

## Market Commentary

As at January 31, 2012

**Tim Lee**

**Chief Investment Officer, Venture Capital, GrowthWorks**

As shareholders of the GrowthWorks Canadian Fund know from past experience, the venture capital asset class has the potential to be very rewarding over the long term – notable examples from recent memory include the Fund's very successful exits from Galleon and Med-Eng in 2007 and 2008. However, the asset class and the Fund are not immune to broader economic conditions. For example, the technology sector has been out of favor for 5 years, with NASDAQ annually returning less than 2% from 2007 through 2011, causing valuations of private venture-backed technology companies to significantly lag historic norms. Yet consistent with theories of asset rotation, the technology sector is now widely viewed as being in the early stages a strong and broad phase of growth. Much like the strong performance of NASDAQ in the early-1990s served as a leading catalyst for capital flows and valuations in venture capital during the technology boom, there are many signs that point to a beginning recovery in venture capital markets. In such a recovery, the Fund would be very well positioned with over 60 mature portfolio companies, many of which have become leaders in their markets such as BTI Photonics and Cytochroma.

Besides valuations, the other major economic shift that has impacted the Fund is the heightened volatility of M&A and IPO markets as a result of the global Financial Crisis. While the Crisis impacted virtually all asset classes in a variety of ways, the extreme caution that it imposed on M&A and IPO markets contributed to a material disruption in the Fund's exit activity, which is the way the Fund converts the value of its venture portfolio into cash to satisfy shareholder redemptions. With this mis-match between the Fund's exit activity and potential redemptions, the Board of Directors adopted a Redemption Management Plan which is aimed at aligning redemption levels and exit activity. Under the Redemption Management Plan, the Fund closed redemptions of Class A shares and, subject to receiving regulatory approval, will process redemptions semi-annually based on redemption amounts set by the Board of Directors. We believe the Fund's mature venture portfolio is well positioned to generate significant exit activity as market conditions improve. The Fund's track record is very good in this regard. Since 2006, the Fund has completed approximately \$350 million in venture exits, which enabled it to meet redemption requests through some difficult market conditions. Looking forward, we are optimistic that exit activity will return to historic levels given the quality and maturity of the Fund's venture portfolio.

## Fund Facts

**Fund start date:** March 1990

**GW management start date:** Nov. 29, '02

**Net assets:** \$196 million

**Management fee<sup>3</sup>:** 2.04%

**Venture holdings (# of companies):**  
Private: 54, Public: 6

**RRSP eligibility:** 100%

**Availability:** Closed to new purchases

## GrowthWorks Investment Managers

**Combined business experience: 51 years**



**Tim Lee, Chief Investment Officer, Venture Capital, BA, MBA, CFA**

Focus: Senior Management  
Experience: 18 years



**Joseph Regan, VP Investments, Bachelor of Science Honours, MBA**

Focus: Life Sciences  
Experience: 21 years



**Andrew Pinkerton, VP Investments, Cum Laude Harvard College, MBA**

Focus: Information Technology  
Experience: 12 years

## Top 10 Venture Holdings (by Market Value)

as at December 31, 2011

- 1 **Cytochroma Inc.** [www.cytochroma.com](http://www.cytochroma.com)  
 Cytochroma Inc. is an integrated specialty pharmaceutical company engaged in the development and commercialization of proprietary products to treat and prevent diseases and disorders related to vitamin D deficiency

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- 2 **Targeted Growth Canada Inc.** [www.targetedgrowth.com](http://www.targetedgrowth.com)  
 Targeted Growth is developing commercial crops with enhanced yield and disease resistance. The company is testing the effect of three different genes on yield and disease resistance in canola and other seed crops

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- 3 **Ambit Biosciences Corporation** [www.ambitbio.com](http://www.ambitbio.com)  
 Ambit Biosciences is engaged in the discovery and development of small-molecule kinase inhibitors for the treatment of cancer

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- 4 **BTI Systems Inc.** [www.btisystems.com](http://www.btisystems.com)  
 BTI is a network communication manufacturer providing fiber optic networking equipment to companies which have found it expensive to build infrastructure at the edge of their networks

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- 5 **Morega Systems Inc.** [www.morega.com](http://www.morega.com)  
 Morega Systems' solutions enable premium multimedia content to be seamlessly transferred, streamed and protected across multiple platforms, including TV, PC and mobile devices such as phones and PDAs

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- 6 **Camilion Solutions Inc.** [www.camilion.com](http://www.camilion.com)  
 Camilion Solutions is an enterprise software company. Their Insurance Innovator solution allows Specialty Property and Casualty Carriers to create standard, software based, repeatable product models and product introduction methods.

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- 7 **CFN Precision Inc.** [www.cfn-inc.com](http://www.cfn-inc.com)  
 CFN is a precision machining company providing small and medium sized machined components for medical devices, telecom, aerospace and electronics applications

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- 8 **Librestream Technologies Inc.** [www.librestream.com](http://www.librestream.com)  
 Librestream is a developer of mobile collaboration solutions. With its patented Onsite solution, the company extends traditional video conferencing and collaboration services to connect workers from any location at any time

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- 9 **ViOptix Canada Inc.** [www.vioptix.com](http://www.vioptix.com)  
 ViOptix has developed the proprietary breakthrough Tissue Oximetry technology which enables non-invasive, direct, real-time measurement of local tissue oxygen saturation

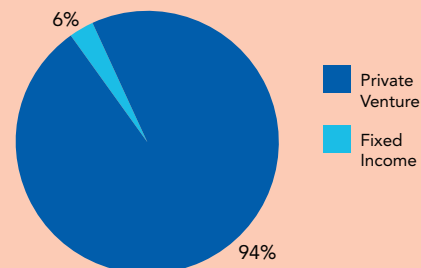
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- 10 **Natrix Separations Inc.** [www.natrixseparations.com](http://www.natrixseparations.com)  
 Natrix Separations is a leading supplier of high performance, single use and multi-cycle disposable chromatography products to the life science, food, beverage and water markets

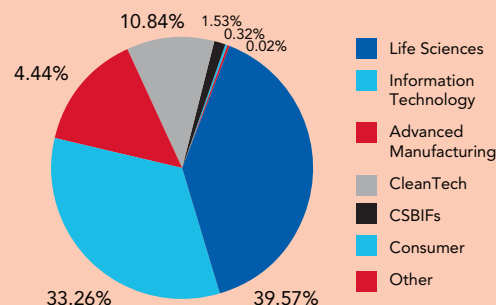
## Portfolio Composition

(as at December 31, 2011)

### Asset Class Weighting - Growth Series (by Market Value)



### Venture Industry Weighting (by Market Value)



All portfolio and financial data for GrowthWorks Canadian Fund Ltd. is as of December 31, 2011, unless otherwise indicated. Portfolio composition is subject to change as investments are made and sold. There can be no assurance that the Fund will secure the regulatory approval required to process redemptions on the basis proposed under the Redemption Management Plan or at all, nor can there be any assurance as to levels of semi-annual redemptions. Forward-looking Statements: This report contains forward-looking statements about the prospects of certain companies in the Fund's venture investment portfolio and the proceeds that may be generated from divestment transactions involving such companies. No assurance can be given with respect to the performance of portfolio companies or the actual timing of or proceeds from divestments from the Fund's venture investment portfolio. Actual results may differ materially from those expressed or implied by forward-looking statements as a result of numerous known and unknown risks and uncertainties, including, but not limited to, risks associated with economic and market conditions, including M&A and IPO market conditions, portfolio companies' development and achievement of milestones for developing products, technologies or services, including those for which markets may never be established, portfolio companies' access to needed financing, portfolio companies' ability to attract and retain key management and employees and establish and protect intellectual property rights and risks inherent in emerging businesses with unproven products. Neither the Fund nor its manager assumes any obligation to update any of the statements made in this report. Third party links are provided merely for convenience. Neither the Fund nor its manager has independently verified information that is accessible through these links or contained in this report and provided by third parties.