ALTERNATIVE INVESTMENT UPDATE

NEWS BRIEFS

Tech fund built from Bay Street backing

OMERS Ventures Fund III, a tech-oriented fund started by pension giant OMERS, has closed with backing from BMO, CIBC, National Bank of Canada, TD Bank, Sun Life Financial and US fund-of-funds investment firm Wafra Group. Sources said OMERS put in some two-thirds of the fund's $300 million capital pool. The fund's mandate lets it pursue investments ranging from $500,000 for seed-stage startups to tens of millions of dollars for late-stage, pre-IPO funding. Sectors of interest include fintech, artificial intelligence, robotics, quantum computing and synthetic biology.

'Streaming' scheme a hit with marijuana industry

Small players in the Canadian cannabis space have been financing their growth plans by entering into 'streaming' deals with large backers. Under the business model, which has traditionally been used in the mining space, the cannabis producers get upfront funding for infrastructure and capital in exchange for a cut of future production. Banks are generally still unwilling to back pot-related ventures, and many producers are unable or unwilling to go public or raise equity. Canopy Rivers (a venture of Canopy Growth Corporation) and Cannabis Wheaton are two companies offering this new financing model.

MaRS IAF closes new women-focused fund

The Business Development Bank of Canada and MaRS Investment Accelerator Fund [IAF] have announced the first closing of StandUp Ventures Fund I. Managed by the MaRS IAF, the fund will invest in capital-efficient, high-growth Canadian health, IT and clean tech ventures that are still in the pre-seed and seed stages. Qualifying investments must include one female founder in a C-level role and a significant ownership position. Over the next three to five years, the fund will make 12 to 20 investments, ranging from $250,000 to $1 million each.

Quebec gets backing for life sciences strategy

The Fonds de solidarité FTQ has declared its strategic and financial participation in implementing the Quebec government's life sciences strategy. The organization has invested more than $1.2 billion in life sciences over almost 30 years. It will also tap its network of international partners to help patients and further the economy. With the help of these contributions, Quebec hopes to draw $4.4 billion in private investments and become one of North America's top five most important life sciences hubs by 2027.

Can Canada remain an energy contender?

A new report from PwC highlights the key actions the Canadian energy industry needs to undertake to navigate the rapidly changing terrain of the global oil & gas industry. According to the firm's analysis, there's an ongoing power struggle in the global energy industry between OPEC and the shale-rich US. As this struggle for supremacy shakes up the market, Canadian players have an opportunity to weather the lows and excel in the future. To do that, however, they have to balance multiple priorities, including "cost containment, capital discipline, strong sustainability practice, operational excellence and an innovation culture," says Reynold Tetzlaff, national energy leader at PwC Canada.

More cash but fewer deals in VC

The number of venture capital deals has dropped to its lowest point since 2015, although dollar volume is up

Venture capital deals may be down significantly, but the amount of money changing hands has risen. That's the finding of PwC Canada and CB Insights in their Q1 2017 MoneyTree Canada report, which showed a total of US$460 million in VC funding for the first quarter, a 10% rise compared to the same period last year. However, the number of deals for the quarter was the lowest it has been since the third quarter of 2015.

In terms of inflows, the internet sector led all others with US$195 million, seeing more dollars both on a quarter-over-quarter and year-over-year basis. "Internet deals in Q1 saw an increased focus on enterprise solutions for data analytics, business intelligence and productivity," said Shivalika Handa, corporate finance director at PwC Canada. The sector also led in terms of deal count, inking 23 deals, although continued its downward progression from its peak in the first quarter of 2016.

The healthcare sector was a distant second in terms of both funding and number of deals. Deal activity accelerated to reach a two-year quarterly high of 14 deals. However, the US$65 million worth of funding was a significant drop compared to the US$328 million seen in the sector in the fourth quarter of 2016, which was the highest amount in an eight-quarter time frame. "Venture funding is showing perennial support for the development of new therapies and diagnostic tools against the backdrop of the world-class Canadian healthcare system," said Scott Collinson, health industries leader at PwC Canada.

Seed-stage deal share remained weak, making up just under a third of all deals in Q1 and hitting an eight-quarter low. On the other hand, the share of early-stage funding deals inched up to 28%, reaching an eight-quarter high. Seed-stage deal activity was driven by Canadian investors, accounting for nearly two-thirds of all Q1 2017 seed-stage deals. International investors increased their presence in later stages, representing roughly a third of both early-stage deals (35%) and expansion-stage deals (31%). There were only four later-stage deals, but US investors accounted for nearly three-quarters of active firms at this phase.

> "Internet deals saw an increased focus on enterprise solutions for data analytics, business intelligence and productivity"

The three largest VC deals for the quarter – all of which were for later-stage funding – involved PointClickCare in Ontario (US$85 million), Visier in BC (US$45 million) and CSDC Systems in Ontario (US$30 million). The most active investors were Quebec's BDC and Real Ventures, and MaRS in Ontario.

From a region-by-region perspective, the top-funded markets in Q1 2017 were Toronto (US$227 million), Montreal (US$77 million) and Vancouver (US$80 million), though they saw less funding compared to the fourth quarter of. They were also the top regions in terms of deal count, though only Montreal experienced a quarterly rise in the number of deals. In terms of year-over-year improvement, Toronto saw the largest funding increase at 239%.

Peter Kinkaide
CEO
RAINTREE WEALTH MANAGEMENT

Years in the industry
14

Fast fact
Raintree Financial Solutions recently won two awards at the Private Capital Markets Association Awards in late April

Q&A

A new private-market option

Raintree Wealth Management has launched on a limited basis. In what way is it limited, and why have you chosen to put off a full-scale launch?
The launch is limited in terms of the number of clients we're taking on at the moment. We've limited our full-scale launch mainly because of the amount of demand from clients who are very interested in using us as their portfolio manager. We want to make sure that we're prepared to scale up quite quickly with those clients and deliver the best service possible.

What are some of the most overlooked alternative investments that you offer clients through Raintree Financial Solutions?
I think it comes down to industry and style. A lot of investors in the private capital markets have come to expect real estate as part of their alternative investments. We've spent more time looking for unique opportunities. I would say some of the overlooked areas are private equity and private debt, as well as unique real estate asset classes, such as senior living spaces, along with healthcare and medical office buildings.

We even have exposure to farmland, which is unique for a couple of reasons: You can't have a public farmland fund, and this asset class is driven more by agricultural fundamentals, like farmer performance, crop prices and food demand.

You've said that Raintree's advisors can now refer their clients to third-party managers or to Raintree Wealth Management. Can you talk about how clients are guided during that decision process?
Our advisors start by sitting with clients and thinking about their financial objectives and risk parameters. After establishing that, they set a ratio following our Core + Explore investment philosophy. The portfolio 'core' will generally be placed with a portfolio manager for traditional securities like stocks, bonds and ETFs. A certain portion will go on the 'explore' side, which are the alternative investments. The advisors are thoughtful about recommending a portfolio manager – or even multiple portfolio managers – as well as specific alternative investments to round out the client's portfolio.

Are there any new or upcoming investment opportunities that you're looking to add to your portfolio?
We've spent a lot of time customizing our asset allocation mix for Raintree Wealth Management, and I think we're going to have very good subadvisors to our core portfolios. As for Raintree Financial Solutions, we've never seen more opportunity in private and alternative investments; I'm actually meeting with managers in Toronto and New York about that. We're looking to be sector and geographically diversified, going further afield to find good managers and opportunities for our clients.