



Innovation, Science and  
Economic Development Canada

Innovation, Sciences et  
Développement économique Canada



# Venture Capital Catalyst Initiative: Performance Measurement Framework

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## Introduction

The Government of Canada, through the Business Development Bank of Canada (BDC), is making available \$450 million to increase the availability of late stage venture capital in Canada through the Venture Capital Catalyst Initiative (VCCI). With funds leveraged from the private sector, this investment has the potential to inject more than \$1.5 billion into Canada's innovation capital market. This funding, announced in Budget 2017 and the 2018 Fall Economic Update, complements other programs under the Innovation and Skills Plan to help the growth of Canada's innovative high potential start-ups.

Access to capital is vital to help growing innovative companies to develop their ideas, market new products, scale up and create good, middle-class jobs in communities across the country. Venture capital (VC) is a specialized type of private equity financing that takes educated risks on great ideas and smart people, giving young, high growth-potential companies the opportunity to develop their ideas into marketable products. In addition to capital, VC investors bring operational experience, technical knowledge, networks and mentorship to the firms in which they invest. Furthermore, recognizing the importance of improving gender balance in the venture capital ecosystem, VCCI includes a strong focus on enhancing diversity and addressing gender balance among VC fund managers, investors, and portfolio companies. A strong and steady stream of VC investments is an essential element in the success of many of Canada's potential future technology leaders.

Stream 1 invests \$350 million in large private sector-led funds-of-funds with the objective to maximize returns through diversified investments, support skilled VC fund managers and attract substantial private sector capital.

Stream 2 invests \$50 million in VC fund managers that can provide a financial return for investors in areas that would otherwise not be addressed by Stream 1. Eligible applicants include VC funds-of-funds, VC funds, and other intermediaries that invest in companies.

Stream 3 invests \$50 million in VC funds with a primary focus on clean technology firms and on helping Canada's innovative clean technology producers to bring their technologies to market.

This document presents the performance measurement framework (PMF) proposed by Innovation, Science and Economic Development Canada (ISED), in consultation with BDC, to measure the performance of VCCI.



## Roles and Responsibilities

ISED and BDC will play complementary roles in administering the VCCI PMF. The organizations and their respective roles and responsibilities in the design, implementation and monitoring of VCCI are provided in Table 1.

**Table 1: Roles and Responsibilities**

<p><b>BDC</b></p>	<p><b>Acting as a Limited Partner (LP):</b> BDC, as an agent of Government, fulfills the duties typically associated with those of an LP. These duties include: signing letters of intent, memorandum and LP agreements; holding the rights, obligations and interests in the LP agreements; serving on LP advisory committees; and attending all required meetings.</p> <p><b>Administrative Duties:</b> Given the scope and significance of VCCI, BDC will dedicate appropriate resources to ensure it is positioned to act in a timely and effective manner in fulfilling its responsibilities. Within the well-established practices in place at BDC for making VC investments, BDC flows the funds it receives from the Government for VCCI into selected investment vehicles, including providing capital to general partners (GPs) according to the Limited Partners Agreements negotiated with the investors, and eventually receives proceeds from those investments.</p> <p><b>Accountabilities:</b> BDC is responsible for monitoring VCCI, including keeping officials from the departments of Finance Canada and ISED informed on developments related to the initiative. This includes reporting on the outcomes of annual general meetings with GPs, LPs and recipient companies. BDC will provide VCCI-related financial data at regular intervals.</p>
<p><b>ISED</b></p>	<p>ISED was the lead department in the design and implementation of VCCI; ISED provided research and held national consultations, together with Finance Canada and BDC, to inform the design and development of VCCI;</p> <p>It supported a selection committee, whose members came from the private sector and was established by the Deputy Minister of ISED, that evaluated incoming proposals and provided recommendations on which applicants to select for VCCI; and</p> <p>As the Department responsible for BDC, ISED will work with BDC to monitor VCCI's progress towards delivering on its objectives.</p>

## Performance Measurement Framework

The purpose of this PMF document is to outline the metrics that will be used to evaluate VCCI's performance in delivering on its objectives and outcomes.

### 3.1 Program Objectives

In implementing VCCI, the Government aims to:

- Translate innovation into economic growth;
- Increase the availability of late-stage VC to help high-potential companies grow;
- Improve the sustainability of the Canadian VC ecosystem and spur private sector investment by generating world-class financial returns;
- Deepen the pool of experienced VC fund managers by building Canadian talent and investment and attracting new expertise and capital to Canada's VC market;
- Leverage private capital; and
- Improve the gender balance of Canadian VC fund managers and VC-backed entrepreneurs.

### 3.2 Measurement Model

The measurement model illustrates VCCI's policy rationale, the activities planned under VCCI, and the expected outputs and outcomes from those activities.

#### 3.2.1 Policy Rationale

In 2017, Canada saw a total of \$3.8 billion of VC investment in Canadian start-ups, resulting in the eighth straight year of VC growth and the most VC invested in start-up companies since 2001. Canada is presently ranked third for VC investment according to the Organisation for Economic Co-operation and Development (OECD). The Canadian Venture Capital and Private Equity Association (CVCA) attributes much of this growth to the Government of Canada's support for VC, including through the Venture Capital Action Plan (VCAP), which is a \$390 million VC funds-of-funds initiative launched by the Government of Canada in 2013.<sup>1</sup> CVCA expects annual investment to continue to grow as funding begins to be deployed under VCCI.<sup>2</sup>

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<sup>1</sup>[2017 CVCA report](#) on VCAP:

<sup>2</sup>[2017 CVCA statement](#) on VCCI

### 3.2.2 Activities

VCCI consists of the following activities:

- 1) Stream 1 allocates \$350 million to applications from funds-of-funds with the objective of maximizing returns through diversified investments, supporting skilled VC fund managers and attracting substantial private sector capital. Additional consideration was given to proposals that also incorporate strategies to address emerging issues, including:
  - a. Attracting new investors or investor classes, both Canadian and international, to Canadian VC;
  - b. Engaging in activities and programs that enhance or accelerate the development of the Canadian VC ecosystem for the long term;
  - c. Improving engagement of Canadian corporations;
  - d. Supporting emerging, diverse and women fund managers;
  - e. Addressing key Canadian regions otherwise underserved by funds-of-funds; or
  - f. Investing in key underserved sectors, such as life sciences.
- 2) Stream 2 allocates \$50 million for proposals in areas that can provide a financial return to investors, but would not otherwise be addressed by Stream 1. Eligible applicants include VC funds-of-funds, VC funds, and other intermediaries that invest in companies. This stream is for applicants that:
  - a. Support segments (e.g. women-run funds, certain Canadian regions, new fund managers) that may be under-served by traditional funds-of-funds models;
  - b. Invest in underserved sectors, such as early-stage life sciences; or
  - c. Support financing models that may not be suited to investment from funds-of-funds (such as matching funds, deal-based fundraising models, micro-funds, etc.).
- 3) Stream 3 allocates \$50 million for investments primarily in the clean technology sector, helping Canada's innovative clean technology producers to bring their technologies to market. This stream is for applicants that:
  - a. Add value to clean technology companies;
  - b. Help clean technology companies achieve scale and compete globally; and
  - c. Support the development and growth of the clean technology sector in Canada.

Additionally, VCCI includes a focus on enhancing diversity and increasing the participation of women across the VC ecosystem. Applicants are expected to demonstrate how their strategies advance these objectives and will be required to report on the gender balance of the fund managers and entrepreneurs they support.



### 3.2.3 Outputs

The VCCI program will result in the following outputs:

- Translate innovation into economic growth by helping high potential companies grow;
- Increase the availability of late-stage VC for clean technology companies, among others;
- Improve the sustainability of the Canadian VC ecosystem and spur private sector investment by generating world-class financial returns;
- Deepen the pool of experienced VC fund managers by building Canadian talent and investment and attract new expertise and capital to Canada's VC market;
- Attract participation from private sector investors in VC funds; and
- Improve gender balance in VC fund managers and VC-backed entrepreneurs.

### 3.2.4 Outcomes

The major outcome expected from the program is to demonstrate to the private sector that investing in the VC asset class has the potential of positive returns, thereby increasing ongoing investment activity in Canadian VC funds. This entails investing in high-potential Canadian firms and the realization of profitable returns from these investments. Ultimately, successful investments made by VCCI-supported funds that result in positive returns could lead to renewed investor confidence in the VC asset class.

Greater support for women and new managers will increase diversity in the Canadian VC industry and a focus on clean technology will help deliver much needed capital to this nascent sector. This growth and expansion will lead to a stronger, more robust ecosystem.

### 3.3 Performance Measurement Framework

The set of metrics that will be used to measure the performance of VCCI is listed in Table 2.

#### **Next steps**

ISED will continue to work with BDC to monitor the program's performance, in accordance with the PMF outlined in this document. ISED and BDC will collaborate on annual public releases on the performance of VCCI commencing in 2019.



**Table 2: Performance Measurement Framework**

Expected Results	Indicators	Source	Baseline	Target	Frequency
Translate innovation into economic growth by helping high potential companies grow.	<ul style="list-style-type: none"> <li>The long-term economic and financial performance of the Canadian companies, including clean technology companies, backed by VCCI in terms of employment growth and growth in revenue/sales, including exports.</li> <li>The long-term innovation performance of Canadian companies, including clean technology companies, backed by VCCI in terms of the number of employees and R&amp;D spending.</li> <li>The proportion of Canadian companies supported by VCCI that achieve a merger or acquisition exit event of being merged or acquired (M&amp;A) or having an initial public offering (IPO).</li> </ul>	<p>ISED and Statistics Canada, using the list of company names from BDC</p> <p>ISED and Statistics Canada, using the list of company names from BDC</p> <p>BDC</p>	<p>Similar non-VCCI-backed companies in Canada</p> <p>Similar non-VCCI-backed companies in Canada</p> <p>50% of investments of liquidated VC funds have an exit by IPO or M&amp;A [Note 1]</p>	<p>Outperform baseline firms</p> <p>Outperform baseline firm</p> <p>25% in 2027 50% in 2035</p>	<p>In 2025, 2030, and 2035</p> <p>In 2025, 2030, and 2035</p> <p>In 2027 and in 2035</p>
Increase the availability of late-stage VC	<ul style="list-style-type: none"> <li>The total amount of investment in funds-of-funds supported by VCCI.</li> <li>The number of funds-of-funds supported by VCCI.</li> <li>Total capital invested in late-stage or growth companies.</li> <li>The proportion of Canadian companies supported by all VCCI streams that are clean technology companies.</li> </ul>	<p>BDC</p> <p>BDC</p> <p>BDC</p> <p>BDC</p>	<p>n/a</p> <p>VCAP-backed 4 funds-of-funds \$1.1B average from 2014–2016</p> <p>VCAP had 7% of companies in clean technology or energy (2017)</p>	<p>\$1.4B</p> <p>4 or more</p> <p>Outperform baseline</p> <p>Outperform baseline</p>	<p>Annual until target met</p> <p>Annual until target met</p> <p>Annual until target met</p> <p>Annual starting 2021</p>
Improve the sustainability of the Canadian VC ecosystem and spur investment by generating world-class financial returns	<ul style="list-style-type: none"> <li>Financial return of VCCI (pooled gross internal rate of return of the entire funds-of-funds).</li> </ul>	BDC	n/a	7%	Annual starting in 2025
Deepen the pool of experienced VC fund managers by building Canadian talent and investment, and attract new expertise and capital to Canada's VC market	<ul style="list-style-type: none"> <li>Proportion of underlying Canadian VC fund managers supported under VCCI that have raised follow-on funds.</li> <li>The quality of key investment personnel, as measured by the financial performance of the majority of the investment professionals in funds backed by VCCI.</li> <li>The number of novel models supported under Stream 2.</li> </ul>	<p>BDC</p> <p>BDC</p> <p>BDC</p>	<p>n/a</p> <p>Total Value of Paid in Capital (TVPI) of 1.1x</p> <p>n/a</p>	<p>40% in 2025 50% in 2030</p> <p>Majority of key personnel are in funds that outperform the baseline</p> <p>2 novel models</p>	<p>In 2025 and in 2030</p> <p>In 2025 and in 2030</p> <p>Annual until target met</p>
Attract participation from private sector investors in VC funds.	<ul style="list-style-type: none"> <li>The number of large institutional investors (banks, pension funds, corporate investors, etc.) investing as Limited Partners (LPs) in VCCI Fund-of-Funds.</li> </ul>	BDC	n/a	10	Annual until target met
Improve gender balance in VC fund managers and VC-backed entrepreneurs	<ul style="list-style-type: none"> <li>The percentage of women senior investment professionals out of the total number of senior investment professionals of the fund managers supported.</li> <li>The percentage of women members of the entrepreneurial teams out of total number of entrepreneurs.</li> </ul>	<p>BDC</p> <p>BDC</p>	<p>14% [Note 2]</p> <p>5.2% [Note 2]</p>	<p>Outperform baseline</p> <p>Outperform baseline</p>	<p>Annually until all funds invested</p> <p>Annually until all funds invested</p>

## Notes for Table 2

1. Statistics for that baseline are according to the 2005 paper "[The Exit Rates of Liquidated Venture Capital Funds](#)", available at
2. Statistics for that baseline are according to a 2015 MaRS Data Catalyst article titled "MaRS to Venus: Where are the women venture capitalists in Canada?"