Appendix C – Qualified Venture Firm Requirements and Weighted Criteria Evaluation

Overview of Process

Venture firms may apply to become NJIEF qualified venture firms on a rolling basis. Once qualified, venture firms may apply for qualified investments through the Program. Approval from the Board of the Authority will be required for both certifying qualified venture firms and approving initial qualified investments.

The qualified venture firm application process is objective, relying on accompanying documentation provided by the qualified venture firm applicant. Authority staff will review applicant responses and supporting documentation to ensure the questions are answered accurately. Staff will ensure qualified venture firm applicants meet all minimum requirements for Program participation by reviewing a minimum requirement checklist and supporting documentation. If an applicant is missing documents, they will have an opportunity to resubmit the missing components of their application. Applications that meet all Program minimum requirements will be scored on the Program's weighted criteria evaluation to ensure venture firms meet the Program's minimum acceptable score. The NJEDA venture programs team will collaborate with the NJEDA operations team and Diversity, Equity and Inclusion team to score firms using the Program's objective 'yes' or 'no' weighted criteria scoring framework. Qualified venture firm applicants that meet or exceed the Program's minimum acceptable score will be submitted to the Board of the Authority for approval as a qualified venture firm.

Part 1: Qualifying Questionnaire

Staff will review venture firm applicants' qualifying questionnaire submissions and verification materials to ensure all Program minimum requirements are met. NJIEF venture firm minimum requirements are detailed in section N.J.A.C. 19:31-25.7 of the Program regulations. The venture firm qualifying questionnaire will be made publicly available to allow potential applicants to self-assess alignment with Program requirements and likelihood of qualification.

Table 1: Venture Firm Qualifying Questionnaire at Initial Certification

Criteria Number	Qualifying Question at Time of Certification
1	Does the firm employ at least two full-time investors with the authority to direct the investment of capital with at least five years of professional money management experience?
2	Does the firm have at least $10,000,000 in assets under management, including net assets, equity capitalization, and written commitments of cash or cash equivalents?

3	Is the firm in substantial good standing with sister agencies?
4	Were the results of a background and legal debarment check satisfactory? (if applicable)
5	If the firm is a current or former partner in any other NJEDA program, is the applicant up to date on reporting requirements?[1]
6	Has the firm agreed to publicize participation in the program and authorize the Authority to publicly disclose the name of the firm as a participant?
7	Does the firm have a valid New Jersey tax clearance certificate and New Jersey business registration?[1]
8	Has the firm committed to meet New Jersey prevailing wage and affirmative action requirements should management fees be used for expenses that may trigger those requirements?[1]
9	Applicants may be required to provide any other information deemed necessary by the NJEDA.

Note[1]: Additional requirements added to the legislative requirements through the Program regulations.

The majority of qualifying questions listed in Table 1 are required by Section 29 of the statute with additional criteria added in alignment with legal and compliance standards. These additional criteria are as follows:

- **If the firm is a current or former partner for any other NJEDA program, is the applicant up to date on its reporting requirements?** This check ensures no applicants that may be in default of their requirements related to other NJEDA programs are provided Program capital.
- **Does the firm have a valid New Jersey tax clearance certificate and New Jersey business registration?** All NJIEF participants will be required to register to do business in the State.
- **Has the firm committed to meet New Jersey prevailing wage and affirmative action requirements should management fees be used for expenses that may trigger those requirements?** It is not anticipated that qualified venture firms will utilize the management fees paid by the NJEDA to support a firm's day-to-day management of Program investments on expenses that will trigger prevailing wage and affirmative action requirements, however, firms must certify they understand the requirements under State law.

Part 2: Required Document Checklist

The following non-exhaustive list represents initially recognized forms of documentation which may verify application responses. Additional forms of verification may be accepted if sufficient. To support the evaluation of an application for certification as a qualified venture firm, the Authority will require audited financial statements of funds under management, a valid NJ tax clearance certificate and business registration, current and historical organizational charts, biographical backgrounds of investment staff, a recent pitch deck, a certified list of limited partners commitments (if applicable), a Limited Partnership Agreement of the fund that will likely co-invest alongside the NJIEF, current and historical DE&I policies including relevant metrics, NJ office lease agreement (if applicable), evidence of prior NJ investments (if applicable), regional investment policy (if applicable), NJ incentive area investment policy (if applicable), and any other information deemed necessary by the Authority.

Part 3: Weighted Criteria and Scoring

In addition to program minimum requirements, venture firms must also meet the NJIEF's minimum acceptable score on its weighted criteria scoring model to be certified as a qualified venture firm. Section 28 of the NJIEF statute, P.L. 2020, c. 156 (amended by P.L. 2021, c. 160) outlines the required categories to be included (further clarified in N.J.A.C. 19:31-25.7 of the Program's regulations). The specific scoring criteria and weights, and the Program's minimum acceptable score are NJEDA policy decisions. The scoring criteria and weights will be evaluated on a continual basis by staff for potential annual adjustments.

Dynamic Scoring

The weighted criteria model uses dynamic scoring to increase the total possible points and total acceptable score by 7 points for firms that have had a diversity, equity, and inclusion policy in place for at least one year. These firms will be required to demonstrate a track record of making progress towards achieving their policy goals to receive the additional 7 points. Firms unable to do so will be able to earn 5 points if they are able to demonstrate a track record of best efforts towards achieving their policy goals. Venture firm applicants with a newly created diversity, equity, inclusion policy will not be penalized for a failure to demonstrate a track record of achieving policy goals. For those firms, criteria #3a and #3b are removed from the scoring model, reducing the maximum achievable score and the minimum acceptable score by 7 points. This dynamic approach to the Program's total possible score and minimum acceptable score will enable the NJIEF to serve as a catalyst within the venture capital ecosystem, requiring firms that lack diversity, equity, and inclusion policies to establish such policies, while also requiring firms with pre-existing policies to demonstrate progress made towards achieving policy goals.

Minimum Acceptable Scores

Venture firm applicants with diversity, equity, and inclusion policies that have been in place for at least one year must receive a score of at least 24 out of a possible 37 points on the Program's weighted criteria scoring model to be certified as a qualified venture firm. Firms with a newly created diversity, equity, and inclusion policy, including firms that may be creating a policy in conjunction with their Program application, must receive a score of at least 17 points out of a possible 30 points. In both cases, it will not be possible for firms to achieve the minimum acceptable score without robust diversity, equity, and inclusion policies.

Applicant responses to diversity equity and inclusion policy categories will be evaluated by the Authority's Diversity, Equity, and Inclusion team using a checklist to test conformity with industry best practices which will be identified on the Authority's website. The checklist, which will be posted on the Program website, may include such criteria as policies on investments in underrepresented founders, diversity metrics of portfolio company Board of Directors, diversity metrics of the venture firm, and recruitment and retention of diverse staff. Consideration will also be given to timeliness of policies, for example, policies in place prior to the events of 2020 and the increased focus on diversity, equity, and inclusion that followed. Firms that do not initially meet the requirements of the diversity, equity and inclusion policy weighted criteria may develop robust policies that adhere to industry best practices and reapply.

The NJIEF venture firm weighted criteria and scoring weights are listed in Table 3, followed by additional explanatory narrative in the text below.

<u>Table 3: Venture Firm Weighted Criteria</u>

Criteria Number	**Scoring Criteria**	**Score Weight**
1	Does the firm have a clearly articulated internal policy promoting diversity, equity, and inclusion within the venture firm/management company, specifying relevant evaluation metrics when applicable?	8.5
2	Does the firm have a clearly articulated investment policy promoting diversity, equity, and inclusion within their portfolios, specifying relevant evaluation metrics when applicable?	5.0
	Have any of the firm's diversity, equity, and inclusion policies been in place for at least one year?	
3a	Does the firm have a demonstrable track record of making progress against its diversity, equity, and inclusion policy goals?	7.0/0.0
3b	If not, does the firm have a demonstrable track record of making best efforts towards achieving its diversity, equity, and inclusion policy goals?	5.0/0.0
4	Has the NJEDA been an investor in a current or prior fund with the firm?	0.5
5	Has the firm worked with other NJEDA programs or participated in NJEDA organized functions to support targeted industries and the innovation ecosystem?	0.5
6	Does the firm have a New Jersey office (as will be clarified in the FAQ)?	0.5

7	Has the firm made at least two investments into NJ startups from funds raised in the past five years?	0.5
8	Does at least one member of the firm's senior management team have at least 2 years of relevant experience working for a business in a targeted industry?	1.0
9	Does at least one member of the firm's senior management team have at least 5 years of relevant experience working for a business in a targeted industry?	1.0
10	Does the senior management team have at least 2 years of experience working together?	1.0
11	Does the senior management team have at least 5 years of experience working together?	1.0
12	Does the firm control sufficient assets under management such that a $5M investment would represent less than 15% of the firm's total assets under management?	1.0
13	Does the firm control sufficient assets under management such that a $10M investment would represent less than 15% of the firm's total assets under management?	1.0
14	Has the firm formally raised capital for the fund that will co-invest alongside the NJIEF in the coming year?	1.0
15	Regarding the fund that would co-invest alongside the NJIEF in the coming year, does the fund have an annual management fee less than or equal to 2.5% of capital committed by investors?	1.0
16	Regarding the fund that would co-invest alongside the NJIEF in the coming year, is the fund's incentive compensation rate (commonly referred to as carried interest rate) at or below 20% of investment profits?	1.0
17	Has the firm previously raised and invested an institutional fund?	1.0
18	Does the firm have a regional investment policy, directing at least 25% of invested capital to New Jersey or surrounding geographic areas, not to encompass more than the Mid-Atlantic region?	0.5
19	Does the firm have at least one fund, raised within the past 10 years, that has performed better than the median relative to its peer group of investors with the same strategy for the same vintage year?	1.0

20	Have all the firm's funds, raised within the past 10 years, performed better than the median relative to peer group investors with the same strategy for the same vintage years?	1.0
21	Have any of the firm's institutional funds distributed more capital back to its investors than they have invested, including fees.	1.0
22	Does the firm have an office in an incentive area in New Jersey?	0.5
23	Does the firm's senior management team agree to create policy certifying that the firm will dedicate a greater portion of Evergreen funding into businesses located in New Jersey incentive areas?	0.5
	Total Possible Points	**37.0/30.0**
	Minimum Acceptable Score	**24.0/17.0**

The model's scoring methodology is designed to offer a holistic review of applicant venture firms. The proposed Program weights and minimum acceptable score were selected to support the qualification of strong, established managers from across the country, while retaining a pathway for promising emerging managers with an orientation to invest in New Jersey. Criteria relating to investment activity in New Jersey have a proposed weight of 0.5 points, while other categories have a proposed weight of 1.0 point. These relative weights were selected to ensure the Program can attract strong venture firms from outside the region that may bring new sources of investment capital to startups in the state, fueling job creation. The opportunity to crowd in new investment capital will catalyze economic development and job growth within the State for years to come.

It will be difficult for emerging venture firms that lack experience to achieve the minimum acceptable score. However, experienced emerging venture firms with a nexus to the State enjoy a viable pathway to certification as a qualified venture firm. Strong established firms both from the New Jersey area and beyond will also likely meet the Program requirements.

Detailed Explanation of Venture Firm Weighted Criteria and Scoring Weights

The categories in the following section stem from Section 28 of the NJIEF statute and Section N.J.A.C. 19:31-25.7 of Program regulations, while the specific criteria and weights are NJEDA policy decisions.

Category 1: Quality of the leadership in the innovation ecosystem in the State, including willingness to work with the Authority to support targeted industries and the innovation ecosystem in the State, and to locate in the State.

- **Criteria 1: Does the firm have a clearly articulated internal policy promoting diversity, equity, and inclusion within the venture firm/management company, specifying relevant evaluation metrics when applicable?** Diversity, equity, and inclusion are foundational elements of building a stronger and fairer State economy. According to industry research, 43% of venture capital firms had a diversity policy in place in 2021, up from 24% in 2016[i]. The NJIEF venture firm weights will require all firms that participate in the Program to have a DE&I policy in place at the time of certification as a qualified venture firm. With a scoring weight of 8.5 points, this criterion is the most heavily weighted in the Program. Not only are firms with diverse teams more statistically likely to perform better and invest in diverse businesses, but the Evergreen Fund may catalyze firms' development of these internal diversity, equity, and inclusion policies, helping build a stronger and fairer innovation ecosystem here in the State.

The Authority's DE&I team will determine if an applicant maintains a policy that satisfies the requirement for the 8.5 points, using a checklist derived from venture capital industry best practices to confirm a policy is applicable to firms' core functions. Applicants that do not have a qualifying DE&I policy at the time of application will be given an opportunity to create such a policy with support from the NJEDA's DE&I team, and resubmit their application, catalyzing further DE&I efforts across the industry.

Firms that meet the requirements for this criterion will be tested annually to ensure they continue to meet the requirements and are making demonstrable best efforts towards achieving their policy goals. Firms unable to demonstrate best efforts made towards achieving policy goals will lose the associated points and be decertified as a qualified venture firm should their point total fall below the Program's minimum acceptable score.

- **Criteria 2: Does the firm have a clearly articulated investment policy promoting diversity, equity, and inclusion within their portfolios, specifying relevant evaluation metrics when applicable?** Venture firms' diversity, equity, and inclusion policies relating to portfolio companies and investment targets are also critical to building a robust and inclusive innovation economy in the State. Nationwide, only 1% of venture capital-backed founders are Black and fewer than 2% are Latinx[ii]. The statistics around women-led businesses, especially for businesses led by women of color, are equally disheartening. A weight of 5.0 points represents a high weight relative to other Program categories. It will not be possible for firms to meet the Program's minimum acceptable score without a robust internal or investment diversity, equity, and inclusion policy in place.

  As is the case for internal DE&I policies, the Authority's DE&I team will determine if applicants investment policies are sufficiently robust to qualify for points under the program, using a checklist guided by industry best practices. Firms that meet the requirements for this criterion will also be tested annually to ensure they still meet the requirements needed to maintain the associated points.

- **Criteria 3a: Does the firm have a demonstrable track record of making progress against its diversity, equity, and inclusion policy goals?** For firms with a DE&I policy in place for at least one year, 7 points will be awarded for successfully demonstrating a history of progress towards achieving their policy goals. While having a policy in place is a start, to successfully build a stronger and fairer innovation ecosystem in the State, firms must take actionable steps to achieve their DE&I policy goals.

- **Criteria 3b: Does the firm have a demonstrable history of making best efforts towards achieving its DE&I policy goals?** For firms with a DE&I policy in place for at least one year, that fail to meet the requirements of criterion 3a, 5 points will be awarded for successfully demonstrating a history of making best efforts towards achieving their policy goals. Moreover, all firms must demonstrate best efforts towards achieving their DE&I policy goals as part of their annual reporting requirements. A failure to do so will result in a rescoring and potential decertification as a qualified venture firm.

- **Criteria 4: Has the NJEDA been an investor in a current or prior fund with the firm?** This criterion awards 0.5 points to firms that have demonstrated leadership within New Jersey's innovation ecosystem by partnering with the Authority's venture program. A weight of 0.5 points is awarded to criteria relating to regional or state-specific investment activity to avoid overly disadvantaging applicants from outside the region. In addition to catalyzing local investments, the NJIEF was envisioned to crowd in new investment capital from outside the region to help grow the State's innovation ecosystem.

- **Criteria 5: Has the firm worked with other NJEDA programs or participated in NJEDA organized functions to support targeted industries and the innovation ecosystem?** This criterion awards 0.5 points to firms that have demonstrated leadership within New Jersey's innovation ecosystem by participating in other NJEDA programs geared towards growing the State's innovation ecosystem.

- **Criteria 6: Does the firm have a New Jersey office?** This criterion awards 0.5 points to firms that have demonstrated leadership within New Jersey's innovation ecosystem by establishing a place of business in the state. Firms that have no physical office may qualify for criterion points if at least one senior investor (managing partner, general partner or equivalent) resides full-time in New Jersey.

<u>Category 2:</u> The investment experience of the principals with qualifying businesses.

- **Criteria 7: Has the firm made at least two investments into New Jersey startups from funds raised in the past five years?** This criterion awards 0.5 points to firms that have demonstrated experience investing in qualified businesses by investing in at least two New Jersey startups within a fund's typical investment period.

<u>Category 3:</u> The knowledge, experience, and capabilities of the applicant in subject areas of its investment focus relevant to high-growth businesses in the State.

- **Criteria 8: Does at least one member of the firm's senior management team have at least two years of relevant experience working for a business in a targeted industry?** This criterion awards 1.0 points to firms with relevant industry operating experience that will enable investors to add operational value to help grow startups that receive Program investments. The period of two years was selected to allow for the possibility of emerging venture firms with fewer years of industry experience and who may be investing out of their first or second fund to successfully meet the requirement.

- **Criteria 9: Does at least one member of the firm's senior management team have at least five years of relevant experience working for a business in a targeted industry?** This criterion awards an additional 1.0 point to firms with even more relevant industry operating experience. With at least five years of relevant industry operating experience, investors will be able to add more meaningful operational value to help grow the New Jersey startups that receive Program capital.

Category 4: The tenure and turnover history of principals and senior investment professionals of the applicant.

- **Criteria 10: Does the senior management team have at least 2 years of experience working together?** This criterion awards 1.0 points to firms with that demonstrate tenure and a low turnover history by measuring the number of years the senior management team of the firm have worked together. The average life of a venture fund persists over a long period, typically at least 10 years. Prior work experience between the senior management team can be an important indicator that a partnership will survive the duration of the fund.

- **Criteria 11: Does the senior management team have at least 5 years of experience working together?** This criterion awards an additional 1.0 points to firms that have worked together for five years, which is the typical investment period for a venture capital fund.

Category 5: Whether the State's approved maximum aggregate qualified investments with the applicant under this program would exceed 15 percent of the total invested in the applicant by all of its investors, including investments in any Evergreen special purpose vehicles.

- **Criteria 12: Does the firm control sufficient assets under management such that a $5,000,000 investment would represent less than 15% of the firm's total assets under management?** This criterion awards 1.0 points to firms that have assets under management sufficient to invest $5M, the maximum investment size for typical transactions under the Program, without exceeding the Program's limit on firms' aggregate Program investments as a percentage of total assets under management. This requirement is designed to help mitigate risk by ensuring NJIEF capital does not account for too high of a percentage of a firm's total assets under management. Effectively, firms with assets under management of at least $33,333,333 will successfully meet the requirements of this criterion.

- **Criteria 13: Does the firm control sufficient assets under management such that a $10,000,000 investment would represent less than 15% of the firm's total assets under management?** This criterion awards an additional 1.0 points to firms that have assets under management sufficient to invest $10,000,000 of Program capital, which would represent the maximum amount of capital qualified venture firms can invest into typical businesses in a calendar year. Passing this test demonstrates the manager may be a more effective conduit to efficiently deploy capital into at least one high-quality deal, before reaching a statutory investment limit. Effectively, firms with assets under management of at least $66,666,667 will successfully meet the requirements of this criterion.

Category 6: The applicant's stage of fundraising for their proposed qualified venture firm active fund.

- **Criteria 14: Has the firm formally raised capital for the fund that will co-invest alongside the NJIEF in the coming year?** Funds that are still fundraising for their fund that will invest through the Program may apply for certification as a qualified venture firm. However, this criterion awards 1.0 points to firms that have already raised the capital that will be used to invest through the Program. This status demonstrates a venture firm's ability to achieve critical mass or readily invest at scale.

Category 7: Whether fees, expenses, and the remuneration of the general partner or manager for their proposed qualified venture firm active fund is similar to those of peer venture firm investors.

- **Criteria 15: Regarding the fund that would co-invest alongside the NJIEF in the coming year, does the fund have an annual management fee less than or equal to 2.5% of capital committed?** According to industry research, most venture capital firms have a management fee rate less than or equal to 2.5% of capital committed to a given fund.[iii] This criterion awards 1.0 points to firms with industry standard or better management fee rates.
- **Criteria 16: Regarding the fund that would co-invest alongside the Evergreen SPV in the coming year, is the fund's incentive compensation rate (commonly referred to as carried interest rate) at or below 20% of investment profits?** According to industry research, most venture capital firms have an incentive compensation rate, commonly known as a carried interest rate, of 20% of investment profits.[iv] This criterion awards 1.0 points to firms with industry standard or better incentive compensation rates.

Category 8: The applicant's track record of investing in high-growth businesses.

- **Criteria 17: Has the firm previously raised and invested an institutional fund?** This criterion assesses an applicant's track record of investing in high-growth businesses by awarding 1.0 points to firms that are at least onto their second professional institutional fund. Firms that have previously raised and invested an institutional fund have demonstrated a track record of deploying capital into startups.

Category 9: Whether the investment strategy of the proposed qualified venture firm active fund of the applicant is focused on high-growth businesses, including the percentage of the investment identified to be invested in New Jersey or surrounding geographic areas.

- **Criteria 18: Does the firm have a regional investment policy, directing at least 25% of invested capital to New Jersey or surrounding geographic areas, not to encompass more than the Mid-Atlantic region?** This criterion awards 0.5 points to firms with a regional investment policy focused on New Jersey or the surrounding area. Firms with a regional investment focus are more likely to have the networks required to successfully deploy capital into New Jersey startups through the program and the experience to drive a successful investment here.

Category 10: The performance history of the general partner or fund manager based on a review of investment returns on individual funds on an absolute basis and relative to peers.

- **Criteria 19: Does the firm have at least one fund, raised within the past 10 years, that has performed better than the median relative to its peer group of investors with the same strategy for the same vintage year?** This criterion assesses a firm's track record of performance relative to peer investors. Firms with at least one fund raised within the past 10 years, which is the typical duration of a venture capital fund, that is performing at or better than the median per the industry data provider Pitchbook will be awarded 1.0 points. Firms' performance will be measured through a common industry measure referred to as a net total value to paid-in capital ratio, which measures a firm's performance as a ratio of the total value of the portfolio, net of fees, over the total capital contributed by investors into the fund. Funds will be compared to other North American venture capital firms that began investing in the same year.
- **Criteria 20: Have all the firm's funds, raised within the past 10 years, performed better than the median relative to a peer group of investors with the same strategy for the same vintage year?** This criterion awards an additional 1.0 points to firms if all their recent funds performed better than the median relative to peer funds. This additional measure awards points to firms that have demonstrated excellent consistency of performance.
- **Criteria 21: Have any of the firm's institutional funds distributed more capital back to its investors than they have invested, including fees?** As a measure of absolute performance, firms with any funds that have distributed more capital back to its investors, net of fees than they had invested will receive 1.0 points. This criterion describes a common industry performance measure called a net distribution to paid-in capital ratio, which measures investment proceeds distributed to a fund's investors as a ratio over the capital invested by those investors. Firms with any funds that have a net distribution to paid-in capital ratio of above 1.0x will meet the requirements of this scoring criterion.

Category 11: The location of the applicant's venture firm, with preference given to applicant venture firms that are located in incentive areas.

- **Criteria 22: Does the firm have an office in an incentive area in New Jersey or does a senior investment partner live in an incentive area in New Jersey full-time?** This criterion awards 0.5 points to firms with a place of business in a qualified opportunity zone located in New Jersey or in a Metropolitan Area (Planning Area 1) area pursuant to the New Jersey State Planning Act. Firms that have no physical office may qualify for criterion points if at least one senior investor (managing partner, general partner or equivalent) resides full-time in a New Jersey incentive area.

Category 12: The applicant's proposed structure and policy of investments in qualified businesses, with preference given to applicant venture firms that agree to dedicate a greater portion of qualified investments into qualified businesses located within incentive areas.

Criteria 23: Does the firm's senior management team agree to create policy certifying that the firm will dedicate a greater portion of Evergreen funding into businesses located in New Jersey incentive areas? This criterion awards 0.5 points to firms willing to create a policy to invest a portion of NJIEF investments into businesses located in qualified opportunity zones within New Jersey or in Metropolitan Areas (Planning Area 1) pursuant to the New Jersey State Planning Act. To receive the related points, firms must establish a baseline of recent historical investment activity in New Jersey incentive areas and agree to establish a policy certifying the firm's Evergreen investment activity will target an increased proportion of investment activity in New Jersey incentive areas. Firms that meet the requirements for this criterion will be tested annually to ensure they are making demonstrable best efforts to achieving their policy targets.