fund, October, 1995

Labour-sponsored funds have introduced this principle to the venture capital market. This occurs largely by integration of social auditing with financial auditing in the due diligence process. In other words, while an investment project is being evaluated by fund officers according to its real and potential financial and economic performance, there is a concurrent assessment of its social performance. Data and outlooks relevant to fund criteria are gathered from owners, managers and workers, and submitted to boards of directors, along with financial reports, for final decision-making.

Like ethical and environmental funds, the social accounting procedures of some labour-sponsored funds act as a screen whereby undesirable investments may be consciously excluded. At the same time, audits can help detect certain qualities indicating a social performance record or capability that fund directors wish to see in all investee companies.

Sometimes, concerns raised through social auditing will inform negotiations between fund officers and firm owners/managers prior to completion of an investment agreement. Occasionally, the agreement itself will include terms and conditions of a social nature. At the very least, information gleaned through social auditing will be valuable to the representatives of shareholding labour-sponsored funds sitting on the boards of directors of investee firms.

The socially responsible investment programs of those funds which presently have them — the Fonds de solidarité, Working Opportunity, the Crocus Fund, the First Ontario Fund, and the Workers Investment Fund — differ only slightly with regard to generic criteria. CLMPC research has compiled the following list of areas under which standards most commonly exist (see also Figure 13):

1. participative decision-making structures: such as co-operative programs, employee participation in corporate governance and management, and internal systems that encourage open communications and sharing of information;
2. progressive policies in human resource management: including fair salaries, wages and benefits, job security, equal opportunity programs for women, visible minorities, the physically challenged, etc., and access to training;
3. local community involvement: such as contributing to economic and job opportunities, local business procurement, support for voluntary and charitable events, and promotion of cultural and recreational development;
4. environmental policies: including sustainable approaches to emissions and waste disposal, handling of toxic substances, packaging, energy use, compliance with government regulations, and health and safety standards;
5. concern for product quality: such as systems for ensuring product safety and excellence, appropriate labeling, fairness in advertising (e.g., no negative discrimination), and general responsiveness to customer complaints.

**Table 13**  
**Social Audit Criteria of Some**  
**Labour-Sponsored Investment Funds for**  
**Investee Firms (1)**

**Decision-making Structures**

*e.g., programs for worker participation in management, labour-management relations.*

**Human Resources Issues**

*e.g., health and safety standards, equal opportunity policies, training for workers.*

**Community Relations**

*e.g., contribution to community economic development, philanthropy.*

**Product Quality Concerns**

*e.g., consumer protection practices, fairness in advertising.*

**Environmental Protection Issues**

*e.g., pollution controls, waste disposal and packaging practices, energy use.*

(1) Currently, five labour-sponsored funds have social audit procedures: the Fonds de solidarité, Working Opportunity, the Crocus Fund, First Ontario LI Fund, and the Workers Investment Fund.

Source: CLMPC, based on fund data, 1995

### ***The social impact of funds***

The diffuse effects of socially responsible investing by some labour-sponsored funds are difficult to plot and, needless to say, there is no empirical work yet available on this topic. Much depends on the rigour of fund directors and officers in applying criteria as they determine investments and on their conscientiousness as long-term minority (or majority) shareholders. Of course, such interaction is conducted on a private and confidential basis which is vital to relationships with investee companies.

Apparently, rejections of prospective investments because of questions raised through social auditing takes place only rarely. Over ten years, there have been only a handful of such outcomes for the *Fonds de solidarité*. These have been triggered, for example, by evidence of heavy pollution and other environmental liabilities.<sup>38</sup> Fund officers report that most problems are resolved amicably in bilateral negotiations prior to conclusion of the investment agreement.

Research into the performance of ethical and environmental mutual funds tends to show that there is no obvious incompatibility between financial and social returns. On the contrary, the American Domini 400 Social Index, a multi-criteria ethical investment index which tracks the progress of 400 screened commercial concerns, has consistently done as well or better as the Standards and Poors 500 index for unscreened concerns.<sup>39</sup>

Similarly, new research suggests that the social agenda of labour-sponsored funds may actually boost overall investee firm viability and competitiveness. For instance, the CSTIER study refutes the conventional perspective that social auditing is overly costly or intrusive for an investee company. On the contrary, employers supported by investments of the *Fonds de solidarité* and Working Opportunity, viewed the procedure as contributing to an improved performance by drawing attention to all aspects of the organization. A good rating by a fund, say employers, also enhances the corporate image and legitimacy before the public at large.<sup>40</sup>

### **(vi) Capital resource mobilization on a provincial basis**

It was mentioned above that small business financing may be particularly troublesome in regions and communities that are rural, remote, and of a low degree of industrial diversification. Indications are that this occurs chiefly in eastern, western and northern parts of Canada.

### ***Venture financing and regions***

One study of the venture capital sub-market in Newfoundland and Labrador, for example, concluded that it was weak and ill-prepared to serve local economic development, largely because savings and investments were migrating out of the province.<sup>41</sup> A more recent study (1994) found that circumstances had not improved appreciably over the years for Atlantic Canada as a whole. The Atlantic Provinces Economic Council cited the lack of adequate market infrastructure as one cause of a continuing shortage in patient, high risk equity in the region.<sup>42</sup>

Historically, the Canadian venture capital market has been very centralized. This is because institutional and angel venture capitalists tend to spend and transact with firms within a close geographic proximity. In recent years, only two in ten institutions were located outside of central Canada.<sup>43</sup> Capital supply and disbursements have typically been concentrated in Ontario and Québec, and to a much lesser extent, in British Columbia and Alberta. Up until very recently, there has been very little representation of venture investors on the Prairies, in Atlantic Canada, and in the northern territories. This is also true for many regions and communities within provinces.

Actually, since the late 1980s, entrenched disparities in the allocation of venture resources and investment opportunities between the country's economic centre and its periphery have further widened. This was clearly apparent in the first half of the 1990s — which, of course, included an economic recession — when inevitable market fluctuations were moderate in Québec, more serious in Ontario and in western Canada, and very serious in the Atlantic provinces where already modest activity came to a virtual standstill.<sup>44</sup>

CLMPC research has found that much government support for labour-sponsored investment funds, especially at the provincial level, happened because the funds promised significant change in this area. Indeed, the evidence suggests that redressing regional imbalances among and within provinces is among the most important contributions the funds have made in the Canadian venture capital market to date.

### *Securing regional capital*

The very creation of provincially-based labour-sponsored funds — or, in the case of Working Ventures, a fund organized nationally to act on a province by province basis — ensures some fostering of venture capital sub-markets since it is the residence of the institution that counts. All funds are bound by very strict statutory prerogatives in every jurisdiction to turn savings acquired locally over to investments in local production.

Some funds have highlighted this as being fundamental to a “capital retention” strategy for promoting economic growth and development. It was stated at the outset that provincial and regional economies in Canada have historically experienced a migration of savings and investment, perhaps largely due to non-resident firm owners and financial institutions (though resident savers also invest away from home). A labour-sponsored fund is theoretically intended to prevent such savings leakage. Instead, it mobilizes capital that might otherwise take flight and uses it to build a venture capital sub-market. This can be of value even to capital-rich provinces where sub-markets still require strengthening.

Capital retention is key to the operation of the Crocus Fund. Indeed, the fund approaches this task comprehensively by offering shares not just to individuals in Manitoba, but to institutions as well. For instance, the fund has enjoined union pension and strike funds, and other financial entities, by means of incentives, such as purchase warrants that allow for future share ownership at reduced prices. In this way, Manitoba has set a precedent

for other Canadian provinces that also have limited population bases from which to gather savings.

Working Ventures also illustrates the capital retention principle in action. In the beginning, the CFL proposed that a cost-effective national infrastructure (and diversified national investment portfolio) was the best option for ensuring long-lasting venture capital sub-markets outside of central Canada.<sup>45</sup> This is what Working Ventures currently does in Saskatchewan, Ontario, New Brunswick, Nova Scotia and Prince Edward Island through contracts with provincial governments whereby it agrees to reinvest a fixed proportion (e.g., 60 percent) of capital obtained there.

Furthermore, some provincially-based funds have determined specialized economic development mandates. For example, the *Fonds de solidarité* acts as a general engine of Québec economic growth by investing in all industries and sectors. Working Opportunity, on the other hand, acts more as a financial agent of economic and job diversification in British Columbia by supporting projects in industries distinct from traditional resource extraction, such as forest products and mining. Like Working Opportunity, the Crocus Fund aims to expand chiefly high value-added sectors - it does not, for instance, invest in agriculture and other natural resources — while also maintaining indigenous ownership of existing Manitoba businesses.

### ***Securing community capital***

Labour-sponsored funds are also having an impact on economically-disadvantaged regions and communities within provinces. In 1988, the *Fonds de solidarité* began a network of decentralized local and regional funds which spread co-investment projects throughout Québec. Nine current regional funds were jointly initiated by the *Fonds de solidarité* and three other Québec-based institutions and are administered by regionally-based investors who share a financial stake as well. These funds make investments beginning at \$50,000.

Over the next few years, the *Fonds de solidarité* will expand the number of regional funds by sixteen with an injection of \$100 million.

Local funds were established in collaboration with the *Union des municipalités régionales des comtés*. One half of fund capital is supplied by a \$10 million central pool (*SOLIDEQ*) of the *Fonds de solidarité* with the rest coming from the municipalities where they reside and other sources. Administration practices are the same as regional funds, but local funds target even smaller deals of between \$5,000 and \$50,000. Directors of the *Fonds de solidarité* hope to eventually install a fund in every Québec municipality (there are ninety-six in all) and at least fifty before the end of the decade.<sup>46</sup>

Local and regional equity pools are innovative financial instruments. First of all, they retain capital for community economic development, but as was discussed earlier, they also lever capital into specific localities. In addition, decision-making at this level is fairly autonomous, since the *Fonds de solidarité* has only one voice in a group of co-investors. Criteria that are in keeping with the former's mandate are determined up-front

in an investment agreement. With the advent of new regional funds, experimentation in further devolution of decision-making may take place.

Working Ventures is also channelling capital into regions and communities within provinces. For instance, the fund currently has plans to establish MOTIVE-like funds in urban centres in Saskatchewan, Ontario and the Maritimes. Like the Québec funds, these will involve local investors and institutions.

Working Opportunity has also embarked on localized financing. Its \$1 million contribution to the Strathcona Community Futures Development Corporation is the beginning of further support for a provincial network of small, independent pools. The Stathcona fund, administered by a community board, makes micro-firm loans of between \$1,000 and \$75,000.

### ***The regional impact of funds***

A very favourable impact by labour-sponsored funds on venture financing in regions, especially concerning supply, is apparent. Data supplied by Macdonald and Associates, for instance, show the pre-eminent influence of the *Fonds de solidarité* in rendering the Québec sub-market the largest in Canada (since the late 1980s). Moreover, the size and stability of this fund's equity pool proved meaningful during the cyclical downturn in the national market in the early 1990s. While all other provinces experienced some contraction in venture capital supply between 1990 and 1993, growth in Québec continued unabated.

Since 1993, the investment activity of the *Fonds de solidarité* has also given Québec the biggest share of total disbursements in the Canadian market.<sup>47</sup>

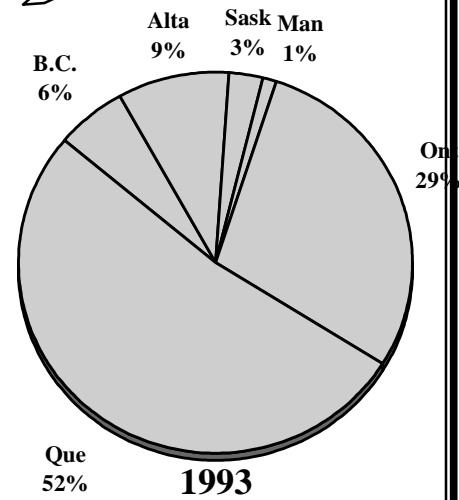
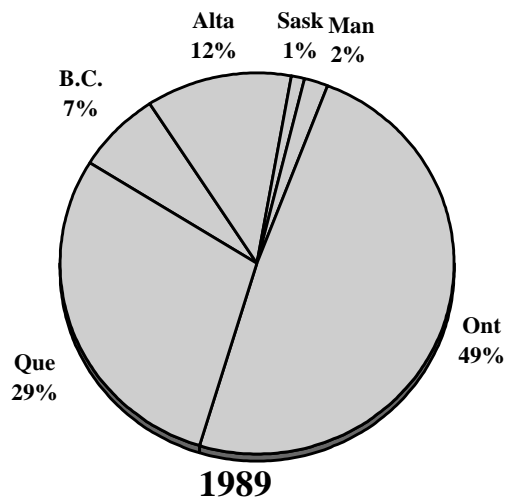
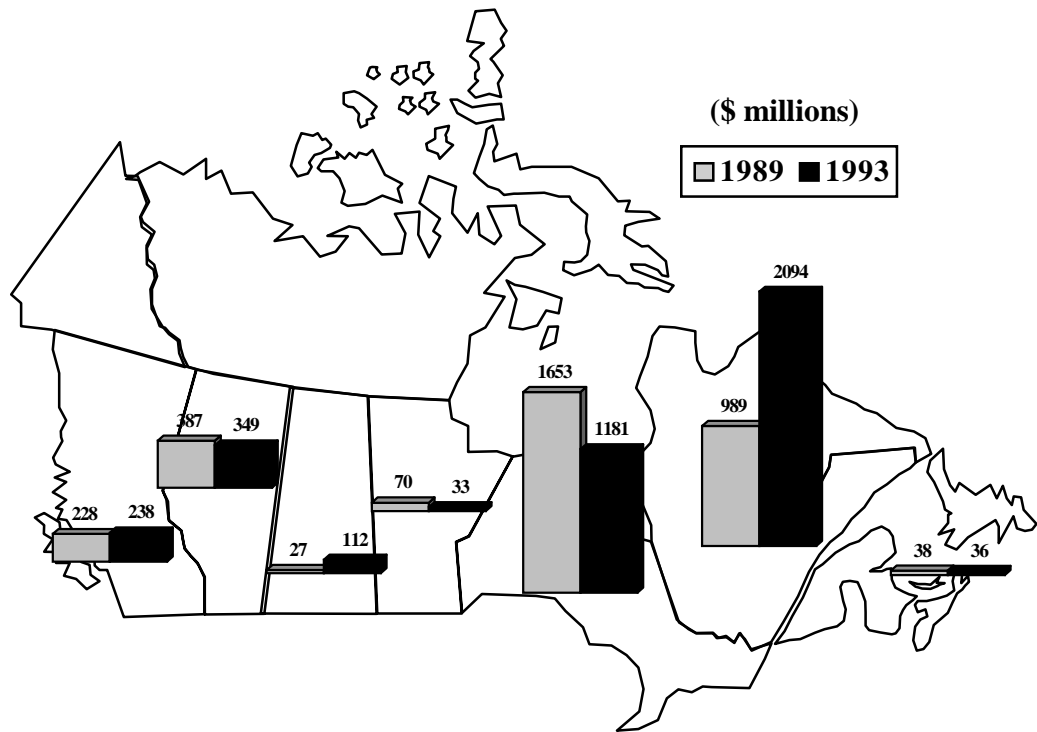
There is every reason to believe that comparable benefits are possible for other provinces with labour-sponsored funds. Indeed, with respect to capital supply, that impact is already being felt. Data from Macdonald and Associates reveal that funds have helped to resurrect weakened sub-markets on the Prairies (Saskatchewan and Manitoba) and in the Maritimes (e.g., New Brunswick and Prince Edward Island) or to substantially enhance already vital sub-markets elsewhere, such as British Columbia.

This point is underscored by noting that one labour-sponsored fund — Working Ventures — was responsible for close to 100 percent of institutional venture capital and investment in Atlantic Canada in 1993 and 1994. In another illustration, the sharp 1994 jump in disbursements in British Columbia co-incides with the greatly intensified investing of Working Opportunity during that year (it is possible that the same will occur in Manitoba given the heightened investment activity of the Crocus Fund in the second half of 1995).<sup>48</sup>

Considering the growth of provincially-based funds and Working Ventures, such performance is only likely to increase in upcoming years (it will be particularly interesting to examine the effects of regional investment patterns once data becomes available for 1994 and thereafter). Recent trends are illustrated in Figures 14 and 15.

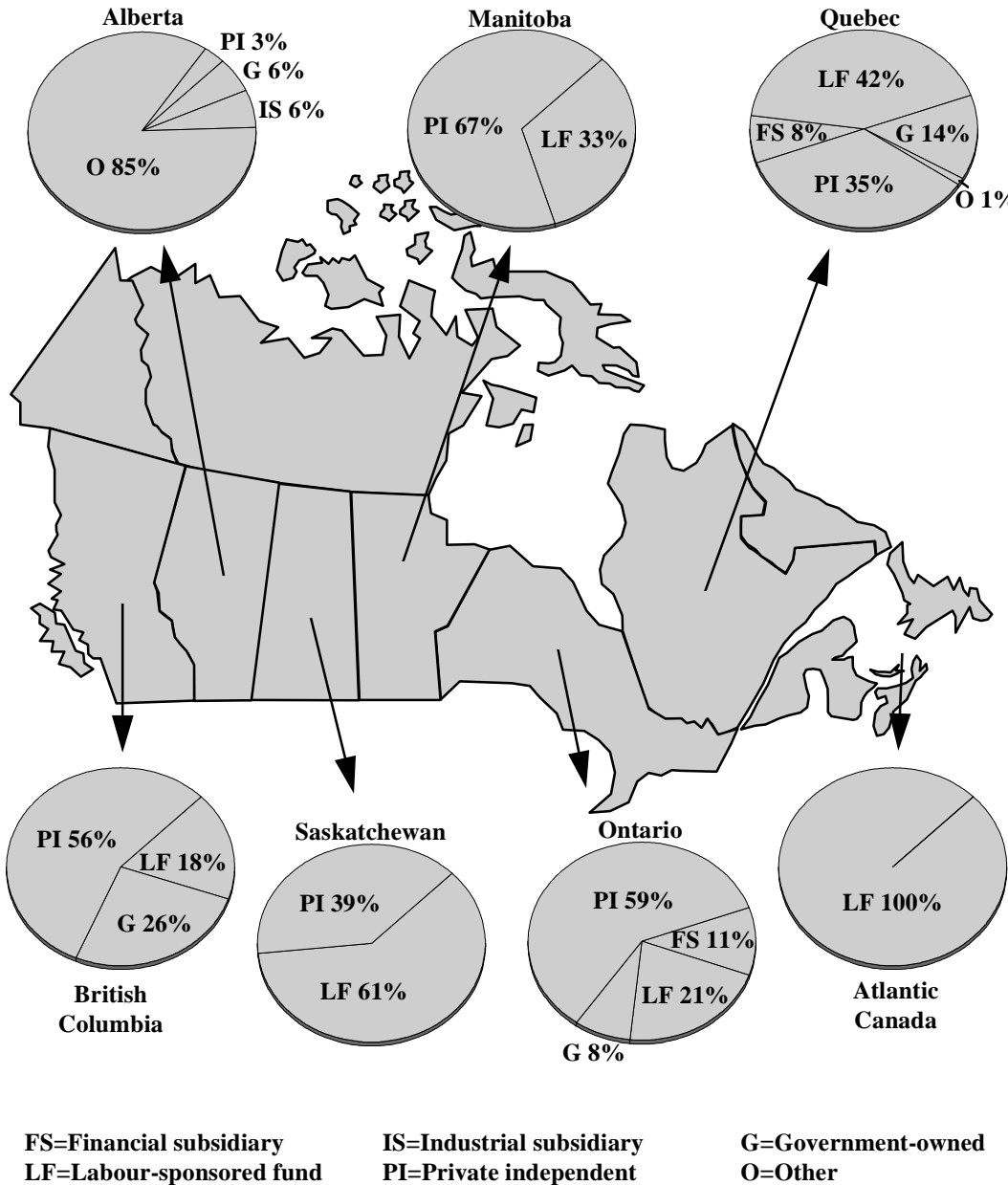
# Figure 14

## Total Canadian Venture Capital, by Province, 1989 and 1993



Source: Macdonald & Associates, 1994

**Figure 15**  
**Total Canadian Venture Capital,**  
**by Investor Type, by Province, 1993**



Source: CLMPC, based on Macdonald & Associates, 1994

## **(vii) Participation by a broad base of average working people**

It is a truism that capital markets attract individuals of high net worth. Recent studies of the shareholder base of Canadian public securities exchanges, for instance, note that close to one-half of all individual investors have a household income of \$75,000 or over and are employed in executive, managerial and professional occupations. According to the Investment Funds Institute of Canada, even the household incomes and occupations of investors in popular mutual funds are only slightly more representative of the working population.<sup>49</sup>

A key objective of labour-sponsored investment funds is to offer middle and lower-income Canadian individuals and households a new investment opportunity. As fund shareholders, persons of average means can augment their retirement savings as a supplement to industrial and public pensions. Alternatively, persons for whom employment is the main source of earnings can also create an investment income stream. Of course, such outcomes are made possible only by tax incentives which lower costs and cushion risks. This is a crucial point since few individual investors, rich or poor, will likely otherwise choose the venture capital market.

### ***Recruiting non-traditional investors***

Labour-sponsored funds observe this priority in assorted ways. The primary way is strategic shareholder recruitment of union members affiliated with the sponsor. Canadian unions today represent 37.5 percent of the non-agricultural paid labour force or approximately four million workers in all. The national labour movement is a ready source of non-traditional investors and estimable savings, if adequately tapped.

This is recognized by the leading funds which have sponsoring labour centrals with especially large membership lists. Taken together, the *Fonds de solidarité*, Working Ventures, Working Opportunity and the Crocus Fund have, via the four respective sponsors, potential access to an investors pool of over one million organized Canadian workers.

At present, there are two basic approaches to recruiting organized workers. The first, forged by the *Fonds de solidarité*, is doubtless the most successful method. Each year, the fund launches large-scale sales campaigns using volunteer union agents and resources to reach workers in union and workplace settings. In an arrangement with the *Commission des valeurs mobilières du Québec*, the operation of this sales force — which numbered over 2,000 active volunteers in the 1995 RRSP season — is officially exempt from the usual rules and procedures for soliciting and subscribing investors in the province. Rather, the *Fonds de solidarité* itself undertakes the training of representatives for share distributions, subject to monitoring by Québec regulators.

This technique has been adopted with modifications by labour-sponsored funds in co-operation with securities commissions in Manitoba, Ontario and New Brunswick and has come to be known, outside of Québec, as sales through “restricted licensing.”

The second approach, forged by Working Ventures, is to have union members contacted strategically in various settings by commissioned securities dealers and brokers. Unlike the *Fonds de solidarité*, most other funds have chosen to enjoin at-arms-length professionals, most of whom are “registered representatives” licensed by the Canadian Securities Institute (which recently added a course chapter on share marketing by labour-sponsored funds). In the case of Working Ventures, commissioned agents, and the separately-incorporated Working Ventures Investment Services, target workers affiliated with the CFL for sales. In Working Opportunity's case, this task is one for the sponsor-owned distributor Working Enterprises Financial Services.

Interestingly, some labour-sponsored funds, such as the Crocus Fund, have integrated these two approaches for annual recruitment drives.

Another mechanism utilized to recruit organized workers is firm-based payroll deduction plans, of which the *Fonds de solidarité* has an extensive system. Much of this year-round system has been initiated incrementally through collective bargaining at the enterprise level. In 1994, there were 2,076 clauses in collective agreements in Québec industry concerning deductions at source, 638 of which involved an employer payment on behalf of employees.<sup>50</sup> Today, payroll deduction plans constitute nearly 50 percent of the annual capital collection of the *Fonds de solidarité*.<sup>51</sup>

In some provinces, this effort is facilitated by laws stipulating that employers must implement plans if enough of their employees so request. In Québec, for instance, this is the lesser of 20 percent of the workforce or fifty workers. Even where statutory requirements do not exist (e.g., British Columbia) several funds are pursuing volunteer payroll deduction plans as an alternative to subscription through agents.

For many funds, sales campaigns also provide an opportunity for educating workers and members of the general public about fund principles. For some, such as the *Fonds de solidarité*, it is also a way of maintaining contact with unionized investors and preventing the institution from becoming too remote from their needs and concerns.

### ***Profile of shareholders***

CLMPC research has discovered that various strategies for introducing new investors to capital markets have had an effect. As a consequence of its union-based recruitment method, the *Fonds de solidarité* has the highest rate of shareholders that are also organized workers — 65 percent in 1994.<sup>52</sup> Despite taking the more conventional route of commissioning agents, however, the other leading funds have also recruited large numbers of union members — the lowest level is one-third of total shareholders. Consequently, of the total 378,600 Canadians owning fund shares in 1995, the CLMPC estimates that 51 percent belong to a union. This is a minimum figure given that most new funds do not currently identify union affiliation as a characteristic in investor statistics.

Surveys of shareholders conducted by the *Fonds de solidarité* also reveal a substantial representation of persons with average incomes and employment backgrounds. For example, in recent years, the proportion of shareholders in blue collar occupations has

been as high as 40 percent. Most of these hold jobs in manufacturing and construction industries.<sup>53</sup>

Many fund shareholders are also participating in capital markets for the first time. For instance, approximately, 45 percent of all shareholders said that their investment in the *Fonds de solidarité* was also their first use of an RRSP (this was true for around 50 percent of FTQ-affiliated shareholders).<sup>54</sup> It should be emphasized here that labour-sponsored funds tend to encourage subscription only as a supplement to a person's formal pension and retirement savings arrangements. In other words, they do not — as a matter of policy — recommend shareholding as a main source of post-retirement income.

CLMPC research notes that there are important economic by-products of encouraging fund participation among non-traditional individual investors. As was discussed earlier, one is the unprecedented flow of personal savings — and especially, retirement savings — towards the national venture capital market. Another benefit is enhancement of the Canadian savings rate which has experienced decline as compared with other industrialized countries in recent years. This happens insofar as individuals begin saving, or top-up their savings, through fund shareholding, as illustrated by the *Fonds de solidarité*.

### **(viii) A commitment to provide market returns to shareholders**

Labour-sponsored investment funds strive to ensure market returns on overall liquid and illiquid portfolio holdings which are important to common shareholders — and institutional shareholders, where they exist. Some fund directors and officers describe capital appreciation as the overriding aim that helps realize other economic and social ends. Certainly, other aspects of fund mandates cannot be attained in its absence.

CLMPC research concludes that the rates of returns of labour-sponsored funds must be considered in the context of venture capital investing which is long-term in nature, high risk, and as liable to fail as to succeed. As such, investments do not yield the high short-term profits that may be desirable elsewhere in the world of finance. Like other venture capital institutions, the funds tend to back projects which provide returns commensurate with assumed costs and risks (though these are also offset by government financial incentives). Earnings do not normally come in the form of dividends or interest, but through strong equity appreciation over time and capital gains once shares are disposed. These returns are passed on to individual shareholders.

The necessity of good returns has led labour-sponsored funds to recruit and hire venture and finance professionals with proven knowledge and expertise to manage assets and portfolios and to recommend diverse transactions according to market precepts. To ensure the continuing viability of deals, such professionals must also be equipped with mentoring skills of value to developing investee firms. An Ontario investment counselling agency recently gave a favourable rating to the quality of management teams in some funds, including the Integrated Growth Fund, the Vengrowth Investment Fund and Working Ventures.<sup>55</sup>

Surveys conducted by the *Fonds de solidarité* reveal that the vast majority of its shareholders — 87 percent in 1992 — are satisfied with their investment returns.<sup>56</sup> It should be further mentioned that returns, combined with personal tax savings, are not the only motivation of labour-sponsored fund investors. Several surveys also indicate that support for Canadian or provincial economic development is also of considerable interest.<sup>57</sup>

According to the INRS study (cited previously), net long-term investor returns of labour-sponsored funds are more attractive than those of mutual funds if personal tax savings are taken into account.<sup>58</sup>

### **(ix) Involvement of workers and unions in enterprise-based decisions**

Increasingly, new models of human resource management and organization of the enterprise and workplace are being introduced to Canadian industry. A key component of such models, developed in European countries and Japan, is employee participation in corporate governance and management. An equally important and related component is the sharing of financial outcomes with workers, such as firm ownership. In reaction to the diminishing success of older, more traditional production methods, business and labour are more disposed to such ideas as part of a so-called “high performance” path to competitiveness.

Research argues that employee involvement in company management and ownership improves overall economic efficiency. For instance, in their 1994 review of recent studies looking at the impact of new models which included these elements, Canadian economists Gordon Betcherman and Norm Leckie found a “performance payoff.”<sup>59</sup> Similarly, a recent assessment of the American ESOP system concluded that worker ownership, when combined with participative decision-making, had positive results for several efficiency factors, such as productivity, rates of return, firm longevity, variability of jobs within firms, and job growth.<sup>60</sup>

Such findings are material to labour-sponsored investment funds since many give priority to advancing employee participation and ownership. Indeed, by championing most elements of high performance strategies, and reflecting these in unique programs, some funds can be said to be adding new value to venture investing and mentoring, as was suggested earlier.

For some fund directors, this issue is relevant to the mutual goals of enhancing worker conditions and guaranteeing investment returns (through productivity benefits). At the same time, CLMPC research has determined, labour-sponsored funds may be at the forefront of establishing innovative philosophies and practices in Canadian companies, industries and sectors.

### *Employee financial participation*

It was stated at the outset that employee financial participation and ownership is not nearly so well-ensconced in Canada as it is in other countries. CLMPC research finds that this will probably change in future as the promulgation of enabling legislation for labour-sponsored funds is doing a good deal to aid steady progression of this concept.

Labour-sponsored funds may advocate greater employee financial participation and ownership for different reasons. For instance, along with being valuable in its own right, purchases of company shares by workers may also help a fund leverage expansions or restructurings that create or preserve employment. Generally speaking, statutes governing the funds strongly encourage this kind of activity.

Furthermore, the acquisition financings of labour-sponsored funds almost always pertain to their function as a friendly equity partner in company buyouts by groups of workers or managers. This is the only circumstance, in fact, in which most funds may legally obtain majority voting shares in an enterprise. Frequently, buyouts occur in mature industries experiencing profound rationalization and restructuring and where firm owners/managers cannot locate sympathetic, first-in capital suppliers. The *Fonds de solidarité* has assisted scores of rescue operations whereby businesses have survived downturns to become profitable again, frequently with the help of worker ownership.

A recent illustration of successful rescuing by the *Fonds de solidarité* is the pulp and paper producer *TRIPAP*, of Trois-Rivières, Québec, for which a very heavy 1993 investment sum was justified by an unexpectedly strong industry recovery the following year. This event sparked the fund to reinvest in the plant to satisfy the new demand. On occasion, however, some rescues of the *Fonds de solidarité* have failed.

The Crocus Fund also places a premium on facilitating worker buyouts. This it will sometimes do using a debt instrument that levers takeovers, with corporate assets as collateral. Under this scenario, shares are purchased by the fund and sold to a worker trust in exchange for a security interest in the company. Over time, this equity stake is substituted with employer contributions. Fund directors anticipate this vehicle and further adaptations, derived from American ESOPs, will dramatically increase the universe of Manitoba establishments available for full or partial buyout.<sup>61</sup>

In September, 1995, Buhler Industries of Manitoba became the first Canadian enterprise to receive a capital infusion using this mechanism.

Other forms of employee financial participation are also supported by labour-sponsored funds. To illustrate, the *Fonds de solidarité* has made inception of share purchase plans for employees a condition of every investment agreement. This initiative has given thousands of Québec workers a chance to save for retirement given that eight in ten investee firms of the fund do not have pension plans.<sup>62</sup>

In the case of the *Fonds de solidarité*, shares bought, through employer and employee contributions, are those of the fund itself — an arrangement that may, or may not, persist once an investment is discontinued. In the case of Working Opportunity, share purchase

plans are company-constituted and do not involve employer contributions. Rather, employers may offer up a portion of total equity (e.g., 10 percent) for acquisition by workers.

### ***Employee participation in management***

Labour-sponsored funds advance employee participation in corporate governance and management in different ways. The social audits of some funds, for example, commonly include criteria referring to employee participation in most aspects of enterprise and workplace decision-making and other innovations. Some crucial by-products of the audits in this area include greater job flexibility and work reorganization, improved internal communications between managers and workers, more attention to technological change, a training facility, higher quality standards, new human resource management systems, and support for employees balancing family responsibilities.

Indeed, the Crocus Fund takes this process one step further by making these and other goals the explicit function of its organizational effectiveness procedure. This procedure, available to all investee firms, enables the professional design and implementation of high performance techniques, including participative management.

It is worth mentioning at this juncture that the Crocus Fund is the first labour-sponsored fund with a *raison d'être* to spread industrial and workplace democracy in the context of making job-producing investments. Guided by the history of the Mondragon co-operative system of Spain and ESOPs in the United States, the fund must, under provincial legislation, commit a majority of its assets to investment activity that supports employee participation and ownership. The private mandates of some new funds, such as the First Ontario Fund and the Workers Investment Fund, reflect a similar emphasis.

Some funds that do not use social audits or related measures, such as Working Ventures, may nevertheless have a stated interest in promoting progressive industrial relations, improving dialogue between management and labour, and expressing concern about human resource matters, etc. Such interest is registered by fund officers, formally and informally, over an investment's lifetime.

### ***Economic and financial training***

A critical tool for assisting employee participation and empowerment is economic and financial training. Since the late 1980s, the *Fonds de solidarité* has committed sizeable resources to an extensive program for preparing workers in investee firms for additional roles and responsibilities. The training is intended to supply workers with knowledge and understanding about the financial state of an enterprise and its market situation. Moreover, it is supposed to raise the level of trust between labour and management by "opening the books" and achieving organizational transparency.

Over time, the scope of training has greatly expanded. In 1993-94, instructors from the fund's *Fondation d'éducation et de formation économique* provided seventy courses to approximately 900 workers (that are organized and unorganized, full-time and part-time,

blue collar and white collar).<sup>63</sup> Training is also available to middle and low level managers, such as plant supervisors.

At present, the *Fondation* conducts basic and refresher courses for up to thirty-five enterprises per year (and increasingly, for the investee firms of specialized funds, et al, such as the *Fonds agro-forestier and Biocapital*).<sup>64</sup> The costs of this training are borne by the *Fonds de solidarité* and by individual employers. According to fund officers, owners/managers or of investee firms are usually receptive to this due to acknowledged gains in productivity. Actually, some companies, especially those with extraordinary restructuring and adjustment needs, are ready to contribute beyond the usual expenses for a more comprehensive training program.

A higher degree of worker involvement in investee firms is often immediate following such training. In many instances, new structures are established, such as joint committees to review financial statements and data, participative management models implemented, and production and work reorganized. *Fondation* instructors also report substantially altered relationships in the normal course of enterprise affairs and in negotiations during collective bargaining. The *Fonds de solidarité* is not usually an actor in post-training activity unless invited by both employers and employees to advise or mediate.

Other labour-sponsored funds, such as Working Opportunity and the Crocus Fund, also deliver, or plan to deliver, education and training programs, including those geared to employee participation and skills formation in investee firms.

### ***Changing the workplace***

1994 studies suggest that the priority given by labour-sponsored funds to employee participation and ownership are, in turn, generating economic rewards. Data and analysis contained in the research reports of the INRS and CSTIER show apparent efficiency and modernization benefits in investee companies attributable to the efforts of the *Fonds de solidarité* and Working Opportunity.<sup>65</sup>

The CSTIER study, in particular, pointed to numerous qualitative changes in firms backed by fund capital leading to increased productive efficiency, according to both employers and employees. Of course, these have yet to be tested empirically. The economic and financial training program of the *Fonds de solidarité* has been cited specifically as a trigger for skills formation and workplace innovations. Indeed, this has been recognized elsewhere in Québec industry — in 1994, for example, the corporation Noranda, Inc. (without ties to the fund), requested and paid for the delivery of *Fondation* training to an equal number of workers and managers in three plants.<sup>66</sup>

### **(x) Facilitation of co-operation between labour and business**

The emergence of labour-sponsored investment funds has occasionally been greeted with little enthusiasm by some in business and financial constituencies. It is useful to remember, however, how perceptions of the *Fonds de solidarité* changed in these constituencies in Québec over the course of its ten-year plus history. Surveys of members

of Québec's largest employer organization, the *Conseil du Patronat du Québec*, found that while only a plurality approved of the inception of the *Fonds de solidarité* in 1983, approval rose to nine out of ten members within five years.<sup>67</sup>

A more recent survey of the financing needs of small and medium-sized enterprises found similarly positive views of the *Fonds de solidarité* as an essential pillar in the financial system of Québec. Perhaps naturally, the best reviews came from businesspeople that had direct interaction and experience with the fund.<sup>68</sup>

One of the reasons for this trend probably is that the *Fonds de solidarité* has taken pains to invite senior Québec business and financial leaders to participate meaningfully in its investment decision-making process. Constituency representatives sit on the board of directors and on a variety of other deliberative bodies. Significantly, original FTQ presentation of its *Fonds de solidarité* idea happened at the *Sommet du Québec* in 1982 where business, government and labour met to discuss new measures for dealing with the economic recession and its aftermath (including those that might improve the industrial relations climate).

Encouraging the input and involvement of these constituencies is a common practice for other labour-sponsored funds as well. Like the *Fonds de solidarité*, Working Ventures has reserved seats on its board of directors and committees for such representatives (which are recruited through a search process initiated by the CFL). In another illustration, Working Opportunity and the Crocus Fund have convened permanent advisory committees of senior business and financial leaders in British Columbia and Manitoba, respectively. These individuals provide ongoing commentary and recommendations to fund directors and officers on pending investments and policy issues.

Another reason for the gradual acceptance of the funds in the Canadian private sector may be that the former actively promotes joint action and co-operation between managers and workers at the level of the investee company as well as in other contexts, as discussed. Some funds also bring these actors together in forums for the development of investment programs and services. The province-wide forums of the *Fonds de solidarité* to develop long-term market strategies for selected industries are an example.

Equally noteworthy are those circumstances in which business and finance have actually assisted inception of a labour-sponsored fund. For instance, the Manitoba Credit Union Central has made an institutional investment in support of capitalization of the Crocus Fund.

Labour-sponsored funds have attracted international attention for this feature alone. Legislators and labour movements in the United States and European countries (and through international organizations, such as the ICFTU) are currently observing the Canadian funds as novel approaches to bipartism and tripartism due to government's partnership role in giving them legal status, guidance and monetary aid — in the realm of national investment decision-making.<sup>69</sup>

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# Conclusion

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As a quasi-private, quasi-public institution, the labour-sponsored investment fund is quickly becoming integral to the mobilization and organization of savings for investment and capital formation in Canada. The preceding has been a brief, if detailed, description of this new and singular financial institution which may be of interest to decision-makers and policy-makers in government and the private sector, as well as international observers.

The preceding has also been an investigation into the applied standards, investment activity, and programs of labour-sponsored funds, based on information acquired under the CLMPC's 1994-95 research project and by other studies produced in recent months and years. Necessarily, some issues, concerns, and policy questions have been left untouched or have been treated in a cursory fashion. It is hoped that this will be the beginning of further, more intensive, and updated research efforts.

It was suggested earlier that as a government tax expenditure program, labour-sponsored funds have been the object of particularly close and searching scrutiny. CLMPC research interviews with the Chairpersons of Boards of Directors, President and CEO's, and other directors and officers, indicate that the funds themselves welcome this scrutiny. Indeed, as a vehicle of several clear public policy aims in the venture capital market — and in the Canadian economy and society, more generally — directors and officers believe that labour-sponsored funds, individually and collectively, must always be held accountable for the mandates that treasury dollars support. Furthermore, as a market-based institution, it is appropriate that this capital supplier, like any other, always be responsive to ever-changing demand expectations in industry.

To be adequately examined and assessed, the rationale for having labour-sponsored funds in Canada must be comprehended. This document has attempted, first and foremost, to establish an analytical framework — derived from original precepts and principles, determined in statutes by Canadian governments in federal and provincial jurisdictions, and by labour in the private mandates of the funds — for monitoring and evaluative purposes.

To this end, it is concluded that the ten salient institutional qualities identified here:

- accountability to changing public interest concerns;
- performance as a patient investor in the national venture capital market;
- a key role in ensuring the availability of equity capital to small business;
- facilitation of labour's involvement in investment and financing decisions;

- performance in creating and preserving durable, high value-added employment and other socio-economic benefits;
- a focus on the specific investment needs of regions and communities;
- encouragement of the capital market participation of average working people;
- provision of long-term returns to shareholders;
- facilitation of increased firm-level participation, skills formation, and financial ownership among employees; and,
- a role in promoting co-operation between business and labour.

— form the essential basis by which the funds can, and should, be regarded.

Empirical evidence and supplementary data gathered and discussed at some length in this paper suggest that the funds have responded affirmatively to many of these criteria, though results will vary from one fund to next, depending on individual institutional objectives and records. Given that much of this evidence pertains to the *Fonds de solidarité* and the early life of the other leading funds (i.e., Working Ventures, Working Opportunity, and the Crocus Fund), it will be conceded that a good deal of the story of labour-sponsored funds, taken as a group, has yet to be written. This must await the growth of most from interesting financial concepts to well-established, practicing financial entities.

Consequently, they bear continued close observation. Furthermore, when government finally turns to review tax subsidization of labour-sponsored funds, it is important that this is done in the context of looking at the relative efficacy of all direct and indirect incentive measures and mechanisms that affect the supply and disbursement of risk equity capital in Canada (indeed, this recommendation was made by the CLMPC's Task Force on Access to Capital in its November, 1995 report).

To guarantee public understanding and accountability of labour-sponsored funds in the future, certain research priorities should be taken up. These include:

- a measure of multivarious effects of the funds on venture investment trends, the cost and supply of venture capital, and national market organization in the long-term;
- further research into those methods utilized by the funds to remove barriers to underfinanced enterprises and sectors;
- further research into the relative success of funds to channel domestic savings to investment in community and regional economic development;

- particular study of the impact of specialized equity pools that promote, among other things, syndication, new sources of expertise, and decentralized decision-making;
- further research into the economic and job outcomes of fund investment, beyond those found for the *Fonds de solidarité*, and as compared with other venture capital/financial institutions;
- a comprehensive, nationwide profile of individual investors, including data concerning income and occupational backgrounds;
- a detailed review of the ways in which funds have introduced Canadian workers and unions to investment decision-making processes;
- an empirical assessment of the real value-added for investee firms of certain fund programs, such as economic and financial training, participative management and other workplace innovations, social auditing, and more co-operative employer-employee relations;
- examination of the special role occupied by the funds in leveraging worker ownership, in part as a tool of restructuring and rescue operations in mature industries.



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# Appendix 1

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The following is a very brief profile of each of the four leading labour-sponsored investment funds in Canada as of early 1995 — the *Fonds de solidarité des travailleurs du Québec (FTQ), inc.*, the Working Ventures Canadian Fund, Inc., the Working Opportunity Fund (EVCC), Ltd., and the Crocus Investment Fund, Inc. The data presented in these profiles are intended only to introduce the reader to each fund and complement issues raised and discussed in the preceding text.

In some cases, the differences between labour-sponsored funds are quite profound; in other cases, differences are more a matter of emphasis. Because all derive from the original *Fonds de solidarité* and Working Ventures models, some aspects of fund mandates and organization, statutory frameworks, investment standards and activity, and programs will appear the same. For instance, the professional conduct of the due diligence process, necessary to venture financing, is similar from fund to fund.

Following the four profiles is a brief synopsis of the mandates of the remaining labour-sponsored funds (also, as of the beginning of 1995) and, where relevant, a few additional details (see Figure 2 for supplementary information).



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# Appendix 1.1: Fonds de solidarité des travailleurs du Québec (FTQ), Inc.

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## (i) Introduction

### ***Background***

The *Fonds de solidarité des travailleurs du Québec (FTQ)* was born in the midst of the recession of the early 1980s when hemorrhaging of Québec's industrial base caused a permanent loss of plants, jobs, and income. Prior to that time, the fund's sponsor, the *Fédération des travailleurs et travailleuses du Québec (FTQ)* had not planned on making a decisive collective entry into capital markets. However, recognition that facilitating productive investment and financing was key to a full employment strategy (supported by positive labour experiences abroad) led it to consider this route.

In 1982, former FTQ President Louis Laberge and other leaders (the province's largest union central, representing 470,000 members) completed its design of a novel financial institution geared to high risk equity financing. Based in part on the popular *Régime d'épargne-actions du Québec*, it would be controlled by the FTQ and a shareholder base of affiliated workers. Like comparable international models, it also emphasized certain socio-economic investment aims.

Laberge first raised the *Fonds de solidarité* idea in 1982 at the tripartite *Sommet du Québec* where it received the backing of the *Parti Québécois* government as well as some high profile business and financial leaders. It is probable that a contributing factor to the fund's initial acceptance was Québec's tradition for experimenting with new and innovative financial means and structures.

1983 saw formal endorsement of the proposal by the FTQ membership in 1983 and passage of Bill 192, "An Act to create the *Fonds de solidarité des travailleurs du Québec (FTQ)*" by the (Québec National Assembly) on June 23. Along with provincial tax credit and other financial support, the fund benefited from introduction of a matching federal credit by the Conservatives in 1985.

### ***Growth of the fund***

As Figure 16 show, the *Fonds de solidarité* has experienced strong and steady growth in size over twelve years, establishing a pace now common among labour-sponsored funds. At present, it has an asset base of approximately \$1.3 billion and close to 240,000 shareholders in Québec.

Today, the *Fonds de solidarité* is, by far, the largest labour-sponsored fund. It is also, by far, the largest venture capital institution in both Québec and Canada.

### ***Goals of the fund***

The mandate of the *Fonds de solidarité* is characterized by some essential investment and related objectives. These are elucidated in the Québec statute establishing the fund as being:

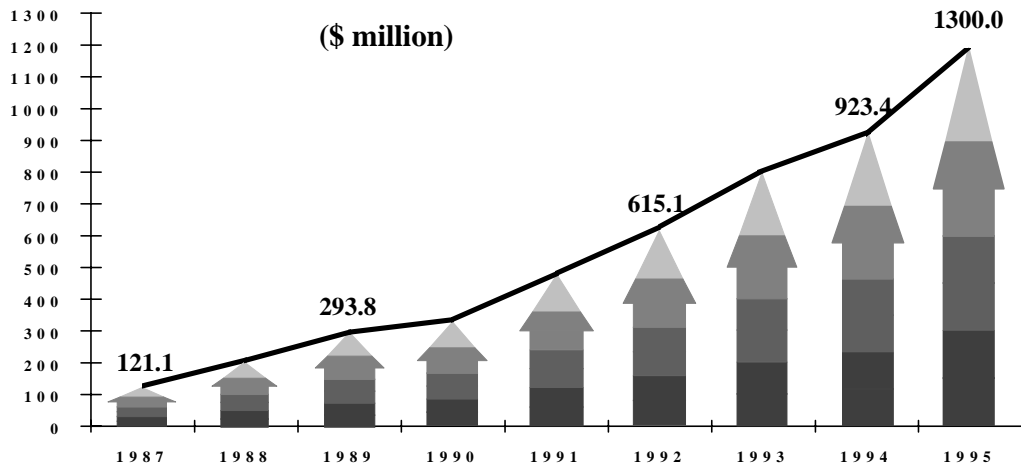
1. creation, maintenance and protection of jobs in Québec, its regions, and its communities;
2. stimulation and development of small and medium-sized enterprises in all industries and sectors of the Québec economy;
3. participation of average working people, including FTQ members;
4. involvement of workers in investment and financing decisions, in part, through skills formation;

The latter objective is supported by considerable resources of the *Fonds de solidarité*. Indeed, the fund has developed through its *Fondation d'éducation et de formation économique* (initiated in June 1990) a unique program of training employees for new roles and responsibilities in investee firms. Popular economic education is also a feature of annual campaigns of shareholder recruitment among organized workers and other fund activities.

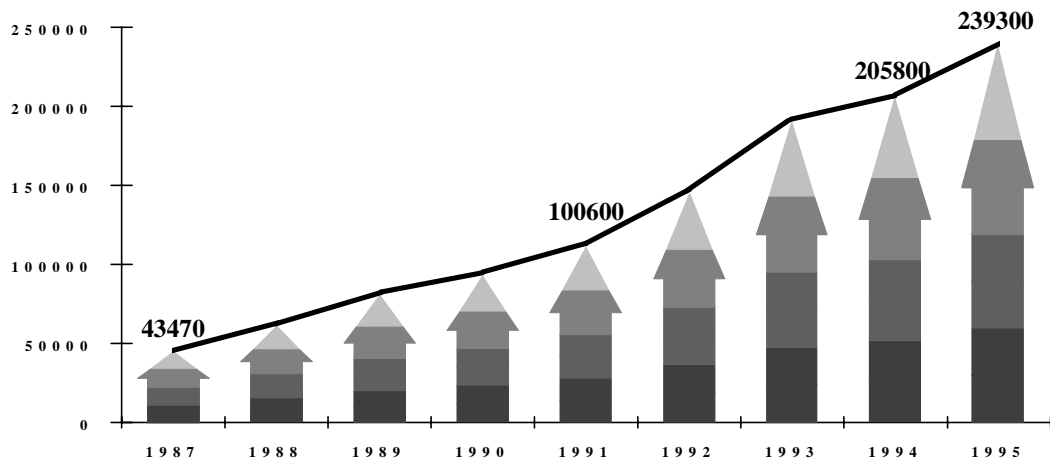
Pursuit of investment and related objectives is done in the context of achieving long-term market earnings for shareholders. The *Fonds de solidarité* also seeks to influence socially responsible performance in industry.

**Figure 16**  
**Increase in Total Assets and Shareholders,**  
**Fonds de solidarité, 1987-95**

**Assets**



**Shareholders**



Source: Fonds de solidarité des travailleurs du Québec, 1995

## **(ii) Decision-making structures**

Under Québec legislation, the FTQ is specifically named as the sponsor of *Fonds de solidarité*. Sponsor powers include nominating the majority of the Board of Directors or ten of seventeen members. A further two directors are elected by common shareholders at an annual general meeting. This group of twelve selects four more directors representing Québec business and financial constituencies and socio-economic agents. The President and Chief Executive Officer of the *Fonds de solidarité* is the final appointee.

Board decision-making is assisted by an extensive committee system, including an Executive Committee comprised of directors. With the advent of specialized, regional and local funds in recent years, the *Fonds de solidarité* has increasingly moved towards sharing decisions with external investors, local representatives, and experts in certain fields.

The Chairperson of the Board of Directors currently is Fernand Daoust, who is also the former President of the FTQ. The President and Chief Executive Officer is Claude Blanchet.

In 1995, the *Fonds de solidarité* employed 226 persons.

## **(iii) Participation in the fund**

### ***Common shareholding***

The legal definition of an eligible investor in the *Fonds de solidarité* is any Québec resident when purchasing common (Class A) shares. These shareholders ascertain their rights and tax benefits if they also hold onto their investment until the age of retirement (or age 60, subject of a two-year minimum). This long duration has justified a long list of exceptions for early redemption, including the investor's death or health impairment, exhaustion of unemployment insurance, emigration, or personal decisions, such as starting a business.

### ***Union-based recruiting***

In the beginning, the *Fonds de solidarité* obtained a virtual exemption from the *Commission des valeurs mobilières du Québec* to undertake shareholder recruitment using volunteer union agents and resources that reached FTQ members in union and workplace settings. Though monitored by securities regulators, the fund effectively directs the promotional efforts of this sales force, which recently numbered over 2,000 active volunteers and operated chiefly out of some forty permanent and temporary offices set up across Québec.

The *Fonds de solidarité* also assumes responsibility for training sales personnel, according to precepts acceptable to regulators. This occurs annually and in follow-up sessions, as required.

This exclusively union-based strategy (the fund has never resorted to commissioning professional investment dealers and brokers) has allowed the *Fonds de solidarité* to enjoin a very high proportion of organized workers. In 1994, 65 percent of shareholders were members of either the FTQ or another union body.

### ***Payroll deduction plans***

A growing source of share-buying in the *Fonds de solidarité* is managed through payroll deduction. Under Québec law, employers must remit deductions to the fund if a group of workers (the lesser of fifty or 20 percent of the total workforce) so request. In addition, employers can purchase shares for employees as a benefit, if such results from collective bargaining. Today, there are 2,245 deduction provisions negotiated in collective agreements. Of these, 711 reflect employer-paid benefits.

Québec regulators tend to intervene in fund solicitation and subscription only on the basis of individual consumer complaints.

## **(iv) Investment standards and process**

### ***Investment criteria***

Québec's statutory framework generally gives the *Fonds de solidarité* considerable latitude to pursue growth-oriented investment activity. For instance, unlike most labour-sponsored funds, it is permitted to invest in small and medium-sized enterprises in all Québec industries and sectors, including the financial sector. Also, in view of its goal to protect existing employment through firm rescues and restructurings, the fund is able to enter minority or majority control situations with relative freedom.

The Québec government has stipulated that 60 percent of net assets of the *Fonds de solidarité*, based on a calculation of the previous year's average, be placed in eligible investments.

In accordance with legislative specifications and its private mandate, the *Fonds de solidarité* has determined the following criteria for investment purposes:

1. expectation of market returns commensurate with risks and costs;
2. investment diversification throughout Québec regions and communities;
3. financing project sizes that begin, on average, at a \$150,000 minimum;
4. investment diversification by industry;
5. support for technological innovation in production;
6. investment diversification by stage of development (start-ups, early stage developments, expansions, acquisitions, restructuring and turnarounds).

The *Fonds de solidarité* has also indicated that while it considers financing requests from all Québec enterprises, organized and unorganized, it will give preference to projects where workers are FTQ members.

### ***Investment process***

Like other venture capital institutions, the *Fonds de solidarité* conducts an exhaustive process of due diligence whereby it examines all aspects of a potential investee company's attributes and prospects in the market. Along with analyzing business plans and financial data, the investment team interviews firm owners/managers, workers and other interested parties (e.g., suppliers). Questions emerging from this evaluation contribute to subsequent negotiations and, possibly, terms and conditions to be included in a final investment agreement.

In general, the *Fonds de solidarité* concludes (after also finishing its social audit, et al — see below) with an equity infusion of between 20-40 percent and representation on the board of directors. It usually looks to exit an investment after five to ten years, on balance.

While the *Fonds de solidarité* prefers minority voting shares in a firm, it will sometimes assume temporary control in specific circumstances, such as costly restructurings projects or where financial distress threatens continuation of an enterprise deemed central to the Québec economy.

### ***Co-investment and deal flows***

The *Fonds de solidarité* receives a flow of investment referrals in a manner similar to other venture capital institutions. Over the years, the fund has leveraged numerous transactions involving financial syndication as well as following others into co-investment. The fund co-invests with a wide range of Québec-based financial institutions, such as the *Caisse de dépôt et placement*, the *Confederation caisse populaires Desjardins*, and the *Banque nationale* and, on occasion, those that are internationally-based.

A significant source of information about potential deals is the FTQ and its affiliated unions and members. In 1994, the *Fonds de solidarité* received over 300 financing requests and proposals from entrepreneurs and enterprises across Québec.

### ***Specialized, regional and local funds***

An important financial innovation of the *Fonds de solidarité* in recent years has been its network of specialized, regional and local funds. These pools of equity, levered into existence by the *Fonds de solidarité*, often through financial/industrial partnerships function with independent mandates. In 1995, there were 26 funds in this network, valued at \$154 million in total.

Specialized funds primarily serve Québec growth-oriented industries. *Aérocapiital*, *Fonds agro-forestier*, *Biocapital I and II*, *Envirocapital* and *Technocap*, for instance, finance

small dollar projects in high technology and specialized manufacturing while *Solim I and II* are interested in construction and real estate projects.

Local and regional funds are constantly expanding in number and investment activity. Also geared to small deal-making, these funds are key to the strategy of the *Fonds de solidarité* to facilitate Québec regional and community economic development in co-operation with government and private sector institutions. Local funds, for example, have evolved with the assistance of the *Union des municipalités régionales des comtés*.

### ***The social audit***

Integrated with the financial audit of the *Fonds de solidarité* is an accounting of the social performance of a potential investee company. Issues examined include incidence of participative decision-making structures; progressive policies in human resource management; support for local communities; environmental protection practices; and systems for ensuring product quality.

### ***Employee share plans***

The fund also advocates employee financial participation and ownership. As a condition of investment, shares in the *Fonds de solidarité* must be jointly purchased and contributed to a savings plan for each employee. Such arrangements may, or may not, persist after the fund has relinquished its equity stake.

### ***Economic and financial training***

Also as an investment condition, the fund requires introduction of a training program aimed primarily at increasing worker knowledge of the financial state of an enterprise and, potentially, some involvement in related decision-making.

The cost of this program is borne chiefly by individual employer who pays \$40 per employee per year. In 1994, 80 per cent of investee firms were receiving training delivered by the *Fondation*.

### ***Services for investee firms***

Over time, the *Fonds de solidarité* has developed and maintained an array of support services for its investee firms. For instance, sectoral forums involving management and labour have been convened to discuss industrial growth prospects, needs and strategic directions. These and other forums have often led to new services, such as *Corporation Financière Brome* and those being developed currently for the tourism industry.

## **(v) Investment Record**

The *Fonds de solidarité* has been investing in the Québec economy for over ten years now. In late 1995, its portfolio comprised 131 investments valued at \$641 million.

### ***Nature of current financings***

Today, the fund has a widely diversified investment portfolio, the patterns of which are well established according to long-standing criteria.

For instance, the *Fonds de solidarité* has investee companies in all regions of the province, though the bulk are concentrated in the Montréal and Québec City areas where most commerce and industry is concentrated (and are sources of the majority of financing requests). Undoubtedly, the community focus of the *Fonds de solidarité* will grow as new regional and local funds are initiated and expanded. There are sixteen such funds now in existence and roughly sixty-five expected to materialize within the next five years.

Figure 17 also shows investment diversification by industry. In keeping with its economic development mandate, the *Fonds de solidarité* invests more widely than perhaps any other labour-sponsored fund. For example, while most financing projects are situated in manufacturing and high technology, the fund also commits resources to primary industries, various service industries, and real estate. The sheer size of the fund allows it play a significant role in each of these mature and evolving sectors. Comparison with data from previous years, also suggests the rapidly increasing presence of specialized, regional and local funds in the portfolio.

Finally, Figure 18 also highlights fund investments by project type. Again, there is diversification, though, out of respect to its job objectives, the *Fonds de solidarité* has always committed more assets to leveraging restructurings than is true for most other venture capital institutions. In 1994, two such deals were Novabus Corporation and *TRIPAP*. In general, these tend to reflect large financial stakes — and large establishments, though nearly all investee firms can be defined as small and medium-sized.

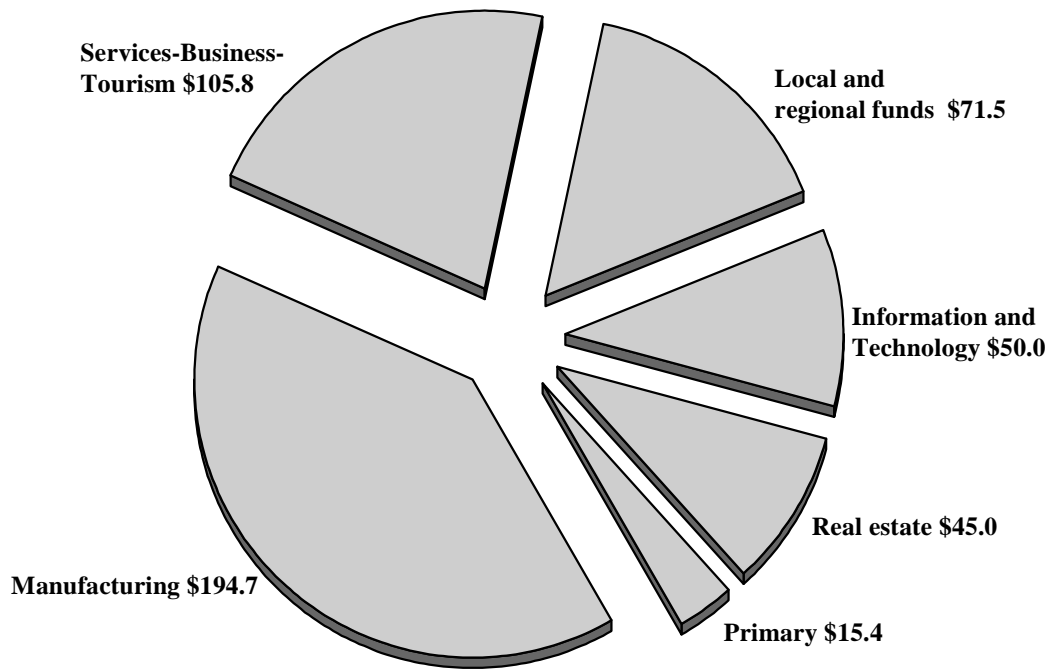
### ***Economic profile of investments***

The *Fonds de solidarité* has for some time published its own employment impact analysis of its investment activity. To illustrate, for 1994 fund officers calculated portfolio projects as creating or maintaining, directly or indirectly, over 31,000 jobs.

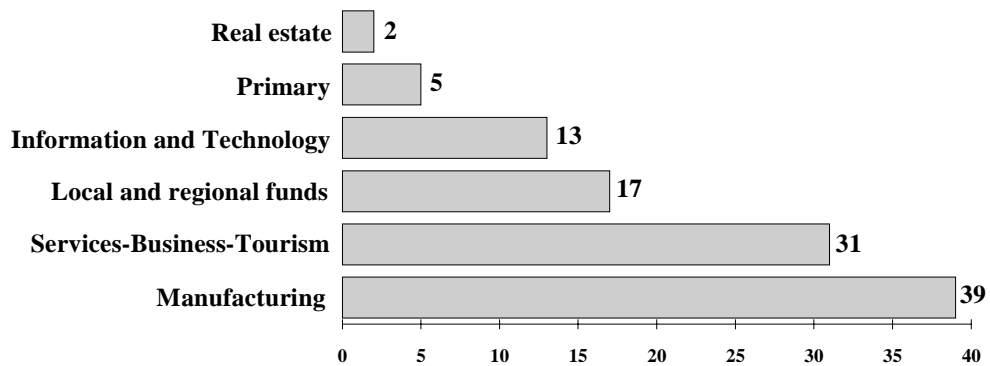
This positive record was challenged in 1993 by a *Université Laval* fiscal analysis arguing that the activity of the *Fonds de solidarité* was costly and inefficient. In 1994, this view was refuted by the INRS which found that government received a substantial payback from fund investments producing 15,372 direct, indirect and induced jobs and \$964 million of value-added in the Québec economy. A 1995 CSTIER study confirmed INRS cost-benefit findings.

## Figure 17 Investment Portfolio Mix, by Sector, Fonds de solidarité, October 31, 1994

Value of investments (Total: \$482.6 million)



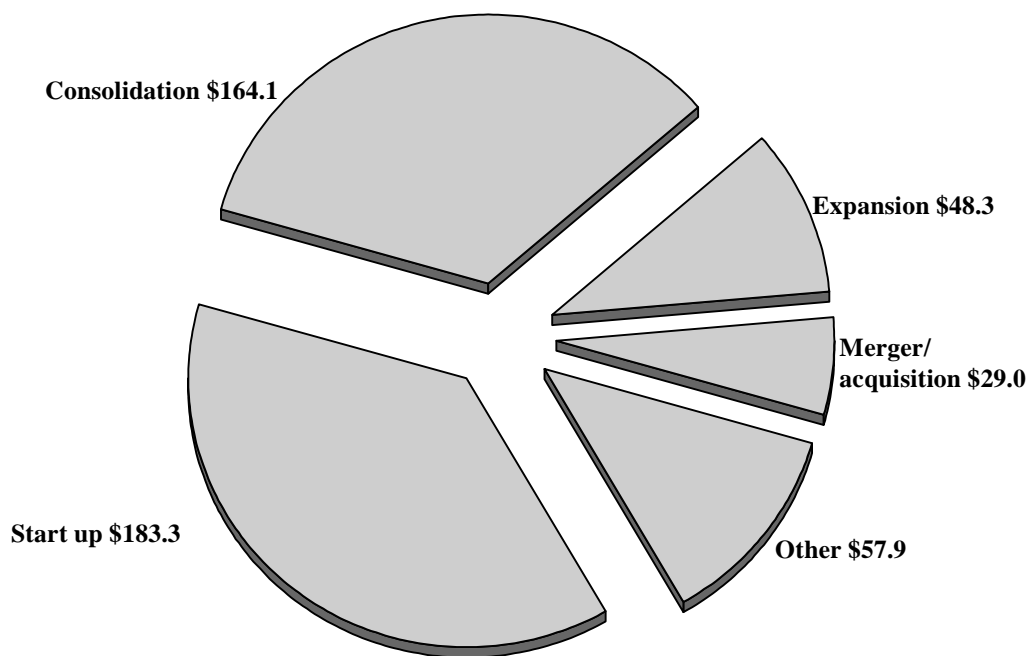
Number of investments (Total: 107)



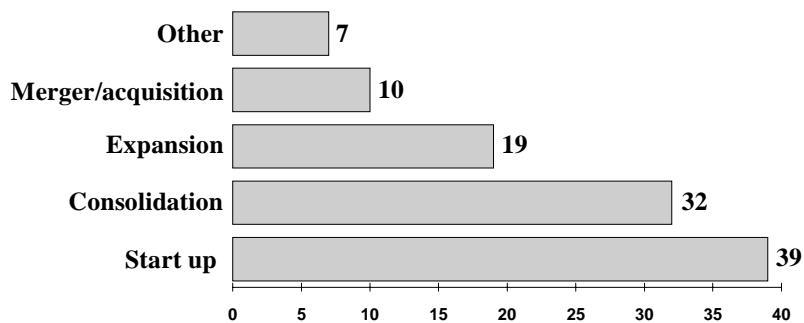
Source: Fonds de solidarité des travailleurs du Québec, 1995

## Figure 18 Investment Portfolio Mix, by Firm Development Stage, Fonds de solidarité, October 31, 1994

Value of investments (Total: \$482.6 million)



Number of investments (Total: 107)



Source: Fonds de solidarité des travailleurs du Québec, 1995

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# Appendix 1.2: Working Ventures Canadian Fund, Inc.

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## (i) Introduction

### *Background*

Like its Québec predecessor, the Working Ventures Canadian Fund, Inc., was conceived during the 1981-83 recession. Alarmed by continuing high unemployment, the Canadian Federation of Labour (CFL) decided to build on established member interest in financial participation and explore different options for collective capital formation. CFL President James A. McCambly was given a convention mandate to this effect in 1984.

The CFL itself was born in 1982. Today, it is the second largest national labour central with eleven affiliated unions and over 220,000 individual members. CFL affiliates represent workers in a wide variety of sectors, including construction, manufacturing, mining, communications, transportation, health care and the public service.

In November, 1986, McCambly and CFL leaders put a formal submission for a national labour-sponsored investment fund before the Conservative government, followed by a presentation to full cabinet (where Working Ventures is believed to have won final approval). In February, 1988, the federal budget announced changes to the Income Tax Act introducing the appropriate terms and conditions for a national fund. Working Ventures incorporated as the first of these in the same month and year.

In succeeding years, the support of provincial governments in western, central and eastern Canada were of equal importance since federal action did not make jurisdictional entry straightforward. Rather, the fund had to earn matching tax credits, and the right to invest, by satisfying legal requirements on a provincial basis. This multi-jurisdictional approach caused genuine growing pains for Working Ventures as did its costly role as the essential prototype for many labour-sponsored investment funds outside of Québec.

### *Growth of the fund*

As Figure 19 indicates, Working Ventures has displayed remarkable growth since 1988. Today, it has net assets of almost \$500 million and a shareholder base of 91,000.

Shareholders come from all provinces, but chiefly from those where the fund is completely operational - New Brunswick, Nova Scotia, Ontario, Prince Edward Island, and Saskatchewan.

In 1995, Working Ventures was the second largest labour-sponsored fund as well as the second largest venture capital institution in Canada.

### ***Goals of the fund***

The mandate of Working Ventures is characterized by several key investment and related objectives. These are:

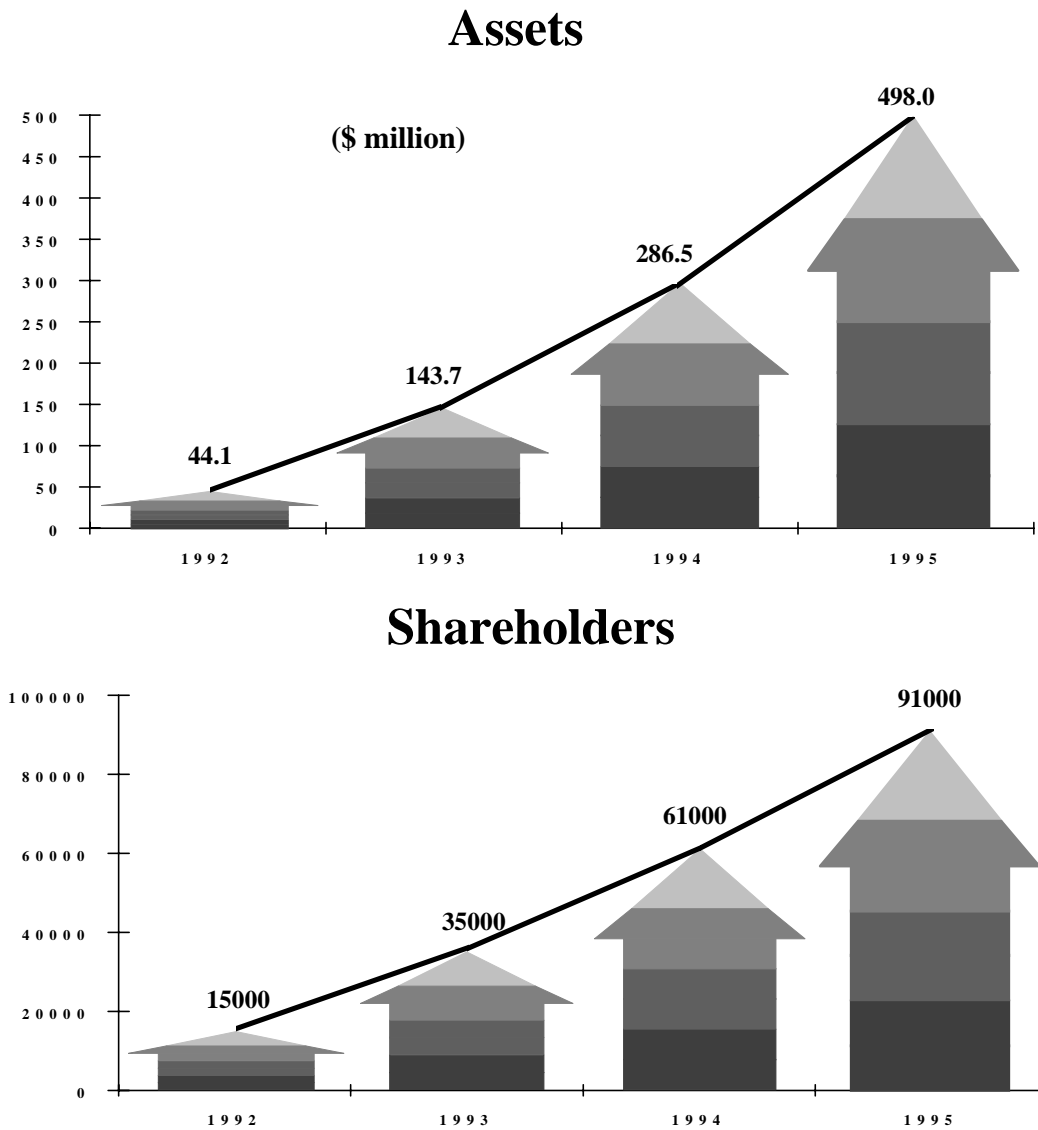
1. long-term market returns on its investment portfolio for shareholders;
2. participation of non-traditional Canadian investors, including CFL members;
3. increasing equity capital supply for small and medium-sized enterprises;
4. creation of new, high value-added job opportunities for Canadians;
5. encouragement of more progressive and co-operative industrial relations;
6. promotion of regional and community development;
7. a cross-country focus.

With regard to the latter aim, Working Ventures has developed a long-term strategy for entering all provinces to accumulate capital, invest, and eventually, to establish permanent divisional offices. This is in keeping with the belief of fund directors that a cost-efficient national infrastructure and diversified portfolio can best generate sustainable venture-backed activity outside of Canada's economic centre.

### **(ii) Decision-making structures**

Federal legislation enabled the CFL to create and direct Working Ventures by the former holding sponsor shares (or Class B preferred shares) which, in turn, entitle it to nominate eleven members of the thirteen-member Board of Directors. The current nominees are the CFL President, six representatives of affiliated unions, the President of Working Ventures and three representatives of Canada's business constituency. Finally, two directors are elected by the fund's common shareholders at an annual general meeting.

**Figure 19**  
**Increase in Total Assets and Shareholders,**  
**Working Ventures Canadian Fund, 1992-95**



Source: Working Ventures Canadian Fund, 1995

Board decision-making is supported by a committee system, including an Investment Committee comprised of directors. Certain discretionary authority is delegated to the latter and to fund officers.

At present, the Chairperson of the Board of Directors is James A. McCambly. The President of Working Ventures is Ron Begg.

Working Ventures presently employs over forty persons, including employees of Working Ventures Investment Services, in offices located in Toronto, Saskatoon and Saint John (New Brunswick).

### **(iii) Participation in the fund**

#### ***Common shareholding***

An eligible investor in Working Ventures is defined as any Canadian resident at the moment of buying common (Class A) shares. Common shareholders are obliged to retain their investment for no less than five years. Redemption at an earlier date is permitted, without tax penalty, only in the event of the investor's death, terminal illness or disability causing her or him to become permanently unfit for work. The fund charges fees on shares reclaimed within eight years.

#### ***Use of securities dealers***

Unlike the *Fonds de solidarité*, Working Ventures chose to enjoin licensed, professional investment dealers and brokers to solicit and subscribe investors (an early CFL proposal to utilize union-based agents and resources was denied by the Ontario Securities Commission). Today, the fund distributes common shares through thousands of agents with client bases linked to Canada's leading securities firms. This has given Working Ventures an especially potent mechanism for raising capital quickly.

The separately-incorporated Working Ventures Investment Services organizes and supervises national sales campaigns (and performs some limited independent distribution). To ensure the fund is reaching average income investors, commissioned agents are encouraged — and facilitated — in making contact with workers and unions through CFL channels and offices. As a result, Working Ventures has a high representation of union members in its shareholder base. In 1995, this was approximately one-third of the total or around 30,000 shareholders.

#### ***Payroll deduction plans***

Working Ventures also draws year-round contributions through voluntary payroll deduction plans. In 1995, this program was in a very early phase, with a total of twenty private and public sector employers having implemented such schemes. The fund is actively pursuing more through meetings with company managers and unions across the country.

Shareholder recruitment efforts of Working Ventures must conform to rules and regulations administered by securities commissions in each province.

#### **(iv) Investment standards and process**

##### ***Investment criteria***

Among the wealth of legal strictures made of Working Ventures by the federal and provincial governments are requirements concerning the timing and level of investment. Ottawa requires that the fund place 60 percent of its assets at each year's end in eligible transactions for the forthcoming year. Ontario, by contrast, requires that 70 percent of annual capital raised invested in provincial projects within two years. The fund has similar requirements in other provinces. As a consequence, Working Ventures follows a very specific agenda for matching new capital with additional investments.

Under the federal statute, Working Ventures has latitude to invest in small and medium-sized enterprises in industries and sectors of all kinds and has no control boundaries. Such provisions may, or may not, be reflected in provincial legislation.

In accordance with legislative requirements and its private mandate, Working Ventures has criteria framing its investment decisions. Key illustrations include:

1. expectation of returns that match assumed risks and costs;
2. investment diversification by province, region and community;
3. financing project sizes of between \$500,000 and \$10 million;
4. investment diversification by industry (no more than 20 percent of fund assets will be committed to any one);
5. support for technological innovation in production;
6. investment diversification by stage of development (start-ups, early stage developments, expansions, acquisitions, restructurings and turnarounds).

##### ***Investment process***

Like other venture capital institutions, Working Ventures conducts an exhaustive process of due diligence whereby it examines all aspects of a potential investee company's attributes and prospects in the market. Along with considering business plans and financial data, the investment team interviews firm owners/managers, workers and other interested parties (e.g., suppliers). Concerns arising from this assessment contribute to subsequent negotiations and, possibly, terms and conditions to be included in a final investment agreement.

Typically, Working Ventures follows with an equity infusion giving it a minority position generally of between 10-50 percent and board representation. Fund officers will look to exit an investment after four to seven years.

As a rule, the fund is not interested in assuming majority voting shares in an enterprise. Temporary control situations may be desirable, on occasion, in the case of buyouts by worker or manager groups or if an investee firm is financially troubled and could benefit from a cash infusion.

### ***Co-investment and deal flows***

The fund moves through the same market avenues as other venture capital institutions for identifying potential deals. As a sizeable equity investor, Working Ventures is capable of leveraging financial syndication, however, it is also prepared to follow others into co-investment. Of the fund's current portfolio projects, over one quarter reflect co-investment. An illustration is the Saskatchewan-based Biostar, the investment in which is shared between Working Ventures and seven other institutions, such as MDS Health Ventures, Inc., supporting the firm's concentration on biotechnology.

A substantial flow of deal referrals also comes from CFL affiliated unions and members and from the clients of commissioned investment dealers and brokers. It is estimated that Working Ventures receives and processes around 1,000 financing requests and proposals yearly from entrepreneurs and enterprises across Canada.

### ***MOTIVE and other funds***

Another source of investment is a new pool of equity established by Working Ventures. In 1994, the fund joined with the Ottawa Carleton Economic Development Corporation to create a regional pool called the Metro Ottawa Investment Venture (MOTIVE). Under MOTIVE, the fund allocates \$2.5 million for investments ranging from \$100,000 to \$750,000 while utilizing local infrastructure and experience to identify deals and co-investors.

Like the *Fonds de solidarité*, Working Ventures is developing and extending a network of MOTIVE-like funds. The second pool has been established in Prince Edward Island and has Working Ventures co-investing with local investors, including angels. The national fund will contribute to one-half of every investment made through this mechanism.

### ***Services for investee firms***

Working Ventures has not yet established investment support services comparable to those of the *Fonds de solidarité*. Fund officers intend to develop programs for improving corporate governance, financial accounting procedures, and human resource management in its investee firms, however, in the near future.

## **(v) Investment record**

Working Ventures made its first investment of \$1.5 million in Mercury Graphics Corporation, a commercial printing firm of Saskatoon, Saskatchewan, in October, 1992. Since then, the investment portfolio has advanced significantly, despite some legislative and regulatory hurdles. In 1994, the fund began investing at a rate of \$5 - \$10 million per month. Towards the end of 1995, the cumulative portfolio comprised 52 deals valued at

\$133.4 million. At current growth rates, investment activity is projected to reach or surpass \$150 million by the beginning of 1996.

### ***Nature of current financings***

The portfolio of Working Ventures has now developed sufficiently to reflect certain investment standards described above.

For instance, financings are distributed well among provinces. A relatively heavy balance of transactions in Ontario and Saskatchewan suggests the fund's sequential pattern of entering provinces to both raise capital and invest. It is the policy of Working Ventures to create a wing of its investment department in every province once \$10 million has been mobilized there. This permits it to extend its field operations for advertising, locating opportunities, and negotiating and striking deals.

Investment activity is already apparent in New Brunswick and Prince Edward Island. Working Ventures also began full operations in Nova Scotia at the end of 1994. Recent data provided by Macdonald and Associates, and analyzed by the CLMPC, show that the fund has become the most important source of institutional venture capital and investment in Atlantic Canada currently.

Some balance in investing by region within provinces is also showing up in fund data. In future, this will happen partly due to the establishment of new equity pools that are geared to industrial activity in specific regions. The MOTIVE fund, for example, made its first investment of \$400,000 in the computer retailer Cary Peripherals, Inc. of Nepean, Ontario.

As Figure 20 and 21 indicate, there are also signs of diversification on the basis of sectors and stages of development. Fund officers point out that the portfolio essentially divides between value-added industrial projects in technology — telecommunications, computer, biotechnology, industrial automation, electronics, medical health — and manufacturing and processing. In this fashion, investments by Working Ventures appear to be close to mainstream trends in the national venture capital market.

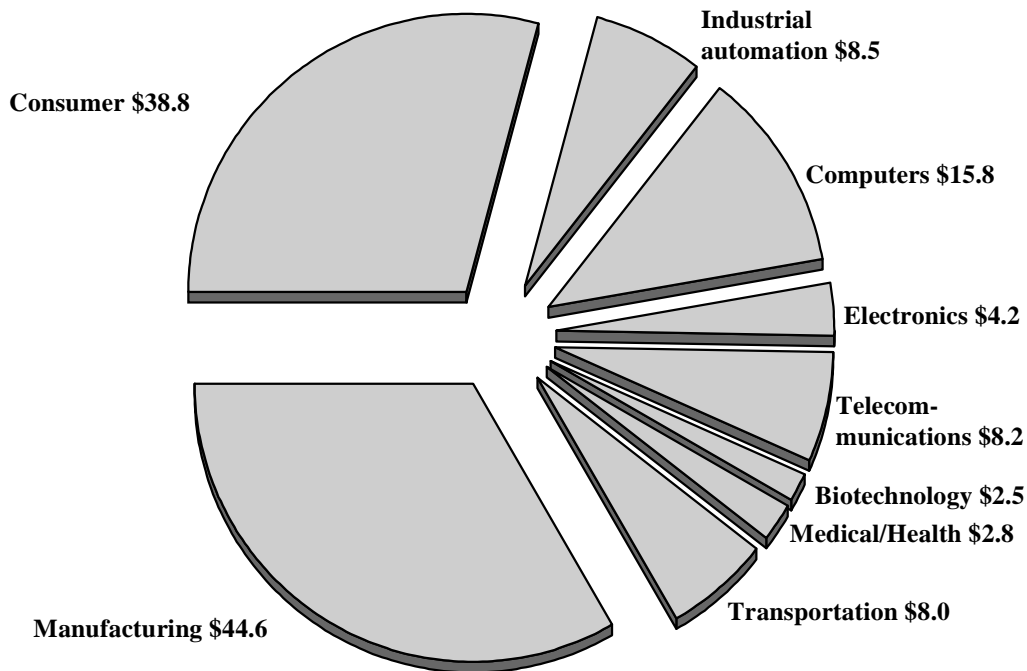
As Working Ventures must finance only small and medium-sized enterprises, all investee firms have a workforce of under 500 employees. Small companies, defined as 50 employees or fewer, constitute roughly half of the overall portfolio.

### ***Economic profile of investments***

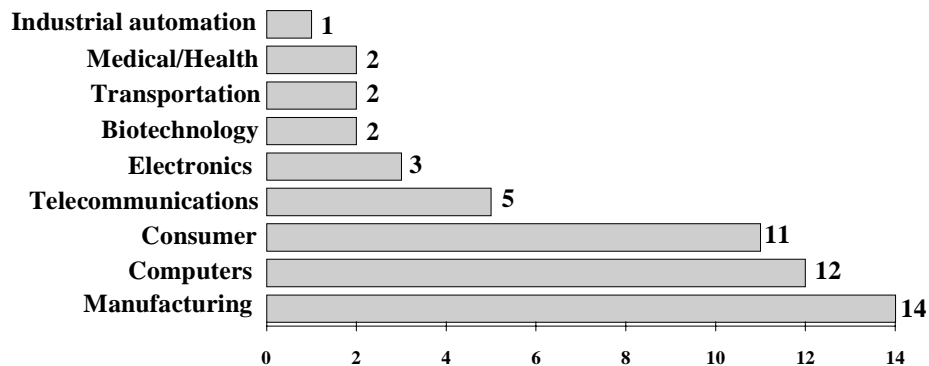
Working Ventures publishes its own regularly-updated economic impact analysis of the investment portfolio. Featured in this are key economic outputs of investee firms, in aggregate. For instance, since inception, it is estimated that fund capital has backed 52 enterprises with a total employment of 5,575 (including jobs created since investing began), total sales of over \$895 million (of which 30 percent are exports) and total research and development spending of over \$40 million.

## Figure 20 Investment Portfolio Mix, by Sector, Working Ventures Canadian Fund, 1995

Value of investments (Total: \$133.4 million)



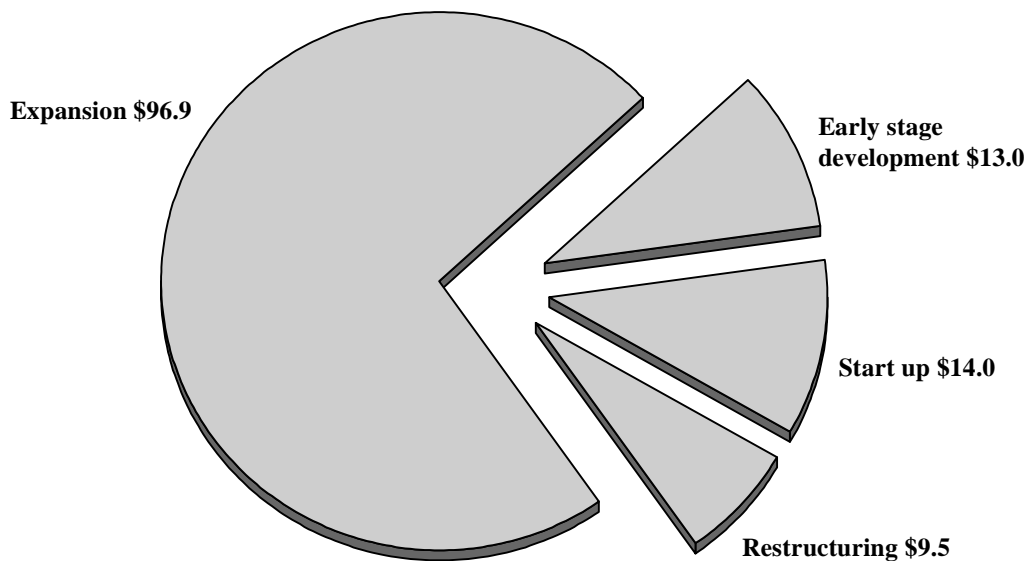
Number of investments (Total: 52)



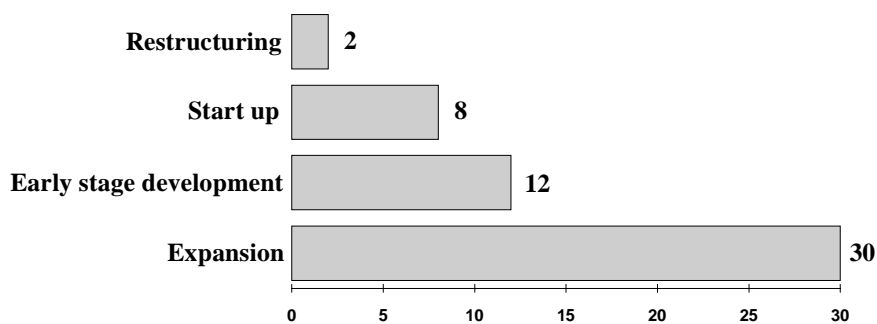
Source: Working Ventures Canadian Fund, October, 1995

# Figure 21 Investment Portfolio Mix, by Firm Development Stage, Working Ventures Canadian Fund, 1995

Value of investments (Total: \$133.4 million)



Number of investments (Total: 52)



Source: Working Ventures Canadian Fund, October, 1995



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# Appendix 1.3: Working Opportunity Fund (EVCC), Ltd.

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## (i) Introduction

### *Background*

Evolving interest in investment and financing matters has seen extensive expression by British Columbia workers and unions. An example exists in a new group of financial institutions run by the holding company Working Enterprises, Ltd. The latter is owned equally by seven provincial labour organizations — the British Columbia Federation of Labour (BCFL), the British Columbia Government Employees Union, the Canadian Union of Public Employees, the Health Sciences Association, the International Longshoremen's and Warehousemen's Union, the Office and Technical Employees Union and the United Steelworkers of America. The BCFL, to which the others are affiliates, has a membership of 325,000.

Much of the above group's development occurred as Working Enterprises also sought to establish a provincial labour-sponsored investment fund. Actually, this process began in 1987-89, when the Social Credit government crafted the Employee Investment Act. This was finished by the newly-elected New Democrats in 1991 in close consultation with the unions associated with Working Enterprises. In January, 1992, Working Opportunity Fund (EVCC or employee venture capital corporation), Ltd., was incorporated.

An impetus behind Working Opportunity's rise has been concern about the pace and nature of economic restructuring in British Columbia. Historically, the province's wealth has come from bountiful natural resources. This is evident in logging which alone constitutes 2 percent of GDP and in the sizeable wood products component of manufacturing.

It has become increasingly recognized that more effective capital supply is key to attempts to differentiate growth and job sources and add value to primary production. Contrary to traditional industrial activity, such as mining and oil and gas, which benefits from strong public trading, new growth sectors encounter insufficient financing, including venture financing.

### ***Growth of the fund***

As Figure 22 reveals, Working Opportunity has enjoyed exponential growth since 1991. Currently, the fund has an asset base of almost \$83 million and total shareholders of 15,000 plus British Columbians.

Working Opportunity was the third largest labour-sponsored fund in Canada in 1995 and an established institutional player in British Columbia's venture capital market.

### ***Goals of the fund***

The mandate of Working Opportunity is characterized by some essential investment and related objectives. These are:

1. long-term market earnings on its investments for shareholders;
2. participation of average British Columbians, including BCFL members;
3. structural development and diversification of the provincial economy and local economies;
4. broadening equity capital availability for the small business sector;
5. creation of new, high value-added job opportunities for British Columbians;
6. concern for socially responsible performance in industry;
7. support for enhanced business-labour relations, including employee participation and ownership.

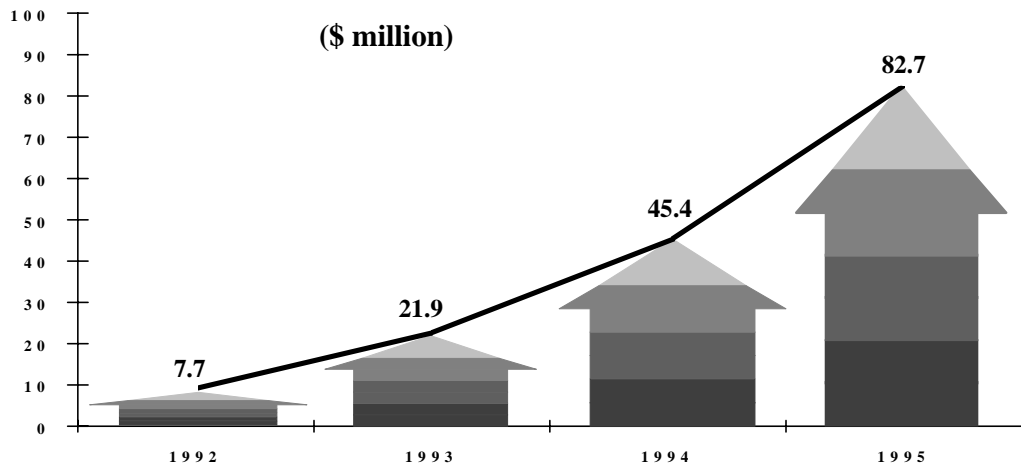
The latter aim is pursued by Working Opportunity at many levels. A key mechanism for preparing British Columbia workers and unions for the attendant new roles and responsibilities is the fund's program for economic and financial training. This currently emphasizes broad distribution of popular educational materials about how economic principles affect the lives of working people.

### **(ii) Decision-making structures**

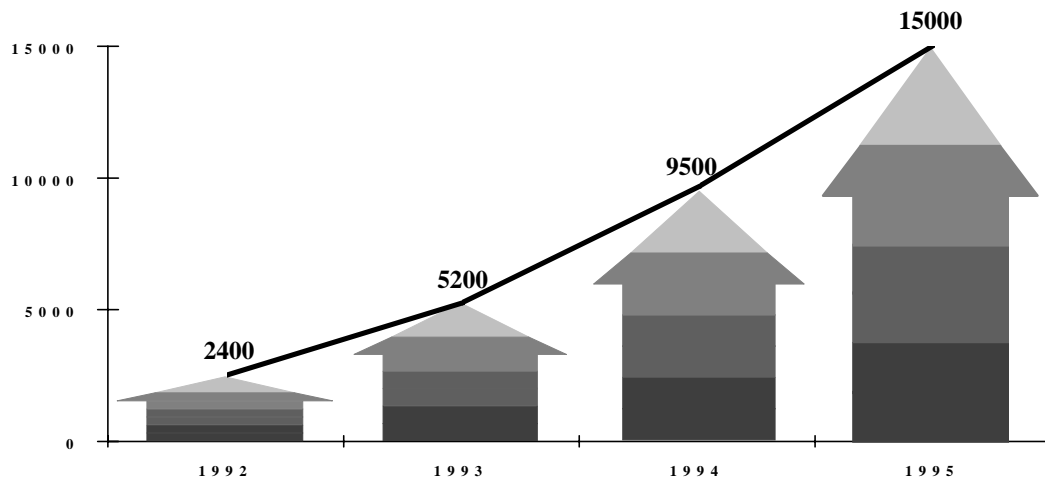
The provincial statute gives Working Opportunity sponsor status to the BCFL and six other unions controlling Working Enterprises. In practice, this yields each of the eight labour organizations a seat on the thirteen-member Board of Directors and majority nomination of two further members representing business and financial constituencies. In addition, a minimum of two directors are elected by the fund's common shareholders at an annual general meeting. Finally, the President and Chief Executive Officer of Working Opportunity is also an appointee.

**Figure 22**  
**Increase in Total Assets and Shareholders,**  
**Working Opportunity Fund, 1992-95**

**Assets**



**Shareholders**



Source: Working Opportunity Fund (EVCC), 1995

Certain decision-making, such as approval of small and follow-on disbursements, are delegated to committees of the board and fund officers. An Advisory Council, comprised of senior business and financial leaders in British Columbia, has also been convened to assist directors and officers at Working Opportunity.

Currently, the Chairperson of the Board of Directors is Ken Georgetti who is also the President of the BCFL. The President and Chief Executive Officer is David Levi.

In 1995, Working Opportunity had a staff complement of almost twenty persons.

### **(iii) Participation in the fund**

#### ***Common shareholding***

The legal definition of an eligible Working Opportunity investor is a British Columbia resident with continuing employment (of twenty hours a week, at least). Such common (Class A) shareholders ascertain their rights if they also retain their investment for no less than eight years. The fund will repurchase shares earlier, without penalty, only in the event of an investor's death, bankruptcy, layoff or other involuntary job loss, or disability causing her or him to become permanently unfit for work.

#### ***Use of securities dealers***

From the beginning, Working Opportunity directors preferred a method of shareholder recruitment that was professionally-managed and conducted at arms-length from the fund. Consequently, like Working Ventures, it embarked on the alternative approach of commissioning hundreds of investment dealers and brokers, including mutual fund distributors. Provincial sales campaigns are organized and supervised by four "lead" national and regional securities firms and their agents.

The fund has devised a co-ordinated strategy for soliciting and subscribing organized workers as well. This includes the use of Working Enterprises Financial Services and the delivery of promotional packages by unions affiliated with the sponsor to members through the mail, at work sites, at labour meetings, and through other means. This strategy has paid off well for Working Opportunity. It is estimated by fund officers that about 35 percent of shareholders — or over 5,200 — are union members.

#### ***Payroll deduction plans***

Like Working Ventures, Working Opportunity pursues voluntary payroll deduction plans without legislative support. In 1993, several large crown corporations and British Columbia Gas, agreed to offer such plans to employees totalling over 10,000 once they had been approached by their respective unions (only a small portion of employees have availed themselves of this option so far). Fund directors intend to give payroll deduction greater emphasis in future.

Recruitment of fund shareholders must abide by rules and regulations enforced by the British Columbia Securities Commission.

## (iv) Investment standards and process

### *Investment criteria*

In keeping with Working Opportunity's mandate, the Employee Investment Act states that investment activity must avoid resource exploration and extraction, the financial sector, real estate, land development and retail outlets. Instead, the fund is encouraged to assist smaller concerns in sectors that bring increased diversity and value-added to the provincial economy through new goods and services, innovation and exports, such as manufacturing, high technology and tourism. In short, the fund is given explicit parameters as a financial agent of economic change in British Columbia.

The fund must also observe a statutory schedule whereby 80 percent of the capital it accumulates each year is placed in eligible investments within thirty-six months of that year's end. Working Opportunity is subject to more performance measures than most labour-sponsored funds, such as an investment protection account that links the use of tax credits with eligible disbursements.

In keeping with its legislative framework and private mandate, Working Opportunity has determined the following criteria for investment purposes:

1. expectation of above average earnings matching risks and costs;
2. investment diversification throughout provincial regions and communities;
3. financing project sizes of between \$100,000 and \$5 million;
4. investment diversification by industry (no more than 20 percent of fund assets will be committed to any one);
5. support for technological innovation in production;
6. investment diversification by stage of development (start-ups, early stage developments, expansions, acquisitions, restructurings and turnarounds).

### *Investment process*

Like other venture capital institutions, Working Opportunity conducts an exhaustive process of due diligence whereby it considers all aspects of a potential investee company's attributes and prospects in the market. Along with examining business plans and financial data, the investment team interviews firm owners/managers, workers and other interested parties (e.g., suppliers). Questions emerging from this evaluation contribute to subsequent negotiations and, possibly, terms and conditions to be included in a final investment agreement.

In general, Working Opportunity concludes (after also finishing its social audit, et al — see below) with an equity infusion of between 20-40 percent and representation on the

board of directors. Fund officers anticipate it will usually look to exit an investment within a four to eight year timeframe.

As a rule, the fund does not seek controlling share ownership in a firm. With government approval, temporary control may happen in some circumstances, such as worker or manager buyouts or when a project encounters short-term financial distress.

### ***Co-investment and deal flows***

The flow of opportunity referrals to Working Opportunity is similar to that of other venture capital institutions. In 1994, the fund was sufficiently large to leverage syndication in financing projects. As well, it is disposed to entering transactions negotiated and structured by other financial institutions. In the fund's present portfolio, over 80 percent reflect co-investment. For instance, the medical technologist Automed Corporation is a \$6 million deal involving five other domestic and international partners that introduced various expertise, market access and other qualities.

Other important sources of possible deals include BCFL affiliated unions and members and the client bases of commissioned investment agents. Over a recent eighteen month period (embracing 1994), Working Opportunity received and processed 375 financing requests and proposals from all parts of British Columbia.

The fund is currently experimenting with models for more localized and specialized financing. For instance, it has contributed to the \$4 million Strathcona Community Futures Development Corporation which lends to micro-enterprises in central British Columbia and northern Vancouver Island. Fund officers say a network of similar funds will be supported in provincial communities and regions.

### ***The social audit***

Integrated with Working Opportunity's financial audit is an accounting of the social performance of a potential investee firm. Issues examined include incidence of participative decision-making structures; progressive policies in human resource management; support for local communities; environmental protection practices; and systems for ensuring product quality.

### ***Employee share plans***

Working Opportunity also advocates employee financial participation and ownership through its investment process. The fund seeks the agreement of firm owners to offer up a portion of total equity (e.g., 10 percent) for purchase by workers, immediately or in the future.

### ***Economic and financial training***

It is intended that Working Opportunity deliver a training program for workers (and some managers) in investee firms comparable to that of the *Fonds de solidarité*.

### *Services for investee firms*

Fund officers are presently developing investment support services for 1995. This includes organizing annual roundtables of the chief executive officers and financial managers of investee firms to exchange data and indicate areas requiring assistance.

### **(v) Investment record**

The first investment made by Working Opportunity was \$250,000 in the industrial waste recycler Canadian Oil Filter Recovery Corporation of Kelowna, British Columbia, in February, 1993. Rapid development of the investment portfolio followed and now stands at fifteen transactions at a value of \$20.6 million. At its current rate of growth, the fund's investment activity is projected to reach or surpass \$25 million by the beginning of 1996.

### *Nature of current financings*

By the middle of 1995, Working Opportunity's portfolio was large and comprehensive enough to mirror several of the investment standards described earlier. Consequently, certain early characteristics of fund investing can now be discerned.

For instance, the fund has already begun to make investments outside of the Greater Vancouver region and in areas such as the Fraser Valley, Vancouver Island and the Okanagan. A strategy of cross-province advertising and networking with local chambers of commerce, community organizations, municipal governments and unions in rural and remote centres is expected to yield new projects in the near future.

Working Opportunity's investment activity also indicates some early orientation towards specialized manufacturing and technology enterprises. Most of these highlight products targeted to expanding niche markets at home and, more significantly, for export abroad. According to fund officers, it is probable that subsequent investing will be of the same ilk. This investment pattern suggests that Working Opportunity is operating in close approximation of mainstream venture capital institutions.

At this point, project dollar sizes have tended to be small as compared with the other leading funds which is consistent with Working Opportunity's lower minimum investment threshold (\$100,000). A portfolio mix of investments by development stage, including both fledgling enterprises and established firms, is likely to see further diversification over the course of 1995 and thereafter.

As Working Opportunity must invest only in the small business sector, all investee companies have small workforces which, in mid-1995, totalled 450 employees.

### *Economic profile of investments*

Working Opportunity's portfolio is still young, however, there is evidence of rapid expansion among investee firms. For example, fund officers report approximately 40 percent growth in sales and employment. Investee companies are also contributing heavily to exports — most acquire over 80 percent of revenue overseas — which is of

relevance to Working Opportunity's unique mandate for supporting trends in the British Columbia economy. It is anticipated that firms will generate over \$65 million in revenue in 1995.

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# Appendix 1.4: Crocus Investment Fund, Inc.

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## (i) Introduction

### *Background*

Conception of the Crocus Investment Fund, Inc., like that of the *Fonds de solidarité* and Working Opportunity, was linked with precise provincial economic challenges. Manitoba's historically stable and diversified prairie economy has recently experienced persistent employment losses in its manufacturing sector and investment rates below the national average.

In the late 1980s, the Manitoba Federation of Labour (MFL), with a current membership of 88,000, developed its proposal for a labour-sponsored investment fund that would emphasize job creation and preservation through a strategy of “capital retention.” This meant that savings leakage and consequent disinvestment — caused chiefly, says the MFL and others, by non-resident firm owners and financial institutions — would be prevented. Instead, Manitoba resources would be mobilized for the use of local industrial activity.

To obtain enabling legislation (and seed financing necessary due to Manitoba's finite population base), this Crocus Fund proposal was formally presented to government. The province's Conservative administration responded in 1991 with passage of the Manitoba Employee Ownership Fund Corporation Act, which, in turn, led to incorporation of the Crocus Fund in March, 1992. Federal authorities were also of assistance in the fund's inception of the fund.

A central mandate of the fund is employee participation in corporate governance and management and employee financial participation and ownership. In fact, legislation was precipitated in part by federally-supported research into the efficacy of worker ownership and buyouts, including those facilitated by a friendly equity institution, such as a labour-sponsored fund. To this end, Spain's Mondragon system and the American ESOP's have been informative models.

### *Growth of the fund*

The Crocus Fund has experienced marked growth since 1992, as Figure 23 illustrates. At present, the fund's net assets total over \$26 million and there are approximately 6,600 provincial shareholders.

In size, the Crocus Fund was the fifth largest labour-sponsored fund in Canada in 1995 and is already among Manitoba's top institutional sources of venture financing.

### ***Goals of the fund***

The mandate of the Crocus Fund is characterized by several key investment and related objectives. These are:

1. long-term market returns on its portfolio for shareholders;
2. participation of average Manitoban individual investor (including MFL members) and institutional investors;
3. expanding equity financing options for small and medium-sized enterprises;
4. creation, maintenance and protection of jobs in the province and its communities;
5. concern for socially responsible performance in industry;
6. support for co-operative and productivity-enhancing workplace techniques;
7. promotion of worker participation and ownership in firms.

The final objective is something of a *raison d' etre* of the Crocus Fund. In fact, it has a statutory obligation to commit a majority of assets to investment activity that, directly or indirectly, enhances worker participation and ownership. This outcome, in turn, is expected to boost productivity in Manitoban enterprises and increasingly yield control of vital economic decisions to Manitobans. The fund utilizes various programs to achieve this, including its organizational effectiveness procedure (see below).

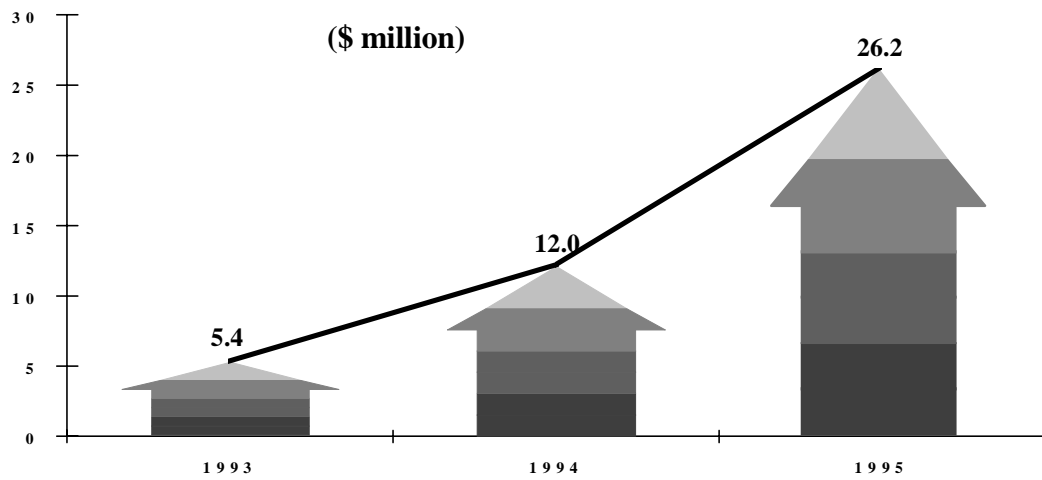
### **(ii) Decision-making structures**

By holding special (Class L) shares, the MFL exercises sponsorship over the Crocus Fund. The Manitoba legislation also delineates MFL powers to guide the fund through majority representation on the five-member Board of Directors. Board seats are also guaranteed for others. For instance, one spot each is reserved for nomination by government and election by common shareholders. Two seats are also held for institutional investors once their stake in fund has reached a specific threshold.

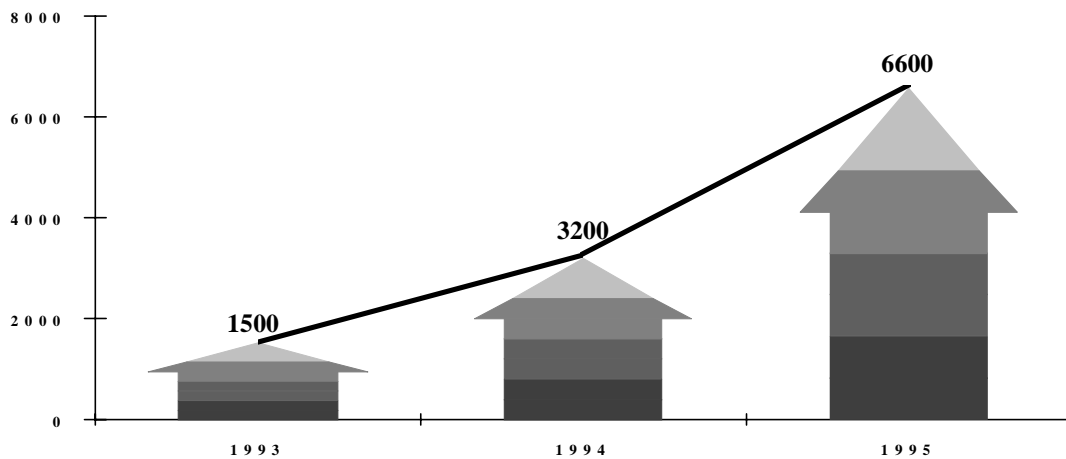
As it develops, the fund is entitled to a maximum of nine directors. The MFL majority is sustained in all enlargements.

**Figure 23**  
**Increase in Total Assets and Shareholders,**  
**Crocus Fund, 1993-95**

**Assets**



**Shareholders**



Source: Crocus Fund, 1995

All major investment decisions of the Crocus Fund are made by the board while certain discretionary authority is delegated to fund officers. An Advisory Council, consisting of senior business and financial leaders in Manitoba, has also been established to assist directors and officers of the Crocus Fund.

The Chairperson of the Board of Directors currently is Susan Hart-Kulbaba who is also the President of the MFL. The President and Chief Executive Officer is Sherman Kreiner.

In 1995, the Crocus Fund employed nine persons.

### **(iii) Participation in the fund**

An eligible investor in the Crocus Fund is defined as any Manitoba resident at the time of purchasing common (Class A) shares. Common shareholders must keep their investment for no less than seven years. Redemption at an earlier date, without tax penalty, is allowed only in the event of an investor's death, retirement, or circumstances of severe financial hardship, such as involuntary job loss or interruption that goes uncompensated.

As well, the fund has issued Class I shares available to Manitoba institutional and corporate investors. As this share-buying is not eligible for tax credits, institutional shareholders receive purchase warrants to acquire an equivalent amount of shares at a latter date, but at original prices. The fund has enjoined three investors — the Manitoba Credit Union Central, the Manitoba Government Employees Union's strike fund and the pension fund of garment manufacturers and Local 459 of the Amalgamated Clothing and Textiles Workers Union.

#### ***Two-track recruiting***

The Crocus Fund has taken the individual step of merging the two different approaches to share distribution pioneered by its predecessors. Consequently, it has initiated a two-track system of utilizing union-based agents and resources, on the one hand, and commissioned market professionals, on the other.

Under an arrangement with securities regulators, the fund has adapted the Québec strategy of training union agents to solicit union members and members of the general public in Manitoba. Outside of Québec, this method has been described as “restricted licensing” as distinct from the full exemption granted to the less supervised sales personnel of the *Fonds de solidarité*. So far, this has been the primary instrument of Crocus Fund sales. In 1995, close to one-half of shareholders, or around 3,000 in total, are MFL-affiliated workers.

In addition, licensed investment dealers and brokers, including mutual fund distributors, sell Crocus shares to their clients. Like Working Opportunity, this track of the Crocus Fund's shareholder recruitment campaign is organized by two “lead” securities firms based in the province.

### ***Payroll deduction plans***

Like Québec, Manitoba law stipulates that employers must establish payroll deduction plans for employee subscription if a group (the lesser of fifty or 20 percent of the total workforce) so request. To date, a fund strategy of urging voluntary plan acceptance has achieved this result in the case of sixteen large public and private sector employers, including the Government of Manitoba and Inco, Inc.

Recruitment of fund shareholders must in all respects follow standards set down and enforced by the provincial securities commission.

### **(iv) Investment standards and process**

#### ***Investment criteria***

Manitoba's statutory regime requires that the Crocus Fund, like Working Opportunity, refrain from making investments in specific industries such as resource exploration and extraction (e.g., oil and gas, mining and agriculture), banking, real estate and land development. Rather, the fund is encouraged to target small and medium-sized companies featuring job-intensive, high value-added production. Where possible, it is also expected to support continuing resident ownership of businesses.

In light of its worker ownership mandate, the fund has some latitude in entering transactions as a minority or controlling investor. The government has also stipulated that the Crocus Fund situate 60 percent of its assets in eligible investments no later than four years after first issuance of common shares.

Consistent with legal strictures and its private mandate, fund directors have determined criteria applicable to investment decisions. Key illustrations include:

1. expectation of returns commensurate with risks and costs;
2. investment diversification throughout provincial regions and communities;
3. financing project sizes of between \$100,000 and \$5 million;
4. investment diversification by industry;
5. support for technological innovation in production;
6. investment diversification by stage of development (start-ups, early stage developments, expansions, acquisitions, restructurings and turnarounds);
7. opportunity for facilitating worker participation and ownership.

#### ***Investment process***

Like other venture capital institutions, the Crocus Fund conducts an exhaustive process of due diligence whereby it considers all aspects of a potential investee company's attributes

and prospects in the market. Along with examining business plans and financial data, the investment team interviews firm owners/managers, workers and other interested parties (e.g., suppliers). Questions emerging from this evaluation contribute to subsequent negotiations and, possibly, terms and conditions to be built into a final investment agreement.

Generally speaking, the Crocus Fund will conclude (after also finishing its social audit, et al — see below) with an equity infusion of between 10 and 40 percent and representation on the board of directors. Fund officers anticipate it will look to exit investments after five to seven years.

The Crocus Fund will probably not assume more temporary majority control situations than other labour-sponsored funds, despite its worker ownership mandate. This is because leveraging buyouts for workers and managers will most likely occur as the fund is disposing of its equity stake.

### ***Co-investment and deal flows***

The Crocus Fund receives a flow of investment referrals in a manner similar to other venture capital institutions. Beginning in 1995, the fund is also sizeable enough to start leveraging financial syndication and to join in transactions determined by other institutions.

A substantial amount of data about potential opportunities also come from MFL affiliated unions and members and from the clients of commissioned investment dealers and brokers. Over 1993-94, it is estimated that the Crocus Fund received and processed over one hundred financing requests and proposals from across Manitoba.

The fund is currently examining models for more specialized financing (that may include co-investment) developed by the *Fonds de solidarité* and Working Ventures.

### ***The social audit***

Integrated with the Crocus Fund's financial audit is an accounting of the social performance of a potential investee firm (as distinct from other measures to advance participative management). Issues examined include progressive policies in human resource management and employment equity; improved labour relations; environmental protection practices; and health and safety standards.

### ***Organizational effectiveness procedure***

Another unique complement to the financial audit is fund measurement of a potential investee firm's organizational culture and disposition to advanced systems of participative management. Once employer receptivity to change is attained, fund officers conduct a review of strengths and weaknesses according to job flexibility, training, decision-making structures, employee financial participation, etc.

Once an assessment is completed, the Crocus Fund will help design a plan for implementing innovations.

### ***Employee share plans***

The Crocus Fund promotes employee financial participation and ownership in investee firms in several ways. For example, it will leverage worker buyouts — in some cases — using a debt instrument. Under this scenario, the fund may purchase shares from a company or retiring owner and sell them to a worker trust in exchange for a security interest (in the company). In turn, the employer would commit to make trust contributions to a level equivalent to the Crocus Fund's stake, over time.

In other investee firms, the fund may require the establishment of share purchase plans similar to those of Working Opportunity.

### ***Economic and financing training***

The Crocus Fund is currently developing a training program for workers (and some managers) in investee firms comparable to that delivered by the *Fonds de solidarité*.

### ***Services for investee firms***

Fund officers are presently developing investment support services. This includes organizing annual roundtables of the chief executive officers and financial managers of investee firms (and other Manitoba enterprises). Roundtables will give these firms access to technical advice on high performance production methods, among other things.

## **(v) Investment record**

The Crocus Fund's first investment was delayed owing to lengthy struggles to ensure institutional self-sufficiency with respect to its capital base. However, in December, 1994, it invested \$720,000 in the mature software retailer Inforcorp Computer Solutions of Winnipeg.

### ***Nature of current financings***

Since that time, the fund has embarked on a more intensive investment schedule. As of November, 1995, approximately \$9 million was placed in seven investment projects, greatly exceeding projected portfolio levels for the year's end. Two of these transactions concentrated on leveraging worker ownership, including the landmark \$2.5 million investment in Buhler Industries, an agricultural implements manufacturer, which has yielded its 475 employees minority voting shares in the company.

The majority of investee firms are situated in the manufacturing sector and operate with a strong emphasis on export markets.

Of course, further understanding of the investment activity of the Crocus Fund must await further portfolio development in 1995 and thereafter. Nonetheless, it is worth mentioning that the fund has already altered the face of the Manitoba venture capital sub-market in its establishment of a large and stable pool of equity capital. This is in evidence in recent data provided by Macdonald and Associates and the ACVCC (1993 and 1994), as analyzed by the CLMPC.

### *Economic profile of investments*

While the investment portfolio of the Crocus Fund is in its early stages, some relevant economic data is already available. For instance, fund officers calculate the employment universe of current investee companies to be close to 1,100. 200 jobs are expected to be created from this group in 1996.

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# Appendix 1. 5: Other Labour- sponsored Investment Funds in 1995

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## **(i) Integrated Growth Fund, Inc.**

Incorporated in Ontario in 1993, the Integrated Growth Fund makes job-creating investments in small and medium-sized firms and, in so doing, achieves capital appreciation for shareholders, many of whom are sponsor-affiliated workers. It has four sponsors - the United Food and Commercial Workers International Union (with 174,000 members), the Labourers' International Union of North America (with 30,000 Ontario members), the Amalgamated Clothing and Textiles Workers Union, and the Brotherhood of Carpenters and Joiners of America.

## **(ii) DGC Entertainment Ventures Corporation, Inc.**

DGC Entertainment Ventures Corporation aims to give equity support to new and growth-oriented projects in Canadian entertainment and communications industries that also leads to significant long-term returns for individual investors. The fund was incorporated in Ontario in 1993 and is sponsored by the 1,600-member Directors Guild of Canada.

## **(iii) Active Communications Growth Fund, Inc.**

Sponsored by the Alliance of Canadian Cinema, Television and Radio Artists (with a membership of 9,600), the Active Communications Growth Fund seeks to invest in job-producing smaller enterprises located chiefly in Canadian entertainment and communications industries. Incorporation of the fund occurred in Ontario in 1994.

## **(iv) Canadian Medical Discoveries Fund, Inc.**

The mandate of the Canadian Medical Discoveries Fund is to direct financing to companies in Canada's health sciences sector with emphasis on early stage commercialization of medical research and product innovation. Returns from such equity deals will be passed on to shareholders. Incorporated in Ontario in 1994, the fund is sponsored by the 35,000-member Professional Institute of the Public Service of Canada.

**(v) Capital Alliance Ventures, Inc.**

Capital Alliance Ventures was incorporated in Ontario in 1994 with an investment objective focussing on new and developing firms principally in Canadian technology, applied science and services sectors (many of which will be located in eastern Ontario). Capital appreciation for individual investors is also the goal. The fund's sponsor is the Professional Association of Foreign Service Officers (with 1,100 members).

**(vi) CI-CPA Business Ventures Fund, Inc.**

Incorporated in Ontario in 1994, CI-CPA Business Ventures Fund is sponsored by the 35,000-member Canadian Police Association. The fund's mandate is to realize long-term returns on venture financings in small and medium-sized companies in various industries.

**(vii) FESA Enterprise Venture Capital Fund of Canada, Ltd.**

The mandate of the FESA Enterprise Venture Capital Fund is to make equity investments in smaller enterprises, especially those situated in high technology industries, with the goal of attaining capital appreciation. The fund was incorporated in 1994 in Ontario and is sponsored by the Federation of Engineering and Scientific Associations.

**(viii) First Ontario Labour-sponsored Investment Fund, Inc.**

The First Ontario Fund was incorporated in 1994 and aims to make investments that create and protect jobs in small firms and cooperatives and thereby generate returns for shareholders, the majority of whom will be sponsor-affiliated workers. It has three union sponsors — the Communications, Energy and Paperworkers Union of Canada (with 56,000 Ontario members), the United Steelworkers of America (with 70,000 Ontario members), and the Service Employees International Union (with 45,000 Ontario members) — as well as the Ontario Worker Cooperative Federation (with 150,000 members).

**(ix) Sportfund, Inc.**

The Sportfund was incorporated in Ontario in 1994 under the sponsorship of the Canadian Football League Players' Association (with 480 members). The fund intends to realize long-term returns for shareholders through venture financings in job-creating, Ontario-based projects located in sports, fitness and entertainment industries.

**(x) TCU Development Fund, Inc.**

Incorporated in 1994 in Ontario, and sponsored by the Transportation-Communications International Union (with a membership of 15,000), the TCU Development Fund seeks to invest in small and medium-sized companies in a range of industries. The fund will pass on achieved project returns to shareholders.

**(xi) Trillium Growth Capital, Inc.**

The objective of Trillium Growth Capital is to finance small and medium-sized enterprises in assorted Ontario industries for the purpose of creating and preserving employment. In so doing, it also aims to attain capital appreciation for individual investors. Sponsored by the Brewery, General and Professional Workers' Union, the fund was incorporated in 1994.

**(xii) Vengrowth Investment Fund, Inc.**

The mandate of the Vengrowth Investment Fund is to invest in small entrepreneurs and enterprises that offer high value-added products and services and the potential to create jobs. Long-term capital growth realized from these investments will be passed on to shareholders. The fund was incorporated in Ontario in 1994 and is sponsored by the Association of Public Service Financial Administrators (with a membership of 2,300).

**(xiii) Workers' Investment Fund, Inc.**

The Workers' Investment Fund was incorporated in New Brunswick in 1994 and is designed to create and maintain employment through equity financings in small and medium-sized firms. This, in turn, will generate capital appreciation for shareholders, the majority of whom will be workers affiliated with the sponsor, the New Brunswick Federation of Labour (with a membership of 37,000).

**(xiv) Retrocomm Growth Fund, Inc.**

Incorporated Ontario in 1995, the Retrocomm Growth Fund is sponsored by the International Brotherhood of Electrical Workers/Construction Council of Ontario (with 14,000 Ontario members), the Labourers' International Union of North America, and the Ontario Pipe Trades Council (with 13,000 Ontario members). The fund will finance job-creating deals that promote environmental renewal, construction and retrofitting. Returns will go to both individual and institutional investors.



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# Endnotes

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- <sup>1</sup> Uvalic, Milica, “Workers’ financial participation in the European Community”, *Economic and Industrial Democracy*, Vol. 14, 1993
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- <sup>8</sup> Government of New Brunswick, *An Act respecting Workers Investment Fund, Inc.*, 1994
- <sup>9</sup> House of Commons, Standing Committee on Industry, *Taking Care of Small Business*, October, 1994
- <sup>10</sup> This matter has been reported widely in the media, including Goff, Kristin, “A hot trend: labour-sponsored venture capital funds”, *The Citizen*, November 14, 1994
- <sup>11</sup> Mary Macdonald’s most comprehensive description of the Canadian venture capital market appears in the ACVCC’s *Venture Capital in Canada: A Guide and Sources*, 1992
- <sup>12</sup> References to the market share of labour-sponsored funds in this context mean total capital under management. This concept is distinct from capital available for investment purposes, according to Macdonald and Associates. Not all resources held by the funds are necessarily available for disbursement.
- <sup>13</sup> The phrase “relatively stable” is used advisedly. The stability of equity pools declines with increased variability of capital supply. Where the shareholding policy of a specific fund is short there may be less stability (commensurate with rapid share redemptions). Increasingly, new labour-sponsored funds are being introduced with shorter-term policies (e.g., Ontario).
- <sup>14</sup> Association of Canadian Venture Capital Companies (ACVCC), *Venture Capital in Canada: Annual Statistical Review and Directory*, prepared by Mary Macdonald and Associates, 1994
- <sup>15</sup> The CLMPC’s *The Role and Performance of Labour-sponsored Investment Funds in Canada: Some Preliminary Findings* reported that (i) this investor type’s share of the total number of venture investments in 1993 was 14 percent and (ii) its contribution to the dollar value of these was 35 percent. These statistics were revised downwards following corrections pertaining to the timing of certain transactions of the *Fonds de solidarité*, etc. The new estimates provided in this paper are believed by the author, and by Macdonald and Associates, to be a more accurate depiction of 1993.

- <sup>16</sup> Macdonald and Associates estimate that roughly one-third of increased venture investment in 1994, over 1993, was due to labour-sponsored funds.
- <sup>17</sup> For a history, see ACVCC, *Venture Capital in Canada: A Guide and Sources*, 1992
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- <sup>19</sup> For further discussion, see House of Commons, *Minutes of Proceedings and Evidence of the Standing Committee on Industry*, a review of access by small and medium-sized businesses to traditional and new sources of financing, Issues No. 7 and 18, April 12 and May 10, respectively, 1994; see also Op. Cit, 1994
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- <sup>25</sup> Porter, Michael
- <sup>26</sup> For example, see the Equion Group, *How to Pick a Labour Fund: A Guide for Ontario Residents*, February, 1995
- <sup>27</sup> This view was expressed strongly and repeatedly in CLMPC research interviews with Chairpersons of Boards of Directors and Presidents/Chief Executive Officers of leading labour-sponsored funds in 1994 and 1995
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- <sup>44</sup> ACVCC, *Venture Capital in Canada: Annual Statistical Review and Directory*, et al, 1994
- <sup>45</sup> This approach is explained fully by Venture Economics Canada, Ltd., in *Working Ventures: A National Venture Capital Fund for Canadian Workers*, 1987
- <sup>46</sup> Details of this objective are found in the presentation of Denis Dionne, premier vice-président, (placements et investissements), Fonds de solidarité des travailleurs du Québec (FTQ), inc., to the Standing Committee on Industry, House of Commons, May 10, 1994
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