

# STATE OF WISCONSIN

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## JOINT COMMITTEE ON FINANCE

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Alberta Darling  
Representative John Nygren

Date: February 27, 2015

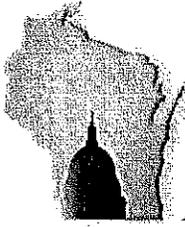
Re: DOA Report to JFC

Attached is a report that provides assessments of, and recommendations relating to, the fund of funds investment program being created under 2013 Wisconsin Act 41 (**Badger Fund of Funds I**) 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

AD:JN:jm



WISCONSIN DEPARTMENT OF  
ADMINISTRATION

SCOTT WALKER  
GOVERNOR  
MIKE HUEBSCH  
SECRETARY

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February 27, 2015

The Honorable Alberta Darling, Senate Chair  
The Honorable John Nygren, Assembly Chair  
Joint Committee on Finance  
Madison, WI 53702

RECEIVED  
FEB 27 2015

BY: St. Finance

Dear Senator Darling, Representative Nygren, and Members:

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 being created under 2013 Wisconsin Act 41 (**Badger Fund of Funds I**).

The Department is pleased with the progress of Sun Mountain Kegonsa, LLC (**Investment Manager**) in creating the Badger Fund of Funds I and moving forward to fulfill other requirements of Act 41. At this time, the Investment Manager has secured private capital from limited partners in excess of the \$5,000,000 required by Wisconsin Statutes. In the upcoming weeks, the Department and the Investment Manager will execute the Limited Partnership Agreement, which we expect will result in initial portfolio funds being created in the Madison, Oshkosh, Green Bay, and Vilas County areas of the State. The Department further anticipates that all statutory deadlines for investments in venture capital funds will be met.

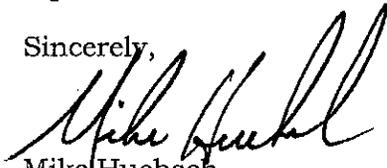
Based on feedback during the investment manager selection process and interaction to-date with the Investment Manager, the Department makes the following recommendations for improvement of investment program created under Section 16.295 of the Wisconsin Statutes. First, some firms expressed concern that information required for the periodic reports would normally be considered proprietary, and the public disclosure of such information may adversely impact returns on investment. At this point such concerns are speculative, but the Department will review future reports, work with the Investment Manager to determine whether the disclosure of such information negatively impacts investment performance, and, if necessary, propose changes to the reporting requirements. Second, some firms raised concerns that 2013 Act 41 includes too many restrictions on investment options. The Department will 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 Honorable Alberta Darling, Senate Chair  
The Honorable John Nygren, Assembly Chair  
Joint Committee on Finance  
February 27, 2015  
Page - 2

Attached is a letter from the State of Wisconsin investment Board (**SWIB**) that contains their recommendations to improve the investment program created under Section 16.295 of the Wisconsin Statutes. The Department generally concurs with the themes of SWIB's recommendations. The Department will further review these recommendations with SWIB and bring any modifications requiring legislative action to the attention of the Legislature.

The Department is very pleased with the development of the Badger Fund of Funds I, and looks forward to the upcoming investments and receipt of the required reports. Please contact Kevin Taylor, Capital Finance Director, at (608) 266-2305 or [Kevin.Taylor@wisconsin.gov](mailto:Kevin.Taylor@wisconsin.gov) with any questions on this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Huebsch". The signature is fluid and cursive, with the first name "Mike" and last name "Huebsch" clearly distinguishable.

Mike Huebsch  
Secretary

Attachment



February 26, 2015

The Honorable Alberta Darling  
317 East State Capitol  
P.O. Box 7882  
Madison, Wisconsin 53707-7882

The Honorable John Nygren  
309 East State Capitol  
P.O. Box 8953  
Madison, WI 53708

Dear Senator Darling and Senator Nygren:

The 2013 Wisconsin Act 41 created a state venture capital investment program as well as an appropriation to fund it. Under Act 41, the State of Wisconsin Investment Board was required to help select the fund manager, and subsequent to the selection, provide any recommendations for improvement of the investment program and offer specific actions that could be taken to implement those recommendations.

We believe the manager selection process was successful. The State of Wisconsin Investment Board has been actively investing in Wisconsin venture capital opportunities for many years. We have learned during this time that there continues to be high quality early stage investments in Wisconsin. With talented entrepreneurs, management teams and capital, these investments can grow to be sustainable businesses that create jobs and generate other economic development activity throughout the state. Just as important are the investment returns venture capital investors can earn by investing in these high growth companies. To maintain this vibrant environment in Wisconsin, a well thought out state venture strategy was critical. This was accomplished by the passage of Act 41 and is a good start to what could become a very successful program.

The following are suggestions for consideration that would make the current and possibly future venture capital programs achieve beneficial outcomes for the state.

*Resources:* Monitoring and managing venture capital investments requires administrative support. As such, it is important that the Department of Administration continue to have the necessary tools to manage the program. Venture capital investments tend to have long investment horizons, especially at the early stage, which is where the fund is targeting. Providing an appropriate level of dedicated resources to monitor the program is important.

*Limit Fund Restrictions:* While certain investment restrictions are expected with these types of programs, minimizing them where appropriate will lead to broader interest from fund managers and start-up companies. For example under the various Michigan early stage programs, venture capital investors generally are allowed to invest in the best opportunities available with no restrictions. A program with less restriction provides greater fund and portfolio company diversity, a beneficial outcome when investing.

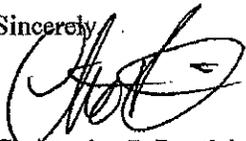
*Additional Capital:* If budget conditions allow, as the state venture fund begins investing and the program begins to show signs of accomplishing goals set by various stakeholders, additional venture funding would benefit the Wisconsin start-up ecosystem. These funds would not only be leveraged with additional private dollars but new fund managers would begin to spend more time in Wisconsin looking to invest in our most promising entrepreneurs.

Private Dollar Match: As the state venture program evolves, providing flexibility to the private dollar match requirement could potentially lead to bringing larger and more experienced fund managers into the state.

A vibrant venture capital ecosystem is important to the future of the state. Without venture capital, successful companies such as Pinstripe, NimbleGen, Jellyfish, TomoTherapy, Connecture and others would have never existed. The formation of these companies created jobs, wealth and opportunities in the state for the founders, investors and employees. The state's inaugural venture capital program has been thoughtfully constructed and is well managed. This fund and hopefully many more will be the catalyst for bringing more capital and talent to Wisconsin.

We appreciate the opportunity to work with various members of the Department of Administration on this important initiative and hope that our participation was valuable to the process. We also hope this information is helpful to the Committee. If we can be of any further help, please do not hesitate to contact us.

Sincerely,



Christopher P. Prestigiacomo  
Portfolio Manager