

NEW LABOUR

GlobeinvestorGOLD
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TORONTO (GlobeinvestorGOLD) - This is the time of year when labour-sponsored venture capital funds enjoy their biggest sales.

Many investors buy these funds for their RRSPs to get a tax double-dip - the usual RRSP deduction plus additional tax credits of up to 35 per cent, depending on your province of residence and the funds you buy.

Despite a dreadful collective performance by labour funds in 2001, the promoters seem to think there's still a healthy public appetite for them. At least 10 new ones have appeared for this RRSP season.

One of the most intriguing of the new labour funds comes from Front Street Capital, a new Toronto company that includes two ex-Altamira managers on its team, Frank Mersch and Norm Lamarche. It's called Tuscarora Energy Fund and it's unique in that it offers no provincial tax credits of any kind. The fund is available across Canada and is eligible for a 15 per cent credit no matter where you live.

In fact, the Front Street team doesn't even like to think of it as a labour fund. That's just a flag of convenience that enables the fund to invest in the type of private placements an ordinary mutual fund couldn't touch.

The reason it gets no provincial credits is that the managers see provincial regulations as too restrictive in terms of what they want to do. The federal government's labour fund requirements are much more flexible.

"We prefer to consider this as a small-cap energy fund that will position itself to take advantage of emerging opportunities in all aspects of energy," Mr. Lamarch said. "That could include exploration, production, service providers, alternative fuels, and anything else."

He believes that the recent consolidation in the oil patch, the latest being PanCanadian Energy's agreed takeover of Alberta Energy, will have the effect of stimulating some dynamic new initiatives. He points out that skilled management teams from companies that have been merged or taken over are in the process of seeking new opportunities. The stock of one CDNX company, Argonauts Group Inc., doubled in a single day in late January when news broke that the former management team of Cypress Energy had taken over.

"So we're not focusing on the tax credits here, but rather on the investment potential," he said.

The potential looks interesting. However, the fund has to be ranked as speculative, so the 15 per cent tax credit serves as a nice inducement. The fund was in the final stages of registration in late January. Units should soon be available through all registered advisors.

Since last year's depressing results (the average labour fund lost 12.2 per cent) left some investors feeling a bit gun-shy, at least one new fund is offering a guaranteed return of capital after 11 years. It's the VentureLink Brighter Future Balanced Fund, and the mandate is to invest in companies that provide innovative new processes for infrastructure and essential services

industries, such as water, energy, and waste management. Manager is Susan Coleman, another Altamira grad. It's available only in Ontario and will close to new investors on March 1.

Some of the new entries qualify for Ontario's bonus 5 per cent tax credit, which is given to funds that invest significant amounts in research. The Triax E2 Venture Fund is among the qualifiers. Its focus is on companies developing new technologies and solutions in energy and resources. Management team is Meridian Advisors Inc., a company that is involved in alternative energy, resource productivity, and environmental work.

Another newcomer that qualifies for research-oriented investment fund (ROIF) status in Ontario is the VenGrowth Advanced Life Sciences Fund. It will focus on the health care sector and invest mainly in such fields as biotechnology, pharmaceuticals, medical services and new technologies.

This fund will look primarily at what are known as "latter-stage development" companies. That means ventures that are deemed to be in a position to go public and/or reach significant profitability in a relatively short time.

The VenGrowth management team has shown itself to be very effective over the years. The original VenGrowth Fund has one of the best five-year records in the business, despite dropping 25 per cent last year.

This fund might be worth a look if you're an Ontario resident and you haven't been thrilled by the returns from Canadian Medical Discoveries Fund. If nothing else, it provides an opportunity to diversify your health care position.