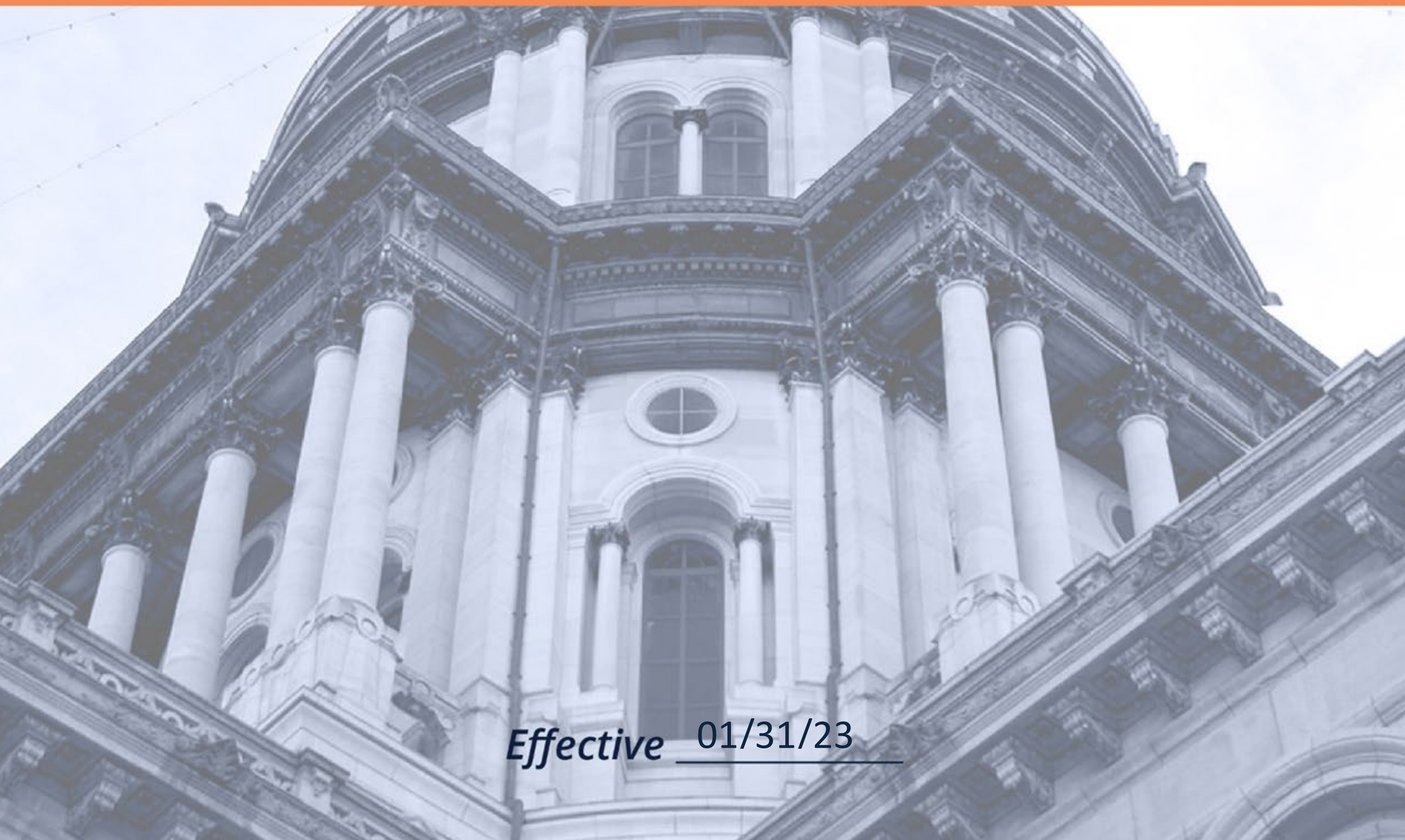
OFFICE OF THE ILLINOIS STATE TREASURER

MICHAEL W. FRERICHS

Illinois Growth and Innovation Fund Investment Policy Statement



Effective 01/31/23

Table of Contents

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

1.0 Purpose

This document sets forth the investment policy ("Policy") for the Illinois Growth and Innovation Fund ("ILGIF") of the Office of the Illinois State Treasurer ("Treasurer").

The purpose of the Policy is to ensure that the Treasurer and any contractors the Treasurer 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 and any contractors retained that 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 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 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 to segregate up to 1% of the investment portfolio to invest in Illinois venture capital firms with a goal of investing in technology-enabled businesses seeking to locate, expand, or remain in Illinois. The Act established the Technology Development Account, which serves to support Illinois technology-enabled businesses, generate acceptable returns for the State of Illinois, and strengthen Illinois' science, technology, agricultural, financial, and business communities.

In July 2011, the Act was amended to establish a second Technology Development Account. 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 to segregate an additional portion of the investment portfolio to help attract, assist, and retain quality technology-enabled businesses in Illinois. An August 2018 amendment to the Act allows the Treasurer to segregate a portion of the Treasurer's investment portfolio, not to exceed 5% of the portfolio, in ILGIF. Assets in ILGIF may be invested by the Treasurer to provide venture capital to technology-enabled businesses, including co-investments, seeking to locate, expand, or remain in Illinois by placing money with Illinois venture capital firms for investment in technology-enabled businesses.

3.0 Definitions

a) "**Illinois venture capital firm**" means an entity that:

   1. has a majority of its employees in Illinois or that has at least one managing partner or principal domiciled in Illinois, 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; or

   2. 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 has only one fund. The Treasurer's Office is authorized to invest up to 15% 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 or debt 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) **"Co-Investment"** means an indirect investment made through an investment vehicle specifically organized to act on direct investment opportunities in an identified for-profit, Illinois company that is operating as a technology business in which one or more funds sponsored by Illinois venture capital firms have already invested, or are investing alongside such investment vehicle, on the same terms as such investment vehicle(s). Co-investments are limited to investments in Illinois companies for the purpose of enhancing the overall objectives of this Act.

e) "**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 activities; or technology-oriented or emerging industrial activity.

f) "**Illinois companies**" are companies that are headquartered or that otherwise have a significant presence in the State of Illinois at the time of initial or follow-on investment.

g) "**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

ILGIF has three primary objectives: (i) investment performance; (ii) developing technology-enabled companies in Illinois; and (iii) fostering a more diverse and inclusive manager and entrepreneurial community in Illinois. The Treasurer also maintains a number of underlying objectives for the investment of monies from ILGIF in accordance with the Act, including the following:

a) **Performance** – ILGIF will endeavor to make investments in Illinois venture capital firms in order to attract, assist, and retain quality technology-enabled businesses in Illinois. It is expected that the returns generated by ILGIF will be sufficient to compensate the Treasurer 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 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 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 will use a target Internal Rate of Return ("IRR") and portfolio 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 Investment Advisor 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. Private Credit - Mezzanine, Senior Credit, Distressed, Venture Debt;
   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. 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 and its contractors shall seek to minimize any fees or costs that diminish from the total assets or value of ILGIF. Furthermore, the Treasurer and its contractors shall strive to achieve full transparency by delineating fees and expenses.

f) **Encouraging Additional Investments and Investor Focus in Illinois Technology-Enabled Businesses** – The Treasurer and any contractors servicing ILGIF shall encourage the investment and philanthropic community to explore and monitor investment opportunities in Illinois technology-enabled businesses in tandem with the Treasurer. This may include hosting investor forums, facilitating meetings between investors and the Treasurer, or various other efforts.

g) **Diversity among Fund Managers** – According to the Illinois State Treasurer Act, 15 ILCS 505/30(c) it shall be the aspirational goal of the Treasurer to promote and encourage the use of businesses owned by or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability ("MWVD Persons") of not less than 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts to businesses owned by or under the control of MWVD Persons.

To the greatest extent feasible within the bounds of financial prudence, it shall be the policy of the Treasurer and any contractors servicing ILGIF to identify, recruit, and recommend fund managers, and to remove any barriers to the full participation of fund managers, that are more than 50% owned by or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability.

The terms "minority person", "woman", "person with a disability", "minority-owned business", "women-owned business", "business owned by a person with a disability" and "control", have the meanings provided in Section 2 of the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/2 (1)). The terms "veteran", "qualified veteran-owned small business", "qualified service-disabled veteran-owned small business", "qualified service-disabled veteran", and "armed forces of the United States" have the meanings provided in Article 45 of the Illinois Procurement Code (30 ILCS 500/45-57).

h) **Diversity among Portfolio Companies –** The Treasurer 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 persons with a disability, 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 Investment**s –Within the stated investment objectives of this Policy, the Treasurer 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) **Opportunity Zone Investment**s – The Treasurer and any contractors servicing ILGIF shall seek to identify, recruit, and recommend qualified fund managers that invest in designated Opportunity Zones through Opportunity Zone Funds offered through the federal Tax Cuts and Job Act signed into law on December 22, 2017. An "Opportunity Zone Fund" is any investment vehicle organized as a partnership to invest in opportunity zones that holds at least 90% of its assets in opportunity zone assets.

k) **Sustainability Factors –** Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238), the Treasurer shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership to maximize anticipated financial returns, minimize projected risk, and more effectively execute its duties.

Thus, consistent with achieving the investment objectives set forth herein, the Treasurer, the Investment Advisor, and any other contractors servicing ILGIF have a responsibility to recognize, evaluate, and integrate sustainability risk factors that may have a material and relevant financial impact on the safety and/or performance of ILGIF investments.

Sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and can be used to evaluate past performance and to plan future decision-making. As a complement to traditional financial analysis, an accounting of sustainability factors provides a more complete view of risks and value prospects that may materially impact an investment fund or portfolio company's long-term value.

Sustainability factors may include, but are not limited to, the following:

(1) ***Corporate governance and leadership factors***, such as the independence of boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.
(2) ***Environmental factors*** that may have an adverse or positive financial impact on investment performance, such as greenhouse gas emissions, air quality, energy management, water and wastewater management, waste and hazardous materials management, and ecological impacts.
(3) ***Social capital factors*** that may have an adverse or positive impact on customers, local communities, the public, and/or government, which may impact investment performance. Social capital factors may include human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.
(4) ***Human capital factors*** that recognize that the workforce is an important asset to delivering long-term value, including factors such as labor practices, responsible contractor and responsible bidder policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.
(5) ***Business model and innovation factors*** that reflect an ability to plan and forecast opportunities and risks, and whether a company can create long-

term shareholder value, including factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design, and life cycle management, and physical impacts of climate change.

Sustainability factors may be analyzed in a variety of ways, including, but not limited to: (1) direct financial impacts and risks; (2) legal, regulatory, and policy impacts and risks; (3) industry norms, best practices, and competitive drivers; (4) stakeholder engagement, and (5) opportunities for innovation.

Sustainability factors shall be implemented within a framework predicated on the following:

- **Materiality –** The Treasurer considers whether and to what extent a sustainability risk or opportunity exists that is reasonably likely to have a material impact on the financial condition or operating performance of a company, investment fund, or other investment vehicle.

- **Industry-Specific Information –** The Treasurer considers whether and to what extent the financially material sustainability risk or opportunity in question is relevant and applicable to individual industries.

- **Integration of Material Sustainability Factors in Internally and Externally Managed Investment Programs –** The Treasurer prudently integrates material and relevant sustainability factors, including, but not limited to, (1) corporate governance and leadership, (2) environmental factors, (3) social capital, (4) human capital, and (5) business model and innovation, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership in internally and externally managed investment programs.

- **Active Ownership –** The Treasurer attentively oversees investment holdings to address sustainability risks and opportunities through the exercise of proxy voting rights and direct engagement with entities, such as investment funds, portfolio companies, government bodies, and other organizations.

- **Regular Evaluation of Sustainability Factors –** The Treasurer performs a recurring annual evaluation, at a minimum, of sustainability factors to ensure the factors are relevant to the evolving marketplace.

- **Additional Relevant and Financially Material Factors –** The Treasurer considers other relevant factors such as legal, regulatory, and reputational risks that contribute to an optimal risk management framework and are necessary to protect and create long-term investment value.

5.0 Investment Parameters

a) **Commitment Amount** – No more than 5% of the balance of the State investment portfolio, which shall be calculated as: (1) the balance at the inception of the State's fiscal year; or (2) the average balance in the immediately preceding 5 fiscal years, whichever number is greater ("TDA IIa account balance"), shall be invested in ILGIF.

b) **Re-Investment of Distributions** – Distributions from ILGIF may be re-invested into ILGIF by the Treasurer without being counted against the 5% cap on monies invested in ILGIF. The re-investment does not need to occur in the same fund.

c) **Portfolio Diversification 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.

d) **85% in Illinois Venture Capital Firms** – At least 85% of ILGIF assets shall be invested in Illinois venture capital firms. The Treasurer is authorized to invest up to 15% of ILGIF in venture capital firms headquartered outside of Illinois, but with a track record of investing in Illinois companies.

e) **Cap on the Amount Invested in Individual Funds** – No more than 15% of the total TDA IIa account balance shall be invested in any individual fund.

f) **Fund Allocation Investment Limits –**

- 80% Allocation – No less than 80% of the aggregate monies available shall be invested in recipient funds in which ILGIF is less than 15.0% of a recipient fund's total committed capital;

- 15% Allocation – No more than 15.0% of the aggregate monies available shall be invested in greater recipient funds in which ILGIF is 15.0% or more of a recipient fund's total committed capital; and

- 5% Allocation – No more than 5.0% of the aggregate dollar amount available shall be invested in co-investments.

g) **2x Investment from Venture Capital Fund Managers in Illinois Companies** – Any fund in which the Treasurer places money under ILGIF shall invest a minimum of twice the aggregate amount of investable capital that is received from the Treasurer 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 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, as of the earlier to occur of (a) 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 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 may elect, in writing, to terminate any further commitment to make capital contributions to that fund.

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; and
3. Demonstrate a commitment to diversity, amongst their staff and their portfolio companies, their communities and their service providers.

i) **Minimum Fund Size** – ILGIF investments shall have a minimum fund size of $5 million, although, the Treasurer reserves the ability to grant exceptions to funds that are below the $5 million fund size minimum based on the fund's ability to significantly exceed one or more of the investment objectives set forth in Section 4.0, above.

j) **Co-Investments** – The Act authorizes the Treasurer to invest in co-investments. This Policy authorizes the use of co-investments, or a minority investment in a tech-enabled company made by investors alongside an Illinois venture capital firm in accordance therewith. Co-investments shall seek to be made on the same or better terms and conditions as provided to the partnership.

Co-investments are limited to investing in Illinois (the business activities of the co-investment must be primarily in the State of Illinois). 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 other fund investments.

6.0 Investment Roles and Responsibilities

a) **Treasurer**

The Treasurer exercises authority and control over the management of ILGIF by setting policy and procedures which the staff of the Treasurer executes either internally or through the use of contractors.

Key roles and responsibilities include, but are not limited to:

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

2. **Oversight –** The Treasurer is responsible for the direction of investments and administration of the assets of ILGIF.

3. **Contractors –** In order to properly carry out its responsibilities, the Treasurer may use one or more contractors to assist in the administration of ILGIF.

4. **Performance and Fee Monitoring –** The Treasurer will review the investment performance of each ILGIF recipient fund, as well as the fees, on a quarterly basis.

5. **Due Diligence –** The Treasurer will monitor investments and participate in operational due diligence activities in coordination with the contractors retained to assist in the administration of ILGIF.

6. **Accounting –** ILGIF assets must be kept and accounted for separately from moneys in the Treasurer. The Treasurer will execute investment valuation procedures in compliance with Statement No. 72, Fair Value Measurement and Application, February 2015 of the Governmental Accounting Standards Board of the Financial Accounting Foundation, evaluating available inputs for investments to determine the input level most applicable.

The Treasurer maintains an Investment Policy Committee that is chaired by the Treasurer and includes the following members of the Treasurer's staff: Chief Investment Officer, Chief of Staff, Chief People & Financial Products Officer, Chief Legislative and Policy Officer, Chief Banking Officer, Chief Fiscal Officer, General Counsel, Director of State Investments, Director of Alternative Investments, Director of Fiscal Operations, Director of IPTIP Investments, Director of ePAY and Illinois Funds, Director of Banking, Director of Corporate Governance & Sustainable Investments, Director of Public Market Investments, Director of Portfolio & Risk Analytics. and anyone else deemed appropriate by the Treasurer. The Investment Policy Committee will perform oversight and advisory duties on behalf of the Treasurer to support ILGIF, including, but not limited to:

1. Monitoring and providing insight into the construction and overall strategy of the investment portfolio;

2. Reviewing and providing insight into the investment policies, objectives, parameters, responsibilities, benchmarks, or management structure as appropriate;

3. Monitoring investment performance results and associated costs/fees on a quarterly basis;

4. Providing guidance and feedback regarding the suitability of prospective investment funds that are recommended for receipt of ILGIF monies;

5. Monitoring and evaluating the performance and continuing appropriateness of each fund manager;

6. Assisting in the evaluation of the Investment Advisor, External Investment Consultant, and any other external parties hired to service ILGIF; and

7. Providing general commentary, perspective, and insights regarding market conditions in the venture capital and entrepreneurial community.

b) **Investment Advisor**

The Treasurer may use one or more Investment Advisors to assist in the administration of ILGIF. The services provided by the Investment Advisor may include, but need not be limited to:

- **Implementation of Investment Strategy** –The Investment Advisor shall implement, at the direction of the Treasurer, the investment strategy and portfolio allocation in accordance with this Policy.

- **Evaluation of Recipient Funds –** The Investment Advisor may advise and provide fund evaluations to the Treasurer, taking into consideration the investment policy and objectives set forth in this Policy. This may include 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 Section 4.0 of this Policy, the Investment Advisor 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 persons with a disability, (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 persons with a disability or portfolio companies geographically located in diverse communities or 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 sustainability factors into investment analysis, portfolio construction, and due diligence.

While the Investment Advisor will have the responsibility to seek, recruit, screen, evaluate, and recommend funds or venture capital firms for investment through ILGIF, the Treasurer reserves the right to reject recommendations to funds or venture capital firms.

- **Due Diligence** – The Investment Advisor is responsible for fund manager due diligence, which includes, but is not limited to, research, financial analysis, and legal, accounting, and background investigations of fund managers. The Investment Advisor will undergo due diligence activities in coordination with the Treasurer and the External Investment Consultant.

- **Fund Monitoring** – The Investment Advisor is responsible for monitoring the performance of ILGIF recipient funds, tracking the diversification of investments and the amounts invested by recipient funds, and reconciling all reporting and accounting requirements of portfolio companies and recipient funds.

- **Benchmarking** – The Investment Advisor is responsible for establishing applicable investment benchmarks (including public market equivalents), measuring the performance of recipient funds against set benchmarks, and reviewing benchmarks.

- **Reporting** – The Investment Advisor is responsible for administering all pertinent reporting and recordkeeping duties of this Policy and the Act.

- **Quarterly Meetings** – The Treasurer and the Investment Advisor shall meet at least quarterly to review fund performance as compared to applicable benchmarks and peer group performance.

- **Annual Report** – The Investment Advisor will prepare and provide the Treasurer 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.

- **Communication and Liaison Duties** – The Investment Advisor shall create and distribute program information to existing and prospective venture capital funds and portfolio companies.

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

- **General Resource** – The Investment Advisor will serve as a general resource to the Treasurer and its consultants for information, guidance, and training regarding investment, reporting, fund vetting and management, portfolio company valuation, and marketing strategies.

- **Other duties as assigned by the Treasurer –** In managing the investments of ILGIF and recipients' funds, the Investment Advisor shall 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 and the Investment Advisor.

c) **External Investment Consultant**

The Treasurer 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 as to the performance and continuing appropriateness of each investment manager;

2. Participating in quarterly due diligence meetings with the Treasurer;

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 Investment Advisor, 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 about significant matters pertaining to ILGIF.

d) **ILGIF Advisory Council**

The ILGIF Advisory Council previously created under this subsection 6.0(d) has been dissolved, effective January 31, 2023.

7.0 Reporting Requirements

In accordance with the Act, the Treasurer is required to obtain reports with information from all ILGIF recipient funds on all investments. In order to fulfill these duties, the Investment Advisor shall track, aggregate, and report specific data and information to the Treasurer on a quarterly or annual basis, as determined by the Treasurer for all ILGIF investments. Not only is this intended to ensure compliance with pertinent statutes, but it will enable the Treasurer 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 invested 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 date of the initial and any follow-on investments;

d) The cost of the investment, including all pertinent fees;

e) The current fair market value of the investment;

f) For Illinois companies within recipient funds, the number of Illinois employees on the investment date;

g) For Illinois companies within recipient funds, the current number of Illinois employees;

h) The annual revenue generated by portfolio companies within recipient funds;

i) The annual State taxes paid by participating funds and portfolio companies;

j) The ownership and/or management status of recipient funds and portfolio companies with regard to minority, women, veteran, or disabled status:

k) The name, vintage, size, strategy, and dollar amount of capital committed for each recipient fund;

l) The company name, date of investment, size, strategy, and dollar amount of capital committed for each co-investment; and

m) Whether or not the recipient fund is an Illinois venture capital firm.

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

- Aggregate financial performance:

    a) Internal rate of return for the last one, 3, 5 and 10 years, and since 2016;

    b) Total commitments, capital called, and cash distributions;

    c) The amount invested in each investment strategy, including venture capital, growth equity, debt, and co-investments; and

    d) Current portfolio performance:

        i. The committed and uncommitted value of the portfolio;

        ii. Recipient funds under management in Illinois and outside of Illinois; and

        iii. The dollar amount invested in recipient funds that have a general partner qualified as a MWVD persons.

The Investment Advisor 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, ILGIF investments and disclosures must be tracked and reported at fair market value.

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

The Investment Advisor shall provide quarterly reports to the Treasurer no later than one-hundred-and-twenty (120) days of the final day in the pertinent quarter.

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

If feasible, the Investment Advisor shall provide an audited financial report covering all of the investments in ILGIF to the Treasurer annually.

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

The Treasurer supports and has adopted the fee reporting template established by the Institutional Limited Partners Association into its reporting efforts.

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

8.0 Best Practices

The Treasurer seeks transparency, good governance practices, and alignment of interests when investing ILGIF funds. Although the Treasurer will examine any and all fund terms on a case-by-case basis, the principles set forth in this section provide a general framework for discussing prospective fund partnership investments and are designed to improve the long-term benefits of the program. These principles are intended to promote 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 may include, but not be limited to the following:

a) **Carried Interest**: There should be a strong alignment of interest between the General Partner ("GP") and Limited Partners ("LPs") such that carried interest should be the primary motivator for investment success and profit 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 GP. 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 GP 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.

e) **Standard for Multiple Product Firms**: Key-persons should devote substantially all their business time to the fund and its parallel vehicles. No GP or any principal may close or act as GP 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 GP 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.

f) **Sustainability Integration**: The Treasurer seeks to do business with partners that share a commitment to and maintain best-in-class sustainability practices. Organizations that focus on good governance, corporate responsibility, and the well-being of stakeholder groups, including workers, customers, vendors, local communities, and investors, are better positioned to mitigate operational, legal, regulatory, and reputational risks and prosper over the long-term. GPs and other partner organizations are encouraged to integrate sustainability factors into fundamental business strategies, operations, and decisions.

g) **Diversity, Equity, and Inclusion**: The Treasurer seeks to do business with partners that share a commitment to and maintain best-in-class practices related to diversity, equity and inclusion. Effective diversity, equity and inclusion practices enable organizations to perform better. GPs and other partner organizations are encouraged to integrate diversity, equity, and inclusion into recruitment, hiring and retention practices; to integrate diversity, equity and inclusion into supplier and vendor practices; to measure and disclose the demographic makeup of owners/board directors; to measure and disclose the demographic makeup of the workforce; to measure and manage pay equity practices; and regularly monitor evolving industry advancements and expectations in diversity, equity, and inclusion in the interest of maintaining best practices.

9.0 Exceptions to this Policy

The Treasurer may permit exceptions to this Policy. Such exceptions shall be reviewed 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 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:

Investment Advisor:	50 South Capital
Outside Legal Counsel:	ArentFox Schiff, LLP
	Neal, Gerber, and Eisenberg, LLP

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**.**