



## **NEXT LEVEL INDIANA TRUST FUND INVESTMENT POLICY**

### **1.0 PURPOSE**

This document sets forth the investment policy (“Policy”) for the Next Level Indiana Trust Fund (“NLITF”) and will be referred to as the Indiana Next Level Fund, L.P. (“NLF”) throughout this document. This Policy shall apply to all monies in the NLITF that have been called and/or committed by the Program Administrator (as defined herein). For monies not called and/or committed by the Program Administrator, the Treasurer of State may invest the monies and, pursuant to Indiana Code § 8-14.5-15.1-11, may contract with investment management professionals, investment advisors, and legal counsel to assist in the investment of such monies and may pay the expenses incurred under those contracts from the NLITF.

The purpose of the Policy is to ensure that the Next Level Fund Investment Board (“Investment Board”), the Program Administrator, as well as any contractors the Investment Board or Program Administrator retains to provide services related to NLF, take prudent, measured, effective actions while supporting NLF. Specifically, this Policy addresses the following key areas:

- a) The investment objectives and underlying investment strategy of NLF;
- b) General parameters for the investment of assets in NLF;
- c) The roles and responsibilities of the Program Administrator and any contractors retained to provide services related to NLF; and
- d) The processes for the performance evaluation of contractors who provide investment, administrative, advisory, and/or reporting services on behalf of the Investment Board for NLF.

This Policy is designed to allow for sufficient flexibility in the management oversight process to take advantage of investment opportunities as they arise, while setting forth reasonable parameters to ensure prudence and care in the execution of NLF.

The Investment Board establishes and executes this Policy in accordance with applicable local, State and federal laws.

### **2.0 ESTABLISHMENT AND AUTHORITY OF ENTITY**

Pursuant to Indiana Code § 8-14-15.1, as amended from time to time, the NLITF has been established by the Indiana Finance Authority (“IFA”) as a charitable trust, separate from the State of Indiana. The NLITF consist of Two Hundred Fifty Million Dollars

(\$250,000,000) and, pursuant to Indiana Code § 8-14-15.1-8(a)(1), the monies may be invested in investments that include the purchase of equity or debt securities.

## 2.1 DEFINITIONS

- a) **“Indiana venture capital firm”** means
1. an entity that (i) has a majority of its employees physically located in Indiana, or (ii) has at least one (1) member of its general partnership (or equivalent entity) based in the State; or
  2. an entity that has a “track record” of identifying, evaluating and investing in “Indiana companies” and that provides equity financing for starting up or expanding a company, or related purposes, such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital.
- b) **“Track record”** means having made, on average, at least one (1) investment in an Indiana company in each of its funds if the Indiana venture capital firm has multiple funds, or at least two investments in Indiana companies if the Indiana venture capital firm only has one fund.
- c) **“Venture capital”** means equity financing that is provided for starting up, expanding, or relocating a company, or related purposes such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital. This includes, but is not limited to, financing classified as venture capital, mezzanine, private equity, private credit, venture debt, buyout or growth equity.
- d) **“Technology businesses”** means a company that has as its principal function the providing of services, including computer, information transfer, communication, distribution, processing, administrative, laboratory, experimental, developmental, technical, or testing services, manufacture of goods or materials, the processing of goods or materials by physical or chemical change, agriculture technology, computer related activities, robotics, biological or pharmaceutical industrial activity, or technology oriented or emerging industrial activity.
- e) **“Indiana companies”** are firms that are headquartered in or that otherwise have a significant presence in the State of Indiana at the time of initial or follow-on investment.
- f) **“Significant presence”** means at least one (1) physical office and one (1) full-time employee within the geographic borders of Indiana, and conducting a significant portion of its operations within the State; or at the time of initial investment, have a

clear plan to use NLF monies to create a significant presence in the State as a result of NLF's investment.

### 3.0 INVESTMENT OBJECTIVES

The Investment Board maintains a number of underlying objectives for the investment of monies from NLF in accordance with this Investment Policy:

- a) **Performance** – NLF has a dual objective of achieving good investment performance, growing Indiana's investment community, and developing technology businesses in Indiana. NLF will endeavor to make investments in Indiana venture capital firms in order to attract, assist and retain quality technology businesses in Indiana. It is expected that the returns generated by NLF will be sufficient to compensate NLF for the long-term and illiquid commitments associated with these investments.

Recognizing the long-term nature of these investments, this relative performance will be measured over a period of multiple market cycles. As a result, the Investment Board has adopted a long-term total return strategy for NLF investments. As such, NLF assets will be managed on a total return basis. While the Investment Board recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally remunerated with compensating returns in the long-term:

- o **Target Internal Rate of Return (IRR) and Performance Benchmarking** – The goal will be to create and utilize a customized benchmark that incorporates benchmark data from the Cambridge Associates All Private Equity (PE) benchmark service and Preqin. As NLF's asset mix becomes apparent during the commitment period, a review shall be conducted to assess whether use of a blended benchmark is more appropriate for performance measurement purposes. Furthermore, the Program Administrator shall perform and report benchmark comparisons against pertinent public market equivalents (PMEs), including, but not limited to, the Russell 2000 index.
- b) **Diversification** – In order to achieve NLF's investment objectives, investments shall be diversified so as to minimize the risk of loss. A long-term focus on investment results, as well as prudent diversification and active oversight, will be the primary risk control mechanisms. Diversification shall chiefly be considered along the following lines: (i) strategy; (ii) industry sector; (iii) size of investment; (iv) investment stage; (v) vintage; (vi) geographic location; and (vii) business model.
  - c) **Strategy Classifications** – NLF investments may be classified by strategy, including, but not limited to the following:

1. Venture Capital;

2. Private Credit (including venture debt);
  3. Private Equity; and
  4. Growth Equity.
- d) **Cost-Efficiency and Fee Transparency** – The Investment Board, the Program Administrator and its contractors shall seek to minimize any fees or costs that diminish from the total assets or value of NLF. Furthermore, the Program Administrator and its contractors shall strive to achieve full transparency by delineating accordant fees and expenses.
- e) **Encouraging Additional Investments and Investor Focus in Indiana Technology Businesses** – The Investment Board, the Program Administrator and any contractors servicing NLF shall encourage the investment and philanthropic community to explore and monitor investment opportunities in Indiana technology businesses in tandem with NLF. This may include hosting investor forums, facilitating meetings between investors and NLF, or various other efforts.

#### 4.0 INVESTMENT PARAMETERS

- a) **Commitment Amount** – No more than \$250,000,000.00 shall be committed to the NLF.
- b) **Commitment Period** – The Program Administrator shall endeavor to commit assets placed in NLF over the course of five (5) years. The Program Administrator shall not invest more than one-third of NLF’s total committed capital in any given calendar year. In an effort to accommodate the re-investment of distributions received by NLF (discussed further below), the commitment period shall automatically renew for an additional one-year period at the end of Year 5, and, thereafter, the commitment period shall automatically renew at the end of each subsequent year for an additional one-year period, unless the Investment Board or the Program Administrator provides written notice to the Program Administrator or Investment Board, as applicable, on or before October 31 of the then current year to not extend the Investment Period. Between July 31 and August 31 of Year 5 and each commitment period extension, the Program Administrator shall use commercially reasonable efforts to give written notice to the Investment Board of each party’s right to terminate the commitment period, it being understood that any failure to provide such notice shall not invalidate any subsequent automatic renewal.
- c) **Re-Investment of Distributions** – Distributions from NLF may be re-invested into NLF by the Program Administrator without being counted against the \$250 million cap on monies invested in NLF. The re-investment does not need to occur in the same fund. The Program Administrator may re-invest an amount equal to all distributions (less the aggregate amount of all previous permanent write-downs and write-offs) to NLF (regardless of the sources or character thereof). With respect to such re-invested distributions, the Program Administrator shall ensure that the

aggregate amount of (i) investment contributions with respect to unrealized investments as of any date of determination plus (ii) any amounts proposed to be recalled by the Program Administrator as of such date would be less than or equal to \$250 million. To the extent that distributions are re-invested for new investments, the Program Administrator shall seek to allocate such recalled amounts to early stage venture capital recipient funds.

- d) **Fund-of-Funds Approach** – NLF investments shall be spread across multiple venture capital firms based in Indiana and/or venture capital firms with a track record of investing in Indiana companies.
- e) **\$25M Cap on the Amount Invested in Individual Funds** – No more than \$25,000,000.00 may be invested in any one particular investment fund. The Program Administrator shall seek to construct a risk-adjusted portfolio of approximately 20-30 individual recipient funds diversified by stage, geography, commitment amount, sector/industry and vintage over NLF's five-year investment period.
- f) **Indiana Investment Activity.** Any fund in which the Program Administrator places money under NLF shall seek to invest a minimum of one-times the aggregate amount of investable capital that is received from NLF in Indiana companies during the life of the fund. Investable capital is calculated as committed capital (as defined in the fund's applicable governing documents) less related estimated fees and expenses to be incurred during the life of the fund. For instance, if NLF invests \$5 million in an NLF recipient fund, the recipient fund shall endeavor to invest at least \$5 million in Indiana companies over the life of the fund. As such, NLF recipient funds shall endeavor to invest a minimum of \$250,000,000.00 in Indiana companies over the life of the program. The Program Administrator shall enter into certain side letter agreements with each recipient fund to ensure an alignment of interest in each firm's pursuit of its Indiana investment activity. The Program Administrator shall monitor each recipient fund's Indiana investment activity and report to the Investment Board on each firm's compliance with this Policy.
- h) **Underlying Funds** – The following investment considerations apply to all underlying recipient funds:
  - 1. The minimum fund size shall be \$10 million for Indiana venture capital firms with a physical presence in the State. The minimum fund size shall be \$50 million for Indiana venture capital firms without a physical presence in the State but a track record of investing in Indiana companies. NLF shall not comprise more than twenty-five percent (25%) of the total fund size of a recipient fund. The Investment Board shall reserve the right to waive this concentration limitation, in consultation with the Program Administrator.
  - 2. The Investment Board reserves the ability to grant exceptions to investment funds under the fund size minimum that possess a significant Indiana nexus.

3. Utilize reputable service providers in their administration of their legal, accounting, tax, audit fund administration, technology, and other various needs.
  4. Provide audited financials within 180 days of calendar year-end.
- i) **Co-Investments** – This Policy authorizes the use of co-investments. Co-investments shall be made on the same (or better) terms and conditions as provided to the recipient fund(s). Co-investments can only be made in investments that have received investments or commitments from a recognized, proven, uninvolved third-party lead investor who sets the terms and conditions.

The maximum amount of each commitment shall not exceed \$10 million. The Program Administrator will review and provide a concrete recommendation for each co-investment opportunity. Due diligence, reporting, and all other responsibilities shall be consistent, appropriate, and abide by the requirements set forth for NLF investments in this Policy.

Co-investments are limited to direct investments in Indiana companies and to venture capital, growth and private equity strategy classifications. Co-investments may take the form of equity, convertible preferred equity, or a comparable instrument, which provides an equity-type of return.

## **5.0 INVESTMENT ROLES AND RESPONSIBILITIES**

### **a) Investment Board**

The Investment Board shall serve as trustee of the NLITF, and consists of the following members:

- (i) The Indiana Secretary of Commerce or the Secretary's designee, who shall serve as the chairperson of the Investment Board;
- (ii) The Director of the Indiana Office of Management and Budget, or the Director's designee;
- (iii) The Treasurer of the State of Indiana or the Treasurer's designee; and
- (iv) Two individuals appointed by the Governor of Indiana who have experience and knowledge in investments.

The Investment Board exercises authority and control over the management of NLF, by setting policy and procedures which the Program Administrator executes either internally or through the use of contractors. As such, key roles and responsibilities include, but are not limited to:

1. **Investment Policy** – The Investment Board is responsible for this Policy and shall review this Policy at least annually to ensure accuracy and continued relevance.

2. **Oversight** – The Investment Board is responsible for the direction of investments and administration of the assets of NLF. This includes the ability to reject any investment selected by the Program Administrator prior to implementation and contract formation, if it is deemed to violate this Policy;
3. **Contractors** – In order to properly carry out its responsibilities, the Investment Board may rely on one or more contractors to assist in the administration of NLF. The Investment Board may engage and rely on experienced contractors (the “Program Administrator”) for various investment management, administrative and reporting services. The Investment Board intends to retain a Program Administrator to perform such investment management, administrative and reporting services for NLF, as the general partner of NLF.
4. **Performance and Fee Monitoring** – The Investment Board will review the investment performance of each NLF recipient fund and co-investment, as well as the fees, at least quarterly.
5. **Due Diligence** – The Investment Board will monitor investments and review operational due diligence activities performed by the Program Administrator and any subcontractors retained by the Program Administrator.

#### **b) Program Administrator**

The chief responsibilities of the Program Administrator shall include, but not be limited to:

1. **Implementation of Investment Strategy** – Among the chief responsibilities of the Program Administrator is the implementation of the investment strategy outlined in this Policy, the development of portfolio allocation recommendations, and the rebalancing of NLF assets when market movements and/or cash flows cause a breach of this Policy or applicable statutes.
2. **Selection and Evaluation of Recipient Funds** – The Program Administrator shall evaluate and select fund recommendations for NLF based on this Investment Policy, with the advice and counsel of the Investment Board. This responsibility includes the screening of venture capital and private equity firms and their associated investment funds. The Program Administrator’s up-front due diligence on potential fund investments may include but not be limited to:
  - a.) Research;
  - b.) Reference checking;

- c.) Financial analysis;
  - d.) Vetting of firms, funds, executives, managers;
  - e.) Evidence of prior investment performance track records for prior investment offerings, as well as for key individuals;
  - f.) Level of fit or complementary characteristics of a given investment in the context of the overall NLF portfolio and broader allocation targets (*i.e.*, sector and business stage diversification);
  - g.) Review and negotiation of contractual fee structures; and
  - h.) Review and negotiation of favorable limited partnership agreement and side letter agreement provisions, including but not limited to, recipient funds' commitment to reviewing and evaluating investments in Indiana companies presented to them by the Program Administrator or other NLF recipient funds (or otherwise).
3. **Selection and Evaluation of Co-Investments** – The Program Administrator shall evaluate and select co-investment recommendations for NLF based on this Investment Policy, with the advice and counsel of the Investment Board.
4. **Fund Monitoring** – The Program Administrator will be responsible for monitoring the performance of NLF recipient funds, tracking the diversification of invested assets and the amounts invested by recipient funds, and facilitating and reconciling all reporting and accounting requirements of portfolio companies and recipient funds. When possible, the Program Administrator shall seek to act as the agent of the Investment Board on limited partner advisory committees of individual recipient funds and attend annual board meetings of recipient funds. The Program Administrator shall also document its efforts to present potential Indiana companies to recipient funds for their evaluation and potential investment.
5. **Benchmarking** – The Program Administrator is responsible for establishing applicable investment benchmarks (including public market equivalents), measuring the performance of recipient funds against such benchmarks, and reviewing benchmarks at a minimum of every two (2) years to ensure accuracy and relevance.
6. **Reporting** – The Program Administrator is chiefly responsible for administering all pertinent reporting and recordkeeping duties of this Policy. See Section 6.0 of this Policy for additional information. In addition to the Program Administrator's reporting responsibilities as further outlined in Section 6.0 of this Policy, it shall hold an annual town hall summit to:
- a.) Report on the progress of NLF;
  - b.) Provide updates from recipient funds on their portfolios, investment performance and economic impact;



- c.) Provide reports from underlying portfolio companies and NLF equity co-investments;
  - d.) Provide networking opportunities for recipient funds, as well as other local, regional and national venture capital and private equity firms to engage with NLF's underlying Indiana companies to foster a more collaborative and engaged community.
  - e.) Provide educational content and discussion topics for Indiana entrepreneurs, civic leaders, university business officers, governmental officials and other key constituents on NLF's impact on the Indiana economy.
7. **Quarterly Meetings** – The Investment Board, and the Program Administrator shall meet at least quarterly to review fund performance as compared to applicable benchmarks and peer group performance. The Program Administrator shall provide detailed pipeline reports to the Investment Board recording the number of Indiana investment opportunities sourced and presented to recipient funds for their evaluation and review, and prospective recipient Indiana venture capital funds under consideration.
8. **Annual Report** – The Program Administrator will prepare and provide the Investment Board with an annual report that (a) contains a summary of recipient fund performance, (b) outlines the impact on Indiana companies and the Indiana economy, (c) delineates percentages and amounts of investment options/returns, and (d) notes other pertinent reporting information that illustrates NLF impact and developments.
9. **Website** – The Program Administrator shall create and maintain a publicly accessible webpage dedicated to NLF. The webpage shall feature a standardized submission process that allows Indiana-based, profit-driven entrepreneurial ventures to submit their endeavors for funding consideration to the Program Administrator. The Program Administrator will maintain a list of submissions and make them available to recipient funds. The webpage will also feature information on the purpose, impact and general performance of NLF and its investments. This may include quarterly or annual reports, content that showcases the economic impact of the program, or documents that demonstrate compliance with reporting requirements. The Program Administrator and all other pertinent contributors shall treat the information reported by recipient funds as confidential proprietary information that cannot be shared publicly.
10. **Communication and Liaison Duties** – The Program Administrator shall create and distribute program information to existing and prospective venture capital funds and portfolio companies. The Program Administrator shall collaborate with appropriate governmental agencies to interface with

local and national media outlets, as well as participate in and publish content related to NLF to raise the profile of the program.

**11. Encouraging Additional Investments and Investor Focus in Indiana Technology Businesses** – The Program Administrator, working independently as well as in active collaboration with the Investment Board, shall make a concerted effort to encourage the investment and philanthropic community to explore and monitor investment opportunities in Indiana technology businesses in tandem with the Investment Board. This may include hosting investor forums, facilitating meetings between investors and NLF, or various other efforts.

a.) The Program Administrator shall work to cultivate relationships with established Indiana businesses and seek to connect them with Indiana portfolio companies that receive investment through NLF recipient funds. The Program Administrator shall document for the Investment Board such connections made and the potential impact of such connections.

**12. Educational Resource and Advisor** – The Program Administrator will serve as a general resource and advisor to the Investment Board and its consultants for information, guidance and training regarding investment, reporting, fund vetting and management, portfolio company valuation, and marketing strategies. The Program Administrator shall work with leading academic institutions in Indiana to attract talent to consider entrepreneurship and employment at a startup as a first-order career path, especially amongst NLF's underlying Indiana portfolio companies hiring within the State.

a.) The Program Administrator shall collaborate with the Indiana Economic Development Corporation (IEDC) in its efforts to target companies receiving investment through NLF for Indiana expansion or relocation.

**13. Advisory Council-** The Program Administrator may establish the Next Level Fund Advisory Council (“Advisory Council”), consisting of individuals that possess knowledge and expertise in the venture capital, entrepreneurial and private equity industry. Members of the Advisory Council shall serve at the invitation of the Program Administrator

The Advisory Council may perform a number of consultative and outreach duties to support the Program Administrator such as:

- a.) **Identification of Potential Fund Managers** – Assisting in identifying and recruiting suitable fund managers for vetting, due diligence and review by the Program Administrator
- b.) **Evaluate Fund Recommendations** – Providing guidance and feedback to the Program Administrator regarding the suitability of prospective investment funds that are identified by the Program Administrator for receipt of NLF monies.
- c.) **Portfolio Construction and Strategy** – Providing insight and perspective into the construction and overall strategy of the investment portfolio.
- d.) **Investment Performance and Market Conditions** – The Advisory Council may provide general commentary, perspective and insights to the Program Administrator in regard to the aggregate investment performance of NLF and market conditions in the venture capital, private equity and entrepreneurial communities.
- e.) **Outreach and Civic Engagement** – The Advisory Council may serve as a general resource to the entrepreneurial, venture capital and technology business community, actively collaborating with the Program Administrator to provide stakeholders and members of the public with information on the purpose, operation and impact of NLF.

Advisory Council members shall administer these affairs in good faith and will comply with all applicable laws, rules, agreements and policies pursuant to membership. This obligation includes but is not limited to any confidentiality agreements signed by Advisory Council members.

Advisory Council members shall use their best efforts to avoid any actual or perceived conflict of interest as related to any investment recommendations or input provided to the Program Administrator.

#### **14. Other duties as assigned by the Investment Board and its designees.**

In managing the investments of NLF and recipients funds, the Program Administrator agrees that it will act with the skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives. Responsibilities are subject to contractual terms agreed upon between the Investment Board and the Program Administrator.

## 6.0 REPORTING REQUIREMENTS

The Program Administrator is required to obtain quarterly reports with information from all NLF recipient funds and co-investment portfolio companies on all investments. In order to fulfill these duties, the Investment Board will require the Program Administrator to track, aggregate and report specific data and information to the Investment Board on a quarterly basis for all NLF investments. Not only is this intended to ensure compliance with pertinent statutes, but it will enable the Investment Board and the State of Indiana to obtain a more precise, comprehensive review on the outcomes and impact of NLF.

Key reporting components include, but are not limited, to the following:

- a) Quarterly cash flows (*e.g.*, commitments, capital calls, distributions, etc.);
- b) Asset class/strategy;
- c) Vintage;
- d) Internal Rate of Return (IRR) / net investment performance (*e.g.*, TVPI, RVPI, DPI);
- e) Beginning and ending Net Asset Values (NAV);
- f) Management fees, transaction fees, partnership expenses and carried interest;
- g) Contractual dates and fund investment terms;
- h) Benchmark comparisons (including public market equivalents);
- i) Fund size;
- j) Percent (%) of capital called;
- k) NLF percent (%) of ownership in fund;
- l) Total number of companies in portfolio;
- m) Portfolio company sectors/industries;
- n) Portfolio company financial metrics (*e.g.*, revenue, EBITDA, cash burn, net debt, etc.);
- o) Pertinent portfolio company business updates;
- p) Figures related to underlying portfolio company full-time employment and payroll with descriptions of notable increases or decreases;
- q) The aggregate amount of capital that is invested in Indiana companies by NLF recipient funds during the life of the recipient fund;
- r) The names of portfolio companies within recipient funds;
- s) The addresses of portfolio companies within recipient funds;
- t) The date of the initial and any follow-on investments;
- u) The cost of the investment, including all pertinent fees;
- v) The current fair market value of the investment;
- w) For Indiana companies within recipient funds, the number of Indiana-based employees on the investment date;
- x) For Indiana companies within recipient funds, the current number of Indiana employees; and
- y) The annual Indiana state taxes paid by participating funds and portfolio companies.

The Program Administrator will be required to ensure standardization of reporting across all recipient funds.

In order to maintain sound accounting and financial reporting processes in accordance with generally accepted accounting principles (GAAP), NLF investments and disclosures must be tracked and reported at fair market value. The Program Administrator shall provide quarterly reports to the Investment Board no later than one-hundred-and-twenty (120) days of the final day in the pertinent quarter. The Program Administrator shall provide calendar year-end reports to the Investment Board no later than one-hundred-and-eighty (180) days of the final day in the pertinent year. An audited financial report shall be provided to the Investment Board. Annual financial statements from recipient funds shall follow Financial Accounting Standards Board (FASB) topics 820 and 946.

## **7.0 EXCEPTIONS TO THIS POLICY**

The Investment Board shall review exceptions to this Policy to ensure activities remain relevant and appropriate with the intent of this Policy, and prudent investment standards.

## **8.0 POLICY REVIEW**

The Investment Board shall review this Policy at least once every year to ensure that it remains relevant and appropriate.

## **APPENDIX A**

As of the date of approval of this Policy, the following contractors and sub-contractors have been retained and authorized:

Program Administrator:	50 South Capital Advisors, LLC
Legal:	Kirkland & Ellis LLP Faegre Baker Daniels LLP
Fund Administration:	Strata Fund Solutions, LLC
Forensic Background Checks:	Financial Risk Mitigation, Inc.
Tax and Audit:	Deloitte LLP