



Innovation, Science and
Economic Development Canada

Innovation, Sciences et
Développement économique Canada

Designing the renewed Venture Capital Catalyst Initiative: *what we heard*

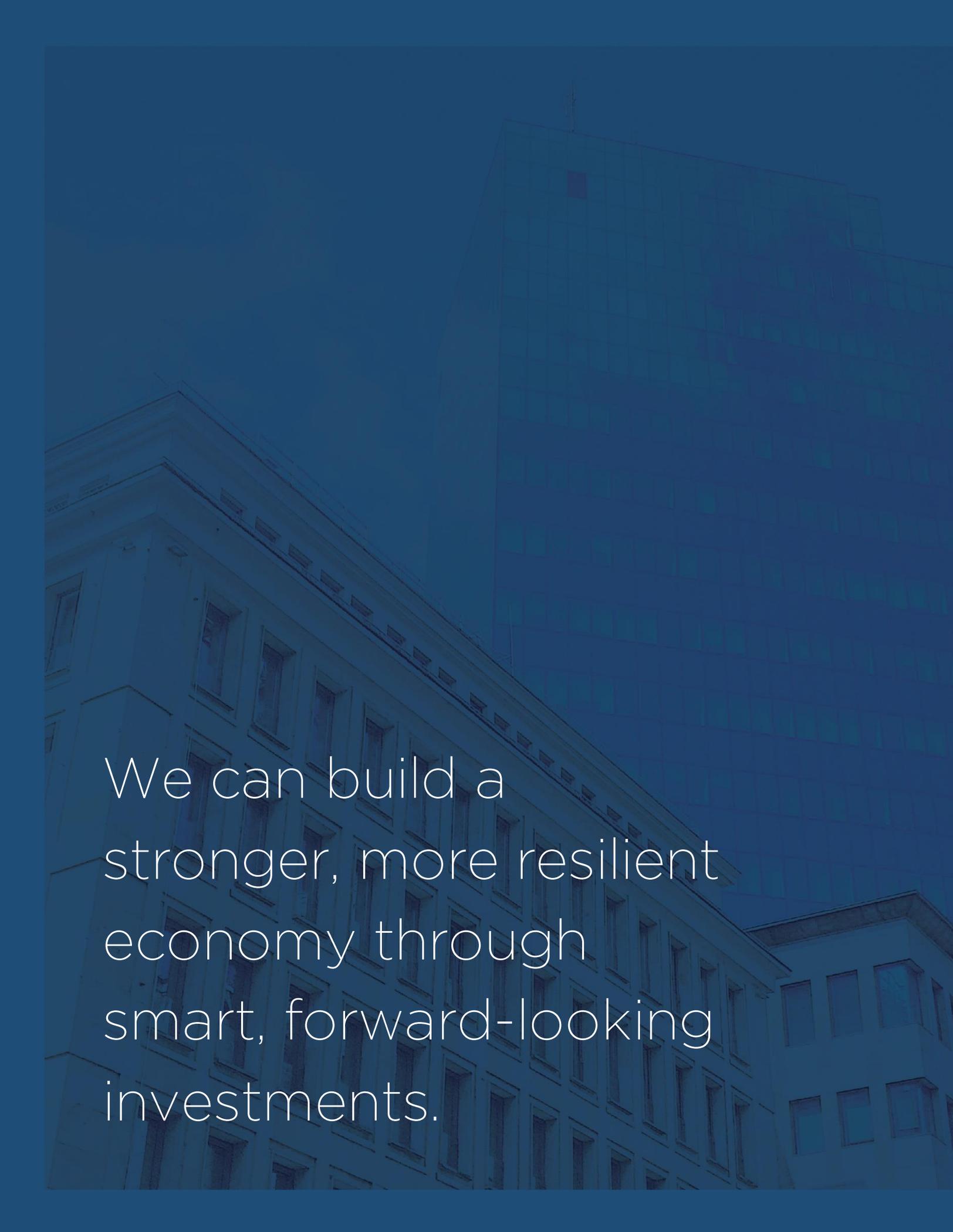
Discussion Paper

2022

Canada 

Table of contents

Introduction	4
Objectives	6
What we heard	7
VCCI design for discussion	11
Considerations for an open call for proposals	11
Funds-of-funds proposed model	13
Life sciences proposed model	18
Inclusive growth proposed model	21
Inclusive growth framework	24
Annex A	26
Annex B	29



We can build a
stronger, more resilient
economy through
smart, forward-looking
investments.

Introduction

As we emerge from the COVID-19 crisis, a top priority of the Government is to place Canada's economy on stronger footing, both for today and for future generations. We can build this stronger, more resilient economy through smart, forward-looking investments. In an era of fast and profound change, Canadians need to be adaptable and resilient to spot opportunities to create jobs, drive growth across all industries and improve lives. Innovation is the path to inclusive growth. It fosters a thriving middle class and opens the country to new economic, social and environmental possibilities.

Access to capital is a vital component of a healthy economy, one capable of turning research into commercial products and growing Canada's best and most innovative companies. Venture capital (VC) is a specialized type of equity financing that takes educated risks on transformative ideas and talent by investing capital in high-growth potential companies to develop their ideas into marketable products, and scale their operations to reach a greater market (domestic and international).

In addition to capital, VC investors bring operational experience, technical knowledge, networks and mentorship to the firms in which they invest.

Following the announcement it made in Budget 2021, the Government of Canada will make available up to \$450 million for a renewed Venture Capital Catalyst Initiative (VCCI). Building on previous investments, this new commitment will increase the availability of capital for Canada's most promising firms, including targeted support for those in the life sciences sector and for entrepreneurs from traditionally underrepresented groups. This will be accomplished through the introduction of three new streams under the VCCI:

- ✔ \$350 million invested in funds-of-funds;
- ✔ \$50 million dedicated to support venture capital investments in life science technologies; and,
- ✔ \$50 million dedicated to support a new inclusive growth stream to increase access to venture capital for underrepresented groups, such as women and racialized communities.



Announced in Budget 2021, the Government of Canada will make available up to \$450 million for a renewed Venture Capital Catalyst Initiative (VCCI).

Objectives

On behalf of the Minister of International Trade, Export Promotion, Small Business, and Economic Development, the Department of Innovation, Science and Economic Development Canada (ISED), with support from the Business Development Bank of Canada (BDC), sought advice from industry leaders, family offices and other investors, VC-backed entrepreneurs, and subject matter experts to inform the development of the renewed VCCI program design.

During late summer 2021, stakeholders were encouraged to provide written feedback, detailing ideas and potential models for consideration. Written feedback was received from over 40 industry stakeholders, including VC funds and funds-of-funds, investors, industry organizations, and public sector entities.

This discussion paper captures stakeholder input received to date and presents program design ideas informed by their feedback in order to guide further, discussions and submissions on proposed design parameters.

What we heard

Funds-of-funds stream

There was strong support for continuing the momentum generated through earlier funds-of-funds programs, such as VCCI and the Venture Capital Action Plan (VCAP) by remaining consistent across program parameters.

Historically Canada has had four large national funds-of-funds with proven track records managing funds-of-funds in the Canadian marketplace, and stakeholders generally supported maintaining this current market structure. Stakeholder feedback suggested that national funds-of-funds should be larger, to have a more significant impact at a national level. In general, stakeholders expressed support for increasing leverage ratios to attract more private capital in order to achieve larger fund sizes. However, countervailing input from a minority of respondents noted that the program design could benefit from added flexibility to allow for smaller funds-of-funds, including new potential entrants to participate.

Feedback was supportive of Canadian investment targets, with moderate support expressed to increase the minimum commitment targets for investments in Canadian-based funds and for direct investments into Canadian companies across all funds-of-funds. Additionally, there was a general recognition of the success of previous funds-of-funds programs and support for incentives to be reduced; however, some level of subordinated public sector investment would still be needed to allow the fund-of-funds managers to raise private capital.

A number of stakeholders identified the importance of aligning the funds-of-funds stream with the other streams of the program to increase the overall impact. Some stakeholders suggested that this could be realized by requiring funds-of-funds to make commitments in supporting diverse, emerging fund managers and life sciences funds. Recognizing the importance of maintaining a market-driven investment approach, others preferred that targets be set to invest in such fund managers on a commercial best-efforts basis.

Finally, there were diverging views concerning the program's design and whether there was a need to adjust parameters regarding excluded investments. For context, as the intent of VCCI is to support increased access to VC, the program originally explicitly excluded investments in funds primarily assuming majority ownership positions, such as in buyout and other private equity deals. In doing so, certain models that have emerged recently were deemed ineligible under the program, despite investment strategies that primarily support early stage technology companies.

Life sciences stream

Despite recent growth in Canada's VC market, stakeholders expressed strong support for a targeted life sciences stream given the relatively low level of investment attracted domestically by this key Canadian sector. A variety of factors contribute to challenges in attracting capital to this sector, including the relative capital intensity of health and biosciences. Over the last decade, few new fund managers have entered the Canadian life sciences sector, and firms continue to face challenges accessing capital at both earlier and growth stages. Stakeholders identified a need to support large funds to reach sizes of \$200 million or more to allow them to compete more effectively with large international investors, and also to support the creation and growth of new funds that are well placed to support seed and early stage companies and ensure a strong pipeline of funds and companies in the future.

Based on the size of funding allocated and identified needs of the sector, stakeholders generally supported structures that would seek to maximize leverage, or a targeted approach focused on strategic impacts. Views generally diverged between two general approaches: investments into VC funds, particularly in emerging managers and funds focused on seed and early stages; and, the creation of dedicated funding through investment into a life science-focused fund-of-funds.

In the context of a potential fund-of-funds model, stakeholder submissions suggested that the overall fund size would need to be smaller than the national funds-of-funds, and would expect lower leverage of private sector to public sector investments, given program incentives. Some stakeholder feedback suggested that the relatively small number of Canadian life sciences funds would limit a specialized fund-of-funds' ability to develop a balanced portfolio, resulting in higher risk. To reduce these portfolio risks, the model could require broader investment parameters, including international investments. It could also require additional, ongoing intervention by the public sector to support fundraising efforts.

In the context of the direct funding model, although a few large late-stage funds suggested they could receive investments directly, stakeholders generally felt that the \$50 million allocated to this stream would have the greatest impact if it were strategically targeted to new and emerging managers investing at the seed and early VC stages. As the pipeline of new fund managers entering this sector remains limited, a dedicated stream to support the next generation of life sciences VC fund managers could support the succession of funds, as established funds evolve to focus more on later stage investments. Considering the emerging nature of this stream, feedback supported lower leverage requirements and lower requirements for a first close to enable emerging managers to start operations while working towards a higher final targets. Additionally, some stakeholders noted that incentives could be used to attract new private-sector investors to the life sciences technology sector.

Stakeholder feedback suggested that there should be a strong emphasis on capital being invested in Canadian funds and companies. However, some submissions suggested greater flexibility to attract new funds to Canada by lowering the Canadian presence requirements.

Feedback did not support targeting capital allocated under this stream to any specific subsectors. There was generally strong agreement that the stream should be focused on building and scaling life sciences VC in Canada, and that eligible investments should include various sub-sectors within the industry, such as drug discovery, medical devices, or health information technology (health IT).

Inclusive growth stream

There was broad support for the inclusive growth stream, as stakeholders recognized the importance of promoting inclusivity and enhancing access to VC to traditionally underserved Canadians. Stakeholders expressed a range of views regarding how the new inclusive growth stream could be implemented, with input suggesting support for emerging or new fund managers that are diverse or focused on emerging regions. Enhancing access to capital for eligible managers, many of whom may face challenges raising capital from prospective investors, would result in a new, more diverse and inclusive generation of VC fund managers, while promoting more inclusivity in fund operations and investment strategies in the ecosystem.

Stakeholders recognized the importance of supporting market-driven returns so that selected funds can demonstrate viable investment opportunities to attract private investors.

Several recommendations were put forward on how the inclusive growth stream's parameters could be adapted to support the success of selected emerging managers. To enhance program access, stakeholders suggested this stream could benefit from holding more than one call for proposals to allow new managers to develop their team, proposed investment and fundraising strategies. Further, leverage ratios for private sector capital could be reduced to support fundraising efforts. Finally, several stakeholders recommended reimagining the selection process to the benefit of traditionally underrepresented or emerging fund managers. For example, assessing the track record of a new fund may be difficult; as such, the assessment of candidates could consider other factors, such as the management team members' independent investment or entrepreneurial experience. To ensure selected managers are well positioned to succeed, some stakeholders suggested that training programs could support managerial development and growth.

Enhancing diversity

Stakeholders are supportive of enhancing diversity and inclusivity in Canadian VC and have submitted a diverse range of suggestions on how this could be achieved. Many noted that a common barrier to implementing policies supportive of this goal is the lack of a common framework. This results in varying definitions on concepts like inclusivity and diversity, and varying metrics for success. Tracking progress and success becomes challenging. Stakeholders encouraged the program to establish standardized definitions for concepts like inclusive growth, underrepresented Canadians, and emerging managers, and to implement consistent diversity metrics across each stream.

Stakeholders suggested that a common framework could outline the objectives of inclusive programming and recommend inclusive policies and activities. This guide would serve as a "best practices" guideline, and could be leveraged to encourage wider adoption in the Canadian VC ecosystem. Stakeholders advanced several ideas and policies that serve to enhance inclusivity, including the following: investing in teams with a demonstrated track record of investing in new and diverse fund managers; developing a diversity scorecard; and permitting fund managers focusing on diversity to benefit from lower leverage ratios.

Stakeholders recommended that the program track progress on inclusivity across all the streams, as this is an important issue in the VC ecosystem. Aligning metrics across VCCI and BDC products and services would be beneficial in reducing survey fatigue, all while ensuring data confidentiality and security.

VCCI design for discussion

This section is intended to guide further discussions and submissions on design and implementation elements of the renewed VCCI. Laying the groundwork for the forthcoming call for proposals, the section details concepts based on what was heard through stakeholder submissions regarding the potential design of a call for proposals for the three streams. The parameters and processes described are for discussion purposes, with a view to framing stakeholder engagement. They are not meant to represent the content of any future request for proposals or call for expressions of interest.

Considerations for an open call for proposals

The renewed VCCI could use a competitive process to seek proposals from the private sector. Detailed criteria would be included in a call for expressions of interest, and applicants would be invited to bring forward value propositions detailing their expected value-add to Canadian firms and the VC ecosystem, in addition to laying out their track record, complement of potential investors, and investment strategy.

All applicants could be asked to demonstrate the viability of their proposed fund, including how it may benefit the Canadian VC ecosystem. Managers would be expected to demonstrate experience and performance in raising and managing funds-of-funds, funds, or other investment entities, or comparable experience, as well as in-depth knowledge of Canadian VC, relevant sector-specific knowledge or entrepreneurial experience, and a strong network of business and financial contacts.

Demonstration of support from investors including through letters of interest and support from provinces, crown corporations or other public sector investors, would be given consideration. Managers would be expected to apply this knowledge and network in advising and supporting the Canadian funds and/or companies in which they invest. Managers would be evaluated on the degree to which their proposed investment strategy is aligned with their demonstrated capabilities, with emphasis on Canada.

To support inclusive growth in Canadian VC, all applicants could be required to adhere to the Inclusive Growth Framework (see Appendix A for details) by implementing a minimum standard of commitments to diversity and data collection, with consideration being given to those applicants proposing additional support.

The selection of fund managers would be completed with the objective of establishing a balanced portfolio of diverse funds featuring experienced and emerging managers investing across regions and sectors. Upon being provisionally selected, managers could have a limited period during which to complete fundraising activities and reach a first close, and then the pre-determined target size. Any potential new fund-of-funds entrant to the VCCI program would be required to already be licensed to invest in Canada.

Funds-of-funds proposed model

The intent of this stream is to allocate \$350 million to Canada's VC ecosystem through investments into national funds-of-funds. Evaluations will assess funds-of-funds applicants on their ability to maximize returns through balanced investments; support skilled VC fund managers; attract substantial private sector capital; increase the availability of VC to support the growth and scale-up of leading Canadian companies; and, support the development of a strong pipeline of new and diverse technology leaders.

In doing so, the funds-of-funds stream could also seek to address some of the following issues, in line with VCCI program goals:

- ☑ Engaging in activities and programs that enhance or accelerate the development of the Canadian venture ecosystem for the long term
- ☑ Supporting emerging, diverse and women fund managers
- ☑ Investing in key underserved sector
- ☑ Addressing underserved Canadian regions
- ☑ Attracting new investors or investor classes, both Canadian and international, to Canadian VC

⊕ Size and number of funds-of-funds

The program could select four to five funds-of-funds, leveraging the \$350 million commitment from the federal government and any commitments from provincial governments, with private sector capital. Large national funds-of-funds could target fund sizes of up to \$400 million, with this limit potentially raised should the fund successfully raise additional public sector capital. The program could also allow for smaller funds-of-funds at sizes of at least \$150 million. A successful proponent could be expected to raise \$3 from private sector investors for every \$1 of public sector capital committed.

⊕ Incentives to attract private sector investors

One of the objectives of the VC incentive programs is to demonstrate the sustainability of Canadian VC. Under previous programs, incentives were used to attract private sector capital. Building on the momentum of these programs, it is proposed that the renewed VCCI reduce the preferred returns of private investors from 7 percent to 5 percent.

⊕ Enhancing Canadian geographic focus

Building a sustainable Canadian VC ecosystem requires some international investment to support the development of networks and to build globally-connected companies. Under both VCAP and the previous VCCI, certain restrictions on international investments were included for funds-of-funds.

Under VCCI, recipients were required to maintain a Canadian presence by having or establishing at least one Canadian-based senior investor and at least one full-time Canadian office. This criterion could be maintained for the renewed VCCI.

Additionally, to enhance investment in Canadian VC, successful applicants could pledge a commitment to make at least 70 percent of fund investments in qualified Canadian funds and 100 percent of direct investments in Canadian companies. Direct investments could be permitted up to a maximum of 25 percent of total committed capital, and up to one third of this amount may be allocated to stand-alone investments.

Finally, while underlying funds will be responsible for making individual investment decisions, it is important that Canadian businesses benefit from this program. Consequently, it is proposed that applicants pledge to apply all commercially reasonable efforts to commit at least 40 percent of total invested capital in Canadian-based companies, an increase from 35 percent in the initial VCCI.

⊕ Addressing current gaps in the VC ecosystem

The impact of previous VC programs is demonstrated by the continued growth of Canadian VC, with a number of funds establishing themselves over the past decade. To sustain this progress through a market-driven approach, it is important to continue to develop and diversify the next generation of fund managers by supporting new investment models, emerging regions, and traditionally underserved sectors, as well as promoting greater inclusion of underrepresented groups such as women and racialized communities.

To support inclusive growth in Canadian VC, funds-of-funds recipients could be asked to develop strategies detailing how they will support emerging fund managers, including managers selected under the inclusive growth stream. Recipients could be expected to implement this strategy within best commercial efforts.

Additionally, to promote alignment with the broader program goals, extra weight could be given to proposed investment strategies that include additional efforts to promote inclusive growth in Canadian VC or to support the life sciences sector.

⊕ Defining eligible investments

Under the previous VCCI, VC funds were defined as funds that primarily invest in minority equity stakes of technology-focused companies in order to enable the development of new products, markets or business models. To add flexibility to allow proponents to pursue limited, related investments in other areas may be allowed in funds that fall outside of the strict definition of VC funds used in this program, but that otherwise support emerging technology companies and that provide growth equity to support later stages of the VC continuum for companies as they grow and move up the value chain.

Summary of proposed funds-of-funds parameters (for discussion only)	
Private capital leveraged	Minimum of 3 times public sector investment.
Size of funds-of-funds	\$150 million to \$400 million; limit could be potentially raised should the fund successfully raise additional public sector capital.
Direct investment allowance	Up to 25% of capital, with at least two-thirds of this amount allocated to co-investments within the manager's portfolio.
Incentives to attract private investment	<p><i>Pari passu</i> investment and asymmetric return waterfall to private sector investors;</p> <p>Preferred returns to the private sector investors of 5%;</p> <p>Preferred returns to public sector investors of 3%.</p>
Investment strategy	<p>Detailed and feasible investment process and strategy with high likelihood of successful implementation;</p> <p>Ability to generate venture-level returns for investors;</p> <p>Degree to which the proposed strategy supports emerging, diverse and women fund managers;</p> <p>Degree to which the proposed strategy supports the Canadian life sciences sector;</p> <p>Degree to which the proposed investment strategy is aligned with demonstrated capabilities;</p> <p>Consideration given to the degree to which the proposed investment strategy will:</p> <ul style="list-style-type: none"> □ invest in key underserved sectors □ address underserved Canadian regions □ attract new investors or investor classes, both Canadian and international, to Canadian VC

	<ul style="list-style-type: none"> □ engage in activities and programs that enhance or accelerate the development of an inclusive Canadian venture ecosystem for the long term
Fund strategy and capabilities	<p>Demonstrate the viability of proposed fund-of-funds, including how it may benefit the Canadian VC ecosystem;</p> <p>Capabilities to provide support, guidance and the expected value-add to Canadian firms;</p> <p>The degree to which the proposed investment strategy is aligned with demonstrated capabilities, with emphasis on Canada.</p>
Diversity and inclusion strategy	<p>Detailed strategy on how the fund manager will advance diversity and inclusion in the Canadian VC ecosystem. At minimum, applicants are expected to implement the following four activities:</p> <ol style="list-style-type: none"> 1. Internal: Implement policies and practices that promote the enhancement of equity, diversity and inclusion internally. 2. Portfolio: Implement investment policies and practices that aim to reduce biases and promote the enhancement of equity, diversity and inclusion within the portfolio. 3. Ecosystem: Implement policies and practices that promote the enhancement of equity, diversity and inclusion in the community. 4. Data: Collect and report diversity metrics of fund and portfolio companies. <p>Consideration will be given to additional commitments and activities. For a list of recommended activities or to better understand the rationale for the minimum activities, please consult the VCCI Inclusive Growth Framework (Annex A).</p>
Commitment to inclusive growth	<p>Pledged commitment on commercial best effort by national funds-of-funds to allocate capital to new, emerging, and diverse VC fund managers.</p>
Manager capabilities	<p>Demonstrated experience in raising and managing funds-of-funds, funds or other investment entities;</p> <p>In-depth knowledge of Canadian VC, including industry or sector-specific knowledge, entrepreneurial experience and a strong network of business contacts;</p> <p>Managers must be licensed to operate.</p>
Fundraising strategy/capital secured	<p>Well-developed strategy to attract investors, Canadian or international;</p> <p>Demonstrated ability to fundraise and execute on proposed fundraising strategy, including through letters of interest from investors, support from province, crown corporation or public sector investors, or previous closings of similar funds either in Canada or internationally.</p>

Canadian presence pledged	<p>Pledged presence of at least one Canadian office with at least one full-time Canadian-based senior investment professional;</p> <p>Extra consideration given for offices located outside of the Greater Toronto Area and the Montreal Metropolitan Area.</p>
Canadian investment pledged	<p>Pledged commitment of at least 70% of VC fund investments in qualified Canadian funds;</p> <p>Limited, related investments may be permitted into Canadian funds that fall outside of the definition of Canadian VC funds, but that are Canadian-based and otherwise support emerging technology companies and that provide growth equity to support later stages of the VC continuum;</p> <p>Pledged target of 100% of direct investments in Canadian companies, with a maximum of 10% of capital allocated eligible for investment outside of Canada;</p> <p>Canadian-based portfolio company threshold requirement (or “look through” requirement) of at least 40% of invested capital, using all commercially reasonable efforts.</p>
Compensation proposed	Competitive market rates.

Additional questions

- Is the proposed leverage and incentive structure a fair risk balance given the current investment environment, and that early, mainly unrealized performance of past programs has been strong?
- Given the changing VC ecosystem, what are your thoughts on the proposed definition of VC funds as funds that primarily invest in minority equity stakes of technology-focused companies? Are there new or emerging investment strategies that should be considered under this definition?
- Do Canadian investment targets appropriately balance a Canadian program focus with sufficient flexibility to build and maintain key international networks?

Life sciences proposed model

With recognition of the importance of supporting a key strategic Canadian sector, the life sciences stream will enhance access to VC investments in Canadian life sciences, including in pharmaceutical and medical technologies.

⊕ Fund structure and leverage

The proposed model would invest directly into VC funds investing primarily in the life sciences sector. Capital could be allocated to between two and seven VC funds, with a focus on new or emerging fund managers investing at the seed and early stages. Established funds with investment strategies addressing gaps in the VC ecosystem would also be considered. Given the emerging nature of some funds, minimum leverage could be lower, with funds expected to raise at least \$1 of private sector capital for every \$1 of VCCI capital, with other public sector investments considered neutral. For funds to have enough capital to support follow-on investments, selected managers could be required to raise minimum fund sizes of at least \$10 million. In order to enable selected managers to raise funds, incentives could be offered to private investors.

⊕ Manager and investment strategy

As this model would prioritize the development of the next generation of Canadian life sciences VC funds, preference would be given to fund managers that are new or emerging, including women and individuals from racialized communities.

Additional consideration could be given to funds that invest in priority areas within the life sciences sector, such as drug development and medical technologies.

Summary of proposed direct VC life sciences funds parameters (for discussion only)

Private capital leveraged	Minimum of 1 times VCCI investment in private sector capital. Public sector investments are considered neutral.
Size of funds	At least \$10 million.
Incentives to attract private investment	May be considered.
Fund strategy and capabilities	Demonstrate the viability of the proposed fund and a well-developed strategy to attract investors;

	<p>Capabilities to provide support, guidance and the expected value-add to Canadian firms;</p> <p>The degree to which the proposed investment strategy is aligned with demonstrated capabilities, with emphasis on Canada;</p> <p>For established funds, strategies for addressing gaps in the VC ecosystem.</p>
Diversity and inclusion strategy	<p>Detailed strategy on how the fund manager will advance diversity and inclusion in the Canadian VC ecosystem. At minimum, applicants are expected to implement the following four activities:</p> <ol style="list-style-type: none"> 1. Internal: Implement policies and practices that promote the enhancement of equity, diversity and inclusion internally. 2. Portfolio: Implement investment policies and practices that aim to reduce biases and promote the enhancement of equity, diversity and inclusion within the portfolio. 3. Ecosystem: Implement policies and practices that promote the enhancement of equity, diversity and inclusion in the community. 4. Data: Collect and report diversity metrics of fund and portfolio companies. <p>Consideration will be given to additional commitments and activities. For a list of recommended activities or to better understand the rationale for the minimum activities, please consult the VCCI Inclusive Growth Framework (Annex A).</p>
Manager capabilities	<p>Demonstrated experience in raising and managing funds-of-funds, funds or other investment entities, or significant investment experience and relevant entrepreneurial experience of management team members;</p> <p>In-depth knowledge of Canadian VC, including significant knowledge and experience in life sciences, and a strong network of business contacts.</p>
Fundraising strategy/capital secured	<p>Well-developed strategy to attract investors, Canadian or international;</p> <p>Demonstrated ability to fundraise and execute on proposed fundraising strategy, including through letters of interest from investors, support from province, crown corporation or public sector investors, or previous closings of similar funds either in Canada or internationally.</p>
Canadian presence pledged	<p>Pledged presence of at least one Canadian office.</p>
Canadian investment	<p>Pledged commitment to investment in Canadian companies;</p> <p>Proposed impact on Canadian companies and VC ecosystem.</p>
Compensation proposed	<p>Competitive market rates.</p>

Additional questions

- Are there additional parameters that should be considered in defining new and emerging managers in the context of the life sciences sector (see Annex B - Definitions)?
- Is there a maximum fund size that should be considered for emerging managers in the context of life sciences?
- What would you consider to be a minimum viable fund size in life sciences that could be supported by VCCI?
- If incentives are offered, how could they be structured to ensure fairness across applicants and funds?

Inclusive growth proposed model

The following section lays out a model for discussion, based on initial stakeholder feedback, that could be included in a call for expressions of interest for investments under the inclusive growth stream. We are seeking advice on whether the proposed parameters are appropriate and impactful, and how they may be adjusted to help increase access to venture capital for underrepresented groups, such as women and racialized communities.

Additionally, parties are asked to indicate their potential, non-binding interest so that the number and size of potential candidates may be gauged for design purposes.

⊕ Structure of calls

To allow new and emerging managers time to develop fundraising and investment strategies, and to ensure broad program access, the inclusive growth stream could be structured such that recipients are selected over a longer period of time, through two calls for expressions of interest.

⊕ Fund structure and leverage

To support greater inclusivity and new investment ideas, alternative fund structures and new investment models could be considered under this stream. All applicants would be expected to create funds with an investment strategy focusing on technology companies, and including a benefit to Canadian entrepreneurs.

Given the emerging nature of the funds targeted, minimum leverage could be lower with funds expected to raise at least \$1 of private sector capital for every \$1 of VCCI capital. For funds to have enough capital to support follow-on investments, selected managers could be required to raise minimum fund sizes of at least \$5 million. In order to enable selected managers to raise funds, incentives could be offered to private investors.

⊕ Investment strategy

Applicants would need to demonstrate how they promote inclusivity and underrepresented Canadians both within their fund and through their investment strategy.

To help advance diversity and inclusivity in the Canadian VC ecosystem, preference would be given to fund managers that are new or emerging, including women and individuals from racialized communities. To enhance access to VC for diverse entrepreneurs nationally, additional consideration could be given to funds with a focus or presence in underserved regions.

⊕ Manager experience

Focused on new and emerging managers, the requirement for this stream would be broader to allow applications from applicants with demonstrated experience in raising and managing funds-of-funds, funds or other investment entities, or able to demonstrate independent investment experience or significant, relevant entrepreneurial experience of management team members, along with in-depth knowledge of Canadian VC and a strong network of business contacts.

Summary of proposed inclusive growth stream fund parameters (for discussion only)	
Private capital leveraged	Minimum of 1 time public sector investment.
Size of funds	At least \$5 million.
Incentives to attract private investment	May be considered.
Fund strategy and capabilities	<p>Demonstrate the viability of the proposed fund and a well-developed strategy to attract investors;</p> <p>Capabilities to provide support, guidance and the expected value-add to Canadian firms;</p> <p>The degree to which the proposed investment strategy is aligned with demonstrated capabilities, with emphasis on Canada.</p>
Diversity and inclusion strategy	<p>Detailed strategy on how the fund manager will advance diversity and inclusion in the Canadian VC ecosystem. At minimum, applicants are expected to implement the following four activities:</p> <ol style="list-style-type: none"> 1. Internal: Implement policies and practices that promote the enhancement of equity, diversity and inclusion internally. 2. Portfolio: Implement investment policies and practices that aim to reduce biases and promote the enhancement of equity, diversity and inclusion within the portfolio. 3. Ecosystem: Implement policies and practices that promote the enhancement of equity, diversity and inclusion in the community. 4. Data: Collect and report diversity metrics of fund and portfolio companies. <p>Consideration will be given to additional commitments and activities. For a list of recommended activities or to better understand the rationale for the minimum activities, please consult the VCCI Inclusive Growth Framework (Annex A).</p>

Manager capabilities	Demonstrated experience in raising and managing funds-of-funds, funds or other investment entities; or significant investment experience or relevant entrepreneurial experience of management team members; In-depth knowledge of Canadian VC and a strong network of business contacts.
Fundraising strategy/capital secured	Well-developed strategy to attract investors, Canadian or international; Ability to fundraise and execute on proposed fundraising strategy, including through a strong network of investors, letters of interest from investors, support from province, crown corporation or public sector investors, previous closings of similar funds either in Canada or internationally, or similar.
Canadian presence pledged	Pledged presence of at least one Canadian office.
Canadian investment	Pledged commitment to investment in Canadian companies; Proposed impact on Canadian companies and VC ecosystem.
Compensation proposed	Competitive market rates.

Additional questions

- Are there additional parameters that should be considered in defining new and emerging managers in the context of this stream (see Annex B - Definitions)?
- What would you consider a minimum viable fund size under this stream?
- If incentives are offered, how could they be structured to ensure fairness across applicants and funds?

Inclusive Growth Framework

Promoting diversity and inclusion in Canadian VC is an important objective of the VCCI. Aligning with industry efforts, and work by BDC, the Canadian Venture Capital & Private Equity Association (CVCA) and Institutional Limited Partners Association (ILPA) to develop industry best practices guidance on diversity, equity and inclusion (DEI) and data reporting, VCCI would require minimum requirements for applicants on DEI policies and activities. The proposed Inclusive Growth Framework, further detailed in Annex A – Inclusive Growth Framework, would provide guidance and minimum standards for VCCI applicants.

Successful VCCI applicants could be expected to implement and report on the following commitments:

1. **Internal:** Implement policies and practices that promote the enhancement of equity, diversity and inclusion internally.
2. **Portfolio:** Implement investment policies and practices that aim to reduce biases and promote the enhancement of equity, diversity and inclusion within the portfolio.
3. **Ecosystem:** Implement policies and practices that promote the enhancement of equity, diversity and inclusion in the community.
4. **Data:** Collect and report diversity metrics of fund and portfolio companies.

Applicants could be expected to implement one commitment under each of the themes of the Framework, with additional consideration for applicants implementing additional commitments. A list of examples of activities eligible under each theme is available in Annex A.

Under data, metrics would be aligned across VCCI and BDC products and services, and based on industry best practices. Applicants would be expected to commit to collect data at the GP-level and for portfolio companies on standard performance metrics, and on DEI metrics for employees, the management team, and the board of directors.

Additional questions

- Do you consider the proposed commitments under the Inclusive Growth Framework appropriate and aligned with current best practices in the marketplace?
- Are there additional groups or areas that should be reflected in the Inclusive Growth Framework?



Contact

You can reach the VCCI Secretariat at capital@ised-isde.gc.ca. We are seeking input until April 8, 2022. Submissions may be submitted in either official language.

Annex A

Inclusive Growth Framework

Successful VCCI applicants could be expected to implement and report on the following commitments:

1. **Internal:** Implement policies and practices that promote the enhancement of equity, diversity and inclusion internally.
2. **Portfolio:** Implement investment policies and practices that aim to reduce biases and promote the enhancement of equity, diversity and inclusion within the portfolio.
3. **Ecosystem:** Implement policies and practices that promote the enhancement of equity, diversity and inclusion in the community.
4. **Data:** Collect and report diversity metrics of fund and portfolio companies.

Applicants could be expected to implement one commitment under each of the themes of the Framework, with additional consideration for applicants implementing additional commitments. Data collection and reporting on all metrics will be required.

Below is a non-exhaustive list of examples under each theme, though applicants are welcome to include other initiatives beyond those listed below. Applicants would be asked to describe how their proposed activities would positively impact inclusive growth and support underserved groups.

Internal

- ☑ An organizational DEI statement or strategy and/or a Chief Diversity Officer/Champion
- ☑ A standard code of conduct and/or anti-discrimination policy
- ☑ Steps to remove bias from hiring processes and/or widen the applicant pool beyond traditional sources
- ☑ A family leave policy and/or promotion of flexible work policies or work-life balance
- ☑ Mentorship/training programs tailored to diverse hires
- ☑ Specialized training for employees (e.g. leadership, anti-harassment, or cultural competency training)
- ☑ Organizational culture surveys and method to track progress
- ☑ Mental health support to its employees and/or portfolio companies
- ☑ A harassment reporting system or an independent ombudsman

Portfolio

- ☑ Establishing diversity targets for the investment portfolio (targets for company boards, senior management, or in other areas)
- ☑ Tracks and reports on deal flow demographics
- ☑ Incorporates DEI questions during diligence

Ecosystem

- ☑ Volunteers for or partners with any associations or initiatives promoting diversity and inclusion

- ✔ Provides office hours for underrepresented founders
- ✔ Seeks diverse speakers for firm events

Data

- ✔ Collect and report diversity metrics of fund and portfolio, including the following:
 - ☰ GP and underlying funds - ownership, investment committee composition, and firm employees:
 - ⊕ Male, female, and nonbinary individuals
 - ⊕ Indigenous Peoples (First Nations, Métis, Inuit)
 - ⊕ Racialized, Black and/or People of Colour (Visible Minorities)
 - ⊕ LGBTQ2+
 - ⊕ Persons living with disabilities
 - ☰ Portfolio companies – employees, management team and board of directors:
 - ⊕ Male, female, and nonbinary individuals
 - ⊕ Indigenous Peoples (First Nations, Métis, Inuit)
 - ⊕ Racialized, Black and/or People of Colour (Visible Minorities)
 - ⊕ LGBTQ2+
 - ⊕ Persons living with disabilities

Annex B

Definitions

Inclusive Growth

Inclusive growth, for the purposes of this program, refers to creating economic growth in an environment in which people feel involved, respected, valued and connected, and to which individuals bring their authentic selves (ideas, backgrounds, and perspectives) to their work with colleagues, entrepreneurs, investors, and the broader community.

Underrepresented Groups

Underrepresented groups include those groups that have traditionally been underrepresented in positions of economic influence and leadership or that face systemic barriers that create inequity. The following are included in underrepresented groups:

- Women and nonbinary individuals
- Indigenous Peoples (First Nations, Métis, Inuit)
- Racialized, Black and or People of Colour (Visible Minorities)
- Canadians who identify as LGBTQ2+
- Persons living with disabilities

Emerging Managers

A fund manager would be considered emerging if it has raised less than three funds in the past or is currently raising its third fund. Additional considerations include:

- ☑ A family office, angel investor or group of angel investors with a track record that has raised three or less funds with external capital in the past would be considered an emerging manager.
- ☑ A fund manager composed of one or several persons with previous investment experience, either as a team or separately, and having raised three or less funds in the past, would be considered an emerging manager.

