

Board Meeting
March 11, 2009

Revised, March 10, 2009

ROLL CALL

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

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

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

In April 2000, the Board of Trustees authorized the formation of Illinois VENTURES, LLC, a limited liability company that supports the development of new companies commercializing University technologies through activities such as assisting companies in obtaining seed and venture capital funds, recruiting management talent, developing business plans, and securing business services necessary to help these companies succeed. The Board of Trustees is the sole member of Illinois VENTURES, LLC. ~~approved a five percent allocation 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 June 2003, the Board of Trustees authorized Illinois VENTURES, LLC to form the Illinois Emerging Technologies Fund (ITEF) for the purpose of

making equity and equity-related investments in promising new companies commercializing University of Illinois technologies. Illinois VENTURES, LLC organized a limited liability company, Illinois VENTURES GP, LLC, to serve as general partner of the Fund. The sole managing member of the general partner is Illinois VENTURES, LLC.

In September 2002, the Board of Trustees considered and approved a five percent allocation to private equity and venture capital investments within the endowment pool investment program ~~in September 2002~~ in order ~~The purpose of the private equity allocation was to improve the endowment pool investment diversification and total return.~~ A policy range of 0-7 percent for the allocation was also established to allow time for the private equity program to be ramped up and to allow for fluctuations in asset values over time.

Through ~~The initial private equity investments were approved by the Board of Trustees in May 2003 with the hiring of Adams Street Partners (a fund-of-funds partnership) and Edgewater Growth Capital Partners, L.P. (a direct limited partnership).~~ ~~At that time, after~~ considerable analysis and discussions ~~including~~ involving Trustees, the University's investment consultant (Ennis Knupp) and University staff, it was determined the private equity program should be structured via a core (diversified fund-of-funds investment) and satellite (direct investment in regional limited partnerships) approach, with the core component representing approximately 70 percent of the allocation and ~~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 serves as the anchor of the private equity program to provide external private equity expertise and oversight, access to high quality partnerships, and time diversification.

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The initial private equity investments were approved by the Board of Trustees in May 2003 with the hiring of Adams Street Partners (a fund-of-funds partnership) and Edgewater Growth Capital Partners, L.P. (a direct limited partnership). In March 2005, the Board of Trustees approved a \$0.5 million allocation to the Illinois Emerging Technologies Fund, L.P. **Together with investments from private investors, the total size of the fund was \$27.0 million.** As of December 2008,

Fund I has invested approximately \$17.0 million in ~~sixteen~~ **fifteen** companies, **combined with co-investments from other funds and investors, the total amount invested in these companies is in excess of \$300.0 million.** ~~Approximately, sixty-five~~ **Over 70** percent of Fund I deal flow was sourced from the University of Illinois.

Since Fund I investment capital will soon be fully deployed, the formation and fund raising for a follow-on investment vehicle is being pursued. Illinois Emerging Technologies Fund II, L.P. will **have a similar strategy of investing** in seed and early-stage companies with a focus on research-derived investments. The targeted size for Fund II is ~~\$75~~**60.0** million with a maximum capital raise of \$100 million. This level of funding is expected to generate a portfolio of fifteen to eighteen companies. The partnership has both management and carried interest fees¹. University Counsel retained an outside firm who determined an investment by the University in the Illinois Emerging Technologies Fund II is permissible.

Financial market conditions are creating unprecedented volatility in asset class valuations within the University's endowment pool. As private equity investments are illiquid, this may cause the private equity allocation to exceed the maximum policy range of seven percent on a temporary basis. ~~To ensure policy compliance is maintained,~~

¹Annual fee of 2.5 percent of committed capital plus 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 the 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.

The Vice President/Chief Financial Officer and Comptroller recommends raising the upper limit for the private equity allocation to ten percent.

Accordingly, the Vice President/Chief Financial Officer and Comptroller recommends the Board of Trustees approve the following actions:

1. Allocation of ~~\$3~~2.0 million within the University endowment pool for investment in the Illinois Emerging Technology Fund II, L.P., **subject to a minimum initial closing that includes \$15.0 million from other investors.**
2. Adjustment of the acceptable investment band for private equity investments within the endowment pool from 0-7 percent to ~~0~~3-10 percent.
3. Adoption of the attached resolution to delegate authority to execute the agreements.

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 concurs.

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 II, L.P.

Be It Further Resolved, that the Comptroller is authorized from time to time to designate in writing to Illinois Emerging Technologies Fund II, 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 **from the Comptroller of the Board of Trustees** of its rescission or modification has been received by Illinois Emerging Technologies Fund II, L.P.