

## VENTURE FUNDS EYE BUDGET

By Barry Critchley

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John Varghese, a managing partner at VentureLink Group of funds, will have more than a passing interest in the coming federal budget. He will be going over the documents to ascertain whether Ottawa has followed the recommendations contained in the report of the Standing Committee on Finance released last December.

In that report, the committee recommended “the federal government work with the venture capital industry to identify new sources of financing and examine the effectiveness of existing tax incentives related to financing. Moreover, the government should review the feasibility of increases to the Labour-sponsored funds tax credit to 20% of eligible investments, to a maximum eligible investment of \$20,000.”

“This tax credit not only helps the economy but it doesn’t cost that much because of subsequent tax recoveries,” said Varghese, whose firm manages \$260-million of assets in three funds. While he has a pecuniary interest in Ottawa’s deliberations, he also recognizes there are problems at the provincial level, particularly in Ontario. In short, it is a laggard province given that its support via tax credits is ending in two years, a contrasting position because other provinces have increased the investment limits.

“Ontario is falling behind in relation to Quebec. The provincial government is doing some things but it’s not enough. Ontario should be the country’s leading venture-capital centre,” Varghese said.

Numbers recently released by Canada’s Venture Capital & Private Equity Association show venture-capital investments continue to lag. In the third quarter of 2009, \$191-million was invested, less than half the level of the same period in 2008. For the first nine months of 2009, \$682-million was invested, down 36% from the \$1.1-billion invested in the same period of 2008. CVCA said yesterday \$1-billion was invested last year, the lowest level since the mid-1990s.

The numbers for Ontario are worse: According to CVCA, in 2000 almost \$3.5-billion of venture capital was invested in 336 companies in that province; in 2009, the comparable numbers were \$287.7-million and 87 companies. “Those numbers help explain why we need more sources of capital,” said Varghese, who is out on the hustings seeking to round up investors. And Varghese has one string in his bow: He can point to strong investment performance. It seems that each year his Brighter Future fund has at least one shining light: this year it is Dragon-Wave, which is trading at more than three times its average cost. That fund, which keeps 40% of its assets in cash, has posted annual gains of more than 7% since inception.

For those who are still making up their minds about investing in a labor-sponsored fund, Varghese has offered a solution that allows investors to make an almost cost-free TFSA contribution. Ontario-based investors can ante up \$7,500 and invest that amount in a labour-sponsored fund: That investment will generate federal and provincial tax credits as well as a tax break on the RRSP contribution. (The labour-sponsored credits come with an eight-year hold period.) Depending on the taxpayers income, the total deductions could be as high as \$5,000 -- the maximum amount allowed under the TFSA rules. "The idea is to use the savings to contribute to a 2010 TFSA and purchase your favorite stock. In this way, investors are using after tax dollars to invest into the tax free savings account. In other words: "Make it a gift that keeps on giving," he said.

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