

INVESTING IN THE KNOWLEDGE ECONOMY OF THE FUTURE

inkef capital

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inkef capital is a novel strategy initiated by two pension funds, ABP and OMERS, for investing in early stage technology opportunities in Canada and the Netherlands. As such, it is a significant departure from the traditional venture capital approaches.

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What inkef is

- a 15 year program with enough capital to go from early stage to mezzanine financing;
- directly owned by the two pension funds and is not based on the traditional GP/LP structure;
- based on a cost-plus formula and not on a management fee; and
- not based on a carried-interest model but on a novel alignment of upside/downside interests.

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Implications of the inkef strategy - I

| <u>Issue</u> | <u>inkef</u> | <u>Implications</u> |
|----------------|----------------------------------|---|
| Fund life-time | A 15 year program | <ul style="list-style-type: none">— closely aligned with pension fund liabilities— should permit harvesting investments at value inflection points |
| Fund capacity | Sufficient for a 15 year program | <ul style="list-style-type: none">— permits staying in the investment for the long haul associated with early stage technologies— removes a degree of funding uncertainty for the investee company |

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Implications of the inkef strategy - II

| <u>Issue</u> | <u>inkef</u> | <u>Implications</u> |
|------------------|--|---|
| Management fee | Cost-plus annual budget approved by the inkef joint venture board. | Annual compensation can be more closely aligned with those of the local institutional investors. |
| Carried interest | No carried interest but a co-investment strategy | <ul style="list-style-type: none">— traditional carried interest has little down-side alignment— co-investment implies a strong up/downside alignment.— the upside alignment is not at the expense of the institutional investors |

Implications of the inkef strategy - III

| <u>Issue</u> | <u>Inkef</u> | <u>Implications</u> |
|-------------------------------------|---|--|
| Circuit breakers | Two significant reviews — management after 3 years — portfolio after 5 years | Should help to remove the difficulties of commitment to a failing team/strategy. |
| Mentoring of starting entrepreneurs | A separate but closely aligned mentoring service based on a successful US approach. | Puts mentoring in the hands of those “who have done it” as opposed to the investors. |

