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The new uber-angels

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It is the tale of two funds, and the tale of two provinces' approaches. In trying to bolster venture capital, Ontario and Quebec both are enthusiastic, but on slightly different wavelengths in their fund-of-funds strategy.

Ontario got a headstart, putting $90-million into the Ontario Venture Capital Fund in November 2007 along with several institutions. But it took nearly 18 months before OVCF announced its first investment in Canada--just $15-million.

Quebec was slower off the mark, but now Teralys Capital, a fund-of-funds aimed at the tech sector, is out of the gate, it's deploying capital a bit faster. Five months after Jacques Bernier, managing director of Teralys, announced that he raised his first round of cash, he had hired a team and invested $75-million in Tandem Expansion, a private investment firm set up by Charles Sirois and Brent Belzberg and now run by four managing partners.

The fund has committed $300-million of capital and is targeting late-stage develop for technology and research firms.

Investing in Tandem was a no-brainer for Mr. Bernier. "There is no private fund for late stage [development] in Canada," he said. "There was a huge gap in the marketplace."

So why the huge difference in execution between the two provinces?

Mr. Bernier jokes that speed is his style: "I used to race cars, was an entrepreneur and a boxer."

However, the reality is when Ontario gave a chunk of money to TD Private Capital (now Northleaf Capital Partners) which are managing the OVCF, it may have miscalculated the complexities of investing.

Northleaf has made commitments to three Ontario funds (Georgian Partners Growth Fund I, EdgeStone Capital Venture Fund III and Lumira Capital II). One more is one the way. But here's the rub. Not one of those funds have closed, which means that none of the money has been deployed yet. What Ontario didn't -- or couldn't -- predict was the lack of potential co-investors for these funds.

OVCF was designed to be a lead investor or "catalyst," -- to be the first institutional brand prepared to back a new manager -- but it can't risk being a sole limited partner (investor) in a fund. That would leave them too exposed.

"We were prepared to step up and take on the significant role of being not only the first institution to put their brand name on the line beside a manager who has never raised a fund but [also one that's] prepared to step forward to do the due diligence in working with the fund to structure the legal agreements. That was part of our charter.

"One of the biggest challenges is finding enough capital around the table to get these funds to a critical mass," said Ian Carew, vice-president of Northleaf.

One fund-of-funds does not an eco-system make.

But the good news is this: the arrival of Teralys Capital may help boost Ontario's venture capital industry. "We are happy Teralys is now up and running and hopefully they will be a collaborator with us in getting some of these funds to close," Mr. Carew added.

It is no secret the Canadian venture capital industry can use all the help it can get. According to Canada's Venture Capital and Private Equity Association, money invested in venture capital for the first three quarters of 2009 was $682-million -- 36% lower than the previous year.

"On one hand, we can say returns have not been there on the VC side in Canada, but on the other hand, if you take out the best 30 funds in North America, the returns weren't there either," he said.

In the United States, the problem was too much money was available. In Canada, it wasn't about money, it was about experience. "We are now at a stage where we know what went wrong, and we think we know what to do to make it work," added Mr. Bernier, who so far has met with 80 venture capital firms across the country.

He is confident the industry can be nurtured, but with a lot of tough love. Before he makes new investments he wants funds to make some changes. "Over the years, there has been a major disconnect be-tween general partners and limited partners [the investors]," he said. "The general partners were making a lot of money on fees, and it became a few businesses and most were not giving back returns," he added. He wants VCs to charge fees that are enough to run the business, but not make a profit out of it. They need to make their profits on their investments -- just like the LPs.

In deciding what he will invest in, Mr. Bernier is looking for "firms that are there for the long term, and there for the return of the money." In the past, they were taking part of their management fees, and investing only that back into their funds.

"So technically, they didn't have any skin in the game."

Venture capitalists take note. Mr. Bernier is the industry's new uber-angel on the institutional side. Not only is he running Teralys, but he is also consulting on fund investment in technology for the

Caisse de depot et placement du Quebec and the Solidarity Fund QFL. That means he holds the purse strings for billions of dollars.

His endorsement of Tandem is a good omen for the $300-million late-stage fund that has already received significant backing from the Business Development Bank of Canada, Export Development Canada and a top up from the Caisse de depot and the B.C. Renaissance Capital Fund. The Ontario government has not jumped into this fund -- yet.

But Alex Moorhead, managing partner at Tandem, said the fund will soon be knocking on its door. Tandem has not made any commitments. Mr. Moorhead said the fund managers are looking "to find companies with capital and relationships that need some support and leverage to cross over that barrier to long-term [growth]."