NJEDA

MEMORANDUM

TO: Members of the Authority

FROM: Tim Sullivan
Chief Executive Officer

DATE: May 10, 2023

SUBJECT: State Small Business Credit Initiative (SSBCI) Socially & Economically Disadvantaged Individuals (SEDI) Manager Approvals

SUMMARY

Approval is requested of the Members to:

- Commit an aggregate investment amount of up to $20 million to limited partnerships or limited liability companies managed by accelerator and fund manager Gener8tor Management, LLC (Gener8tor), for an amount of up to $5 million, and fund manager Include Venture Partners, LLC (Include), for an amount of up to $15 million, to make investments into a portfolio of businesses led by Socially and Economically Disadvantaged Individuals (SEDI) in New Jersey conforming to the material terms specified in the term sheet attached as **Appendix B**, with final terms approved by the Chief Executive Officer. Funding for the investments will be provided by the State Small Business Credit Initiative (SSBCI) for which NJEDA, on behalf of the State of New Jersey, Department of Treasury, was approved for a total of $255 million for both direct and fund programs.
- Delegate to the Chief Executive Officer the Authority to determine the fund structure (investment commingled with other funds or held in a side-car vehicle) and to finalize fees and expenses with each fund manager based on the parameters contained in this memorandum.

BACKGROUND

SSBCI is a federal program administered by the US Department of the Treasury to support private financing to small businesses within eligible jurisdictions. The program was first established in 2010, with a second round funded by the American Rescue Plan Act (ARP) in the spring of 2021. With $10 billion available overall, funding was allocated non-competitively to states, territories, and Tribal governments. New Jersey is eligible for a total of $255 million. This includes sub-allocations specifically for very small businesses ($15,689,280) and businesses owned by socially and economically disadvantaged individuals, or SEDI businesses ($27,521,719). Incentive funds are available for jurisdictions that demonstrate strong support for SEDI businesses.

SSBCI is designed to cause and result in the lending and investment of private capital into small businesses. At the program level, each dollar of SSBCI capital must be matched by at least another dollar of private capital. Public funding, including NJ state funding, does not count toward that match. The allocation of funding across programs is designed to allow the EDA SSBCI portfolio to reach a leverage ratio (private capital to SSBCI funds) of 10:1 over a ten-year period. Therefore, programs must be designed so that SSBCI funds cause and result in new lending and investment, unlocking capital for small businesses and start-ups that would otherwise not have access to it.

Because U.S. Treasury requires that state-level SSBCI applicants be a state department or agency that can obligate the State, the Governor has designated New Jersey Department of Treasury as the lead applicant, with NJEDA acting as a contracted entity to implement the program. New Jersey utilized a similar structure for the SSBCI 1.0 program established in 2010. The Board of the Authority approved an MOU between the NJEDA and NJ Treasury regarding the arrangement for SSBCI 2.0. These programs have been developed in alignment with the Governor's economic plan, *The State of Innovation: Building a Stronger and Fairer Economy in New Jersey*, which identifies clean energy and life sciences as among the state's targeted industries, sets a goal of building the most diverse innovation ecosystem in the country, and emphasizes the importance of easier access to capital for small businesses. This set of programs also builds on existing strengths and experiences within NJEDA.

New Jersey's SSBCI application proposed six programs:
• Blended Capital Investment ($50M);
• Recovery Loan Loss Reserve ($25M);
• Clean Energy Business Financing ($80M);
• Life Science Investment ($60M);
• SEDI Seed Fund ($20M); and
• Angel Match Program ($20M) (Approved by the Authority September 14, 2022).

Announcement of approval of New Jersey's SSBCI application by US Treasury occurred on March 2, 2023. SSBCI statute requires that all proposed programs be "fully positioned, within 90 days of the State's execution of the allocation agreement with the Secretary [of the Treasury] to act on providing the kind of credit support that the State program was established to provide." The allocation agreement between US Treasury and NJ Treasury was signed March 15, 2023. The Funds must be fully positioned by June 13, 2023. SSBCI funds are disbursed to jurisdictions in three tranches. The first disbursement totals $79 million. The second and third tranches will be disbursed when the NJ Treasury certifies that it has expended, transferred, or obligated at least 80% of the prior disbursement of allocated funds. The second tranche must be drawn down at the three-year anniversary of the signing of the allocation agreement, and the final tranche must be drawn down at the six-year anniversary of the signing of the allocation agreement. US Treasury has informed EDA staff that the expected deadline to disburse the funds is 10 years. SSBCI administrative costs are limited to 5% of SSBCI funds in the first tranche and 3% of SSBCI funds in the second and third tranches.

Investment Details

Since 1999, the Authority has committed more than $64.5M to 20 venture capital funds. This includes the three fund commitments totaling $7.8 million as part of SSBCI 1.0. The aggregate commitments have resulted in direct-investments into 114 NJ-based, early-stage companies, yielding over 6,500 jobs in New Jersey, and a private leverage multiple in excess of 64.7x. The Authority aims to deepen the success of its early-stage investment strategy and expand its investments into SEDI businesses through the 2021 iteration of SSBCI. The requested allocation of dollars to the two fund managers recommended herein will use the $20 million that New Jersey committed to create SEDI Seed Funds.

Diversity, Equity and Inclusion:
The federal SSBCI program supports the expansion of businesses owned by socially- and economically- disadvantaged individuals by mandating a portion of a State's allocation be directed to SEDI businesses. From New Jersey's total allocation of $255,197,631, New Jersey must expend at least $27,521,719 to benefit SEDI businesses. Over time, U.S. Treasury may reduce New Jersey's total SSBCI allocation if the State is not on track to meet this minimum threshold. The SSBCI program also includes a SEDI incentive. New Jersey is eligible for incentive funds of up to $14,678,250 based on the share of the $255 million allocation that is deployed to support SEDI businesses, with the maximum incentive reached if New Jersey expends 31.01% of the $255 million allocation to benefit SEDI business. The NJEDA defined and articulated a strategy to do outreach to and deploy funds into SEDI businesses as part of the NJEDA's SSBCI application.

The December 2022 edition of the U.S. Treasury Capital Program Policy Guidelines provides a definition of which small businesses qualify as a SEDI business. The basis for eligibility can be geographic, demographic, or socioeconomic. A small business may qualify as a SEDI business if it meets at least one of the four criteria below:

- Business enterprises that certify that they are owned and controlled* by individuals who have had their access to credit on reasonable terms diminished as compared to others in comparable economic circumstances, due to their: (1) membership of a group that has been subjected to racial or ethnic prejudice or cultural bias within American society; (2) gender; (3) veteran status; (4) limited English proficiency; (5) physical handicap; (6) long-term residence in an environment isolated from the mainstream of American society; (7) membership of a federally or state-recognized Indian Tribe; (8) long-term residence in a rural community; (9) residence in a U.S. territory; (10) residence in a community undergoing economic transitions (including communities impacted by the shift towards a net-zero economy or deindustrialization); or (11) membership of another "underserved community" as defined in Executive Order 13985.
- Business enterprises that certify that they are owned and controlled* by individuals whose residences are in Community Development Finance Institution ("CDFI") Investment Areas.
- Business enterprises that certify that they will operate a location in a CDFI Investment Area.
- Business enterprises located in a CDFI Investment Area.

*The term "owned and controlled" means, if privately owned, 51 percent is owned by such individuals; if publicly owned, 51 percent of the stock is owned by such individuals; and in the case of a mutual institution, a majority of the board of directors, account holders, and the community which the institution services is predominantly comprised of such individuals.

Process and Strategy:
On February 9, 2023, NJEDA issued a Notice of Investment Opportunity (NIO) to gather submissions from venture capital managers that have demonstrated competency, capacity, and skill in managing early-stage investment strategies into start-up and early-stage companies in New Jersey to receive an investment and manage a possible SEDI Seed Fund (a "Fund") for investment into SEDI businesses. The fund manager(s) must ensure that the SSBCI investment is catalytic to private financing, based on the fund's age, size or experience. The submissions were evaluated according to process and scoring rubric in **Appendix A**, as provided from the Notice of Investment Opportunity issued.

The NJEDA received submissions from seven respondents related to this NIO. Responses were reviewed by cross-functional teams of EDA staff in two rounds and scored according to the rubric in **Appendix A**. The initial round of scoring was followed by a round of clarifying questions gathered in writing and via virtual interview sessions conducted by staff. The top scoring fund manager was Gener8tor Management, LLC (scoring 40 out of 52) and the third highest scoring manager was Include Venture Partners, LLC (scoring 37 out of 52). The second highest scoring manager is not proposed for investment, as that manager applied for all three concurrently issued NIOs. To mitigate potential concentration risk at a total program level and create alignment with the capital matching requirement, the second fund manager is being proposed only for the SSBCI Life Science Seed Fund NIO. The selected respondent manager summaries and description of strategy appear below. Key fund terms are included in **Appendix B**. A key element of the diligence process, among the eligibility criteria is the ability of the venture capital fund manager to raise and readily deploy sufficient 1:1 private capital to match the targeted dollar amount of funding allocable, and the opportunity set, or pipeline, of investible opportunities meeting the strategy objective as put forward by the NJEDA and approved by US Treasury. Notably, each fund manager must operate at a permanent or satellite in-State office or at a co-working facility in New Jersey with a regular presence held by a senior or mid-level investment professional. Fund managers will be required to report, on a regular basis, efforts to expand their pipeline of deal flow in New Jersey. This may include such example efforts as hosting office hours or attending ecosystem events like NJEDA's NJ Founders & Funders. Fund managers will regularly report jobs information and will be compelled to request demographic information of portfolio companies. Combined, these entities are expected to cause $506 million of investment in 32 companies based in the State of New Jersey.

The requested amount will be disseminated to the two recommended managers to make "seed" to "Series A" investments into early-stage, New Jersey companies owned by SEDI entrepreneurs. In accordance with SSBCI requirements, the fund managers must raise a private capital match of at least 1:1 at the fund level, which would yield a $40 million (or greater) total funding pool based on the full deployment of $20 million from SSBCI. SSBCI capital must be either (1) held in a separate fund and separately accounted (side-car or fund-of-one) for, or (2) held in a fund with other investors' funds, with each investor's investment accounted for separately. The selected managers must be able to record, with a written, detailed report, each investment transaction that received SSBCI funds, in part or in whole. A minimum of 90% of the investments must be in companies with a New Jersey location. A NJ business is: 1. One which at least 50% of non-retail employees working or living in New Jersey, or 50% of payroll is paid to employees, living or working in NJ; or, 2. A business which has its headquarters in New Jersey.

The selected managers shall be responsible to comply with the SSBCI law, regulations, and guidelines for an investment to be made with funds co-mingled with the SSBCI allocation. The selected managers must ascertain that their intended investment will be the first SSBCI investment into the prospective firm (including verification documentation). The prospective business must also be raising a capital round that meets the "early-stage" designation (typically rounds "pre-seed" to "Series A"), with a target round of $5 million or less. No investments may be made in capital rounds with total round size of $20 million or more. Multiple investment transactions into a specific company, such as follow-on investments, are permissible, provided that funds into any one company will not surpass $20 million.

Venture capital funds offer a variety of services to their portfolio companies (i.e., the potential SSBCI investees). These services can include, for example, financial management, operational guidance, IT consulting, and connecting portfolio companies to potential customers, investors, board members, and officers. These services vary depending on the portfolio company's stage in the venture capital ecosystem. As these services to portfolio companies are a type of equity support, SSBCI funds, out of the federal contribution, may be used to pay for such support but are included in the maximum cap equal to an annual average of 1.71 percent of the federal contribution to a venture capital fund over the life of the jurisdiction's venture capital program. In the contractual agreement between a jurisdiction and a venture capital fund, the fund must be required to identify the services to be provided to portfolio companies and annually certify that these services were provided. The agreement between the fund and the portfolio companies must include disclosure of these services offered by the fund manager. Consistent with industry standards on payments of fees to cover these services to portfolio companies, the fund will reimburse the jurisdiction for payments of such services by SSBCI funds before returns are paid to the general or limited partners.

The selected manager(s) must obtain written certifications from the investees affirming that the investment proceeds will be used for business purposes, and align with specific SSBCI program compliance requirements, partially noted, herein, and will be sufficiently documented with the selected managers. A business purpose includes, but is not limited to, start-up costs; working capital; franchise fees; and acquisition of equipment under $2,000, inventory, or services used in the production, manufacturing, or delivery of a business's goods or services, or in the purchase, renovation, or tenant improvements of an eligible place of business that is not for passive real estate investment purposes. Investment proceeds may also be used to purchase any tangible or intangible asset, except goodwill. Equipment acquisition and installation of $2,000 or more and construction are not eligible uses.

Selected Manager Strategies:

Gener8tor Management, LLC Executive Summary

The Gener8tor team presently manages several funds across the country ($75M AUM). These include industry-agnostic funds, sector-specific funds, place-based funds and DEI-focused funds. A common thread across Gener8tor's investments is a focus on race, place and gender. Since its inception in 2012, Gener8tor has expanded its successful startup and small business venture funds and accelerators across 41 cities, 20 states and two countries. Gener8tor's key advantage is their national and international network to support portfolio companies. In their application, Gener8tor scored highly in multiple categories. In particular, this long-established firm is able to speak to substantial international resources to identify target opportunities, provide meaningful support to its portfolio companies and to administer their funds with a high degree of acumen that will be important given the meaningful compliance obligations associated with this SSBCI funded commitment. The group will stand-up the investment program in New Jersey for SEDI entrepreneurs in New Jersey, specifically, as a result of EDA's funding here. Staff proposes an investment with Gener8tor of $5 million on the basis they do not, yet, have the matching funds, but will be able to demonstrate matching funds on a 1:1 basis at the fund level before investing program capital. Gener8tor earned a score of 40 out of a possible 52 points and was the highest scoring applicant for this program.

Following approval by the Board of the Authority, Gener8tor will establish a New Jersey limited liability company that will serve as investment vehicle to manage the NJ SEDI Seed Fund. Gener8tor has not, yet, raised the required matching funds to deploy SSBCI capital. They have projected a 5–6-month timeline to achieve the match from potential institutional or individual investors. If the group fails to secure a dollar-for-dollar match from new outside investors, they will confirm the match from their primary fund vehicle. The key terms such as management fee and carry distribution are expected to align with the terms of the primary fund vehicle. Generator will establish a New Jersey office and Fund Principal.

<u>Fund Strategy:</u>

Gener8tor proposes a $10 million or greater New Jersey-based and New Jersey company-exclusive seed venture capital fund. Consistent with Gener8tor's past successes, this fund will be industry-agnostic and sector-agnostic investing in pre-seed and seed rounds of New Jersey companies. Target investments will all be scalable, venture-backable companies, with a majority being tech-enabled. The strategy will target initial investments from the fund that range in amount from $100K to $500K with an average investment of $250K into companies with post-money valuations ranging up to $20M. Gener8tor will manage this fund with a 100% SEDI requirement. They anticipate a 10-year fund life. The respondent expects to make 30 pre-seed or seed investments. Consistent with the proposed strategy, Gener8tor has always and exclusively managed funds investing in pre-seed and seed rounds.

In the last ten years, Gener8tor has worked diligently to build its international network of thousands of mentors, financiers, corporate partners and companies to benefit program participants during as well as far beyond each program. To date, this global network includes 3,711 Investors, 2,749 Mentors, 3,391 Corporate Connections and 1,076 Alumni Companies. Historically, for every dollar invested into a Gener8tor venture capital fund, startups receiving investment from Gener8tor have gone on to raise $50 in follow-on venture capital (50:1 leverage). Gener8tor's list of institutional limited partners includes Allianz Life, Securian Financial, ECMC Group, Northwestern Mutual, Assurity, Nelnet, Ameritas, Union Bank & Trust, Madison Gas & Electric, Wisconsin Alumni Research Foundation and more. Gener8tor is currently under contract with the states of Nevada, Wisconsin, Indiana, Alabama and Oklahoma and the cities of Houston and Anchorage to operate either venture capital funds or startup accelerators.

Gener8tor's application clearly articulated a focus, understanding and readiness to deploy the proposed fund strategy:
a. 62.23% of Gener8tor's portfolio companies are owned by SEDI entrepreneurs.
b. Gener8tor has three New Jersey-based alumni or portfolio companies, offering some experience investing in SEDI entrepreneurs in NJ.
c. Successfully recruiting Very Small Businesses and SEDI-owned businesses is a very grassroots and manual process. The Gener8tor team creates a roadmap outlining the various places to recruit from, and builds relationships with local partners to refer applicants and get in front of startups and small businesses.

Gener8tor has created an Applicant Evaluation Rubric to assist in the screening process and selecting optimal candidates for a proposed investment.

● Team
● Idea & Technology
● Race & Gender
● Additionally, the rubric looks at the startup's traction, funding received, product, social proof, and pitch deck.

<u>History:</u>
Gener8tor has over 50 years of combined fund management experience across their leadership team and has successfully managed venture capital funds over the last 10 years with top-quartile returns. Gener8tor is most proud of the fact that its 10-year investment history and the demographics of its team reflect the diversity of the communities they serve.
● 52% of Gener8tor employees are women
● 32% of Gener8tor employees are people of color

Since 2016 Gener8tor has been tracking and publishing its portfolio demographic statistics, a strong differentiator in the venture capital industry. Below are the percentages reported in their NIO response; Gener8tor publishes these percentages at Gener8tor.com/dei (which percentages may have changed since their response):

● 43% of Gener8tor companies have at least one founder of color
● 40% of Gener8tor companies have at least one woman founder
● 67% of Gener8tor companies have a founder from a minority group

Fund Management:
Specific to, and as a result of, the to-be-formed New Jersey Fund, Gener8tor would create a new GP entity, Gener8tor Management, LLC, which will hire a New Jersey-based Fund Principal from a historically underserved background. In essence, Gener8tor would be "warehousing" this GP while providing the full faith and credit of Gener8tor's back office, network and institutional knowledge. The Fund Principal will receive 50% of the fund carry – the balance of the carry to be shared up to Gener8tor. The executive and back-office support of Gener8tor will ensure continuity of Gener8tor's strategy and resources as an established firm are effectively applied alongside dedicated in-State resources that are familiar with the landscape and innovation ecosystem in NJ. In addition to the support from Gener8tor Management, LLC, the Fund Principal would be supported by:

● New Jersey Advisory Board - A group of experienced operators, venture capitalists and entrepreneurs who provide guidance and an expanded network to the fund manager. These would be individuals based in New Jersey or with a strong New Jersey affinity.

Key individuals at the firm include:
Troy Vosseller, Co-Founder at Gener8tor
Vosseller came to Gener8tor from the University of Wisconsin Law School's Law & Entrepreneurship Clinic, a program providing free legal services to startup businesses and entrepreneurs, where he worked as an Assistant Clinical Professor/Supervising Attorney. As an undergraduate at the University of Wisconsin-Madison, Vosseller founded the most cliché student startup imaginable–a t-shirt company. It was a success, and today Sconnie Nation continues to market a line of apparel that focuses on celebrating the Wisconsin lifestyle. Before discovering his love of startups, Vosseller held brief stints at Qualcomm and Intuit. He holds a BA, MBA and JD from the University of Wisconsin-Madison.

Joe Kirgues, Co-Founder at Gener8tor
Kirgues attended Marquette University where he earned his Bachelor Degree in Finance. He went on to attend the University of Wisconsin Law School, graduating in 2008. He then served as a Clerk to the Honorable Judge William E. Callahan, Jr. in the Eastern District of Wisconsin. Kirgues became an Associate for Quarles & Brady LLP in 2011. He met Gener8tor co-founder Troy Vosseller in 2011 through that position and has been growing the Gener8tor brand since the company was founded in 2012.

Include Venture Partners, LLC Executive Summary
Include Venture Partners is a U.S. based fund of funds and direct investment vehicle focused on investing in diverse-led undervalued, outperforming funds and founders, with a focus on ESG and Sustainability. With professionals operating remotely from California, New York and Washington DC, Include will open an office, likely in northern New Jersey with members of the team consistently located in the office or rotating through on a monthly or weekly basis. Include's management team demonstrates a significant degree of experience and depth of resources to source investments and provide engagement to support the growth of portfolio companies through a holistic platform of education (VCInclude), advisory (Include Global) and investment (Include Ventures). Their NIO response to secure SSBCI SEDI Seed Fund capital is commensurate with the group's fourth fundraise, which exhibits this depth of experience and consistency to their strategy. The firm's expertise extends beyond the pure search for capital gains with the group also demonstrating their acumen with regard to DE&I reporting and administrative sophistication – a

strong need relevant to management of SSBCI funding. Staff proposes a $15 million investment on the basis that Include currently demonstrate the ability to deploy matching funds at the fund level on a 1:1 basis and will continue to raise towards a target $100 million fund target. Include earned a score of 37 out of a possible 52 points for this program.

Fund Strategy:
Include's investment thesis is: "Access to unique talent and ecosystems enables Include to identify undervalued product generating above market rate returns. The Include team has worked with over 1,000 Black, LatinX, Indigenous and women fund managers and founders. Include is investing in funds + founders positively impacting: +How we live +How we work +How we thrive." The Fund intends to pursue a venture capital and growth equity strategy. The Fund's primary investment objective is to realize significant long-term capital appreciation by constructing a portfolio of direct, privately negotiated venture capital and growth equity investments in early-stage companies led by underrepresented founders.

Include works in partnership with VC Include - a diverse fund manager platform and program designed to support the growth of best in class Venture Capital and Impact Fund Managers to drive alpha and positive impact. Includes sectors of focus are: cleantech, fintech, healthtech, edtech and media. VCI was founded by Include's General Partner as a WMBE initiative. The Firm will concentrate its direct investments towards SEDI startups raising Seed through Series B capital rounds, investing $2-3 million per company, inclusive of follow-on capital. The fund manager targets investment returns of S&P 500 plus 500 basis points.

Fund Management:
Bahiyah Yasmeen Robinson serves as the founder of VC Include ("VCI"), a platform for policy, advocacy and leadership launched in 2018. VCI is the first Woman of Color owned platform supporting diverse and women-led fund managers in the U.S., Europe, and Africa. Prior to VCI, Ms. Robinson advised corporations on their strategies to support WOC founders in the US/Africa, and in 2012 was a co-investor in African startups with the U.S. Department of State + World Bank.

Keith Malcolm Spears is an alternative asset professional with a particular expertise in impact investing, private equity, mergers & acquisitions, and real estate. Over a 35-year career, Mr. Spears has worked on over 150 transactions, investments over $10 billion in size, and advised on over $47 billion in transactions at firm such as Goldman Sachs, Credit Suisse + Hamilton Lane. Mr. Spears investments have supported approximately over 120,000 jobs for the State of California.

Dr. Taj Ahmad Eldridge is an investment advisor and a former Sr. Director of Investments at the Los Angeles Clean Tech Incubator (LACI). Previously, Dr. Eldridge served as the Accelerator Director and Fund Manager at the University of California, Riverside, making the ecosystem the #4 city for minority founders by Entrepreneur Magazine. Dr. Eldridge started his career as a 2X exit operator investor + worked for TRW, UBS, and Wells Fargo Bank.

DELEGATED AUTHORITY:

Staff is still negotiating whether the investment will take the form of a limited partnership investment with the selected fund managers serving as general partner and the EDA serving as a limited partner, aligning with EDA's typical venture fund investment mode and process, or as a member in a limited liability company, as is typical in relation to accelerator strategies. Staff is also negotiating with the fund managers as to whether the investment will be commingled with other funding in a single fund or will be invested in a side-car.

Fees and expenses will differ depending on the fund structure, as well as the additional services that the fund manager may provide in an accelerator-based model. Accordingly, staff requests delegated authority to the Chief Executive Officer to determine the fund structure and to negotiate the fees and expenses, provided that the fees and expenses are comparable to market fees for similar fund structures and models and do not exceed SSBCI's 1.71 percent aggregate management fee cap over the life of the fund, organizational expenses of the fund do no exceed $150,000 and annual operating and audit expenses in aggregate will not exceed $25,000 annually, (comparable to side car or multi-asset fund vehicles previously established by the NJEDA based on market research). The organizational expenses and annual operating and audit expenses will be paid from the administrative expense allocated to NJEDA from the SSBCI Program (for example, from the 5% of the first tranche of SSBCI capital).

RECOMMENDATION:

Following from the Notice of Investment Opportunity process and depth of evaluation conducted by Authority staff, according to the criteria established, approval is requested of the Members to:

- Commit an aggregate investment amount of up to $20 million to limited partnerships managed by accelerator and fund manager Gener8tor Management, LLC (Gener8tor), for an amount of up to $5 million, and fund manager Include Venture Partners, LLC (Include), for an amount of up to $15 million, to make investments into a portfolio of businesses led by Socially and Economically Disadvantaged Individuals (SEDI) in New Jersey conforming to the material terms specified in the term sheet attached as **Appendix B**, with final terms approved by the Chief Executive Officer. Funding for the investments will be provided by the State Small Business Credit Initiative (SSBCI) for which NJEDA, on behalf of the State of New Jersey, Department of Treasury, was approved for a total of $255 million for both direct and fund programs.
- Delegate to the Chief Executive Officer the Authority to determine the fund structure (investment commingled with other funds or held in a side-car vehicle) and to finalize fees and expenses with each fund manager based on the parameters contained in this memorandum.

____
Tim Sullivan, CEO

Prepared by:
Emmanuel Esochaghi – Diversity Entrepreneurship and Finance Officer, Venture Programs
Michelle Martinez– Product Officer, Venture Programs
Tim Rollender – Director, Venture Programs

Attachments:
Appendix A – Scoring Rubric
Appendix B – Program Terms

Appendix A – Eligibility & Scoring Rubric

1. FUND MANAGER QUALIFICATIONS & ELIGIBILITY

This Notice is a competitive opportunity. All interested fund managers must provide their submissions by 5pm ET on Thursday, March 16, 2023, in order to be considered. You must submit your submission in PDF format to SSBCISediFund@njeda.com. Only electronic submissions will be accepted.

Furthermore, you must adhere to the following guidelines:
a. Include a cover page with preparer's contact information.
b. Include a table of contents that lists all of the required evaluation criteria in Section 7.
c. Must address each of the evaluation criteria.
d. Must submit all requested information denoted with a "must" or "shall".

Respondents to this notice must fully answer the attached Due Diligence Questions (See Appendix A) and provide supporting exhibits as applicable (see Appendix B). To be eligible for evaluation and potential selection, respondents must demonstrate familiarity with the compliance and reporting standards mandated by SSBCI, and must demonstrate an ability to leverage the allocated public funds for additional private capital to achieve at least a public/private ratio of 1:1 at the fund level. Responses will be scored against the NJEDA scoring matrix. The matrix measures, among multiple factors, the respondents' experience, capacity, and skills, and will rank the respondents against those criteria. The criteria and weights are listed in Section 7.

After scoring is complete, the Authority shall determine, in its sole discretion, whether to proceed with the proposed investment and Fund with the respondent(s) with the highest-scoring submission(s). If the Authority determines to proceed, such respondent(s) shall be required to complete a NJEDA legal debarment questionnaire and other NJEDA and State compliance documentation.

The respondent(s) with the highest-scoring submission shall also be expected to draft investment agreements to reflect NJEDA's investment. Those agreements shall include provisions required by State law and policy, including, but not limited to:

- The fund manager(s) shall indemnify NJEDA (except for investment losses) and provide insurance as NJEDA may request
- NJEDA shall not indemnify the fund manager(s)
- No transfers or assignments without NJEDA consent
- All Fund assets must be transferred to NJEDA upon dissolution
- Standard New Jersey State Conflict of Interest provision
- The fund manager(s) shall be subject to applicable political contribution disclosure requirements, which may include N.J.S.A. 19:44A-20.27 (L. 2005, c. 271)
- Records must be retained the greater of 5 years after the end of the Fund or the period required by federal law, and NJEDA and the New Jersey Office of the State Comptroller shall have the right to audit all records held by the fund manager(s) related to the Fund

- All agreements are subject to the New Jersey Tort Claims Act, N.J.S.A. 59:1-1 et seq., and the New Jersey Contractual Liabilities Act, N.J.S.A. 59:13-1 et seq.

2. EVALUATION PROCESS/SCORING CRITERIA

Submissions will be evaluated by a cross-organizational Evaluation Committee composed of NJEDA staff and management, to evaluate, score, and rank submissions. Scores will be averaged to determine an overall score for each submission.

Below are the evaluation criteria for the SEDI Seed Fund manager(s). Any submission that does not meet the minimum score of 10 in total will not be scored and ranked. Achieving a score of 10 or above does not guarantee selection. Each criterion is equally weighted. Specific questions to be answered that pertain to each criterion are in Appendix A.

1. Experience of Leadership

Considers senior leadership's length of experience as fund manager and investor as detailed in their submission.

0 = No experience as fund manager and investor
1 = Minimal (2-4 years) experience as fund manager and investor
2 = Some experience (4-8 years) as fund manager and investor
3 = Exceptional experience (8-10 years) as fund manager and investor
4 = Unique experience (10+ years) as fund manager and investor

2. Depth of Resource

Considers number of investment professionals, support/back-office staff, professional network, and ability to effectuate strategy and ensure SSBCI compliance as detailed in their submission.

0 = No depth of resources
1 = Internal resources are insufficient for the scope of work, including SSBCI compliance
2 = Internal resources are undersized relative to the scope of work, including SSBCI compliance
3 = Internal resources are right-sized for the scope of work, including SSBCI compliance
4 = Internal resources are more than sufficient to achieve the scope of work in addition to current activities, including SSBCI compliance

3. Consistency of Strategy

Considers whether respondent's targeted strategy is consistent with prior investment experience as detailed in their submission.

0 = Not a consistent investment strategy
1 = Minimal consistency to manager's past investment strategy
2 = Some consistency to manager's past investment strategy
3 = Exceptional consistency to manager's past investment strategy
4 = Total consistency to manager's past investment strategy

4. **NJEDA Partnering**

Considers respondent's ability to serve as a strategic partner to the NJEDA, including the SEDI entrepreneurial ecosystem as detailed in their submission.

0 = No ability to support NJ's entrepreneurial ecosystem
1 = Minimal ability to support NJ's entrepreneurial ecosystem, provides less than 12 hours annually to engage in NJ's ecosystem events
2 = Some ability to support NJ's entrepreneurial ecosystem, provides more than 12 hours annually to engage in NJ's ecosystem events
3 = Exceptional ability to support NJ's entrepreneurial ecosystem provides executive talent to entrepreneurs as well as over 12 hours annually engage in NJ's ecosystem events
4 = Unique ability to support NJ's entrepreneurial ecosystem provides at least 8 events annually for entrepreneurs and/or investors.

5. **Sourcing/Pipeline Development**

Considers respondent's ability to source and track relevant and unique deal flow to effectuate strategy as detailed in their submission.

0 = No ability to source and track relevant deal flow
1 = Minimal ability to source and track relevant deal flow
2 = Some ability to source and track relevant deal flow
3 = Exceptional ability to source and track relevant deal flow
4 = Unique ability to source and track relevant deal flow

6. **Focus industry & Stage**

Considers respondent's ability to focus on identifying investment opportunities into "early-stage" (Pre-seed through Series B) companies in SEDI-owned businesses as defined elsewhere in this document, as detailed in their submission.

0 = No ability to identify NJ SEDI investments
1 = Minimal ability to identify NJ SEDI investments
2 = Some ability to identify NJ SEDI investments
3 = Exceptional ability to identify NJ SEDI investments
4 = Unique ability to identify NJ SEDI investments

7. **Performance History**

Considers respondent's past investment returns (realized & unrealized) on attributed investments as compared to industry and applicant peers (benchmark source: Pitchbook) as detailed in their submission.

0 = No past investment returns
1 = Low (third quartile or lower vs. peers) past investment returns
2 = Moderate (second quartile vs. peers) past investment returns
3 = High (top quartile vs. peers) past investment returns
4 = Exceptional (top 10% vs. peers) past investment returns

8. **New Jersey Investment History**

Considers respondent’s investment amount (on attributed investments) into New Jersey companies to date on an absolute basis and relative to industry and applicant peers as detailed in their submission.

0 = No history of investing in NJ companies
1 = Minimal history (less than 10% of investment) of investing in NJ companies
2 = Some history of investing (10% -25% of investment) in NJ companies
3 = High investment (25% -50% of activity) history in NJ companies
4 = Exceptional investment (50% or more of activity) history in NJ companies

9. Incentive and Alignment

Considers whether respondent’s carry is comparable to peers, properly aligned with objectives, and equitably spread among team, as detailed in their submission. Also considers alignment of respondent’s commitment as a general partner (GP) with limited partners’ commitment(s).

0 = Has above market carry % (over 25%), GP’s commitment <1%
1 = Has high market carry % (over 20%), GP’s commitment <1%
2 = Has high carry % (over 20%), GP’s commitment >3%
3 = Has carry % comparable to peers (20%), GP’s commitment >3%
4 = Has carry % comparable to peers (20%), GP’s commitment >5%

10. Management fees, other fees and Expenses

Considers whether fees and expenses are sufficient to effectuate strategy and comparable to industry as detailed in their submission.

0 = Management fee >2.5% over the life of the fund
1 = Management fee 2.25-2.5% over the life of the fund
2 = Management fee 1.75% - 2.25% over the life of the fund
3 = Management fee 1.25% - 1.75% over the life of the fund
4 = Management fee <1.25% over the life of the fund

11. Governance

Considers whether key person clause is strong and effective

0 = No key person clause
1 = Single individual key person clause
2 = Multiple individual key person clause requiring limited partner vote to activate
3 = Multiple individual key person clause with automatic effect
4 = Multi-tiered key person clause

12. Fundraising status & capability

Considers respondent’s ability to match or raise an additional private capital to meet the SSBCI 1:1, fund-level matching requirement, as detailed in their submission.

0 = No ability or experience to meet required private matching
1 = Minimal ability or experience to meet required private matching; i.e. indicates ability to match less than the SSBCI 1:1 requirement

2 = Some ability or experience to meet required private matching; i.e. can match the SSBCI 1:1 requirement
3 = Exceptional ability and experience to meet required private matching; i.e. can meet 125% of the 1:1 match
4 = Unique ability and experience to meet required private matching; i.e. can meet 200% of the required SSBCI match

13. Diversity

Considers respondent’s clearly articulated diversity, equity, and inclusion (DE&I) policy, specifying the collection of relevant diversity metrics internally, as well as from portfolio companies. Also considers respondent’s clearly articulated Code of Conduct (CofC) addressing harassment and discrimination internally

0 = No defined DE&I and CofC policy for investment company or for portfolio companies
1 = Defined DE&I and CofC policy for investment company or for portfolio companies
2 = Defined DE&I and CofC policy for investment company and for portfolio companies
3 = Defined DE&I and CofC policy for investment company and for portfolio companies with a demonstration of success towards either policy through metrics
4 = Defined DE&I and CofC policy for investment company and for portfolio companies with a demonstration of success towards both policies through metrics

Appendix B – Program Terms

Use of Funds	• The fund manager(s) shall be responsible for complying with SSBCI rules and requirements as issued by the U.S. Treasury. • The Fund's ability to invest is conditional upon the Fund first meeting or exceeding the 1:1 private financing ratio. • In addition to regular reporting provided for in the Fund agreements (which may include Limited Partnership Agreement (LPA) and NJEDA side letter agreement), the selected fund manager(s) shall provide transaction details and federally-required certifications to NJEDA before each investment. • The selected manager(s) shall be responsible to comply with the required guidelines for an investment to be made with funds co-mingled with the SSBCI allocation. • The selected manager(s) must ascertain that their intended investment will be the first SSBCI investment into the prospective firm (including verification documentation). • The prospective business must also be raising a capital round that meets the "early-stage" designation (typically rounds "pre-seed" to "Series A"). • No investments may be made in capital rounds with total round size of $20 million or more. Multiple investment transactions into a specific company, such as follow-on investments, are permissible, provided that funds into any one company will not surpass $20 million

	• Investment proceeds may also be used to purchase any tangible or intangible asset, except goodwill. • Equipment acquisition and installation of $2,000 or more and construction are not eligible uses. • A minimum of 90% of the investments must be in companies with a New Jersey location. A NJ business is: 1. One which at least 50% of non-retail employees working or living in New Jersey, or 50% of payroll is paid to employees, living or working in NJ; or, 2. A business which has its headquarters in New Jersey.
Minimum Requirements	• The selected fund manager(s) must convene in-person office hours or engagements in New Jersey on a regular basis. • If the interested fund manager(s) does/do not currently have an office in the State, the manager(s) may operate at a remote or satellite in-State office, co-working facility or establish a permanent facility. The office location must be provided to the Authority before closing and evidence must be presented to verify the active and in person sourcing efforts in New Jersey. • The selected fund manager(s) shall enter into one or more agreements with the Authority regarding the investment, which agreements will be governed by New Jersey law and shall include the minimum 1:1 private capital matching requirement. • The selected fund manager(s) shall provide to the Authority annual Certified Public Accountant prepared financial statements for the life of the investment. • The fund manager(s) shall submit quarterly and annual reports as described below.

	• The Authority shall have a position on the Fund's advisory board.
Certifications	• The selected fund manager(s) shall supply certifications to the Authority relative to award and receipt of funds, and such certifications shall be supplied to the U.S. Treasury by NJEDA. Preliminary form documents will be provided by NJEDA as soon as possible after signing of the allocation agreement. • The selected fund manager(s) must also certify that no principal of the selected fund manager(s) has been convicted of a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act (34 U.S.C. § 20911, formerly 42 U.S.C. § 16911)). • The selected manager(s) must obtain a written certification from the investee affirming that the investee is not: o A business engaged in speculative activities that profit from fluctuations in price, such as wildcatting for oil and dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business or through the normal course of trade; o A business that earns more than half of its annual net revenue from lending activities, unless the business is (1) a CDFI that is not a depository institution or a bank holding company, or (2) a Tribal enterprise lender that is not a depository institution or a bank holding company; o A business engaged in pyramid sales, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants; o A business engaged in activities that are prohibited by federal law or, if permitted

	by federal law, applicable law in the jurisdiction where the business is located or conducted (this includes businesses that make, sell, service, or distribute products or services used in connection with illegal activity, unless such use can be shown to be completely outside of the business's intended market); this category of businesses includes direct and indirect marijuana businesses, as defined in SBA Standard Operating Procedure 50 10 6; o A business deriving more than one-third of gross annual revenue from legal gambling activities; • The Authority will require a certification from the selected manager(s) on the use of funds and prohibited use of funds before funding any and all capital calls. The selected manager(s) must specify that the intended use of called capital is compliant with use of funds and reporting requirements. In the event of non-compliance, NJEDA may not fulfill capital call funding for the transaction. • In the contractual agreement between a jurisdiction and a venture capital fund, the fund must be required to identify the services to be provided to portfolio companies and annually certify that these services were provided. The agreement between the fund and the portfolio companies must include disclosure of these services offered by the fund manager. Consistent with industry standards on payments of fees to cover these services to portfolio companies, the fund will reimburse the jurisdiction for payments of such services by SSBCI funds before returns are paid to the general or limited partners as will be recorded in the distribution of funds section of the LPA.

	• The selected manager(s) must obtain written certifications from the investees affirming that the investment proceeds will be used for business purposes. A business purpose includes, but is not limited to, start-up costs; working capital; franchise fees; and acquisition of equipment under $2,000, inventory, or services used in the production, manufacturing, or delivery of a business's goods or services, or in the purchase, renovation, or tenant improvements of an eligible place of business that is not for passive real estate investment purposes. • The selected fund manager(s) shall collect certifications from the portfolio companies relative to company name, jobs, and receipt of benefits. Preliminary form documents will be provided by NJEDA as soon as possible after signing of the allocation agreement.
Reporting	• In addition to industry-standard reporting provided for in the Fund agreements (which may include Limited Partnership Agreement (LPA) and NJEDA side letter agreement), the selected fund manager(s) shall provide transaction details and federally-required certifications to NJEDA before each investment. • The selected fund manager(s) shall provide, when requested by the Authority, any information on the Fund's portfolio companies and jobs created, as such information will be requested by the federal government. • The selected fund manager(s) shall provide quarterly financial statements and Fund updates in written form within 15 days of the end of each calendar quarter after the award documents are executed. The updates must include detail on companies

	invested into, including but not limited to industry, business specifics, location, jobs, additional funding, and highlights of portfolio business advancements. The quarterly report must also include updates on activities to support the ecosystem of SEDI entrepreneurs and businesses in New Jersey, including events and marketing. • In addition to the report items listed above, the report shall also include the total amount of SSBCI funds deployed to eligible small businesses on a quarterly and cumulative basis, the aggregate amount of SSBCI funds deployed for very small businesses (VSBs) and businesses owned by socially and economically disadvantaged individuals (SEDI-owned businesses), the amount of program income generated, and the amount of SSBCI funds deployed for administrative costs. • The Fund Manager(s) shall also submit quarterly reporting with transaction detail to NJEDA. • The fund manager(s) shall submit SSBCI annual reports and certifications by March 15 of each year, the details of which will be captured in the LPA, LLC agreement or side letter.
Non-Compliance	If the selected Fund Manager fails to provide the deliverables required in the investment contract with NJEDA, they will be granted a 90-day grace period in which to cure the shortfall(s), after which point management fees will be withheld until deficiencies are corrected as outlined in the award agreement. Fees and carry shall be withheld if the fund manager is not in compliance with the obligations in the agreement with EDA, including, but not limited to, compliance with SSBCI law, regulations, and policy.

	The fund manager shall indemnify and hold harmless NJEDA, including, but not limited to, any re-payment of the Investment that the U.S. Treasury requires except as arising from the Investor’s gross negligence or willful misconduct.
Notice Requirements	All terms incorporate any detailed requirement in the Notice of Investment Opportunity. Any other requirement in the Notice is also included