OVCF
ONTARIO VENTURE CAPITAL FUND

eVENTURE newsletter

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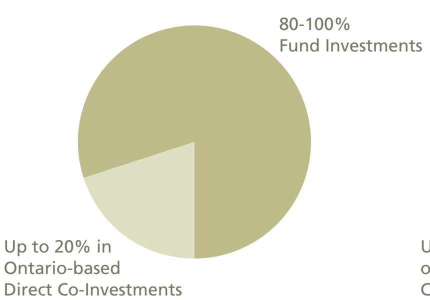
About OVCF

The Ontario Venture Capital Fund (OVCF) is a joint initiative between the Government of Ontario and leading institutional investors to invest primarily in Ontario-based and Ontario-focused venture capital and growth equity funds that support innovative, high growth companies. OVCF is structured as a fund of funds.

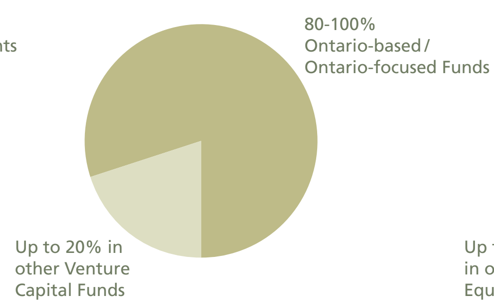
Through a disciplined focus on generating superior returns for its Lead Investors and fostering the development of best-in-class fund managers, OVCF serves as an important catalyst in ongoing efforts to create a profitable, globally competitive and self-sustaining venture capital industry in Ontario.

The portfolio guidelines of the Fund are as follows:

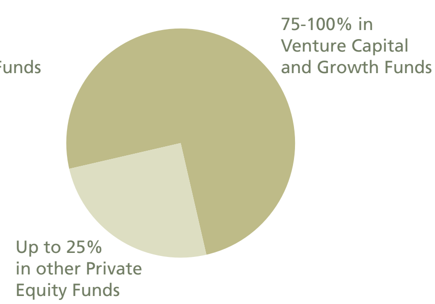
Investment Type



Geographic Focus



Sector Focus



LEAD INVESTORS

Ontario | TD | OMERS Strategic Investments | RBC | Manulife Financial | BDC

FUND MANAGER

Northleaf Capital Partners

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OVCF makes lead commitment to Rho Canada Ventures II

The Ontario Venture Capital Fund has committed $20 million to Rho Canada Ventures II, a venture capital firm dedicated to backing leading, early-stage technology-based companies in Canada. Formed in 2006, the firm is affiliated with Rho Ventures in the US and leverages Rho Ventures' 30 years of experience investing in venture-stage companies. For more information, visit www.rhocanada.com.

Northleaf Capital, the manager of OVCF, recently sat down with Rho Canada Ventures to discuss their new fund and outlook on the technology sector

Can you describe Rho's investment strategy and value proposition?
Rho Canada Ventures ("Rho") focuses exclusively on investing in Canada-based companies within the media, communications and technology sectors. We invest in both seed and Series A stage companies. Rho is closely integrated with Rho Capital Partners, a leading US venture firm with more than $2 billion under management and with offices in New York & Palo Alto. Rho actively leverages Rho Capital Partners' 30 years of experience investing in venture stage companies. Our investment team is comprised of entrepreneurs, operators and investors with extensive experience building companies in Canada, the US and globally.

We are uniquely positioned within the North American venture capital market because we have the experience and network of a leading US-based fund coupled with a dedicated, hands-on Canadian presence. Entrepreneurs choose to partner with us because: (a) we are local and readily accessible, (b) we provide them with a direct path to two of the most important technology startup markets in the world, New York and Silicon Valley, and (c) because we have an experienced team around the table that understands the challenges they are facing and can help them anticipate and navigate the challenges ahead as they scale their visions. The combination of these factors amounts to a value proposition that is unique relative to our competitors.

What is the profile of the typical company you invest in? What technology trends do you foresee impacting your investment strategy over the next 2-5 years?
Ultimately, we are looking for companies that can exit for a valuation of $1 billion dollars plus in very short timeframes, typically within five to seven years. With that goal in mind, we look for companies that have strong founding teams, very large and rapidly growing target markets and a differentiated product that customers are willing to pay for. We also look for companies in sectors in which our organization collectively has a lot of experience and opportunities where we can add value beyond funding alone. As mentioned, we invest exclusively in companies that are based in Canada, but we feel we are uniquely positioned to add value to companies who are looking to rapidly expand their operations, teams and customer bases to the US and globally. From a stage perspective, about 75% of the deals we invest in are Series A, and about 25% are seed-stage.

We are active in a broad spectrum of sectors across media, communications and technology. Remaining dynamic about the spaces we invest in is a priority for us, so our specific areas of interest change over time. Currently, we are excited about opportunities in mobile infrastructure and management (Bring-Your-Own-Device, security, app management), cloud (data security, backup, data centre analytics and management), next-generation enterprise software driven by social mechanics, new e-commerce models (subscription, curation, collaboration, mass customization), video and Over-The-Top (OTT) services, display & search advertising, and consumer web/mobile services & applications, to name a few.

How has your involvement in accelerators helped your investment strategy?

Investing in seed-stage companies is an important part of what we do at Rho Canada Ventures and is core to our strategy as a leading early-stage venture firm. We take both a direct and an indirect approach to investing in seed companies. Each one of our investing partners is constantly looking for great entrepreneurs to partner with at the earliest stages of company formation – this is the direct part of our strategy. Of course, we have limited bandwidth since we also focus on evaluating new Series A stage companies and we are actively working on value creation with our existing portfolio companies.

These constraints led us to adopt an indirect strategy to complement our direct efforts, which is where the accelerators come in. Over the past year or so, we have selectively partnered with a number of accelerators across Canada, either through a formal investment in the accelerator or through an advisory or mentorship role. Our goal with these partnerships is to build relationships with smart and driven entrepreneurs as early as possible. We may have the opportunity to invest in their companies immediately in some cases, and in other cases, it is the start of a longer dialogue that may give us an opportunity to invest at a later stage. It is early days, but we have developed some great relationships and, to date, have already invested in two companies that graduated from accelerators we partnered with.

OVCF announces lead commitment to Lumira Capital II

In May 2012, the Ontario Venture Capital Fund announced a $20 million commitment to Lumira Capital II, a leading Ontario-based healthcare and life sciences venture capital firm. Currently managing over $300 million, Lumira Capital is an active investor that works closely with entrepreneurs developing transformative therapeutics and medical technology innovations. For more information, visit www.lumiracapital.com.

Northleaf Capital, the manager of OVCF, met with Lumira Capital to discuss their perspectives on the life sciences ecosystem

How has the life science ecosystem evolved over the past number of years?

A number of forces have been shaping the life sciences and med tech sectors over the past couple of years. As investors in the sector, we view most of these forces as quite positive, because they are resulting in rapid industry growth and are rewarding innovative solutions that provide patient care at a lower cost – the fundamental focus of our investment strategy. These shifts within the life science ecosystem include:

- Global economies desperate for cost-saving medical innovations: In the US, healthcare reform is adding 35-40 million new insured lives and growing demand for life sciences products, while also putting a premium on keeping costs in check
- Cash-rich industry incumbents fleeing internal R&D in favor of external acquisitions to fuel growth: Over $150 billion of pharmaceutical industry revenue is coming off patent over the next several years, fuelling significant M&A activity by the major pharmaceutical and biotech companies as they look to replace these lost revenues
- New and more cost efficient approaches to product and company development
- Significant sources of non-dilutive capital and a growing propensity for early-stage partnerships that leave significant value with the innovator company
- A significant shift in demographics, both in terms of an aging population in mature economies and wealth creation in emerging nations, which is creating considerable demand for new health care products and services and opening up important new markets for innovation-based medical products
- An emerging regulatory environment in the US and elsewhere that is becoming much more favourable and predictable, enabling innovation that addresses unmet medical needs
- A consolidating and shrinking venture capital ecosystem that should result in highly favourable investment economics for new investors

What is your outlook on the life science sector for the next 2-5 years? What major changes are influencing the types of investments you are making today?

Fund II is designed to leverage what we learned in Fund I, while remaining fairly consistent with the strategy that proved successful for us. That will mean a continued focus in areas where we see significant opportunities, such as biologics, kidney disease, peripheral vascular disease, vaccines and immuno-therapy, "orphan" diseases, complications of diabetes and obesity, infectious disease, heart failure, autoimmune disorders, novel antibody platforms, and surgical navigation. These are all fields characterized by rapid growth, significant unmet medical needs, a favorable regulatory environment and large white space opportunities for multiple acquirers globally.

Having said that, we are making some important tweaks to the strategy for Fund II. These include more focus on our approach to medical devices, where there are emerging investment challenges with respect to the FDA process, increasing timeframes/costs to liquidity and diminished numbers of natural "able-bodied" acquirers. These developments are leading us to focus on companies that are providing truly innovative solutions to significant and growing patient-centric medical needs in a cost effective manner. We are also looking to make more growth equity investments in healthcare companies that are in the unregulated parts of the market (for example, nutraceuticals, functional foods, and health and wellness). We also plan to explore some emerging areas, such as personalized medicine, eye and hearing disorders, molecular diagnostics, and regenerative medicine.

In addition to opportunities that are sector-driven, we also anticipate doing more in situations where we have to play a fairly hands-on role in facilitating a significant capital and investor overhaul in order to fund a company. For example, in a company where, despite strong fundamentals, there needs to be a restructuring because it has taken longer and cost more to achieve the necessary milestones that produce major valuation inflections and liquidity opportunities.

How does your pipeline look at this point? What types of opportunities are you seeing in the Ontario market?

Ontario has a fantastic scientific core centred on institutional partnerships such as the University Health Network and the MaRS Innovation Centre. From 1998-2008, Ontario enjoyed a period of unprecedented investment in life sciences companies and medical innovation, but much of that activity was focused on early-stage and pre-clinical companies. Now, we are seeing the best of those companies emerging and entering the clinic with fully developed technologies and more seasoned management teams. While many of these companies represent potentially interesting opportunities, some of the more interesting ones may need to go through the "restructuring" process discussed earlier given "un-fundable" capital structures for new investors.

We believe these situations represent an outstanding opportunity for us to work with companies to assemble the highly experienced, value-add investment syndicates that will help them successfully push past the key valuation inflection points, thereby positioning them to achieve the kinds of liquidity events and partnerships necessary for their ultimate success.

Celtic House
VENTURE PARTNERS

OVCF makes lead commitment to Celtic House Venture Partners IV

The Ontario Venture Capital Fund recently announced a $30 million commitment to Celtic House Venture Partners IV, an Ontario-based venture capital firm that invests in information and communication technology companies. Founded in 1994, Celtic House has collaborated with management teams and repeat entrepreneurs to develop technology companies from the inception phase through to exit, generating over 20 initial public offerings and successful acquisitions. For more information, visit www.celtic-house.com.

Northleaf Capital, the manager of OVCF, recently sat down with Celtic House Venture Partners to discuss their new fund and investment strategy

What is Celtic House's investment focus?
Celtic House is focused on early-stage investment opportunities in Media Communications Technology (MCT). Existing internet infrastructure is being taxed by consumer-facing digital media and mobility services that are changing the nature of social interaction and media consumption. MCT is, in essence, a continuous rebuild of the internet to satisfy the demands of both digital media and mobility.

This change is driving the need for rapid developments in consumer electronics, along with the cloud computing infrastructure required to support their functionality. It offers considerable opportunities for the emergence of new, billion-dollar markets and aligns well with world-leading technical skills that are found in Canada but that are, to a large extent, undercapitalized. Celtic House does not invest in digital media applications directly, but rather in the MCT infrastructure that enables them.

What are "architected" investments and why are they of interest to the Fund?
Architected investments are those where members of the Celtic House team effectively act as co-founders by identifying a market opportunity, developing the product strategy, and recruiting the core management team. Rather than taking a "deal flow" approach to project formation, Celtic House draws on its network of industry leading executives and its existing portfolio of companies to find specific opportunities in MCT which align with core competencies that already exist in the Canadian market. Often these investments will target market spaces contiguous to those where Celtic House already has an active portfolio company. Such projects allow Celtic House team members to work with exceptional start-up teams in a collaborative manner, effectively becoming strong contributors to building a complete team and defining the product and customer acquisition strategy. Architected investments are of primary importance to Fund IV because these sorts of projects have been among the most successful for Celtic House over the past 18 years.

How has Celtic House changed its investment approach given the scarcity of syndicate capital?
Celtic House has evolved its investment approach towards more capital-efficient projects, with an emphasis on the ability to make mid-course corrections quickly while the burn rate is still low. Capital efficiency reduces the need to assemble large syndicates at the outset. The focus ties in with our architected approach to project formation, as business models can be developed on this basis. The Celtic House partners spend considerable time maintaining and building co-investor relationships both domestically and in the U.S. Corporate syndication relationships are also an active area of focus, as they can provide considerable market knowledge and a natural path to liquidity.

Building the Entrepreneurial Ecosystem: A roundtable discussion at OVCF's recent Breakfast & Learn event

On June 21, 2012, OVCF partnered with Canada's Private Equity and Venture Capital Association (CVCA) to host another successful breakfast roundtable discussion – "Building the Entrepreneurial Ecosystem". The panel of seasoned investors and entrepreneurs focused on incubators, accelerators and seed-stage venture capital. Moderated by David Crow (Editor, Author & Community Animator, Startup North), the panel consisted of Robin Axon (General Partner, Mantella Venture Partners), Roger Chabra (Partner, Rho Canada Ventures) and Rick Segal (CEO & Co-Founder, FixMo) who shared candid perspectives on the benefits of accelerator programs and their experiences with the challenges of raising money and investing in the seed-stage market.

To view a replay of the event, please visit www.ovcf.com.

Upcoming event: AccelerateTO

On Wednesday, October 10, 2012 AccelerateTO, in partnership with the C100, is hosting the third annual AccelerateTO conference, bringing together Toronto's top technology entrepreneurs, influencers and investors. The goal of AccelerateTO is to accelerate early-stage Canadian technology companies through stronger relationships with Silicon Valley and Canadian influencers and investors.

OVCF is pleased to be a presenting sponsor for this invitation-only event.

OVCF IN THE NEWS

Redmere, Fresco and Leading Investors partner to create Spectra7 backed by $10 million Equity Round

Jump-starting Canada's VC Industry

Blackberry Partners Fund Manager ATP Rebrands as Relay Ventures

BlueCat Networks Receives "Strong Positive" Rating in Leading Analyst Firm's 2012 DDI MarketScope Report

Achievers Selected as On-Demand Top 100 Winner for Creating New Opportunities in On-Demand Software, Cloud Computing and SaaS