

# Investing in the Future of British Columbia

J. Basil Peters, CEO  
The BC Advantage Funds VCC



# Congratulations

- I would like to start by congratulating and thanking on behalf of everyone in British Columbia:
- Todd Tessier and Dale Sketchley
- Minister Thorpe and Premier Campbell
- And everyone in our government
- For the outstanding improvements to the Small Business Venture Capital Act
- passed this April.

# We are fortunate

- We are all fortunate to live in British Columbia.
- I've received a world class education, and
- The best health care in the world
- At very little cost to me
- Because BC has been one of the richest places in the world.

# Our Previous Economy

- In grade school, I learned that the BC economy was based on forestry, mining and fishing.
- Those are the industries that have historically paid for our outstanding quality of life.
- Unfortunately, all of those industries are now in decline and
- Will never again be the driver of economic growth in our beautiful province.

# Our children's quality of life

- Will be determined primarily by how well we can harness what is now our most important natural resource
  - The intellect,
  - Skills,
  - Knowledge and
  - Entrepreneurial Ambition
- of the people in British Columbia.

# To continue to prosper

- To continue to prosper in the 21st century,
- I believe our province has to focus on two important goals:
- Educating our young people, and
- Encouraging entrepreneurial innovation

# The Role of Government

- Government has a critically important role
- To encourage and facilitate the establishment and growth of
- Vibrant, early-stage, high value added companies.
- We have all seen the successes created
  - in Quebec,
  - the Research Triangle in North Carolina,
  - areas around Houston, and
  - in Ireland.



# Why This is Important Now

- This a unique time in the financial history of our province.
- There has never been a bigger need to diversify and stimulate our provincial economy.
- At the same time, there has never been such an acute shortage of early stage capital.



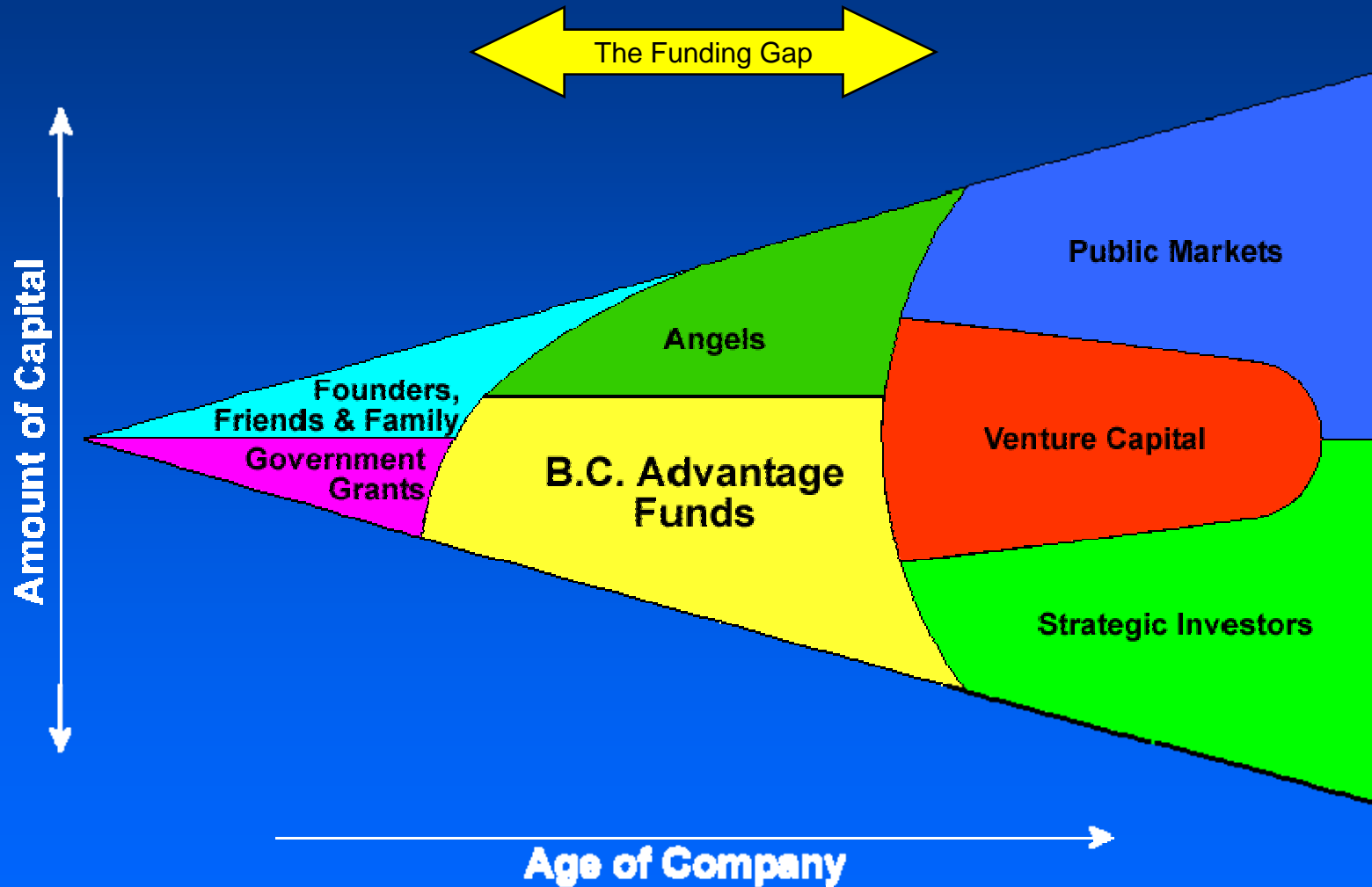
# The BCTIA Capital & Investment Committee

- Chaired by David Raffa with over 40 industry participants including representatives from all of the major VCs.
- Summary Report released Sept 30, 2003
- BCTIA's "Access to Capital" survey, with over 100 respondents, identified a number of concerns including:
  - a shortage of early stage venture capital money,
  - shortage of local venture capital firms, and
  - lack of competition amongst VCs in BC

# The Shortage of Early Stage Capital

- According to a report for the US Small Business Administration in 1996,
- In normal times, Angel investors invest twice as many dollars as professional venture capital firms.
- During the recent downturn in the capital markets, Angel investment almost stopped entirely.
- Angels are not professional investors. They have no obligation to invest.
- The downturn also painfully showed Angels the dangers of inadequate portfolio diversification.

# The Funding Gap - A Critical Problem



# Secular Change in Capital Formation

- When I was a young entrepreneur, almost all of the venture capital money came from institutions.
- In the 21st century most people no longer consider life insurance an investment and
- Are no longer counting on their employers' pension fund to fully provide for their retirement.
- People are now managing their own financial futures.
- And are now the fastest growing source of new Venture Capital.

# Venture Investing is healthy

- This is healthy for the economy and the individual's portfolio.
- Unlike the angel investors, the typical investor makes a very small portfolio allocation to venture capital.
- From a recent article in Advisor.ca:
  - private equity and VC investments have low correlation to other traditional asset classes
  - that these investments ...”actually reduce the standard deviation, or risk, in an investment portfolio”.

# Is a tax credit necessary?

- Some may ask, why it is necessary to encourage investment in early stage venture capital funds with a tax credit.
- I do not know why ...but I know that it is.
- I have personally, over the past few months, made about one hundred presentations for our new VCC, the BC Advantage Funds.
- I have no doubt that the 30% tax credit is the single biggest reason we are being successful in assembling this critically important new source of early stage venture capital in our province.



# Our Government Working With Us

- Our provincial government listened to our industry associations.
- Took the time to understand how critical it was to stimulate new sources of capital for early stage, knowledge based companies in BC.
- I believe the Small Business Venture Capital Act of 2003
- will create new pools of Venture Capital and significantly improve the future of our Province.



# The 1950 and 60s Analogy

- I believe this situation is analogous
- to the road building and infrastructure initiatives of
- The WAC Bennett government in the 50s and 60s.
- Opened up the northern parts of our province and
- stimulated business in the primary industries
- that were then critically important to BC.
- We re-elected that government for twenty years.

# Our Industry's Responsibility

- The VCC Fund community is still very young
- Our fledgling industry has an exciting opportunity
- and an important responsibility
- to maximize the benefit of this outstanding program for everyone in British Columbia.

# An Industry Association

- To both assist our partners in government and
- To increase the probability that there are good results
- I am proposing that the VCC Fund managers form
- An association to collaborate on areas of common interest.
- We have received a positive initial response.
- Some of the written submissions to this conference have already received the benefit of us working together.
- I am here today asking for your input, and hopefully, encouragement.

Thank you.