



December 22, 1999

Hon. Paul Martin
Minister of Finance
L'Esplanade Laurier
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Ottawa, Ontario
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Honourable Minister: Subject: Small Business Investment

In the fall of 1996, you and your colleagues met with a number of major Canadian pension funds, all of which are Members of the Pension Investment Association of Canada (PIAC). At that meeting, you indicated your interest in the pension fund community allocating a greater proportion of its assets to investment in smaller companies in Canada. Subsequently, you have been advised of the commitment of specific pension funds to programs of investment in the small business sector.

PIAC represents public and private pension funds in Canada, each of which is responsible for the management of assets in excess of \$200 million. In the aggregate, Member pension funds invest almost \$1/2 trillion of assets on behalf of over 6 million Canadian beneficiaries. We have pursued your initiative by collaborating with your officials in developing a survey of small company investment activity. While the maintenance of that survey is problematic due to the detail of information required and the lack of tracking of some data, we nevertheless intend to continue.

PIAC has also worked closely with the Canadian Labour Market and Productivity Centre (CLMPC) in examining the problems that institutional investors address when considering investment in small companies. During interviews, the CLMPC researcher identified fourteen barriers to small company investment. At our suggestion, CLMPC restated those fourteen barriers as questions in a survey of PIAC Members. The data gathered in the survey provided the basis for a discussion of these barriers in the CLMPC Report titled "Prudence, Patience and Jobs", a copy of which is enclosed.

The discussion of the barriers in the Report is very insightful and suggests a number of initiatives that could be taken in order to overcome the various barriers and, ultimately, foster the increase in investment commitments to this sector. PIAC strongly endorses the recommendations and suggestions in the CLMPC Report as objective solutions to small business investment.

It is clear from the CLMPC/PIAC Survey that the greatest difficulties lie in the intense due diligence required for small company investment and in the prospects for adequate returns on investment. Much of the solution to these problems will likely be found by restructuring the process through which small company opportunities are offered to potential investors. While the majority of the restructuring is the responsibility of those seeking the capital and intermediaries that put investors and small companies together, there are initiatives that the government can pursue that will foster effective restructuring. Specifically, we believe that government can work with small business, the organizations involved in advising small business on financing and with other intermediaries that create pools to invest in small business. The object of this collaboration would be to encourage all such participants to structure the small company investment process in such a way as to facilitate access to capital in a manner that makes that process competitive

with others such as IPOs.

Most of the recommendations in the CLMPC Report are directed to individuals and organizations involved in all aspects of small business financing. We believe anything that your government can do to encourage such market participants to act upon those recommendations would achieve more productive investment in this sector. In all, PIAC Members would be more likely to participate in small company financing if the following factors were improved:

Quality of management of individual enterprises and pooled vehicles

Track record of performance of investment vehicles

Number and quality of intermediary advisors

Confidence in the practices employed by those in small business financing

Another constructive, and potentially significant, step for your government would be to exempt private, unlisted limited partnerships from treatment as foreign property as the amendment made earlier this year provided relief for designated limited partnerships.

PIAC has worked diligently to determine the ways in which small company financing can be facilitated so that the small business community has an improved access to capital and investors have more confidence in the process by which such investments are made. To be clear however, it must be stated that small one-person businesses are not suitable investments for pension funds but are more appropriately financed through bank loans and similar funding.

We trust that you will find these observations constructive and useful in pursuing your interest in fostering the growth of small business and the jobs it has the capacity to create.

Respectfully submitted,

Dale E. Richmond
Chair, Government Relations Committee