



Labour Sponsored Funds in Canada

Arlene Wortsman

Workshop on Economically Targeted
Investments (ETI's)

June 6, 2006

Overview

1. Background
2. Current Status of Labour Sponsored Funds (LSIF's)
3. Innovative Investment Funds
4. Concluding Comments

Labour Sponsored Investment Funds (LSIF's)

- LSIFs are venture capital corporations sponsored by labour organizations designed to invest in small and mid-sized business subject to some restrictions

Objectives

- Public policy objectives vary from jurisdiction to jurisdiction.
- Respond to the particular needs and circumstances of province or region
- May have an objective of job creation, particularly economically disadvantaged regions and communities

1. LSIF's :Background

- 1988 -Federal Gov't amended the Income Act to establish a LSIF modeled after Solidarity but national in scope
- Working Ventures Canadian Fund first-national in scope
- Followed by comparable tax statutes in most provincial government jurisdictions

LSIF's: Background

- funded through individual investment with tax-credits available for up to 30% of a maximum \$5,000 investment.
 - 15% Federal Gov't, 15% in most provinces
- Investment a minimum of 8 years.
- LSIF's account for approx 40% of all venture capital raised in Canada

LSIF's: Background

- Federal and provincial govt's reduced tax credits in mid 1990's; resulted in a decline in dollars raised
- Changes in 1999- brought funds back to previous levels and more

“True” Labour Sponsored Funds

- Ongoing concern of sponsorship
- “rent- a-union” funds - unions/labour associations are paid to act as sponsors but run by fund managers
- Alliance of “true LSIF’s established, 5 original funds including Solidarity
- Of that five, only two continue to operate

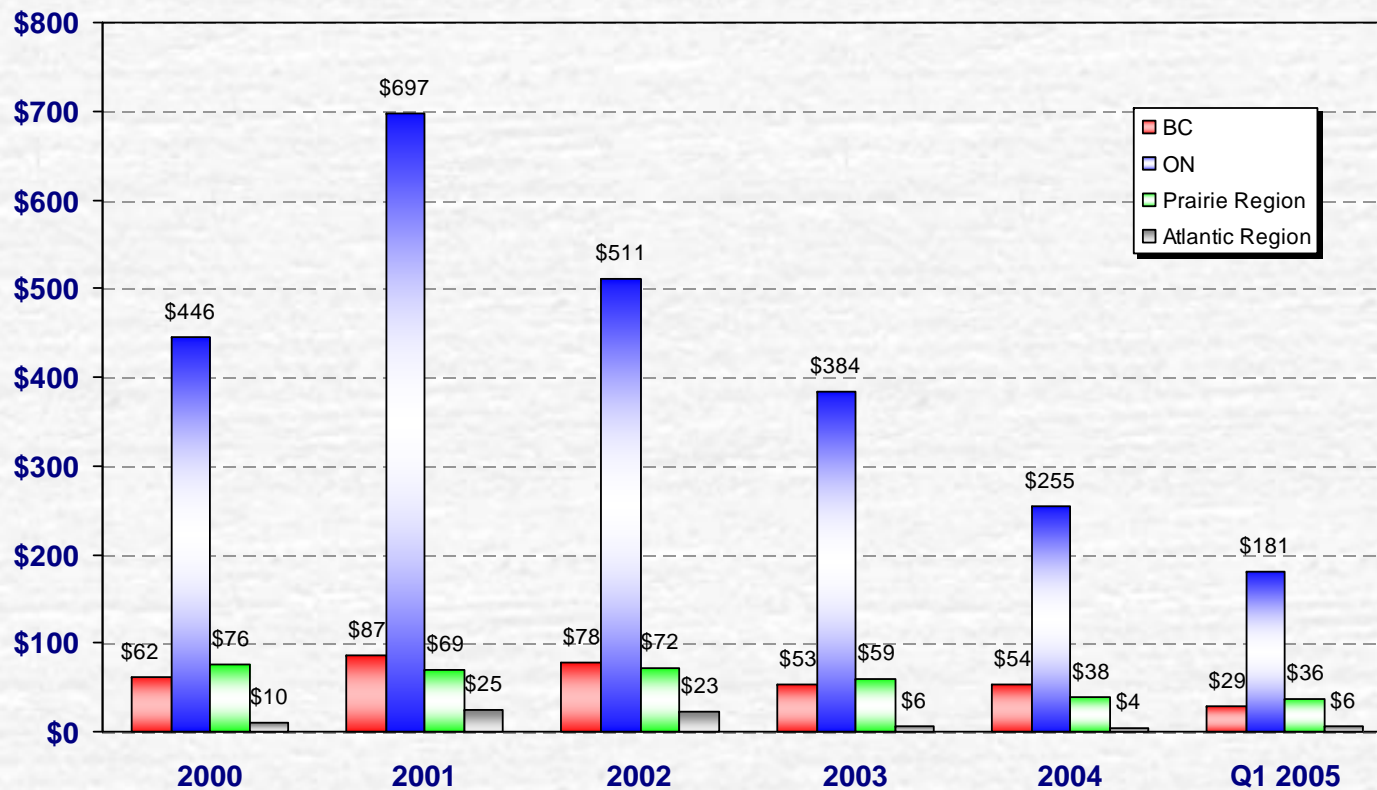
2. Current Status

- 2001- downturn in venture capital industry
- Quebec continues to be healthy
- Outside of Quebec more difficult situation
 - In Ontario decline in new commitments to LSIFs between 2001-2004 , average drop of 29%

LSIF's shutdowns, mergers and acquisitions

- Since 2001 there has been a number of consolidations, mergers and shutdowns
- Primarily concentrated in Ontario, where the open-ended nature of government legislation ensured multiple funds were competing in the same retail market.

Regional Fund Raising Activity of LSIF's Outside of Quebec



Current Status

- between 1991 and 2004, close to one-third of the 54 funds registered in Ontario have either deregistered or have been engaged in amalgamation with other funds.
- Several others remain technically in existence, but appear not to be active when it comes to either fund-raising or investing.
- End of 2005 there were 26 funds, but 21 were active in fund raising and investment

Current Status

- In 2006 the consolidation has continued
- Gov't of Ontario had announced plans to eliminate its LSIF program by 2011
- First Ontario merged with Growth Works
- Crocus is in receivership, suspension of shares trading in late 2004

Legislative Changes

Concerns re LSIFs have resulted in changes to legislation to address:

- Corporate governance policies and practices in LSIFs
 - 2005- Manitoba introduced new legislation, new corporate governance rules, rigorous financial reporting and disclosure requirements
- Investment pacing requirements for LSIFs (potential impact on performance)
- Fees and management expenses

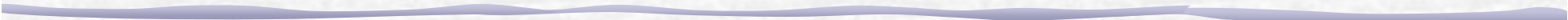
3. Innovative Approaches: GrowthWorks

- Largest union managed fund in Canada
- combined assets under management of more than \$800 million.
- GrowthWorks offers regionally based LSIFs right across Canada.

Working Opportunity Fund,
GrowthWorks Canadian Fund,
GrowthWorks Commercialization Fund,
GrowthWorks Atlantic Venture Fund.




Innovative Approaches: GrowthWorks

- Funds reflect regional priorities
 - All have active labour participation on Board of Directors
 - Program to support financial and economic literacy of Directors
- 




Innovative Approaches: GrowthWorks

- Parent company is Working Enterprises (WE)
 - Owns 40% of GrowthWorks, employees own remaining 60%
 - Other companies include WE Insurance, WE Travel
 - WE funds SHARE , Columbia Foundation
- 



Innovative Features: Crocus

- Before its closure last year, the Crocus LSIF in Manitoba was an active partner in a number of community development projects including the Manitoba Property Fund and Community Ownership Solutions, an urban revitalization vehicle working in the downtown core of Winnipeg
- 



Innovative Features: Working Opportunities

- The B.C. LSIF Working Opportunities has partnered with Community Futures Development Corporations to invest in community economic development in smaller BC communities.
 - Working Opportunities committed \$750,000 to EcoTrust to help those affected by the restructuring of the forestry sector in BC
- 

4. Concluding Comments

- Size matters
- Diligence
- Education of membership
- Managing expectations

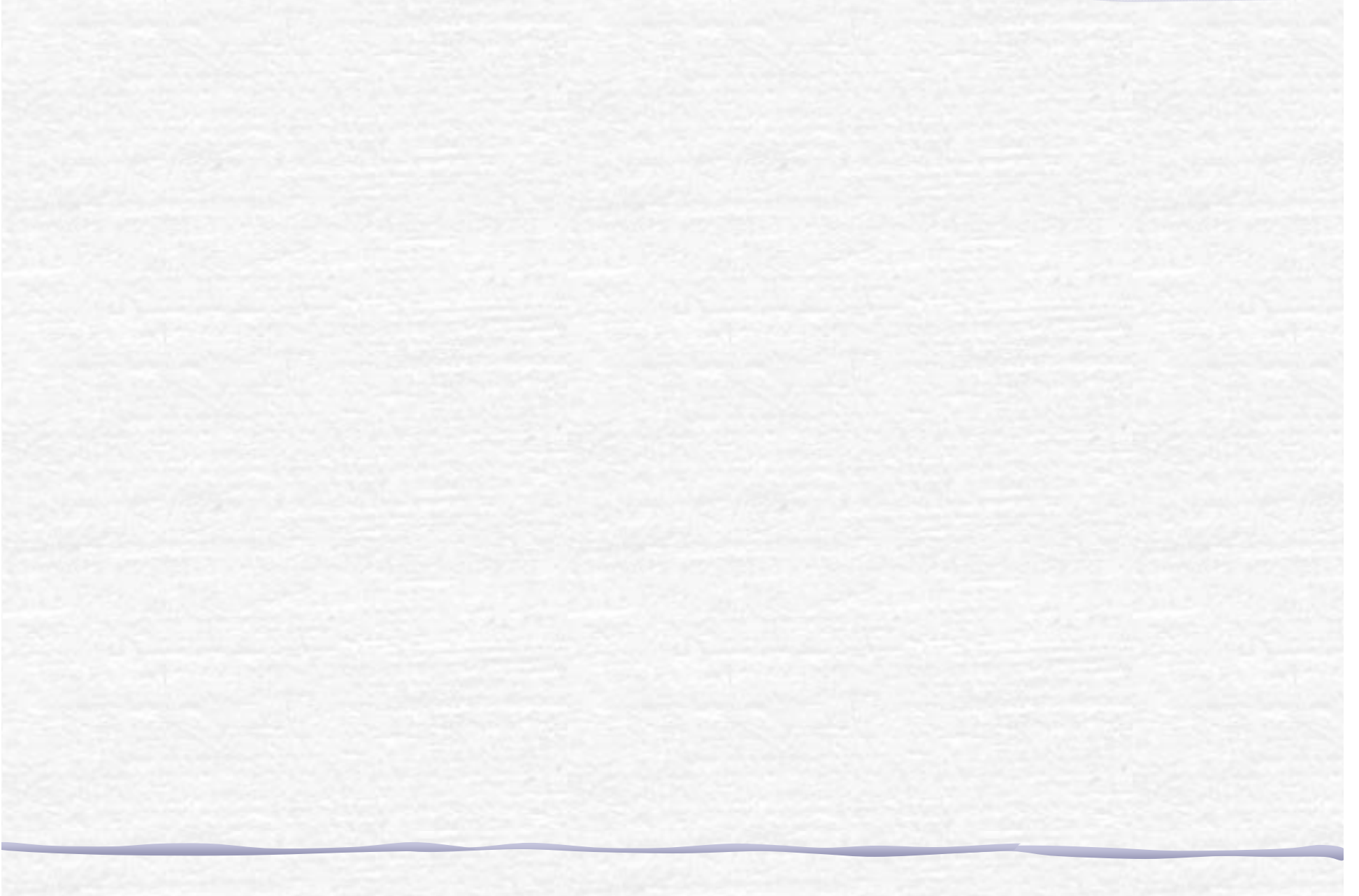


Contact Information

arlenewortsman@rogers.com


613-730-6027





CSN: Filaction

- the CSN in Quebec created Filaction in 2001.
- fund is dedicated to local investment and supplying capital for community loan funds.
- mission is to create and maintain jobs through investing in business, particularly those that favour worker participation, social and solidarity economy and micro-credit initiatives.
- the Québec government provided a 5-year grant in 2001 to Filaction for part of its operating costs. Filaction offers investments between \$50,000 and \$150,000.

- 
- Filaction also manages the Fonds de financement coopératif, a tool dedicated exclusively to collective enterprises.
 - It was created by Fondaction and RISQ in 2001 and capitalized with \$6M. Investments can range from \$50,000 to \$250,000
- 