WISCONSIN ECONOMIC DEVELOPMENT

VENTURE CAPITAL INVESTMENT MANAGER RFQ
FREQUENTLY ASKED QUESTIONS

MARCH 17, 2023

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 Treasury's Policy Guidelines and FAQ for additional information:

- *SSBCI-FAQs.pdf (treasury.gov)*
- *SSBCI Capital Program Policy Guidelines Oct 3 2022 (treasury.gov)*

Question #1: Private Funding Match Requirement - Is our understanding correct that for every $1 received of WEDC SSBCI money, $2 has to be invested in Wisconsin based companies ($1 of SSBCI money + $1 of privately matched funds)?

Answer: The minimum 1:1 private financing match is a federal eligibility requirement. Additional private contribution is allowed.

Question #2: Wisconsin Based Company - What metric is used for determining qualification as a Wisconsin based company (i.e. headquarter location, % of employees in state, etc.)?

Answer: To be determined. Per Treasury Guidelines, SSBCI funds allocated to Wisconsin are intended for loans, investments, and other credit or equity support for small businesses located in Wisconsin. For each borrower or investee, the street address of the borrower's or investee's main office or location of the borrower or investee that is primarily benefitting from the SSBCI funds must be in Wisconsin. However, WEDC may choose to have additional prerequisites for qualification as a Wisconsin based company.

Question #3: Fund Structure – Is our understanding correct that SSBCI funding from Wisconsin could be co-mingled with private capital in a single fund that also invests in non-Wisconsin companies, so long as the requirements for funding to Wisconsin based companies are met?

Answer: No. A fund that contains SSBCI funds co-mingled with private capital must only invest in Wisconsin SSBCI eligible transactions.

Question #4: Upon review of the updated RFQ, is there any consideration by the Investment Committee to select "Emerging Managers and First Time Funds" to participate in this RFQ?

Answer: First time managers are not prohibited from submitting responses to this RFQ. The committee will weigh the relative merits of each proposal according to section IX of the RFQ.

Question #5: Has consideration been made for "Seeding" SEDI Fund between 10%-48.9%, with a minimum investment of $1M, given the following: *WEDC will not commit more than $15 million to any single fund manager and intends to select five or more fund managers. WEDC's investment will not comprise more than 49% of the total available capital currently managed by the fund manager*.

Answer: Please refer to Section IX of the RFQ for information on evaluation of responses.

Question #6: Will WI Statute 25.185 (1)(2(a) apply in the selection process to ensure a diverse panel of firms/funds are selected and at least $2.5M is allocated to firms that meet the criteria provided by DOA section 16.287, consistent with Treasury definition of SEDI and Underserved?

Answer: While WEDC is committed to diversity, equity and inclusion and SSBCI program objectives incentivize a diverse panel of firms/fund managers and investment in SEDIs and VSBs, Chapters 25 and 16 do not apply.

Question #7: Please update the previously provided 5/13/22 VCIM RFQ Q&A. Lots of good questions with TBD answers. Any further clarification would be appreciated.

Answer: Please see updated responses starting at question #21.

Question #8: What are the characteristics of the two WI $25MM VC funds? Compare and contrast?

Answer:

1. The Direct model is structured where SSBCI funds are in a sidecar fund matched by private capital controlled by the fund manager at the transaction level. Direct model does not allow for payment of management fees and funds do not count toward the tranche requirements until there is an eligible transaction with a business.
2. The funds model comingles SSBCI and private funds in a single investment vehicle that will invest only in Wisconsin SSBCI eligible transaction. The funds model can provide a management fee of up to 1.71% and allows SSBCI capital committed to the fund to count for the purpose of accessing subsequent tranches from Treasury.

Question #9: What are the specific SEDI requirements for the VC Funds? or other requirements?

Answer: SEDI requirements apply to SSBCI as a whole and are not tied to any specific SSBCI funding mechanism. It is expected that VC manager proposals will be evaluated on their ability to help Wisconsin meet and exceed its overall SEDI objectives.

Question #10: What are the reporting requirements WEDC is expecting?

Answer: WEDC will follow the federal requirements outlined here: https://home.treasury.gov/system/files/136/SSBCI-Reporting-Guidance.pdf and intends to provide templates or other specific guidance to selected managers.

Question #11: Are there any restrictions on structures that the VC funds can invest the capital in? For example: SAFE Notes, Convertible Notes, Common Equity, Preferred Equity or loans/debt**.**

Answer: Please refer to question 1 in Section VIII.a 1 of the FAQ SSBCI-FAQs.pdf (treasury.gov)

Question #12: Is there any additional guidance in regards to the various fees such as management fee, carried interest, standard operating fees, service fees?

Answer: Current guidance about fees can be found in Section VIII(i) of the Policy Guidelines SSBCI Capital Program Policy Guidelines_Oct 3 2022 (treasury.gov) and FAQ SSBCI-FAQs.pdf (treasury.gov).

Question #13: Presumably the VC funds will be required to invest in start-ups with certain characteristics and requirements. What are the requirements? How will those requirements be tracked over the life of the start-up? Hypothetical examples (likely others as well):

a) What happens if the Company is sold on an arm's length basis to a new buyer? Any requirements on the buyer? What if the Company is sold to lenders as part of an insolvency proceeding?
Answer: The outcome will depend on the facts of the transaction. In general, a company sale will return capital to investors under the terms of the applicable agreements.

b) What happens if the CEO/Founder (quits/leaves/dies/is replaced) and new CEO is out-of-state and/or does not have SEDI characteristics?
Answer: Please refer to Section IV of the FAQ here SSBCI-FAQs.pdf (treasury.gov).

c) Any Headquarters or employment requirements? How are residency requirements tracked or determined?
Answer: TBD. Per Treasury Guidelines, SSBCI funds allocated to Wisconsin are intended for loans, investments, and other credit or equity support for small businesses located in Wisconsin. For each borrower or investee, the street address of the borrower's or investee's main office or location of the borrower or investee that is primarily benefitting from the SSBCI funds must be in Wisconsin. However, WEDC may choose to have additional requirements regarding employment and/or residency requirements.

d) What if the start-up Company needs to hire employees but cannot find local employees and must hire non-WI residents and/or remote workers? Key is ensuring the start-up survival (and ability to generate a return to investors) which might include hiring needed talent and/or continuing to provide capital.
Note: Key to attract private capital (LPs) is getting these investors a return (~20% to 30% IRR) on their investment in a VC fund. Requirements that limit the flexibility of the fund and/or underlying portfolio company make an already difficult task of creating a successful (and IRR to LPs) start-up even harder. Also, adverse selection issues could occur.
Answer: TBD. Per Treasury Guidelines, SSBCI funds allocated to Wisconsin are intended for loans, investments, and other credit or equity support for small businesses located in Wisconsin. For each borrower or investee, the street address of the borrower's or investee's main office or location of the borrower or investee that is primarily benefitting from the SSBCI funds must be in Wisconsin. However, WEDC may choose to have additional residency requirements.

Question #14: From the Treasury guidelines, what happens if a 51% owner (or BoD, etc.) is SEDI eligible, and things go well (or poorly) and they get diluted below 51%?

Answer: Please refer to Section IV of the FAQ here SSBCI-FAQs.pdf (treasury.gov)

Question #15: Will the identities of private investors (LPs) in a Fund with SSBCI capital remain private? What protections/assurances would the private investors have?

> **Answer:** WEDC is subject to Wisconsin Public Records Laws § 19.31 et seq., conflict of interest requirements and audit requirements that may require disclosure of investors. WEDC will ask managers to mark documents "confidential" where appropriate for financial and other sensitive materials that should be, to the extent possible, be kept in confidence and WEDC will, to the extent possible, keep said financial and other sensitive materials confidential, as permitted by law, regulation and policy.

Question #16: The Treasury guidelines reference a 10% limit on investing the SSBCI funds outside of the State. Does WEDC foresee this as a possibility?

> **Answer:** Out of state investments will not be permitted and the funding models proposed (direct and fund) are intended to accommodate managers who will invest in companies outside of Wisconsin with non-SSBCI funds.

Question #17: Does the over $20MM round limit prohibit a VC fund with SSBCI and private capital from following on earlier investments? Can the VC Fund, via the non-SSBCI portion, invest in a +$20MM round? Typically, VC funds like to limit their dilution and/or double down on the "winners" in later stage rounds which are likely to be at or above the $20MM threshold range. I can see why the Treasury would want to limit investments into $20MM rounds but there should be some flexibility if the VC fund is a previous investor. Private capital/LPs would likely be supportive of continuing to invest in the "winners".

> **Answer:** Please refer to Section VIII(e) of Treasury's Policy Guidelines SSBCI Capital Program Policy Guidelines Oct 3 2022 (treasury.gov).

Question #18: What are the "additional value-added contributions" to the WIF expected to be?

> **Answer:** In general, support for companies' success including providing key introductions and referrals, holding advisory roles, actively supporting business and investment success, and other activities such as participation in Wisconsin's startup ecosystem.

Question #19: Please confirm that the WEDC State of Wisconsin tax credits will be available on the non-SSBCI portion of investments (private LP commitments) into eligible start-ups.

> **Answer:** Footnote 28 of the Policy Guidelines refers to angel investment tax credits SSBCI Capital Program Policy Guidelines Oct 3 2022 (treasury.gov). Treasury has clarified that credits to venture funds are permitted so long as no investor receives credits at or above 100 percent of the investment value (some private capital must remain at risk **-** see Section VIII(b) of Program Guidelines).

Question #20: How does this program fit into Gov Evers $75MM fund of fund proposal in the latest budget?

> **Answer:** SSBCI funding is established and separate from the Governor's proposal. At this time, the Governor's proposal is pending legislature approval.

THE FOLLOWING QUESTIONS ARE RESTATED FROM MAY 2022

Question #21: 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.

Question #22: 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.
> **UPDATE March 2023:** The inclusion of the "funds model" allows private capital to be comingled with SSBCI capital in a single fund.

Question #23: The RFQ states, "WEDC's investment will not comprise more than 49% 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.

Question #24: 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.

Question #25: 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.

Question #26: 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: P**lease 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).
> **UPDATE March 2023:** SSBCI Capital Program Policy Guidelines Oct 3 2022 (treasury.gov)

Question #27: 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.

Question #28: 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.

Question #29: 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 of 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 section III(b), IV, and V).

Question #30: 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.

UPDATE March 2023: WEDC will review transactions for SSBCI eligibility prior to deploying funds.

Question #31: 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 is 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.

UPDATE March 2023: Managers participating in the "funds model" may receive a management fee of up to 1.71%. Current guidance about fees can be found in Section VIII(i) of the Policy Guidelines SSBCI Capital Program Policy Guidelines_Oct 3 2022 (treasury.gov) and FAQ SSBCI-FAQs.pdf (treasury.gov).

Question #32: 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).

Question #33: 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.
> **UPDATE March 2023:** WEDC will review transactions for SSBCI eligibility prior to deploying funds.

Question #34: Can investments be made over multiple rounds in the same startup, i.e., 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.
> **UPDATE March 2023:** Section VIII(f) of the Policy Guidelines includes discussion of allowed follow-on investments SSBCI Capital Program Policy Guidelines_Oct 3 2022 (treasury.gov)

Question #35: What happens if companies move HQ or are no longer a Wisconsin company per WEDC definitions?

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

Question #36: 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 the 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.

Question #37: 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).
> **Update March 2023:** TBD. Per Treasury Guidelines, SSBCI funds allocated to Wisconsin are intended for loans, investments, and other credit or equity support for small businesses located in Wisconsin. For each borrower or investee, the street address of the borrower's or investee's main office or location of the borrower or investee that is primarily benefitting from the SSBCI funds must be in Wisconsin. However, WEDC may choose to add other eligibility requirements.

Question #38: 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 on timing of acceptance and deployment have yet to be finalized.
UPDATE March 2023: WEDC will review transactions for SSBCI eligibility prior to deploying funds.

Question #39: 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).
UPDATE March 2023: Please refer to Section VIII(f) of the Policy Guidelines SSBCI Capital Program Policy Guidelines Oct 3 2022 (treasury.gov).

Question #40: 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".
b. Is this an absolute requirement? (i.e. could the cap table include founders that qualify, but due to prior investment own less than 51%?)
c. At what point does the 51% requirement apply?
d. Are there any other limitations to the SEDI requirement? (i.e. dilution following investment that reduces ownership below 51%)
e. 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).

UPDATE March 2023: SSBCI Capital Program Policy Guidelines Oct 3 2022 (treasury.gov).

Question #41: 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. 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.

Question #42: 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)?
      1. 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).
UPDATE March 2023: Current guidance about fees can be found in Section VIII(i) of the Policy Guidelines SSBCI Capital Program Policy Guidelines Oct 3 2022 (treasury.gov) and FAQ SSBCI-FAQs.pdf (treasury.gov).

Question #43: 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).

Question #44: 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 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.

UPDATE March 2023: Venture Capital investments are evaluated by Treasury under equity standards and do not allow for debt outside of certain exceptions. Please refer to current guidance about equity investment in section VIII.a.(1) of the FAQ for more information about investment structure SSBCI-FAQs.pdf (treasury.gov).