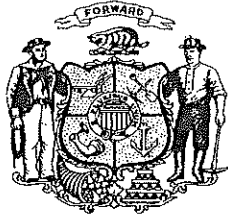


STATE OF WISCONSIN

SENATE CHAIR
Howard Marklein

316 East, State Capitol
P.O. Box 7882
Madison, WI 53707-7882
Phone: (608) 266-0703



ASSEMBLY CHAIR
Mark Born

308 East, State Capitol
P.O. Box 8952
Madison, WI 53708-8953
Phone: (608) 266-2540

JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Howard Marklein
Representative Mark Born

Date: March 28, 2024

Re: DOA Report to JFC

Attached is a report which provides assessment of, and recommendations relating to, the fund of funds investment program created under 2013 Wisconsin Act 41 (Badger Fund of Funds I) and supplemented under 2023 Wisconsin Act 19 and 98 (Badger Fund of Funds II) from the Department of Administration, pursuant to s. 16.295(8), Stats.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

HM:MB;jm



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Brian Pahnke, Administrator

VIA EMAIL

March 28, 2024

State Senator Howard Marklein
Co-Chair, Joint Finance Committee
316 East, State Capitol
P.O. Box 7882
Madison, WI 53707

State Representative Mark Born
Co-Chair, Joint Finance Committee
308 East, State Capitol
P.O. Box 8952
Madison, WI 53708

MAR 28 2024
St. Finance

Dear Co-Chairs Marklein and Born:

This report is provided pursuant to Section 16.295(8) of the Wisconsin Statutes and provides assessment of, and recommendations relating to, the fund of funds investment program created under 2013 Wisconsin Act 41 (Badger Fund of Funds I) and supplemented under 2023 Wisconsin Acts 19 and 98 (Badger Fund of Funds II). As required by Section 16.295(7) of the Wisconsin Statutes, annual and quarterly reports have been provided to the Legislature or made available on the Department of Administration's [website](#).

Performance related to Sun Mountain Kegonsa, LLC (Investment Manager), including investment activity from the Badger Fund of Funds I and fulfilling other requirements of 2013 Wisconsin Act 41 and 2023 Wisconsin Acts 19 and 98, is as follows:

Five funds have received commitments from the Badger Fund of Funds I. Four of the five funds are seed stage funds; the Idea Fund of La Crosse, Winnebago Seed Fund, Winnow Fund, and Gateway Capital Fund, and one is a growth stage fund; Rock River Capital Partners. Two seed stage funds, the Winnow Fund and Gateway Capital Fund are actively evaluating and making investments in new companies. While the remaining funds, the Idea Fund of La Crosse, Winnebago Seed Fund, and Rock River Capital Partners are making follow on investments in existing companies.

As of December 31, 2023, the Badger Fund of Funds I has made investments in forty-three separate Wisconsin-based startup companies with \$38.3 million invested in those companies and those companies having 209 Wisconsin based employees. Thirty-six of the companies are currently active, three companies have exited at a gain, and four companies have exited at a loss. The most recent quarterly report on the performance of the Badger Fund of Funds I is attached and contains additional information on the five funds and the active companies.

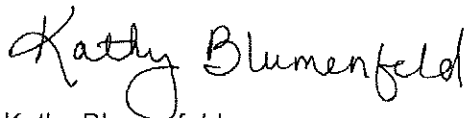
While 2023 Wisconsin Act 19 was enacted on July 5, 2023, and provided \$25 million of funding from the State for the Badger Fund of Funds II, the Badger Fund of Funds II has not made any investments as of December 31, 2023, as it was waiting on enactment of 2023 Wisconsin 98 (which contained clarifying language regarding 2023 Wisconsin 19) before making any commitments to funds.

Finally, attached is a letter from the State of Wisconsin Investment Board (SWIB) that contains their recommendations to improve the fund of funds investment program created under Section 16.295 of the Wisconsin Statutes. The Department generally concurs with the themes of SWIB's recommendations with the following additional comment on two such recommendations.

- The reports filed in calendar year 2015 and 2018 also identified concerns that 2013 Wisconsin Act 41 includes too many investment restrictions for the Badger Fund of Funds I. The Department still intends to use future reporting requirements to review investments and their results; based on this review the Department will then propose, if needed, changes or expansion of investment options.
- The Department's Capital Finance Office has the lead in providing administrative and monitoring resources for the Badger Fund of Funds I and Badger Fund of Funds II. The Capital Finance Office will discuss with both the Investment Manager and SWIB the specialized and dedicated tools and systems being used by other managers for monitoring and reporting purposes.

Please contact Aaron M. Heintz, Capital Finance Director, at (608) 267-1836 or aaron.heintz@wisconsin.gov with any questions.

Sincerely,



Kathy Blumenfeld
Secretary



STATE OF WISCONSIN
INVESTMENT BOARD

March 1, 2024

Senator Howard Marklein, Co-Chair
Joint Committee on Finance
P.O. Box 7882
Madison, WI 53707

Representative Mark Born, Co-Chair
Joint Committee on Finance
P.O. Box 8952
Madison, WI 53708

Secretary Kathy Blumenfeld
Department of Administration
P.O. Box 7864
Madison, WI 53707

Dear Senator Marklein, Representative Born, and Secretary Blumenfeld:

The 2013 Wisconsin Act 41 (“Act 41”) created and provided funding for a state venture capital investment program. Act 41 required the Secretary of the Department of Administration (“DOA”) to form a committee to select an investment manager for the program. By statute, the committee consisted of three representatives of the State of Wisconsin Investment Board (“SWIB”) and two representatives of the capital finance office at DOA. Sun Mountain Kegonsa was selected to manage the program, which is commonly referred to as the “Badger Fund.”

Generally speaking, the Badger Fund has performed as expected to date by committing capital to five Wisconsin-based venture capital funds (four seed funds and one early growth fund) and by creating a capital multiplier effect. Two of the seed funds are still actively reviewing and investing in new portfolio companies. The funds have invested in forty-three portfolio companies (thirty-six active as of the time of this letter) that currently employ over 200 residents of Wisconsin.

Act 41 also required DOA to submit progress reports relating to the Badger Fund to the Joint Committee on Finance in 2015 and 2018. The reports were to include any recommendations from SWIB for improvement of the investment program under this section and specific actions SWIB proposed be taken to implement those recommendations. Like Act 41, 2023 Act 98 again asks DOA to seek SWIB’s recommendations.

We present the following refined suggestions and insights for your consideration, aimed at further enhancing the program's effectiveness:

Management, Administrative and Monitoring Resources

We would emphasize the importance of maintaining the Badger Fund oversight structure and DOA involvement, especially as the underlying funds of the Badger Fund begin to mature. Having adequate systems and resources to monitor the Badger Fund’s progression is critical. Current management and oversight by the Badger Fund of the underlying fund managers appears to be adequate. Reporting by the Badger Fund to DOA is adequate and DOA continues to provide oversight and makes this information available.

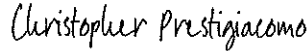
Venture Capital Investment Returns & Risks/Longer Investment Horizon

A patient and long-term investment approach is crucial, as material changes to the program's objectives, strategy, investment requirements or restrictions could adversely affect the portfolio's performance. To that end, it is still too early to determine what the final investment returns will be for the Badger Fund. First, as noted above, two funds funded from the original Act 41 continue to invest in new portfolio companies. Second, venture capital investments are inherently high-risk (with a corresponding high potential for loss) and the majority of returns are typically concentrated in one or two companies within a portfolio. These investments require significant time to mature, often exhibiting negative returns initially due to fees and early losses before appreciating in value and generating positive returns. These companies are funded early and therefore take time to develop and contribute significantly to employment, and they ultimately deliver value to investors through strategic exits or IPOs.

Typical seed investors understand that returns on investment are not realized for eight to ten years, or even longer in sectors requiring longer development phases, such as biotechnology or advanced manufacturing. The Badger Fund continues to implement the strategy outlined to DOA and will continue to require the necessary time to effectively execute its plan.

We hope our insights prove beneficial to the Joint Committee on Finance. Should the legislature seek to further refine the Badger Fund's statutes in the future, SWIB would be happy to be a resource. In the meantime, if you require further assistance, please feel free to reach out to us at your convenience.

Sincerely,

DocuSigned by:

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Chris Prestigiacomo, CFA
Head of Private Debt and Venture Capital