

BC Immigrant Investment Fund Ltd.

2017/18 – 2019/20 SERVICE PLAN

September 2017



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Board Chair Accountability Statement



The 2017/18 - 2019/20 BC Immigrant Investment Fund Ltd. (BCIIF) Service Plan was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of August 10, 2017 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, BCIIF's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of BCIIF's operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink that reads "Sandra Carroll".

Sandra Carroll
Board Chair

Table of Contents

Board Chair Accountability Statement 3

Strategic Direction and Operating Environment..... 5

 Strategic Direction 5

 Operating Environment..... 5

Performance Plan 7

Financial Plan..... 13

 Summary Financial Outlook..... 13

 Key Forecast Assumptions, Risks and Sensitivities 13

 Management Perspective on Future Financial Outlook..... 14

Appendix A: Hyperlinks to Additional Information..... 16

 BC Immigrant Investment Fund Ltd. (BCIIF) 16

 B.C. Renaissance Capital Fund Ltd. (BCRCF)..... 16

 BC Tech Fund 16

Appendix B: Subsidiaries and Operating Segments 17

Strategic Direction and Operating Environment

Strategic Direction

The BC Immigrant Investment Fund Ltd. (BCIIF or the Corporation) underwent a mandate review in 2015/16 which resulted in a change in governance and revised strategic direction.¹ The review confirmed the Corporation's continued mandate to receive and manage B.C.'s allocation of funds under the Federal Immigrant Investor Program (IIP) in order to invest in economic development and job creation in B.C.² and set new priorities for the Corporation including the launch of the \$100 million venture capital BC Tech Fund to be managed by an experienced, private sector fund manager.

Operating Environment

BCIIF supports the following Ministry of Jobs, Trade and Technology's mandated priorities:

1. Establish BC as a preferred location for new and emerging technologies by supporting venture capital investment in BC start-ups, taking measures to increase the growth of domestic BC tech companies.
2. Ensure that the benefits of technology and innovation are felt around the province by working with rural and northern communities and equity-seeking groups to make strategic investments that support innovation and job growth.

By supporting the Ministry's mandated priorities, BCIIF will help build a strong, sustainable, innovative economy that works for all British Columbians.

BCIIF investments are targeted broadly to promote economic development and job creation in B.C. within three asset classes: public sector infrastructure loans, venture capital fund investments and cash and short-term investments through the Province's Central Deposit Program (CDP) and the British Columbia Investment Management Corporation (bcIMC).

Loan Portfolio: BCIIF long-term infrastructure loans have been made to entities in the provincial public sector the Government Reporting Entities (GRE), primarily post-secondary institutions, thereby supporting student education and knowledge-based sectors. With the 2014 federal termination of the IIP, the BCIIF is no longer offering new infrastructure loans.

¹ The review was in response to the federal government terminating the Immigrant Investor Program (IIP) in 2014 and the Corporation having fully committed all of the \$90 million it was allocated to venture capital funds. Building on the past success of the BCIIF, on April 1, 2016 a new board of directors and officers were appointed to govern and operate the BCIIF/ BCRCF because the Corporations' operations were moved back into government.

² The federal government terminated the IIP in 2014 and wind-up of the program will continue until sometime after 2020.

Venture Capital Investments: The BCIIIF includes two venture capital portfolios through the B.C. Renaissance Capital Fund (BCRCF), a wholly owned subsidiary of the Corporation. Venture capital investments focus on funds and companies in the information and communications technology, digital media, clean tech, and life science sub-sectors. The Corporation's venture capital investments are managed by a private sector fund manager, [Kensington Capital Partners](#).

- **Portfolio 1 – the BCRCF** is comprised of investment commitments to eight fund managers between 2007 and 2011. The BCRCF is a \$90 million fund-of-funds intended to attract venture capital fund managers and their investments to B.C.
- **Portfolio 2 – the BC Tech Fund** is a \$100 million fund-of-funds³ launched in 2016 that makes investments into B.C.-based venture capital funds and direct investments into B.C. technology companies. The BC Tech Fund is focused on investments at the Series A stage⁴ of financing.

Cash & Short Term Investments: bcIMC manages the BCIIIF's short-term low-risk investments in government and corporate debt securities. Since 2013, cash funds have also been invested with the Ministry of Finance in the CDP, which deploys short-term cash primarily for financing government's Consolidated Revenue Fund.

Key risks faced by the Corporation, along with strategies for their management are:

- **Interest rate risk:** very modest growth has kept interest rates low, resulting in reduced interest income from liquid investments. BCIIIF manages exposure to interest rate volatility by holding a portfolio of long-term fixed rate and short-term floating rate investments.
- **Currency risk:** venture capital investments denominated in U.S. dollars pose a foreign currency risk. BCIIIF holds U.S. dollar liquid assets sufficient to meet all remaining U.S. dollar-based commitments.
- **Credit risk:** BCIIIF's loan portfolio is at risk in the event of non-repayment by borrowers. All loans are made to GRE borrowers and structured with a corresponding general obligation ranking equivalent to other loans by the borrowers.
- **Liquidity risk:** timing differences exist between cash receipts from infrastructure loans and cash repayments to the federal government. BCIIIF manages this risk by holding a significant portfolio of short-term liquid investments, and seeking alternate financing when required.
- **Returns risk:** venture capital is a high risk asset class that does not afford guaranteed returns. Venture capital investments are subject to the "J-curve effect" typically over a 10-year fund lifecycle, whereby negative returns may occur in early years while new investments are being

³ A fund-of-funds is a fund that invests in investment funds. In the case of the BC Tech Fund, investments are also made directly into tech companies.

⁴ Series A financing is the first round of financing from institutional investors after friends, family and angel investment.

made. Gains occur in later years as portfolio companies mature and exit. Historically, returns begin three to five years after a fund's investment period ends and caution should be exercised regarding the expected timing of venture capital returns.

- **Market risk:** venture capital funds are difficult to evaluate as there is no open market for sale of funds. The risk to BCIIIF is illiquidity of fund investments. BCIIIF has mitigated the risk by hiring a private sector fund manager with extensive venture capital fund valuation expertise.

Performance Plan

Goals, Objectives, Strategies and Performance Measures

The goals, strategies and measures reflect the ongoing transition of the BCIIIF and the Corporation's refreshed mandate. The Board of Directors and executive have provided capacity to the organization to meet compliance practices and implement the direction contained in BCIIIF's *Mandate Letter*.

Performance Measures Framework

BCIIIF's performance measures framework follows *Budget Transparency and Accountability Act* requirements for performance measures, benchmarks and targets that are linked to specific goals, objectives and strategies. The framework identifies broad goals, aligns specific corporate strategies to each goal, incorporates ongoing research regarding suitable benchmarks and targets and provides discussion of the significance of results.

Outlook

BCIIIF believes its performance measures highlight the most crucial aspects of its performance and reflect aspects where it has control or influence over outcomes. These performance measures are subject to refinement and evolution.

Source Data and Reliability

BCIIIF has sought to identify performance measures that are reliable and valid. While performance measures are not audited, they are largely based on audited information and information subject to third-party verification.

Goal 1: Generate Returns that Meet or Exceed BCIIIF's Current Investment Strategy Targets

BCIIIF's returns strategy supports Government's economic priorities and achieves commercial returns while meeting BCIIIF's risk profile.

Strategies

- BCIIIF achieves commercial returns on low-risk infrastructure loans which mitigates the higher-risk venture capital portfolio. BCIIIF’s loan portfolio is comprised of long-term loans to the Provincial Treasury which in turn provides loan financing to GRE entities to support approved public sector infrastructure projects with loan yields equivalent to Government’s cost of borrowing.
- BCIIIF deposits funds with CDP and bcIMC to have sufficient liquidity to meet five-year IIP repayment obligations to the federal government and to meet capital calls⁵ for venture capital investments.

Performance Measure 1: Achieve Targeted Average Yields on Investments

Performance Measure ⁶	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
1.1 Five Year Weighted Average BCIIIF Portfolio Return	2.42%	2.31%	2.28%	2.49%
1.2 One Year Weighted Average BCIIIF Portfolio Return	2.49%	2.38%	2.62%	2.81%

Discussion

Targeted yields are comparable to returns that could be realized through similar investment vehicles such as Guaranteed Investment Certificates (GIC’s). Targets have been chosen based on the forecasted investment balances in BCIIIF’s money market portfolio and have been adjusted from past Service Plans to reflect expected changes in the portfolio composition. BCIIIF must hold cash in short-term investments to meet cash calls for venture capital investments and debt obligations. This performance measure is appropriate to ensure BCIIIF is achieving commercial returns on its lower risk portfolio. As the BCIIIF stops receiving IIP allocations, cash balances in the BCIIIF will decline leaving the majority of investments in higher yield infrastructure loans.

⁵ The BCRCF has investment obligations to fund managers (referred to as ‘committed capital’). When fund managers request capital to make investments into companies it is referred to as a “capital call”.

⁶ Both the 1 and 5 year weighted averages include rates on Money Market (bcIMC and CDP) and Infrastructure investments and exclude Venture Capital investments.

Goal 2: Optimize BCIIF’s Investment Strategy and Operations

Strategies

- Develop and implement a Performance and Accountability Framework to optimize BCIIF’s effectiveness and ensure alignment with Government’s direction and the *Budget Transparency and Accountability Act*.

Performance Measure 2: BCIIF Operational Effectiveness ⁷

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
2.1 Develop and adopt Performance and Accountability Framework	Framework re-drafted and reviewed based on new governance structure	Draft framework to be submitted to Board for approval ⁸	Monitor performance and refine framework as appropriate	Monitor performance and refine framework as appropriate

Discussion

The new Performance and Accountability Framework will allow BCIIF to improve its operational effectiveness. The framework will include a clear set of performance and accountability metrics with a set of outcomes that align with BCIIF’s goals. Frameworks set internal key performance indicators as well as organizational outcomes to help oversee managerial efficacy. Consistent monitoring of performance and refinement of the framework will ensure BCIIF is adapting to environmental changes while achieving all goals set by the organization and mandated by the Ministry.

Goal 3: Contribute to a stronger B.C. Venture Capital System

The Province’s 2015/16 venture capital policy review recognized that B.C. has an emerging, high-potential venture capital system which will fuel sustained growth in the technology sector as it matures. To realize this growth, venture capital system development activities are focused on:

- Addressing the “series A-round” venture capital funding gap in B.C. so that technology companies can grow and stay in B.C.

⁷ Performance Measure 2.2 from previous Service Plans (to create an expense ratio) has been removed because BCIIF now operates from within the Ministry of Jobs, Trade and Technology. BCIIF’s new organizational structure is more efficient than previous models, making an industry expense ratio unnecessary.

⁸ The timing of this target has been adjusted since last years’ Service Plan to account for BCIIF’s transition to the new governance model, selection of the private sector fund manager and launch of the new BC Tech Fund in 2016.

- Expanding the number of high performing venture capital funds in B.C. to provide capital and expertise related to growing a business to emerging B.C. technology companies.
- Increasing the competitiveness of B.C.’s venture capital system by facilitating greater cohesion to respond effectively to rapid changes in the venture capital environment.

Strategies

- Continue to utilize the \$100 million BC Tech Fund to address the A-round funding gap and ensure that investments benefit B.C. technology companies.
- Ensure that BC Tech Fund investments are made into B.C.-based venture capital funds to increase the number of funds and grow the number of fund managers in B.C.
- Collaborate with the BC Tech Fund manager to implement initial system building activities.

Performance Measure 3: Cumulative Investment Commitments to Funds and B.C. Businesses

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
3.1 Cumulative number of investment commitments made to B.C. Businesses from the BC Tech Fund	1	6	10	12
3.2 Cumulative number of investment commitments made to B.C.-based VC Funds from the BC Tech Fund	1	6	6	6

Discussion

In 2016/17, the BCIIF / BCRCF made a \$100 million investment into the BC Tech Fund. Performance measures 3.1 and 3.2 measure the number of investments made to ensure the Corporation is able to assess the impact the BC Tech Fund is having on B.C.’s venture capital system. Investments made in B.C. businesses address the A round funding gap and ensure that companies grow and stay in B.C. Investment commitments made to B.C.-based VC funds help expand the number of venture capital funds in B.C. that provide capital and expertise to help growing B.C. technology companies. Target levels were chosen based on total funds available for investing and considering the average financial commitment per investment.

Goal 4: Stimulate Commercialization of Innovation and Venture Capital Investment in B.C.

Venture capital fuels technology companies’ growth as they commercialize and scale operations, which in turn drives innovation. The more venture capital that is available in B.C.; the more B.C. companies will have access to funding for their continued growth.

Strategies

To increase access to capital in B.C., the BCRCF has invested in two venture capital fund-of-funds portfolios:

- **Portfolio 1 – the BCRCF** is designed to attract world-class venture capital investors to B.C. investment opportunities. From 2007 to 2011, nine investments totalling \$90 million in capital commitments were made with eight expert fund managers. The BCRCF fund-of-funds increases domestic and international linkages through its fund managers, many of whom have networks extending around the world. To increase the probability of investments in B.C. companies, fund managers have entered into side letter agreements with the BCRCF under which they commit to perform investment activities in B.C.
- **Portfolio 2 – the BC Tech Fund** is designed to stimulate the quantity of local venture capital available for B.C. businesses. To this end, the \$100 million Fund will invest the majority of its capital into B.C.-based venture capital funds and a portion of its portfolio (as direct investments) into B.C. companies. The [BC Tech Fund manager](#)⁹ has an extensive investment network which will help leverage capital from other sources into B.C.

Performance Measure 4: Cumulative Capital Called and Invested by the BCRCF Portfolio 1 (2007-2011)

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
4.1 Cumulative capital called on BCRCF's commitments to fund managers	\$79.4 million	\$85 million	\$89 million	\$90 million
4.2 Cumulative investment by BCRCF fund managers in B.C. companies	\$181million	\$189 million	\$197 million	\$197 million
4.3 Cumulative investment by syndicate partners in B.C. companies	\$400 million	\$416 million	\$432 million	\$432 million

Data Source: Capital calls and investment amounts are based on invoices, BCRCF venture capital fund managers' audited financial statements and quarterly performance reports.

⁹ The BC Tech Fund manager also oversees existing Portfolio 1 - BCRCF investments.

Performance Measure 5: Cumulative Capital Called and Invested by the BC Tech Fund, Portfolio 2 (2016-2020)

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
5.1 Cumulative capital called on BC Tech Fund commitment ¹⁰	\$6.8 million	\$12 million	\$37 million	\$62 million
5.2 Cumulative investment by fund managers in B.C. companies	\$4.5 million	\$40 million	\$60 million	\$80 million
5.3 Cumulative investment by syndicate partners in B.C. companies	\$22.4 million	\$60 million	\$140 million	\$180 million

Data Source: Capital calls and investment amounts are based on invoices, BC Tech Fund venture capital fund managers' audited financial statements and quarterly performance reports from the BC Tech Fund manager.

Discussion:

Measuring cumulative capital called and cumulative investments demonstrate that investments made by Portfolios 1 and 2 are increasing the amount of venture capital in B.C. and helping to leverage investments into B.C. technology companies which in turn will be used to commercialize technologies and increase innovation. These measures also support the Ministry mandate of increasing venture capital investment in BC start-ups and growing domestic BC tech companies.

For forecast and target purposes, Portfolio 1 has used an approximate leverage multiple of slightly over 5.0 times the capital called on BCRCF's commitments to fund managers for performance measures 4.2 and 4.3, respectively. Although BCRCF funds are fully committed, follow-on investments and corresponding capital calls may still be made by fund managers.

Forecasts and targets for Portfolio 2 were developed considering the investment period of the BC Tech Fund, past investment patterns of similar fund-of-funds and investment restrictions.

Forecasts contain elements that are not within direct control of the BCRCF or its fund manager such as capital being invested by investee funds based on their investment strategy and capital being invested by the other syndicate partners.

¹⁰ Venture capital industry practices would not generally view the pacing of when capital is called and invested as a measure of performance and instead would consider this an activity measure.

Financial Plan

Summary Financial Outlook

(\$m)	2016/17 Actual	2017/18 Budget	2018/19 Budget	2019/20 Budget
Total Revenue				
Venture Capital Investment Income	1,177	-	-	-
Realized Investment Gains	2	179	234	234
Interest Income	6,326	4,213	2,185	1,988
Total Revenue	7,505	4,392	2,419	2,222
Total Expenses				
Amortization of promissory note discount	3,294	2,150	1,493	1,015
Investment fees	156	294	294	-
Office and business expenses	(14)		-	-
Debt service costs	-		409	973
Total Expenses	3,436	2,444	2,196	1,988
Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)	4,069	1,948	223	234
Total Liabilities/Debt (even if zero)	216,668	154,436	84,823	66,529
Accumulated Surpluses/Retained Earnings/Equity (even if zero)	52,226	54,174	54,397	54,631
Capital Expenditures	-	-	-	-
Dividends/Other Transfers	-	-	-	-

Key Forecast Assumptions, Risks and Sensitivities

The above financial information and forecasts are prepared based on Public Sector Accounting Standards in Canada. This Service Plan incorporates “forward-looking statements” including information related to future anticipated investment performance and related revenues, along with expected expense levels. Actual results may differ materially from those in the forward-looking estimates as a result of various factors, some of which are beyond BCIIIF’s control, including, but not

limited to, the risks discussed under the Operating Environment section of this Service Plan. Review and interpretation of forecasts should take into consideration the following:

1. Revenue assumes that all available funds, other than those required to meet near-term commitments which includes repayments to the federal government, will be invested in liquid financial instruments with CDP and bcIMC, earning returns reflecting short-term, low-risk investments. Acknowledging uncertainties around the timing and amount of venture capital distributions, and to be conservative, venture capital investment income is reported as realized, with no amounts budgeted.
2. In fiscal year, (2016/17), the management and governance of the BCIIIF and BCRCF was transitioned to the then Ministry of Jobs, Trade and Technology (the Ministry) and all operating expenses other than amortization are and will continue to be borne by the Ministry, not by the BCIIIF or BCRCF.
3. Loans received through the IIP are received net of commission costs. BCIIIF amortizes those commission costs over the term of the loan (five years). The debt to Canada is supported by a Provincial guarantee.

Based on forecasted cash flow, the BCIIIF may experience a cash shortfall in 2018/19 which would require a Fiscal Agency Loan from the Ministry of Finance to meet repayment obligations. This cash shortfall is a result of a timing mismatch between cash inflows from investments and repayment requirements.

Management Perspective on Future Financial Outlook

BCIIIF's revenue budgets for realized investment gains and investment income are decreasing over the next three years due to the absence of new IIP allocations to invest as current investments mature and cash proceeds are used to repay the federal IIP obligation. Venture capital investment income is not included in the budget as returns are uncertain.

Venture capital investment in Canada has grown steadily year-over-year since 2012. Exit valuations¹¹ for tech companies were \$4.3 billion in 2015, far surpassing 2014 (\$1.5 billion) and 2013 (\$1.3 billion)¹²The investment climate and recent strenght of exit values indicate that the outlook for the Canadian venture capital industry looks favourable.

¹¹ An exit valuation of a company is the value of a company immediately before it is sold

¹² Source: [CVCA](#). CVCA is the Canadian Venture Capital and Private Equity Association. CVCA is the leading expert for Canada's venture capital and private equity industry.

Based on current cash flow projections, BCIIIF will require new financing in 2018/19 to meet its IIP repayment obligations and capital calls in the BC Tech Fund. This is a result of a timing mismatch between cash inflows from investments and repayment requirements. Future debt servicing costs may change in proportion to the amount of new financing needed. However, the Bank of Canada's October 2016 Monetary Policy Report projects that interest rates will remain low and as a result BCIIIF debt servicing costs are not expected to vary materially from the current forecasts.

Appendix A: Hyperlinks to Additional Information

BC Immigrant Investment Fund Ltd. (BCIIF)

An organizational overview of BCIIF, mission and values, leadership, and corporate governance information (includes all information and disclosure requirements of the Crown Agencies Resource Office) can be found starting here: <http://BCIIF.ca/about-BCIIF/overview/> and by examining subsequent drop-down menu links.

Mission and values: <http://BCIIF.ca/about-BCIIF/missions-values/>

Leadership and governance including Board information: <http://BCIIF.ca/about-BCIIF/leadership/>

Standards of Conduct: <http://BCIIF.ca/wp-content/uploads/2015/06/Standards-of-Conduct-2014.pdf>

B.C. Renaissance Capital Fund Ltd. (BCRCF)

Additional information on investment strategy, venture capital fund managers and investee companies of BCRCF, a wholly-owned subsidiary of BCIIF, can be found at: <http://BCIIF.ca/about-BCRCF/overview/>

Fund manager profiles and B.C. investment details can be found at: <http://BCIIF.ca/about-BCRCF/fund-managers/>

BC Tech Fund

Additional information on investment strategy, manager of the BC Tech Fund, and portfolio investments can be found at: <http://www.kcpl.ca/bc-tech-fund/>

Appendix B: Subsidiaries and Operating Segments

Active Subsidiaries

The B.C. Renaissance Capital Fund Ltd. is a Crown corporation wholly-owned by the BCIIIF. The members of the Board of Directors and management are the same as the BCIIIF. Like the BCIIIF, the BCRCF aligns its activities with the Corporation's strategic priorities and fiscal plan.

In August 2007, the provincial Treasury Board approved an allocation of \$90.2 million from BCIIIF to BCRCF for venture capital investments in key technology sectors of information technology, digital media, clean technology and life sciences. In 2016 a further \$100 million was approved to support the BC Tech Fund, bringing BCRCF's total allocation to venture capital investments to \$190.2 million. The objectives of the BCRCF's venture capital investments are to:

- Generate positive returns for the capital committed;
- Increase the probability that innovative new goods and services in B.C. gain full-scale commercialization;
- Increase the depth of the venture capital market and increase the quantity of venture capital available in B.C.; and
- Enhance the visibility of B.C. as an attractive market for venture capital opportunities in North America and globally.

The BCRCF, in addition to being a wholly owned and operated subsidiary of the BCIIIF, is the venture capital component of the larger BCIIIF investment portfolio. As such, any financial and operational risks or opportunities facing BCRCF are reflected in the BCIIIF Service Plan.

BCRCF Summary Financial Outlook Table

(\$m) of (\$000)	2016/17 Actual	2017/18 Budget	2018/19 Budget	2019/20 Budget
Total Revenue¹	1,177	-	-	-
Total Expenses	-	-	-	-
Net Income	1,177	-	-	-

¹BCRCF financial accounts are consolidated into the parent company statements of BCIIIF. To be conservative given the high-risk nature of venture capital investments, venture capital income is reported as it is realized.

Summary of BCRCF's Fund-of-Funds Portfolios

Portfolio	Year	Fund Manager	Fund Name	Company
1 – BCRCF	2007	ARCH Venture Partners VantagePoint Capital Partners Kearny Venture Partners	ARCH Venture Fund VII VantagePoint CleanTech Partners II VantagePoint Venture Partners 2006 Kearny Venture Partners	N/A
	2009	Vanedge Capital Partners LTD Tandem Expansion Yaletown Venture Partners	Vanedge Capital I Tandem Expansion Fund I Yaletown Ventures II	N/A
	2011	Azure Capital iNovia Capital	Azure Capital Partners III iNovia Investment Fund III	N/A
2 – BC Tech Fund	2016	(Vanedge Capital Partners LTD)	Vanedge II	Mojoio (B.C. Company)
	2017	(Lumira Capital Corp.)	Lumira Capital IV	