

Approved by the Board of Trustees,
March 10, 2005

Board Meeting
March 10, 2005

ROLL CALL

AUTHORIZE THE ESTABLISHMENT OF A CONTRACT FOR INVESTMENT (Illinois Emerging Technologies Fund, L.P.)

Action: Approve Investment in Illinois Emerging Technologies Fund, L.P.,
Managed by Illinois VENTURES, LLC

Funding: Investment Income and Appreciation on the Endowment Pool Investment
Program

The Board of Trustees approved a five percent allocation (approximately \$10.0 million) to private equity within the endowment pool investment program in September 2002. The purpose of the private equity allocation was to improve the endowment pool investment diversification and total return.

In May 2003 the Board of Trustees approved the initial private equity investments with the hiring of Adams Street Partners (a fund-of-funds partnership) and Edgewater Private Equity Fund IV (a direct limited partnership). After considerable analysis and discussions including trustees, the University's investment consultant (Ennis Knupp) and staff, it was determined the private equity program should be implemented via a core (diversified fund-of-funds investment) and satellite (direct investment in regional limited partnerships) approach. The core component was to represent 70 percent of the private equity commitment with the remaining 30 percent allocated to venture capital firms located in the Midwest, with a particular emphasis on Illinois. The core

fund-of-funds investment was to serve as the anchor of the private equity program due to its diversification attributes of investments in several underlying limited partnerships.

In March 2004 the Board of Trustees approved subsequent investments in private equity with funding commitments to DFJ Portage, Arch Development Partners, and Hopewell Ventures as regional private equity limited partnerships. The regional private equity investments were targeted to provide return on investment and to foster economic development in the Midwest. In both instances, request for proposals were issued. The University's financial consultant, Ennis Knupp, staff, and trustees evaluated the responses and interviewed the firms' general partners.

In April 2000 the Board of Trustees authorized the formation of IllinoisVENTURES, LLC, a limited liability company which supports the development of new companies commercializing University technologies through such activities as assisting companies to obtain seed and venture capital funds, to recruit management talent, to develop business plans, to secure necessary business services, and so forth, to help these companies succeed. The Board of Trustees is the sole member of IllinoisVENTURES, LLC.

In June 2003 the Board of Trustees authorized IllinoisVENTURES, LLC, to form the Illinois Emerging Technologies Fund (IETF) for the purpose of making equity and equity-related investments in promising new companies commercializing University of Illinois technologies. IllinoisVENTURES organized a limited liability company, IllinoisVENTURES GP, LLC, to serve as general partner of the Fund. The sole managing member of the general partner is IllinoisVENTURES, LLC.

At the time the regional private equity interviews were conducted, the IllinoisVENTURES Managing Principal presented the concept of the University investing in the Illinois Emerging Technologies Fund.

An outcome of this presentation was to give consideration to allocate funds to IETF. Subsequent to the meeting, university counsel determined that such an investment is permissible. University staff has conducted initial due diligence on the fund and evaluated terms/conditions of the Offering Memorandum. This investment represents an opportunity to generate an acceptable return on investment and to demonstrate support for University of Illinois research and technology commercialization efforts.

The Illinois Emerging Technologies Fund, L.P., will invest in early-stage companies with primary emphasis on those firms that seek to commercialize technologies developed at the University of Illinois. As of December 31, 2004, the fund size was \$20.2 million with commitments from various institutional and individual investors. The fund's general partner is 95 percent owned by IllinoisVENTURES, a university related organization, and five percent owned by five individuals who provide day-to-day fund management. All investment decisions must be approved by a majority of the general partner's board of directors.

The recommended allocation is \$0.5 million to the Illinois Emerging Technologies Fund, L.P. The partnership has both management and carried interest fees.¹ The management fees will be funded by the investment income earned on the Endowment Pool Investment Program.

Accordingly, the Vice President for Administration requests authority to establish an investment management contract with Illinois VENTURES, LLC, and adoption of the attached resolution.

The board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes, The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The President of the University recommends approval.

¹Annual fee of two percent of committed capital plus 20 percent carried interest such that 100 percent of each distribution is made to the Limited Partners until the Limited Partners have received an amount equal to their commitment. Thereafter, distributions are made in a ratio of 80 percent to the Limited Partners and 20 percent to the General Partner. Note that General Partner profit interest will be allocated between the principals and Illinois VENTURES, LLC, annually to be determined at the sole discretion of the board of Illinois VENTURES GP, LLC, the General Partner of IETF.

RESOLUTION

Be it Resolved, that the Comptroller of the Board of Trustees of the University of Illinois is authorized to enter into agreements to purchase a limited partnership interest in Illinois Emerging Technologies Fund, L.P.

Be It Further Resolved, that the Comptroller is authorized from time to time to designate in writing to Illinois Emerging Technologies Fund, L.P., those officers, employees, and other agents of the University of Illinois authorized to give written or verbal instructions on behalf of the University of Illinois.

Be It Further Resolved, that each of the foregoing resolutions shall continue in force until written notice of its rescission or modification has been received by Illinois Emerging Technologies Fund, L.P.