



2011 Annual General Meeting & Dinner Wednesday September 21, 2011

President's Address Final Speaking Notes

Gregory J. Smith

President, CVCA

Managing Partner, Brookfield Financial Corp

Thank you, Richard. Good evening, everyone. It's my pleasure to welcome all of our members to the annual dinner of Canada's Venture Capital and Private Equity Association.

Over the past 37 years, the CVCA has grown tremendously from six member firms in 1974 to over 150 member firms today including virtually every fund in the sector. From our early beginnings, Canada's VC and buyout sector now accounts for about 3% of the country's gross domestic product.

The prominence of the buyout and venture capital sectors in Canada is undeniable and growing. And thanks to the great work of our members and committees, our many stakeholders increasingly understand and appreciate the critical role of private capital in the Canadian economy.

And it is truly a critical role.

We gather here tonight at a time of great uncertainty in the global economy. Whether it's the crisis in the euro zone, sovereign default risk or a stumbling US economy, the outlook for growth in many developed economies is increasingly bleak.....and there are no easy fixes.

In this period of uncertainty, an obvious question for all of us is what role the private capital sector can play in rejuvenating the economy, both at home and around the world.

Globally, a number of studies have shown that private equity funds have outperformed market benchmarks across different time periods, countries and industries. A 2009 World Economic Forum report measuring the impact of private equity found that in the first two years after private equity acquisitions, productivity at the acquired company grew on average by about two percentage points more than at comparable non-private equity held firms.

In addition, PE-invested firms were found to be better managed across a range of management measures. A study by Ernst & Young using 2007 data found that 65% of the EBITDA growth of private-equity owned companies globally came from business expansion, with organic revenue growth the most significant factor followed by tack-on acquisitions.

The impact of private capital on the Canadian economy is likewise substantial.

Private capital underpins core sectors of Canada's economy ---- both today and into the future. The biggest success stories in clean tech, digital media, life sciences and advanced manufacturing got their start thanks to private capital and our emphasis on building long-term value and businesses that endure.

Over the years, private capital has created hundreds of thousands of jobs for Canadians. Our model has fostered stronger Canadian companies that grow five times faster than other companies in Canada. These companies export 80% of their goods and services.

The private capital sector has added billions of dollars to the Canadian economy and returned tremendous value to Canadian pension funds and their millions of beneficiaries.

In fact, private capital returns have generally tended to outperform other market benchmarks. Here in Canada, our private equity funds have delivered a return of 16.8% over the past five years compared to 5.3% in the United States and 8.3% in Europe. So we have outperformed the U.S. and Europe by more than three and two times, respectively. This outperformance also applies to the 10-year time horizon.

This record --- through good times and bad ---- underlines the ability of Canada's private capital sector to create new economic capacity and growth and has important implications for our country's economic future.

In some ways, on an international level, Canada offers shelter from the economic storm. Canada's investment merits are strong relative to other jurisdictions. Our banking system is stable, levels of business investment are comparatively healthy, and domestic demand remains robust compared with other developed countries.

But it's by no means smooth sailing. Many people are unemployed. Entire sectors --- such as manufacturing --- have been displaced. Our national infrastructure needs significant investment for repairs and expansion. The recent 2011 World Economic Forum Global Competitiveness Report ranked Canada 12th on competitiveness. That's down from 10th place just one year ago.

In our own sector, it remains unclear how 2011 will eventually play out. In the first six months of the year, we saw the private equity space continue to pick up steam, with deal activity and value surpassing all of 2010.

But on the venture capital side, financing sizes were down and slow fundraising levels persisted --- although deal-making was up modestly. The lack of capital available for businesses to grow is especially concerning in the context of the broader economy.

What does this all mean?

It means that the Canadian economy is at a crossroads. Countries that fail to compete will fall behind. Countries that fail to invest in excellence will become mediocre. Countries that fail to innovate will stagnate. We have a choice to make.

I believe --- in the context of what is happening internationally--- that Canada has a unique opportunity to create the framework for a 21st century ecosystem and to foster the conditions for increased prosperity.

That's why the skills and contribution of the private capital sector are more important than ever before.

Our sector --- and all of you, our members ---- are pivotal to Canada's place in the global economy. We all have a role to play in driving and sustaining the innovation that Canada's economic future relies on.

The CVCA is working to create the conditions for our members to succeed in this role. We are doing that in three ways:

- By working with governments to improve capital availability for promising small enterprises;
- By building new relationships across borders and demographics; and
- By taking our message --- backed by compelling data --- to the media and key policy makers.

On the first plank, we have been active in offering solutions to policymakers on how to stimulate and finance innovation. While the CVCA's five-point commercialization plan has met with some success, like any good platform, it can undoubtedly be made even better. We expect to renew and promote this platform in the months ahead.

Governments have taken many positive steps in recent years, from the establishment of provincial investment funds such as the Ontario Venture Capital Fund to R&D tax incentives, angel tax credits and funding available from the Business Development Bank of Canada and Export Development Canada. Innovation has also been a key pillar in recent federal and provincial election platforms.

But more can --- and must --- be done. The lack of growth in VC investment levels significantly jeopardizes the strength of our mid-market and puts our overall economy at risk. That makes shoring up our venture capital sector a top national economic priority. Achieving a consensus on how to accomplish this task is not only important to our members. Indeed, it is important to all Canadians.

On the second plank, the CVCA is also working across borders and within Canada alongside other organizations to create new investment opportunities for our members.

We have taken concrete steps on both of these fronts.

Late last year, we released our *Think Canada (Again)* study, which is aimed at attracting more foreign investment into Canadian venture capital and private equity funds. By broadening our international relationships, we can help to bring more capital into the emerging and mid-sized companies that are the backbone of Canada's economy.

We have also been active participants in the Global Private Capital Congress, which is now in its second year. This conference brings together 20 associations from around the world to examine how to address common challenges and improve capital flow.

Our international outreach program has been extremely successful, which is testimony to the efforts of Sunil Sharma and our International Committee. Through our partnership with the Department of Foreign Affairs and International Trade, we have strengthened our relationships with our counterpart organizations in China, Australia, Brazil, the United States and Europe.

We are delighted that Sunil will be staying on in his role with the CVCA for another year, and we look forward to working with him to create new investment and fundraising opportunities for our members.

We have also sought to strengthen relationships within our own borders, hosting our first conference this year in collaboration with the Canadian Aboriginal Business Association. A key theme in the private capital industry over the next 10 years will be growth in partnerships with First Nations --- First Nations communities are already actively participating as an LP in private capital funds and offering investment opportunities to our members.

The CVCA has now launched an Aboriginal Liaison Committee aimed at working with Aboriginal communities to expand Canada's economy. This new committee, along with the recent Women in Private Capital and CFO committees, support vital segments within our ecosystem that contribute to the overall success of our industry.

We will continue to seek out opportunities for this kind of collaboration --- with governments, across sectors and geographies, and between educational institutions and the private sector. It is only through collaboration that we can create the conditions for innovation, economic renewal and sustained growth.

On the third plank, we have devoted significant time to telling our story to provincial and federal decision-makers, including testifying before parliamentary committees and meeting with the federal governments R&D review panel. Both elected and government officials understand that improving Canada's innovative capacity needs to be a priority ---- and they have been receptive to what we have to say.

The advocacy work of the CVCA includes celebrating and promoting the big wins, and we'll do that tonight by honouring successful business-builders with our Deal of the Year awards. And while the headline numbers achieved by our Deal of the Year award winners are impressive, tonight's Community Leadership Award recipient reminds us that success is about more than financial returns.

Collectively, our award winners represent the very best of our sector and shine as examples of innovation and citizenship --- an inspiration to us all.

They also highlight the critical role of Canada's private capital sector in building stronger companies and communities.

As we look ahead to the balance of 2011 and beyond, I believe that the private capital sector holds tremendous potential for growth and that it will continue to play a critical role in charting Canada's economic future.

We are fortunate that Canada's policy environment and public sentiment are broadly supportive of our sector. That's not necessarily so in other jurisdictions where evolving regulations are now threatening to stifle entrepreneurship.

While this gives Canada a distinct advantage, I encourage our governments to actively promote our industry and our enterprises.

In the months ahead, we will be working to tackle the challenges that still lie before us. These include:

- Fundraising for early-stage ventures;
- Overcoming the commercialization obstacles that all too often prevent innovative ideas from reaching the marketplace; and
- Adapting to --- and thriving in --- a “globalized” world.

There is no doubt in my mind that Canada will weather this latest period of financial uncertainty, because this country has the essential ingredients for growth and success. We are fortunate to have leading-edge minds and research capabilities. Our entrepreneurs are talented. We have outstanding schools. The World Economic Forum’s Competitiveness Report recognized all of these attributes as the building blocks for increased innovative capacity.

As one of the world’s most stable economies, now is the time for Canada to turn these strengths into leadership and increased prosperity. A robust private capital sector --- with its ability to commercialize technologies, build businesses and create jobs --- is an integral part of the equation.

After three years as President of the CVCA, through my travels and many discussions with both members and policymakers, it is clear to me that the CVCA has an increasingly important voice in the debate and dialogue around Canada’s economic future. We will continue to use that voice to drive positive change.

In closing, I’d like to thank Steve Hnatiuk for organizing such an outstanding annual conference in Vancouver this past May. The conference was sold out with more than 600 attendees, including Canada’s largest pension funds and more than 100 participants from abroad, including delegations from Brazil and China. The bar has been set high for May 23rd to 25th, 2012 in Montreal.

I have also found it especially rewarding to work with our Board of Directors, committees and committee chairs, and the CVCA’s staff, led by Richard Remillard. Thank you for your commitment and guidance over the past year. In the year ahead, I look forward to working with Peter van der Velden, who earlier this evening was elected First Vice President of the CVCA. Congratulations on your new role.

To all of our CVCA members, let me say that it has been a sincere honour to represent you as President of the CVCA for the past three years. I look forward to continuing to serve as your President during the next 12 months.

Thank you again, and enjoy the evening.