The Crocus Investment Fund

HOW IT ALL WENT WRONG
OBJECTIVES of PRESENTATION

This Presentation will touch upon the following:

- Objectives of the Program
- About the Prospectus
- What happened in the November 2000 Cabinet Submission? And The Cabinet Response
- Prospectus vs. Cabinet Submission
- Further Study?
- What happened to the Crocus Investment Fund?
- Failure to Re-launch
- Receivership?
- What about the Money in the Piggy Bank?
- And what about You?
Objectives of the Program

- Raise money for Manitoba investors via issuance of a prospectus, promotion, advertising, etc.
  - 30% tax credit sweetened the pot
- Investments in small/medium Manitoba businesses
- Nurture and grow the businesses to prepare them for sale within 8 years
- Dispose the investments for cash
- Provided an opportunity for long-term investment for Manitobans
About the Prospectus

- The securities are highly speculative in nature & need long-term investment
- Fund valuations may not reflect the prices which investments can be sold
- Investors may require the fund to redeem their shares after 8-year hold period
- No guarantee the Fund would be in position to pay redemption price
- Management expense ratio was 4.03% for year-end September 30, 2002
- Manitoba Federation of Labour has right to elect majority of the Board of Directors
- Minister may qualify an otherwise ineligible investment
- Fund Investment Portfolio set-up to fulfill investor requests for redemptions after 8-year hold period
What happened in November 2000 Cabinet Submission/Cabinet Response

- Fund not operating according to Prospectus
- Fund wants “cooling period” removed
- Fund request to amend legislation to use money raised from new investors to pay off exiting investors
  - This proposal would run into the red very quickly
  - Recommendation was that cooling period not be removed until further study
- Cabinet Response: rushed through the removal of the cooling period
Prospectus vs. Cabinet Submission

- The Fund’s 2001 Prospectus continued to assert its original mandate
  - The Deputy Minister of Industry, Trade and Mines was aware of the problems and the absence of their mention in the 2001 prospectus
Further Study?

- Concurrent work was being completed by staff to amend the Act to include a compliance/reporting section by 2001
  - This gave the Selinger Government the authority to:
    - Request whatever information he wanted from the fund
    - Have a person authorized by him to carry out an inspection, audit or examine the Fund
What happened to the Crocus Investment Fund?

- Trading was halted in December 2004 pending a review of share valuations
Failure to Re-Lauch

- The best answer:
  - Directors could not get liability insurance so instead it folded and went into receivership
Receivership

- Didn’t the fund still have lots of money?
  - March 2004 financial report showed $38.4 million in marketable securities in reserve account
    - However, $10 million was borrowed from Quebec and needed to be repaid
    - $20.5 million of it was raised from new investors in March 2004 Selling Season (not available for redemptions)
    - In reality, only $8 million was available to fund redemptions
What about the Money in the Piggy Bank?

- The $8 million was not enough
  - Redemptions of $89.7 million were forthcoming starting in 2004
- The Fund was found to be an illiquid basket case and thus a candidate for receivership/liquidation
  - No insurance was provided as the Province concurred with this finding
And What about You?
Consider the Take-Home Points:

- The Fund was set up with incentives to invest in small/medium businesses in order to get cash returns for investors (especially retirement/pension plans)
- Major discrepancy between the 2001 Prospectus of the Fund and the Cabinet Submission of 2000
- The Financial House of Cards finally fell, and the trading was halted in December 2004
- Re-launch was not an option; receivership/liquidation resulted