

**Brief Presented by the Fonds de solidarité FTQ to the  
House of Commons Standing Committee on Finance  
August 5, 2016**

## 1. Background

The Fonds de solidarité FTQ is excited to participate in the 2017 pre-budget consultation process launched by the House of Commons Standing Committee on Finance. We believe that this is a useful exercise and are pleased that the questions the committee asked fully align with our mission. The economic growth of businesses and communities is one of our organization's top priorities. As such, this brief will provide a short overview of the Fonds' activities and our strategic plan to stimulate the Quebec and Canadian economies.

## 2. Fonds de solidarité FTQ

With \$11.7 billion in net assets as of May 31, 2016, and just over 618,000 unionized (56%) and non-unionized (44%) shareholders, the Fonds de solidarité FTQ has become a key player in economic development.

The Fonds' mission revolves around the following four elements:

- Investing in companies with an economic impact in Quebec and providing them with services that will assist their development and help them to create, maintain and protect jobs;
- Making workers aware of the need to save for retirement;
- Promoting programs to educate workers on economic matters;
- Stimulating the Quebec economy through strategic investments.

The Fonds is present in 25 economic sectors and invests at all stages of business development. Our network provides funding to over 2,600 partner companies, the revenues of which represented 4.5% of Quebec's overall private GDP as of May 31, 2016.

Because they are present in all regions of Quebec, the 16 regional FTQ solidarity funds and 73 local FTQ solidarity funds, created in partnership with the Fédération québécoise des municipalités, play an active role in the growth of businesses.

A recent study by KPMG<sup>1</sup> showed that the Fonds' partner companies have a proportionally greater presence in less economically privileged regions and help to increase the rate of employment and reduce income disparities in those areas.

The network works closely with economic development agencies, such as local development centres, community economic development corporations and community futures development corporations.

For the 2007 to 2016 fiscal years, the Fonds directly invested close to \$5.9 billion in businesses and specialized private funds. More specifically, \$3.9 billion was invested in

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<sup>1</sup> "Analyse de l'impact économique des investissements du Fonds de solidarité FTQ - l'impact dans les régions du Québec", January 2016, KPMG.

development capital and \$2.0 billion in venture capital, making the Fonds the largest direct and indirect venture capital investor in Canada.

### Chart

Top centre: Unsecured Venture Capital, Investments of \$5.9 billion over 10 years (2007 to 2016 fiscal years)\*

Left text box: Development capital\*\* (\$ billion)

Right text box: Venture capital (\$ billion)

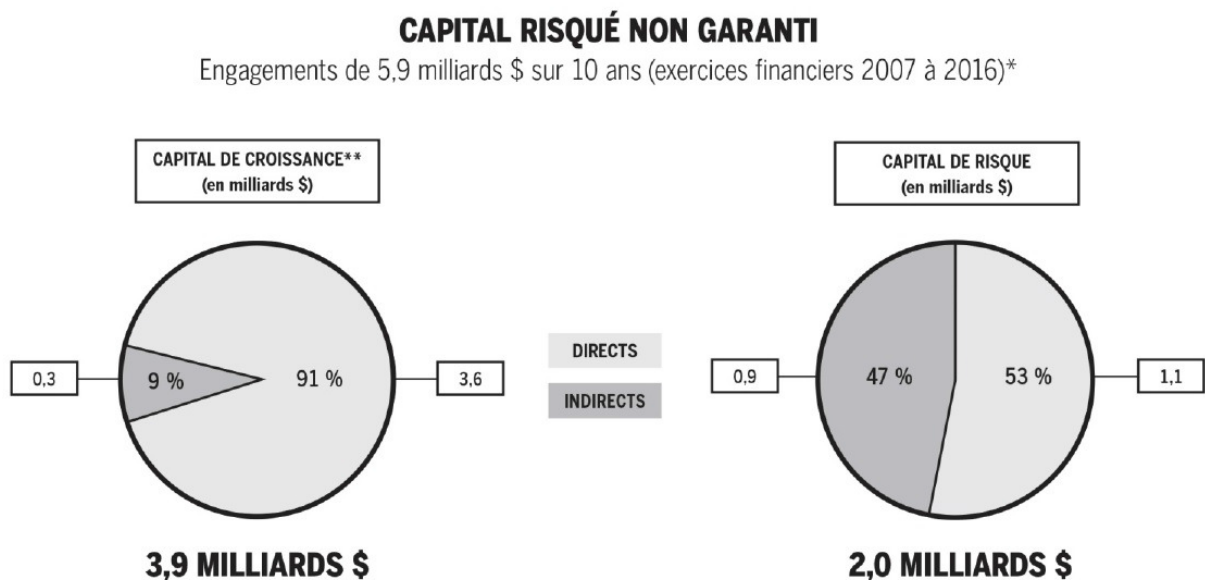
Middle: Direct (light shading), Indirect (darker shading)

Below left pie chart: \$3.9 billion

Below right pie chart: \$2.0 billion

Bottom centre: \* On a fund disbursement basis, excluding investments in real estate funds and in listed securities acquired on the secondary market

\*\*Represents development capital investments made by the Fonds that are not venture capital investments (includes investments in the form of shareholders' equity and unsecured, subordinated debt)



\*Sur la base des fonds engagés, en excluant les investissements dans des fonds immobiliers et les investissements dans des titres cotés acquis sur le marché secondaire.

\*\*Correspond aux investissements en capital de développement réalisés par le Fonds et qui ne sont pas du capital de risque (inclut des investissements effectués autant sous forme de capitaux propres que de dette subordonnée ne comportant pas de garantie).

The nearly \$1 billion (47% of \$2.0 billion) in investments made by the Fonds in private venture capital funds have helped structure Quebec's venture capital industry. According to a study conducted by Gilles Duruflé,<sup>2</sup> for every dollar invested by the labour-sponsored funds located in Quebec, Canadian-based private funds were able to raise another five dollars on average. He also found that approximately 40 private funds may never have seen the light of day without tax-advantaged fund investments.

<sup>2</sup> "Direct and Indirect Venture Capital Investment of Québec's Retail Funds", Gilles Duruflé, April 2003.

A study conducted by Deloitte<sup>3</sup> on development capital funds in Quebec showed that, over the past 10 years, Fondation, Desjardins Capital de risque and Fonds de solidarité FTQ participated in:

- 52% of start-up phase transactions;
- 70% of transactions less than \$1 million;
- 69% of regional transactions;
- 87% of venture capital transactions in traditional sectors.

What is more, the above-cited study by KPMG confirmed that, although the main objective of the investments made by the Fonds is to support small and medium-sized businesses in Quebec, the activities of these SMEs also has a significant impact on the rest of the Canadian economy. They create an additional economic impact of 16%.

Finally, since its creation, the Fonds has been playing a role in changing the saving habits of Quebecers.

- One-third of the Fonds' shareholders bought their first RRSP with the Fonds de solidarité FTQ. That percentage is higher among holders of shares acquired through payroll deductions (44%) and for younger shareholders (aged 39 and younger, 47%).<sup>4</sup>
- In 2016, nearly 6,800 companies are participating in the Fonds' payroll deduction plan and 1,997 SMEs have a group RRSP with the Fonds.

Over the past five years, Fonds shareholders have contributed an average of \$770 million per year to the Fonds de solidarité.

### **3. Strategies for sustainable growth**

In its March 22, 2016 budget, the federal government announced that the labour-sponsored funds tax credit would be fully and immediately re-established. This government recognized that the Fonds de solidarité FTQ is an effective tool for facilitating companies' access to capital, helping middle-class workers save for retirement, and supporting the economy and job creation.

As a result of this renewed partnership with the federal government and the confidence placed in us by the Government of Quebec—our partner from the very beginning—the Fonds was able to start the next chapter in our history.

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<sup>3</sup> Study on tax-advantaged funds, May 2013, Deloitte

<sup>4</sup> "Hiérarchisation des raisons de contribution et attentes en matière de risque/rendement des actionnaires", July 2011, Altus Group.

With the help of the McKinsey & Company consultation firm, the Fonds was able to carry out a strategic thinking exercise to determine how we can continue to increase our socioeconomic impact, optimize our current activities and evolve our business model.

The Fonds identified the following key areas for strategic investment action:

- Economic sectors of excellence
- Innovation
- Socioeconomic real property infrastructure

In a recent speech given to the Board of Trade of Metropolitan Montreal, the CEO of the Fonds de solidarité, Gaétan Morin, announced that, by 2020, the Fonds would invest \$1.4 billion to provide additional support to these areas, which are critical to Quebec's economic development. Of that amount, close to \$1 billion will be new money that the Fonds will obtain through the sale of large market shares and bonds.

This new capital, which will be added to the amounts that the Fonds invests every year, will bring the Fonds' total investments in development capital up to approximately \$3 billion by 2020.

### **Economic sectors of excellence**

The Fonds has developed significant expertise in 25 economic sectors in Quebec and will continue to support those sectors. However, the economy also needs targeted interventions in some critical sectors. The Fonds will therefore put more effort into supporting four economic sectors of excellence.

1. The aerospace sector
2. The agri-food sector
3. The forestry products sector
4. The life sciences sector

These sectors alone account for nearly 600,000 jobs and generate over \$38 billion in economic activity. They are also responsible for 36% of Quebec's exports.

The Fonds will develop tailored approaches to help these sectors, which are all facing different challenges. For example, SMEs in Quebec's aerospace industry are often too small to meet the needs of major manufacturers that want to get supplies from a limited number of big suppliers. That is why the Fonds will invest to help consolidate SMEs and create larger suppliers. The Fonds will also seek to attract large foreign companies to Quebec.

## **Innovation**

The Fonds will undertake three initiatives to foster innovation within companies.

The first, which was launched in the first quarter of 2016, is a partnership with the Centre de recherche industrielle du Québec. This new partnership, entitled Solution Innovation, will provide funding to businesses that want to innovate to increase their competitiveness and productivity.

The Fonds is also partnering with Investissement Québec and other organizations to conduct a regional tour in order to meet with entrepreneurs and work with them to identify specific ways of fostering innovation, particularly in the manufacturing industry.

The Fonds will implement an innovative measure in the businesses in its existing portfolio. This index will make it possible to monitor how partner companies are evolving and innovating, encourage those that want to innovate, and provide them with solutions that are more tailored to their needs.

Innovation also involves high-tech companies. The Fonds will continue to support these companies through direct investments and venture capital investments. Take for example XPNDCROISSANCE, a fund set up by Alexandre Taillefer. The Fonds invested \$10 million in this fund, which seeks to put innovation at the heart of urban transportation. The Fonds also supported the first deployment phases of the Téo electric taxi service.

The Fonds actively participates in the work being done by the Montreal Smart City committee, which was set up by Mayor Denis Coderre and seeks to position Montreal as a world leader among smart and digital cities in 2017.

## **Socioeconomic real property infrastructure**

The development of socioeconomic real property infrastructure is a major challenge for Quebec.

Over the past 25 years, the Fonds de solidarité, through its real estate fund, has acquired renowned expertise in the development of real property projects. The Fonds wants to invest an additional \$400 million to fund small and medium real property infrastructure projects, such as schools, libraries and sports facilities. The projects will be developed in partnership with the cities, school boards and governments under a completely new business model.

Investments will be made by the Fonds' real estate fund and a private local developer, who will be the asset owners. Unlike public-private partnerships, the cities or school boards will be tenants in the buildings and their employees will be responsible for doing daily routine maintenance. The leases will be for a period of 30 to 35 years. At the end of the lease, the

Fonds and its private partners will remain the owners of the asset and will bear the risks associated with redeveloping the building if necessary.

In time, through leveraging, the investments that the Fonds will make based on the new model could generate over \$2 billion in new real estate projects.

### **A model to emulate**

In short, the Fonds de solidarité FTQ has a clear plan to structure its investments to increase their economic and public impact. The Fonds is already taking practical measures by supporting the development of structuring clusters in the Quebec economy, promoting innovation and the creation of jobs of the future, and helping governments to fund infrastructure. These measures will have a positive impact on the community. We invite the government to draw inspiration from these initiatives in order to stimulate economic growth across the country.

### **4. A renewed partnership**

Over the years, the Fonds has become a major and essential player in Quebec's economic development. It has the ability and desire to help the provincial and federal governments with priority issues. We can and want to work with the Government of Canada to help it meet its objectives in terms of retirement savings, tax cuts for the middle class, job creation, innovation and economic development.