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Managers of technology-oriented labour-sponsored venture funds merge

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TORONTO (CP) - The merger of two Ontario firms that manage \$125 million in labour-sponsored venture funds is part of a bigger-is-better trend that will likely continue because of the difficulty in attracting investment capital, the president of one of the firms said Thursday. Peter Day, president of Technology Investments Management Corp. in London, Ont., said his company's merger with Capital Alliance Management Inc. of Ottawa will allow the two firms to pool their expertise and profile in an industry that is struggling.

"There have been a lot of funds introduced over the last few years, it's getting to be a fairly crowded market, I think," Day said.

"And I believe there are going to be a lot of funds - certainly some of the smaller, newer funds - that probably won't survive."

He noted that GrowthWorks became the new manager of two Working Ventures labour union-sponsored funds in December, giving the Vancouver-based company \$700 million in combined assets under management.

Last summer, Triax-Covington Corp. was formed by the merger of two companies to create Canada's third-largest manager of labour-sponsored investment funds, with nearly \$500 million in assets under management.

"I think it's a trend that has started and we'll see if it continues or not. But for investment management and marketing reasons, you need a certain level of critical mass," Day said.

Karen Grant, executive director of the Toronto Venture Group, a networking association for private investors, said she agrees that small venture-capital firms haven't been successful in raising more funds.

"You have to remember that the sources of capital for the smaller-boutique VCs are typically high-net-worth individuals. And guess what? Their stock portfolios have been hit too," Grant said.

"You've to look at the public markets and just accept that's had a huge impact on anybody's ability to raise funds for private equity."

Day's company manages the Canadian Science and Technology Growth Fund, with \$71.5 million under management. With the merger, it will also manage Capital Alliance Ventures, with \$54 million under management.

"Each fund, independently, had enough critical mass to survive. But we thought putting the teams together will make them even stronger," Day said.

Both funds, which offer investors large tax incentives on the condition that units are held at least eight years, will continue to be marketed as separate entities by Talvest Fund Management - part of the CIBC group of companies.

All 15 employees of the two management firms will stay with the merged company, which will be known as Technology Investments Management Corp., or TIMCO.

The enlarged TIMCO management team will have a broader range of expertise, which is important since the funds invest in small private businesses - often before they start marketing their products or generating revenues, Day said.

In addition, he said, the larger size will give his firm more credibility among investors and among entrepreneurs seeking capital.

Labour-sponsored funds raise most of their capital from individuals during the annual RRSP season, which typically runs until the March 1 deadline for contributions for registered retirement savings plans.

But with many investors wary of investing in stocks, Day said it will be a tough RRSP season this year - especially since five-year returns for the funds managed by his company have been flat and recent returns have negative.

"In the last year, we were down 23 per cent or thereabouts," Day said.

But venture firms don't expect a short-term return as they wait until the businesses they've invested in are bought up or offer their stock on the public markets, such as the Toronto Stock Exchange.

Union-sponsored funds offset this risk by offering a 15 per cent break on federal income tax on the first \$5,000 invested. Various provinces offer additional tax incentives.

As a result, \$1,000 in certain labour-sponsored funds could provide up to \$350 in tax incentives - if the fund units are held at least eight years. The governments must be repaid if money is withdrawn prematurely.

Marc Lamontagne, a fee-for-service financial planner with the Ottawa firm Ryan, Lamontagne and Associates, said labour funds have had a "horrible" return recently but may have a place in a diversified portfolio.

"You're never going to hold more than five to 10 per cent of your overall portfolio in labour-sponsored funds," Lamontagne said.

It's actually not a bad time to invest in such funds, particularly for people who can wait for the overall market to recover and for the holdings within the VC funds to mature, he said.

"Their performance is worse than the typical Canadian equity fund. So buy them when they're down," Lamontagne said.

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