

BC Immigrant Investment Fund Ltd.

2019/20 – 2021/22 SERVICE PLAN

February 2019



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Board Chair Accountability Statement



The 2019/20 – 2021/22 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 January 22, 2019, have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, BC Immigrant Investment Fund Ltd. (BCIIF) 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 BC Immigrant Investment Fund Ltd. (BCIIF) operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink that reads "Jill Kot".

Jill Kot
Board Chair

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Strategic Direction and Alignment with Government Priorities

The BC Immigrant Investment Fund Ltd. (BCIIF or the Corporation) continues to 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. This is accomplished through the \$90 million BC Renaissance Capital Fund (BCRCF) and the \$100 million BC Tech Fund that are managed by an experienced, private sector fund manager.

As outlined in its [2019/20 Mandate Letter](#) from the Minister of Jobs, Trade and Technology, BCIIF will focus on four strategic priorities in the coming year:

- Oversee BCRCF investments and provide updates each June and December on how these investments are supporting growth for BC tech companies and stimulating job creation in BC;
- Work with the Ministry of Jobs, Trade and Technology, the BC Tech Fund manager and other stakeholders to support the growth of BC’s venture capital ecosystem and create a summary report of achievements by December 31, 2019;
- Minimize the exposure of accessing the loan guarantee that the Province has given to the federal government on monies received under the Immigrant Investor Program by maintaining best business and investment practices to realize commercially competitive investment returns; and
- Ensure the BC Tech Fund is facilitating the availability of capital to BC tech companies so they can grow and stay in BC.

BC Immigrant Investment Fund Ltd. is aligned with the Government’s key priorities:

Government Priorities	BC Immigrant Investment Fund Ltd. Aligns with These Priorities By:
A strong, sustainable economy	<ul style="list-style-type: none"> • Continuing investment in B.C. Businesses and B.C.-Based Venture Capital Funds (Objective 3.1) • Growing the Amount of Venture Capital Invested in B.C. (Goal 4)

Operating Environment

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

1. Establish B.C. as a preferred location for new and emerging technologies by supporting venture capital investment in B.C. start-ups, taking measures to increase the growth of domestic B.C. 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 and innovative economy that works for all British Columbians.

BCIIF promotes economic development and job creation in B.C. by investing in 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 (BCI).

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

Venture Capital Investments: Venture capital investments focus on funds and companies in the information and communications technology, digital media, clean tech, and life science sub-sectors. Through its wholly owned subsidiary, the B.C. Renaissance Capital Fund (BCRCF), the BCIIF has two venture capital investment portfolios that are managed by a private sector fund manager, Kensington Capital Partners.

- **Portfolio 1 – BCRCF** is comprised of \$90 million in investment commitments made to nine funds between 2007 and 2011. Portfolio 1's investments were used to attract venture capital fund managers to B.C. and grow investment in B.C.'s venture capital ecosystem.
- **Portfolio 2 – BC Tech Fund** is a fund of funds launched in 2016 that makes investments into B.C. based venture capital funds and direct co-investments into B.C. technology companies. The BCRCF has committed \$100 million to the BC Tech Fund, which is focused on investments at the Series A stage of financing.

Cash & Short Term Investments: BCI manages the BCIIF'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. Negative returns may occur in early years while new investments are being made. Gains occur in later years as portfolio companies mature and exit. Caution should be exercised regarding the expected timing and distribution of venture capital returns.

Performance Plan

BCIIIF will continue to demonstrate accountability for strong public-sector governance including adherence to our code of conduct and continued implementation of our strategic engagement plan that establishes regular and recurring meetings between the Board Chair and CEO, as well as the Board Chair and sole shareholder of the BCIIIF, the Minister of Jobs, Trade and Technology. This regular engagement strategy will help ensure BCIIIF continues to reflect the strategic interests of government and the best interest of British Columbians.

Goal 1: Manage Investments to Achieve Commercial Returns and Meet Repayment Obligations

Objective 1.1: Achieve Targeted Average Yields on Investments

Key Strategies:

- Maintain a balanced portfolio of investments that achieve commercial returns while aligning to BCIIIF's risk profile.
- Achieve commercial returns on low-risk infrastructure loans which mitigate 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.
- Deposit funds with CDP and BCI to have sufficient liquidity to meet five-year IIP repayment obligations to the federal government and to meet capital calls for venture capital investments.

	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
Performance Measures¹ (%)					
1.1a Five Year Weighted Average BCIIIF Portfolio Return	2.37	2.39	2.57	3.39	2.88
1.1b One Year Weighted Average BCIIIF Portfolio Return	2.95	3.04	2.68	2.48	2.53

¹Data Source: BCIIIF's forecasted cash flows and stated interest earned on the investment.

Linking Performance Measures to Objectives:

These performance measures are 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, creating higher weighted average returns.

As infrastructure loans mature, and BCIIIF does not renew, one year weighted average returns will start declining as the remaining infrastructure loans for that period have lower yield interest rates.

- 1.1a Calculated based on a five year weighted average of the expected returns on the investments in the BCIIIF portfolio.
- 1.1b Calculated based on a one year weighted average of the expected returns on the investments in the BCIIIF portfolio.

Discussion:

Targeted yields are comparable to returns that could be realized through similar investment vehicles such as Guaranteed Investment Certificates (GIC's). BCIIIF must hold cash in short-term investments to meet cash calls for venture capital investments and debt obligations. Targets for this performance measure fluctuate year over year based on the expected and actual cashflow of BCIIIF. BCIIIF is on-track to achieving its 2018/19 targets.

Goal 2: Enhance Operational Oversight

Objective 2.1: Improve Operational Effectiveness

Key Strategies:

- Implement and refine as necessary, the Board-approved Performance and Accountability Framework to optimize BCIIIF's effectiveness and ensure alignment with Government's direction and the *Budget Transparency and Accountability Act*.

Discussion:

BCIIIF's Performance and Accountability Framework includes a clear set of performance and accountability metrics with a set of outcomes that align with BCIIIF's and Government's shared goals. Over the duration of this service plan, the framework will continue to be updated and refined to ensure BCIIIF is adapting to environmental changes while achieving all goals set by the Corporation and mandated by the Ministry.

Goal 3: Utilize Venture Capital Investments to Build a Stronger Venture Capital Ecosystem in B.C.

Objective 3.1: Continued Investment in B.C. Businesses and B.C. Based Venture Capital Funds

Key Strategies:

- Ensure that BC Tech Fund investments are made into B.C. based venture capital funds to increase the number of funds and professional fund managers in B.C.
- Ensure that BC Tech Fund investments lead to investments in B.C. based companies.
- Collaborate with the BC Tech Fund manager to implement initial system building activities that will lead to more B.C. based VC funds and investments in B.C. based companies.

	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
Performance Measures¹					
3.1a Cumulative number of investment commitments made to B.C. Businesses from the BC Tech Fund and underlying VC Funds	9	11	13	15	17
3.1b Cumulative number of investment commitments made to B.C. based VC Funds from the BC Tech Fund	4	7	7	7	7

¹Data Source: Quarterly performance reports from BC Tech Fund manager.

Linking Performance Measures to Objectives:

Performance measures 3.1a and 3.1b measure the number of investments made in B.C. to ensure the Corporation is able to assess the impact the BC Tech Fund is having on B.C.’s venture capital system.

- 3.1a Investments made in B.C. businesses ensure that companies grow and stay in B.C.
- 3.1b 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.

Discussion:

BCIIF is on-track to meeting its 2018/19 targets for these performance measures. Target levels were chosen based on total funds available for investing, the length of the BC Tech Fund’s investment period, the number of funds that meet the BC Tech Fund’s investment thesis and considering the average financial commitment available per investment.

Calculations for 3.1a have been updated to include underlying VC investments. This change is reflected in both an increase in the previously reported 2017/18 Actual from 6 to 9 as well as for future targets and BCIIF’s forecasted 2018/19 figure. In general, future targets for 3.1a have been set to show increases over time, as the underlying VC funds enter their investment period and invest in new technology companies. Targets for 3.1b remain stable at seven as the funds available for fund investments from the BC Tech Fund would be fully committed.

Goal 4: Grow the Amount of Venture Capital Invested in B.C.

Objective 4.1: Capital Called by B.C. Investee Companies and Invested in B.C. Based VC Funds

Key Strategies:

- Ensure the A-round¹ funding gap is being addressed by increasing the quantity of venture capital that is available and called by B.C. companies from BCRCF investments.
- Leverage fund manager investment networks to create investment syndicates that grow the amount of investment in B.C. tech companies.

Performance Measures ¹ (\$m)	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
Portfolio 1					
4.1a Cumulative capital called on BCRCF’s commitments to fund managers	\$83	\$83.5	\$84	\$84.5	\$85
4.1b Cumulative investment by BCRCF fund managers and syndicate partners in B.C. companies	\$586.7	\$669	\$669	\$669	\$669
Portfolio 2					
4.1c Cumulative capital called on BC Tech Fund commitment	\$10.2	\$22	\$62	\$66	\$70
4.1d Cumulative investment by fund managers and syndicate partners in B.C. companies	\$69.9	\$85	\$260	\$280	\$300

¹ Data Source: Capital calls and investment amounts are based on invoices, audited financial statements and quarterly performance reports from the BCRCF and BC Tech Fund managers.

Linking Performance Measures to Objectives:

4.1a – 4.1d Measuring cumulative capital called and cumulative investments demonstrate that Portfolios 1 and 2 are increasing the amount of venture capital available to support B.C. tech companies. These investments will help to address the A-round funding gap and assist companies in commercializing new ideas. These measures support the Ministry mandate of increasing venture capital investment in B.C. start-ups and growing domestic B.C. tech companies to help them commercialize technologies and grow innovation.

Discussion:

BCIIF is on-track to achieving its 2018/19 Portfolio 1 targets. For forecast and target purposes, Portfolio 1 has used an approximate leverage multiple of 8.0 times the capital called on BCRCF’s commitments to fund managers for performance measures 4.1a and 4.1b, respectively. Targets for measure 4.1a have been adjusted down to reflect the forecasted capital to be called from the respective fund managers. Funds in Portfolio 1 are nearing maturity and are not anticipated to call the full \$90m committed as investments have reached maturity and immaterial follow on investments are expected. Target 4.1b has been adjusted up to reflect investment information received from BCRCF fund managers that indicates follow-on investments in existing companies.

¹A- round is the first round of financing given to a new business once [seed capital](#) has already been provided. Typically, this is when external investors are given company ownership for the first time.

BCIIF is not on-track to achieving its 2018/19 Portfolio 2 targets. Prior year's service plan reflected a 2018/19 target of \$37m and \$200m for measure 4.1c and 4.1d respectively. Targets have not been met and have been adjusted down as due diligence on new investments took longer than expected. Forecasts and targets for Portfolio 2 were developed considering the investment period of the BC Tech Fund and past investment patterns of similar fund-of-funds and investment restrictions.

Financial Plan

Summary Financial Outlook

(\$,000)	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
Total Revenue				
Venture Capital Investment Income	544			
Realized Investment Gains	982			
Interest Income	2,721	1,530	984	522
Total Revenue	4,247	1,530	984	522
Total Expenses				
Amortization of promissory note discount	1,129	172	40	10
Investment fees	312	275	254	236
Debt service costs	228	623	468	208
Total Expenses	1,669	1,070	762	454
Annual Surplus (Deficit)	2,578	460	222	68
Total Liabilities/Debt	67,187	36,273	24,926	10,061
Accumulated Surpluses	57,748	58,208	58,430	58,498

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. This is 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 BCI, earning returns reflecting short-term, low-risk investments.

2. Venture capital investment income is reported as it is realized to be conservative due to the high-risk nature of venture capital investments.
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.
4. Investment fees are fees paid to manage the short term investment portfolio held at BCI as well as management of BCRCF's portfolio 1.
5. Debt service costs are due to BCIIIF accessing a Fiscal Agency Loan from the Ministry of Finance in 2018/19 due to a cash shortfall from a timing mismatch between cash inflows from investments and repayment obligations from the Ministry of Finance to meet repayment obligations.
6. 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 nor the BCRCF.

Management's Perspective on the 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.

BCIIIF's two venture capital portfolios have entered opposing phases in the venture capital fund lifecycle. Portfolio 1 is in the wind down phase where funds are at or near maturity and will be disbursing funds back to the crown. The corresponding venture capital asset will decrease over the next 4 years. Portfolio 2, BC Tech Fund fund investments are entering the investment phase where the underlying funds will find adequate A-round investments to invest in and the corresponding venture capital asset will increase over the next 4 years meeting BC Tech Fund's objective to ensure the A-round funding gap is addressed.

As noted above, BCIIIF accessed a fiscal agency loan from the Ministry of Finance this year to meet its IIP repayment obligations and capital calls in the BC Tech Fund. The cash shortfall and accessing financing 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 and amount of venture capital distributions that may be received.

Appendix A: Hyperlinks to Additional Information

Corporate Governance

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 and Board Resourcing Office) can be found starting here: <http://bciif.ca/bciif/overview/> and by examining subsequent drop-down menu links.

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

Leadership and governance including Board information: <http://bciif.ca/bciif/leadership/>

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

Organizational Overview

Portfolio 1 - 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/BCRCF/>

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

Portfolio 2 - BC Tech Fund

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

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 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 the BCIIIF to the 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 of 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.
- Enhance the visibility of B.C. as an attractive market for venture capital opportunities in North America and globally

The BCRCF is the venture capital component of the larger BCIIIF investment portfolio. Financial and operational risks or opportunities facing BCRCF are reflected in the BCIIIF Service Plan.

Summary Financial Outlook Table for Each Active Subsidiary

(\$,000)	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
Total Revenue²	544	-	-	-
Total Expenses	(284)	(269)	(249)	(233)
Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)	260	(269)	(249)	(233)

New to this Service Plan, BCIIIF has budgeted total expenses for BCRCF as the expenses are measurable.

² BCRCF 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 BCIIIF's Portfolios

Portfolio 1	Year	Fund Manager	Investment
BCRCF	2007	ARCH Venture Partners Kearny Venture Partners VantagePoint Capital Partners	ARCH Venture Fund VII Kearny Venture Partners VantagePoint CleanTech II VantagePoint Venture 2006
	2009	Tandem Expansion Vanedge Capital Yaletown Venture Partners	Tandem Expansion Fund I Vanedge Capital I Yaletown Ventures II
	2011	Azure Capital iNovia Capital	Azure Capital Partners III iNovia Investment Fund III
Portfolio 2	Year	Fund Manager	Investment
BC Tech Fund Investments in B.C.-based funds	2016	Vanedge Capital	Vanedge Capital Fund II
	2017	Lumira Capital Corp	Lumira Capital IV
		ScaleUp Ventures	ScaleUp Venture Fund I
		Yaletown Venture Partners	Yaletown Innovation Growth Fund
	2018	Pangaea Ventures Ltd	Pangaea Ventures IV
		Versant Ventures	Versant Voyageurs I
Framework Venture Partners		Framework Venture Partners Fund I	
Portfolio 2	Year	Fund Manager	Investment
BC Tech Fund Investments in B.C.-based companies	2016	Kensington Capital Partners	Mojio.io Inc.
	2017	Kensington Capital Partners	Foodee Media Inc.
	2018	Kensington Capital Partners	Eventbase Technology Inc.