



**Office of the Illinois State Treasurer
ILLINOIS GROWTH AND INNOVATION FUND
INVESTMENT POLICY**

1.0 PURPOSE

This document sets forth the investment policy (“Policy”) for the Illinois Growth and Innovation Fund (“ILGIF”) (previously referred to as “Technology Development Account II” or “TDA II”) of the Office of the Illinois State Treasurer (“Treasurer’s Office”).

The purpose of the Policy is to ensure that the Treasurer’s Office, the ILGIF Advisory Council (“Advisory Council”), as well as any contractors the Treasurer’s Office retains to provide services related to ILGIF, take prudent, measured, effective actions while supporting ILGIF. Specifically, this Policy addresses the following key areas:

- a) The investment objectives and underlying investment strategy of ILGIF;
- b) General parameters for the investment of assets in ILGIF;
- c) The roles and responsibilities of the Treasurer’s Office and any contractors retained to provide services related to ILGIF; and
- d) The processes for the performance evaluation of contractors who provide investment, administrative, advisory, and/or reporting services to the Treasurer’s Office for ILGIF.

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 ILGIF.

The Treasurer’s Office establishes and executes this Policy in accordance with applicable local, State, and federal laws.

2.0 ESTABLISHMENT AND AUTHORITY OF ENTITY

In August of 2002, the Illinois General Assembly passed the Technology Development Act, 30 ILCS 265/1 *et seq.* (the “Act”), allowing the Treasurer’s Office to segregate up to 1% of the investment portfolio to invest in Illinois venture capital firms with a goal of investing in technology businesses seeking to locate, expand, or remain in Illinois. The Act established the Technology Development Account (“TDA” or “TDA I”), which serves to support Illinois technology businesses, generate acceptable returns for the State of Illinois, and strengthen Illinois’ science, technology, and business communities.

In July 2011, the Act was amended to establish a second Technology Development Account, or TDA II, 30 ILCS 265/11, which for the purposes of this Policy and programmatic operations, shall be referred to as ILGIF. The 2011 legislation authorizes the Treasurer’s

Office to segregate an additional portion of the investment portfolio to help attract, assist, and retain quality technology businesses in Illinois. As such, the Treasurer's Office may segregate a portion of the Treasurer's investment portfolio, less than 2% of the portfolio, in ILGIF. Assets in ILGIF may be invested by the Treasurer's Office to provide venture capital to technology businesses seeking to locate, expand, or remain in Illinois by placing money with Illinois venture capital firms for investment in technology businesses.

3.0 DEFINITIONS

- a) **"Illinois venture capital firms"** means
1. an entity that (1) has a majority of its employees in Illinois (more than 50%) or that has at least one managing partner or member of the general partner domiciled in Illinois, and (2) 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. This includes, but is not limited to, investment funds or fund managers classified as venture capital, mezzanine, buyout, or growth; or
 2. an entity that has a "track record" of identifying, evaluating, and investing in Illinois 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 Illinois company in each of its funds if the Illinois venture capital firm has multiple funds, or at least two (2) investments in Illinois companies if the Illinois venture capital firm only has one fund. The Treasurer's Office is authorized to invest up to 10% of ILGIF assets in venture capital firms headquartered outside of Illinois, but with a "track record" of investing in Illinois companies.
- 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, buyout, or growth.
- 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, computer related activities,

robotics, biological or pharmaceutical, industrial activity, or technology oriented or emerging industrial activity.

- e) “**Illinois companies**” are firms that are headquartered or that otherwise have a significant presence in the State of Illinois 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 Illinois. A “physical office” may include a professional workplace, a co-working location, or a home office.

4.0 INVESTMENT OBJECTIVES

The Treasurer’s Office maintains a number of underlying objectives for the investment of monies from ILGIF in accordance with the Act, including the following:

- a) **Performance** – ILGIF has a dual objective of achieving good performance and developing technology businesses in Illinois. ILGIF will endeavor to make investments in Illinois venture capital firms in order to attract, assist, and retain quality technology businesses in Illinois. It is expected that the returns generated by ILGIF will be sufficient to compensate the Treasurer’s Office 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 Treasurer’s Office has adopted a long-term total return strategy for ILGIF investments. As such, ILGIF assets will be managed on a total return basis. While the Treasurer’s Office 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.

To evaluate performance, the Treasurer’s Office will use both a target Internal Rate of Return (“IRR”) and benchmarking. The goal will be to create and utilize a customized benchmark that incorporates benchmark data from the Cambridge All Private Equity (PE) benchmark service and Preqin. As ILGIF’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).

- b) **Diversification** – In order to achieve ILGIF 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: (1) strategy; (2) industry sector; (3) size of investment; (4) investment stage; (5) vintage year; (6) geographic location; (7) fund managers; (8) underlying portfolio companies; and (9) business model.

- c) **Strategy Classifications** – ILGIF investments may be classified by strategy, including, but not limited to the following:
1. Venture Capital;
 2. Mezzanine;
 3. Buyout – Acquisition; and
 4. Growth.
- d) **Small Business Investment Companies** – There is a goal to invest monies in qualified fund managers that participate in the U.S. Small Business Administration’s (SBA) Small Business Investment Companies (SBIC) Program (15 U.S.C. Chpt. 14B), because of the SBA’s commitment of up to \$2 of debt for every \$1 an SBIC raises from investors, subject to a cap of \$150 million.
- e) **Cost-Efficiency and Fee Transparency** – The Treasurer’s Office, the Advisory Council, and its contractors shall seek to minimize any fees or costs that diminish from the total assets or value of ILGIF. Furthermore, the Treasurer’s Office and its contractors shall strive to achieve full transparency by delineating accordant fees and expenses.
- f) **Encouraging Additional Investments and Investor Focus in Illinois Technology Businesses** – The Treasurer’s Office, the Advisory Council, and any contractors servicing ILGIF shall encourage the investment and philanthropic community to explore and monitor investment opportunities in Illinois technology businesses in tandem with the Treasurer’s Office. This may include hosting investor forums, facilitating meetings between investors and the Treasurer’s Office, or various other efforts.
- g) **Diversity among Fund Managers** – In addition to the pursuit of venture capital firms with a significant presence in Illinois, the Treasurer’s Office, the Advisory Council, and any contractors servicing ILGIF shall seek to identify, recruit, and recommend fund managers that are more than 50% owned and/or managed by minorities, women, military veterans, or disabled persons.
- h) **Diversity among Portfolio Companies** – The Treasurer’s Office, the Advisory Council, and any contractors servicing ILGIF shall seek to identify, recruit, and recommend fund managers that have demonstrated experience and/or an express ability to invest in (a) portfolio companies that are more than 50% owned and/or managed by minorities, women, military veterans, or disabled persons, and/or (b) portfolio companies geographically located in diverse communities or low-to-moderate income (LMI) communities. A company is in an LMI area if it has an office in a census tract deemed “underserved,” with 20% or more of the population

beneath the poverty line or earning a median family income of 80% or less than the metropolitan area's median family income (per the standards of the Federal Financial Institutions Examination Council).

- i) **Green Technology Investments** – Within the stated investment objectives of this Policy, the Treasurer's Office, the Advisory Council, and any contractors servicing ILGIF shall seek to identify, recruit, and recommend fund managers that have demonstrated experience and/or an express ability to invest in "green technology" businesses located in Illinois. "Green technology" means technology that (a) promotes clean energy, renewable energy, or energy efficiency, (b) reduces greenhouse gases or carbon emissions, or (c) involves the invention, design, and application of chemical products and processes to eliminate the use and generation of hazardous substances.
- j) **Sustainability Factors** – The Treasurer's Office acknowledges that environmental, social, and governance (ESG) factors may have a material financial impact as well as non-financial impacts. Thus, consistent with achieving the foremost investment objectives of the Treasurer set forth herein, the Treasurer's Office, the Advisory Council, and any contractors will seek to integrate sustainability factors into investment analysis, portfolio construction, due diligence and investment ownership.

5.0 INVESTMENT PARAMETERS

- a) **Commitment Amount** – No more than 2% of the balance of the State investment portfolio of the Treasurer's Office on November 1, 2015 shall be invested in ILGIF. Since the balance of the State investment portfolio was \$11,115,702,927.11 on November 1, 2015, the available capital for commitment is \$222,314,058.00 over a period not to exceed six (6) years, not including distributions.
- b) **Commitment Period** – The Program Administrator shall endeavor to commit assets placed in ILGIF over the course of six (6) years, with a target to commit one-third of the assets annually each of the first three (3) years, with remaining uncommitted capital and earning distributions committed in the fourth, fifth, and sixth years of program implementation in accordance with the Act. The Act prohibits the Treasurer's Office from investing more than one-third of ILGIF in any given calendar year.
- c) **Re-Investment of Distributions** – Distributions from ILGIF may be re-invested into ILGIF by the Program Administrator without being counted against the 2% cap on monies invested in ILGIF. The re-investment does not need to occur in the same fund.

- d) **Fund-of-Funds Approach** – ILGIF investments shall be spread across multiple venture capital firms based in Illinois and/or venture capital firms with a track record of investing in Illinois companies.
- e) **90% in Illinois Venture Capital Firms** – 90% of ILGIF assets shall be invested in Illinois venture capital firms. The Treasurer’s Office is authorized to invest up to 10% of ILGIF in venture capital firms headquartered outside of Illinois, but with a track record of investing in Illinois companies.
- f) **15% Cap on the Amount Invested in Individual Funds** – No more than 15% of the total commitment amount shall be invested in any individual fund.
- g) **2x Investment from Venture Capital Fund Managers in Illinois Companies** – Any fund in which the Treasurer’s Office places money under ILGIF shall invest a minimum of twice the aggregate amount of investable capital that is received from the Treasurer’s Office in Illinois companies during the life of the fund. Investable capital is calculated as committed capital, as defined in the firm’s applicable fund’s governing documents, less related estimated fees and expenses to be incurred during the life of the fund. For instance, if the Treasurer’s Office invests \$5 million in an ILGIF recipient fund, the recipient fund must invest at least \$10 million in Illinois companies over the life of the fund.
 - 1. **Non-Compliance** – If, (a) by the year-end of the fourth year of the investment period of any ILGIF recipient fund or (b) when that ILGIF recipient fund has drawn more than 60% of the investable capital of all limited partners, an ILGIF recipient fund has failed to invest the minimum amount required in Illinois companies, then the Treasurer’s Office shall provide written notice to the manager of that fund, seeking compliance with the minimum amount requirement. If, after 180 days of receipt of notice, the ILGIF recipient fund has still failed to invest the minimum amount required in Illinois companies, then the Treasurer’s Office may elect, in writing, to terminate any further commitment to make capital contributions to that fund. Written notice shall be effective upon receipt when delivered personally, or sent by e-mail or facsimile, or seven (7) business days after being sent by registered or certified mail, postage prepaid, return receipt requested.
- h) **Underlying Funds** – The following investment considerations apply to all underlying as well as prospective recipient funds:
 - 1. Utilize reputable service providers in their administration of their legal, accounting, technology, and other various needs.
 - 2. Provide audited financials within 150 days of fiscal year-end.
 - 3. Demonstrate a commitment to diversity, both amongst their staff and their portfolio companies.

- i) **Minimum Fund Size** – ILGIF investments shall have a minimum fund size of \$10 million, although, the Treasurer’s Office reserves the ability to grant exceptions to funds that are below the \$10 million fund size minimum based on the fund’s ability to significantly exceed one or more of the investment objectives set forth in Section 3, above.
- j) **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 partnership.

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 and provides at least twice (2x) the amount of investment capital as ILGIF.

The maximum amount of each commitment shall not exceed \$10 million. The Program Administrator, in conjunction with the External Investment Consultant, 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 ILGIF investments in this Policy.

Co-investments are limited to fund investing in Illinois (the business activities of the co-investment must be primarily in the State of Illinois) and to growth and buyout strategy classifications. Co-investments may take the form of equity, convertible preferred equity, or a comparable instrument, which provides an equity-type of return. Funds in the co-investment fund shall be accounted for separate and apart from moneys in the ILGIF and Treasurer’s Office.

6.0 INVESTMENT ROLES AND RESPONSIBILITIES

a) **Treasurer’s Office**

The Treasurer’s Office exercises authority and control over the management of ILGIF, by setting policy and procedures which the staff of the Treasurer’s Office 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 Treasurer’s Office is responsible for this Policy and shall review this Policy at least annually to ensure accuracy and continued relevance.
2. **Oversight** – The Treasurer’s Office is responsible for the direction of investments and administration of the assets of ILGIF. This includes the

ability to reject any investment selected by the Program Administrator prior to implementation, if it is deemed to violate this Policy.

3. **Contractors** – In order to properly carry out its responsibilities, the Treasurer’s Office may rely on one or more contractors to assist in the administration of ILGIF. The Treasurer’s Office may engage and rely on experienced contractors (the “Program Administrator”) for various investment management, administrative, and reporting services. The Treasurer’s Office also plans to rely on an External Investment Consultant for investment advisory services.
4. **Performance and Fee Monitoring** – The Treasurer’s Office will review the investment performance of each ILGIF recipient fund, as well as the fees, at least quarterly.
5. **Due Diligence** – The Treasurer’s Office will monitor investments and participate in operational due diligence activities in coordination with the contractors retained to assist in the administration of ILGIF. This includes attendance at annual board meetings of all ILGIF recipient funds.
6. **Accounting** – ILGIF assets must be kept and accounted for separately from moneys in the Treasurer’s Office. The Treasurer’s Office will execute investment valuation procedures in compliance with GASB Statement 72, evaluating available inputs for investments to determine the input level most applicable in accordance with GASB Statement 72.

b) **Program Administrator**

Should the Treasurer’s Office decide to rely on a Program Administrator to provide investment, administrative, and reporting services, chief responsibilities of such contractor 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 ILGIF assets when market movement and/or cash flows cause a breach of this Policy or applicable statutes.
2. **Selection and Evaluation of Recipient Funds** – The Program Administrator will advise and provide fund recommendations to the Treasurer’s Office. This includes the screening of venture capital and private equity firms and their associated investment funds, including the screening of qualified fund managers that participate in the SBIC program. In addition, as outlined in the Section 3.0 of this Policy, the Program Administrator shall seek to identify, recruit, and recommended (a) qualified fund managers that are more than

50% owned and/or managed by minorities, women, military veterans, or disabled persons, (b) qualified fund managers that have demonstrated experience and/or an express ability to invest in portfolio companies that are more than 50% owned and/or managed by minorities, women, military veterans, or disabled persons or portfolio companies geographically located in diverse communities or low-to-moderate income (LMI) communities, (c) qualified fund managers that have demonstrated experience and/or an express ability to invest in “green technology” businesses located in Illinois, and (d) qualified fund managers that integrate environmental, social, and governance (ESG) factors into investment analysis, portfolio construction, and due diligence.

While the Program Administrator will have the responsibility and discretion to seek, recruit, screen, evaluate, and recommend funds or venture capital firms for investment through ILGIF, the Treasurer’s Office reserves the right to veto commitments to funds or venture capital firms before a partnership agreement has been negotiated or executed.

3. **Due Diligence** – The Program Administrator will be responsible for fund manager due diligence, including, but not limited to, research, financial analysis, and legal, accounting, and background investigations of fund managers. The Program Administrator will undergo due diligence activities in coordination with the Treasurer’s Office and the External Investment Consultant.
4. **Fund Monitoring** – The Program Administrator will be responsible for monitoring the performance of ILGIF 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, recipient funds, and the Treasurer’s Office.
5. **Benchmarking** – The Program Administrator is responsible for establishing applicable investment benchmarks (including public market equivalents), measuring the performance of recipient funds against said 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 and the Act. See Section 6.0 of this Policy for additional information.
7. **Quarterly Meetings** – The Treasurer's Office and the Program Administrator shall meet at least quarterly to review fund performance as compared to applicable benchmarks and peer group performance.

8. **Annual Report** – The Program Administrator will prepare and provide the Treasurer’s Office with an annual report that (a) contains a summary of recipient fund performance, (b) outlines the impact on Illinois companies and the Illinois economy, (c) delineates percentages and amounts of investment options/returns, and (d) notes other pertinent reporting information that illustrates ILGIF impact and pertinent developments.
9. **Webpage** – The Program Administrator will create and maintain a publicly accessible webpage dedicated to ILGIF. The webpage shall feature a standardized submission process that allows Illinois-based, profit-driven entrepreneurial ventures to submit their endeavors for seed capital/funding consideration to the Program Administrator. The Program Administrator will maintain a list of submissions and make them available to the specific recipient funds. The webpage will also feature information on the purpose, impact, and general performance of ILGIF 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.
11. **Encouraging Additional Investments and Investor Focus in Illinois Technology Businesses** – The Program Administrator, working independently as well as in active collaboration with the Treasurer’s Office, shall make a concerted effort to encourage the investment and philanthropic community to explore and monitor investment opportunities in Illinois technology businesses in tandem with the Treasurer’s Office. This may include hosting investor forums, facilitating meetings between investors and the Treasurer’s Office, or various other efforts.
12. **Educational Resource and Advisor** – The Program Administrator will serve as a general resource and advisor to the Treasurer’s Office and its consultants for information, guidance, and training regarding investment, reporting, fund vetting and management, portfolio company valuation, and marketing strategies.
13. **Other duties as assigned by the Treasurer’s Office** – In managing the investments of ILGIF 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 Treasurer's Office and the Program Administrator.

c) External Investment Consultant

The Treasurer's Office may engage an External Investment Consultant that will perform a number of advisory and reporting duties to support ILGIF, including, but not limited to the following:

1. Measuring investment performance results and associated costs/fees on a quarterly basis (at a minimum), evaluating the investment program, and advising the Treasurer's Office as to the performance and continuing appropriateness of each investment manager;
2. Participating in quarterly due diligence meetings with the Treasurer's Office;
3. Recommending modifications to the investment policies, objectives, parameters, responsibilities, benchmarks, or management structure as appropriate;
4. Assisting in the selection and evaluation of the Program Administrator, including providing guidance in identifying and negotiating an acceptable fee structure;
5. Assisting in the identification, selection, and evaluation of recipient funds and venture capital firms, applying a specific focus to identify funds and venture capital firms with a significant presence in Illinois and/or an ownership and/or management status regarding minority, woman, veteran, or disabled status; and
6. Promptly informing the Treasurer's Office about significant matters pertaining to ILGIF.

d) ILGIF Advisory Council

There is hereby established the ILGIF Advisory Council ("Advisory Council"), which shall consist of individuals that possess knowledge and expertise in the venture capital and private equity industry. The Treasurer shall serve as an ex officio member of the Advisory Council, and may appoint additional designees from his office to serve on the Advisory Council on a temporary basis. All members of the Advisory Council shall serve at the pleasure of the Treasurer.

The Advisory Council will perform a number of consultative and outreach duties to support ILGIF, including:

1. **Identification of Potential Fund Managers** – The Advisory Council will assist in identifying and recruiting suitable fund managers for vetting, due diligence and review by the Program Administrator.
2. **Review of Fund Recommendations** – The Advisory Council will provide guidance and feedback to the Program Administrator regarding the

suitability of prospective investment funds that are recommended by the Program Administrator to the Treasurer's Office for receipt of ILGIF monies.

3. **Portfolio Construction and Strategy** – The Advisory Council will provide insight and perspective into the construction and overall strategy of the investment portfolio.
4. **Investment Performance and Market Conditions** – The Advisory Council will provide general commentary, perspective, and insights to the Program Administrator and the Treasurer's Office in regard to the aggregate investment performance of ILGIF and market conditions in the venture capital and entrepreneurial community.
5. **Outreach and Civic Engagement** – The Advisory Council will serve as a general resource to the entrepreneurial, venture capital, and technology business community, actively collaborating with the Treasurer's Office and the Program Administrator to provide stakeholders and members of the public with information on the purpose, operation, and impact of ILGIF.

Advisory Council members shall administer the affairs of the Advisory Council 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 ILGIF Advisory Council members.

Advisory Council members shall use their best efforts to avoid any actual or perceived conflict of interest as related to any recommendations or input provided to the Treasurer's Office and its staff.

For all purposes, including compliance with the Open Meetings Act, 5 ILCS 120/1 et seq., five (5) members of the Advisory Council shall constitute a quorum.

7.0 REPORTING REQUIREMENTS

In accordance with the Act, the Treasurer's Office is required to obtain quarterly reports with information from all ILGIF recipient funds on all investments. In order to fulfill these duties, the Treasurer's Office will require the Program Administrator to track, aggregate, and report specific data and information to the Treasurer's Office on a quarterly basis for all ILGIF investments. Not only is this intended to ensure compliance with pertinent statutes, but it will enable the Treasurer's Office and the State of Illinois to obtain a more precise, comprehensive read on the outcomes and impact of ILGIF.

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

- a) The aggregate amount of capital that is invested in Illinois companies by ILGIF recipient funds during the life of the recipient fund (placed side-by-side with the

amount of capital that is invest in the recipient fund from ILGIF to ensure the fund is meeting the 2x requirement by the sooner of four years, or when the fund has drawn more than 60% of the capital of all limited partners);

- b) The names of portfolio companies within recipient funds;
- c) The addresses of portfolio companies within recipient funds;
- d) The date of the initial and any follow-on investments;
- e) The cost of the investment, including all pertinent fees;
- f) The current fair market value of the investment;
- g) For Illinois companies within recipient funds, the number of Illinois employees on the investment date;
- h) For Illinois companies within recipient funds, the current number of Illinois employees;
- i) The annual revenue generated by portfolio companies within recipient funds;
- j) The annual State taxes paid by participating funds and portfolio companies; and
- k) The ownership and/or management status of recipient funds and portfolio companies with regard to minority, women, veteran, or disabled status.

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), ILGIF investments and disclosures must be tracked and reported at fair market value.

The Treasurer's Office shall execute ILGIF investment valuation procedures in compliance with GASB Statement 72, completing and maintaining pertinent input level review documents.

The Program Administrator shall provide quarterly reports to the Treasurer's Office no later than one-hundred-and-twenty (120) days of the final day in the pertinent quarter.

The Program Administrator shall provide fiscal year-end reports to the Treasurer's Office no later than one-hundred-and-fifty (150) days of the final day in the pertinent year.

If feasible, an audited financial report shall be provided to the Treasurer's Office.

Quarterly and annual financial statements from recipient funds shall follow Financial Accounting Standards Board (FASB) topics 820 and 946.

The Treasurer's Office supports and has subsequently adopted the fee reporting template established by the Institutional Limited Partners Association (ILPA) into our reporting efforts.

Penalties for violation of this Policy and its reporting requirements may include, but are not limited to, a verbal warning, a written warning, withheld payment, or termination of the Program Administrator's contract.

Any written information prepared, owned, used or retained by the Treasurer with respect to an ILGIF Recipient Fund may be subject to the Illinois Freedom of Information Act, 5 ILCS 140/1 *et seq.*

8.0 BEST PRACTICES

As a fiduciary, the Treasurer's Office seeks transparency, good governance practices, and alignment of interests when investing ILGIF funds. Accordingly, the following principles provide a framework when discussing prospective fund partnership investments and are designed to improve the long-term benefits of the program. These principles will provide thought-leadership, consistency, and equity in the development of partnership agreements and in the management of funds by aligning the interests of general partners with limited partners, improving fund governance, and increasing the transparency of fees. As such, best practices for consideration include, but are not limited to:

- a) **Carried Interest:** There should be a strong alignment of interest between the GP and LPs such that carried interest should be the primary motivator for investment success and profits creation for the GP. ILGIF believes that the GP should be entitled to market-based carried interest after the return of contributed capital, including management fees and fund-level expenses. Preferred returns (net of profits) are an appropriate mechanism to ensure GPs are seeking to drive above market investment returns before generating carried interest.
- b) **Management Fees:** Management fees should be market-based and reflect the fund size, team size and operation needs of a specific manager. Budget-based fees are a preferred mechanism of ensuring a strong alignment of interest between GP and LP and that carried interest is the primary means of profit generation for the GP. Management fees should follow the J-curve of a private equity fund and step down gradually over time as successor fund(s) are formed. Management fees should be inside the fund.
- c) **Expenses:** Placement agent fees and insurance expenses should be borne solely by the general partner. Transaction fees and other fees (*e.g.*, monitoring, directors' fees, advisory fees, etc.) should be offset 100% against management fees to ensure an alignment of interest between GP and LPs.
- d) **General Partner Commitment:** The general partner should have a substantial equity interest in the fund to maintain a strong alignment of interest with the limited partners, and a high percentage of the amount should be in cash as opposed to being contributed through the waiver of management fees. The general partner should not seek to transfer a material portion of its interest in the general partnership entity, unless for estate/tax planning purposes to an affiliated entity.
- e) **Standard for Multiple Product Firms:** Key-persons should devote substantially all their business time to the fund and its parallel vehicles. No general partner or any principal may close or act as general partner for a fund with substantially equivalent

investment objectives and policies until after the investment period ends, or the fund is invested, expended, committed or reserved for investments and expenses. The general partner should not invest in opportunities that are appropriate for the fund through other investment vehicles unless such investment is made on a pro-rata basis under pre-disclosed co-investment agreements established prior to the close of the fund.

9.0 EXCEPTIONS TO THIS POLICY

The Treasurer's Office shall review exceptions to this Policy to ensure activities remain relevant and appropriate with the intent of the Act, this Policy, and prudent investment standards.

10.0 POLICY REVIEW

The Treasurer's Office 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 firms have been retained and authorized:

Program Administrator: 50 South Capital

External Investment Advisor: Marquette Associates

Law firm and other subcontractors providing services valued at \$50,000 or more will be required to receive approval from the Treasurer's Chief Procurement Officer.