

***Tim's Tax Smart Tip Interview* ®**
MACKENZIE FINANCIAL/VENGROWTH
CONFERENCE CALL FOR FEBRUARY 4, 2005 @ 4:00 P.M. EST
CHAIRPERSON: TIMOTHY ROSS, Family Advisor ®
Interview: DAVE FERGUSON Portfolio Manager Vengrowth
EMAIL TRANSCRIPTION TO: advisor@timothyross.com

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Operator:

Welcome to the Mackenzie Financial VenGrowth conference call for February 4th, 2005.

Timothy Ross:

Okay, I have Dave Ferguson here. We're going to talk about Labour Sponsored Investment Funds. First of all, I'm going to give you a little bit of an overview on Mr. Ferguson. Dave's Managing General Partner of VenGrowth Capital Partners and he's one of the four original founders of VenGrowth Retail Funds. He has over seventeen years experience as a venture capitalist investment banker. David routinely assists investee companies in obtaining required funding and has helped coach these venture-backed companies through their various growth phases.

Many of VenGrowth's investments in companies David has overseen has been exited through successful acquisitions and has taken many public. David is and has for many years been quite active, and a participant on the board of directors of numerous venture companies that associated with VenGrowth and he routinely contributes his expertise in setting strategic direction and developing operating budgets and management recruiting and financing and exit strategies. So what we're going to do today is I'm going to be interviewing Mr. Ferguson and I've got

a lot of questions that I think people want answered regarding venture funds and specifically with VenGrowth.

So Dave, I just want to start off and welcome you to this interview today. It's been, it's good to have you on the line. The last time I seen you, I think we were right here in my office and we were talking about what was going on and that was very encouraging to myself and to our clients. So I'd just like to pick up where we left off and before we get into questions, is there anything you want to add in here at this point?

Dave Ferguson:

No, just, excited to be able to participate in this call and you know, answer questions about, you know, what I believe is a really exciting asset class.

Timothy Ross:

That's good. Now the first question I have here is, I'd like to you talk a little bit about VenGrowth's background in the area of venture capital investing.

Dave Ferguson:

Sure. Well VenGrowth is actually one of Canada's oldest and most accomplished Venture capital managers. What we know, what we love and what we're truly passionate about is venture capital investing. Today we managing in excess of one billion dollars of venture capital assets and we're a little bit unique in Canada in that our investors include both individual investors through labour sponsored funds but also high profile institutional investors including all five of the five largest Canadian banks. Over the last, we've actually been in existence since 1982 and over the last twenty-three years we've invested over one billion dollars into one hundred and seventy private companies through the ups and downs of several bull and bear markets. And we adhere to a very later stage, a very conservative investment strategy and one that's really been developed and refined as a result of having invested so much capital over various market cycles.

Timothy Ross:

Thank you. My next question is, a lot of investors aren't familiar with labour sponsored funds and I thought maybe you could shed some light on what exactly they are.

Dave Ferguson:

Right. Well a labour sponsored fund is basically a mutual fund that makes venture capital investments. And investors also get a tax credit of either thirty percent or thirty-five percent from both the federal and the provincial governments as an incentive to invest in this particular type of product. As I mentioned before, this particular type of asset is like a mutual fund that makes venture capital investing and basically venture capital investing just means providing money or growth capital to small and medium sized businesses.

And a lot of people, you know, when they think about venture capital, their tendency tends to be, well it just means backing, an entrepreneur, a guy or a gal with a really great idea. But it also can be sort of investing in more mature established businesses, maybe it was upwards of three, four or ten or even twenty million dollars in sales. So the principal difference is that we're investing mostly in private companies, companies that aren't listed on a stock exchange.

Timothy Ross:

Dave, how big is the labour sponsored fund assets category and how long has it been around?

Dave Ferguson:

Well the venture capital asset class in Canada has been around for about a little over twenty-five years. Specifically the labour sponsored fund program was established in the mid 1980's. And currently labour sponsored funds represent about one third of Canada's thirty billion dollar venture capital market. An estimated one million Canadians have invested in these kinds of funds.

Timothy Ross:

Pretty impressive. One thing that always amazes my investors is how come they get such large tax refunds. And so I just wondered if you could shed some light on why the government provides these generous tax credits for investors?

Dave Ferguson:

Right. Well it really boils down to the fact that small and medium sized businesses are the engine of economic growth in Canada. They create more jobs, they spend more on research and development as do large companies. And if you want a healthy Canadian economy, you really have to have a healthy small and medium sized business sector. And the biggest challenge that that sector faces is just access to capital. So the government really wanted to come up with a way that they could increase the size of the capital pool available to entrepreneurs.

Just to put things in perspective, small and medium sized private companies represent ninety percent of our economy. So only ten percent of our economy comes from sort of the larger, public companies like the Bell Canada's and the Bombardier's and the TransCanada Pipelines. So you really, you know, I think that statistic puts in perspective just how important small and medium sized businesses are to, and it's not just Canada, any developed nation. It's the same sort of statistic.

Timothy Ross:

I'm just curious, sometimes we make comparisons of venture capital to small caps and I'm just wondering, what's the difference in that investing?

Dave Ferguson:

Sure, well there's actually lots of differences but there's, you know, I could really distill it down to three main ones. The first is how do we make investments, the second is how do we actually manage those investments and then the third point is how do we actually make money for shareholders. So starting with how do we make investments? Well number one, we complete and exhaustive research on each and every single company that we invest in, often lasting anywhere from four to six months.

And during that research and evaluation phase, it would be typical for us to have, you know, fifteen to twenty meetings with management, we'd speak to customers, former customers and even competitors. And then once we make an investment, that's when the real work begins because we actually sit on the board of directors of these companies and work very closely with the senior management team to help shape strategic direction, determine what appropriate operating budgets should be and so on.

And then the last part, how do we actually make money for our shareholders, well the way that we make money for our shareholders is actually when we exit a company. So the whole point of venture capital investing is to inject both our shareholders capital and our strategic guidance and take a smaller company maybe doing four or five million dollars in sales up to a point where it's maybe doing thirty or forty million dollars in sales a year and that company's now mature enough that we can exit it, either by way of taking that company public on the stock market and then we sell our shares on the open market, or perhaps by selling that company to a large strategic industry player.

And so in venture capital investing, the differences again are, they're mostly private companies, it's an extremely hands on, intensive type of investment process, it's known as patient capital so your returns really are generated, you know, after many years once you've matured that company and then you actually make the returns when you exit that company, maybe five, six, seven years later.

Timothy Ross: One question that's on everybody's minds when we sit down and we have to talk about risk with our clients and venture capital is considered risky in a lot of people's minds. But is venture capital really risky investment?

Dave Ferguson:

Well it's certainly riskier than investing in GICs or in, you know, a large cap stock. So yes, it does entail a higher degree of risk but that's also compensated by, you know, over the longer term, its asset class has generated higher rates of return because you are in fact taking on a higher degree of risk.

Timothy Ross:

Now the most important question that I want to know is how do you minimize or control that risk?

Dave Ferguson:

Well there's really three things that we do to minimize risk in venture capital investing. Number one is just the fact that again, we do an absolutely extraordinary amount of research on each and every company that we invest in and again, that whole research project that takes, you know, four to six months. The second thing is that, because we're active hands on investors, we're actually sitting there on the board of directors, monitoring what's going on with the company, you know, month in and month out. When things aren't working right, then you know, we'll have to take corrective action and that might mean changing the business plan, perhaps making some management changes.

And then the third part that we minimize or control risk is that with each and every company that we invest in, we have a very, very extensive set of shareholder agreements that gives us certain legal control over the company. For instance, you know, part of that legal document would say how many board seats we're entitled to. It would state that we have the right to approve the annual operating plan. It would state that we have the right, we have to consent if the company wants to buy up another player. So typically any kind of milestone decision requires our consent, even though we might only own thirty or forty percent of the company.

Timothy Ross:

Well that certainly gives me some more reassurance that this is being managed well. The next thing I wanted to look at is, what are some of the benefits in investing in a labour sponsored investment fund?

Dave Ferguson:

Well sure, and the way that I answer this question is saying that, currently there's about thirty billion dollars of venture capital investment under administration in Canada and there's about three hundred and seventy billion in the States. So collectively this is about a four hundred billion dollar asset class of which retail investors through labour sponsored funds actually represent a pretty small component.

So the bulk of the money that's being invested in this asset class is coming from pension funds and insurance companies and banks and family foundations. And these groups do not get any tax credits. They only invest in this asset class for two reasons. Number one is just return potential. Over the longer term and over many market cycles, this has proved to be one of the top performing asset classes. And the second reason why they invest in this particular asset class is the fact that it adds to portfolio diversification. We don't move in lock step with the rest of the market. Our cycles are slightly different from the rest of the stock market.

The other part of diversification is just the fact that as I mentioned before, private companies represent about ninety percent of the economy. So by investing in the venture capital asset class, again you're tapping into that part of our economy that you wouldn't otherwise be able to access through just investing in public companies through conventional mutual funds. So that's why large institutions really support this asset class and invest in it.

But for retail investors in labour sponsored funds, they also get some added benefits. Number one, the investment is eligible for their RRSP and so you can get RRSP tax savings if you make this investment within their RRSP. The second thing is that you can get tax credits in the amount of either thirty percent or thirty-five percent. And then the final reason is that by holding a labour sponsored fund within your RRSP, you can actually increase the amount of foreign content that you can hold within your RRSP.

Timothy Ross:

Next question I have is I'm just looking at the venture capital cycle and it appears that we're at the bottom of the cycle. I see that as an opportunity. Could you elaborate on that a little bit?

Dave Ferguson:

Sure, well you know our asset class is a cyclical asset class and we should be considered as part of the growth component of a client's portfolio. Our, the venture capital investment cycles move, broadly with what's happening in the stock markets and the economy. When our particular, when the venture capital asset class moves into negative return territory, it's typically because the stock markets aren't performing that well and more broadly, the economy's not doing so great.

So during a down part of our market, which we've experienced over the last four years, really what we see is a couple of things happen. Number one, the price of the private company declines, just as would happen with public companies on the public markets, but also the opportunity to exit a private company, either by way of taking it public on a stock exchange or by selling it to a large strategic industry player basically gets put on ice.

So during sort of volatile stock markets, there's no investor appetite for growth stories, so they're not saying I'd like to see that new, you know, that next IPO for a really innovative new technology company, and similarly large public companies aren't buying up smaller public companies. They're doing the opposite. They're downsizing, they're retrenching, they're laying off employees, they're slashing research and development budgets. And from their perspective, you know, there's no expectation that they have to grow, they're just trying to preserve earnings. So that's the type of market that we've been over, or we've been experiencing over the last four years.

Timothy Ross:

I wonder if you could explain to me some of the unique aspects of the labour sponsored investment that investors should know about, for example, the tax credits and the required holding periods.

Dave Ferguson:

Sure. Well typically most funds allow an investor to purchase as little as five hundred dollars and at most, five thousand dollars in any particular given tax year. Now the full five thousand dollars is RRSP eligible and investors also receive

either a thirty percent tax credit or a thirty-five percent tax credit on their investment. And the way that tax credits work is that they're, when you're filling your T1 income tax return, you just, the labour sponsor fund issues the investor a tax credit slip which is just entered into the T1 form.

So what happens for instance if you were to make a five thousand dollar investment and you invested in a fund offering thirty-five percent in tax credits, you would be eligible for combined tax credits of one thousand, seven hundred and fifty dollars. So that amount gets entered into your T1 form and that seventeen fifty, the way that the client actually gets that money is one of two ways. If a client owes taxes, then that seventeen, that one thousand, seven hundred and fifty dollars would reduce the taxes otherwise payable or if a client's actually in a refund position, then that client will be getting an extra one thousand, seven hundred and fifty dollars back on their income tax credit or on their tax rebate.

Now one of the conditions of the labour sponsored fund is that the investor must hold their investment for eight years if they want to avoid a clawback of the income tax credit. So if an investor for instance were only to hold their investment for five years and not the required eight year hold period, they could put in a redemption request and get their money back, however, they would be required to repay the tax credits that they originally received on their investment. Now once eight years has elapsed, that client is free to either continue to remain the fund or put their shares back to the fund for redemption at the then net asset value.

Timothy Ross:

Yeah, that's very interesting because I know if someone puts in five thousand if they're in top income bracket, their net out of pocket expenses or investment is really only nine hundred and twenty-nine dollars. So that's quite a return.

Dave Ferguson:

Well that's correct and what's neat about this asset class is that even though you're getting back either fifteen hundred dollars if it's a thirty percent tax credit fund or seventeen fifty if it's a thirty-five percent tax credit, but even though you're getting that money back from the government, you're full five thousand dollars is RSP eligible. And just, some people are curious, you know, how would I equate that tax credit to return?

So if you want to think about how does that thirty percent or thirty-five percent tax credit relate to in terms of return, the tax credits alone generate approximately, a

thirty percent tax credit is equivalent to a four point six percent after tax rate of return over the eight years. A thirty-five percent tax credit is equivalent to a little over a five percent after tax return. So if you gross that up for someone's income tax bracket if they're in the top income tax bracket, they're getting close to maybe an additional nine percent out of annual return just based on the tax credits.

Timothy Ross:

Yes, I know we do a lot of this in our tax planning, financial planning cause that percentage can range from fifty-two percent in the lower tax up to eighty-one percent. So it's really important that an investor work with their financial advisor to determine what's best for them. The other thing that's of interest is the labour sponsored fund, I know allows an investor to increase the foreign content that they can hold in the RRSP. Could you explain a little bit how that works?

Dave Ferguson:

Well sure. Well currently, as most investors know, they can have thirty percent of their RRSP invested in foreign instruments, so maybe it's a foreign mutual fund or maybe even directly shares of IBM or Microsoft or a US company. Now a labour sponsored fund actually allows an investor to increase the amount of foreign content that they hold from a thirty percent limit up to a maximum of fifty percent and here's how it works.

Basically you take the amount that you've originally invested in your labour sponsored fund and you multiply that by three times and you add that to your existing foreign content limit of thirty percent in order to arrive at your new limit. So just, let's suppose that an individual had a one hundred thousand dollar RRSP. So their foreign content limit would be then thirty thousand dollars or thirty percent. Now let's say that they made an investment of five thousand dollars into a labour sponsored fund in their RRSP.

So you'd multiply that five thousand dollar investment times three, so fifteen thousand dollars and you would add that to their existing limit of thirty thousand dollars and their new foreign content limit is then increased to forty-five thousand dollars, or in this particular case, forty-five percent. And you go through the same sort of calculation but where you get capped out is you cannot increase it to more than fifty percent of your RRSP. So there is a certain level where, even if you were to add more labour sponsored funds, you still couldn't take your foreign content limit above fifty percent.

Timothy Ross:

Now we have one that we have to sign now, it's a disclosure form to explain all the risks and stuff like that for an investor before they sign and at first glance, it's kind of a scary thing to have to sign. It really begs the question, is the labour sponsor investment fund appropriate for everyone?

Dave Ferguson:

No, you know, I don't think it's for everyone. I think it's appropriate for people who you know, do invest in things like small cap mutual funds so they have experience with equity investing and are familiar with the way that markets move in cycles. And I think also another requirement to make sure it's a proper fit with someone is the fact that they should go into it knowing that, you know, it is an eight year hold. Although they're free to redeem their units prior to the eight years, they'll lose the benefit of the income tax credit. So again, I think it's for people that do, you know, understand that this is a riskier asset class and the fact that they have a longer-term investment horizon. But again, you know, I think with many cases and many individuals, I think just as pension funds do, very conservative investors, I think it can make sense for a lot of people as part of a well diversified portfolio.

Timothy Ross:

Yes, I've done several examples with clients and it's really a way of accelerating your wealth buildup. If you can combine this with like a child's RESP plan, take those tax savings and reinvest them, it's quite spectacular what can be done.

Dave Ferguson:

Well exactly, and I think that's where labour sponsored funds can have a great benefit is when you can use, be disciplined about it and the tax credits that you get and you know, maybe instead of buying that new big screen TV or going on vacation, actually be disciplined and invest it into other products. And you pointed out the example of maybe using that to fund either a child's or a grandchild's RESP and you know, many clients have done that very effectively and have built up very substantial RESPs just all from being funded by the tax credits.

Timothy Ross:

Now I know that it's very important that works with the financial advisor to work through all the dynamics of that cause there's several steps. Now the next question I want to look at is, you know, always want to know, how do you make money in venture capital?

Dave Ferguson:

Right. Well again, venture capital investing, it really is all about, you know, growing smaller companies and then exiting. So unlike the stock market where your returns can sort of come at any point in time, we, you know, our money is known as patient capital and again, we make that money by taking a company public on a stock exchange or by selling it to a large strategic industry player. So you know, there's lots of companies whether it's Microsoft or IBM or Cisco who, you know, a big part of their corporate strategy is to buy up the smaller, innovative companies.

And most innovative ideas come in smaller, entrepreneurial firms, not sort of the large, multinational conglomerates. So large technology companies and also large pharmaceutical companies are constantly buying up other businesses to again, expand their product portfolio, gain access to the next generation of technology and so on, and just to help them grow. Now there's times in the market like over the last four years where they can be relatively inactive but there's other times when they're extremely active.

Timothy Ross:

That's interesting. My next question deals with success stories. Now I know there's a success story, I just found out about today. You've got, one of your funds, Life Advance Science just went up six point six percent last night. That sounds like a success story. Do you want to elaborate on what happened there?

Dave Ferguson:

Sure, well, you know, we've been fortunate in terms of being associated with so many great Canadian companies and you know, just at a high level. We've actually sold our companies to the likes of, we sold companies to Microsoft, Cisco, Alcatel, Nortel, JDS, Sienna, Compuware. We've taken other companies public on NASDAQ And the TSX. And the company that you're referring to is a company called GB Therapeutics and you know, one of many companies that just has continued to progress their business model, has gone through critical milestones in terms of, in that particular one it's a bit of a complicated one, but you know, where it's been really a company that had some interesting pre-clinical drugs and now is, you know, very well positioned to tap into the public market because now it has drugs in say three, has a phase two drug and a phase one. And each of those are critical milestones.

You know, another example I could talk about is a company that I was on the board of directors of, a little company called Change Point that we invested in back in 1996. And at that point in time the company was doing about three million dollars in sales. It was just a really innovative software company that had developed and pioneered a whole new area of software and eight years later, we sold that company to Compuware. And eight years later that company went from three million dollars a year in sales up to thirty million dollars a year in sales and it had blue chip customers like Microsoft and NCR and Sun Life.

And we sold that company to Compuware for one hundred and forty-four million dollars and you know, made a substantial profit on our investment. But again, Compuware was a large company, they really like Change Point's software and they felt that by buying Change Point and gaining access to that software, they could in turn take that product to their three thousand customers and generate incremental revenues.

Timothy Ross:

That's interesting. My next question here deals with just kind of, one thing I always look at, this type of investing, I kind of look at it as a socially responsible thing for us to do as investors because we're investing in all sorts of companies, you know, they're out there in the Canadian economy, helping improve things and just what sort of companies does VenGrowth invest in.

Dave Ferguson:

Well sure. Again, they're private companies and it in part depends on which type of fund that you're talking about because we, at VenGrowth have really three different types of funds and each one have a slightly different mandate. But if I were to sort of generalize across the three funds, generally the private companies that are not listed on a stock exchange, across all of our funds, VenGrowth is known as a later stage venture capitalist which means, we don't come in and take that very early stage risk where maybe it's just a guy or a gal with a really good idea and just a business plan. So what we're looking for is more mature, established businesses which are less risky.

Timothy Ross:

That's good. Now, I know we've got about three different funds there that we can choose from. Could you explain the investment strategy of each of those please?

Dave Ferguson:

Sure. Well we've got one core fund, one core flagship fund, which is VenGrowth III, available this year and we have basically two specialty funds. Our core fund, VenGrowth III, which is our third in our series of core flagship funds, really is designed to be a go anywhere kind of fund. And if an investor could only own one labour sponsored fund, this would be the fund because, the fund can invest in technology, in life sciences and even traditional industries. So it really gives investors a one-stop shop where they can get access to all the different types of private companies that there are within the Canadian context.

Then we have two specialty funds, our VenGrowth Advance Life Sciences Fund which was really designed and formed to really capitalize on the aging demographics of the Canadian population and the fact that Canada actually lays claim to some absolutely world-class life sciences companies. So the focus of this fund is to invest in things like drug discovery, also known as biotech, so coming up with new cancer drugs or new drugs for osteoporosis or for Alzheimer's, as well as things like medical imaging, devices and diagnostics.

So one of the companies in our fund had developed a revolutionary new way for screening for breast cancer and really designed to be a better way than x-ray mammography. And I would sort of characterize our advance life sciences fund as, without a question, our life sciences fund would have the highest return potential of any of our funds, but it's also a little bit, it has a higher degree of risk, only because it's a sector specific fund so it's not as well diversified cause it only does life sciences.

Then at the opposite end of the spectrum, our most conservative fund is our VenGrowth Traditional Industries Fund that really focuses in on more mature, traditional industry companies. So they're larger companies, they're all profitable and the way that we structure our investments are actually to lend money to these companies and we get routine interest payments from these companies that are paid into the fund.

So you know, VenGrowth III you can think of it as sort of in the middle. It does a combination of everything from the traditional industry investing to life sciences and even technology. Again, Advance Life Sciences, slightly higher octane if you will, higher tax credits and higher return potential. And again, sort of our least volatile, most conservative fund is our mezzanine financing fund, or our Traditional Industries Fund, which is eligible for thirty percent in tax credits as well.

Timothy Ross:

Now one thing that I always find interesting is, and I understand why you do this but I think it's important that our investors know why you, you open up a fund, let's take VenGrowth for example, it was opened up and then a few years later you closed it and you started VenGrowth number two and now in the fall here, you closed number two and you have another three. Why do you do that?

Dave Ferguson:

Right, and it may seem like a bit of a strange concept because not too many other funds follow suit. But we really are just replicating best management practices in venture capital investing. Out of the four hundred billion dollars that is invested in the venture capital asset class in North America, approximately three hundred and ninety billion dollars of it is managed under this finite pool concept which is what we're doing by saying, we'll keep a fund open for a certain amount of time.

And really by, you know, there's very few labour sponsored funds that also manage institutional capital, so we're the most familiar with this concept. But by closing a fund, what you'll end up doing over the long term is really maximizing shareholder returns and it's basically allowing the portfolio to mature. Because again in venture capital investing, we make our return once a company is maybe three, four or five, six, seven years old and we have that exit event.

Again, maybe it's taking a company public or selling it to a large strategic industry player. So if you leave a fund that's always open which means you're always making new investments if you're always raising new money, then you never end up with a mature portfolio and you're always diluting the returns that you made from your exited investments with new investments that might take another three or four years to mature before you see an exit event.

Timothy Ross:

So this really protects an investor from being, from having their values diluted and that's good.

Dave Ferguson:

That's exactly right and then the other benefit too is it just reduces the cash position. It allows the fund to get to a fully invested position, faster.

Timothy Ross:

Now I know one thing that's going to be on a lot of people's minds, a lot of investors will be having their VenGrowth one fund mature this year and I know there's probably mixed feelings on that. Do I roll that over or do I leave it in? Cause we are at the bottom of the market cycle right now. Have you got any thoughts on that?

Dave Ferguson:

Yeah, I mean personally I'd encourage investors to stay in. VenGrowth one is now a mature fund. We've got thirty-six companies within the portfolio, average revenue per company in that portfolio is about thirty million dollars. You know, investors have sort of toughed it out over the four years and have been patiently awaiting some exits in that portfolio and we're now, as the exit market is starting to improve, we're now starting to see evidence of that. In 2004, we sold Compuware to, sorry, Change Point to Compuware as I mentioned before, we sold another company called Lava Life, we sold that to Member Works. We sold another company called Algorithmics to, which is another big software company, we sold that to Sitch which is the third largest rating agency in the world.

So we're now just starting to see things happening after a very long, four year drought of very little merger and acquisition activity where large companies weren't buying up smaller ones. And we also took another company public last year. So I know it's sometimes tough for investors to be patient but I do believe that, you know, providing the stock market continues to do reasonably well, we'll start to see a pretty active exit market and we'll just continue to sell the remaining holdings in that fund.

Timothy Ross:

Okay. Now I have a lot of business clients and they're all, some of them become entrepreneurs and I know they're always seeking to raise capital. Let's just say one of our listeners is an entrepreneur and they want to raise some capital from a venture fund, how would they go about approaching you?

Dave Ferguson:

Well, you know, the best thing is, just pick up the phone, give us a phone call. And actually, you know, if there's a business plan that we could take a look at, that would be ideal. So it would give us a sense that we could read and get a better perspective on a business. You know, again, our focus is more mature, established businesses. And when, given that a venture capitalists primary way of generating returns is by investing in companies that can be sold to a large strategic industry

player, or go public, you know, we're looking for companies that have solid management, you know, ideally have a global aspect to their business so we can see how their product or service can be marketed in other countries.

We're also looking for companies that are, maybe solving some pretty big problems and we're also, again, looking for companies that you can really envisage, you know, a large company like a Microsoft or a Cisco or someone else coming, or a Pfizer or a Merck coming along and buying up the company, or it's got the right kinds of attributes that might lead you to believe that it could become a public company. So unfortunately sometimes there's lots of really great companies, privately managed businesses but they're not ideally suited maybe for venture capital.

But in any event, you know, one thing at VenGrowth that we pride ourselves on is happy to speak to entrepreneurs, even if a particular company is not an ideal fit for our particular investment strategy, we're happy to spend some time and perhaps recommend some other financing sources for entrepreneurs who are interested in, how can I continue to grow and expand my business.

Timothy Ross:

Well that's very interesting. I think we're going to wrap things up. I just want to make some closing statements and you might have some comments on them Dave. Really, we've gone through a pretty, a tough time, the markets have lagged in venture capital but we're seeing opportunities where it's starting to unfold that there's good things happening.

So I'm just looking at this and I'm encouraging everyone to hold the course and look at this as a very serious investment, asset allocation. Cause they're being rewarded for holding and we can see some good things on the horizon here. So certainly it tests investors patience, but this is probably going to be the hardest time for me as an advisor to talk to my clients about this and encourage them that they need their strongest faith right now and hope for the future. And, cause often when things look the worst, that the worst time to get out of something.

Dave Ferguson:

Well exactly, and you know, to me, the last four years have not, you know, the whole North American venture capital industry has been in sort of negative return territory and it's simply because, you know, it's been an inability to generate returns by exiting portfolio companies. However, you know, where there's been a

silver lining in this is over the last four years, the average price of a private company has dropped by over sixty percent.

So we have, over the last four years, thanks to you know, support of shareholders and advisors, we've actually invested five hundred and sixty-eight million dollars or more than seven times are next closest competitor at, into private companies where the price is, you'd have to go back ten years to find prices as low. So you know, the funny thing is, you know, investor psychology is to, you know, there was lots of money flowing into this asset class in 1999 and 2000 but at that point, you know, private companies were quite expensive.

Over the last four years, they've been very cheap. Again, just lack of money, available capital in the venture capital scene, private company evaluations and prices have come way down. So without a question, we have been aggressively investing during an absolute market trough and the key to investing it buy low, sell high. Well we did the buying low over the last four years and that positions us very well on a go forward basis.

Timothy Ross:

Well that sounds exciting Dave. I think we'll wrap up this interview today. It was a real pleasure having you on here and is there any closing remarks you want to make?

Dave Ferguson:

No, just again, we are extremely optimistic. You know, again, it's been a tough period without a question, we certainly acknowledge that but again, what gives us optimism is the fact that we're now trying to see evidence that the exit market is starting to improve, things are happening and I think we'll continue to see that strengthen over the next couple of years. The second reason why we're optimistic is just the fact that during a real market trough, we've been such an active investor, basically the most active national venture capitalist in all of Canada.

And the third reason is just the fact that despite the fact that the net asset value of the fund, you know, has not really gone up, the underlying portfolio companies today are stronger than they were four years ago. So in terms of, you know, overall, the portfolio has done a really fantastic job in terms of increasing their sales, attracting customers, improving their profitability, coming out with new technologies. So the portfolios have actually done well. It's not reflected in the

net asset value, I think there's a lot of hidden value there, but we're happy with the progress.

Timothy Ross:

Well that's great. Well thank you very much Dave for your time today, I really appreciate it. And, so everyone who's listening on this call, the recording of this, feel free to give me a call and we'll be happy to go over any of the fine points here that are of particular interest to you. As you all know, I'm Timothy Ross, your family advisor, been in this since 1988, where client goals become our goals and we're going to help you achieve your family's goals. So feel free to contact us and let's see how we can implement this exciting asset class in your portfolio. Thank you very much Dave and have a great day. I look forward to having you in our next interview.

Dave Ferguson:

Thanks.

"Waste neither time nor money, but make the best use of both. Without industry and frugality, nothing will do, and with them everything." -- Benjamin Franklin

Timothy Ross

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