

# NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

## NOTICE OF INVESTMENT OPPORTUNITY

For

## THE BLACK & LATINO SEED FUND (BLSF)

### Deadlines, Q&A, Confidentiality

#### SUBMISSION REQUIREMENTS AND TIMELINE

Respondents to this Notice of Investment Opportunity are required to submit detailed responses to the questions covered in Appendix A of this document and to provide the documents listed in Appendix B of this document, in addition to other information as may be required to sufficiently evaluate responses.

NOTICE PROJECTED MILESTONE DATES:

**Notice of Investment Opportunity Available on NJEDA Website:** Thursday, February 9, 2023, 5:00 PM ET

**Responses to Notice Due:** Thursday, March 16, 2023, 5:00pm ET (35 days after notice available) via electronic format only to [BlackAndLatinoSeedFund@njeda.com](mailto:BlackAndLatinoSeedFund@njeda.com)

**Review and Consideration of Investment by Authority Board:** Wednesday, May 10, 2023\* (55 days after responses due)

**Documentation and Contract Executed:** Monday, July 10, 2023\*

\* The above dates are provided to interested fund managers for planning purposes only. These are estimated timeline dates and do not represent firm commitment dates by the Authority.\*

When preparing your response to this Notice, keep in mind that, in this Notice, the word “shall” or “must” denotes proposal items which are mandatory for a proposal to be deemed complete; the word “should” denotes proposal items which are recommended, but not mandatory; and the word “may” denotes proposal items which are permissible, but not mandatory.

#### QUESTIONS and ANSWERS:

- Questions concerning this notice may be submitted in writing via e-mail to [BlackAndLatinoSeedFund@njeda.com](mailto:BlackAndLatinoSeedFund@njeda.com) and must be received at or before 5 PM ET on Tuesday, February 21, 2023. Phone calls/faxes shall not be accepted.
- The subject line of the e-mail must state: “Black & Latino Seed Fund Manager Notice of Investment Opportunity.”
- All answers to the questions submitted within the required timeline for this notice will be posted to the Authority’s website <https://www.njeda.com/notices-of-investment-opportunity/> as soon as available, but in no event later than Friday, March 3, 2023, at 5:00 PM ET.

#### CONFIDENTIALITY:

All responses and materials submitted in connection with this Notice may be subject to requests for disclosure, including, but not limited to the Open Public Records Act ("OPRA"), N.J.S.A. 47:1A-1 et seq. If the respondent asserts that any of its information is protected from disclosure, respondent must identify and mark any such specific information as protected and must the basis for such purported protection from disclosure.

## 1. INTENT/SUMMARY

The New Jersey Economic Development Authority ("NJEDA" or "the Authority") seeks submissions from venture capital manager(s) that have demonstrated competency, capacity, and skill in managing early-stage investment strategies into start-up and early-stage companies in New Jersey, to manage a possible Black and Latino Seed Fund (the "Fund") for investment into innovative, Black and Latino owned businesses. This notice, and subsequently the possible Black and Latino Seed Fund, defines these businesses as "NJ-headquartered businesses where at least 51% of its ownership interest is held by Black or Latino entrepreneurs". A "Black Entrepreneur" is an entrepreneur with racial origins in any black racial groups in Africa. Similarly, a "Latino Entrepreneur" is an entrepreneur of Spanish or Portuguese heritage, with origins in Mexico, South or Central America, or the Caribbean Islands, regardless of race.

The New Jersey Economic Recovery Act of 2020, P.L. 2020, c. 156, defined "targeted industries" for various new State tax credit programs as certain innovative industries. The Authority further clarified the definition for the Emerge Program at N.J.A.C. 19:31-22.2. The Authority is using the "targeted industries" definition from the Emerge Program, available on the NJEDA's website (<https://www.njeda.com/wp-content/uploads/2021/05/Appendix-C-Targeted-Industries-Definitions.pdf>) to define innovative businesses for purposes of the Fund: "any industry identified from time to time by the Authority that shall initially include advanced transportation and logistics, advanced manufacturing, aviation, autonomous vehicle and zero-emission vehicle research or development, clean energy, life sciences, hemp processing, information and high technology, finance and insurance, professional services, film and digital media, non-final point of sale retail food and beverage businesses, including food innovation, and other innovative industries that disrupt current technologies or business models.

A business shall be considered to be in a targeted industry, and thus innovative, if the primary activity undertaken by the employees are in a targeted industry, or if the business is engaged primarily in a targeted industry. The Authority may consider other innovative industries that disrupts current technologies or business models, by assessing factors, including, but not limited to, whether the businesses in the industry are offering products or services that significantly improve current market offerings on the basis of price or other performance levels, whether the new industry creates opportunities for new firms to enter and redefine the supply chain or value chain of an industry, or whether the industry utilizes new technology or business processes that allow New Jersey-based firms to collect a share of revenues that were traditionally only available to companies in other geographies."

**This Notice is not a guarantee that the Fund will be established. The establishment of the Fund, and any determination of the amount of the Authority's investment, is contingent upon the results and the Authority's review, in its sole discretion, of the disparity study being**

**conducted by the Authority into its equity investments (“Equity Investment Disparity Study”).**

Subject to the Equity Investment Disparity Study, the Authority may commit up to \$20 million to one or more venture capital manager(s) from the funds appropriated to the Authority by the State of New Jersey (“NJ or “State”) in 2022 and 2023 State budget appropriations to form the Fund. The objective of this Notice is to identify a manager or managers whose expertise best meets the purpose of the Fund. The NJEDA reserves the right to reject any and all submissions at its discretion, including any and all submissions that meet the minimum score.

The general *scope of services* requires that the successful manager fully invest and manage the Fund on NJEDA’s behalf. Management of the fund will broadly entail, but not be limited to:

- Creating the Fund special purpose vehicle, if applicable
- Contributing to the capital raise by utilizing established relationships to draw additional capital commitment to the Fund
- Strict adherence to fund limited partnership agreement (LPA) and side letter compliance requirements
- Developing and maintaining a pipeline of prospective, NJ-based, Innovative, Black and Latino-owned companies in need of seed or early-stage capital (deal sourcing)
- Responsibly investing the capital into qualifying businesses in line with the Fund strategy as agreed upon at time of execution
- Managing the Fund’s day-to-day operation and reporting requirements
- Setting and managing annual budgets
- Managing employees, back-office, vendors, investor relations
- Responding to non-deal requests from the Authority related to the purposes of the Fund, such as market intelligence reports, and other ad hoc requests that the NJEDA may generally require
- Developing, managing, and maintaining necessary due diligence measures
- Monitoring, managing, and reporting on portfolio companies
- Working closely to support portfolio chief executive officers to ensure value creation and provide a pipeline of services to the portfolio companies

To be considered, respondents must fully respond to the Due Diligence Questionnaire in Appendix A and must include the required exhibits listed in Appendix B. The evaluation process is outlined in Section 5.

## **2. BACKGROUND**

Since 1999, the Authority has committed more than \$64.5M to 20 venture capital funds. These 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.

As part of his proposed State Fiscal Year 2022 budget, Governor Murphy proposed a \$10 million appropriation for the Fund. The Authority is responsible for the implementation of the Fund, and the purpose of the Fund is to increase access to capital for Black and Latino owned innovation businesses. An additional \$10 million was appropriated to the Authority for the Fund in State Fiscal

Year 2023. With a maximum amount of \$20 million, the Authority is undertaking an Equity Investment disparity study to determine the need to deepen the Authority's early-stage investments into Black and Latino owned businesses. The successful manager(s) will utilize the amount determined by the Authority based on the Equity Investment disparity study, up to the maximum of \$20 million, to make seed-stage investments into New Jersey Black and Latino owned innovation businesses.

The State and the Authority have developed various products as further inducement to encourage engagement from venture managers. For example, the State recently revised the NJ Angel Tax Credit (ATC) Program to incentivize Limited Partners' (LPs) commitments to NJ-dedicated venture capital funds. The recent update to the ATC Program allows venture capital fund LPs, whose General Partners (GP) commit to investing at least 50% of the fund into New Jersey-based businesses, to receive NJ corporate business or gross income tax credits up to 20% of their commitment to the fund. The tax credit amount is increased by 5% if the venture capital fund commits to invest at least 50% to diverse entrepreneurs (defined as State certified minority- or women-owned businesses). Subject to New Jersey tax law, the amount of the tax credit otherwise allowable against the LP's tax, which cannot be applied for the tax credit approval year against the tax credit otherwise due may be treated as an overpayment, or carried forward if a corporate business tax. **This summary is provided as a courtesy and is not comprehensive. Respondents must consult with their own consultants, advisors, and attorneys to determine applicability of the ATC Program.**

### **3. SCOPE OF SERVICES / DELIVERABLES:**

The following deliverables are the *minimum* requirements of the fund manager(s)'s performance against the resulting investment contract:

- 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 does not currently have an office in the State, a manager 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 shall be governed by New Jersey law.
- The selected fund manager(s) must provide quarterly financial statements and Fund updates in writing at the end of each calendar quarter after the award documents are executed. The Fund 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 Black and Latino entrepreneurs and businesses in New Jersey, including events and marketing.
- The selected fund manager(s) shall provide annual Certified Public Accountant prepared financial statements for the life of the investment. The Authority shall have a position on the Fund's advisory board.

The Authority reserves the right to:

- Request other supporting documentation from the respondent to support approval of this investment. All documents submitted by the respondent are non-returnable to the respondent fund manager.
- Modify, expand or delete any portion(s) of the Scope of Services/Deliverables.
- Conduct interviews with the respondent fund managers.
- Terminate this Notice for any reason.
- Reject any submission in its sole discretion. Incomplete submissions or submissions not received by the due date will result in the submission deemed nonresponsive and not being reviewed or considered.

Any firm submitting a response acknowledges that the compliance requirements and regulations listed may not be a complete or final list of the selected fund manager's responsibilities.

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.

#### **4. MANAGER QUALIFICATION & ELIGIBILITY**

This Notice is a competitive solicitation. 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 [BlackandLatinoSeedFund@njeda.com](mailto:BlackandLatinoSeedFund@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 5.
- 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). 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 5.

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 highest-scoring respondent 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 shall indemnify NJEDA (except for investment losses) and provide insurance as NJEDA may request
- NJEDA shall not indemnify the fund manager
- 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 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, and NJEDA and the New Jersey Office of the State Comptroller shall have the right to audit all records held by the fund manager 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.

## **5. EVALUATION/SCORING CRITERIA**

Submissions will be evaluated by a cross-organizational Evaluation Committee composed of the Authority's 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. 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 as detailed in their submission

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

### **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 Black and Latino 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

- 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 Black and Latino-owned businesses as defined elsewhere in this document.

- 0 = No ability to identify NJ Black & Latino-owned investments
- 1 = Minimal ability to identify NJ Black & Latino-owned investments
- 2 = Some ability to identify NJ Black & Latino-owned investments
- 3 = Exceptional ability to identify NJ Black & Latino-owned investments
- 4 = Unique ability to identify NJ Black & Latino-owned investments

#### **7. Performance History**

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

- 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

- 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. 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

- 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 invest alongside the Authority's investment (up to \$20 million)

- 0 = No ability or experience to meet required private matching
- 1 = Minimal ability or experience to meet private matching; i.e. indicates ability to match only up to 1:1 of the Authority's investment
- 2 = Some ability or experience to meet private matching; i.e. can match the only up to 1:1 of the Authority's investment
- 3 = Exceptional ability and experience to meet private matching; i.e. can meet 125% of the Authority's investment
- 4 = Unique ability and experience to meet private matching; i.e. can meet 200% of the Authority's investment

## **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 A

### DUE DILIGENCE QUESTIONNAIRE

Respondents to this notice are required to submit detailed responses to these questions, which give insight into the prospective managers' structure and policies.

#### 1.0 Respondent Firm: General Information

- 1.1. Provide a brief overview of respondent, including information on the founding, subsequent history and information on any predecessor firm and/or parent firm.
- 1.2. Provide the address for all office locations of respondent. Describe the potential plans for any expected office location changes during the life of the Fund.
- 1.3. Provide an overview (including chart) of the ownership structure of respondent, its relevant investment advisors, and any parent organization. Include details on the timing and rationale for each significant ownership change. Include percentage ownership, ownership vesting schedules, and any changes in ownership over the last 10 years as well as any future anticipated ownership changes and vesting schedules.
- 1.4. Provide brief bios for each member of respondent. Indicate any involvement by members of the management team in any community or business organizations active in New Jersey.
- 1.5. Provide an overview (including chart) of the management/organizational structure of respondent, including back-office personnel. Discuss respondent's succession plans.
- 1.6. Provide an overview of all investing, advisory or other business activities performed by respondent. If respondent entered into any joint ventures with another manager, describe the structure, governance and economics of the relationship.
- 1.7. Describe any additional outside activities (non-profit, academic, etc.) of respondent or its Principals, as named in respondent's organizational documents, that are expected to take-up a significant (approx.  $\geq 20\%$ ) amount of time during the investment period of the Fund. Include the associated time commitments for each activity.

#### 2.0 Respondent Firm: Diversity and Inclusion

- 2.1. Detail respondent's formal Diversity and Inclusion policy or initiative. Has the Firm been successful in implementing its D&I policies? Please be thorough in your assessment.
- 2.2. Does respondent have a senior executive appointed to ensure the policy is executed?
- 2.3. Describe the development/implementation of and/or any significant changes to respondent's Diversity and Inclusion policy and Code of Conduct since the closing of respondent's most recent prior fund (or the inception of the firm if raising your first fund).
- 2.4. Detail respondent's Code of Conduct that covers harassment, discrimination and/or workplace violence.

- 2.5. Indicate if respondent would require such a Code of Conduct for the Fund's portfolio companies.
- 2.6. Does respondent have a formal underwriting procedure to evaluate diversity in prospective businesses it is considering for investment? If "yes," what metrics does respondent consider relevant?
- 2.7. Have there been any claims of sexual or general harassment, misconduct or discrimination against any current or former respondent employees (while employed by respondent) within the last 5 years? Please explain.
- 2.8. Does respondent track the gender composition of employees taking family leave benefits? If 'yes', provide a summary of employees that have taken family leave in the last three years.
- 2.9. For investments made by respondent during the last five years, what is the average percentage of female board members per company? Average percentage of minorities? Data should be as-of the earlier of the most recent quarter-end or the date the investment was exited. Only include investments in which respondent held a majority interest (either directly or through "club deals").
- 2.10. Does respondent have formal mentorship program for minorities and/or women?
- 2.11. Does respondent work with organizations that promote the attraction and retention of women and minorities within private equity? If "yes", provide a list of these organizations, as well as any additional programs you have embraced.

### **3.0 Proposed Fund: General Information**

- 3.1. Provide the proposed legal and tax structure of the Fund (including chart). Describe any distinctive features.
- 3.2. Detail respondent's ability and capacity in attracting additional capital to the Fund. List any current investor (limited partner) relationships (if available, the names and contact details) that you are confident could commit capital to the Fund. Have they invested in any previous funds managed by respondent?
- 3.3. In your efforts to attract additional capital to the Fund, will unregistered placement agents (i.e. (a) not affiliated with a FINRA member broker-dealer, or (b) not registered as a municipal advisor with the SEC and the MSRB be prohibited from assisting in the fundraising process?
- 3.4. State respondent's policy (or proposed policy) regarding co-investments with other funds, agencies, allocators, other affiliates and/or limited partners. How will these co-investment opportunities be allocated? If applicable, provide examples of past co-investments.
- 3.5. State respondent's proposal for the Fund's ability and intent regarding borrowing capital, as well as any limits on borrowing capacity. Is the Fund prohibited from holding leverage on its balance sheet?

### **4.0 Proposed Fund Investment Strategy**

- 4.1. Summarize respondent's proposal for the investment strategy and types of transactions the Fund will pursue. Include details on anticipated transaction sizes (including minimum/maximum), investment pace, holding periods, industry/sector focus, investment stage and other relevant characteristics).
- 4.2. Indicate the Fund size needed to achieve critical mass to effectuate the targeted strategy as delineated by the respondent. Discuss respondent's ability to invest at the Fund's targeted size as

delineated by the respondent. Also address the impact on co-investing with Limited Partners and non-Limited Partners.

- 4.3. Provide detail on respondent's proposal for the Fund's diversification strategy in terms of number of investments and sector allocations.
- 4.4. Describe the background and evolution of respondent's investment strategy, including strategies that may not apply to this Fund. Discuss how respondent's proposed Fund investment strategy compares to respondent's previous (if applicable) and current fund.
- 4.5. Describe respondent's competitive advantages and discuss how respondent attempts to produce replicable returns.
- 4.6. Describe respondent's proposal for how the Fund will invest the capital in NJ-based, Black and Latino-owned companies. What percentage of respondent's current portfolio companies are located in NJ? What percentage of respondent's current portfolio companies are owned by Black and Latino entrepreneurs?
- 4.7. Describe the Black and Latino entrepreneur venture capital market in NJ and provide an overview of current opportunities. Discuss respondent's experience investing in Black and Latino entrepreneurs.
- 4.8. Describe respondent's proposal for the Fund's investment structures. What will be the typical equity structures used by the Fund? Discuss the use of leverage at the portfolio company level and state the targeted leverage levels (%) of a typical investment. Discuss the effectiveness of the Fund's expected strategy if leverage is not applied.
- 4.9. Describe respondent's preference for being a control, minority, joint or sole investor. Detail this preference historically. What controls and rights does respondent seek when executing investments? If predominately a control investor, under what scenarios would respondent consider a non-control position (and vice-versa)?
- 4.10. Describe any proposed Fund investment limitations (e.g. % of fund in a single company, geography, security type, company stage, etc).
- 4.11. Describe and list the Fund's direct competitors.
- 4.12. Discuss the risk factors of respondent's proposed Fund investment strategy (e.g. political risk, economic, financial, geographic, technology, business cycle, etc.) and the steps taken to mitigate these risks.
- 4.13. Discuss respondent's approach to working with existing or new management teams at portfolio companies. Describe (citing examples) the strategies that are used to incentivize portfolio company management teams. Discuss the services respondent proposes that the Fund provides portfolio companies.
- 4.14. Discuss respondent's strategic strengths used to create value for its portfolio companies (i.e. restructuring, strategic (re)positioning, leveraging, structural improvements – marketing, finance, operations, etc.). Discuss how respondent's strengths in creating value for investments impact its sourcing capabilities. Provide case studies to illustrate respondent's value creation capabilities, if possible.
- 4.15. What is respondent's proposed return-profile threshold (gross IRR, money multiples, etc.) for targeted investments? What is respondent's proposed holding period?

4.16. What are possible drivers that could lead to investing more or less capital in NJ-based investments?

## **5.0 Respondent Investment Process**

5.1. Describe respondent's deal sourcing capabilities and the process used to identify attractive investment opportunities. How is the sourcing process staffed, conducted and documented? What criteria are used to assess an investment's attractiveness? Is the process documented?

5.2. Describe respondent's screening and due diligence processes. How is each process staffed, conducted and documented? How long is the due diligence process?

5.3. Describe any functions performed by third parties in the sourcing, screening and due diligence processes. Describe respondent's decision-making process for determining if a third party is used/not used.

5.4. Provide details on respondent's internal decision-making and approval process, including details on the role, composition and function of respondent's investment committee.

5.5. Discuss respondent's approach to the valuation of investment opportunities and pricing discipline.

5.6. Discuss respondent's portfolio investment monitoring policy, including details about contact events (weekly, quarterly, board meetings, etc.). Discuss respondent's approach to board representation at its portfolio companies.

5.7. How many active portfolio companies is each investment professional responsible for? How was this number determined and how has it evolved over respondent's history?

5.8. Describe respondent's criteria for evaluating follow-on investments Does respondent propose that the Fund follow the most current International Private Equity and Venture Capital (IPEV) valuation guidelines? Include a description of respondent's proposal for the Fund's provisions for capital recycling and follow-on reserves.

5.9. Discuss if respondent proposes that the Fund be valued by an independent, third-party valuation firm.

5.10. Discuss respondent's strategy/criteria/plan for exiting investments. Include an analysis of past exits (IPO, trade sale, financial buyer, write-offs, etc.). Provide examples that illustrate respondent's decision-making for choosing the type of exits.

5.11. Describe respondent's processes for protecting against fraud and corruption, post-investment. If applicable, discuss any fraud and/or corruption that were detected in prior investments. Describe the respondent's process to resolve problems, noncompliance, etc.

## **6.0 Respondent Track Record**

6.1. Provide examples of active/exited investments with an investment multiple (TVPI) below 1.0x. Discuss what went wrong, action taken, lessons learned and how (and when) outside experts were brought in.

6.2. Discuss any investments in respondent's track record that are not being included in the provided appendices. Describe the rationale from excluding them.

## **7.0 Reporting**

7.1. Provide the name, address, and email of the audit firm(s), along with a contact's name and email address, that you have used for respondent (plus respondent's Principals as named in the respondent's organizational document) and its fund(s) over the last 3 years. Also discuss if the audit firm(s) is unaffiliated with respondent or any of its current or former individuals managing the fund.

7.2. Discuss if carry payments and allocation in prior funds have been audited (as part of an annual audit of respondent and its funds), as will be in this fund, to ensure they reflect the terms and conditions in the limited partner agreement.

7.3. Discuss respondent's proposal for the Fund's standard reporting package and confirm if respondent proposes that it will be modeled on the Institutional Limited Partner Association (ILPA) Reporting Best Practices.

## **8.0 Respondent Team**

8.1. Provide an overview of respondent's executive Members, owners, or managers, including the shared work history of respondent's owners, principals, and managers as noted named in the GP respondent's organizational document. Also, provide a description of each job title, detailing the responsibilities held by junior, mid-level and senior staff.

8.2. Provide brief bios for each investment professional of the respondent. Indicate any involvement by members of the management team in any community or business organizations active in New Jersey.

8.3. Describe any organizations, associations, groups or clubs that any of the members of the executive management team are involved in that will help facilitate a pipeline of Black and Latino-owned New Jersey startups seeking seed or start-up capital.

8.4. Discuss respondent's approach to staff retention and training. Discuss respondent's historical experience in this area. Discuss any promotions that took place over the last year any that are expected to happen in the next six months.

8.5. Describe the circumstances of any "Key-Person" event in respondent's history. Describe the steps taken by respondent to remedy the situation and the subsequent impact on any respondent policies.

8.6. Describe any known conditions (health, financial, litigation, personal, etc.) of any of respondent's investment professionals that might influence their ability to execute their duties to the Fund or respondent.

8.7. Describe any significant staff departures (partner in the respondent or director-level employee (or higher) with more than five years of history with respondent) over the past five (5) years.

8.8. Describe any significant staff departures (as noted above) that are expected to occur between now and the end of this Fund's investment period.

## **9.0 Alignment of Interests**

9.1. Describe the compensation structure (salary, bonus, group/individual performance incentives, profit sharing, equity ownership, carried interest, etc.) for all investment professionals. Include details on the allocation of the carried interest among Principals, as named in respondent's organizational documents, and others inside/outside the organization. How does this compare with respondent's previous fund's carry split (if applicable)? Provide details on any separate compensation arrangements proposed outside the Fund.

- 9.2. How is the carried interest vested for those parties that participate in the proposal for the Fund? What happens to the unvested carry of former investment professionals?
- 9.3. Describe how the respondent's contribution for investments is allocated among the investment professionals.
- 9.4. Describe how the respondent's contribution for investments will be financed.
- 9.5. Describe how any Principal, as named in respondent's organizational documents, or affiliate of respondent will invest in the Fund (outside of the respondent's commitment).
- 9.6. Discuss if any commitments from the respondent and/or any of its executives, owners, investment professionals, and managers be leveraged or loaned.
- 9.7. Were there any carry claw back situations in any of respondent's prior funds?

## **10.0 ESG (Environmental, Social, Governance)**

- 10.1. Describe the role of respondent's internal advisory board(s). Detail all matters referred to the advisory board(s), including any currently unresolved matters. Describe any additional governing/advisory bodies that impact the management or investment activity of respondent (e.g. CEO Circle, operating committee, management affiliate, etc.).
- 10.2. Detail any conflicts of interest (potential, current and historic) within respondent, and explain how they have been/are identified, managed, disclosed (to Limited Partner Advisory Committee (LPAC) or otherwise) and resolved. Identify any committees in place to help with the resolution of conflicts (conflict committee, etc.).
- 10.3. What is respondent's policy of personal investments by any employees or affiliates in deals reviewed by the respondent (both accepted and rejected)? If applicable, provide a list of all previous investments of this nature.
- 10.4. Is respondent a registered investment advisor (RIA)?
- 10.5. What are respondent's ESG-related policies and how do ESG factors influence respondent's investment beliefs?
- 10.6. What is the current implementation status of respondent's responsible investment policy? Does respondent have any firm plans to develop respondent's approach towards the management of ESG factors?
- 10.7. How does respondent contribute to portfolio companies' management of ESG-related risks and opportunities?
- 10.8. What monitoring processes would respondent have in place to assess the proposed Fund's portfolio companies' management of ESG factors?

## **11.0 Administration and Legal**

- 11.1. Describe the activities of respondent's support functions (Finance and Fund Administration, Human Resources, Compliance/Legal, etc.).

11.2. Describe the Fund's proposed internal accounting. What accounting principles does respondent propose for the Fund to operate under? Has respondent established an internal audit function? If so, how often are internal control audits performed?

11.3. Detail the processes and procedures for capital movements (capital calls, transfers of cash, investment acquisitions and distributions).

11.4. Provide an overview of the third parties providing services to respondent or proposed Fund (e.g., law firms, custodians, fund administrators, prime brokers, consultants, banks, etc.). How does respondent manage counterparty risk related to these third-party arrangements?

11.5. List and describe any software that respondent uses for business functions like portfolio management, trade order management, administration, and risk.

11.6. Describe any litigation/investigation against Respondent, its affiliated entities and/or its current or former owners and managers that is pending, ongoing, or closed in the last three years

## APPENDIX B

### REQUESTED DUE DILIGENCE CHECKLIST

Respondent must include the below responses, unless not applicable. If not applicable, mark it "N/A"1.

Most recent presentation deck

2. Summary of proposed key terms of the investment agreement for the Fund (e.g. fees charged to NJEDA, management fee, carry, etc.)
3. Chart: Respondent ownership structure
4. Chart: Respondent management/organizational structure and biographies
5. Chart: Proposed Fund legal/tax structure
6. -Respondent's annualized pro-forma budget for the period covering the life of the Fund
7. Proposed Fund budget and audited financial statements of fund(s) under management
8. List of participating Fund limited partners, if any at this time
9. If legally permitted, provide annual and quarterly reporting packages sent to any partnering state entities for the last two years (or through inception if less than two years).
10. Audited annual & unaudited quarterly reporting packages sent to limited partners for the last two years (or through inception if less than two years)
11. Valuation Policy
12. Examples of capital call and distribution notices
13. List of NJ sourcing actions/events attended or used in the last year
14. Company level track record information ([See Sample Template](#))
15. Historical fund level cash flows ([See Sample Template](#))
16. Historical investment level cash flows ([See Sample Template](#))
17. Reference list (e.g., co-investors, deal sources, banker, personal references, portfolio companies, limited partners, service providers) for all those participating in the carry pool ([See Sample Template](#))
18. NJ Tax Clearance certificate required for approval

We thank you for your interesting in supporting NJ's innovation ecosystem.