

InBC Investment Corp. – Business Case
January 2021

Contents

- Executive Summary..... 3
 - Background 3
 - Strategic Context..... 3
 - InBC 4
 - Financial/Resources 8
 - Next Steps 8
- Strategic Objectives 9
 - Overview 9
 - Strategic Context..... 10
 - Scaling Small and Medium Sized B.C. Businesses 14
 - Problem Statement..... 18
- Analysis 20
 - Mandate..... 20
 - Investments..... 20
 - Potential Models..... 21
 - Engagement 22
 - Risks and Mitigation..... 25
- Governance..... 37
 - InBC Investment Corp. Act..... 37
 - Integration with the Government Reporting Entity 41
 - InBC Accountability Framework..... 42
- Investment Objectives 47
 - Investment Criteria 47
 - Program Delivery 52
 - Investment Climate and Partnership Opportunities..... 62
 - Performance Measurement..... 70
- Implementation 74
 - Administration Requirements..... 74
 - Financial Summary 80
 - Implementation Timeline 86

Executive Summary

Background

The Province of B.C. is committed to supporting high potential B.C. businesses by helping them scale up and grow in the province. Through making strategic investments in B.C. businesses, the province will develop B.C.'s low carbon economy, while anchoring talent, intellectual property, and good jobs in the province. A key component of achieving this commitment is the creation of a strategic investment fund specifically targeting British Columbia-based businesses with growth potential that provide family supporting jobs.

S. 12 and 13

To facilitate the creation of the Fund, InBC Investment Corp. (InBC) was created in late September 2020. Prior to September 16, 2020, InBC was called the BC Immigrant Investment Fund Ltd. (BCIIF). The BCIIF name was changed to InBC Investment Corp. to align with the Crown's new mandate to establish and administer the Fund announced as part of the StrongerBC Economic Recovery Plan.

On November 26, 2020, the Premier issued a ministerial mandate letter to the Honourable Ravi Kahlon, Minister of Jobs, Economic Recovery and Innovation, directing Minister Kahlon to: "launch a Strategic Investment Fund to support our government's objective of building a more innovative low-carbon economy by investing in high-potential B.C. businesses to help them scale up and grow here".

Over the past several months, staff within JERI have been moving forward on numerous fronts in order to operationalise the Fund in the near future as well as test key assumptions and proposals regarding the proposed structure/parameters for such a strategic investment fund. The results of this work are summarized within this business case which provides the following information:

- Strategic context regarding the need for government involvement in investment capital
- The analysis performed and engagement undertaken
- The proposed governance structure and operations of InBC
- Implementation and the required resources

Strategic Context

Access to capital is a major factor that enables companies to scale and grow. It is generally recognized that it is difficult to attract the risk capital needed to start up an enterprise and expand operations. Access to capital is a chronic problem for small and mid-sized businesses, as well as business start-ups. Without access to capital, new businesses cannot get off the ground, and existing businesses experience difficulty expanding or may be acquired by bigger firms¹. In order to be resilient and thrive, British Columbia's businesses must be able to enter new markets with innovative products and services. Having access to capital is a critical component of enabling innovation. BC's Emerging Economy Task Force, the

¹ Russell, Ian. Facilitating Access to Equity Capital for Small and Medium sized Enterprises. Policy Options. 2016

first Innovation Commissioner and the federal Advisory Board on Economic Growth all highlight the importance of sufficient access to capital to small and medium sized business.

Recent economic research, specifically related to innovation policy argues that there is an active role for governments, to create and shape markets. This school of thought proposes mission-oriented innovation policies that aim to address the “grand challenges” of society (i.e. climate change, economic inequality, food insecurity) across a number of industry sectors and mobilize them collectively, including through partnership with government, to solve public policy challenges. Strategic investment funds reflect one way that governments may lead and shape the creation of new markets while driving economic growth and ensuring governments share in the financial success of the markets that are created.

The challenge of anchoring, growing and scaling high growth potential firms is not new. This has been a focus of successive provincial and federal governments since the 1990s². Canada generally, and British Columbia specifically, is well known internationally for its start-up environment. This is due largely to the ease of setting up new businesses, high quality post-secondary research institutions, a well-educated talent pool and early stage financial assistance. However, there is equal consensus regarding Canada’s (and B.C.’s) seeming inability to grow and scale high growth potential firms from small (0 to 50 employees) to medium (51 to 500 employees) and the medium to large (500+ employees)³. The prevailing view is that Canadian high growth potential firms lack access to “growth capital” to transition from small to medium size⁴.

Federal and provincial government investment plays an important role in supporting B.C. businesses to raise capital. This investment may come in a variety of forms, including indirect fund investments, subordinated debt and equity investment. Governments’ use of investment strategies to advance economic, environmental and societal policy objectives is a well-established practice across Canada and internationally. Double bottom line investment programs include the Province of B.C.’s BC Renaissance Capital Fund investments in venture capital portfolios, a program that considers job creation and early stage venture capital investment levels as program objectives. This program has been in place since 2007.

InBC

InBC, as the Province of B.C.’s strategic investment fund, can enhance capital availability in the province, positively impact B.C. business as well as making investments that support overarching government policies and objectives. However, in order to achieve those goals InBC must operate within investment parameters that address financial as well as policy goals. These parameters constitute a triple bottom line, where InBC measures success against both financial as well as economic, environmental, and societal policy objectives.

² C.D. Howe Institute (2017). Government Intervention in Venture Capital in Canada: Toward Greater Transparency and Accountability. P. 2

³ Small Business Research and Analysis Directorate (2019). Key Small Business Statistics 2019. Innovation, Science and Economic Development Canada. P.5

⁴ Remillard, R (2019). Access to Capital for Canadian Growth-Oriented Medium Sized Firms. Remillard Consulting Group. P.3.

There are a number of structural components required in order to achieve the desired objectives. These include:

- Statutory Authority
- Board of Directors, Governance and Investment Policy
- Chief Investment Officer (CIO)
- Investment Objectives with Triple Bottom Line
- Value Proposition

Statutory Authority

The initial set up of InBC was achieved by repurposing an existing Crown corporation, but it is clear that continuing the corporation through legislation is critical to the success of the initiative. This has been confirmed through consultation with industry governance experts and through the review of investment fund governance practices across Canada and internationally.

The reasons for the requirement of legislation include:

- Assuring the independence of the investment decision-making function which cannot be fully assured absent express statutory provisions;
- Confirming that InBC is an agent of the Crown is best achieved by express legislation to that effect;
- Establishing the investment objectives and governance framework of InBC; and,
- Finally, providing an express statutory foundation will convey a sense of permanence and clarity that will support the confidence of the market in InBC as a new public sector market entrant which will be crucial to its early successful operation.

Board of Directors, Governance and Investment Policy

The governance framework proposes that the Board of Directors will consist of up to nine members. That number will be prescribed in legislation. Of those members, two have been appointed from the public service - namely, the Deputy Ministers of the two responsible Ministries (Jobs, Economic Recovery and Innovation, and Finance) who are currently on the Board. The remaining up to seven members are to be appointed from outside the public sector and this will also be prescribed in legislation. The aim is to have a group of experienced and influential representatives from industry, finance, academia, and other important areas of leadership in the province, so that the Board is made up of strong and well-respected individuals from a variety of backgrounds who bring their credibility and experience to bear.

Before InBC's legislation is in place and while InBC is still a *BC Business Corporations Act* corporation, the Board of Directors will be appointed by resolution of the shareholders, the two responsible Ministers (JERI and Finance). Once legislation is in place, a nominations committee of the Board will propose and vet candidates for upcoming vacancies and those recommendations will be made to the Minister of Jobs, Economic Recovery and Innovation. This process will be undertaken in accordance with requirements specified by the Minister (JERI). Once a list of recommendations is made to the Minister and the Minister (JERI) has consulted with the Minister of Finance on those recommendations, the

Minister has the discretion to recommend to Cabinet a name or names from the list for appointment to the Board by Order in Council.

The independence of investment decision making is another point that has been emphasized as one of the most important aspects of InBC during the stakeholder engagements and market sounding process.

Implementation of InBC's investment strategy will be subject to a governance framework designed to provide government with the ability to set the investment objectives of InBC, while at the same time creating independence for the CIO to make individual investment decisions.

Mandate Letter and Investment Policy Statement

Prior to the implementation of any investment strategy, Cabinet confirmed mandate letter direction will be provided to InBC's Board of Directors specifying government's objectives as they relate to the InBC's investments. This mandate letter direction will be supplemented through additional shareholder direction and may include direction to the Board to develop a comprehensive Investment Policy Statement (IPS). The Board may be required to report on this IPS to the Minister of Finance and the Minister of Jobs Economic Recovery and Innovation for approval prior to its implementation. An IPS would typically address items such as investor return objectives, risk considerations and proscribed investments among other considerations. Typically, the IPS would be developed by the Board in collaboration with the CIO and would serve as an accountability document for the Board to hold the CIO responsible for the CIO's execution of the investment policy.

Chief Investment Officer

The legal authority to make investment decisions will rest exclusively with the CIO and the team of investment professionals. This independence of the investment decision-making function and the CIO's responsibility for it will be expressly prescribed in the proposed legislation. Specifically, legislation as proposed, will establish that only the CIO and the investment professionals that report to the CIO, as well as any fund managers hired by the CIO can participate in investment decision-making. This will provide an important safeguard in terms of protecting the independence of investment decision-making , while also serving an important communications role by demonstrating to the marketplace and broader public how seriously InBC takes the integrity and independence of its investment decision-making process.

While the CIO is independent in investment decision making, as noted above, the CIO will be accountable to the Board for compliance with the requirements of both the mandate letter direction and IPS.

Investment Objectives– Triple Bottom Line

InBC investment objectives propose investing on a triple bottom line basis in accordance with the proposed statutory mandate. The objective of triple bottom line investing is to realize both a financial return and create an economic, environmental, or societal impact.

InBC's triple bottom line mandate seeks to earn a commercial rate of return on investment capital while advancing government's principles, and the Ministry of Jobs, Economic Recovery and Innovation's

mandate as described in the November 26, 2020 ministerial mandate letter. Government's objectives with respect to the triple bottom line will be set out through the annual mandate letter process, this direction can be supplemented as required by specific shareholder direction.

Value Proposition

InBC's investment decisions will be made by an independent and qualified CIO. Investment decisions will be based on an assessment of an investment against InBC's triple bottom line objectives.

InBC will invest with the objective of creating Quality Economic Growth⁵ in the province of B.C. It will seek to earn a commercial return on its investments, however InBC is not constrained by short- or medium- term liquidity requirements. This means that InBC will be positioned to provide a stable source of patient capital (holding periods may exceed 10 years) to BC companies to help them grow and scale in the province.

InBC has the potential to add value to the Province of B.C. by capitalizing on opportunities fostered by other government programming focused on early stage businesses. Existing government programs such as the small business venture capital tax credit and the Innovative Clean Energy (ICE) Fund are examples of support the Province of B.C. provides early stage businesses to develop their business models, develop their intellectual property and position themselves as high growth potential firms. This existing programming provides a potential flow of deals for InBC, as a government agency, to develop these established relationships, leverage gains made from earlier stage government support, and to realize returns on government's investment. As government develops its intellectual property strategy, and its approach to developing innovation clusters, further opportunities may arise to realize investment opportunities as a result of government programming. InBC's ability to develop the existing flow of government opportunities with the objective of providing further growth opportunities to businesses while capturing a return on the earlier funding arrangements will be a significant component of InBC's value proposition.

In addition to building on existing and new provincial government programming, InBC will develop active strategic partnership lines with the federal government, federal government agencies and the private sector. InBC will seek to apply these unique relationships to add value to the investment process. Consideration will also be given to the development of partnerships with provincial agencies and Crown corporations where appropriate.

InBC also has the opportunity to add value as an investor and investment partner. The Province of B.C. brings a unique tool set as an investor. Current provincial programming dedicates resources to facilitating investment in B.C. companies, addressing regulatory challenges, coordinating investment partnerships, and directing companies to existing government resources to support their growth. InBC may add value as a shareholder by facilitating access to these supports.

⁵ Province of British Columbia (2020). A Framework for Improving British Columbians' Standard of Living, Economic Plan 2019-2020. P.7

Financial/Resources

Operating costs and full-time equivalents

	2021/22	2022/23	2023/24
	S. 12 and 13		
Operating (\$ millions)			
Incremental FTEs			

Private investment fund operating costs generally target annual administration and management costs to be between 1 – 2% of assets under management. The proposed operating costs for InBC, as a percentage of a \$500 million investment capital allocation are within this range at S. 12 and 13

Next Steps

The fundamental underpinnings to establish InBC as an independent statutory entity are underway. With the approval of the business case, staff can move forward to achieve key milestones in the next 6 to 9 months including finalizing a compensation framework for InBC staff, recruiting key investment personnel and launching projects that will establish facilities and information systems for InBC.

Strategic Objectives

Overview

There are two clear commitments made by the Province of B.C. that describe its objective to establish InBC:

On September 17, 2020, the Province of B.C. released StrongerBC for Everyone: B.C.'s Economic Recovery Plan (StrongerBC). StrongerBC includes a commitment to launch a \$500 million strategic investment fund called InBC. As set out in StrongerBC, InBC will:

- Invest in small and medium sized B.C. businesses to help them scale up, and to anchor talent, intellectual property, and good jobs in the province.
- Invest in high growth potential firms, and leverage investments from the private and public sectors, to help businesses scale up.
- Achieve both a commercial return on investment and advance important policies that make life better for British Columbians—such as creating jobs and economic growth, advancing reconciliation with Indigenous communities, promoting diversity and inclusion, and achieving CleanBC goals, and improve confidence in B.C.'s supply chains⁶.

On November 26, 2020, the Premier issued a ministerial mandate letter to the Honourable Ravi Kahlon, Minister of Jobs, Economic Recovery and Innovation. The mandate letter included the following:

- Launch a Strategic Investment Fund to support our government's objective of building a more innovative low-carbon economy by investing in high-potential B.C. businesses to help them scale up and grow here.

This business case will describe how InBC, as the strategic investment fund for the Province of B.C. will meet these commitments, and in doing so how InBC aligns with government's five foundational principles:

- Putting people first;
- Lasting and meaningful reconciliation;

⁶ Province of British Columbia (2020). Stronger BC: BC's Economic Recovery Plan. Queens Printer. https://news.gov.bc.ca/files/StrongerBC_BC's-Economic-Recovery-Report.pdf P.22

- Equity and anti-racism;
- A better future through fighting climate change; and,
- A strong sustainable economy that works for everyone⁷

Strategic Context

Through its investments, InBC will strive to generate economic growth in the province. However, the mandate for InBC goes beyond simply generating economic growth as measured by increase in per capita Gross Domestic Product (GDP). InBC will address the challenge of generating economic growth that advances the foundational principles of the Province of B.C.

Economic Inclusion

The Organization for Economic Cooperation and Development (OECD) conducted research on income inequality over the last 35 years. In 2012, there was a ~25% gap in Real Household Income between the top 10% and bottom 40% of earners in OECD member states. The gap increased to ~33% gap between the top 10% and bottom 10%.⁸ A comparison can be drawn to B.C., where in 2016, the median wage in the province was 18% below what it was in 1976⁹.

The OECD's overall conclusion is that growth, as defined by increased GDP over time, has not benefitted all members of society equally, and member states need to focus on growth that is inclusive. Inclusive Growth is an approach to address these challenges.

Inclusive Growth is: "Economic growth that is distributed fairly across society and creates opportunities for all."¹⁰

⁷ Province of British Columbia. JERI Mandate Letter. P.2

⁸ Organization for Economic Cooperation and Development (2015). In it Together: Why Less Inequality Helps us All. Organization of Economic Cooperation and Development Publishing. <https://www.oecd.org/inclusive-growth/#inequality-puts-our-world-at-risk>

⁹ Province of British Columbia (2020). A Framework for Improving British Columbians' Standard of Living, Economic Plan 2019-2020. P.18

¹⁰ Organization for Economic Cooperation and Development (2021). Inclusive Growth Web Portal. Organization for Economic Cooperation and Development Publishing. <https://www.oecd.org/inclusive-growth/#introduction>

Inclusive Growth is consistent with several provincial economic, environmental and social objectives, including the objectives of Quality Economic Growth as set out in the 2019-2020 B.C. Economic Plan: A Framework for Improving British Columbia's Standards of Living (the Economic Framework).¹¹

These objectives include:

- Economic activity that provides net positive revenues to the Crown that can be reinvested for the benefit of all citizens;
- Economic activity that raises real wages for British Columbians;
- Economic activity undertaken in an environmentally sustainable manner consistent with the Province's climate policy objectives;
- Economic opportunities distributed to all regions in the province;
- Increase economic opportunities available to under-represented groups; and
- Increase economic opportunities available Indigenous peoples.

The goal of Inclusive Growth is to provide equitable access to economic opportunities regardless of gender, ethnicity, cultural background, socio-economic status or location. It has the long-term goal of creating a more productive, job-creating economy that unlocks opportunities for all. This, in turn, increases the economy's capacity to consume, contributes to greater social and political stability and lessens the need for government intervention.

InBC will aim to support these goals.

Mission Focused Innovation Policy

Classical economic theory is based on the principle of well-functioning markets. The foundational principle is that a well-functioning market is the most efficient way to allocate resources and governments should not intervene unless there is a market or system failure that distorts market operation. For instance, governments can regulate externalities like pollution (account for transfer of private costs to public), invest in basic scientific research (provide public goods), address monopoly power or address insufficient market information. The underlying rationale is that governments "fix" markets when they are inefficient.¹²

¹¹ Province of British Columbia (2020). P.7

¹² Mazzucato, Mariana (2015). The Entrepreneurial State: Debunking Public vs. Private Sector Myths. Anthem Press UK and USA. PP 28.

Recent economic research (specifically related to innovation policy) argues there is a more active role for governments, “...Creating and shaping markets not only ‘fixing’ them.”¹³ This school of thought proposes “mission oriented” innovation policies that aim to address the grand challenges of society (i.e. climate change, economic inequality, food insecurity,) across a number of industry sectors and mobilize them collectively and in partnership with government to solve public policy challenges. Mariana Mazzucato, a prominent thinker in the field, presents four principles that underpin the concept:

1. Empower governments to envision a direction for technological change and invest in that direction;
2. Measure public investment by its ability to push into new markets alongside the private sector rather than competing (i.e., crowding each other out);
3. Enable government to experiment, learn and, potentially, fail; and
4. Develop methodologies for government and taxpayers to benefit from the upside of innovation investments rather than de-risking the downside.¹⁴

These principles are being put into practice.

In 2020, for example, the government of Scotland launched the Scottish National Investment Bank (SNIB), a mission-led development bank with the objective of: “providing patient capital to build a stronger, fairer, more sustainable Scotland”. The missions of the SNIB are set by the government of Scotland and are a response to three grand challenges identified by that government:

1. Supporting Scotland’s transition to net-zero by 2045;
2. Building communities and promoting equality by 2040; and,
3. Harnessing innovation to enable our people to flourish by 2040¹⁵

S. 12 and 13

The proposed InBC strategic investment fund is one part of a larger, cross-government response.

¹³ Mazzucato, M (2015). P.29.

¹⁴ Mazzucato, M. (2015) P.30.

¹⁵ Scottish National Investment Bank (2021). Our Missions. <https://www.thebank.scot/about/our-missions/>

Table 1 – Ministerial Commitments for a CleanBC

Ministry	Commitment
Jobs, Economic Recovery and Innovation	<ul style="list-style-type: none"> • Work across ministries to lead the development and coordinate implementation of an industrial and manufacturing strategy that generates cleaner, more innovative, value-added economic activity across B.C., while supporting our commitments to reconciliation and CleanBC • With support from the Minister of Energy, Mines and Low Carbon Innovation, boost B.C. as a global exporter of climate solutions by investing in B.C.-based carbon capture and storage and other low carbon technologies.
Energy, Mines and Low Carbon Innovation	<ul style="list-style-type: none"> • Establish the BC Centre for Innovation and Clean Energy to drive made-in-BC innovations such as carbon capture and storage and renewable fuels. • Enhance energy efficiency programs and incentives for residential and commercial buildings, including Property Assessed Clean Energy financing to help homeowners make energy-saving retrofits and repay the cost of them over time.
Environment and Climate Change Strategy	<ul style="list-style-type: none"> • Accelerate the move toward a net-zero emission bus fleet powered by electrification, hydrogen fuel cell technologies, and other zero-emissions technologies, including supporting TransLink’s “aggressive” level plan.
Municipal Affairs	<ul style="list-style-type: none"> • Support the work of the Minister of Finance to establish Property Assessed Clean Energy financing.

These initiatives will represent a discrete set of policy and/or technological innovations on their own. However, they also represent larger collective response to address the grand challenge of climate change.

InBC will address the climate challenge, and it will go further. InBC will propose investment objectives that recognize the challenges inherent in the principles set out by government. The investment objectives will address:

- **A better future through fighting climate change:** ... building a low-carbon economy with new clean-energy jobs and opportunities, protecting our air, land and water and supporting communities to prepare for climate impacts
 - InBC investments aim to support the growth of the province's low carbon economy
- **A strong, sustainable economy that works for everyone:** ...helping businesses and communities, and building the clean, innovative economy of the future.
 - InBC's investments aim to scale and develop innovative BC businesses and anchor intellectual property in the province
- **Lasting and meaningful reconciliation:** ...every ministry must remain focused on creating opportunities for Indigenous peoples to be full partners in our economy
 - InBC's investments aim to remove barriers to participation in our economy and advance reconciliation with Indigenous peoples
- **Equity and anti-racism:** ... efforts to address systemic discrimination must also inform policy and budget decisions by reviewing all decisions through a Gender-Based Analysis Plus (GBA+) lens
 - InBC's investments aim to remove barriers to participation in our economy. InBC will consider barriers to diversity broadly and including impacts on gender, ethnic diversity and Indigenous peoples specifically
- **Putting People First:** Specifically, the reference, "To build an economic recovery that works for everyone, not just those at the top"
 - InBC's investments aim to create economic growth opportunities that are realized in all economic development regions of the province

That is how InBC will contribute to B.C.'s inclusive growth.

Scaling Small and Medium Sized B.C. Businesses

StrongerBC outlines InBC's objective of supporting small and medium sized B.C. businesses to help them grow in the province. Specifically, StrongerBC states InBC will:

- Invest in small and medium sized B.C. businesses to help them scale up, and to anchor talent, intellectual property, and good jobs in the province.

- Invest in high growth potential firms, and leverage investments from the private and public sectors, to help businesses scale up.

The following provides for the importance of supporting small and medium sized firms, and the benefits that may be realized through fostering an environment where small and medium sized firms may scale up to realize their potential.

Firm Size and its Importance

Small and medium-sized enterprises (SMEs) represent the largest proportion of businesses in Canada generally¹⁶ and B.C. specifically¹⁷. High Growth Potential Firms (HPFs) represent a small subset of the overall SME population. HPFs are SMEs with the potential to make an outsized economic, environmental and/or social contribution to provincial objectives. Creating the conditions that encourage not only the startup but also the long-term growth and scaling of HPFs is an important component of B.C.'s future economy.

Approximately 98 percent of BC businesses are classified as “small” (i.e. under 50 employees).¹⁸ Most of these businesses are one-person firms or those with fewer than five employees. Approximately 90 percent of Canada’s overall business sector consists of small and medium sized enterprises.¹⁹ Further, less than two percent grow to become large (i.e. 500+ employees).²⁰ Only 7,900 of the over 400,000 registered companies in B.C. have more than 50 employees (under 2%).²¹

Large companies comprise approximately two percent of the business community in B.C. However, they contribute approximately 46 percent of total private sector employment.²² This is due to the fact that large companies generally are more productive, spend more on research and development and are better able to access external markets than small firms. This also enables them to pay higher wages that improve living standards and make greater contributions to Crown revenues over time.

¹⁶ Remillard, R (2019). Access to Capital for Canadian Growth-Oriented Medium Sized Firms. Remillard Consulting Group. P.3.

¹⁷ Finlayson, J and Peacock, K (2017). From Good to Great: The Benefit of Scaling Up BC Businesses. Business Council of British Columbia. P.1.

¹⁸ Finlayson, J and Peacock, K (2017). From Good to Great: The Benefit of Scaling Up BC Businesses. Business Council of British Columbia.

¹⁹ Remillard, R (2019). P.3.

²⁰ Remillard, R (2019). P.3.

²¹ Finlayson, J and Peacock, K (2017). PP.2-3.

²² Finalyson, J and Peacock, K (2017). P. 4

There are significant benefits to B.C., therefore, to fostering an economic climate that helps small businesses become large businesses. InBC will help foster this economic climate by strategically investing its capital to help businesses grow.

Policy Context

Canada generally, and British Columbia specifically, is well known internationally for its start-up environment.²³ This is due largely to the ease of setting up new businesses, high quality post-secondary research institutions, a well-educated talent pool and early stage financial assistance.²⁴ However, there is equal consensus regarding Canada's (and B.C.'s) seeming inability to grow and scale HPFs from small (0 to 50 employees) to medium (51 to 500 employees) and then medium to large (500+ employees).²⁵ The prevailing view is that Canadian HPFs often find it difficult to access the capital required to grow and scale.

Durufle, Hellman and Wilson refer to the need for "Patient Money". "Patient money is premised on the fact that scale-ups are risky and require long-term investments."²⁶ They note patient money has two aspects. "First, the nature of scale-ups requires investors to be willing to make illiquid long-term investments. Second, there is a limit to investor patience and therefore a desire for investors to create liquidity opportunities".²⁷ However, the time horizon may go beyond the 10 years typical of venture capital funds in some cases.

Remillard refers to a need for "growth capital" for firms to transition from small, to medium, to large size.

Growth capital is:

A type of debt or private equity investment, usually a minority investment, in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance significant acquisition without a change of control of the business²⁸

²³ Remillard, R (2019). P.4

²⁴ Industry Strategy Council. P.41

²⁵ Small Business Research and Analysis Directorate (2019). Key Small Business Statistics 2019. Innovation, Science and Economic Development Canada. P.5

²⁶ Durufle, P., Hellman, T., Wilson, K. (2017). From Start Up to Scale Up: Examining Public Policies for the Financing of High Growth Firms. Bruegel Publications. P.7

²⁷ Durufle, P., Hellman, T., Wilson, K. (2017). P.8

²⁸ Remillard, R (2019). P.5.

The Province of B.C. and the Government of Canada have recently initiated several expert-driven task forces and studies that have advised government on these matters. Common among the findings from these studies is:

Business access to capital is required to build a resilient, innovative economy, and there is a role for government to support business access to capital.

InBC will be a source of capital to help B.C. small businesses scale up and grow in the Province.

Economic contributions from the growth of high potential firms are:

- High quality job creation;
- Development and retention of talent;
- Creation and deployment of “home grown” intellectual property;
- New market access and export growth;
- Short, medium and long-term Crown revenue growth

Table 2: High-Level Findings from Key Independent Processes

Source	Key Findings
B.C. Emerging Economy Task Force	<ul style="list-style-type: none"> • Most B.C.-based, IP-backed firms do not have sufficient size or scale to compete globally. Enhanced financing options that increase access to growth capital through leveraging other public and private sources would help create the next generation of medium to large firms. • B.C. can build on its solid base of IP-rich companies, across multiple industries, to develop new products/services that diffuse through the provincial, national and global economies. • B.C. can leverage its commitment to a sustainable and low-carbon economy to invest in firms and infrastructure that position it to take advantage of opportunities that emerge in the global economy (i.e., new markets).
B.C. Innovation Commissioner	<ul style="list-style-type: none"> • Promising, young B.C. firms can generally attract seed and early stage funding however later stage funding gaps exist that impact ability to grow and scale. • The Province can use cross-cutting strategies, such as CleanBC, to drive the creation of intangible assets that address public policy challenges.

	<ul style="list-style-type: none"> • The global economy shifting from tangible (i.e., resources) to intangible assets (i.e., intellectual property (IP)). • Intangible assets such as data, software and other IP lead to product/service development that can form next wave of successful companies and assist existing firms to adapt.
B.C. Food Security Task Force	<ul style="list-style-type: none"> • B.C. is in a strong position given its base of agritech firms (150+) and access to agricultural land to develop and deploy agritech solutions. • Agritech industry reflects B.C.'s broader SME demographics (i.e., vast majority small firms with few medium and large). • Provincial co-investment that leverages other public and private funding sources would support agritech firm growth and scale
Federal Industry Strategy Council	<ul style="list-style-type: none"> • The COVID-19 pandemic has the potential to be a turning point in Canada's economic policy. • The Council identified the need across industries for capital to either stabilize, recover or grow their hardest-hit or highest potential firms. These recommendations include, but are not limited to, targeted liquidity supports, patient capital, new financing models and the greater mobilization of private sector investment. Given the current uncertainty of the duration of COVID-19, access to capital will continue to shape our economic recovery, as well as our ability to seize new growth opportunities • The Council also highlighted the need to improve access to capital so high growth firms can achieve scale

Problem Statement

The problem is complex.

The B.C. economy needs to grow to create quality jobs, and to raise the standard of living of British Columbians. For the economy to grow, B.C. businesses need to thrive. SME's have the potential to make a significant impact on the B.C economy, but are often challenged in accessing capital, and this limits their ability to reach their potential. There is a role for government to play in supporting SME's to access capital and grow the economy.

However, government's interests extend far beyond growth in per capita GDP. Government seeks to foster an economic climate that addresses significant challenges faced by British Columbians: Climate Change, reconciliation, equity and inclusion, and fostering an innovative economy that works for everyone.

Economic growth that addresses these challenges is Quality Economic Growth.

InBC, a \$500 Million provincial strategic investment fund will address the challenge of generating Quality Economic Growth in B.C. It will invest in B.C. businesses and through these investments address the challenges implicit in this government's five principles²⁹.

InBC will seek to achieve:

- a financial return on its investments that will contribute healthy government net revenues and provide additional funds for reinvestment; and,
- the objectives of this government which are embodied in the principle of Quality Economic Growth.

²⁹Province of British Columbia. JERI Mandate Letter. P.2: Putting people first, Lasting and meaningful reconciliation, Equity and anti-racism, A better future through fighting climate change, A strong, sustainable economy that works for everyone

Analysis Mandate

There are two clear commitments made by the Province of B.C. that describe its objective to establish InBC:

On September 17, 2020, the Province of B.C. released StrongerBC for Everyone: B.C.'s Economic Recovery Plan (StrongerBC). StrongerBC includes the following commitment to launching a \$500 million strategic investment fund called InBC. As set out in StrongerBC, InBC will:

- Invest in small and medium sized B.C. businesses to help them scale up, and to anchor talent, intellectual property, and good jobs in the province.
- Invest in high growth potential firms, and leverage investments from the private and public sectors, to help businesses scale up.
- Achieve both a commercial return on investment and advance important policies that make life better for British Columbians—such as creating jobs and economic growth, advancing reconciliation with Indigenous communities, promoting diversity and inclusion, and achieving S. 12 and 13 , and improve confidence in B.C.'s supply chains.

On November 26, 2020, the Premier issued a ministerial mandate letter to the Honourable Ravi Kahlon, Minister of Jobs, Economic Recovery and Innovation. The mandate letter included the following:

- Launch a Strategic Investment Fund to support our government's objective of building a more innovative low-carbon economy by investing in high-potential B.C. businesses to help them scale up and grow here.

InBC will address these objectives through its investments

Investments

The basis for InBC's investments is set out in principles within the 2019-2020 B.C. Economic Plan: A Framework for Improving British Columbian's Standards of Living (the Economic Framework). The Economic Framework presents the principle of "Quality Economic Growth". Quality Economic Growth is growth that generates increases in real wages, healthy increases government revenue without raising tax rates, shares the benefits broadly across the province and across the population and cares for our

natural environment. Quality Economic Growth is closely aligned with the 5 principles set out by this government. From the outset, InBC was designed to align with the principles of Quality Economic Growth. The design takes into consideration two key objectives for InBC's investments.

Quality Economic Growth involves developing programming that contributes to per capita real government revenue. The first objective of InBC's investments, therefore, is that they must earn a financial rate of return. InBC is not a grant program. Through investing to obtain a financial return, InBC will support the cost of maintaining its operations, and contribute to government's net revenues and provide additional funds for reinvestment.

The second objective for InBC's investments is that they must address the policy objectives established by government. Quality Economic Growth also contemplates the goals of S. 12 and 13 and the vision for an inclusive economy that includes all British Columbians. These are policy objectives goals established by the Province. InBC's investments must therefore have an impact beyond financial return, they must support the realization of government's goals.

These objectives form the basis of InBC's triple bottom line. InBC will be a strategic investment fund that will measure its performance against the financial returns it earns, and the economic, environmental and societal impacts it makes.

Potential Models

Triple bottom line investing is investing with the objective of realizing a financial return while creating an economic, environmental or societal impact. Governments' use of investment programs to advance economic, environmental and societal policy objectives is a well-established practice across Canada and internationally, but models vary.

In Canada they range from the province of B.C.'s BC Renaissance Capital Fund, which invests in venture capital funds to support investment and job creation in the provincial technology sector, to Investissement Quebec, which contributes to provincial economic development in accordance with the government's economic policies.

Internationally, Ireland³⁰, Denmark³¹ and Scotland³² all provide examples of how governments have established strategic investment funds to create national wealth by earning returns on fund investments, and furthering government priorities.

While varying significantly in structure, size, location and mandate, there are commonalities that emerge across several of these funds:

1. Their mandate is commonly established through legislation;
2. Government sets the policy that guides the fund investment objectives;
3. There is flexibility within in the fund to determine how government policy objectives are met through its investments;
4. There is separation between the economic policy decisions of government, and investment decisions of the fund;
5. The investment function is conducted by qualified investment professionals, with private investment experience; and,
6. Performance is measured based on financial returns, and policy outcomes, and this performance is reported publicly.

Engagement

Informed by government objectives and policies from the province of B.C.'s economic recovery plan (StrongerBC), the Economic Framework, and government investment programs in other jurisdictions, JERI has engaged with stakeholders from across the province, governance experts, investment professionals, and industry representatives at the national and international level.

The engagement process followed two discrete phases:

- Phase 1 - an informal engagement process, where the high-level concept of the provincial fund was discussed with stakeholders in order to: (a) understand the market perception of and reception to the proposed fund, including the potential impact of a new publicly owned \$500 million strategic investment fund within the BC marketplace; and (b) to facilitate a broad ranging discussion of the proposal; and,

³⁰ The Ireland Strategic Investment Fund

³¹ The Danish Vaekstfonden (Growth Fund)

³² The Scottish National Investment Bank

- Phase 2 - a formal structured confidential market sounding process where the detailed concept, including the strategic investment fund's potential governance framework and the principles informing the draft investment objectives were presented in written format to a cross section of the experts who had participated during Phase 1.

The Phase 1 informal engagement process informed the early development of the InBC concept and in particular, the development of the governance framework and investment principles that were developed for use as part of the Phase 2 formal market sounding process.

Responses to the Phase 2 formal market sounding process have been transcribed and analyzed by JERI. Where appropriate, adjustments have been made to the governance framework and investment principles.

This business case therefore benefits from and is informed by two discrete rounds of extensive market engagement.

Phase 1 – Informal Engagement Process

Informal engagement and consultation started in September 2020. JERI has engaged a broad cross section of the marketplace. The informal engagement process solicited feedback from a broad range of individuals and groups, from venture capital and private equity firms to academic institutions, accelerators and incubators, organizations specific to women in business or Indigenous peoples, federal entities, and local boards of trade, amongst others. Through this stakeholder engagement JERI has also interacted with strategic investment funds in other jurisdictions. Over 150 informal engagements have taken place, with over 30 formal market sounding meetings.

Over the course of the Phase 1 engagement process, recurring themes were brought forward by participants. There was a positive and enthusiastic response to the concept of InBC. Stakeholder groups believed that it will contribute to Quality Economic Growth within British Columbia. The willingness of the marketplace participants to contribute direct advice, introductions to other industry participants and experts and explore the potential for future partnership and collaboration reinforced this view

Other common themes include:

- The need for InBC to clearly articulate its role in the market;
- Need to phase in investment activities – starting small with investment in funds and growing expertise before participating as a co-investor, and ultimately leading investment rounds;

- Importance of governance structure – independence from government;
- The need for sufficient and experienced investment staff paid at market rates; and,
- The need for InBC to act and respond in a consistent, “on-market” manner.

These concepts are further discussed in the business case, and details of stakeholder feedback are incorporated throughout.

Through the Phase 1 informal engagement process, JERI identified a list of individuals and organizations to be part of the Phase 2 formal market sounding process. These individuals were selected because of their potential to contribute crucial insights and feedback to develop the foundational principles of InBC.

Phase 2 – Formal Market Sounding Process

Two documents were developed for the formal market sounding process: a draft governance framework; and draft investment objectives for InBC.

These documents were created based on a review of practices in other jurisdictions, various federal, provincial and academic policy papers and discussions with experts from several jurisdictions and external organizations as part of Phase 1 external engagement process. Drafts of the proposed governance framework and investment objectives were distributed to select groups of external experts and stakeholders for feedback as part of the Phase 2 formal market sounding exercise.

The InBC formal market sounding exercise was a structured interaction with individual market players. It was designed to provide information and receive feedback on specific issues. The objective was to test two crucial pieces of the project (the governance framework and the investment objectives of InBC) with knowledgeable actors in the marketplace, and to then incorporate that feedback back into the project design before finalization. The governance framework, and investment objectives that incorporate this feedback are included as appendices:

- **Appendix A – InBC Investment Corp. Governance Framework**
- **Appendix B – InBC Investment Corp. Investment Objectives**

In order to secure the most thoughtful and comprehensive feedback possible, each participant was provided with an information package comprising the governance framework and the investment objectives of InBC (as applicable) ahead of time. This information was provided as context to solicit feedback on the key features of the draft investment objectives and criteria, or the key features of the

draft governance framework. These documents, as revised following input from the Phase 2 formal market sounding process also form the foundation of this business case.

Participants were informed that information obtained through the sounding process was on a 'not for attribution' basis, so that they felt able to be as forthcoming as possible. Further, participants were informed that any report on the outcome of the market sounding would be for internal use only and would not disclose the identities of the individuals sharing their opinions.

The formal market sounding process concluded mid-December 2020. The feedback received from market sounding participants is integrated throughout the subsequent sections of this business case.

Risks and Mitigation

Over the course of this project, and particularly through Phase 1 and Phase 2 of the engagement process, risks of creating a provincial strategic investment fund, and their potential implications were identified. These risks, their implications and mitigating factors have been considered by JERI. These considerations are incorporated throughout the Structure and Operations, and Implementation sections of this business case.

Table 3 – Risks and Mitigation

Risk	Impact	Mitigation
Legal S. 12 and 13	S. 12 and 13	S. 12 and 13

		S. 12 and 13
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Risk	Impact	Mitigation
Operational		
S. 12 and 13	S. 12 and 13	<p>The independence of the investment decision making authority of the Chief Investment Officer (CIO) will be codified in legislation</p> <p>The CIO will be a separate function and staffed by a separate individual than the function of the Chief Executive Officer (CEO).</p> <p>The CIO's primary responsibility will be to carry out InBC's investment thesis.</p>

	S. 12 and 13	<p>The CEO will be responsible for establishing the strategy and overseeing the administration of InBC.</p> <p>The CEO will be InBC’s liaison between InBC board of directors, and InBC staff. The board is appointed by the Minister of Finance and the Minister of Jobs, Economic Recovery and Innovation. S. 12 and 13</p> <p style="text-align: right;">Segregating CIO</p> <p>from the board of directors will safeguard against the perception of conflict of interest.</p> <p>Standards of conduct for the board will proscribe board members from proposing investment opportunities to InBC staff.</p>
S. 12 and 13	S. 12 and 13	<p>The accountability structure for InBC includes the following safeguards to ensure InBC investments are made in alignment with government principles:</p> <p>Ministers of Finance and Jobs, Economic Recovery and Innovation establish the mandate for InBC through issuing a mandate letter to the InBC Board Chair to achieve certain objectives, including making investments in alignment with government principles. The Board is</p>

		<p>accountable to the Ministers for InBC executing an investment strategy in alignment with this direction.</p> <p>The Board of Directors is responsible for presenting to the Ministers responsible an investment policy that reflects government's principles. The investment policy once settled will form part of and be attached to the mandate letter.</p> <p>The Chief Investment Officer and Chief Executive Officer will work with the Board of Directors to craft a clear investment policy statement which establishes the principles and parameters that guide the Chief Investment Officer investment decisions.</p> <p>The Chief Investment Officer is held accountable through legislation, the mandate letter and the investment policy statement. The investment policy statement will be reviewed at least annually.</p> <p>The Board of Directors will review the performance of the CIO against the investment policy statement.</p>
S. 12 and 13	S. 12 and 13	S. 12 and 13

S. 12 and 13	S. 12 and 13	<p>Investment decisions will be made by a qualified and independent Chief Investment Officer;</p> <p>S. 12 and 13</p>
S. 12 and 13	S. 12 and 13	<p>InBC will align with, or formally adopt standard investment industry codes of conduct to safeguard the reputation of InBC as well as the province and safeguard the province's investment.</p> <p>Standards such as the CFA Institute's code of ethics and asset manager code sets out procedures to mitigate risks of conflict of interest and address other standards of practice specific to investment industry professionals.</p> <p>Included within these codes is guidance for disclosure and management of conflicts of interest, information management requirements and confidentiality standards.</p>

		S. 12 and 13
S. 12 and 13	S. 12 and 13	<p>InBC will report its financial statements in accordance with Public Sector Accounting Standards on an annual basis.</p> <p>InBC will supplement this financial reporting with metrics relating to its triple bottom line performance measures to ensure the economic impacts of InBC investments are publicly available and provide context for any financial investment returns reported by InBC.</p> <p>InBC will retain the service of a professional communications manager to ensure the economic impacts of the fund are communicated effectively.</p> <p>InBC will continue to report to the Ministry of Finance on a quarterly basis. S. 12 and 13</p>

S. 12 and 13	S. 12 and 13	S. 12 and 13	
S. 12 and 13	S. 12 and 13	S. 12 and 13	

		S. 12 and 13	
S. 12 and 13	S. 12 and 13	S. 12 and 13	

S. 12 and 13	S. 12 and 13	S. 12 and 13
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Risk	Impact	Mitigation
Economic		
S. 12 and 13	S. 12 and 13	<p>InBC will seek to co-invest with other sources of private capital to help build investment rounds.</p> <p>InBC will co-invest on the same terms as other sources of capital to avoid distortive effects.</p>
S. 12 and 13	S. 12 and 13	<p>InBC will adopt industry standard practices in measuring and reporting on its triple bottom line impact.</p> <p>InBC will develop a communications strategy that inform the public of the triple bottom line impacts.</p>
S. 12 and 13	S. 12 and 13	S. 12 and 13

	S. 12 and 13	<p>InBC investment decisions will be independent from government elected officials by virtue of statues. S. 12 and 13</p> <p>InBC will develop a communications strategy to ensure its investment criteria are clearly communicated.</p>
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Risk	Impact	Mitigation
<p>Portfolio</p> <p>S. 12 and 13</p>	<p>S. 12 and 13</p>	<p>S. 12 and 13</p>

S. 12 and 13

S. 12 and 13

Governance

InBC Investment Corp. Act

The governance structure for InBC will be founded in legislation that is proposed and currently being drafted. S. 12 and 13

InBC currently exists as a *BC Business Corporations Act* company. A pre-existing Crown corporation – the BC Immigrant Investment Fund Ltd. – was renamed “InBC Investment Corp.” in September 2020.

While the initial set up of InBC Investment Corp. was achieved by repurposing an existing crown corporation, it was clear that continuing the corporation through legislation would be critical to the success of the initiative. This was confirmed through market sounding with industry governance experts and through the review of investment fund governance practices across Canada and internationally.

The reasons for requiring legislation include:

- Assuring the independence of the investment decision-making function which cannot be fully assured absent express statutory provisions.
- Confirming that InBC is an agent of the Crown, which is required for InBC to be exempt from taxation with respect to returns earned by investments, is best achieved by express legislation to that effect.
- Aspects of the proposed investment objectives and governance framework, such as establishing the triple bottom line mandate and establishing the advisory forum and providing that its members may populate Board committees, are best set out in legislation.
- Finally, placing InBC and its operations on an express statutory foundation will convey a sense of permanence and clarity that will support the confidence of the market in InBC as a new public sector market entrant which will be crucial to its early successful operation.

Appendix A – InBC Investment Corp. Governance Framework - provides the rationale supporting the need to incorporate key governance elements into legislation. This rationale is summarized below, with references provided to feedback received during the Phase 1 and Phase 2 of the engagement processes.

Independence of the investment decision-making function

The powers, functions, and duties of the Board of Directors will be established in legislation. Legislation will set out all the Board requirements (e.g. manage the affairs of the corporation or supervise the management of those affairs, pass bylaws that establish a policy on the disclosure of interests and the handling of conflicts of interest, etc.) vs. those things that the Board is empowered to do or may do (e.g. establish subcommittees of the Board etc.). Legislation will clearly segregate the responsibilities of the Board and the Chief Executive Officer and the Chief Investment Officer. Specifically, legislation will establish that only the CIO and the investment professionals that report to the CIO, as well as any fund managers hired by the CIO can participate in investment decision-making.

Establishing the independence of the investment decision making function is consistent with other investment fund models. The *Public Sector Pension Plans Act (1999)*, prohibits the Board of Directors of BC Investment Management Corporation (BCI) from being involved in the investment decisions of the corporation. The Santiago Principles, a set of internationally recognized principles established to promote transparency, good governance, accountability and prudent investment practices in sovereign wealth funds, also promotes independence in investment decision making as one of its 24 principles³³.

Stakeholder feedback received during the Phase 2 formal market sounding process supported establishing the independence of the investment making decision in legislation. Market sounding participants identified the need to consider the role of the CEO as a support for the Chief Investment Officer in situations where potential conflicts of interest may arise.^{S. 12 and 13}

³³ Principle 6: The governance framework for the Sovereign Wealth Fund (SWF) should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

Role of advisory forum

The proposed InBC legislation will provide for the establishment an advisory forum function, should the Board and the Ministers wish to strike one. The advisory forum's function will be to advise the Board of Directors on any matter that the Board would like their advice on. So, for example, that could include InBC's strategic direction, conduct, and performance, or it could include a specific sectoral area of expertise that the Board may lack S. 12 and 13 . The Board will be empowered to populate Board subcommittees with members of the advisory forum should the Board wish to do so. The advisory forum will consist of a maximum of 12 members, half are to be appointed by the responsible Ministers and half are to be appointed by the Board of Directors.

Advisory fora figure in other national investment funds. The recently enacted *Scottish National Investment Bank Act (2020)* requires the bank to appoint and maintain an 'advisory group' with membership drawn from a cross section of external stakeholders, to advise the Scottish Government on setting the strategic framework and reviewing the performance of the Bank against this framework.

Stakeholder feedback received during the Phase 2 of the market sounding process supported the use of an advisory forum to support management where subject matter expertise was not available within the organization. Market sounding feedback also indicated that, if an advisory forum were to be established, care should be taken to remove any conflict or overlap between the Board's responsibilities and those of the advisory forum. In addition, the market sounding process indicated that, should an advisory forum be engaged, the terms of reference for the group be clearly defined and provide the opportunity for shorter term appointments to align with any emerging requirements of InBC (such as providing sectoral advice specific to an opportunity, or addressing shifts in economic environment).

Role of Chief Executive Officer and Chief Investment Officers

Legislation as proposed will broadly define the roles and responsibilities of the Chief Executive Officer and the Chief Investment Officer. Proposed legislation also segregates the roles of the CEO and CIO. This segregation of duties will further support the independence of the CIO's investment decisions. The CEO will be the primary point of contact with the Board of Directors, provide leadership, overall supervision, management and control of the operations of the corporation on a day-to-day basis, except those relating to investment decision-making.

The segregation of the role of CEO and CIO was generally supported in the feedback received from market sounding participants.

Other Governance Considerations

Role of Government

The proposed legislation will establish the role of the Province of B.C. as the shareholder. There will be two shares for the corporation, one held by the Minister of Finance and the other by the Minister responsible for the legislation (currently the Minister of Jobs, Economic Recovery and Innovation). Share ownership between these two responsible Ministers reflects the dual nature of InBC's responsibilities, for driving financial and socio-economic impacts.

The structure of the Board of Directors will also be established within the proposed legislation, including that a maximum of two out of the nine possible directors will come from the B.C. Public Service. By policy it is recommended that these two members are the Deputy Ministers of the shareholder ministries. S. 12 and 13

Currently, InBC's Board of Directors is composed of the Deputy Minister of Jobs, Economic Recovery and Innovation, and the Deputy Minister of Finance. It is anticipated that both deputy ministers will continue as the BC Public Service representation on the Board of InBC.

Board Appointment Process

As stated above, the Board of Directors is partially constituted (the Deputy Ministers of Finance and of Jobs, Economic Recovery and Innovation were appointed to the Board in September 2020). The remaining Board appointments are expected to be finalized in early 2021 through the Crown Agency Board Resourcing Office appointment process. Board compensation is established through Treasury Board directive.

The proposed legislation for InBC will establish a Board nomination and recommendation process. Through this process the Board must submit Board membership recommendations to the Minister of Jobs, Economic Recovery and Innovation. As part of this process, the Minister can stipulate requirements to the Board in terms of what they are looking for in such a list. After consulting with the Minister of Finance, candidates drawn from this list of recommended individuals may be proposed for appointment to the Board to the Lieutenant Governor in Council.

Integration with the Government Reporting Entity

The degree to which government controls InBC determines whether the entity will be within the government reporting entity (GRE). This in turn will determine how InBC's financial operations impact the financial position of government. Factors influencing the degree of control of government over InBC also inform other structural considerations for InBC, such as whether the *Public Sector Employers Act* and the *Budget Transparency and Accountability Act (BTAA)* apply.

Factors influencing control are informed by Public Sector Accounting Standards. Primary indicators that government will be deemed to control an entity include:

1. Government has the power to appoint or remove a majority of the members of the governing body of the organization: InBC's legislation proposes that the Ministers of Finance and Minister of Jobs, Economic Recovery and Innovation will have this authority
2. Government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization: InBC's legislation proposes that the capital of the corporation will consist of two shares. One share will be held by each of the two responsible Ministers, on behalf of the government.
3. Government may establish or amend the mission or mandate of the organization: It is currently assumed that government will determine the mandate of the corporation through an annual mandate letter.
4. Government may approve business plans or budgets for the organization and call for amendments, either on a net or line-by-line basis: Government will approve InBC's annual budget through the annual service planning process. It is assumed that the government will limit the entity's ability to incur a deficit, subject to the Minister of Finance's approval, which is consistent with budget letter direction issued by the Minister of Finance to most Crown Corporations.
5. Government may establish borrowing or investment limits or restrict the organization's investments: It is assumed that the government will limit the entity's ability to incur debt, subject to the Minister of Finance's approval.

These considerations inform the view that InBC will be included within the GRE. The primary financial implications of this are that InBC's profit or loss will impact government's overall surplus or deficit and the entity's assets and liabilities including any debt obligations will be reported on government's balance

sheet. This means that changes in investment valuations and debt obligations of the entity may have a material impact on the government's financial position, and the risk associated with volatility of investment values would need to be closely managed by InBC in coordination with the Ministry of Finance. InBC's proposed legislation restricts InBC's authority to borrow money or budget for or incur a deficit as subject to the Minister of Finance's approval.

A key factor that influences control is the capacity for the Minister or Lieutenant Governor in Council to appoint the majority of the Board of Directors. This is also a determining factor for whether the entity is considered a "public sector employer" under the *Public Sector Employers Act*. This means the entity will have to coordinate compensation and other human resource considerations through the Public Sector Employer's Council.

Inclusion within the GRE also means that the *Budget Transparency and Accountability Act*, and the *Financial Administration Act* will determine aspects of InBC's governance and administration. These pieces of legislation establish the requirements for the annual service planning requirements for InBC, the role of Treasury Board and the application of Treasury Board Directives to InBC, and the accounting standards InBC must adopt.

[InBC Accountability Framework](#)

As a provincial Crown corporation, InBC will operate within the accountability framework established for all B.C. Crown corporations. In addition, InBC's legislation will establish accountability provisions specific to the corporation. The key accountability mechanisms for InBC are: The annual mandate letter; provisions within InBC's legislation that establish the purpose of the fund and the roles and accountabilities of its Board and Officers; formal accountability agreements between the Board and the Chief Investment Officer, supplemental Ministerial direction letters, the provisions within the *Budget Transparency and Accountability Act*; and other reporting requirements specific to InBC's legislation.

Mandate Letter

The Minister of Jobs, Economic Recovery and Innovation is accountable for providing the shareholder's mandate and policy direction to InBC. In order to convey this direction, the Minister and InBC will enter into an annual mandate letter agreement. The letter is reviewed by Cabinet Committee, approved by Cabinet, and subsequently signed by the Minister (as the shareholder) and the Chair of the Board (as InBC's representative). The letter will convey government's broad mandate and policy direction and its

high-level performance expectations. This document will be publicly available and posted on both InBC's and government websites. Through the mandate letter, the Minister may convey to the Chair of the Board the policy objectives that government wishes to accomplish through InBC's investments, the values government holds as an investor, and the requirement for InBC's investments to reflect those values. It is also expected that the mandate letter will require InBC, through the Board Chair, to report to the Minister of Finance and the Minister of Jobs, Economic Recovery and Innovation on how these objectives and values will be realized through InBC's investments.

InBC Investment Corp. Bill

The proposed legislation for InBC is integral to the accountability framework. The proposed legislation will specify that InBC's investments must be invested to achieve both a financial return and the investments must be made in accordance with government's objectives as described in the mandate letter signed by the two Ministers. The proposed legislation establishes the role of a Chief Investment Officer, and importantly, the independence of the Chief Investment Officer in making specific investment decisions. This independence, however, is subject to accountability provisions in legislation. The proposed legislation for InBC specifies that the Chief Investment Officer must invest to earn financial returns and must invest in accordance with the policy objectives of government as set out in the mandate letter.

Investment Policy Statement

The Board of Directors will be responsible for interpreting its mandate letter direction and developing strategies and policies to implement this direction. An important tool at the Board's disposal in implementing its mandate letter direction is forming a formal Investment Policy Statement (IPS) between the Board and the Chief Investment Officer.

The purpose of the IPS will be to focus InBC's investment program on government's objectives. It provides a formalized, systematic approach to documenting objectives, constraints, and governance mechanisms that clarify responsibilities and establishes accountabilities. An IPS is a strategic guide in the planning and implementation of an investment program³³. It is meant to anticipate issues related to governance of the investment program, planning for appropriate asset allocation, implementing an investment program with internal and external managers, monitoring the results, risk management, and appropriate reporting. The IPS will establish accountability between the Board of InBC and the Chief

³³ Elements of an Investment Policy Statement for Institutional Investors <https://www.cfainstitute.org/-/media/documents/article/position-paper/investment-policy-statement-institutional-investors.ashx>

Investment Officer, enabling the Board to provide assurance to government that its policies are designed to achieve government objectives as described in the mandate letter.

An IPS is developed in concert between the Chief Investment Officer, as the party responsible for executing the investment strategy, and the Board of Directors, as the steward of government's investment. It ensures both parties work in unison to achieve the objectives of the shareholder.

An IPS is a highly customizable document, it generally contains elements such as:

- The mutual agreement of the content in the Investment Policy Statement between the Board and the Chief Investment Officer, their roles and responsibilities and the process for reviewing and updating the IPS. In the case of InBC this would be informed by legislation.
- The overall investment objectives of the fund. In the case of InBC this would be a description of its triple bottom line mandate.
- The return requirements. The IPS may specify a financial return benchmark and specify desired policy objective outcomes. These elements are described further in the Investment Criteria section of this business case, and in more detail in **Appendix B**.
- A policy portfolio to serve as a basis for performance and risk assessment. The policy portfolio may set out target asset classes or target allocations for specific investment objectives. Potential allocations are considered in the Program Delivery section of this business case, and in more detail in **Appendix B**.
- A thorough description of risk tolerance. The IPS acknowledges that investments are subject to risk and investments have the potential for returns associated with risk. Risks considered may include concentration liquidity, legal, political, regulatory, and reputational. Risks of InBC's potential investment program are considered throughout this Business Case, and in **Appendix B**.
- A description of the constraints of the portfolio. These constraints may include the application of Environmental Social Governance (ESG) screening, identify prohibited investments, specify certain requirements, such as the requirement to co-invest on equal terms with other investors, and limit investment exposure to avoid controlling relationships over the investment, among others. The Investment Climate and partnerships opportunities section of the business case and **Appendix B** consider some of these constraints in more detail.

While the IPS is a key accountability mechanism for the Board to hold the CIO accountable, it may also be a key mechanism to hold the Board accountable to the Ministers. The Ministers may consider including in the mandate letter a requirement for the Chair of the Board to report to the Minister on the IPS on a regular basis, thereby informing the Ministers of how the Board of Directors is operationalizing the mandate letter direction.

The IPS may also act as a key public accountability mechanism. InBC may publish its IPS on its website to inform the public of how it will manage its investments. The accountability through public disclosure can go further. For example, the International Forum of Sovereign Wealth Funds (IFSFW) is a voluntary organization of global sovereign wealth funds whose members publish their investment policies and information on their compliance with the Santiago Principles on the IFSWF website. As InBC develops, it may consider incorporating international level of transparency standards within its accountability framework.

Supplemental Ministerial Direction

The Minister of Jobs Economic Recovery and Innovation may supplement InBC's mandate letter direction with specific written direction to the Board of Directors. The purpose of such a letter would be to provide specific, time bound tasks and report back requirements for the Board to accomplish. Through such a letter, the Minister may issue written direction for the Board to develop its initial IPS with the CIO, and report back to the Minister on the IPS for approval prior to implementation of InBC's investment program. The Minister's approval would be subject to consultation with the Minister of Finance.

Budget Transparency and Accountability Act

The BTAA sets out InBC's requirement to develop an annual service plan specifying the goals and performance measures for the organization. It also requires InBC to develop and publish an annual service plan report that describes the results of the organization in comparison to its goals and performance measures. Both these documents are tabled in the legislature. Possible objectives and performance measures for InBC are described in the Investment Criteria and Performance Measurement section of this business case, and in more detail in **Appendix B**.

Reporting specific to the *InBC Investment Corp. Bill*

The legislation proposed for InBC purposefully contemplates reporting requirements that go beyond the requirements of the BTAA. InBC's draft legislation proposes annual reports on the performance of its investments to the Ministers, the Ministers must then table these reports to the Legislative Assembly and make the reports public.

Finally, the legislation proposes a comprehensive recurring five-year review on the performance of InBC. This report will be performed by an independent third party and will be submitted directly to the Ministers by the third party. These external reports must also be tabled in the Legislative Assembly and made public.

As described, the governance structure makes InBC accountable to government for investing in alignment with its objectives. The independence of the Chief Investment Officer provides a safeguard that individual investment decisions are free from actual or perceived interference.

The remainder of this business case discusses the concepts for InBC's investment program. These concepts are based in the practices of other investment funds, and they were reviewed and validated in the Phase 1 and Phase 2 engagement process. The concepts in the next sections, and in **Appendix B**, inform how InBC may be structured to implement and achieve the objectives of a triple bottom line investment strategy, and the resourcing needed to do so.

It is important to note that implementation of InBC's investment strategy will be subject to the governance framework described above. This means that prior to its implementation, Cabinet confirmed mandate letter direction will be provided to InBC's Board of Directors specifying government's objectives as they relate to the strategy. S. 12 and 13

. The Board Chair will have regular (at least quarterly) meetings with the Ministers to review the IPS as required. InBC will report formally, on an annual basis to the Ministers responsible as well as publicly as required by the BTAA and InBC's legislation. Therefore, proceeding with implementing InBC in accordance with this business case means proceeding with implementing this rigorous governance and accountability framework, S. 12 and 13

Investment Objectives

Investment Criteria

Legislation will set out the requirement for InBC to invest on a triple bottom line basis.

Triple bottom line investing is investing with the objective of realizing both a financial return and creating an economic environmental or societal impact. A similar term for this type of investing includes impact investing. Environmental Social Governance (ESG) is a term commonly used in conjunction with triple bottom line investing. In this document, ESG is used to describe the process of considering environmental, social and governance risk factors alongside financial risk factors in the investment decision-making process. ESG investing incorporates a more comprehensive risk assessment process than traditional risk analysis in order to provide a better understanding of a potential investment's risk adjusted returns. ESG investment screening may be used to supplement the decision-making process of a triple bottom line investment mandate. ESG investment screening may be differentiated from triple bottom line investing in the following way: while ESG reduces exposure to non-desirable factors, triple bottom line investing seeks to achieve an outcome beyond a financial return.

Financial Returns

The first objective of InBC's triple bottom line is achieving a rate of return on its investment portfolio. The expected return for each investment will differ based on the risks and opportunities associated with that investment. InBC investments are expected to have varying levels of risk, and a minimum rate of return has not been set for the individual investment level.

A financial return benchmark is proposed which InBC's investments must, on an aggregate portfolio basis, meet or exceed. The proposed benchmark is built on three factors:

- The provincial 10-year cost of borrowing
- The administration cost of the fund as a percentage of investable capital
- A growth factor that will increase the capital base of the fund.

S. 12 and 13

S. 12 and 13

Economic, Environmental and Societal Impacts

The second objective of InBC's triple bottom line is for its investments to contribute to positive economic, environmental and societal impacts in the province. S. 12 and 13

S. 12 and 13

S. 12 and 13

The contemplated economic, environmental and societal investment criteria are broadly stated to ensure they do not exclude potential opportunities that would have a positive economic outcome for British Columbians. S. 12 and 13

Table 4 – Economic, Environmental and Societal Investment Criteria

Criteria Description:	Alignment with Government Principles and Minister or Parliamentary Secretary Mandate
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<p>Low Carbon Economy:</p> <p>InBC investments aim to support the growth of the province’s low carbon economy</p>	<p>Principle:</p> <p>A better future through fighting climate change:</p> <p>... building a low-carbon economy with new clean-energy jobs and opportunities, protecting our air, land and water and supporting communities to prepare for climate impacts.</p> <p>Minister Mandate Letter:</p> <p>Launch a strategic investment fund to support our government's objective of building a more innovative low-carbon economy by investing in high-potential B.C. businesses to help them scale up and grow here</p> <p>Minister Mandate Letter:</p> <p>With support from the Minister of Energy, Mines and Low Carbon Innovation, boost B.C. as a global exporter of climate solutions by investing in B.C.-based carbon capture and storage and other low carbon technologies.</p>
<p>Emerging Economy:</p> <p>InBC's investments aim to scale and develop innovative B.C. businesses and anchor intellectual property in the province</p>	<p>Principle:</p> <p>A strong, sustainable economy that works for everyone:</p> <p>...helping businesses and communities, and building the clean, innovative economy of the future.</p> <p>Minister Mandate Letter:</p> <p>Launch a strategic investment fund to support our government's objective of building a more innovative low-carbon economy by investing in high-potential B.C. businesses to help them scale up and grow here</p> <p>Minister Mandate Letter:</p>

	<p>...work with B.C.'s Innovation Commissioner to lead investment in innovation clusters, with a focus on emerging industries where B.C. companies have developed the early lead – such as life sciences, emergency management technology, engineered wood, clean tech, artificial intelligence, and quantum and virtual reality technologies.</p> <p>Parliamentary Secretary Mandate Letter:</p> <p>Develop an intellectual property strategy to support more innovation and commercialization by B.C. companies, including a First Patent Program.</p>
<p>Inclusiveness:</p> <p>InBC's investments aim to remove barriers to participation in our economy, advance reconciliation with Indigenous peoples, and foster a more inclusive society for all British Columbians.</p>	<p>Principle:</p> <p>Lasting and meaningful reconciliation:</p> <p>... every ministry must remain focused on creating opportunities for Indigenous peoples to be full partners in our economy</p> <p>Principle:</p> <p>Equity and anti-racism:</p> <p>... efforts to address systemic discrimination must also inform policy and budget decisions by reviewing all decisions through a Gender-Based Analysis Plus (GBA+) lens</p> <p>Parliamentary Secretary Mandate Letter:</p> <p>Help more people from underrepresented groups get their first job in the tech sector</p>
<p>Distributed Growth:</p>	<p>Principle:</p>

<p>InBC's investments aim to create economic growth opportunities that are realized in all economic development regions of the province</p>	<p>A strong, sustainable economy that works for everyone: ... helping businesses and communities, and building the clean, innovative economy of the future. Our plan will train the workforce of tomorrow, help businesses hire and grow and invest in the infrastructure needed to build our province</p>
<p>Alignment with new economic growth opportunities: InBC's investments support opportunities where the investment may promote economic growth in British Columbia.</p>	<p>Potential areas of alignment may include: Minister Mandate Letter: Support B.C. shipyards to build capacity and become increasingly competitive with investments to support more shipbuilding, refit, repair, and maintenance here in B.C Minister Mandate Letter: Capitalize on the potential of B.C.'s aerospace industry by expanding support for B.C. companies to integrate into global supply chains and access new markets.</p>

These contemplated investment criteria were developed giving primary consideration to government of B.C. principles and mandate letter items. In addition, other international standards and practices were used to inform potential investment criteria. These include the UN Principles for Responsible Investing, UN Sustainable Development Goals and Targets, and Global Responsible Investing Standards. These international standards provide guidance and resources on developing and reporting on sustainable and ESG oriented investment criteria. Continued efforts to align InBC’s investment criteria with international reporting standards will contribute to InBC’s credibility as a source of impact in the marketplace.

[Program Delivery](#)

InBC’s programming will be the delivery of an investment strategy with a triple bottom line mandate, providing financial, economic, environmental and societal returns to the province.

InBC will work to be at the forefront of smart, clean and transformative investments that foster and anchor innovation in B.C. while delivering long-term benefits for all British Columbians. Achieving this vision will be a long-term process.

Two common messages were received, independently from several market sounding participants: InBC's investment program must be flexible to address opportunities as they are identified, sometimes within very short timelines, and; InBC should "walk before it runs", i.e. InBC should consider fund investments, and co-investment with the aim of leveraging the experience and due diligence of other capital markets experts prior to attempting to lead financing rounds. With this taken into consideration, InBC's investment objectives outlined below, and in more detail in **Appendix B**, describe investment programming to address the economic, environmental and societal policy objectives of the Province of British Columbia.

Investments in Early Stage, Innovative Companies S. 12 and 13

An allocation to early stage companies at the seed³⁸ and "A" funding round³⁹ recognizes the importance of fostering a healthy investment climate for supporting innovative companies and developing homegrown intellectual property. The focus will be on supporting early stage businesses through targeted investment in pooled investment funds, rather than direct investments. Investing in pooled funds at the early stages leverages external investment expertise and the unique relationships available to certain pooled fund managers. Pooled funds also diversify holdings across a broader group of investments and has the potential to leverage economies of scale as the investor performs due diligence and administration at the pooled fund level, rather than at the individual investment level.

The Province of B.C. has invested in early stage venture capital pooled funds since 2007 through the BC Renaissance Capital Fund. The BC Tech Fund, a \$100 million early stage venture capital fund, is the most recent of such investments. The BC Tech Fund capital is almost fully allocated, and there is little capacity for the fund to make further investments. A new allocation to early stage investments through InBC will

S. 12 and 13

³⁸ Seed funding is funding provided at the very inception of a business' life; seed funding is generally used to develop a minimally viable product.

³⁹ At series A, a company has developed a minimally viable product but requires financing to commercialize the product.

allow continued support to early stage companies, however these investments may be made in alignment with InBC's new objectives.

Investments to support Scale Up ^{S. 12 and 13}

One of the objectives of InBC is to invest in small and medium sized B.C. businesses to help them scale up, and to anchor talent, intellectual property, and good jobs in the province. An allocation to scale up businesses in InBC's investment programming is proposed to address this objective. The profile for scale up businesses presented in **Appendix B – InBC Investment Corp. Investment Objectives** assumes scale up companies will be raising funding at the B round level. Companies at this stage generally generate revenues, as well as earn some profits. The capital raised can be used in various ways, such as sales, marketing, talent acquisition, and developing new technologies. More precise definitions of scale up companies include the OECD's definition for high growth enterprises with average annualized growth of at least 20% over three years with 10 or more employees at the start of the period⁴⁰. There is a wide variety of terms and definitions that try to capture what a scale up company is. Consistent with market sounding feedback, there should be flexibility in how InBC interprets what a scale up opportunity is, as businesses in different sectors develop differently. Broadly speaking, opportunities at this stage support government's priorities of helping firms in commercializing intellectual property and driving economic growth in the province.

Market sounding participants broadly agreed that scale-up should be a focus of InBC. There was general consensus that B.C. has a strong start-up eco-system but there are persistent challenges in successfully scaling up SMEs.

The investment objectives presented to market sounding participants contemplated investments in scale-up companies by InBC taking direct equity holdings in these companies. Feedback from market sounding participants underscored that InBC could consider pooled fund investments to target scale up companies, especially at the beginning of InBC's investment programming. Another consideration provided from the market sounding participants was to not limit direct investment vehicle to equity, providing specific reference to debt instruments used by Business Development Bank of Canada (BDC). The benefits of considering debt instruments include creating more opportunity to coinvest on similar terms as other market participants (in this case BDC), adopting a different risk profile for a subset of

⁴⁰ Series B definition from Corporate Finance Institute definitions (<https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/series-b-financing/>) and high growth enterprises definition from the OECD-Eurostat Manual on Business Demography Statistics (2007)

investments, and developing a stream of cashflow from the investment portfolio. The portfolio allocation description for scale ups in **Appendix B** has been updated to include these considerations.

S. 12 and 13

Investments in later stage growth companies -

The investment objectives include consideration for making investments in later stage growth companies. These investments would create opportunities that anchor businesses in the province and have a high potential to contribute to economic growth, support the development of innovation clusters and build global scale businesses in the province. Companies seeking “C” round⁴¹ or later rounds are contemplated in this category. While definitions vary considerably, characteristics of later stage growth companies include established companies in their late stages of development, with solid revenues and profits. These companies may have a substantial customer base. Financing at this stage is used for expansion to reinforce their existing business model, entering new markets, research and development, or acquisitions of other companies.

Later stage growth rounds can involve a significant amount of capital, with financing round sizes between \$50 - \$100 million not uncommon. Even with multiple co-investors, InBC would only have the capacity to take positions in a few of these investments due to the size of the capital requirements at this stage.

This category is included for consideration as part of InBC’s investment programming because opportunities may arise where taking a significant position in a company may help realize significant returns to InBC’s triple bottom line. S. 12 and 13

Market sounding feedback identified this category of investment as high risk, and that later stage investment would require significant investment expertise to execute individual deals effectively. To

⁴¹ In a series C round, companies seeking financing are usually established, successful and in their late stages of development. The proceeds from this financing round are generally used for entering new markets, research and development, or acquisitions of other companies. Series C definition from Corporate Finance Institute (<https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/series-c-financing/>)

alleviate some risk in this category, market sounding participants, again suggested investing in growth equity pooled funds and noted that through this approach, later stage capital could be deployed sooner in the fund's lifecycle. S. 12 and 13

The potential for InBC to take concentrated positions in a limited number of high potential investments continues to be presented in the document as a component of the later stages of InBC's investment programming, noting that despite the identified risk, there may be circumstances where the potential returns on such an investment may warrant such consideration.

S. 12 and 13
Distributed growth investments -

Investment programming includes an allocation for distributed growth investment; targeting investment opportunities outside the Metro Vancouver and Capital Regional Districts. Investments in this category should be distributed across all eight economic development regions⁴² of the province. At this stage it is contemplated that InBC will have a high degree of flexibility in how the Distributed Growth investments will be structured in order to maximize the economic, environmental and societal impacts that may be realized through these investments.

Market sounding feedback on distributed growth investments was largely positive. Participants suggested there are several opportunities for distributed growth investment across the province, and these opportunities exceed the S. 12 and 13

It should be noted that other investment categories do not preclude investment across all regions of B.C. Providing a specific allocation for regional investment establishes a minimum amount of the fund to be allocated for this purpose.

Indigenous Business -S. 12 and 13

⁴² Cariboo, Kootenay, Mainland/Southwest, Nechako, North Coast, Northeast, Thompson-Okanagan, Vancouver Island /Coast.

S. 12 and 13

Through the Phase 1 informal engagement process, JERI met with Indigenous entrepreneurs, Indigenous economic development professionals, and Indigenous investment professionals. Through these meetings, JERI learned of the diverse opportunities that Indigenous business present for InBC. As part of its triple bottom line, JERI included within its draft investment criteria performance measures that recognized investment in Indigenous businesses, however, JERI did not include a specific investment allocation in its original draft investment objectives.

Through the Phase 2 market sounding on InBC's draft investment objectives, JERI heard consistently from participants that a dedicated allocation to support Indigenous investment should be considered. A specific allocation was proposed independently by multiple participants, S. 12 and 13

Consequently, JERI has amended its proposed investment allocations to reflect an Indigenous business allocation. This allocation provides an opportunity for InBC to further diversify its portfolio, build partnerships with Indigenous investors and businesses, and address this government's principle of lasting and meaningful reconciliation.

Risks to the Triple Bottom Line

InBC will deliver its investment program through making investments with the objective of earning financial returns and achieving government policy objectives. InBC's investments will be made considering objectives such as the investment's likelihood of driving the creation of family supporting jobs in the province, or how the investment will reduce the Province's carbon footprint. There is a risk that the anticipated outcomes will not be realized. This risk can be managed somewhat through a rigorous due diligence process that considers both financial risks and risks to achieving the government's objectives. However, the potential for failure to achieve the second part of the triple bottom line mandate is anticipated as a source of risk as much as losses on the financial side of investments.

There are formal mechanisms that may discourage these outcomes, for example formally structuring InBC's investment agreements to provide investment subject to certain constraints (e.g. maintaining certain staffing levels in the province). The terms required to execute an investment in accordance with InBC's triple bottom line will be assessed on a case by case basis and will vary based on the opportunity. Restrictive investment terms may create unintended consequences. Being overly restrictive may result

in outcomes contrary to InBC's objective of "crowding in" investment with other co- investors because other parties may not see establishing constraints as creating value for their shareholders, and as a result they may choose not to invest with InBC.

Through Phase 1 and Phase 2 of the engagement process, InBC heard from a broad group of businesses and investment professionals about the importance of investing on market terms, and investing with the objectives of growing companies to a point where they are operationally "sticky" in the province without the use of unnecessary and externally imposed controls. Developing an investment environment that supports businesses to scale to a size where they become "self-adhered" requires an abundant source of patient capital dedicated to developing small businesses into big businesses. This is the approach that InBC proposes to take, avoiding an over reliance on formal legal constraint mechanisms which may have undesirable consequential impacts as noted above. However, each proposed investment will be reviewed and considered on a case by case basis and the transactional components will be tailored to the specific circumstances, terms and risks as appropriate.

InBC Value Proposition

Central to developing the confidence of the marketplace is developing a clear understanding of what value InBC provides to its shareholders, and what value InBC brings as an investor or co-investor to help companies achieve their objectives. This means InBC must present and deliver on a clear value proposition. InBC's draft value proposition as proposed in **Appendix B – InBC Investment Corp. Investment Objectives** reads as follows:

InBC's investment decisions will be made by an independent and qualified Chief Investment Officer.

Investment decisions will be based on an assessment of an investment against InBC's triple bottom line objectives and will be free from political influence.

InBC will invest with the objective of creating Quality Economic Growth in the province of BC. It will seek to earn a S. 12 and 13 on its investments, however InBC is not constrained by short- or medium-term liquidity requirements. This means that InBC will be positioned to provide a stable source of patient capital to BC companies to help them scale up in the province and contribute to Quality Economic Growth.

InBC is a government investment fund. As such, InBC will have a different set of values and resources from private capital providers when it comes to supporting its investments. We believe this differentiation is a strength, and core to InBC's value proposition. As an investor, InBC will share in its co-

investors' objectives of creating value and growth in BC businesses through its investments. While InBC's network and resources will be different from those of private capital investors, they will be no less valuable in supporting these objectives. InBC will seek to add value by connecting its investments and co-investors to markets and opportunities through its comprehensive public sector networks with the aim of growing the value of its investments.

This value proposition incorporates feedback from market sounding that has identified the value that coordinated government (including crown corporations and agencies) support can create for businesses through areas such as procurement, information sharing and regulatory reform in complex areas such as intellectual property protection. Additional considerations include the value InBC can create by being a strategic investment partner with other federal government and private sector investors. The potential for these strategic partnerships is described further in the following section (Investment Climate and Partnership Opportunities). InBC's value proposition will be developed more comprehensively by its Board of Directors and executive.

S. 12 and 13

S. 12 and 13

S. 12 and 13

Staff Complement

InBC must establish the credibility of the organization through building trust with investors and businesses seeking investment while also developing InBC's deal flow. At the outset, the primary consideration for InBC will be to establish an effective executive and investment team capable of developing InBC's reputation and delivering its investment objectives. This process will begin through hiring the right leadership team, starting with two core positions; the CEO and CIO. Over time, this core leadership will hire investment staff and management to oversee operations.

The market sounding process confirmed that InBC should begin with hiring its core executive, its CEO and CIO, and then allow this core leadership to build out the team to deliver the investment strategy. Generally, participants agreed that the Board take its time to ensure it hires the best candidates for these positions. Accordingly, this business case proposes a staged hiring process that reflects this approach. This approach is reflected in the financial profile section of the business case.

Market sounding participants offered different views when asked about the InBC team composition and the staff numbers required to deliver the investment objectives. At the smaller end of the scale, participants suggested a team of 10 could deliver the proposed investment objectives. This estimate was based on the composition of mid-sized venture capital funds designed to manage approximately \$300 - \$400 million in early stage venture investments. Other participants suggested that given the different investment focuses considered in the investment strategy, which includes early stage fund

investment, scale up, private equity investment, distributed regional investing, and indigenous business investing, an expanded team may be required to bring a more diverse skill set to deliver the investment program. With this consideration in mind, some market participants suggested a staff complement of approximately 20- 25 staff. A staff complement of approximately 20 positions is consistent with other funds in Canada with approximately \$500 million in capital under management⁴⁴. **S. 12 and 13**

Important to note, the staff complement as proposed will be limited to supporting the investment activity and administration for the investment objectives. InBC programming does not contemplate roles such as business development or advisory services that are provided through other, larger development funds found in other jurisdictions.

S. 12 and 13

⁴⁴The Canadian Business Growth Fund was established in 2017 with an initial capital commitment of \$545 million and a mandate to provide patient minority capital to mid-market Canadian businesses to support their growth and foster innovation. The fund reports a staff complement of 21 people at December 2020.

S. 12 and 13

Investment Climate and Partnership Opportunities

Consistent with government's principle of developing a strong sustainable economy that works for everyone, InBC's investment objectives reflect a capacity to invest in the broad range of sectors that comprise the B.C. economy. Accordingly, the proposed investment objectives are not constrained by sector and, therefore, may consider investments in technology, forestry, mining, manufacturing, agriculture, tourism and infrastructure, and beyond. This broad cross-sectoral approach will not only help InBC achieve its objective of driving economic growth across B.C., it will allow InBC to diversify its investment portfolio risk exposures and help realize its financial benchmark.

InBC's investment objectives also address the challenge of making a positive impact on issues of equity and anti-racism and contributing to lasting and meaningful reconciliation with Indigenous peoples. InBC's proposed investment criteria include investments in firms that develop diverse executive talent and have a diverse workforce. InBC's triple bottom line strategy considers diversity broadly and includes impacts on gender, ethnic diversity and Indigenous peoples specifically.

A 2017 report on diversity in B.C. conducted by the Minerva Foundation is one of many studies that identify women as underrepresented on boards and in senior executive roles in BC. Of the 50 organizations that were surveyed in this study:

1. only three had a woman CEO (6%)
2. the average representation of women directors was 19%
3. the average representation of women in executive leadership was 20%
4. there are no Indigenous women directors or executive leaders⁴⁵

⁴⁵ The Face of Leadership Scorecard 2017

Through investment criteria that prioritize diversity, inclusion and meaningful reconciliation, InBC will invest with the aim of making an impact supporting disadvantaged groups and be able to report publicly on its progress it makes in this area.

Focus on Low Carbon and the Emerging Economy

InBC will support a more innovative low-carbon economy by investing in high-potential B.C. businesses to help them scale up and grow in the province. With this mandate in mind, the investment objectives modeled in **Appendix B** focus on early and scale stage venture capital investments. Typically, these investments target the B.C. innovation and technology sector⁴⁶. Companies in this sector cover a broad range of disciplines, but generally share similar characteristics: They can play a significant role in contributing to a low carbon economy, either through developing carbon negative solutions, developing technologies that produce efficiencies in the use of resources across the province's economy, or are low carbon emitting businesses that have significant positive economic potential within the province. These businesses also face a common challenge: access to capital is a constraint in their ability to grow their operations.

InBC's support for the technology and innovation sector also aligns with the Parliamentary Secretary for Technology and Innovation's mandate to develop an intellectual property (IP) strategy to support more innovation and commercialization by B.C. companies. Companies within the technology and innovation sectors are frequently IP rich businesses seeking opportunities to commercialize their IP assets. These IP rich companies are more likely to expand operations domestically and internationally, drive exports, and grow. However, these companies frequently face challenges with respect to obtaining financing and are more likely to experience problems maintaining cash flows and find obstacles when trying to obtain financing⁴⁷. InBC can play an important role in supporting these companies scale in the province, creating good jobs and economic growth. **S. 12 and 13**

⁴⁶Canadian Venture Capital Association 5-year average allocation of deals in Canada:

Information Connectivity and Telecommunications 67%, Life Sciences 21%, Clean Tech 8%, Agribusiness 4%.

⁴⁷ Innovation Science and Economic Development Canada, Canadian Intellectual Property Office, *IP Canada Report 2019* [https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/IP_Canada_Report_2019_eng.pdf/\\$file/IP_Canada_Report_2019_eng.pdf](https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/IP_Canada_Report_2019_eng.pdf/$file/IP_Canada_Report_2019_eng.pdf)

The Ministry of Jobs, Economic Recovery and Innovation mandate letter includes supporting the Ministry of Agriculture, Foods and Fisheries in advancing the recommendations of the Food Security Task Force. Included among those recommendations is to establish B.C. as a global agritech leader by supporting the innovation pathway including the development, demonstration and deployment of novel technologies. Performance measures associated with this recommendation include:

- Venture capital funds attracted to B.C. agritech firms; and
- Revenue and employment generated by B.C. agritech firms.

These performance measures align with the triple bottom line investment criteria and performance measures. InBC would be well positioned as a source of local capital for agritech businesses, and support attracting other capital to the B.C. marketplace, driving employment and revenues in this area.

These examples of how InBC may support government's policy objectives are not meant to be exhaustive. Through various government engagement initiatives such as the Emerging Economy Task Force, the Small Business Task Force and the Innovation Commissioner's first report, it is clear that InBC, as a strategic investor in the province, will be an invaluable mechanism in advancing this government's policy objectives.

Investment Profiles

Early stage (Series A)

InBC's proposed investment programming considers an allocation for early stage investments. This contemplates investment in seed and series A funding rounds. In these rounds, companies need to demonstrate they have a minimum viable product. This means that the company has developed a product with enough features to attract early-adopter customers and validate a product idea early in the product development cycle. Financing is generally directed to developing the team and the product. Companies likely have negative cashflow, are not yet profitable, and have limited sources of revenue. Companies at this stage should demonstrate high potential to grow their business with the use of intellectual property that they have developed but are high risk investments as they are generally pre-commercial.

S. 12 and 13

S. 12 and 13

S. 12 and 13

Scale up stage (Series B)

A series B funding round involves taking the business past the development stage. Series B financing tends to have less risk associated with it versus Series A financing. Proceeds from the series B round are primarily utilized to support the company's growth. Series B companies generate revenues, as well as earn some profits. The capital raised can be used in various ways, such as sales, marketing, talent acquisition, and developing new technologies.

S. 12 and 13

S. 12 and 13

Later Stage and Growth (Series C)

In a series C round, companies seeking financing are usually established, successful and in their late stages of development, with solid revenues and profits. Their core products or services generate strong demand in the marketplace, attracting a substantial customer base. Companies seek series C financing for further expansion to reinforce their existing success. Following a series C round, a company aims to scale up its operations and continue its growth. The proceeds from this financing round are used for entering new markets, research and development, or acquisitions of other

S. 12 and 13

S. 12 and 13

These examples illustrate the following points

- B.C. companies are raising significant amounts of capital in priority economic areas in this province. They are developing and seeking to commercialize intellectual property in low carbon industries.
- Government investment both at the provincial and federal level play an important role in shaping and leading markets and supporting B.C. businesses raise capital. This investment may come in a variety of forms including S. 12 and 13
- The significant size of the funding rounds discussed above underscores the necessity for InBC to leverage relationships with other investors to maximize the capital raised by B.C. companies. S. 12 and 13

Partnership Opportunities

One consideration for InBC's investment program, which may potentially be formalized through its IPS is the requirement to form partnerships with other sources of public and private capital to "crowd in" investment capital for B.C. businesses. As noted above, as firms scale, their capital needs become progressively larger, this makes forming partnerships with other investors important to achieving the objective of scaling B.C. businesses.

The following is a sample of partnership opportunities that JERI has identified through the market sounding process. The discussion below is provided to illustrate the potential that currently exists for forming partnerships with other capital intermediaries whose investment mandates are in alignment with that proposed for InBC. These examples are not exhaustive, are not listed to demonstrate a preference, and no formal investment arrangement has been discussed with these parties given InBC is in early stages of development.

Business Development Bank of Canada (BDC) Programs

BDC Capital has a suite of programming that aligns closely with the InBC investment objectives discussed in this section. BDC Capital investment programs target investment in clean technologies, agritech, intellectual property and women in technology. BDC investment portfolios include:

Clean Technologies

The BDC Capital Cleantech Practice supports investment in Canadian cleantech firms. BDC has supported BC-based Axine Water Technologies, Svante and Terramara through its Clean Tech Practice through its Clean Tech portfolio investments. It invests through a range of investment vehicles including equity, subordinated debt and convertible debt.

Intellectual Property

In June 2020 BDC Capital created a new intellectual property (IP) development financing envelope to support IP rich companies in Canada. This \$160M envelope is the first of its kind in Canada providing customized, patient capital that recognizes the strength and value of a company's IP strategy and portfolio—a core asset that must be recognized, protected and valued.

Women In Technology Fund

The BDC Capital Women in Technology (WIT) Venture Fund is one of the world's largest venture capital funds dedicated to investing in women-led technology companies and helping to build a robust ecosystem to support women in tech today and in the future.

Industrial Innovation Fund

With a \$250 million capital allocation the Industrial Innovation Venture Fund invests in companies and entrepreneurs operating in core Canadian industries such as agriculture and food technologies, resource extraction technologies and advanced manufacturing. The fund invests in, agritech / food-tech, manufacturing, extractive-tech (oil & gas, mining) from early-to late-stage firms.

The programs noted above invest in Canadian companies through equity, mezzanine financing and subordinated debt.

Through its market sounding process, JERI has engaged BDC. JERI has specifically discussed the potential for partnerships between BDC and InBC. The consulted parties agree that there are opportunities to share information and collaborate as InBC is developed. Specifically, JERI is exploring information

sharing opportunities with federal partners through a Joint Account Management agreement that allows the sharing of information, including due diligence specific to investment deals. Given its depth of capital and the breadth of its investment mandate, and its history of investing in B.C. companies, BDC will be an important collaboration partner for InBC.

Indigenous Impact Investment

Through its market sounding process, JERI has discussed the proposed InBC investment objectives with Indigenous impact investors and Indigenous entrepreneurs in the province. Investors with an Indigenous impact investment mandate are currently raising money in the province with the objective of bringing flexible patient capital to invest with Indigenous enterprises at an early-and-growth stage. Our market sounding highlighted the importance of developing strategic relationships with Indigenous investors to source deals and drive positive outcomes for Indigenous businesses. JERI also connected with other Indigenous leaders and advisors, as well as an Indigenous financial institution, who agreed that it will be important to think strategically and specifically about how InBC engages with Indigenous peoples, communities, and businesses.

The University of Victoria recently announced a \$500,000 investment into the Raven Indigenous Impact Fund LP. This is UVic's first impact investment under its new policy for responsible investment adopted earlier this year. Partnering with Indigenous investment intermediaries and other government entities with impact investment mandates are opportunities InBC will explore.

Private Sector Funds

B.C. has an active venture capital and private equity market. Through its stakeholder engagement and market sounding activities, InBC interviewed a spectrum of investment funds active in the Province. These stakeholders supported InBC's investment thesis, and several partnership opportunities are possible as InBC develops. Market sounding underscored the need to consider private sector funds as a means to delivery InBC's investment mandate during the early stages of InBC's development.

Sovereign Wealth Funds

Sovereign wealth funds are another source of partnership opportunity for InBC, where InBC may play a role in partnering with federal and international sources of capital to help close funding rounds, and drive investment into B.C. companies.

Performance Measurement

Potential performance measures for the economic, environmental and societal investment criteria are described in **Appendix B**. The performance measures are defined in terms of outputs, meaning they are the direct, measurable consequences of InBC's investments.

The performance measures identified focus on jobs numbers supported by InBC investments; diversity of board composition; management and staff; profitability and; productivity measures. The proposed performance measures are quantitative, and objectively measurable. The performance measures are intended to align with the typical reporting a company produces (financial statements, annual reports) to simplify data capture and the reporting process. Focussing on objective and quantifiable performance measures approach will enhance the credibility of the performance reporting of InBC. The performance measures presented for consideration in **Appendix B** are consistent with those proposed by impact investment standard setters such as the Global Impact Investment Network's performance measures presented in its International Responsible Investing Standards database⁴⁹.

Through InBC's market sounding process, investment experts, S. 12 and 13

were asked whether the investment criteria proposed in InBC's investment objectives would constrain InBC in identifying investment opportunities. The response was that the criteria were sound and there were no insurmountable barriers imposed by the proposed criteria that would prevent InBC from implementing its investment objectives. Participants identified the need for InBC to remain flexible and responsive to opportunities as they arise, and in this context, participants noted that given InBC's proposed criteria were broadly stated this supported the flexibility that was desired. S. 12 and 13

Also, as part of the market sounding process, participants were asked whether the proposed performance measures were reasonably presented and whether there would be challenges in obtaining reporting data from investees in order to measure performance. Market sounding participants responded that the performance measures were well aligned with the investment criteria, and that it

⁴⁹ <https://iris.thegiin.org/>

would be possible to obtain performance data from companies that had received investment.

Participants noted that there may be challenges in obtaining data from early stage companies, however this problem could be addressed by making reporting requirements a condition of investment, which was standard practice. Participants also suggested making the performance measure data collection process as streamlined as possible for companies and collecting data via regular conversations as compared to requiring companies to fill out paperwork. Obtaining information from investees was not identified as an issue. Market sounding participants identified the need for InBC to dedicate sufficient resources to performance measurement from the outset, as this could be relatively a labour-intensive process requiring follow up with multiple parties to collect quantitative and qualitative information.

Throughout the market sounding process for InBC's investment objectives, participants underscored the importance of having clear, principle-based investment criteria and a robust performance measurement and reporting function. Clear, principle-based investment criteria are needed to communicate InBC's objectives to the marketplace, so that InBC attracts the partners and investment opportunities that will help further its impact objectives. Consistent performance measurement and performance measure reporting was identified as a key to establishing public trust and awareness of the value created by InBC. Communication of InBC's economic, environmental and societal impacts will be particularly important for InBC at the early stages of its life. Financial returns take years to accrue, and frequently are only realized on disposition of an investment holding. It is unlikely that InBC will be able to demonstrate significant financial returns for quite some time; depending on the nature of investments ultimately made, investment distributions may not be realized in the first 10 years of the life of InBC. Therefore, especially in the initial years, it will be important to demonstrate the economic, environmental and societal returns on InBC's triple bottom line through regular, consistent and quality public reporting.

Performance measurement for impact investing generally involves a cyclical approach that begins with capturing the expected outputs in the due diligence phase and monitoring the investment against those expectations over the life of the investment. Harvard Business Review's 2015 publication: Measuring the "Impact" in Impact Investing characterizes the reporting cycle as follows:

- Estimating impact: Conducting due diligence pre investment
- Planning impact: Deriving metrics and data collection methods to monitor impact
- Monitoring impact: Measuring and analyzing impact to ensure mission alignment and performance

- Evaluating impact: Understanding post-investment economic, environmental or societal impact of an investment

A common tool used in impact investing performance measurement is an impact scorecard. A scorecard can be used to capture information specific to how the investment will achieve outputs associated with investment criteria. Scorecards generally include information such as:

- A description of the impact the investee intends to have in context of the strategic investment criteria;
- The inputs required from investor and external parties to achieve the proposed impact;
- The activities the investee will carry out to achieve the impact;
- The outputs associated with each strategic investment criteria; and
- The case for InBC's investment creating additionality.

Through its market sounding process, InBC has had the opportunity to review other funds' impact scorecards, and they are designed to capture similar information. Individual investment scorecards can be aggregated to capture impacts for the overall investment fund.

It is not the intention to be overly prescriptive with regards to performance measurement processes at the business case level, recognizing the detailed performance measurement and score card approach chosen will need to align with the investment processes implemented by the CIO. The above discussion is presented to illustrate:

- Clear consistent reporting on InBC's economic, environmental and societal impacts will be critical to developing its reputation in the marketplace;
- There are established processes being used by industry and that have been validated by academia that are used to carry out credible and consistent impact investing reporting processes; and,
- The process of measuring, capturing and reporting on impact measures must be integrated with the investment decision making and monitoring process, and must be resourced in a manner that supports the credibility and objectivity of InBC's reporting.

As a final point on performance measurement, market sounding participants identified the need to report on the qualitative impacts of InBC and develop compelling narratives to communicate its impacts beyond the quantitative performance measures already discussed. Accordingly, the InBC business case

includes resourcing for dedicated communications, and data management expertise to develop and present information on the impact's of InBC's investments.

InBC will also be subject to the typical reporting and transparency commitments expected of public bodies within the GRE. The audit of its financial statements will be overseen by the Office of the Auditor General (OAG), should the OAG choose to do so. InBC will be required to submit annual reports pursuant to the *Budget Transparency and Accountability Act*. InBC's draft legislation proposes that an external review of InBC's operations is conducted every five years, borrowing from the approach taken in Scotland by the Scottish National Investment Bank. All this regular reporting would be provided on the InBC website for the public to access.

Implementation

Administration Requirements

Human Resources

Development of InBC's human resources framework is in progress.

The human resource framework will address administrative functions such as: compensation, recruitment, onboarding, training and performance evaluation. The framework will also include executive job profiles and an organizational structure.

The human resource framework will consider:

- Practices in investment organizations across Canada as well as the nature of InBC as a Crown corporation with a social impact investment mandate;
- The company's target asset under management size of \$500 million in total over a period of 6-8 years;
- Public sector compensation standards for Crown corporations within the Province of B.C. and applicable processes under section 14.3 of the *Public Sector Employers Act*; and
- Support of the organization in evaluating and assessing the need for ongoing human resource support and the development of a transition strategy for HR operations.

Through the human resource framework, InBC will develop the following guideline material:

- Operating policies, procedures and an HR accountability framework to support the HR function within the corporation (including templates, reference documents and other materials that support human resource operations). The human resource policies must align with human resources management and labour standards that are set by the government of B.C. for the broader public sector;
- The development of job descriptions for the executive, senior management team, and all operational staff needed for the first three years of operations (approximately 15 to 20 unique job descriptions); and
- The development of a compensation framework for the organization that establishes a strong link to compensation and the performance of InBC's investments and all positions in the organization. A range of compensation options will be developed, that meet market

expectations or reflect new or creative market-based options for consideration having regard to InBC's unique mandate, for key roles in the organization.

S. 12 and 13

Subsequent to the appointment of the two key leadership positions in InBC, the CEO and CIO may proceed with refining InBC's organizational structure and recruiting the InBC management team.

Organizational Structure

A preliminary organizational structure has been developed to assist with high level costing in InBC's financial plan. As noted above, work is underway to develop a compensation framework and executive profiles, so the organizational structure used for budgeting purposes will be subject to review and validation by the S. 12 and 13 . Also, once hired, it is expected that the InBC executive will have input and may refine any organizational structure presented at the business case stage. A preliminary estimate of the organizational structure is presented with the financial assumptions in the Financial Section and related appendix. S. 12 and 13

- Work has been completed to review the organizational structures of several private sector funds, including the S. 12 and 13 and several B.C. based venture capital firms. The review of the organizational structure of these firms inform the key positions and structures that may be common to InBC;

- Work has been undertaken to discuss the roles, responsibilities and processes established in other investment firms including S. 12 and 13
- S. 12 and 13

The plan will continue to be refined as the human resources framework work is completed and the executive team is established. S. 12 and 13

Physical Space

Real Property Division (RPD) within the Ministry of Citizens' Services has been engaged to support the sourcing of office space for InBC. A listing of space requirements has been provided to RPD to initiate the process. Space requirements consider feedback from stakeholder engagement that advised maintaining separate office locations from government (federal or provincial) was important to in developing InBC's identity and independence from government.

S. 12 and 13

Information Systems

Information system requirements for InBC have been assessed through discussion with other investment firms, S. 12 and 13

General information system requirements include, the standard suite of Microsoft Office applications, along with a customer relationship management (CRM) tool, accounting software and a performance measurement application, which in many cases is a customized Microsoft Excel sheet. As a result of these discussions, no significant information system application development projects have been identified for InBC. Application costs will largely be driven by licensing costs for CRM software.

JERI has engaged with the Office of the Chief Information Officer (OCIO) at the Ministry of Citizens' Services to determine the supports available from the OCIO in establishing InBC's information systems infrastructure, the costs involved and the implementation timelines. A preliminary list of InBC requirements have been provided to the OCIO. S. 12 and 13

S. 12 and 13

12

and

Corporate Reporting

Corporate reporting for items such as InBC's Annual Service Plan, Financial Statements and Annual Service Plan Report, will follow established processes already existing within InBC through ^{S. 12}_{and 13} legacy reporting. These processes support investment reporting at the pooled fund and individual investment level. Over time, processes will be refined and tailored to reflect InBC's developing mandate and expanded operations. Costs associated with supporting these functions are currently incurred by JERI. These costs are reflected as a component of InBC costs in the Financial Section.

Communications

S. 12 and 13

The legacy BCIF website has been replaced by www.inbcinvestment.ca. Administration for the website resides with the GDx. InBC has a service level agreement in place with GDx for these administration supports. The website is a placeholder with basic information on InBC. A more complete website is being developed in conjunction with the communications strategy and branding. It is expected that a full website will be developed and live by Spring 2021.

JERI has met with GCPE's Strategic Communications division to review preliminary materials on InBC's objectives to inform InBC branding strategy. A brand and communications strategy are targeted to be finalized in the Spring.

As a Crown Corporation, InBC's communication function will not be supported by Government Communications and Public Engagement on an ongoing basis. InBC plans to meet its short-term communication requirements through contracted services sourced through a request for proposals. The major deliverables for the contract will include:

- leading the development of the communication strategy for the company in alignment with the branding developed by GCPE's Strategic Communications division;
- developing an implementation plan for the communications strategy;
- developing content to be disseminated via social media, websites, newsletters, press releases and any other distribution channels; and
- directing external graphic designers, photographers, and other media-production specialists integral to the communications and branding strategy.

Initially sourcing communications support through contracted services will provide InBC management flexibility in assessing its communication staffing needs.

Financial Summary

InBC's financial plan is based on the information gathered through engagement with other investment firms, central government agencies and 3rd party studies (such as compensation surveys). The amounts presented in this plan are initial estimates. Refinements to the forecasts will occur as InBC is established, operations begin, and financial information can be projected with greater clarity. S. 12 and 13

S. 12 and 13

S. 12 and 13

Operating

S. 12 and 13

Legacy BCIF Operations

S. 12 and 13

It should also be noted that the legacy BCIF investment portfolios (the BC Renaissance Capital Fund and the BC Tech Fund) contained within the BC Renaissance Capital Fund Ltd. hold venture capital investments. The nature of the venture capital investments makes forecasting revenue from these investments very difficult. As with all previous forecasts and submissions to the Ministry of Finance, no revenue from these investment portfolios has been included due to the unpredictable nature, timing and amounts of any future returns. S. 12 and 13

Board Expenses

S. 12 and 13

This classification will be revisited in the future but has been used in forecasting costs going forward.

InBC's board currently consists of the Deputy Ministers of Finance and JERI. An additional seven, private sector members have been identified and are in the process of being appointed. These seven directors have been budgeted for, with more board meetings expected in the first years as operations begin and policies, processes and systems are established.

Salaries and Benefits

Salaries and benefits have been budgeted using a preliminary organizational chart based on discussions with other private investment firms and the stakeholder engagements. S. 12 and 13

Hiring is expected to start with the CEO and CIO. These executive positions will require time for a search to be conducted, and then time for the candidate to begin working with InBC. From there, additional staff will be hired. Hires occurring in the first year have all be prorated to 6 months to reflect the time required to fill these positions.

S. 12 and 13

Physical Space

Cost estimates and timing for physical office space have been prepared based on estimates and discussions with Real Property Division. The timeline and budget present an office in Vancouver being established first, followed by a Victoria office. It is expected that a significant component of the team will be in Vancouver, to be near the investment opportunities and partnerships available within the lower mainland. S. 12 and 13

Costs have been included for temporary office space in Vancouver while a long-term space is arranged. Any Victoria based staff, including the legacy BCIF employees, can continue to use existing space within JERI for a nominal amount until a Victoria office is established.

Operating and Administration

InBC will have a variety of other expenses relating to the startup and establishment of operations, and other on-going operational costs. These broadly relate to external consulting services required to supplement in-house expertise in various areas, software licenses and other administrative costs such as travel, professional dues and subscriptions to industry associations and databases. Whenever possible,

these costs have been confirmed for reasonableness with the appropriate area, such as the OCIO, JERI IM/IT and Risk Management Branch.

Table 9 – Operating Costs

\$ Millions	2021/22	2022/23	2023/24
Board Expenses	S. 12 and 13		
Salary and Benefits			
Office Space			
Operating and Administration			
Total			

Capital

InBC requires a \$500 million capital allocation to fulfil its investment mandate.

The timing of investment capital requirements to support investment is uncertain. The timing of capital outflows will continue to be uncertain over the life of InBC investment horizon, which may be as long as 10 years.

Because of this uncertainty, InBC must have a source of investment capital to draw upon when an investment opportunity presents itself (subject to the investment decision being authorized by the Chief Investment Officer). The capital must be available on short notice, in order to respond to potential opportunities. Having a ready source of capital to draw on will enable InBC to invest effectively alongside other institutional investors in the marketplace. Also, the amount of capital must be sufficient to meet a broad range in capital call sizes, S. 12 and 13

S. 12 and 13

Table 10 – InBC 10 Year Cash Flows

InBC

Projected Cash Flow - Summary

	2020/21	Year 1 2021/22	Year 2 2022/23	Year 3 2023/24	Year 4 2024/25	Year 5 2025/26	Year 6 2026/27	Year 7 2027/28	Year 8 2028/29	Year 9 2029/30	Year 10 2030/31
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S. 12 and 13

Cash, Beginning of Year

Net Cash flows from Legacy Ope

- Net Cash flows from Legacy
- Net Cash Flows from BC Tech
- Net FAL Draws/(Repayments
- Net Legacy Operations Cash

InBC - Cash Inflows

- Operating Transfers
- Capital Transfers
- Incremental Revenue Earned
- Total InBC Cash Inflows

InBC - Cash Outflows

- Investment
- Operations
 - Board Meetings
 - Salaries and Benefits
 - Physical Space
 - Other Costs
- Total InBC Cash Outflows

InBC Operations - Net Cash Flo

Cash, End of Year

Implementation Timeline

Table 11 – Implementation Timeline

	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March
Legislation (InBC Investment Corp. Act)	S. 12 and 13														
RFL Cabinet Presentation															
Legislation Drafting															
Legislation Tabled															
Legislation Debate															
InBC Budget Decision															
Business Plan Drafting															
2021 Service Plan Drafting															
2021 Service Plan Review															
InBC Treasury Board/Business Case Submission															
Budget*															
Governance															
Board Classification (PSEC/ARC)															
Board Orientation Material															
Board Governance Manual Review															
Board Appointment*															
Minister Chair Quarterly Meeting															
Board Meeting															
Human Resources															
Human Resource Consultant (HRC) RFP Posting															
HRC RFP Evaluation and Award															
HRC Priority Deliverable 1 Executive Job Profile															
HRC Priority Deliverable 2 InBC Compensation Framework															
HRC Priority Deliverable 3 InBC HR Policy and Procedure Review															
Compensation Framework Review & Approval (PSEC)															
Executive Recruitment*															
Management Recruitment															
Facilities															
Facilities Capital Budget Approval															
<i>Scenario 1 - Minor Tenant Improvements - 12 month timeline</i>															
Location procurement															
Design															
Construction															

Table 11 – Implementation Timeline (continued)

	S. 12 and 13
Information Systems	
IT Infrastructure Support Agreement with OCIO	
Telus Support Arrangement	
Workstation procurement	
Mobile Device Procurement	
InBC Client Relation Management Software procurement	
Financial Administration	
Payroll Agreement Implementation with Telus	
InBC banking arrangement review	
Financial Statement Audit	
InBC Fiscal Year End	
Financial Quarterly Reporting	
TB Report Back Dates	
Annual Service Plan	
Annual Service Plan Report	
Communications	
InBC Ministry Communication Strategy (GCPE)	
InBC branding development (GCPE)	
InBC website development (GCPE/GDX)	
Communication Management RFP Posting	
Communication Management RFP Evaluation and Award	
CM Priority Deliverable 1 InBC Communications Strategy	
CM Priority Deliverable 2 InBC Communication Work Plan	
CM Priority Deliverable 3 InBC Communication Work Plan Delivery	
InBC Investment Operations	
Legacy Fund Portfolio Administration	
InBC investment objectives (board level) refinement and publicatio	
InBC CIO/Investment Manager Engagement	
InBC application intake	
InBC investment announcement*	
Legal Advisory Services RFP/Retainer	

Appendix A
InBC Investment Corp. – Governance Framework
January 2021

InBC Investment Corporation currently exists as a BC *Business Corporations Act* corporation within the government reporting entity (GRE). Effective September 17, 2020, an existing Crown corporation – the BC Immigrant Investment Fund – was renamed and repurposed to become InBC Investment Corp. (“InBC”). A new board will be appointed as soon as possible.

The current intention is to introduce legislation in early 2021 that will clothe the corporation and some of its key functions in statutory authority. This will enhance the independence of its key functions, clarify its relationship to government, and strengthen its governance.

Board of Directors

We are proposing that the Board of Directors will consist of up to nine members. That number would be prescribed in legislation. Of those members, two have been appointed from the public service - namely, the Deputy Ministers of the two responsible Ministries (Jobs, Economic Recovery and Innovation, and Finance) who are currently on the Board. The remaining up to seven members are to be appointed from outside the public sector and this would also be prescribed in legislation. Our aim is to have a group of experienced and influential representatives from industry, finance, academia, and other important areas of leadership in the province, so that the Board is made up of strong and well-respected individuals from a variety of backgrounds who bring their credibility and experience to bear.

S. 12 and 13

we propose that
the Board of InBC would be responsible for:

- o Overseeing InBC’s operations, mandate (including by reference to a high-level view of the investment approach), and overall strategic approach;
- o Appointing a CEO and CIO – monitoring their performance and determining their salary;
- o Appointing an auditor;

- o Approving InBC's business plan and budget;
- o Reviewing and approving annual financial statements and annual report;
- o Approving conflict of interest guidelines;
- o Establishing employee classification and pay;
- o Empowered to establish Board committees;
- o Recommending new Board members to the Ministers as required; and
- o Appointing up to six members of the Advisory Forum/Group.

On a more general level, the Board would be required to act honestly and in good faith with a view to the best interests of InBC and would be responsible for its stewardship.

Notably, what is **not** on the above list of Board responsibilities is approving specific investment decisions. While the Board would have a high-level view of the investment framework and would be in a position to communicate government's expectations around the triple bottom line, as expressed in mandate letters, it would not be involved in making investment decisions. That responsibility would be left exclusively to the CIO and his/her team of investment professionals. In order to safeguard the independence of the CIO's authority to make investment decisions, we are proposing to enshrine this specifically in statute. The wording around this would prohibit any third party from participating in the investment decision-making function of the corporation, apart from the CIO and his/her team, including but not limited to the Board of Directors, Advisory Group/ Forum, and the responsible Ministers.

Board Members would have a 3-year term. That term could be renewed S. 12 and 13

Quorum would consist of a majority of Board members (i.e. if the Board complement is 9, then quorum would be 5 directors).

The Board would meet quarterly, or more frequently as required, and members could attend virtually or by phone, if necessary.

The Board of Directors would be subject to a rigorous code of conduct and conflict of interest policy that would stipulate how to deal with perceived as well as actual conflicts of interest. As the custodians of public funds, being transparent about what this policy is and how it applies will be incredibly important.

Advisory Group/Forum

The other major piece of the governance framework is the Advisory Group/Forum. The proposal here is a body of up to 12 members that would be empowered to provide non-binding advice and support to the Board of Directors. S. 12 and 13

Half its members (up to six) would be appointed by the Board of Directors itself, and the other half (up to six) would be appointed by the responsible Ministers.

This body of individuals could plug perceived gaps in the Board's areas of expertise (for example, if the Board wanted to secure support from individuals with sectoral expertise). It would also be an appropriate forum for individuals who may not be qualified for a Board position but may have something useful to contribute to the strategic direction of the organization. In this way, the Board could task the Advisor Group/Forum with specific projects, but this would not preclude the body from self-directing work within the confines of prescribed terms of reference as well.

We would also propose to empower the Board of Directors to appoint members of the Advisory Group/Forum - should they wish to do so - to staff the Board committees. This would be specifically contemplated in the legislation. Importantly, only members of the Board would be able to chair a Board committee, and all the work of Board committees would need to be brought to the full Board for decision, but members of the Advisory Group/Forum could play roles as committee members, if the Board felt that was appropriate.

S. 12 and 13

There would be no quorum requirements for the Advisory Group/Forum meetings and no formal resolution processes.

Board Committees

The enabling legislation will empower the Board to create committees but will not require them to do so. S. 12 and 13

The potential structure and functions of Board committees would be set these out in policy documents, such as terms of reference. Further, the Board will be empowered to strike any kind of ad hoc committee it requires.

All the committees would be chaired by Board members and could be populated exclusively by Board members if required, although (as described above) the Board can - if it chooses - ask members of the Advisory Group/Forum to serve on committees as members.

The idea would be for the Board committees to support the Board in key areas and to then bring their work, in the form of recommendations, to the Board for review and consideration, decision and ratification.

Chief Investment Officer

Similar to the BC Investment Management Corporation model, the legal authority to make investment decisions would lie exclusively with the CIO and their team of investment professionals. This independence of the investment decision-making function and the CIO's responsibility for it would be expressly prescribed in legislation. This will provide an important safeguard in terms of protecting the investment decision-making function from any attempted interference, while also serving an important communications role by demonstrating to the marketplace and broader public how seriously InBC takes the integrity of its investment decision-making.

This CIO would be appointed by the Board but based on a ranked list of recommended candidates provided by the CEO, who would have done the required pre-screening work. The CIO would report to the CEO. The CIO would be responsible for carrying out all day-to-day duties related to the management of the funds and overseeing the work of the investment team.

The CIO would be empowered to delegate some of their authority to members of the investment team, within certain limits prescribed by policy.

The CIO would regularly attend Board meetings with the CEO.

Chief Executive Officer

We are proposing that the CEO function be separate from the CIO. Given the unique ‘triple bottom line’ mandate of the fund, our view is that the CIO will have enough to do on their own in the investment decision-making and management sphere. We could not reasonably expect the same person to play the role of CEO as well, and as such we propose to have a separate CEO role.

This person would be appointed by and report to the Board. The CEO would be expected to provide leadership, overall supervision, management and control of the operations of the corporation on a day-to-day basis, except of course those relating to investment decision-making.

The CEO would also be empowered to delegate some of his/her authority to members of his/her executive team, within certain limits prescribed by policy.

The CEO would regularly attend Board meetings with the CIO.

Relationship to Government

As a Crown corporation within the GRE and as a body responsible for public funds, InBC will receive a mandate letter from its responsible Ministers communicating government’s expectations of it on an annual basis. That mandate letter will set out broad goals and policy aims for the fund, which will likely inform how the Board and the CIO interpret the second part of the triple bottom line. Apart from communicating government’s priorities via its mandate letter, government will not otherwise impact investment decision-making nor the overall strategic direction of the fund.

InBC will also be subject to the typical reporting and transparency commitments expected of public bodies within the GRE. The audit of its financial statements will be overseen by the Office of the Auditor General, should the OAG choose to do so. InBC will be required to submit annual reports pursuant to the *Budget Transparency and Accountability Act*. We are proposing to raise the bar on transparency and accountability by legislating an external review of the fund every five years, borrowing from the approach taken in Scotland by the Scottish National Investment Bank. All this regular reporting information would be provided on the InBC website for the public to read.

Appendix B
InBC Investment Corp. - Investment Objectives
January 2021

Contents

InBC’s Triple Bottom Line..... 3

Financial Return Criteria 4

Economic, Environmental and Societal Returns Criteria 6

Additionality..... 10

InBC’s Value Proposition 12

Portfolio Management..... 13

Portfolio Allocations..... 15

Portfolio Allocation Profiles 23

InBC's Triple Bottom Line

InBC will invest and measure its performance against a triple bottom line.

Financial Rate of Return: The first objective of InBC's triple bottom line is achieving a financial on its investments. The expected return for each investment will differ based on the risks associated with that investment. InBC investments are expected to have varying levels of risk, and a minimum rate of return has not been set for the investment level.

Economic, Environmental and Societal Impacts: The second objective of InBC's triple bottom line is for investments to contribute to positive economic, environmental and societal impacts in the province. InBC's investment criteria will include factors that contribute to Quality Economic Growth in the province¹. These factors include distributed economic growth, scaling small and medium sized businesses and anchoring intellectual property in the province, supporting the growth of the province's low carbon economy, and fostering an inclusive economy.

¹ Province of British Columbia (2020). *A Framework for Improving British Columbians' Standard of Living, Economic Plan 2019-2020*. P.7

Financial Return Criteria

InBC will have a benchmark return for its portfolio of investments. This benchmark will reflect the objective of InBC being self-sustaining and creating direct positive financial impact to government over the long term. This means InBC will be required to earn returns in excess of the nominal cost of government debt. Returns must also cover InBC operating costs.

The benchmark will take into consideration that the objective of the fund is not simply to maximize financial return, but to maximize return within the context of realizing economic, environmental and societal outcomes that are also components of InBC's triple bottom line. The benchmark will be set at a rate to maximize the fund's opportunity to address these outcomes while, at minimum, preserving the BC taxpayer's invested capital.

Benchmark Criteria:

Benchmark Criterion 1: Government Ten Year Cost of Borrowing

Rationale: The capital invested by InBC is funded through taxpayer supported debt. If InBC investment returns do not exceed this level, the repayment of debt would have greater direct financial benefit to the province than InBC's investment. It is assumed that using a rolling average cost of debt over the fund investment period as a benchmark will reflect meaningful changes in the cost of capital while avoiding excessive benchmark volatility.

Benchmark Criterion 2: Annual operating cost as a % of investment capital

Rationale: InBC operating costs are a direct cost to the government's public accounts. If InBC investment returns do not exceed this level, ceasing operations would have a direct financial benefit the province.

Benchmark Criterion 3: Growth Requirement

Rationale: A growth target serves two purposes. It provides a buffer over the minimum requirements of being self-sustaining (Criteria 1 and 2). Achieving returns above the self-sustaining criteria also increases InBC's capacity to increase its investing activity without additional taxpayer capital.

InBC will manage adverse selection risk through several mechanisms, including: Investment decisions will be made by a qualified and statutorily independent Chief Investment Officer; S. 12 and 13

Economic, Environmental and Societal Returns Criteria

InBC will invest on a “triple bottom line” basis, aiming to achieve both a financial return on investment, as well as advancing important policies that make life better for British Columbians—such as creating jobs and economic growth, advancing reconciliation with Indigenous communities, promoting diversity and inclusion, and achieving CleanBC goals. Investments will also support business confidence and improve supply chains.

InBC investment criteria reflect these important policies. The criteria will lead to investments in businesses that deliver higher real wages, protect the environment and make a positive impact for all segments of the population, in all parts of the province².

The criteria are broadly stated to ensure they do not exclude potential opportunities that would have a positive economic outcome for British Columbians. Any particular investment opportunity may align with one or multiple criteria. There is no expectation that any single opportunity need meet all economic, environmental and societal returns criteria to be considered for investment.

Performance measures are proposed for each criterion. The performance measures are defined in terms of outputs, they are the desirable economic, environmental and societal impacts that will be targeted by InBC investment. Performance measures and outputs also align with the objectives of the BC Economic Framework. Outputs are quantitative and objectively measurable. This approach will enhance the credibility of the performance reporting of InBC.

Five investment criteria are proposed (subject to refinement through the development of an IPS):

1: Low Carbon Economy

InBC's investments support the growth of the province's low carbon economy.

Performance Measurement:

Investment creates the desired outputs through development and implementation of new technologies or processes that reduce GHG emissions in the province, or support businesses to adopt other practices that positively impact provincial GHG targets.

Measurable outputs may include:

² Province of British Columbia (2020). *Economic Framework* (page 19)

- Number of Metric Tons of CO2 Equivalent of greenhouse gas emissions mitigated during the reporting period, measured by the sum of greenhouse gas emissions sequestered, avoided, and reduced by the investee.
- Number of Metric Tons of CO2 Equivalent of greenhouse gas emissions that would have been emitted by a product that is replaced by the product supplied by the investee
- Amount of greenhouse gas (GHG) emissions avoided through carbon credits purchased.

2: Emerging Economy

InBC's investments aim to scale and develop innovative BC businesses and anchor intellectual property in the province

Performance Measurement:

Investment creates outputs through the development, implementation or commercialization of an innovative³ concept, practice or product sold to the national or global market.

Measurable outputs may include:

- # of full-time equivalent (FTE) positions the investee creates in the province
- median wage of FTE vs. the median wage of the sector
- growth in business earnings before interest, taxes, and depreciation/amortization over the investment period (EBITDA) as a proxy for value added to the economy
- growth in value of exports / exports as a percentage of total sales
- growth in value of non salary cost of sales and operating cost supplied by BC suppliers

3: Inclusiveness

InBC's investments aim to remove barriers to participation in our economy, advance reconciliation with Indigenous peoples, and foster a more inclusive society for all British Columbians.

Performance Measurement:

Investment creates desired outputs through promoting diversity and inclusion in the business or presents economic opportunities for underrepresented groups.

³. Associated with a novelty, uniqueness, feature enhancement, or increased functionality driven through technological advancement.

Measurable outputs may include:

- # of board of directors or other governing body member positions created for people who belong to minority or traditionally excluded groups.
- gender wage equity (ratio of the average wage paid to female employees of the organization for a specified position, compared to the average wage paid to male employees of the organization for the same position)
- # of jobs created for Indigenous people or within Indigenous communities
- # of jobs created for disadvantaged groups including youth or people with disabilities
- median wage of job created vs. the median wage of the sector

4: Distributed Growth

InBC's investments aim to create Quality Economic Growth opportunities that are realized in all regions of the province.

Performance Measurement:

Investment creates outputs both inside and outside the Metro Vancouver Regional District and the Capital Regional District⁴.

Measurable outputs may include:

- # of full-time equivalent (FTE) positions the investee creates in a specified region.
- median wage of FTE vs. the median wage of the region
- growth in value of exports as a percentage of total sales
- growth in business earnings before interest, taxes, and depreciation/amortization (EBITDA) as a proxy for value added to the economy
- growth in value of non salary cost of sales and operating cost to BC suppliers

5: Alignment with new economic growth opportunities

InBC's investments support opportunities where the investment may promote Quality Economic Growth in British Columbia.

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⁴ Consistent with definition of community diversification in Small Business Venture Capital Regulation

An investment may meet one or more of the five proposed investment criteria. An investment may be measured against one or more of the several performance measures associated with each criterion. A potential investment is not expected to meet all performance measures outlined above. InBC will work with potential investors to identify how an investment opportunity would align with the criteria, and which of the performance measures that InBC may use to measure the impact of its investment. Each investment will be assessed on a case by case basis. InBC will work with the party seeking investment to build an investment thesis that describes how the investment will generate financial returns and economic, environmental and societal impacts.

Criteria should be reviewed annually by InBC management and the board of directors to ensure continued alignment with government priorities.

Additionality

Additionality occurs when a party's investment leads to a net increase in desired output. To be additional, an investment does not crowd out capital that would be provided under similar investment terms by other providers. It also means that an increase in output does not occur at the expense of the output being reduced somewhere else in the economy.

InBC will seek to create additionality through its investments. In InBC's case, additionality will be viewed as the extent to which InBC's participation in financing an opportunity is incremental to realizing measures such as quality job growth, export growth, firm profitability, GHG reduction and diversity and inclusion measures, without crowding out other public or private sources of investment.

InBC will seek to invest on a pari passu basis with other private and public investors. This means InBC will invest on similar terms when investing alongside other market investors and will not look to create additionality through taking subordinated investment positions. InBC will seek to realize a reasonable risk adjusted return from its investments. InBC's unique position in the marketplace allows the organization to assess risk on different terms than other market participants. InBC may leverage its tolerance for liquidity risk and its long investment horizon to realize additionality. InBC may do this through providing patient capital with longer terms before exit.

InBC may also create additionality by identifying opportunities that other investors undercapitalize or miss altogether. This is possible where InBC has unique expertise or insight about an investment opportunity. This is also possible where the economic, environmental and societal objectives of InBC's triple bottom line make InBC a preferred source of capital. For example, where a firm with high growth potential has an established presence in the province, that firm may prefer to seek investment from InBC whose mandate includes anchoring and scaling high growth firms in the province. In such a case InBC may be a strongly preferred source of capital to other investors who may invest with a view of relocating the firm outside the province. InBC may achieve incrementality through leveraging its comparative advantages brought out in InBC's triple bottom line mandate.

InBC will also consider additionality when acting as a lead investor in a round of financing. The extent to which InBC leads the structuring of the financing terms, and the extent to which InBC can attract capital from other public and private co-investors will be considered as indicators of InBC's investment additionality. InBC will seek to attract co-investment and matching funding from other sources wherever possible to increase the capital available to BC businesses.

Finally, additionality will be considered to ensure the outputs are net positive at both the firm level and more broadly at the provincial economy level. A firm may hire new staff, increase exports or improve profitability as a result of InBC investment, however, where these gains are made at the expense of a local competitor there would be no net benefit to the province. InBC will consider additionality at the provincial economy level with the objective of creating Quality Economic Growth that benefits all British Columbians.

Additionality will be a fundamental principle of InBC's investment strategy. InBC must demonstrate the potential for additionality on each investment it makes.

InBC's Value Proposition

InBC's investment decisions will be made by an independent and qualified Chief Investment Officer. Investment decisions will be based on an assessment of an investment against InBC's triple bottom line objectives and will be free from political influence.

InBC will invest with the objective of creating Quality Economic Growth in the province of BC. It will seek to earn a financial return on its investments, however InBC is not constrained by short- or medium- term liquidity requirements. This means that InBC will be positioned to provide a stable source of patient capital to BC companies to help them scale up in the province and contribute to Quality Economic Growth.

InBC is a government investment fund. As such, InBC will have a different set of values and resources than private capital providers when it comes to supporting its investments. We believe this differentiation is a strength, and core to InBC's value proposition. As an investor, InBC will share in its co-investors' objectives of creating value and growth in BC businesses through its investments. While InBC's network and resources will be different from those of private capital investors, they will be no less valuable in supporting these objectives. InBC will seek to add value by connecting its investments and co-investors to markets and opportunities through its comprehensive public sector networks with the aim of growing the value of its investments.

Portfolio Management

Asset Classes

InBC will use various financial instruments, across the risk spectrum. InBC will consider using investment instruments such as equity, preferred shares, mezzanine financing, and limited partnership agreements to carry out its mandate. The choice of financial instruments will be informed by the desired return and risk profile for the investment, and whether InBC takes a role as a lead or following investor. This determination will be made by the Chief Investment Officer on a case by case basis.

In order to achieve the economic, environmental and societal objectives set out by the investment criteria, InBC will need flexibility to invest anywhere in a business's capital structure. InBC's choice of financial instrument will be influenced by how other investors are structuring investments within a deal, as well as by investee preferences. This flexibility will also help InBC reach more diverse groups across the province who may have different requirements and approaches toward investment.

S. 12 and 13

Sectors

In order to realize InBC's investment mandate to create Quality Economic Growth opportunities that are realized in all areas of the province, InBC must be able to invest in a broad range of sectors that comprise the BC economy.

Accordingly, InBC investment policy is not constrained by sector and may consider investments in technology, forestry, mining, manufacturing, agriculture, life sciences, tourism and infrastructure. This broad sectoral approach will not only help InBC achieve its objective of creating Quality Economic Growth across BC, it will allow InBC to diversify its investment portfolio risk exposures and help realize its financial benchmark.

The priorities in the BC Economic Framework include supporting the scale-up of companies to anchor B.C.-grown companies and explore new ways to retain B.C. intellectual property in the province. This focus may lead to InBC's initial investments being concentrated in the B.C. technology sector.

Geography

InBC will invest with the objective of creating positive economic, environmental and societal impacts in the province. InBC investment will be restricted geographically to the extent that benefits from InBC's investment must accrue to British Columbians. InBC will therefore invest in BC companies. This will result in geographic concentration in the portfolio, and the performance of the portfolio will be impacted by BC specific economic factors.

Responsible Investing

InBC will adopt socially responsible investment practices that reflect the principles communicated in the BC Economic Framework. InBC will invest in businesses that deliver higher real wages, and that protect the environment. InBC will seek opportunities where its investments make a positive impact for all segments of the population, in all parts of the province.

InBC will integrate Environmental Social Governance (ESG) analysis and risk management practices in its investment decision making process. This means investment decisions will be made with the following questions in mind:

- How does the company seeking investment interact with the environment?
- How does the company interact with its employees, customers and communities?
- How does the company govern itself?

This analysis takes a broader definition of risk to ensure the investment returns earned by InBC are returns driven by Quality Economic Growth. Certain types of investments will not be considered by InBC such as investments in arms manufacturing, tobacco, illegal narcotics, or any investment that may compromise the reputation or integrity of the Province of British Columbia.

Portfolio Allocations

The purpose of this section is to present an overview model for portfolio allocations, cash flows, and oversight requirements of the fund. Assumptions about the constraints of the fund are also summarized.

Overview:

Portfolio allocations are informed by the BC Economic Framework. The portfolio is allocated into four broad categories:

Table 2 – Possible Investment Portfolio Model Allocations

Description	% & \$ allocation	Objective
Early Stage	S. 12 and 13	To grow and support the development of made-in-B.C. technology solutions.
Scale Up		To anchor B.C.-grown companies and explore new ways to retain B.C. intellectual property by supporting the scale-up of companies that contribute the most to the economy.
Later Stage Growth Equity		To seek high impact, high value investment opportunities that anchor businesses in the province. These businesses have a high potential to contribute to Quality Economic Growth, support the development of innovation clusters and build global scale businesses in the province.
Distributed Growth		To develop high-quality, distributed growth opportunities in every region of the province.
Indigenous Business		To create opportunities with Indigenous peoples to be full partners in our economy and provide a clear and sustainable path to work toward lasting reconciliation.

This model portfolio allocates ^{S. 12} and ^{and 13} of the fund to early stage investment. This allocation recognizes the importance of fostering a healthy investment climate for early stage, innovative companies. While there

is flexibility to consider direct investment in early stage companies, the focus will be on supporting early stage businesses through targeted investment in funds.

The portfolio allocation focuses ^{S. 12}_{and 13} of investment activity for InBC in direct investment positions in companies seeking to commercialize intellectual property and scale up in the province. This allocation positions InBC to be an investor in developing companies that are approach commercialization, and builds on the capital programming made available by the province such as the Small Business Venture Capital Tax Credit Program, and the BC Tech Fund.

The model allocation also provides for investment in later stage opportunities that will have significant economic impact for the province. These later stage investments are contemplated to be large, direct equity positions in companies; these investments will occur in the later years of InBC's ten-year horizon.

^{S. 12}_{and 13} of the portfolio investment is allocated to Distributed Growth. This allocation is specifically for investment outside the Metro Vancouver and Capital Regional Districts. Investments in this category are targeted to be distributed across all 8 economic development regions⁵ of the province. InBC will have a high degree of flexibility in how the Distributed Growth investments will be structured in order to maximize the economic, environmental and societal impacts that may be realized through these investments.

^{S. 12}_{and 13} of the portfolio is allocated to Indigenous business investment. This allocation provides a dedicated source of capital within InBC to support forming partnerships with other institutions investing in Indigenous businesses in the Province.

The principles of InBC's triple bottom line apply to all portfolio allocations. This means that all investment decisions will be made with the objective of being additional, generating a positive financial return, and creating environmental, societal and economic benefits for British Columbians.

⁵ Cariboo, Kootenay, Mainland/Southwest, Nechako, North Coast, Northeast, Thompson-Okanagan, Vancouver Island /Coast.

Key assumptions

Cash flow

Table 3 – Model Cash Flow Schedule (\$ millions)

Year
Early Stage
Scale up
Later Stage/Growth Equity
Distributed Growth
Indigenous Business
Total

Early Stage:

Commitment to approximately S. 12 and 13 over the first 6 years. S. 12 and 13 commitment made in year 1, S. 12 commitments per year thereafter until year 6. S. 12 and 13 commitments. Cash out flows distributed S. 12 and 13 year investment period. Potential opportunity to reinvest BC Tech Fund distributions following year 6. Fund returns realized in year 10 -12 (not reflected in table 3).

Scale up:

Direct investments beginning in year 2 to allow time to establish deal flow. Approximately S. 12 and 13 investments per year as a following investor for 4 years. Approximately S. 12 and 13 per year as a lead investor in years 6 – 8. Investment size as a following investor is S. 12 and 13. Investment size as a lead investor is S. 12 and 13. InBC will hold the equivalent amount of each initial investment in reserve for follow-on investment. Follow on rounds occur 2 years after the initial investment. S. 12 and 13

Later Stage/Growth Equity:

Direct investments beginning in year 6 through 8. InBC acts a lead investor. Investment size estimated at S. 12 and 13. Potential for S. 12 and 13 of this nature. Long term holding period assumed.

Returns are not reflected in table 3.

Distributed Growth:

Direct investments beginning in year 2 to allow time to establish InBC’s deal flow. Approximately ^{S. 12 and 13} per year over 7 years. Investment covers all 8 economic development regions of the province. Investment size will be highly variable – table 3 reflects an assumption of an initial ^{S. 12 and 13} investment with ^{S. 12 and 13} for follow on financing within a 3-year period. Holding period will vary, returns are not reflected in table 3.

Indigenous Business

Direct investments assumed in year 3 to allow time to establish InBC’s deal flow, internal expertise and relationships. Approximately ^{S. 12 and 13} per year over 5-7 years. Investment size will be highly variable – table 3 reflects an assumption of an initial ^{S. 12 and 13} with ^{S. 12 and 13} for follow on financing within a 3-year period. The investment vehicle used is expected to vary, and this variability will materially impact the size and timing of cash flows. High potential to leverage pooled fund investments, debt and leverage partnership with other provincial and national Indigenous investment programming. Holding period will vary, returns are not reflected in table 3.

BC Companies Supported

Table 4 – Model of Companies Supported

^{S. 12 and 13}

Year
Early Stage
Scale up
Later Stage/Growth
Equity
Distributed Growth
Indigenous Business
Total

Early Stage:

S. 12 and
13

S. 12 and 13

BC based companies per fund commitment. Investment in companies distributed

5-year investment period.

S. 12 scale up:

and 13 BC companies per year for years 2 – 5 as a following investor. S. 12 and 13 BC companies per year for years 6-8 as a lead investor.

S. 12 and Stage/Growth Equity:

13 large investments in BC companies potentially beginning in year 6.

distributed Growth

S. 12 and 13

BC companies distributed over the 8 economic development regions of BC (Cariboo, Kootenay, Nechako & North Coast, Northeast, Thompson-Okanagan, Vancouver Island & Coast, Southwest)

Indigenous Business

S. 12 and 13

Investments supporting Indigenous Business or Indigenous Development Corporations distributed across the province.

Governance Assumptions

Table 5 – Model of Board Position and Limited Partnership Advisory Committee Commitments

Year	S. 12 and 13
Early Stage (LPAC)	
Scale up (board seat when lead investor)	
Later Stage/Growth Equity (board seat when lead investor)	
Distributed Growth Holding (board seat assumed)	
Indigenous Business	
Total	

Early Stage:
S. 12 and 13

Scale up:
S. 12 and 13

S. 12 and 13

S. 12 and 13

Constraints

Capacity:

InBC will be developing its policies, systems and staff over the first years of operation. It is assumed that the number of commitments and investments InBC will be able to make will increase as the organization itself develops and establishes itself. Commitments to funds have been limited to S. 12 and 13

S. 12 and 13 per year to ensure the proper screening of the General Partner. InBC will act as a following investor i S. 12 and 13
13 deals a year over the first five years of operation. The potential for InBC to lead investment rounds is reflected beginning in year 6.

Maturity:

It is assumed that InBC will not lead investments rounds until it has developed its reputation in the marketplace. Lead investment positions are assumed to occur beginning in year 6.

Administration:

InBC will be cost efficient in the administration of its portfolio. It is assumed that investing through funds at the early stage is a cost-effective way to support smaller investments without a significant increase in direct administration cost.

Diversification:

InBC's investment in funds will allow for reasonable diversification across a broad group of companies at the early stage. However, it is assumed that the focus on anchoring intellectual property in the province will concentrate investment on the technology sector (information communication technology, life science, clean tech and agri business).

S. 12 and 13

It is assumed that the focus on scaling-up B.C. companies with the objective of anchoring intellectual property in the province will concentrate investment in the technology sector (information communication technology, life science, clean tech and agri business).

S. 12 and 13

Portfolio Allocation Profiles

Early Stage - Indirect Investment Focus

Objective of Early Stage Investments

- **Deal flow** - Continued Support for early stage companies, increase pool of IP rich firms with the potential to scale in the province.
- **Diversification** - Early stage companies are higher risk investments as they are generally pre revenue. Investment in a fund diversifies risk of early stage investment over a broader pool of companies. This level of diversification would not otherwise be possible directly investing in small businesses. Capacity for broader sectoral impact.
- **Economies of scale** - InBC is not directly screening individual investments. Individual screening focus can be directed to later stage, revenue positive companies with increased opportunity to scale in the province. InBC is not managing multiple small investees, focus at the fund level on LPAC.
- **Incrementality** – InBC continues to build VC presence in British Columbia. Addresses gaps in the short term through increasing capital commitment to local funds that are constrained in raising capital. Side letter agreements developed with funds to align fund investment with InBC mandate.

Portfolio Allocation:

S. 12 and 13

allocated over first 6 - 8 years, beginning year 1.

- Maximum Contribution: Lesser of S. 12 and 13 the aggregate capital commitments of a fund
- Some limited direct investment capacity is possible at S. 12 and 13 however focus is on funds to achieve diversification and economies of scale.

Assumptions

1. Fund investment period: 4 years
2. Cash flow S. 12 and 13 over the investment period (4 years) following the year of commitment.
3. Fund distribution from fund over year 10 – 12.
4. 4 Years between funds being raised. Spacing of commitments to be managed with anticipated fund timing.
5. Commitments to S. 12 and 13, S. 12 and 13
6. S. 12 and 13 receive investment per fund commitment (S. 12 and 13

7. Minimum commitment from fund to invest 100% of InBC commitment in BC firms.

Scale up - Direct Investment

Objective of Scale up

- **Scale** - Generally companies with positive revenues but varies by sector. Investment primarily utilized to support the company's growth. Follow on funding held in reserve by InBC for subsequent rounds providing a continued source of capital to scale.
- **Commercialization** – Focus at this stage is to commercialize IP developed in early stages. Viable product and commercial feasibility established. Capitalization directed to activities such as sales, marketing, talent acquisition.
- **Quality Economic Growth** – Increasing revenues and salary base contributes to increased tax base.
- **Distributed growth** - Opportunity to anchor firms in clusters with focus on 2nd city initiatives and the Innovation Corridor. Pursue opportunities for broader distributed growth across the province.
- **Potential for high return** – Equity relatively undiluted large potential upside. High risk investment but not high as early stage.

Portfolio Allocation:

S. 12 and 13

total fund, allocated over 6-8 years, beginning year 2.

- InBC investment to not ^{S. 12 and 13} of the company's capital structure. Fund positions at earlier stages are also considered in context of concentration risk.
- Investment not exceeding ^{S. 12 and 13} one round when acting as a lead investor.
- Investment not exceeding ^{S. 12 and 13} round when following

S. 12 and 13

InBC investment held in reserve for follow on financing

Assumptions

1. Cash flow occurs year of investment decision S. 12 and 13
2. Up to 3-5 deals a year over 6-8 years beginning year

S. 12 and 13

3. 8 year holding period assumed, but expected to be highly variable, and assessed on a case by case basis.

S. 12 and 13

S. 12 and 13

4. Median Round Size

5. 2 years between company rounds

S. 12 and 13

8. Direct investment focus, however, opportunities to explore pooled fund investment and debt at this stage should not be precluded

Later Stage and Growth Equity - Direct Investment

Objective of Later Stage and Growth Equity

- **Anchor** - Opportunity to anchor high valuation firms in the BC market through continued financing.
- **High Impact Economic Return** – Influence of triple bottom line mandate on established company. Looking for larger firms with exceptional leadership that will have spillover effects to cluster development and help anchor other firms.
- **Potential for high return** – continued potential for high return, although somewhat less growth capacity than scale up focus, with potentially less risk than scale up focus

Portfolio Allocation:

S. 12 and 13

total fund, allocated in the later stages of InBC's development

- Investment S. 12 and 13 of company capital structure
- Investment S. 12 and 13 any one round when acting as a lead investor (likely lead is focus here)
- Limited opportunity for sectoral diversification – opportunities for diversification to be assessed against overall portfolio exposures at time of investment to avoid excessive concentration at the overall portfolio level.

Assumptions

1. Cash flow occurs year of investment decision
2. Investment not S. 12 and 13 one round when acting as a lead investor
3. Investment S. 12 and 13 round when following
4. No sector specification
5. Median Round Size S. 12 and 13
6. Elevated risk of investment concentration mitigated to some extent by maturity of company
7. Limited capacity of fund to take large positions. Likely limited S. 12 and 13 direct investments, as a lead.
8. High concentration risk
9. Follow on financing if any to be managed S. 12 and 13
10. Large, concentrated positions should not be taken at early stages in fund lifecycle
11. Potential to reallocate to pooled investment if opportunities arise.

Distributed Growth – Direct Investment

Objective of Distributed Growth

- **Distributed Investment** - Outside MVRD CRD distributed across all 8 economic development regions.
- **High Impact Economic Return** – Focus on regional impact with creation of good paying jobs in all areas of the province.
- **Positive Financial Return** – Investment must generate a positive financial return, however greater focus in this category on economic, environmental and societal impact.
- **Potential to accept higher risk** – Investment focus is on economic, environmental and societal impacts. There is greater potential to accept risk in this category to achieve triple bottom line economic, environmental and societal impacts. Higher risk must be justified by larger economic, environmental and societal impacts. The investment must contribute to strong, Quality Economic Growth in the region.

Portfolio Allocation:

S. 12 and 13

total fund, allocated beginning year 3

S. 12 and 13

investments across the province.

- Investment is S. 12 and 13 of company capital structure (debt and equity)
- InBC to develop co investment opportunity where possible with discretion to act as sole investor
- Geographic diversification target – allocation based on economic development regions (Cariboo, Kootenay, Nechako, North Coast, North East, Thompson-Okanagan, Vancouver Island & Coast, Mainland & Southwest)
- Opportunity to adopt more innovative investment structures to drive Quality Economic Growth opportunities (consider revenue-based financing).

Assumptions

1. Cash flow occurs year of investment decision
2. Investment S. 12 and 13 the capital structure of the firm.
3. No sectoral specification – regional focus.
4. Investment size is expected to be highly variable. Flexible S. 12 and 13
5. Expectation is S. 12 and 13

6. S. 12 and 13

with a S. 12 and 13

7. S. 12 and 13

retained for follow on financing

8. S. 12 and 13

Indigenous Business – Direct and indirect investment

Objective of Distributed Growth

- **Indigenous Reconciliation** – Opportunity to partner with Indigenous investors and businesses
- **Distributed Investment** – Opportunity to make a
- **High Impact Economic Return** – Focus on Indigenous and regional impact with creation of good paying jobs in all areas of the province.
- **Positive Financial Return** – Investment must generate a positive financial return, however greater focus in this category on economic, environmental and societal impact.
- **Potential to accept higher risk** – Investment focus is on economic, environmental and societal impacts. There is greater potential to accept risk in this category to achieve triple bottom line economic, environmental and societal impacts. Higher risk must be justified by larger economic, environmental and societal impacts. The investment must contribute to strong, Quality Economic Growth.

Portfolio Allocation:

S. 12 and 13

f total fund, allocated beginning year 3

- Approximately S. 12 and 13 across the province.
- Investment is less than S. 12 and 13 capital structure (debt and equity)
- InBC to develop co investment opportunity where possible with discretion to act as sole investor
- Opportunity to adopt more innovative investment structures to drive Quality Economic Growth opportunities (pooled financing, Indigenous investment corporation partnerships).

Assumptions

1. Cash flow occurs year of investment decision
 2. Investment up to but S. 12 and 13 capital structure of the firm.
 3. No sectoral specification
 4. Investment size is expected to be highly variable.
 5. Target minimum S. 12 and 13
 6. Approximately S. 12 and 13 retained for follow on financing
- S. 12 and 13