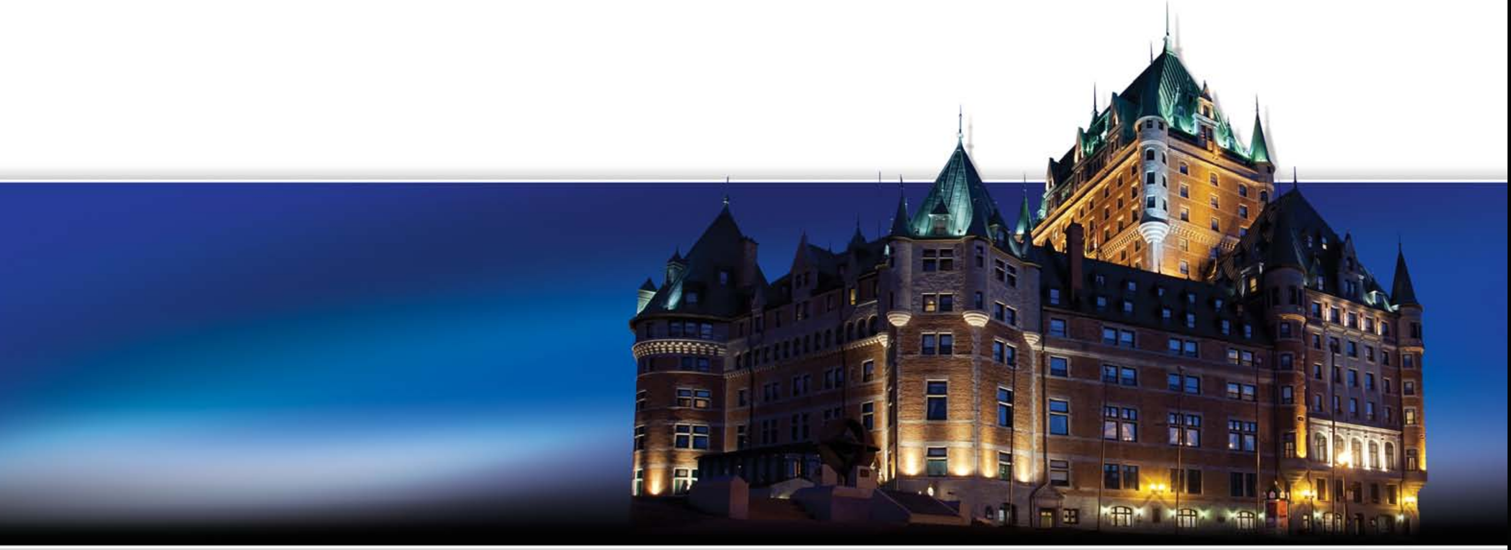
The Quebec City Conference 2012

Public Policy Forum on Venture Capital and Innovation



Main Conclusions 2012

Save The Date: October 22 to 24, 2013

MESSAGE FROM THE QUEBEC CITY CONFERENCE PRESIDENT & CHAIR

Venture capital plays a crucial role in building an economy based on knowledge. Research studies clearly show how venture capital can transform innovations of R&D into broadly-based economic gain and societal benefit through a unique combination of financing and professional management. The results of these studies explain why most governments in the industrialized world actively support this industry.

The venture capital model was invented in the US after three decades of trial and error. It has registered its main successes in California and the US East Coast and proven very flexible in adapting to the ups and downs of this very cyclical industry. New challenges, however, have added to the difficulties of the present downturn as it comes after a decade of disappointing returns, even in the US, and institutional investors are increasingly turning their back on the asset class. In the meantime, the increasing role of business angels and accelerators as alternative sources of financing at the seed stage as well as the globalization of technology and innovation are profoundly changing the landscape. The new cycle may look very different from the previous ones.

On the other hand, it is important to remember, especially in these unsettling times, that it is innovation that truly drives economies. The underlying factors of innovation, which are R&D spending and the training of entrepreneurs, engineers and scientists, keep growing and becoming more and more global. Even if its model is being questioned and complemented by alternative sources of financing, venture capital remains the most efficient financing means to transform innovation into successful companies and products.

This international challenge accentuates the need for an annual meeting of architects of public policy aimed at developing and supporting a buoyant global venture capital and private equity ecosystem in a well designed format intended for high-level exchanges and reflection.

The QCC Public Policy Forum on Venture Capital and Innovation was conceived to accomplish this objective.

We would like to thank, in particular, the governments that supported the Public Policy Forum, financially and logistically. We salute the governments of France, through OSEO, Israel through MATIMOP and the US Department of Commerce which joined the governments of Canada, Quebec, Ontario and British Columbia as partners in this project. They came together based on the conviction that joining forces, resources and expertise is the right strategy to maximize value for each participant. We believe that this generous and visionary precedent will also benefit other jurisdictions faced with a common challenge of creating wealth through innovation.

Our sincere thanks to all panellists, to the members of the organizing committee and to the volunteers who have invested time and effort to ensure another successful Forum.

Finally, a warm thank you to the President of the Forum, Mr. Gilles Duruflé, to its Chair, Mr. Yigal Erlich, and to the Forum's Special Advisor, Dr. Josh Lerner.

Sincerely,

Mr. Christian Racicot
Co-Founder & President
The Quebec City Conference
Lawyer, BCF LLP

Mr. Stephen Hurwitz
Co-Founder & Chair
The Quebec City Conference
Partner, Choate, Hall & Stewart

ABOUT THE PUBLIC POLICY FORUM

Held annually within the Quebec City Conference, the Public Policy Forum on Venture Capital and Innovation (‘’PPF’’) has evolved into the premiere gathering of public policy designers and industry leaders (GPs, LPs academics and experts) responsible for encouraging high-potential entrepreneurship and venture capital from all major economies. Its objectives are to give participants an opportunity to exchange views, experiences and concerns regarding public policies in support of a buoyant venture capital ecosystem to finance emerging technology companies. Now in its sixth year, it is an invitation-only event building upon the international audience

ABOUT THE QUEBEC CITY CONFERENCE

Now in its ninth year the Quebec City Conference (“QCC”) is a private, by invitation-only and not-for-profit annual conference for leading international venture capital and PE firms, institutional and strategic investors, sovereign wealth funds and family offices whose activities produce tangible economic gain and societal benefit, and for public policy makers, industry experts and leading academics in this investment field, in a format intended for high level exchanges and reflection.

All participants meet, network and hear distinguished keynote speakers on subjects such as the economy and markets, innovation, emerging markets and venture capital and private equity. Service providers are not invited. No other conference of this kind exists anywhere else in the world. In 2011, the Conference attracted 451 participants from 30 countries from North America, Europe, Asia, Middle-East and South America. This year, to preserve the unique attributes of the Conference, we are targeting a limited attendance of 400 guests.

In addition to the main Conference described above, held from 5:00 pm on Wednesday, October 24 to 6:30 pm on Thursday, October 25, the Quebec City Conference also comprises special forums. Each forum is by-invitation-only and is held from 9:00 am to 5:00 pm on Wednesday, October 24 before the official opening of the Conference: Institutional Investors Roundtable (“IIR”), Family Offices Forum (“FOF”), Global Investors Forum (“GIF”) and Public Policy Forum on Venture Capital and Innovation (“PPF”).

Finally, the Quebec City Conference is partnering with Thomson Reuters to offer the “QCC-ThomsonReuters PartnerConnect Program” to the attendees. This program is a series of targeted one-on-one meetings between “LPs” (i.e. institutional investors, family offices and funds of funds) and “GPs” (private equity and venture capital). The meetings are arranged based on surveys of these LPs and GPs to determine the most appropriate matches for them.

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MESSAGE FROM THE PRESIDENT & CHAIR OF THE PUBLIC POLICY FORUM

2012 was the 6th edition of the QCC Public Policy Forum on Venture Capital and Innovation ("PPF"). There are four characteristics which make this Forum unique.

First, it brings together direct investors, indirect investors, government officials and academics to discuss public policy issues related to the financing of technology start-ups and entrepreneurship. The 2012 PPF brought together 69 direct investors, 23 indirect investors, 25 government officials and policy makers, 13 academics and 12 other industry experts. There is no other place in the world where these 4 pillars of the ecosystem can interact, at a senior level, on invitation only.

Second, it is an international platform where different countries can share their experience on what works and what does not work, discuss the uniqueness of the "American Model", the extent to which it is possible to replicate it and how the situation may differ in other countries, especially emerging markets. 13 countries from 4 different continents were represented this year.

Third, it is not only a networking event, it is also content driven. With Josh Lerner as special advisor together with Thomas Hellmann and the advisory committee, we have worked hard to select the themes, recruit participants, assemble the panels, work with the panellists, set up the workshops and, finally, prepare the Participant's Guide with the relevant background information in order to help the audience to fully participate in discussions as we wish the sessions to be as interactive as possible. The Forum is not only about sharing information; it is about sharing experiences and lessons learnt through failures and successes.

Finally, it is part of a cumulative process. This year's edition builds on the conclusions and recommendations of last year's Forum which were widely circulated and discussed. The program benefited from the input of many past and current participants. Many participants come back year after year and build relationships with one another. Peer to peer interaction during panels, workshops, dinners and informal discussions become an increasingly important part of this meeting.

The PPF has already had a direct impact on several public policy initiatives in Canada and has influenced the thinking of policy makers in several other countries. It has received support from the Canadian federal and provincial governments from the very outset. In 2012, France, through OSEO, Israel through MATIMOP and the United States also joined in by providing the PPF with backing and, at the same time, became more active in advising and on organisation committees. We urgently invite other countries to emulate them. Greater participation by all parties will make the PPF even more beneficial to everyone.

The present document which summarizes the Main Conclusions of this year's debates is meant to prolong these discussions and prepare for next year. We hope that you will enjoy reading it. Your comments and suggestions would be most welcome.

All 2012 Forum materials (Participant's Guide, Keynote Address, Main Conclusions and other reference documents) are available on our website at this address:
www.quebeccityconference.com/ppf/

The 2013 PPF will be held in Quebec City on October 22-24, 2013.

Sincerely,

Mr. Gilles Duruflé
Executive Vice President
The Quebec City Conference
President
Public Policy Forum On Venture Capital

Mr. Yigal Erlich
Chairman
Public Policy Forum on Venture Capital
Founder, Chairman and Managing Partner
The Yozma Group

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Harvard Business School

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President
Public Policy Forum on Venture Capital and Innovation

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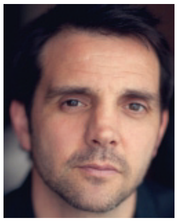


Mr. John Stokes
Partner
Real Ventures

PROGRAM
PUBLIC POLICY FORUM

WEDNESDAY, OCTOBER 24, 2012

8:30 to 8:50 am	**WELCOME**  Mr. **Stephen A. Hurwitz** *Co-Founder and Chair* **Quebec City Conference**  Mr. **Yigal Erlich** *Founder, Chairman and Managing Partner* **The Yozma Group** *Chair* **Public Policy Forum on Venture Capital** **INTRODUCTION**  Dr. **Gilles Duruflé** *President* **Public Policy Forum on Venture Capital**
8:50 to 10:00 am	**KEYNOTE PRESENTATION** Subject: **"The Changing Landscape of New Venture Financing: An Introduction to the 2012 Public Policy Forum"**  Dr. **Josh Lerner** *Jacob H. Schiff Professor of Investment Banking* **Harvard Business School**  Dr. **Thomas Hellmann** *B.I. Ghert Family Foundation Professor in Finance and Policy* **Sauder School of Business, University of British Columbia**
9:50 to 10:20 am	**NETWORKING BREAK**

PROGRAM
PUBLIC POLICY FORUM

WEDNESDAY, OCTOBER 24, 2012

10:20 to 11:25 am

FIRST PANEL

Subject:

Building the Early Stage Ecosystem for Technology Startups: Accelerators, Mentors, Business Angels and Seed Funds

Moderator:

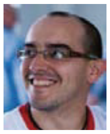
Mr. **John Stokes**
Partner
Real Ventures

Panelists:

Mr. **Alex Bangash**
Managing Director
Rumson Group

Mr. **Carlos Espinal**
Partner
Seedcamp

Mr. **Garry Tan**
Partner
Y-combinator



Mr. **Dave McClure**
Founding Partner
500 Startups (TBC)

Ms. **Senia Rapisarda**
Vice President Strategic Initiatives and Investments
Business Development Bank of Canada

PROGRAM
PUBLIC POLICY FORUM

WEDNESDAY, OCTOBER 24, 2012

11:25 am
to 12:30
pm

SECOND PANEL

Subject: **Exits - One year later: the new US Jobs Act**

Moderator:

Mr. **Stephen A. Hurwitz**
Partner
Choate, Hall & Stewart
Co-Founder and Chair
Quebec City Conference

Panelists:

Mr. **Denis Lucquin**
Managing Partner
Sofinnova
Chair of the EVCA
Stock Exchange Roundtable & Task Force

Ms. **Kate Mitchell** (by video)
Managing Director
Scale Venture Partners
Former Chair
Small Company IPO Task Force

Mr. **Brett Paschke**
Managing Director, Head of Equity Capital Markets
William Blair

Mr. **Andy Viles**
US General Counsel
Canaccord Genuity

Mr. **Michael Zhu**
Partner
Gobi Partners

PROGRAM
PUBLIC POLICY FORUM

WEDNESDAY, OCTOBER 24, 2012

12:30 to 1:45 pm	**NETWORKING LUNCH**
1:45 to 3:00 pm	**HARVARD BUSINESS CASE** **Subject:** Start-Up Chile **Case Researchers:** Dr. Josh Lerner and a HBS team **Moderator :**  Dr. **Josh Lerner** *Jacob H. Schiff Professor of Investment Banking* **Harvard Business School** **Special Guest :**  Mr. **Cristobal Undurraga** *Head of Entrepreneurship* **CORFO (Chile)**
3:00 to 3:20 pm	**NETWORKING BREAK**
3:20 to 4:40 pm	**WORKSHOPS** Participants will be invited to choose their workshop in advance among the following themes: ***Workshop 1:*** *Accelerators and Seed Funding: Contrasting Models. Is there a role for government support? (This workshop will build on the morning's panel and dig into more technical aspects)* ***Workshop 2:*** *The Role of Government Money to Support the VC Industry: Who should manage this money? Are Incentives needed to attract private sector investors? How to harness private sector and international expertise?* ***Workshop 3:*** *New Approaches to Tech Transfer and Early Stage Funding* ***Workshop 4:*** *Investigating the Venture Capital Business Model: Recent Initiatives to Renew the Model* ***Workshop 5:*** *Contrasting Models to Start the Venture Capital and Innovation Ecosystem in Emerging Markets*
4:40 to 5:00 pm	**WRAP UP SESSION AND CLOSING REMARKS** Dr. **Josh Lerner**, Dr. **Thomas Hellman** and Dr.**Gilles Duruflé**
5:30 pm	**All attendees are invited to the Quebec City Conference immediately following**

EXECUTIVE SUMMARY

Year after year, the QCC Public Policy Forum on Venture Capital and Innovation (PPF) is advancing, both in content and participants, towards its objective of becoming the premiere international gathering of public policy makers and industry leading GPs, LPs, academics and other experts responsible for encouraging high-potential entrepreneurship and venture capital in all major economies.

In their **Keynote Address** to the 2012 PPF, Dr. Josh Lerner and Dr. Thomas Hellmann underlined the changes occurring in the venture capital landscape: venture capital is facing a prolonged down-cycle that seems to go beyond the usual effects of business cycles. Public markets do not provide the same kinds of exits as they did in the past. At the other end of the spectrum, dramatic changes and innovations are occurring at the seed and start-up stages with the multiplication of accelerators and rise of business angel financing.

For policy makers, these changes add a new layer of complexity. What model should government support? Venture capital, business angels (individuals, groups, funds, networks), accelerators, other emerging models? How to determine which one works best? How do they interact?

In order to deal with these difficult questions, Dr. Hellmann's recommendation was for policy makers to become "lean policy makers" and experiment. They should (i) formulate clear hypotheses (What types of firms or investors are targeted by programs and why? What are the expected outcomes?); (ii) collect relevant data, including on control groups, with the possibility of randomized treatment; (iii) evaluate, and build or pivot.

The first panel, **Building the Early Stage Ecosystem for Technology Start-Ups: Accelerators, Mentors, Business Angels and Seed Funds**, confirmed that something big and new is happening with the rise of accelerators. A different model based on powerful economic and technological trends is emerging and it is profoundly affecting entrepreneurial finance and the VC landscape. Their long-term role is still to be determined. However, we are only at the beginning of the process and panellists see accelerators as the next generation of business schools addressing the vast market of entrepreneurs globally numbering between 25 million and 250 million people. The development of crowdfunding and matching platforms such as Angellist is also beginning to have a huge impact on deal sourcing and seed financing and might be a theme for next year's PPF.

The second panel, **Exits - One Year Later: The New US JOBS Act**, underlined the extraordinary achievement of the US Small Company IPO Task Force whose recommendations were converted into major legislation within less than six months in one of the most gridlocked US Congresses ever. Lessons from this success story for taking effective legislative action are detailed in this document.

Will the JOBS Act fix the IPO problem? For the panellists, it is certainly a step in the right direction. However, many other problems, such as High Frequency Trading, currently seem to be plaguing public markets and scaring away institutional investors from equity investing and more specifically from technology small caps.

Due to past negative experience with technology-based stock markets in Europe and China, panellists from these markets stressed the importance of quality and transparency of information in the IPO process. Finally, some doubt was expressed that the problem of attracting institutional investors back to building small cap portfolios could be fixed in the short term. Suggestions were made that attention should be focused on improving and deepening private markets, notably by building on the trend towards greater corporate investor involvement.

The Harvard Business Case on **Start-Up Chile** illustrated a series of points that were made throughout the day: (i) the power of the accelerator model to help create the ecosystem (build the entrepreneurial culture, attracting, connecting, networking, emulating the right talent), (ii) the importance of a bottom-up and entrepreneur-centric approach, (iii) the interest of tapping into the global talent and resource pool and (iv) the positive impact of government intervention for both setting the environment right and funding this accelerator scheme. On the other hand, government intervention can be detrimental when it "gets in the way" as the US government did with its immigration laws that closed the door to outside entrepreneurs. The Chilean Government also took a big step in the direction of "lean policy makers" by speeding up implementation and demonstrating willingness to fine-tune its interventions.

Finally, parallel **Workshops** on themes chosen in advance by the participants themselves allowed for more direct peer-to-peer interaction. Many of these topics recur annually as they are an integral part of most participants' daily responsibilities. This on-going discussion contributes to building the PPF community. The key points emerging from these discussions are found in this document.

The ***Main Conclusions of the PPF*** is meant to summarize and encourage the continuation of the very rich exchanges that took place during the Forum. Comments and suggestions for next year are most welcome (gdurufle@quebeccityconference.com).

All Forum documents are available here: www.quebeccityconference.com/ppf/

KEYNOTE ADDRESS BY DR. JOSH LERNER AND DR. THOMAS HELLMANN: "THE CHANGING LANDSCAPE OF NEW VENTURE FINANCING".

To set the stage, the keynote address by Professors Josh Lerner and Thomas Hellmann highlighted some of the dimensions of "The Changing Landscape of New Venture Financing" as a prelude to discussion of the implications of these changes for public policy.

Adapting to a Prolonged Industry Downcycle

The first dimension that Professor Lerner discussed was the longevity of the downcycle that the venture capital industry is presently facing: low levels of investment, unsatisfactory overall performance and more recently disappointing returns of major social media firms (Facebook, Zynga, Groupon). Are these downtrends normal cyclical results of "rational" markets? Or are they explainable by more systemic flaws and if so, how can these problems be fixed?

To put these questions in perspective, Dr. Lerner summarized available academic evidence on public markets and venture capital cycles.[1]

Finance theory suggests that public markets are valuable sources of information. Empirical evidence shows that venture funds follow public market signals. This behaviour is associated with success and success rates increase with funds managers' industry experience.

However, there is also evidence of market distortions: for instance, (i) "hot issue" markets followed by long-lasting droughts not justified by economic fundamentals as was the case for small computer firms in the 70s and (ii) the under pricing and underperformance of IPOs relative to market indices.

VC-backed investments seem less prone to these distortions as there is less underpricing with VC-backed IPOs and the latter outperform market indices in the long run. However, this does not preclude other types of behaviour by VC managers designed to exploit the system in the short run which prove costly for investors and society. These behaviours include timing of IPOs and distributions and over-investment in response to market signals.

Can regulatory responses be effective in fixing these problems? Can the impact of "unintended consequences" of such responses be avoided or limited? Sarbanes-Oxley was a response to excesses and misbehaviour during the tech bubble. However, some of its costs may have been excessive for small firms and it may have had a detrimental effect on IPO markets, especially for smaller companies. The JOBS Act was designed to remedy these negative effects, but will it be effective and will it also generate negative unintended consequences? These questions were discussed during the second panel on exits and the new JOBS Act.

Experimentation with New Models

The second dimension highlighted by Dr. Lerner is the growing importance of new financing models for start-ups, namely business angels, accelerators and crowdfunding. Although reliable data on these new models is scarce and problematic, even more so than for venture capital, there is evidence that (i) the angel market is now as large as the venture capital market and growing in the US, Europe, Australia and New Zealand and (ii) investments made by

[1] The presentation and all underlying research papers are available www.quebeccityconference.com/ppf/

sophisticated angel groups outperform control groups in terms of survival and exit rates, improved venture operations and financial performance.

Since Y-Combinator was launched in 2005, accelerators have proliferated across the world. Crowdfunding has emerged more recently and funds raised through it over the last two years have grown tremendously. Will these new models last? To what extent will they displace or renew the VC model? These questions were discussed during the first panel, the Harvard Business Case and the workshop on accelerators and seed funding.

Lean Policy Makers

What are the public policy implications of these changes, especially of the emergence of new models? Professor Thomas Hellmann recalled that the traditional challenges for governments are (i) to set the environment right (regulatory, legal, fiscal, public markets) and (ii) to provide support for venture capital (justify market need and determine the method of support). Previous PPFs have considered these challenges, namely pitfalls to avoid (ill designed or poorly executed programs or "capture") and conditions for success (incorporating a market orientation into the program design and avoiding other self defeating design errors) when determining instruments to support venture capital.[2]

The rise of new financing models for start-ups adds another layer of complexity and raises additional questions. What model should governments support: venture capital, business angels (individuals, groups, funds, networks), accelerators or other emerging models? How to determine which model works best? How will these models interact?

For the most part, we do not know the answer to these questions. There is very little data available on which to base a conclusion.

However, we do know that research tells us that "smart" investors, those with industry knowledge, operational skills, experience and a solid reputation, provide value added services and have positive impacts on their investments. Entrepreneurs recognize the value of this contribution and are ready to pay a price to be funded by these investors. However, one question remains: how can "bureaucrats" or government-supported programs identify, select and support "smart" investors? What are the best tools to do so?

To address these difficult questions, Professor Hellmann turned to the latest management "fad" that is at the heart of the accelerator philosophy, The Lean Start-Up (Eric Ries). The principles behind this approach are (i) start with a hypothesis, (ii) build a minimum viable product, (iii) gather data on market feedback, and (iv) if the hypothesis is confirmed, build or, if rejected, pivot.

Similarly, policy makers should become 'lean policy makers" and experiment. This involves (i) having clear hypotheses (What types of firms or investors are targeted by programs and why? What are the expected outcomes?), (ii) collecting relevant data, including on control groups, with the possibility of randomized treatment, and (iii) evaluating, and building or pivoting.

Such an approach does not eliminate the harder questions such as those relating to interactions among investor types and programs or transferability of lessons from one context to another. However, it may provide a solid framework and reliable data to help policy makers make more informed decisions. Interestingly enough, having a more "scientific" approach to venture capital and early stage financing has also been one of the recurring themes in the discussions on accelerators as detailed below.

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[2] The "Main Conclusions" of past PPFs (2011, 2010, 2009, 2008) are available at the following links: www.quebeccityconference.com/ppf/ .

FIRST PANEL: BUILDING THE EARLY STAGE ECOSYSTEM FOR TECHNOLOGY START-UPS: ACCELERATORS, MENTORS, BUSINESS ANGELS AND SEED FUNDS

Moderator:

- **Mr. John Stokes,** Partner, Real Ventures (Canada)

Panellists:

- **Mr. Alex Bangash,** Managing Director, Rumson Group (US)
- **Mr. Carlos Espinal,** Partner Seedcamp (UK),
- **Mr. Garry Tan,** Partner, Y-Combinator (US)
- **Mr. Dave McLure**, Founding Partner, 500 Startups (US) TBC
- **Ms. Senia Rapisarda,** Vice President Strategic Initiatives and Investments, Business Development Bank of Canada (Canada)

How do accelerators work? Are they all the same? How do they differ from venture capital? How do they benefit the entrepreneurial ecosystem? Are they replicable? Should governments support them? How significant are they for venture financing?

These are a few of the questions that were debated throughout the day at the PPF. They were first discussed by this panel of four prominent accelerator managers, namely Y-Combinator (US), Seedcamp (Europe), Founder Fuel/Real Ventures (Canada) and 500 Startups (international) as well as a seed investor and mentor, Alex Bangash, and the manager of a government program supporting the development of accelerators in Canada (BDC). These same questions were again addressed during the later session on the Harvard Business Case on Start-Up Chile, an accelerator program designed by the Chilean government to attract world-class, early stage entrepreneurs to that country. A final discussion took place during the workshop on accelerators and seed funding.

The following summarizes the proceedings based on questions that were posed to the panellists during the morning session. However, some of the answers also include information that arose during the Business Case discussion and workshop.

How Do Accelerators Work? The Importance of Critical Mass

Accelerators make a large numbers of small bets: 73 for Seedcamp beginning in 2007, over 400 in two and a half years for 500 Startup and 460 for Y-Combinator beginning in 2005. This approach differs considerably from that of traditional VC funds that make one to two investments per partner each year.

These large numbers of accelerator investments, usually made in batches, allow for a critical mass of (i) teams and skill sets interacting and helping each other within batches and (ii) alumni and mentors. Alumni rapidly become the main and most dedicated mentors. The level and quality of interconnectedness of the accelerator is one of its main success factors and improves its ability to attract the best entrepreneurs.

Although there is no magic number, it was mentioned several times that 20 to 25 teams (80 to 100 individuals) per batch might be a minimal critical mass to look for. This would allow for the presence of a minimal number of exceptional teams within the batch able to interact among themselves and have a positive impact on the rest of the cohort. (Y-Combinator receives 3,000 applications per batch and retains 60 to 80).

This accelerator investment approach has been made possible by (i) the declining cost, close to zero, of product development and customer acquisition for software products as well as less time being required to develop and launch a product and (ii) the "Lean Start-Up" approach that focuses on early market feedback to confirm the viability of the product or the need to pivot.

Differentiators

Each accelerator has its own particular context and history. Started in 2005, Y-Combinator was initially funded by the founders' personal money, then received financing from Sequoia and Silicon Valley business angels and is now self-funded by the proceeds of its successes, notably Dropbox and Airbnb. It is focused on Silicon Valley and its networks. However, it receives applications from around the world.

500 Startups' entrepreneurs come from everywhere. Twenty-five percent of its investments are presently outside the US with an objective of 50%. Initial funding came from high-net-worth individuals, partners and VC funds.

Seedcamp operates in Europe, in a very different environment where the entrepreneurial ecosystem is only nascent. This is especially true in Eastern Europe. It sees itself as an ecosystem builder. Its hypothesis is that entrepreneurs are there. When it begins creating the ecosystem (events, networks of mentors), it expects that entrepreneurs will come and, in turn, it will invest in them and help them grow. Seedcamp aims at creating networks in every geographical area. It also acts as a business angel catalyst. Mentors and networks become the main deal-sourcing channel.

Seedcamp was initially funded by leading European VC funds (Index, Atlas, DN Capital, Balderton), which saw there was little equity available in the market for small investments in lean companies. Since it organizes events in different regions to serve as a catalyst for creating an ecosystem, it, unlike the other accelerators present on the panel, does not invest in batches.

Mentors

Venture capitalists should be seen as service providers and accelerators as scalable platforms to provide the best services. The value of the services provided by accelerators relies on three main factors: the quality of the mentors, the quality of entrepreneurs and the depth of their interaction.

Initially, mentors were mostly people with whom founders once worked. Then alumni began to play an increasingly important role. Many accelerators have mentorship programs and mechanisms to evaluate and rank mentors. Y-Combinator has no formal mentorship program, but creates opportunities for interaction between entrepreneurs and alumni and mentors (weekly dinners, etc.).

The quality of mentors, networks and interaction of participants nurtured by accelerators is the main attractant for top quality people and should be the number one selection criterion for entrepreneurs when looking for accelerators. Again, there is a need for scale to build these networks of mentors and depth of interaction.

The main areas in which accelerators provide advice and added value through mentorship and interaction are engineering, product design and marketing. Accelerator partners also provide entrepreneurs with advice on how to setup and run their company, protect IP, etc., so that they can focus on product development and market feedback.

Accelerators as the Next Generation of Business Schools

The panellists suggested that accelerators compete more with business schools than with venture capital funds to whom they provide a screened deal flow and whom they need for follow-on financings. Accelerators are a very efficient way to select and train the most promising entrepreneurs. Entrepreneurs learn more through this operational experience on how to build a successful business than they do from discussing business cases.

As one of the workshop's participants mentioned, generating MBAs is a big business and we are only at the beginning. As was the case for business schools, best practices will emerge and distinction will be recognized between first-tier and other accelerators.

Communities to Support Entrepreneurs

Building start-ups is a tricky process and even emotions come into play. Among other things, accelerators also build communities to support entrepreneurs during difficult times.

Are Successful Accelerators Such as Y-Combinator or Techstar Replicable?

Some fear that a myriad of "me-too" accelerators will quickly spring up and prove unsuccessful. To this concern, the panellists reiterated that accelerators are similar to MBA programs to a certain extent. The market for entrepreneurs globally is between 25 and 250 million. This represents a huge opportunity. We are only at the beginning. Best practices will emerge and a triage between good and bad accelerators will occur.

Are Accelerators Replicable Outside Software, Mobile and Web Products?

The accelerator model is based on two pillars:

1. Capital efficiency and the phenomenal decrease in capital requirement for designing and launching a product. This is especially true for software products, but does not apply in the same way to hardware or life science, although one can see changes in that direction in areas such as health care IT.

2. A change in mentality with an emphasis on collaboration, sharing, communication, interaction and openness. In most other fields, people work in big silos, keeping their cards close to their chest. Introducing more interaction and networking could have an impact.

Once again, this is still the early years. New developments and differentiation will take place.

Are Accelerators Able to Fund Things That VC Cannot?

By being able to make numerous small bets, accelerators are able to spot the small idea that might become big and help it grow or pivot quickly.

According to some of the panellists, accelerators tend to have a more systematic, scalable and scientific approach than VCs. Capital requirements have decreased tremendously and VCs have not adapted while early stage investors are reinventing themselves.

How Do They Interact with Larger Corporations?

Linking early with corporations that could help with customer acquisition and distribution channels or become funders and acquirers is important for accelerators. Seedcamp has a program to invite corporations to speak to hackers and discuss their innovation needs and new product gaps. If developed, these innovations may get bought or integrated.

Two other models were mentioned during the discussions: (i) MD Start, a Lausanne-based incubator or accelerator supported by medical device companies (Medtronic and Sorin Group) and VC funds (Sofinnova Partners and Versant Ventures) and (ii) New York Digital Health Accelerator, an accelerator program supported by investors and health care providers.

Is There a Role for Government Support?

Y-Combinator and 500 Startups' first reaction was to stress that they operate without government support. Looking for such support could distract entrepreneurs from building their business and lead to adverse selection. The best governments can do is to "get out of the way" and especially not impede the free flow of entrepreneurs as the United States is presently doing with its restrictive immigration laws.

On second thought, it appears that governments can also play a very positive role in (i) facilitating seed funding and (ii) supporting organizations that build the ecosystem.

Support measures for seed funding include tax credits (e.g., R&D tax credits in many countries) and grants to companies (e.g., SBIR in the US) as well as tax incentives and co-investment funds to support angel investing. The UK Government has been particularly innovative recently in supporting business angel investment and is not alone. Convertible notes ($150K) offered by the Business Development Bank of Canada to graduates of Canadian accelerators is another example of support for seed funding that seems to be having a very positive impact.

Supporting organizations that build the ecosystem (angel networks, accelerators, networking events) is particularly useful for accelerating the development of a critical mass of entrepreneurs, investors and mentors.

Well-designed entrepreneurial visa programs can also advance these objectives.

Alternative Funding Strategies

Crowdfunding and matching services such as Angellist are still in their early stages. However, the panel agreed that these platforms are the other biggest innovation of the decade for deal sourcing and seed funding. 500 Startups mentioned that more than 20% of its dealflow now comes from Angellist and is listing all of its companies on it for downstream financing. In Europe, Seedcamp is also partnering with Angellist. Such platforms are changing the sourcing process and many new funds are now leveraging them for deal sourcing.

Entrepreneurship

Finally, one word seemed to resonate in many of the discussions: "entrepreneur-centric".

SECOND PANEL: EXITS - ONE YEAR LATER: THE NEW US JOBS ACT

Moderator:

- **Mr. Stephen A. Hurwitz,** Partner, Choate, Hall & Stewart; Co-Founder and Chair, The Quebec City Conference (US)

Panellists:

- **Mr. Denis Lucquin,** Managing Partner, Sofinnova, Chair of the EVCA Stock Exchange Roundtable & Task Force (France)
- **Ms. Kate Mitchell,** Managing Director, Scale Venture Partners, Former Chair of the Small Company IPO Task Force (US) – by video
- **Mr. Brett Paschke,** Managing Director, Head of Equity Capital Markets, William Blair (US)
- **Mr. Andy Viles,** US General Counsel, Canaccord Genuity (US)
- **Mr. Michael Zhu,** Partner, Gobi Partners (China)

Discussion on the recommendations of the US Small Company IPO Task Force's report chaired by Kate Mitchell was a highlight of the 2011 PPF panel on exits. One year later, this report has been legislated into the historic US JOBS Act. Converting these recommendations into major legislation in such a short time is an extraordinary achievement.

How did this important new legislation come into being? What does it mean for US and non-US capital markets and how will it change them? Will it fix the IPO problem? Are there other initiatives to fix the IPO problem in Europe and Asia? Will the once booming Chinese IPO market be able to fulfil its promises?

These are just some of the questions that panellists debated during the 2012 Public Policy Forum.

Panellists began by summarizing the problem. Twenty years ago, 90% of successful young companies went public through an IPO. Today, 90% get acquired, thereby negatively impacting job creation, innovation and the ability to build large companies in the US. In 1996, there were 750 IPOs in the US, half of them smaller than $50 million, with a median market cap of $120 million. In 2011, there were only 115 IPOs, with a median amount raised of $140 million and a median market cap of $400 million. IPO markets have been declining for over a decade, especially for small IPOs, independently of economic cycles. Not only are there far fewer IPOs, but they happen much later when companies are considerably larger and raise more money.

The Task Force's report was published in October of 2011, written into a bill in December, introduced as the JOBS Act in January, passed by Congress in March and signed into law by President Obama in April. Kate Mitchell summarized the lessons that can be learnt from such a successful process in the following way: (i) make the recommendations prescriptive and easy to convert into a bill, (ii) be persistent, (iii) be tailored in your approach so that your proposal can achieve bipartisan support and (iv) use social media to communicate widespread support from entrepreneurs. The backing of 5,000 entrepreneurs, some quite well known, had a powerful impact on legislators.

What did the JOBS Act do? It defined the concepts of "on-ramp" and "emerging growth companies", and for these enterprises achieved three major benefits during the 5-year transition period: (i) reduction in cost and time for going public, notably by alleviating various audit and disclosure requirements, (ii) a confidential filing process, reducing reputation risk and (iii) increased visibility of IPO candidates for institutional investors (possibility to "test the water") and improving opportunities for quality research.

Is the JOBS Act going to solve the problem and reverse the decline in IPO markets? The opinions of panellists from the US, Europe and China differed.

In the eyes of the US panellists, the JOBS Act is a step in the right direction. It facilitates IPO filing for SMEs (costs, time, and confidentiality) and improves the visibility of IPO candidates and opportunities for sell-side research, notably by allowing better access to research while a deal is pending. It is still too early to tell, but anecdotal evidence suggests that it is already having some positive impact on the number of small companies preparing for an IPO. It should increase the number of IPOs on US listed markets and allow companies to go public earlier in their life cycle.

Will this be enough to support the emergence of a new generation of investment bankers specialized in small IPOs and attract a critical mass of institutional investors willing to build portfolios of such companies? Some doubt was raised during the discussion. The economics are still not favourable to small, specialized boutiques. Recommendations to increase tick size so that boutiques could make money in trading small caps were not adopted. There are still very few institutional investors interested in small caps. New incentives may be necessary to support crossover funds and small cap investors in order to achieve a critical mass.

The European perspective was quite different because of very bad experiences over the last 20 years due to the creation of fragmented and competing stock markets (Nouveau Marché, Neue Markt, Nuovo Mercato, AIM) and the loosening of rules for small technology companies. These factors led to a "race to the bottom", allowing low quality companies to list, thereby scaring off investors. Some new initiatives with specialized services adapted to SMEs and tailored rules for R&D companies that would guarantee quality are now underway in European-wide stock exchanges.[3]

In responding to this, US panellists explained how and why the JOBS Act can cut costs and facilitate access to IPO markets for emerging growth companies without compromising the quality of IPO candidates. The documentation provided by the Small Company IPO Task Force contained in the Participant's Guide supported their view.[4]

The perspective from China focused heavily on the importance of quality and transparency of information because several Chinese IPOs were recently plagued by scandals to the extent that Chinese IPOs have virtually disappeared from the NASDAQ.

Finally, broader factors add to the challenge of attracting institutional investors back to small cap equities. More than $400 billion has moved out of equity markets over the last five to six

years and the outflow continues. It will be easier to focus on small caps when this money returns. Factors such as High Frequency Trading scare off long-term investors from equity markets, especially from small caps where there is little liquidity. HFT, which did not exist 15 years ago, now represents 70% of all transactions. The average holding period of a stock, which was about 9 years in the 1950s, is now 22 seconds. Under these conditions, individuals and institutional investors are afraid of price movements and lack of liquidity on these markets.

One pessimistic view was that legislation such as the JOBS Act can have only a limited effect in solving the structural problems of public markets, especially in Europe. Another avenue would be to improve private markets and, particularly, to attract more corporate investors in this space.

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[3] See for instance: NYSE Euronext's SME Strategic Planning Committee, "Creating the Entrepreneurial Exchange", Strategic Planning Proposal, July 2012. Excerpts can be found in the PPF Participant's Guide.

[4] Small Company IPO Task Force, "S.1933: The Reopening American Capital Markets to Emerging Growth Companies Act of 2011 – Section-by-Section Summary" and "Existing Regulatory Protections Unchanged by Either H.R. 3606 or S.1933."

Subject:

Start-Up Chile

Case Researcher:

- **Dr. Josh Lerner and an HBS team**

Moderator:

- **Dr. Josh Lerner**

Special Guest:

- **Mr. Cristobal Undurraga**, Head of Entrepreneurship, CORFO (Chile)

"This case examines an innovative effort to encourage entrepreneurship in Chile. In this program, which the government began in the fall of 2010, foreign entrepreneurs are encouraged to move to Chile with a stipend of $40,000 a year, a one-year residency visa, and a dedicated team of seven people to provide guidance in navigating the business culture of the country. The case looks at the motivations for the effort, the key design choices made, and the challenges faced to date. The case will draw lessons regarding the appropriate role for the government in promoting entrepreneurship."[5]

All agreed that the program targeted at foreign entrepreneurs with no guarantee that they would stay in Chile after the end of the program was audacious. The first question raised: what problem did the Government of Chile want to solve with such an initiative?

Although Chile ranks first among Latin American countries on the LAVCA Scorecard on the Private Equity and Venture Capital Environment, as discussed in Workshop 5, it is still largely geared towards the "old" economy (mining, agriculture, fisheries). R&D expenses are low as a percentage of GDP, entrepreneurial culture is relatively underdeveloped, especially in technological sectors, and the country is geographically isolated from key markets and its connections with international networks are relatively weak. Start-Up Chile was designed as a program to accelerate a shift towards the "new economy", promoting entrepreneurship and connecting with entrepreneurs around the world.

Did It Solve the Problem?

The program is not a magic bullet. It does not address structural issues such as the country's relatively low level of R&D investment. However, it has proven to be a relatively cheap and efficient way to (i) put Chile on the map as an entrepreneurial cluster ("Who would have put the words "start-up" and "Chile" together three years ago?"), (ii) attract international entrepreneurs who could act as role models and accelerate the development of entrepreneurial skills and communities among local entrepreneurs, (iii) initiate local and international networks and (iv) attract international investors to follow up with these entrepreneurs. All of a sudden and for a relatively limited investment, Chile has become relevant for tech entrepreneurship. More Chileans than ever before want to create their own companies (GM and McKinsey are no longer the only destinations for successful graduates), and many in the room (500 Startups, Seedcamp, Alta Ventures, Real Ventures) had seen or funded companies that had gone through Start-Up Chile.

[5] Introduction to the case by Josh Lerner.

Start-Up Chile does not solve every problem. It is just one in a set of measures for building the ecosystem. The Chilean Government has also implemented other programs to develop entrepreneurial culture in schools and support the development of the venture capital industry downstream.

Lessons Learned

This case illustrates the power of an accelerator model in helping to create an ecosystem that will build an entrepreneurial culture, attract, connect, network, emulate. Capital will follow. This seems to confirm the thesis developed by Seedcamp in Europe. It also illustrates how governments can facilitate the development of an ecosystem by supporting accelerators.

It underlines the importance of a bottom-up and entrepreneur-centric approach. Yozma was a very successful initiative leading to the creation of a venture capital industry in Israel. However, entrepreneurs were already there. Chile, on the other hand, had talent, but no critical mass of entrepreneurs. The first step is to work on entrepreneurship. Building a venture capital industry (attracting foreign investors and supporting local ones) has to be the next one.

These measures to attract entrepreneurs and increase the availability of financing for start-ups would not have been successful had the government not worked to create a regulatory, legal and fiscal environment in which entrepreneurs and venture capitalists could develop.

Finally, the long-term impact and full benefits of the program will only be observable ten years down the road. This underlines once again that when it comes to innovation, entrepreneurship and venture capital, governments need to have (i) a long-term vision and (ii) the ability to get feedback, evaluate programs and adapt or "pivot". Could Start-Up Chile lead to the creation of private accelerators five years down the road?

WORKSHOP 1: ACCELERATORS AND SEED FUNDING: CONTRASTING MODELS

Moderator:

- **Dr. Ajay Agrawal**, Peter Munk Professor of Entrepreneurship at the University of Toronto's Rotman School of Management (Canada)

Conclusions of this workshop have been integrated in those of the first panel on "Accelerators and Seed Funding".

WORKSHOP 2: THE ROLE OF GOVERNMENT MONEY TO SUPPORT THE VC INDUSTRY

Moderator:

- **Mr. Yigal Erlich**, Founder, Chairman and Managing Partner, The Yozma Group (Israel)

Workshop participants provided a wealth of background documentation on government programs in Australia, British Columbia, Europe (European Investment Fund), France, Israel, New Zealand and the UK. The workshop was an opportunity to present and discuss some of these programs.

Beyond information on these programs, some additional points emerged during the discussion.

Asymmetric structures: They provide private sector investors with an improved risk/return profile and are present in many government supported programs, namely leveraging with public senior debt (SBIC), differential cash-flow timing, capped return for public sector investors, call options on public shares (Yozma) and private sector seniority. Some form of asymmetric structure may be needed to attract private sector investors back to the asset class. In several countries, the experience with downside protections tended to be negative (self fulfilling prophecy, adverse selection of managers) whereas return enhancements appear to have been far more successful in attracting ambitious and talented management teams (Yozma, Capital for Enterprise Seed Funds).

However, given present VC fundraising difficulties, a combination of downside protection and upside enhancement has been selected for recent European Investment Fund programs and Israeli biotech funds.

Measurement of success: Formation of new companies, commercialization of research, subsequent fundraising and quality of deal flow seem to be more effective measures of a VC industry success than solely jobs its investments create. As one participant mentioned: "there are cheaper ways to create jobs in the short term."

Building the ecosystem: Besides supporting the supply of capital, several programs allocate resources to the building of the broader ecosystem and development of local and international networks.

WORKSHOP 3: NEW APPROACHES TO TECH TRANSFER AND EARLY STAGE FUNDING

Moderator:

- **Raphael Hofstein**, President and CEO, MaRS Innovation (Canada)

The workshop considered the following questions provided in advance to participants:

- How is IP handled?
- Should intermediaries be given a right of first refusal or is it preferable to opt for a more open model?
- Technology Push vs. Market Pull: Who decides and how?
- How to link research and entrepreneurial skills?
- What are the business models for technology transfer and investment in early-stage university technologies? Licensing plays, bona fide companies, incubators, accelerators: What works, what doesn't?
- What is industry's role in tech transfer? Should it be a passive recipient, active shaper, financier, etc.?
- What is venture capital's role in tech transfer?
- What is government's role?
- How to link dilutive and non-dilutive sources of money?

Most comments during the workshop were made in the context of life science/biotechnology.

The following points garnered a broad consensus.

- When proprietary approaches are not strictly necessary, there is a trend towards more open models.
- Governments are investing considerable amounts of research money in universities, hospitals and research centres ($5 billion in Canada). Leveraging this investment for economic and societal benefits is a legitimate objective and currently a priority for many governments. In order to do so, there is a need for hybrid models linking technology push and market pull expertise.
- There is still a gap, the "valley of death", between university research and commercially viable product development. It is more than a financial gap: it is also an expertise gap. There is a need for intermediaries in order to advance university research further down the road and link it with product development expertise and market demand (pharmaceutical companies and venture capital).

- Linking early with pharmaceutical companies is a way for universities and intermediaries to bring in the right market knowledge and product development expertise. For intermediaries, partnering with pharmaceutical companies is also a way to share market knowledge, expertise and financial risk. Due to recent changes in their R&D strategies, pharmaceutical companies are presently looking for such partnerships.

- Non-dilutive money plays a critical role in closing the gap. However, money is only one factor. Can non-dilutive money also contribute to closing the expertise gap? How can it be managed effectively?

A variety of intermediary models represented in the room were reviewed: TTOs, intermediaries (CDCRD in Vancouver, MaRS in Toronto, MSBi-Valorisation in Montreal) and specialized venture capital funds (Amorchem, IPGroup, Orbimed and Versant).

Different views were expressed regarding terms when linking with pharmaceutical companies. Some spoke in favour of the "option model" arguing that it allows for a better alignment of interests, tighter and more fruitful partnership and sharing of risks. Others indicated that they preferred to stay away from this model because it caps potential returns and puts the partners at the mercy of a pharma's change in strategy (i.e., if the pharmaceutical company backs off, the asset becomes orphaned).

Finally, all of the participants insisted on the importance of non-dilutive money (tax credits, grants) to seed innovation in academia and support the first steps of technology transfer, with the caveat that this "free money" could easily be the least well spent.

Two schemes received special attention during the discussion:

- Seed funds that are matched with intermediaries. This non-dilutive money helps to move the technology forward and strengthens the position of the intermediary when negotiating the value of the IP.

- Matching funds that incentivize pharmaceutical companies, venture capital and academia to partner early on. Orbimed and MATIMOP presented projects of this kind.

Governments can also play an important role as LPs by providing matching funds to attract private sector money to private independent seed funds that invest in tech transfer projects. This was the case with Amorchem with a matching funding ratio of 3:1 provided by the Quebec Government and labour sponsored funds.

WORKSHOP 4: INVESTIGATING THE BUSINESS CAPITAL BUSINESS MODEL

Moderator:

- **Dr. Olav Sorenson**, Frederick Frank '54 and Mary C. Tanner Professor of Management, Yale School of Management (USA)

Dissatisfied Institutional Investors

One of the strong messages that emerged from the workshop was that, as an asset class, venture capital "does not work for institutional investors" in terms of risk, time horizon and outcome. Moreover, the 2/20 model does not make sense for investors because (i) a flat 2% fee transforms the business into a fee business, especially when funds become larger and the manager operates a series of funds and (ii) 20% carried interest provides an upside for the managers, but leaves all the downside to LPs when the fund is not performing.

These problems are not new and all of the participants agreed that LP and GP interests have to be aligned. Based on their own experiences, they discussed the following possible solutions.

GPs' Investment in the Fund

To align LP and GP interests, this investment has to represent a significant part of a managers' net wealth. In this way, GPs will have real skin in the game, benefit when LPs benefit and suffer with LPs when returns are negative.

Carried interest

A progressive carried interest (i.e., a percentage of profits that increases when the IRR reaches certain hurdle rates) seems to be a better way to align GP and LP interests.

INKEF has developed an interesting model. Rather than receive carried interest, managers get a bonus which is invested in a side fund that co-invests with the fund. This exposes them to both the fund's upside and downside.

Fees

Budget-based fees are a way to avoid venture capital's becoming a fee business. LPs sharing this view stressed that the objective is not to squeeze fees beyond reasonable limits. On the contrary, under certain circumstances, this approach could lead to increased fees to give GPs the means to adequately manage the portfolio. However, if LPs lack experience or are not thinking along the same lines, it could lead to difficult and sometimes counterproductive negotiations with GPs.

Finally, while LP and GP interests have to be aligned, these same interests also need to be well coordinated with those of company managers. According to some participants this is not always the case, especially in the biotech sector where managers have good salaries and strong upside potential, but little downside if the company does not perform.

Time Horizon

In some sectors, building company winners may take a very long time, longer than ten years, and require large amounts of capital that are difficult to find in environments such as that of present-day Europe. On the contrary, a need to show some realized return and the pressure for liquidity of some LPs or of management may lead some funds to sell too early.

In this context, institutional investors such as OMERS or APG have set up longer-term funds (15 years) with access to a larger pool of capital from their parent organization.

Evergreen models may also seem appealing. However, how is liquidity going to be provided? By listing the fund? Or by focusing on institutional investors that have "indefinite" term horizons?

A Broader Problem

Beyond these specific points, there is concern that the problem could be even broader, namely: "Is the opportunity still there? Is there still money to be made with the venture capital model?" These questions echoed concerns raised during the morning as to whether VC returns are being concentrated in specific IT segments, and as to whether IPO markets are largely closed to smaller companies.

Obviously, there are no simple answers to these questions. Some suggested that a longer-term VC fund life might provide one of the answers in some segments.

Partnering with Corporate LPs

In the biopharmaceutical sector, partnering with corporate LPs, selecting investments based on pharma interest, tapping into their expertise for product development and structuring exits with pharma partners upfront have brought about a radical change in the VC model that may address issues discussed above in terms of time horizon and exits. These new models are still in their early days and results have yet to be shown.

There was a point on which all of the participants agreed: the key in these partnerships is to keep corporate LPs out of the investment/divestment decision-making process.

Conclusions

First, "one size fits all" often does not work. Optimal terms might differ according to the size of the fund, its sector, investment strategy, etc.

Second, the VC industry needs fixing. Business as usual will not suffice. Will LPs be willing to take the risk of promoting or accepting changes? How can they coordinate?

Someone has to try something new and experiment.

WORKSHOP 5: CONTRASTING MODELS TO START THE VENTURE CAPITAL AND INNOVATION ECOSYSTEM IN EMERGING MARKETS

Moderator:

- **Mr. Rogelio de los Santos**, Managing Partner and Founder, Alta Ventures (Mexico)

In providing a framework for the discussion, the moderator of the panel proposed an entrepreneur-centric model where the right entrepreneurs are surrounded by the right mentors, the right fiscal and regulatory environment, the right networks and the right investors. The question then becomes: how do you start building this ecosystem?

Establishing the right legal, fiscal and regulatory environment is a key dimension on which all agree. Scorecards such as the one published by LAVCA and The Economist Intelligence Unit on Latin America[6] are useful benchmarking tools in this regard. The toughest channel in building this ecosystem is "entrepreneurship". How do you create and measure it?

From a VC perspective, building the ecosystem is laudable. However, one has to take into account the LP focus on performance.

Business models for private equity differ by country. Israel is the only country where venture capital was immediately successful, whereas it took 15 to 20 years for it to succeed in the US. In the UK, VC has yet prove successful and many VC funds have moved on to growth equity and buyout. There are also very few high performing VC funds in continental Europe.

Why is that so? There is no simple answer. However, it would appear that entrepreneurship is key to venture capital performance. Societies that drive the most talented people to becoming entrepreneurs rather than joining large firms have an edge. Education (K-12, university) and social status also play an important role. For peripheral countries such as New-Zealand or Chile, attracting talented and experienced people back to the country as well as linking with international networks are also important factors and remain difficult.

Conclusion

Every country has its own challenges: political stability, business ethics, entrepreneurship, linkages, size of market, access to capital, etc. The proposed framework appears to be useful for identifying these challenges and putting them in perspective.

Money is a commodity: it will not creçate a business. Ideas and entrepreneurs create a business.

The approach has to be entrepreneur-centric: the right entrepreneurs working on the right things, getting the right help, linking with the right networks and developing the right value proposition.

[6] LAVCA 2012 Scorecard: http://lavca.org/2012/05/09/2012-lavca-scorecard

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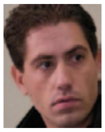

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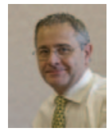

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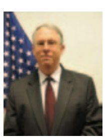

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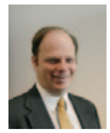

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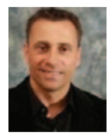

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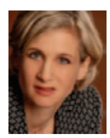

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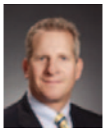

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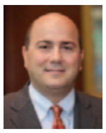

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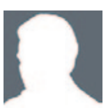

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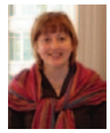

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