



NORTH CAROLINA

PAT McCRORY, GOVERNOR

JANET COWELL, TREASURER

VENTURE CAPITAL MULTIPLIER FUND INVESTMENT POLICY STATEMENT

I. Background

The North Carolina State Treasurer (the “Treasurer”) and the Governor of the State of North Carolina (the “Governor”) hereby adopt the following Investment Policy (the “Policy”) to guide the implementation and oversight of the Venture Capital Multiplier Fund (the “VCMF”).

The authorizing language for the VCMF was passed in Section 6.3 of the Current Operations and Capital Improvements Appropriations Act of 2015, N.C. Session Law 2015-241. G.S. 147-69.2(b)(12)(c.) authorizes the Treasurer to invest up to 10% of the Escheat Fund in the VCMF pursuant to G.S. 147-69.2A.

In summary, the VCMF is intended to:

1. Have a longer-term investment horizon in order to provide privately-negotiated funding on market terms alongside other investors in a diversified mix of predominantly venture capital and growth capital equity opportunities;
2. Target investment opportunities with a North Carolina Nexus (as defined below);
3. Select investments on the basis of potential return on investment and the associated risks with a primary goal of providing long-term net-of-fee investment returns competitive with other comparable illiquid investment opportunities in the institutional investment marketplace;
4. Consider collateral benefits created by an investment in addition to investment return and risk only after a determination that the investment providing those collateral benefits would be competitive even without collateral benefits and if the investment meets all of the requirements of this Policy. A potential collateral benefit could be developing entrepreneurial commercial activities within North Carolina by attracting, facilitating, and stimulating venture capital and growth capital investments, including early stage investments originating from North Carolina university technology transfer programs.
5. Incorporate institutional investment industry best-practices for alignment, legal and economic terms, transparency, cost-effectiveness, and governance.

In order to comply with statutory requirements for prudent investments and to prevent the potential non-investment related pressures that may accompany and hinder successful “in-state” investment programs, specific investment decisions will be made by a third-party professional investment management firm (the “Program Manager”) selected in accordance with

G.S. 147-69.2A:

1. Following a public procurement process, a designee of the Governor, a designee of the Treasurer, a designee of the Speaker of the House of Representatives, and a designee of the President Pro Tempore of the Senate shall jointly and unanimously select a third-party professional investment management firm, registered with the U.S. Securities and Exchange Commission, to administer the VCMF and select investment opportunities appropriate for receiving allocations from the VCMF on the basis of potential return on investment and the risks attendant thereto;
2. The Treasurer shall assign professional and clerical staff to assist in the oversight of the VCMF;
3. All costs for the third-party investment management firm and the professional and clerical staff shall be borne by the VCMF pursuant to G.S. 147-69.3(f);
4. The Treasurer shall discharge his or her duties with respect to the VCMF as a fiduciary consistent with the provisions of applicable law, including, without limitation, G.S. 36E-3.

It is the intent of the General Assembly that the Escheat Fund provides a perpetual and sustainable source of funding for the purposes authorized by the State Constitution. Besides responsibility for administering and investing the Escheat Fund, the Treasurer has a duty to engage a third-party professional actuary or consultant to conduct a valuation and projection of the financial status of the Escheat Fund. The Treasurer communicates the valuation of the actuary or consultant in an annual report to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the chairs of the respective appropriations and appropriate substantive committees of each chamber. The annual report evaluates claims by owners upon the Escheat Fund, current and projected investment returns, and projected contributions to the Escheat Fund. In the report, the Treasurer assesses the status of utilizing the Escheat Fund as an endowment fund and shall recommend an annual amount available for the funding of scholarships, loans, and grants from the Fund. The annual report shall be presented no later than December 31 of each year. G.S. 147-69.2(b)(12)(b.).

II. Purpose

This document sets forth the policy of the Treasurer and Governor with respect to the VCMF. The Treasurer has fiduciary duties under G.S. 36E-3 to invest and manage the entrusted Escheat Funds, including those committed to the VCMF, in a manner consistent with statutes, regulations, and policies. The Treasurer is required to manage the Escheat Fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. G.S. 36E-3(b).

The Investment Management Division of the Department of State Treasurer (the “IMD”) evaluates investments in accordance with policies and procedures which are designed to ensure that the standard of care for investments is met. These standards apply to their work related to VCMF.

III. Strategic Objectives

The VCMF shall be managed to accomplish the following:

- A. **Primary Objective.** Earn long-term net-of-fee investment returns competitive with other comparable illiquid investment opportunities in the institutional investment marketplace;
- B. **Collateral Objective.** Subject to the primary objective, the VCMF shall seek to develop entrepreneurial commercial activities within North Carolina by attracting, facilitating, and stimulating venture capital and growth capital investments with a North Carolina Nexus, including early stage investments originating from North Carolina university technology transfer programs.

IV. Roles and Responsibilities

A. Treasurer's Roles and Responsibilities

- Assign professional and clerical staff to assist in the implementation and oversight of the VCMF, including consultants thereto;
- Conduct a public procurement process, consistent with Department of State Treasurer policies, to identify one or more qualified, experienced Program Manager(s) in accordance with appropriate fiduciary standards (See Appendix for outline of the procurement process);
- Approve the capital commitment of the Escheat Fund to and other terms of the VCMF;
- Develop preferred terms for the Program Manager to seek when making investments for the VCMF;
- Maintain this Policy and recommend any revisions thereto;
- By October 1, 2015, and at least semiannually thereafter, the Treasurer shall submit a report to the Governor, the Office of State Budget and Management, the Joint Legislative Commission on Governmental Operations, and the Fiscal Research Division on investments made from the VCMF and any return on investment. This report shall be made for the VCMF in lieu of the reports required by G.S. 147-69.1(e), 147-69.2(b)(10a), 147-69.3(h), 147-69.3(i), 25 and 147-69.8.

B. Treasurer and Governor's Joint Roles and Responsibilities

- Develop and adopt this Policy;
- Adopt a common policy to prevent conflicts of interests related to the VCMF;
- Recommend statutory revisions;
- Over the life of the VCMF, jointly agree on any changes to this Investment Policy Statement.

C. Treasurer, Governor, Speaker of the House of Representatives, President Pro Tempore of the Senate Roles and Responsibilities

- Timely appoint designees qualified to evaluate and select a third-party professional investment management firm for the VCMF;
- Such designees shall jointly and unanimously select the Program Manager.

D. Program Manager Roles and Responsibilities

- Source and screen investment opportunities for inclusion in the VCMF;
- Conduct due diligence using substantially the same thorough, comprehensive, and consistent institutional investment process for all VCMF investments as similarly situated institutional quality investment managers for comparable investments;
- Work with counsel to prepare legal documentation required for the VCMF and individual investments;
- Make investment decisions using a prudent process focused on expected risk and return;
- Provide ongoing analysis and regular reporting of any collateral benefits considered in the investment process and actual realizations;
- Review the fit of investments with policy, legal, and regulatory requirements;
- Construct a reasonably diversified VCMF across the economic cycle, vintage years, opportunity types, investment styles, and investment process, unless it is prudent not to do so;
- Monitor all investments on a regular and ongoing basis. Prepare and distribute investment evaluation reports at least quarterly to the Treasurer;
- Maintain and periodically update the Governor and the Treasurer on the pipeline of opportunities;
- Monitor cash flows, including capital calls and distributions, on a daily basis;
- Proactively identify and resolve problem investments when they may arise;
- As appropriate, participate on the Advisory Boards of portfolio investments;
- Make decisions on an unbiased basis, free of influence from political agendas.

E. IMD Roles and Responsibilities

- Assist in the development of this Policy;
- Assist in the design of the procurement and evaluation of candidates for the Program Manager role;
- Monitor the selected Program Manager's implementation of the VCMF and compliance with this Policy. This may include the use of special service providers for conducting legal review or other third party services;

- Monitor adherence to guidelines as set forth in this Policy;
- Monitor, evaluate, and report on program performance on an annual basis to the Investment Advisory Committee and Governor's office;
- Provide any necessary Limited Partner Advisory Committee approvals, if the VCMF fund is structured in a way that involves an Advisory Committee.

V. Minimum Qualifications of the Program Manager

The Program Manager will be a legal entity (such as a general partner) that may be owned and staffed by a single investment management firm or, instead, a joint venture of multiple investment management firms. The following minimum qualifications will be assessed by considering the characteristics of the organization or organizations that own and staff the Program Manager. In the case of a joint venture, the composite characteristics of constituent organizations will be considered as appropriate.

- A. **Status.** A third-party professional investment management firm, registered with the U.S. Securities and Exchange Commission. \$50 million in total assets under management or total capital commitments raised over the previous 10 years ended June 30, 2015 in vehicles or strategies described in Section V.B immediately below.
- B. **Experience.** Eight (8) years of experience managing at least one or more of the following private market vehicles, styles, or strategies, as of June 30, 2015:
 - Venture capital funds;
 - Growth capital funds;
 - Lower middle market/middle market private equity funds;
 - Infrastructure funds directly related to the industry sectors in Section VI.I;
 - Co-investment funds, or otherwise participating in private market investments consistent with those commonly associated with venture capital funds, growth capital funds, lower middle market/middle market private equity funds, or infrastructure funds;
 - Private market debt funds or otherwise participating in or originating private market debt investments in companies that would receive equity investments through venture capital funds, growth capital funds, lower middle market/middle market private equity funds, or infrastructure funds;
 - Merchant banking arrangements;
 - Structures utilizing any combination of the foregoing, including fund of funds, general partners or corporate entities making co-investments and direct investments.
- C. **Track Record.** Three years of live returns for any vehicles or strategies deemed relevant to the proposal, as of June 30, 2015.

Longer periods of live investment returns, a demonstrated successful track record of North Carolina investments, and demonstrable experience working effectively within the North Carolina venture capital ecosystem to source investments and related financings are preferred.

D. Additional Factors. The following entities are particularly encouraged to submit proposals and participate in the selection process:

- Pursuant to General Statute 143-48 and Executive Order #150, businesses owned by minorities, women, disabled, disabled business enterprises, and non-profit work centers for the blind and severely disabled; and
- Investment organizations that are headquartered or maintain offices in North Carolina.

The primary objective of the Manager selection process shall be seeking an organization best positioned to achieve a competitive risk-adjusted rate of return consistent with the performance objectives sought. These factors will be taken into account in considering Manager options of equal value.

VI. Investment Approaches and Parameters

- A. Procedures and Limitations.** The Program Manager will invest according to the standards, procedures and limitations set forth in contract, this Policy, North Carolina General Statutes, other applicable state and federal law and regulation.
- B. Investment Standards.** The Program Manager will select investments and manage the VCMF in accordance with standards set forth in G.S. 36E-3. The Program Manager will base investment decisions on a prudent institutional investment process, focused on expected returns, risks and costs; collateral benefits must not be included in expected return computations.
- C. Placement Agent, Political Contribution, and Connection Disclosure Policy.** The VCMF shall comply with the Department of State Treasurer Placement Agent, Political Contribution, and Connection Disclosure Policy.
- D. Sourcing.** The Program Manager will pursue customized strategies and opportunistic partnering with public and private entities. Strategies that bring federal, state, or private investments to North Carolina are encouraged so long as potential VCMF investment returns are not degraded or risk increased relative to other comparable illiquid institutional investments. The Program Manager is expected to execute innovative proactive strategies to access successful deal flow through some or all of the following channels:
- Corporations or other business organizations that may originate or sponsor investments in assets, joint ventures, or club deals;

- Commercial banks or investment banks seeking equity or debt investments for clients;
 - Venture capital, growth capital, merchant banking, Angel Funds, or other private equity firms that sponsor funds or offer co-investments or club deals;
 - Public and private universities and colleges' technology transfer offices;
 - Regional trade and economic development agencies.
- E. Investment Types.** Assets of the VCMF may be invested in those types of investments authorized for the North Carolina Retirement Systems by G.S. 147-69.2(b), notwithstanding the percentage limitations imposed on the Retirement Systems' investments under those subdivisions. "Types" refers to equity, debt, or convertible interests in public or private companies through securities, limited partnerships, or other limited liability companies.
- F. Investment Styles and Strategies.** The assets of the VCMF will be predominantly, but not exclusively, deployed in venture capital and growth capital investment styles and strategies, including seed, early-stage, emerging, and emerging growth companies. Debt, mezzanine, control, real estate, and distressed investments are not precluded, but may be no more than 20% of the assets, unless otherwise prudent.
- G. Investment Time Horizon.** The Program Manager will provide negotiated funding on market terms alongside other investors in a diversified mix of illiquid opportunities, unless prudent to not diversify or pursue other investments authorized by G.S. 147-69.2A(c). The Program Manager will have an investment period of five years followed by realizations and distributions over a subsequent period of five to ten years. It is understood that the Program Manager may continue to support underlying investments through additional rounds of financing after the investment period, based on their prudent review and analysis.
- H. North Carolina Nexus.** The term "North Carolina Nexus" means:
- Businesses headquartered or domiciled in North Carolina; or
 - Businesses that have a demonstrable and significant portion of their affiliated operations or contractual service operations in North Carolina; or
 - Businesses that deploy a demonstrable and significant amount of investable capital to acquire, license, or otherwise commercialize intellectual property developed in North Carolina, including through public or private university technology transfer programs; or
 - Businesses that, as a direct result of a VCMF investment, would initiate, expand, or restructure significant operations in North Carolina.

- I. Industry Sectors.** The assets of the VCMF will be predominantly, but not exclusively, deployed to have exposure to medical and life science investments and technology investments of businesses with a North Carolina Nexus. The term “medical and life sciences investments” includes, but is not limited to, investments in the use of information technology, engineering, or biological and chemical sciences for the development and production of goods and services including, but not limited to, drug development, medical implants and devices, bio-related diagnostic products, bioagriculture technologies, biosecurity, biofuels and bio-related applications, and infrastructure related thereto. The term “technology investments” includes, but is not limited to, investments in agriculture technology, aerospace and aviation engineering, computer technology, computer or mobile device software and applications, and energy, and infrastructure related thereto. VCMF exposure to other industries is not precluded, but may be no more than 35% of the assets, unless otherwise prudent.
- J. Alignment and Terms.** Program Manager will provide incentive based fees and make a meaningful capital commitment to invest alongside each investment within the VCMF. VCMF and its investments will incorporate institutional investment industry best-practices for alignment, legal and economic terms, transparency, cost-effectiveness and governance.
- K. Diversification and Risk Management.** To mitigate risk associated with industry, company, vintage year, economic cycle, credit cycle, and idiosyncratic risks:
- No more than 10% of the VCMF assets may be invested or committed for investment by the Program Manager in any one direct investment, co-investment, or investment fund, unless prudent to otherwise do so.
 - No more than 33% of the capital commitment to any investment may be invested and/or committed for investment by the Program Manager during any single vintage year (defined as the year during which the first capital calls are made by such Program Manager), unless prudent to otherwise do so.
 - The Program Manager must monitor and regularly report any financial leverage incurred by the VCMF.

VII. Performance Benchmark

- A.** After jointly evaluating the program’s investment characteristics, and prior to the VCMF’s commitment of capital to an underlying investment, the Treasurer and the Program Manager will jointly designate an appropriate benchmark for the program. Such benchmark shall incorporate industry standard peer groups return series (e.g., Cambridge Associates, Private iQ, etc.) weighted according to the capital allocated to various styles and types of financial exposures of the actual investments (e.g., venture capital, growth capital, debt, etc.).
- B.** It is expected that the returns generated by the VCMF will be sufficient to compensate the Escheat Fund for the long term and illiquid commitments associated with privately

negotiated investments of comparable risk. Recognizing the long-term nature of these investments, this relative performance will be measured over a period of multiple market cycles. The VCMF's investments, like any private equity or venture capital investments, will take time to mature. VCMF performance should be measured with the understanding that realized gains will only begin to appear following several years of VCMF operation. The underlying financial metrics versus the business plan of each investment within the VCMF may provide a more accurate assessment of the true performance of the VCMF for the first five years of the VCMF.

VIII. Conflicts

To prevent conflicts of interests, (i) the designees of the Treasurer and Governor who selected the third-party investment management firm, (ii) the staff of the Treasurer overseeing the VCMF, and (iii) the third-party investment management firm's employees selecting or overseeing VCMF investments may not provide services for compensation (as an employee, consultant, or otherwise), within two years after the end of their service to the VCMF, to any entity in which an investment from the VCMF was made.

IX. Reporting

The Program Manager(s) shall report on VCMF performance, investments, concerns, material changes, and any violations of the Policy to the Treasurer on a quarterly basis.

X. Policy Review

The Treasurer shall review this policy at least once every year to ensure that it remains relevant and appropriate. Any recommended updates will be provided to the Governor, or their designee, for concurrence.


Pat McCrory, Governor


Janet Cowell, Treasurer

VENTURE CAPITAL MULTIPLIER FUND INVESTMENT POLICY STATEMENT

Appendix: Public Procurement Process

This Appendix defines the key components and terms of the Public Procurement Process referenced in G.S. 147-69.2A. Within this Appendix, the “Selection Group” shall be defined as the designees identified under G.S. 147-69.2A(a) of the Governor, the Treasurer, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate.

In order to accomplish the objectives and requirements specified in this Policy, the Department of State Treasurer (Department) shall draft an Invitation to Bid document (ITB) with appropriate consultation from industry experts and staff of the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The ITB shall be issued only after approval by the Selection Group.

The ITB will be issued by the Department, on behalf of the Selection Group, as a request for offers, not a request to contract, and the Selection Group reserves the unqualified right to reject any and all offers when such rejection is deemed to be in the best interest of the State or if the Selection Group does not jointly and unanimously select a bidder or bidders. The ITB shall be issued under the State Treasurer’s authority pursuant to G.S. 147-69.3(g) and is therefore exempt from certain State procurement procedures. The ITB shall be made available to the public upon request. Investment Management Division staff (“IMD”) and an investment consultant engaged by IMD on behalf of the Fund (the “Consultant”), will be responsible for day-to-day activities related to executing the ITB process and conducting diligence and negotiations consistent with Department policies. The Consultant, Department staff, and the members of the Selection Group shall be subject to the conflict of interest certification and external communication protocol requirements set out in the Department’s External Investment Manager and Vehicle Selection Policy and Procedures.

On behalf of the Selection Group, the Consultant will circulate the ITB to both pre-identified potential investment managers and investment managers that have previously expressed interest to being selected as the Program Manager of the VCMF. The Selection Group may identify other investment managers for potential inclusion. Prospective bidders may contact the Consultant for clarification purposes regarding the ITB prior to submitting responses.

The Consultant shall conduct a review of the ITB responses and provide a summary of the pros and cons of each bidder to IMD and the Selection Group. In addition, the Consultant will provide a recommendation on a subset of bidders for which detailed due diligence will be pursued (“Leading Candidates”). The Selection Group will approve the Leading Candidates. A written summary of the approval and basis for the decisions shall be created by the Consultant on behalf of the Selection Group and made available by the Department to the public upon request.

Onsite due diligence shall be conducted on the Leading Candidates by the IMD Director of Private Equity and a Consultant representative (“Due Diligence Team”). An investment memorandum will be created incorporating information submitted on the ITB and gathered at the onsite meeting(s). The investment memorandum will identify a subset of the Leading Candidates that the Department and

Consultant agree to as the “Best Candidates,” absent legal negotiations.

Simultaneous negotiations with the “Best Candidates” by IMD and its legal counsel will begin once those candidates are identified. Legal counsel will create a summary memo reviewing gaps relative to Department preferred terms in relation to the proposal negotiated with each Best Candidate. The legal summary memorandum will be incorporated into an Investment Recommendation Memorandum. This Investment Recommendation Memorandum will be circulated to the Selection Group after completion of all compliance requirements under IMD’s External Investment Manager and Vehicle Selection Policy and Procedures.

Certain information within ITB responses may be designated proprietary and confidential by the bidders consistent with the Trade Secrets Protection Act and the North Carolina Public Records Act; this information may also be designated proprietary and confidential if incorporated into the Investment Recommendation Memorandum. The Department of State Treasurer will maintain a redacted copy of the relevant documents and will process and respond to all related public records requests. The performance of the VCMF as a whole and the fees charged by the ultimately selected Manager to the VCMF may not be designated as proprietary or confidential.

The Selection Group may at its discretion convene to interview one or more of the Best Candidates or request additional information from the Due Diligence Team. In the event that there is joint and unanimous approval, the Selection Group will select a bidder from the Best Candidates based on the information provided by the Due Diligence Team and any interviews. A written summary of the selection(s) and basis for the decision(s) shall be created by the Consultant on behalf of the Selection Group and made available by the Department to the public upon request.

Note: Following the issuance of the ITB, the final scope of services, fees, and the basis thereof will be determined during a negotiation process conducted by IMD on behalf of the Selection Group. The Department reserves the right to issue an addendum amending any part of the ITB after consultation with the Selection Group. The Department reserves the right, based on circumstances throughout the negotiation and contracting process, to enter into a mutually acceptable contract or contract amendment with the successful bidder(s) that diverges from the terms of the ITB. The Department reserves the right to negotiate concurrently or separately with competing bidders any time after the Best Candidates, if any, are designated. The Department reserves the right to accept portions of a competing bidder’s response and use such portions to form an overall program and negotiate a contract incorporating such portions with another bidder, in the best interest of the Escheat Fund. Furthermore, the Department shall have the right to use any or all ideas or adaptations of the ideas presented in any response received pursuant to the ITB. Selection or rejection of a response will not affect this right.

