WEDC

Venture Capital Investment Manager RFQ

Frequently Asked Questions

May 13, 2022

General comment to prospective fund managers:

WEDC understands that key SSBCI program details remain undefined as prospective fund managers develop submissions for the Venture Capital Investment Manager RFQ. WEDC expects Treasury to provide ongoing policy updates through the life of the SSBCI program. WEDC intends to work with fund managers participating in the program to ensure ongoing compliance with established policy and program structure that can be implemented effectively. Fund managers are encouraged to submit proposals to the best of their ability given the program information available thus far and to identify significant unknown issues in their submissions.

Please also refer to Treasury's FAQ for additional information *https://home.treasury.gov/system/files/136/SSBCI-FAQs-as-of-3-2-2022.pdf*

Questions and Responses:

1. For purposes of showing our track record, is leverage defined as the amount of capital we have invested in early stage companies to the amount of capital those companies raised following the time of our investment?

   Answer: In general, yes, though it could also include capital raised from other investors at the time of your investment.

2. Will matching money need to also be put into the sidecar fund or is the sidecar purposefully created solely for WEDC invested capital through this program? I hope it does not have to be.

   Answer: The intent is for the sidecar fund to contain only WEDC funds.

3. The RFQ states, "WEDC's investment will not comprise more than 49 percent of the total available capital currently managed by the fund manager." What does this mean? Does this count capital deployed because I am actively managing it? Does this only mean actual liquid capital I have on hand? Does this mean the liquid capital I have on hand plus any capital I currently intend to raise to match the WEDC investment? Is that at the time of awarding and for the full amount or at lesser amounts at the true time WEDC invests the money (if it is deployed in stages)? Hopefully that does not mean only the capital that is liquid and available to be immediately deployed at the time of the awarding of the full amount.

   Answer: WEDC intends to keep its funding commitment below that of private capital in a fund. Managers should indicate if they have liquid investible capital, investor commitments yet to be called, plans to raise additional capital, or whatever circumstances are at the time of responding to the RFQ.

4. What does “approach to environmental, social, and governance investment policy” mean?

   Answer: WEDC wants to know whether the fund has a policy, goals, and/or other approach to evaluating, participating, and/or managing investments through an environmental, social, and/or good governance lens.

5. If a fund manager has an existing relationship with WEDC, how much of that (if any) needs to be described in my proposal along with uniqueness of that relationship?

   Answer: If a fund manager considers such information relevant to the RFQ, please include it in your proposal. The response should include whether the two activities will have any interrelation and identify whether the relationship(s) could be perceived as a conflict of interest and how such conflict will be handled.

6. How does WEDC define underserved populations and communities? Is it geographic, socioeconomic, race/gender, etc.? Is the focus on the intention/plan at the time of the awarding of capital or something else? How is that measured over time?

   Answer: Please refer to section IV of Treasury’s SSBCI Guidelines for SEDI definitions and policy (https://home.treasury.gov/system/files/256/SSBCI-Capital-Program-Policy-Guidelines-November-2021.pdf).

7. The RFQ mandates automobile liability insurance. Do we need to possess this insurance even if the company has no vehicles? What if employees provide proof of individual insurance?

   Answer: WEDC is willing to waive the requirement to maintain Automobile Liability Insurance described in section VII (e) of the RFQ if the company does not own any automobiles.

8. Will the fund be able to receive QNBV credits for investments made using SSBCI money (because this money originated from the Feds and not the state, and so not double dipping unlike programs like Capital Catalyst)?

   Answer: While the answer to this question has not been finalized, WEDC does not anticipate allowing funds to receive QNBV credits for investments made using SSBCI funds.

9. Is there a timeframe over which the awarded funds must be disbursed? Can investments made follow the investment period of a venture fund (3-5 years) – or must the dollars awarded be invested in a single year/specific time frame?

   Answer: Fund managers should describe the anticipated timeline for investing SSBCI funds. WEDC does not anticipate requiring investment in a single year, however, the pace of investments is a key consideration in developing an effective SSBCI implementation strategy. SSBCI funds are deployed from Treasury to jurisdictions in tranches described in detail in Treasury policy guidance (See sections III(b), IV and V).

10. How does WEDC intend to deploy the funds? Will capital be provided on a call basis or all at once?

    Answer: WEDC intends to deploy SSBCI funds through capital calls.

11. Please provide guidance on the anticipated fee structure for proposals. Will these follow industry standards of a management fee and incentive carry? Are management fees to be paid on top of the award or paid out of the award? Are fees paid on capital committed or are they based on the amount of dollars invested?
    Answer: The anticipated fee structure, management fee and incentive carry are unknown at this time as these details are in large part determined by what is permissible by Treasury. WEDC should be able to provide more information on this topic at a later date.

12. Does the WEDC have a target amount to be expended for SEDI companies?
    Answer: Treasury has determined that Wisconsin's allocation for all SSBCI programs includes $4,142,176 for Very Small Businesses, $14,929,240 for SEDI-owned businesses, and an initial allocation of $7,962,261 in SEDI incentive funding. Specific program targets have not been determined.
    (https://home.treasury.gov/system/files/256/Updated-Preliminary-Allocations-Table-Nov-2021.pdf).

13. Does the WEDC intend to establish the terms under which investment managers make investments into startups?

    Answer: In general, no, presuming investments are made in compliance with Treasury policy and regulation as well as all contractual obligations.

14. Can investments be made over multiple rounds in the same startup, ie., a seed investment, then a Series A?
    Answer: WEDC anticipates that follow-on investment will be allowed if the initial investment from the fund manager includes SSBCI funds and subsequent funding maintains eligibility. However, further information from Treasury may be required to clarify follow-on investment parameters.

15. What happens if companies move HQ or are no longer a WI company per WEDC definitions-

    Answer: Parameters around a company's location and/or relocation have yet to be determined.

16. Are the RFQ submissions subject to open records requests? To the extent our submission references our current fund, the terms of that document are subject to confidentiality provisions. Will those confidentiality provisions apply if RFQ's are subject to open records requests?

Answer: Yes, responses to this RFQ, any communication with WEDC, and any resulting contract and work product are subject to the public records laws of the State of Wisconsin, § 19.31 et seq. Companies must mark documents "confidential" where appropriate for financial and other sensitive materials that should be, to the extent possible, be kept in confidence. WEDC will notify you if it receives a public records request for materials marked confidential. If information is determined to be confidential, by WEDC, said information/record will either be redacted or withheld entirely, as necessary.

17. What constitutes an "eligible small business in Wisconsin"?
    a. Is there a limit on percentage of employees in Wisconsin?
    b. Is it required that the company be headquartered in Wisconsin?
    c. Are there any other pertinent limitations for companies to be an eligible small business in Wisconsin, that are not provided in the RFQ?

    Answer: Parameters around a company's location and/or relocation have yet to be determined. Eligible Businesses and Eligible Business purposes are discussed at length in Treasury guidance (See sections III and IV https://home.treasury.gov/system/files/256/SSBCI-Capital-Program-Policy-Guidelines-November-2021.pdf).

18. Funds Availability
    a. When will the funds be available for distribution to selected fund managers?
    b. Will they be made in a single or multiple tranches?
    c. How long after funds are available must the selected fund managers accept the funds?
    d. How long after receiving the funds do the funds need to be fully deployed?

    Answer: WEDC intends to distribute funds through capital calls. Requirements for the timing of acceptance and deployment have yet to be finalized.

19. Investment
    a. Are there any limitations on the amount of previously raised capital for each startup?
    b. Are there any restrictions on investing in companies the fund manager has previously invested? (i.e current portfolio companies)
    c. Are there any restrictions for investing in companies held by a different fund of the fund manager?

    Answer: Please refer to Treasury guidance on conflicts of interest (see "Venture Capital Programs: Conflict-of-Interest Standards" starting on page 27) and company eligibility (see Treasury Guidelines generally https://home.treasury.gov/system/files/256/SSBCI-Capital-Program-Policy-Guidelines-November-2021.pdf).

20. SEDI Requirements
    a. Under the definition of a privately owned SEDI business, "51 percent is owned by one or more socially and economically-disadvantaged individuals".
        i. Is this an absolute requirement? (i.e. could the cap table include founders that qualify, but due to prior investment own less than 51%?)
        ii. At what point does the 51% requirement apply?

iii. Are there any other limitations to the SEDI requirement? (i.e. dilution following investment that reduces ownership below 51%)

Answer: Please refer to section IV of Treasury's SSBCI guidance on SEDI (https://home.treasury.gov/system/files/256/SSBCI-Capital-Program-Policy-Guidelines-November-2021.pdf).

21. Timeline Questions (RFQ) SSBCI-RFQ-4-14-22-FINAL.pdf (wedc.org)
    a. Is there a timeline for hearing back on RFQ (following 5/29 submission deadline)?
    b. b. Are there timing expectations for deploying capital?

Answer: There is no established schedule for responses. Timing of final selection of managers, contracts, and capital deployment is contingent on additional Treasury action and WEDC's implementation of the program pursuant to said action.

22. Expense/Fee Questions (Federal Guidelines) SSBCI-Capital-Program-Policy-Guidelines-November2021.pdf (treasury.gov)
    a. Services to Portfolio Companies – Section VIII, i. (p.33)
        i. Does the fee limitation of 1.71% only cover expenses for services the management company provides to portfolio companies?
        ii. Can you provide confirmation that the 1.71% limit does not apply to other types of expenses (management fees, partnership expenses, etc.)?
    b. Administrative Costs – Section XI (p. 40)
        i. What expenses are included (or excluded) in the 5%/3% limitations?
            1. Does this limit include partnership + operation expenses?
            2. Does this limit include management fees?
    c. General Expense Questions
        i. There is no explicit mention of Management Fees in the RFQ or federal guidelines. In line with questions above, are management fees subject to specific limitations (ex. included in administrative costs limitation)?
        ii. There is no explicit mention of carried interest in the RFQ or federal guidelines. Are there any limitations on carried interest?

Answer: WEDC intends to request clarification of allowable management fees, expenses, and carried interest from Treasury. WEDC understands that Treasury will allow for carried interest compensation, though it is unclear what limitations may be imposed. For additional information please refer to Treasury's SSBCI FAQ (https://home.treasury.gov/system/files/136/SSBCI-FAQs-as-of-3-2-2022.pdf).

23. Qualifying Investments (federal guidelines) – Section VIII, i. (p.34)
    a. How does Section VIII relate to the Venture Capital Investment Manager program through WEDC?
    b. Do the limits in Section VIII (limitation language in bullet point below) for qualifying investments refer to the SSBCI portion of the investment or the total investment size? For example, if there is a $750k check and we're 50/50 ownership, if each party invests $375k would this be in compliance with the qualifying investments guidelines?
        i. Section VIII limitation: The investment must be the first SSBCI investment in a company, raising early-stage capital, up to $125,000 per company (with a maximum round of $375,000).

Answer: Page 34 of the federal guidelines refers to the Incubation and Early-Stage Investment Models and would only apply if a fund manager plans to operate programs under such parameters. WEDC has not thus far planned to incorporate the Incubation or Early-Stage Investment models described in the federal guidelines into its program. For additional information please refer to Treasury's SSBCI FAQ (https://home.treasury.gov/system/files/136/SSBCI-FAQs-as-of-3-2-2022.pdf).

24. Proposed Equity Investment Program (RFQ) – Section V. (p. 4)
    a. Can a sidecar fund invest side-by-side with a Corporate Venture Fund? (i.e., the WEDC dollars in an independent vehicle investing alongside the corporate venture fund's direct investments)?
        i. Does the sidecar need to invest alongside a dedicated venture fund vehicle (GP/LP), or could the corporate venture fund's management group invest directly and have the sidecar piggyback on deals?
    b. Can opportunistic investments be made exclusively for the sidecar fund alongside a broader fund mandate or does the sidecar fund need to be in the same deals as the management group?
    c. Can we continue with our current investing strategy, which will sometimes include Wisconsin companies, and engage the WEDC entity to invest alongside of those WI investment as they arise?
    d. Can the capital be deployed as revenue-based investing (RBI)/debt vehicle, or does it need to be deployed purely as equity?
    e. Can the capital be deployed via an early stage (seed) bridge loan (convertible notes and SAFE documents) fund? i.e. not deployed directly in equity rounds.

Answer: In general, the proposed program intends to allow fund managers to operate as they normally would from their primary fund(s) with the opportunity to invest from the WEDC SSBCI sidecar to support eligible investments at a predetermined participation ratio. The proposed program intends to offer fund managers an additional pool of dedicated capital to use for investments that meet WEDC's SSBCI program eligibility criteria. WEDC intends for fund managers to provide the required private matching investment from resources they control. Ad-hoc or opportunistic investments without a parallel commitment from the manager may have an increased compliance risk and other unintended complications. WEDC understands that Treasury will allow capital to be deployed through various structures outside of direct equity if the SSBCI funds are on equal or better terms than the private matching funds.