Broaden VC Funds Investment Boundaries to Develop a Real AI Hub in Montreal

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In recent years, Montreal has enjoyed a certain level of success in the field of AI. Many large companies have made announcements regarding the opening of research centers in this field and some people now talk about Montreal turning into a real AI hub.

A prerequisite for the creation of a real international hub is promoting and sustaining a strong startup community that will ensure the participation of local businesses in AI innovation.

A study completed by the BDC in 2017[1] showed that Canadian VC funds are smaller than their international peers and that Canadian startups only raise half as much capital on average over their lifetimes compared to their U.S. counterparts. Evolving in a capital-restrained environment leads to slower growth for Canadian startups considering their need for constant access to capital. One potential explanation for the smaller size of Canadian VC funds is the fact that the smaller size of the Canadian economy does not provide the level of deal flow that would be required to sustain a higher number of VC funds or larger VC funds. Anyone involved in fund formation knows that large amounts of capital are available for investments in VC funds but that emerging VC fund managers need to convince institutional investors that they will be able to meet the necessary deal flow to concretize such investments. While we can hope for a large wave of VC investments coming from south of the border, a more realistic solution resides in promoting the creation of more Canadian VC funds with a wider investment policy allowing them to invest not only in Canada but in the United States or elsewhere.

There are obviously numerous investment considerations that legitimately lead to limiting the scope of a VC fund's investment policy. For instance, ensuring that the latter will be able to create value in the startups in which it invests requires a certain geographical proximity between its manager and those startups. By allowing our VC funds to invest in startups in the U.S., we will promote the development of a broader startup community and expertise in Canada, and as a result ensure the sustainability of one of the key components of what could eventually become a true international AI hub.

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[1] Canada's Venture Capital Landscape: Challenges and Opportunities June 2017, available online at https://www.bdc.ca/EN/Documents/analysis_research/venture-capital-landscape-paper-en.pdf.

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