PARTICIPANT'S GUIDE

PUBLIC POLICY FORUM

Monday, October 27, 2008
8:30 AM – 4:30 PM

NORTH AMERICAN
Venture Capital Summit

2008

5th annual

www.navcs.com

PUBLIC POLICY FORUM

Participant's Guide

Including important background information on each session

To be read before the conference

Message from the President

Why this Forum?

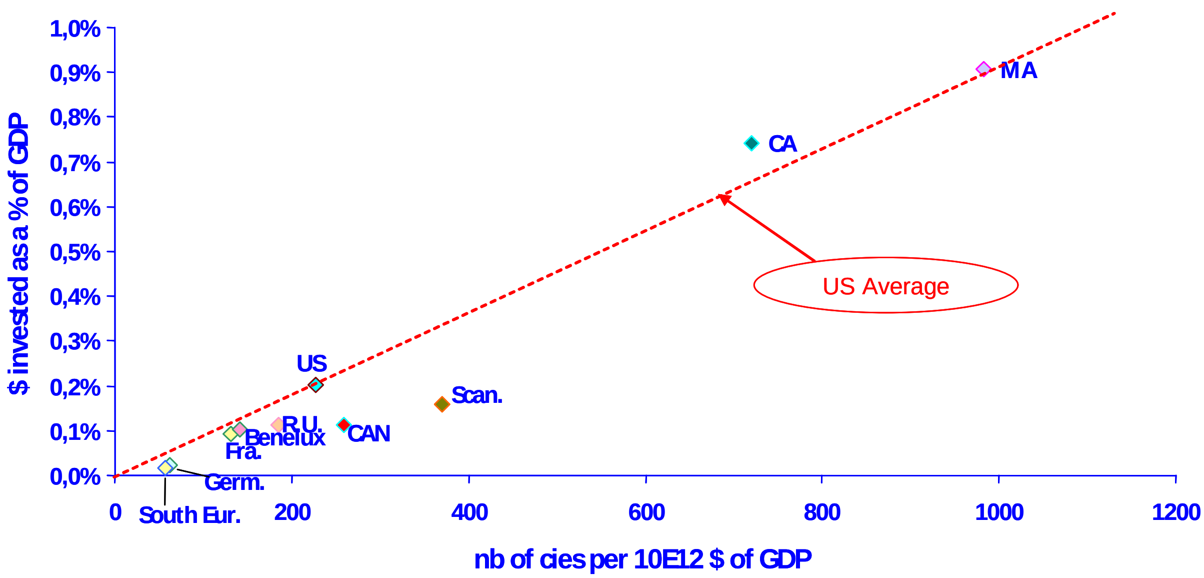
How is our day organized?

What you will find in this Participant's Guide.

It is now widely accepted that innovation is one of the main long term drivers of economic growth in our societies and that venture capital plays a key role in the innovation ecosystem. This is why, in a growing number of countries, government have introduced public policies to support the development of their venture capital industries.

Nevertheless, Venture capital intensity, as measured by VC investment as a % of GDP varies greatly among countries or regions. Most countries where this intensity is low see this as a "gap" which public policies should contribute to reduce.

Venture Capital as a % of GDP

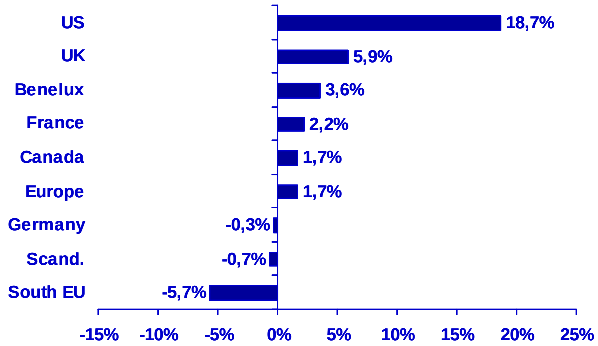


Source of the investment data: Thomson Financial

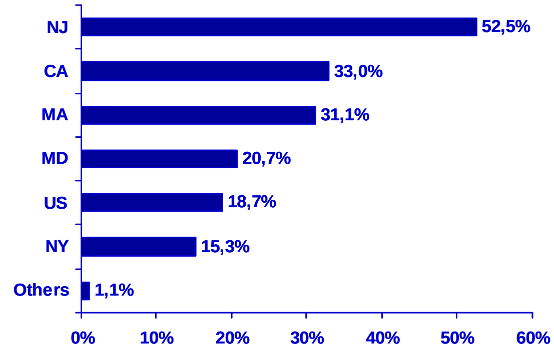
While Venture capital has become a performing and self sustainable asset class in places like California or the American East Coast, in most other parts of the world, including large parts of the US, it is still struggling: overall performance has been poor; fundraising remains an issue, while many claim there is a growing equity gap at the seed and early stages in spite of all kinds of government policies to support the development of the VC industry. On the other hand, there are questions raised about the appropriateness and possible negative effects of many public interventions in this market and some even question the very need for public intervention.

10 Year Horizon Return as of Dec. 31, 2007

Selected Countries



Selected US States



Source: Thomson Financial

Building profitable and self-sustainable VC industries and, more broadly, buoyant innovation ecosystems are not easy tasks. They require well designed policies as well as good cooperation between the governments and the VC and LP community.

It is in this context that the government of Canada and the North American VC Summit have decided to partner to set up a Public Policy Forum. The idea was to take advantage of the international reach of the Summit and its by invitation only format, to build a platform for leading LPs, GPs and government officials from around the world to share their views, experience and concerns regarding public policies in support of a buoyant venture capital ecosystem to finance emerging technology companies. Our bet was that many other countries were facing similar problems and that there was a need for such experience sharing and for networking among senior people involved in this area.

The situation was different when we planned this conference, but this kind of Forum may be all the more useful now as, during difficult times, governments must be especially on the watch to strengthen cooperation internally and internationally.

The enthusiastic response we received from you, from Russia to New Zealand, passing through Israel, Europe and North America proved our intuition was indeed correct. The qualification of the speakers we have been able to invite, as well as the level of experience of the audience you form, have set the stage for what we hope will be intense discussions and high quality networking.

The program is organized in the following way.

Josh Lerner is going to set the stage for our discussions around public policies: What is the case for public intervention? What are the pitfalls facing these programs? How should governments avoid these pitfalls? What are the links between venture promotion and the broader economic and regulatory environments in each country?

The remainder of the day will be devoted to the presentation and discussion of programs which have been introduced in various regions or countries: Europe, the UK, New-York State, Canada, Israel, New-Zealand, the US and Russia.

All speakers are senior executives who have had high level responsibilities in these programs. We have asked them to focus not so much on the mechanics of their program but more on the issues and challenges they have encountered and the lessons they have learned. It is on this basis that they will start a discussion with the audience.

For this reason, we have asked them to send the background information they would like you to have read before the conference in order that you may better follow their presentations and participate in the discussions. This is what has been assembled in this document.

We would like to thank all those who contributed to this Forum: our Advisory Committee and Dr Josh Lerner who worked with us to organize the sessions as well as the President and directors of the NAVCS who have wholeheartedly supported this new endeavour.

A special "thank you" goes to the Government of Canada which, from the beginning, partnered with the NAVCS to develop this Forum and has provided a great deal of financial and technical support.

I hope you will find the documents interesting and look forward meeting you in Quebec City

Gilles Duruflé
President
NAVCS Public Policy Forum

North American Venture Capital Summit's Public Policy Forum

Gilles Duruflé, President

Dr Gilles Duruflé is presently an independent consultant advising venture capital and private equity funds, institutional investors and governments.

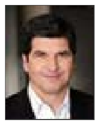
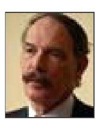
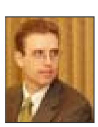
He was until 2004 Senior Partner at CDP Capital Technology Ventures, the venture capital subsidiary of the Caisse de dépôt et placement du Québec, in charge of the Funds of Funds portfolio, investing in North American and European VC funds.

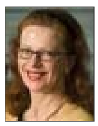
He was previously Head of strategic studies at the Caisse de dépôt et placement du Québec. From 1979 to 1991, he worked as Senior Partner in strategic consulting firms in the CDC Group (Caisse des dépôts et consignations, Paris) in Europe and North America .

M. Duruflé obtained his Masters in Philosophy from the CERP (Paris), his Ph.D. in Mathematics from the Paris VI University and the Diploma of the Centre d'Études des Programme Économiques (Ministry of Finance, Paris). He is a CFA and has published numerous books and articles on various subjects related to economics and finance.

PROGRAM

Format of the sessions: 15-20 minutes for presentations and 15-20 minutes for questions and discussion, with a moderator.

MONDAY, OCTOBER 27TH, 2008	
7:30 to 8:20 am	**REGISTRATION AND BREAKFAST (buffet)**
8:30 to 8:50 am	**WELCOME :**  Mr. **Christian Racicot** North American Venture Capital Summit, President  Mr. **Yigal Erlich** Founder, Chairman and Managing Partner **The Yozma Group** and Chair, **NAVCS Public Policy Forum** **INTRODUCTION : Origin, objectives, expectations, format**  Mr. **Gilles Duruflé** President, **NAVCS Public Policy Forum**
8:50 to 9:30 am	**VENTURE CAPITAL and PUBLIC POLICY : International Lessons**  Dr. **Josh Lerner** Jacob H. Schiff Professor of Investment Banking **Harvard Business School**
9:30 to 10:10 am	**CAN PUBLIC MONEY BECOME PRIVATE EQUITY ? The European experience**  Mr. **Francis Carpenter** Former CEO **The European Investment Fund**
10:10 to 10:40 am	**NETWORKING BREAK**
10:40 to 11:20 am	**CLOSING THE EQUITY GAP: The UK approach**  Mr. **David Quysner** Chairman **Capital for Enterprise Board**
11:20 to 12:00 pm	**LOCAL INVESTMENT FUNDS IN THE US: Best Practices**  Mr. **Brad Woolworth** Investment Officer **New York State Common Retirement Fund**

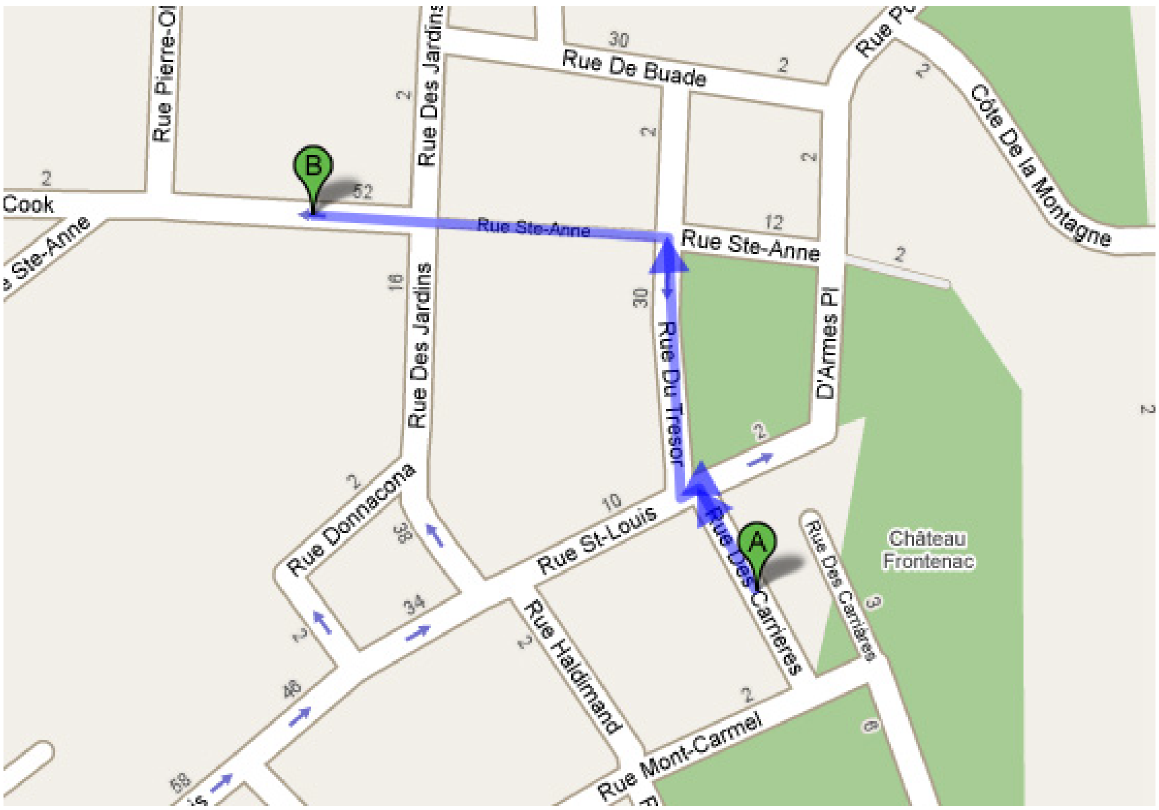
Monday, October 27th, 2008	
12:00 to 13:30 pm	**LUNCH** Keynote Speaker:  Mr. **Stuart Waugh** Managing Director **TD Capital Private Equity**
13:30 to 14:10 pm	**START-UPS and VENTURE CAPITAL CO-EVOLUTION : The Israeli Experience**  Mr. **Yigal Erlich** Founder, Chairman and Managing Partner **The Yozma Group** and Chair, **NAVCS Public Policy Forum**
14:10 to 14:40 pm	**BUILDING A VC MARKET FROM ZERO : The New Zealand Experience**  Ms. **Franceska Banga** Chief Executive **New Zealand Investment Fund**
14:40 to 15:20 pm	**FACILITATING VENTURE DEVELOPMENT: U.S. POLICY WITH CONTRAST TO OTHER SELECT ECONOMIES**  Mr. **Randy Mitchell** International Trade Strategist **US Department of Commerce**  Ms. **Glenda Napier** Policy Analyst **FORA - The Danish Enterprise and Construction Authority** ICE - International Consortium on Entrepreneurship
15:20 to 15:40 pm	**EMERGING MARKETS : Russia**  Mr. **Nikolay Dmitriev** Investment Consultant **OJSC Russian Venture Company**
15:40 to 16:00 pm	**NETWORKING BREAK**
16:00 to 16:30 pm	**HOW CAN PRIVATE SECTOR INSTITUTIONAL INVESTORS JOIN FORCES WITH GOVERNMENTS TO CREATE A BENEFICIAL VC ECOSYSTEM ? an echo from the LP forum**  **Mr. Michael Nobrega** President & CEO, **OMERS** and the other co-chair of the **Institutional Investors Forum** Discussant:  Mr. **Stuart Waugh** Managing Director **TD Capital Private Equity**
16:30 to 17:00 pm	**GENERAL DISCUSSION : next steps**

Location

The **Public Policy Forum** will be held in the Price Building

Address : 65 rue Ste-Anne Québec (ville), Québec
Canada

Map and itinerary



Walking directions to 65 Rue Ste-Anne, Quebec, QC
0.3 km – about **3 mins**

1 Rue Des Carrieres
Quebec, QC

1.	Head **northwest** on **Rue Des Carrieres** toward **Rue St-Louis**	47 m
2.	Turn **left** at **Rue St-Louis**	9 m
3.	Turn **right** at **Rue Du Tresor**	0.1 km
4.	Turn **left** at **Rue Ste-Anne** Destination will be on the left	0.1 km

65 Rue Ste-Anne
Quebec, QC

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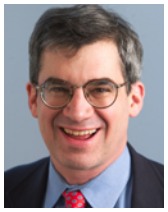
Josh Lerner: "Venture Capital and Public Policy: International Lessons"

Harvard Business School



Josh Lerner, Jacob H. Schiff Professor of Investment Banking

Josh Lerner is the Jacob H. Schiff Professor of Investment Banking at Harvard Business School , with a joint appointment in the Finance and Entrepreneurial Management Units. He graduated from Yale College with a Special Divisional Major that combined physics with the history of technology. He worked for several years on issues concerning technological innovation and public policy, at the Brookings Institution, for a public-private task force in Chicago , and on Capitol Hill. He then obtained a Ph.D. from Harvard's Economics Department.

Much of his research focuses on the structure and role of venture capital and private equity organizations. (This research is collected in two books, The Venture Capital Cycle and The Money of Invention.) He also examines technological innovation and how firms are responding to changing public policies. (The research is discussed in the book, Innovation and Its Discontents.) He founded, raised funding for, and organizes two groups at the National Bureau of Economic Research: Entrepreneurship and Innovation Policy and the Economy. He is a member of a number of other NBER groups and serves as co-editor of their publication, Innovation Policy and the Economy. His work has been published in a variety of top academic journals.

In the 1993-94 academic year, he introduced an elective course for second-year MBAs on private equity finance. In recent years, "Venture Capital and Private Equity" has consistently been one of the largest elective courses at Harvard Business School . (The course materials are collected in Venture Capital and Private Equity: A Casebook, whose fourth edition is forthcoming.) He also teaches a doctoral course on entrepreneurship and in the Owners-Presidents-Managers Program, and organizes an annual executive course on private equity in Boston and Beijing . He recently led an international team of scholars in a study of the economic impact of private equity for the World Economic Forum.

Francis Carpenter: "Can Public Money Become Private Equity? The European Experience"

Special guest

Francis A W Carpenter, Former CEO of The European Investment Fund

Francis was at the helm of the European Investment Fund, for nearly six years; based in Luxembourg, EIF is one of the major venture and private equity investors in Europe, backed by own funds of close to Eur1bn (shareholders are European Investment Bank, European Union & some 30 public & private banks);during his term, funds under EIF management grew to some Eur5bn coming from its main shareholders & from market investors,& focussing on high tech investments & mid-market buy outs to improve returns, while pursuing a number of public policies; EIF also operates a range of guarantee schemes, credit enhancement, micro-finance and related advisory work.Since stepping down Francis has taken up several appointments in tech transfer,venture, private equity & banking,in various european countries

Previously Francis was Secretary General of the European Investment Bank, where he oversaw corporate strategy, governance issues, management control, HR, IT as well as key organisation changes,notably the creation of the EIB Group in 2000.This appointment followed on a period as head of the EIB's Credit Risk & also UK & North Sea lending, notably in project finance.

During 2008,Francis has taken up a number of directorships, notably of IPGroup, a LSE listed stock, the leader in university technology transfer,17 Capital,a mezzanine debt fund for secondary buy outs, a Turkish fund of funds & the Bulgarian Development Bank; he is also advisor to Cogent Partners.

Francis was educated at Wadham College, Oxford, "Sciences Po", Paris & the New School, New York.

Can Public Money become Private Equity ?

Examples of European Programmes
by Francis Carpenter

1

Main publicly sponsored schemes based in three largest markets & EU

- United Kingdom
- France
- Germany
- (not significant elsewhere)
- European Union (EU) initiatives
- (half of EU fund management is based in the UK);
- (2/3 of amounts invested in 3 national markets (UK,Fr,D)

2

United Kingdom

- Various tax driven schemes:
- UCF(University seed funds),Started 2002,managed by professional managers; EIS (Enterprise Investment Schemes)for very small equity;

- RVCF(Regional Venture Capital Funds):
- designed to foster VC investment in UK regions,with regional decision making;regional investment scope;results better than anticipated because invested cautiously,in existing businesses rather than start ups & missed the 2000 high tech bubble;Government accpted a capped return

- Enterprise Capital Funds (ECF):
- based on SBIC model, with no tax incentive for investors;better spead of risks/rewards between public & private:waterfall:public RoC;capital distribution to public & private ;then hurdle & carry.

3

France

- Various tax driven schemes:
- Since late nineties:FIP (regional funds),FCPR(risk funds),FCPI (innovation funds),succesful in attracting taxpayers savings, notably when offsetting wealth taxes; no capital gains tax for LT gains;oldest ones lived through the 200/2001 technology bubble;
- France Investissement:
- A seven year scheme requiring major institutoinal investors to increase their commitment to venture in France;started 2005,CDC,France contributed Eur 1bn avec 7 yrs, matched by major French banks/insurance companies;

4

Germany

- Various asymetric risk schemes run by public banks in the late 1990,early 2000
- Detailed information not currently reliable,but upside & downside not evenly shared between public & private sector, with poor results;
- European Recovery Programme (ERP)
- Objective: to establish a sustainable VC landscape in Germany, by investing with a clear market & return orientation; lanched in 2004;resources from ERP & EIF,50/50 Eur500m,co-managed by Ministry of Economics & EIF; estimated 5 yr investment period;2/3 invested,on average 20% of a fund's size, ERP being in effect a fund of funds.

David Quysner: "Closing the Equity Gap: The UK Approach"

Capital for Enterprise Board - Indirect investor (LP) - 

Capital for Enterprise Limited ("CfEL") delivers and manages the UK government's financial interventions in the SME sector. There is a debt 'product', the Small Firms Loan Guarantee scheme, which in the past 25 years has helped banks make approximately £5bn of lending to small businesses. On the equity side, CfEL manages a portfolio of funds that include Regional Venture Capital Funds and a Technology Fund-of Funds as well as the most recent initiative, which is the Enterprise Capital Funds programme. ECFs are designed to attract managers and with them private sector capital into the equity gap by offering cornerstone funding from government, coupled with unusually flexible profit-sharing arrangements.
CfEL is curently developing new initiatives to address market failures in the SME sector in the UK, ncluding a fund to invest in women-led businesses.

David W. Quysner, Chairman

David Quysner began his career at 3i in 1969. In 1982, he joined Abingworth Management, a venture capital fund management company that specialises in Life Sciences, becoming its Managing Director in 1994 and Chairman in 2001. He has wide experience of making and managing investments in technology companies in both the USA and the UK. He served on the Stock Exchange Smaller Companies Working Party, which led to the creation of London's AIM market and, more recently, was a member of the Treasury Working Party on the Financing of High Technology Companies. He was Chairman of the British Venture Capital Association in 1996/97.

He is Chairman of RCM Technology Trust plc, a Director of a number of other public companies concerned with the exploitation of technology and Chairman of the privately owned Environmental Technologies Fund. He is also Chairman of Capital for Enterprise Limited, which delivers and manages the UK Government's principal financial interventions in the SME sector of the economy and a Director and Trustee of Medical Research Council Technology.

ENTERPRISE CAPITAL FUNDS

A Brief Outline of the UK's
Enterprise Capital Funds ("ECF") Programme
for participants in the Public Policy Forum

Capital for Enterprise

Enterprise Capital Funds

- Why ECFs?
- A Long History of Interventions
- Objectives of ECFs
- Key Features
- Progress to Date
- Delivery

Capital for Enterprise

Why ECFs?

…great difficulty is experienced by the smaller and medium sized businesses in raising the capital which they may from time to time require…it is difficult to attract the ordinary investor.

(The Macmillan Report 1931)

…a small but important minority of innovative, growth-oriented businesses continue to face difficulties in attracting funding, providing a case for targeted government intervention.

(Bridging the Finance Gap 2003)

Capital for Enterprise

Why ECFs?

- A continuing dearth of funding for SMEs
- Manager drift to larger funds/ deals
- Historic performance data not helpful
- Initiatives to date have had limited success

Capital for Enterprise

A Long History of Interventions

- 1945 - ICFC and FCI *which later became the 3i Group*
- 1981 - Small Firms Loan Guarantee
- 1983 - 93 Business Expansion Scheme*
- 1994 - Enterprise Investment Scheme*
- 1995 - Venture Capital Trusts*
- 2000 - Corporate Venturing Scheme*

* Using Tax incentives to attract capital

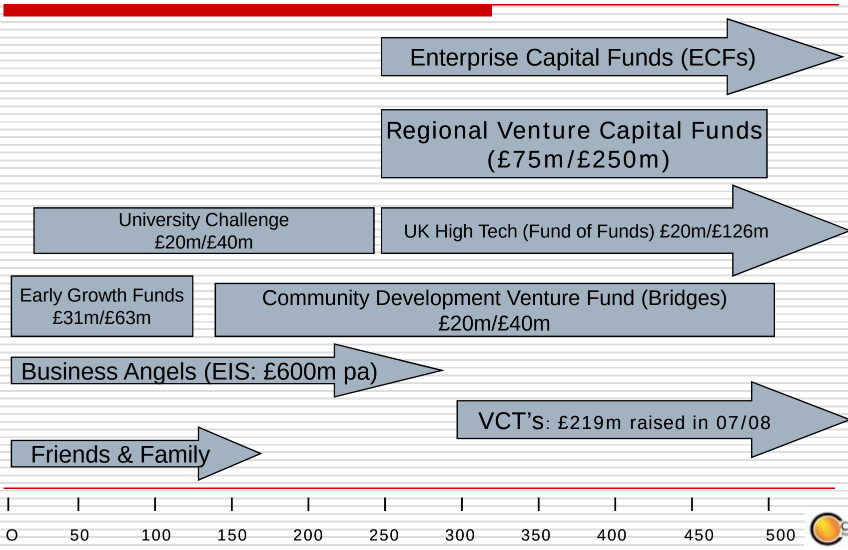
Capital for Enterprise

A Long History of Interventions

- 1999 University Challenge
- 2000 UK High Technology Fund (Fund of Funds)
- 2002-04 Early Growth Funds (Co-investment Funds)
- 2002-03 Regional Venture Capital Funds
- 2002 Community Development Venture Fund
- 2005- Enterprise Capital Funds (“ECFs”)

Capital for Enterprise

UK Government Equity Schemes



Objectives of ECFs

- To increase the availability of growth capital for SMEs affected by the equity gap by …

Objectives of ECFs

- encouraging an increased flow of private capital into the equity gap, by adjusting the risk-reward profile for private investors making such investment; and
- lowering the barriers to entry for entrepreneurial risk capital managers by reducing the amount of private capital needed to establish a viable venture fund.

Key features

- Government offers no downside protection but will negotiate a disproportionate share of profit
- Management must demonstrate private sector support for their Fund
- Process for obtaining Government funding is competitive
- Selection is by experienced industry professionals
- Programme aims to be self-sustaining over the medium term

Key Features

- Up to £25m of Government investment per fund
- Government investment to be matched as to 50% or more by approved private investor money
- Funds must target observable gaps in the equity market for SMEs needing to raise up to £2 million
- Managers must;
  - propose a sound, clearly articulated investment strategy
  - have a strong investment team and track record (though not necessarily with this team)
  - offer value for money to Investors
- There is a standard LP Agreement to which few changes will be negotiable

Key Features

ECFs are structured to provide:

- a fixed, prioritised return to Government on its subscribed capital (4.5%)
- the *subsequent pari passu* repayment of capital
- thereafter, distribution of profits:
  - to Government at a FIXED % rate negotiated at the outset, and to private investors, out of which <u>they</u> pay any
  - carried interest to the Manager as negotiated and agreed at the outset

Progress to Date

- Round 1: 5 Funds

  £125m Govt:£81.7m

- Round 2: 3 Funds

  £90m Govt:£60.0m

- Further £150m from Government announced
- Expect 2 or 3 Funds per annum for next 3 years
- Round 3 current

Progress to Date

Fund	Size £m	Sector Focus	Regional Focus	Stage Focus
Seraphim (Angel-led Unregulated Structure)	30	Generalist	UK. Access to Pi Capital, Advantage Business Angels, Entrust and Archangels	Early Stage; Development
IQ Capital Fund (N W Brown)	25	50% ICT 35% Life Sciences 15% Cleantech	UK. Access to GEIF, OION and SWAIN	Seed; Early Stage
E-Synergy	30	Sustainable technology	UK	Early Stage
Amadeus Capital Partners	10	General technology	UK	Seed
Catapult Venture Managers	30	Generalist	Midlands	Development

Progress to Date

Fund	Size £	Sector Focus	Regional Focus	Stage Focus
Dawn Capital	30	Technology	UK	33% Seed 33% Early stage 33% Development
Oxford Technology Partners	30	Technology	Oxford and SE	Start-up Early Stage
MMC	30	Healthcare, financial services, technology and business support services	UK	Development

Progress to date

- Innovative Fund Structures involving angel investors
- New Management Teams
- Experienced VCs brought back to the sector

Delivery

- Capital for Enterprise Limited
- Effective 1 April 2008
- Operating at arm's length from Government
- Board with extensive VC and SME experience
- Ability to recruit and retain industry professionals
- Objective to move out of Government in medium term

ENTERPRISE CAPITAL FUNDS

A Brief Description of the ECF Programme

Brad Woolworth: "Local Investment Funds in the US: Best Practices – the NY Common Retirement Fund experience"

New York State Common Retirement Fund - Indirect investor (LP)

The $153.9 billion New York State Common Retirement Fund is the third largest public pension plan in the with more than one million members, retirees and beneficiaries from state and local governments. Comptroller DiNapoli is the sole trustee of the Fund and manages a diversified portfolio of public and private equities, fixed income, real estate and alternative instruments.

Brad Woolworth, Investment Officer

Mr. Woolworth manages the Common Retirement Fund's (CRF) In-State Private Equity Investment Program developed as part of the Jobs 2000 legislation in New York State . The current program has $861 million in commitments to 16 fund managers, through which $350 million has been deployed to 115 New York based portfolio companies. Prior to CRF, Mr. Woolworth was a Corporate Actions Specialist with State Street Corporation in Boston, MA . Mr. Woolworth holds a Bachelor's degree in Economics from San Francisco State University and a Master's of Science in Economic Policy from Suffolk University .

New York State Common Retirement Fund
In-State Private Equity Investment Program

Status Report and Review of Investment Activity

May 2006 Update

New York State
Office of the State Comptroller

Alan G. Hevesi

Division of Pension Investment and Cash Management

Additional copies of this report
may be obtained from:

Office of the State Comptroller
Public Information Office
110 State Street
Albany, NY 12236

Telephone: (518) 474-4015

Or through the Comptroller's website: **www.osc.state.ny.us**

This report was prepared by the Office of the State Comptroller, Division of Pension Investment and Cash Management

Thomas Sanzillo, First Deputy Comptroller
David Loglisci, Deputy Comptroller
Nick Smirensky, CFA, Director of Alternative Investments
Brad Woolworth, Investment Officer

ALAN G. HEVESI
COMPTROLLER

110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

May 2006

To Senator Joseph Bruno and Speaker Sheldon Silver:

The Common Retirement Fund's (CRF) In-State Private Equity Investment Program was initiated in 1999. The Program is designed to increase the diversification of CRF's investment portfolio and provide a market rate of return consistent with the risks associated with private equity. In addition, the program has proven to be an important contributor to the state's economy by making capital available to small businesses. This report provides an overview of the Program's progress to date:

- $425 million in CRF's capital has been made available to fifteen different managers for investments in New York State, This represents a $321 million increase from the $104 million available in January 2003 and a tripling of the number of managers.

- Our funds have invested $145 million in 64 companies; this represents a nine-fold increase in both companies receiving capital and the amount invested in the last 39 months. In January 2003, there were seven portfolio companies in the program with $16.9 million in invested capital.

- Including all funds made available for the investments CRF has participated in, a total of $919 million has been invested, including $450 million in upstate New York.

- Many of the companies in which CRF invested would not have remained in New York without CRF's capital, or would not have been able to expand at their full potential.

- The availability of CRF's capital has resulted in two companies relocating to the state: Versamed from New Jersey and Tri-Ed Distribution from Canada.

- Our venture capital investments have included companies developing important new technologies, including nanotechnology, biotechnology and homeland security.

- Several of our early investments have been sold for significant profits:

    - Summer Street Capital, for example, returned $21.6 million on CRF's $3.8 million investment in an Albany company. This represents a multiple of 5.7 times the original investment and a compound annual rate of return of 88 percent.
    - Hamilton Lane has seen strong gains on two of its investments: $10 million invested in Unifrax Corporation in Niagara Falls returned 3.2 times the investment (79 percent compound annual return) and a $5 million investment in New York City-based Applied Graphics Technologies returned 2.5 times the investment (74 percent compound annual return).

- All fifteen of our fund managers are performing well and are establishing themselves. This program has resulted in a significant expansion in the number of professionals focusing on equity investing in New York: from an estimated seven in 1999 to 77 today. Sixty-six of these professionals are employed by funds that received CRF commitments

Although the Program has provided significant economic benefits to the state's economy, my primary objective is to obtain an appropriate risk-adjusted return comparable to what would be available for other investments with similar characteristics. It is first and foremost an investment program. The fiduciary responsibility of the Comptroller's Office is always paramount.

Private equity is at the upper end of the spectrum in investment risk. CRF targets returns of between three and five percentage points above public markets for its private equity investments. This asset class can provide superior returns, but with greater volatility. This volatility is manifested in a range of possible investment outcomes – from failure to success. While all of the companies that have received capital under the Program are still active, it is inevitable that some will fail. Although early returns have been extraordinary, it is inevitable and expected that some companies will have difficulty. The average holding period for CRF's In-State Program is currently less than three years; because private equity investments generally have a four to five year average holding period, it is too early to tell what overall returns will be.

I continue to seek out attractive investments in managers that focus on New York and intend to renew CRF's investment commitments to our partners that demonstrate success. Our in-state investments are a key part of CRF's private equity program and will continue to be so.

Sincerely,

Alan G. Hevesi

Alan G. Hevesi

I. OVERVIEW

The New York State Common Retirement Fund (CRF) created a private equity investment program (Program) targeted at investing in New York State in November 1999. The Program was in response to legislation (the "Jobs 2000 for New York State," or "J2K" Act) adopted in August 1999 and signed into law in November 1999[1]. The legislation represented an important achievement by the Legislature under the leadership of Senator Bruno and Speaker Silver.

This report provides an overview of the investment strategies employed by the funds in the program, describes the process for selecting fund managers, and provides detail on the investments made to date.[2]

III. INVESTMENT CRITERIA AND SELECTION PROCESS FOR THE NEW YORK PROGRAM

CRF began implementation of the Program by issuing a Request for Information (RFI) in November 1999. The RFI was designed to provide potential investment managers and other interested groups with broad outlines of the program and to seek advice on how it could best be structured. It also served as an invitation to fund managers to prepare proposals for CRF's consideration.

CRF received several suggestions in response to the RFI that shaped the design of the instate investment program. Among these were:

Flexibility. Potential fund managers stressed the need to manage private equity funds in a commercial manner, and not as a government sponsored economic development program. Programmatic constraints on the characteristics of an investment, particularly a structure that would require CRF approval of individual investments, would be counter-productive. General partner managers should be provided with the flexibility to pursue a broad investment strategy in pursuit of returns.

Breadth of investment mandate. An overall lack of private equity capital was identified as a serious impediment to business formation and growth. New York State, particularly upstate, is home to a large number of middle-market privately owned businesses. These businesses generally have few options when seeking equity capital. Because many operate proven, successful business models with existing employees, providing equity financing to allow expansion or ownership transitions is attractive: there is less risk backing a proven business and the ability to preserve and expand an existing employer provides immediate economic development benefits.

Supporting Permanent Sources of Capital. Private equity investing is hands-on, and business owners must be comfortable when exchanging ownership of their company for capital. In addition to the immediate benefit from investing in growing businesses, the in-state private equity program is designed to provide support to investors who will become permanent institutions in the State, and who will be an attractive source of equity capital in the future.

Fundamental Requirements

To ensure that investments meet the prudent person fiduciary standard and the requirement that they be made solely for the benefit of CRF's participants, the following minimum standards for vetting potential general partners were required:

- A successful track record of making private equity investments, including an ability to demonstrate that value was added in the investment.
- An investment strategy designed to provide returns consistent with similar, non-New York focused investments.
- A coherent investment strategy consistent with the business environment.
- A fund manager dedicated to potential investments without any potential conflicts of interest.
- An ability to raise capital from other sources. This serves to both multiply the impact of CRF's capital and also to validate its investment decision.
- The infrastructure needed to monitor and report on the portfolio.
- An established network of contacts within the State to serve as a source of new investment opportunities.
- A business presence within the State.

The presence of a network to identify investments is an important component of evaluating a fund manager. Private equity transactions frequently arise through contacts with accountants, attorneys, business organizations and other entrepreneurs. These types of proprietary transactions may not be broadly known, and a fund manager's ability to access them is a significant competitive advantage.

Investment Process

CRF's investment process for its core private equity portfolio requires both CRF staff and its private equity consultant to review investment opportunities. Both the staff and consultant must agree that an investment has merits before it is presented to the Comptroller for approval. This parallel recommendation system is an integral part of CRF's policies and procedures and provides an internal control in the investment process. This is particularly important given that the State Comptroller is the sole trustee of CRF.

All potential investment opportunities receive a preliminary review. Proposals that do not meet CRF's fundamental requirements are initially deferred, but the investment manager is provided with detailed advice on what steps are necessary to make a suitable proposal. In several instances, CRF staff worked with managers who were eventually added to the program for extended time periods before making commitments. During this period, staff monitored organizational restructuring or progress in developing an investment track record until the manager had met CRF's requirements.

For example, when DeltaPoint capital initially sought CRF funding, it was engaged in merger and acquisition advisory work that could pose a potential conflict of interest. CRF staff provided continuous feedback to DeltaPoint's principals as they restructured their business and expanded their investment track record.

Similarly, the Trillium Group approached CRF when it was early in its investment program. CRF worked closely with Trillium's principals, monitoring the progress of their investments until it was at the stage that demonstrated suitability for a large institutional investor.

GSAVP, CRF's most recent commitment, was also the result of a long-term relationship that originated in 2000, when one of the principals of GSAVP was managing a small venture fund. A second individual, who would later become a partner of GSAVP approached CRF in 2004 with a different fund. The two individuals later joined as a partnership, when CRF gave a commitment pending GSAVP raising sufficient capital to support their investment program. The CRF commitment was instrumental in making GSAVP attractive to Greenhill, a New York investment bank. Greenhill formed a strategic relationship with GSAVP, was able to provide it with matching capital, and also assisted GSAVP in identifying other investors. GSAVP now has close to $100 million in commitments, is focused on investing in New York, and has the support of a major financial institution. Greenhill is a New York headquartered boutique investment bank that was a start-up itself in 1996, with one employee and $1 million in capital. It went public in 2004 (NYSE:GHL). Greenhill now has over 150 employees, revenues of over $220 million and net income of over $80 million in 2005.

IV. BUILDING A PRIVATE EQUITY INFRASTRUCTURE IN NEW YORK

New York State has long been a center for the global private equity industry. Private equity managers such as Alan Patricoff Associates (now Apax Partners), Blackstone, Apollo, Warburg Pincus, JP Morgan Partners, and KKR were founded and are headquartered in New York. These funds have many of their investment professionals based in the state. Although these funds make significant investments in New York – as of June 2004, CRF's private equity managers had $5.1 billion invested in New York companies, with CRF's share being $438 million – their focus generally is on larger transactions.

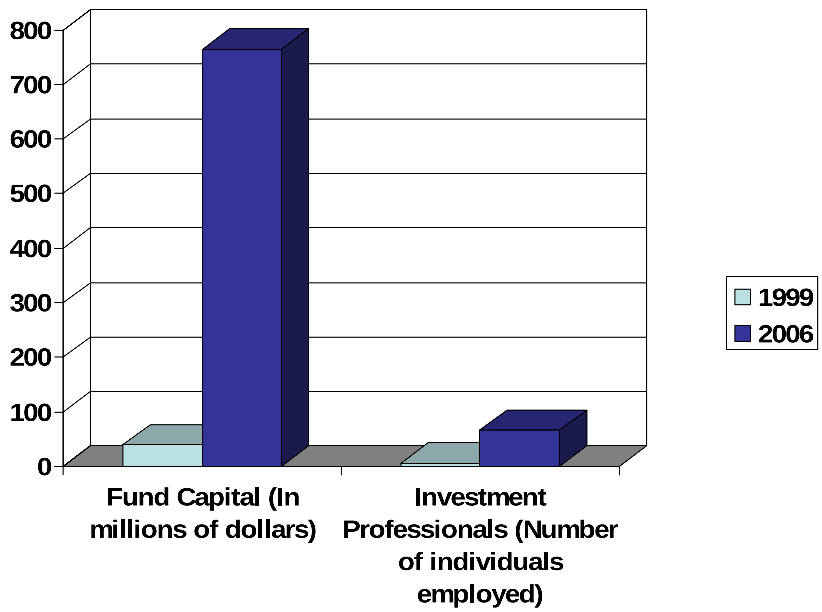
As discussed later in this section, until CRF's In-State Investment Program was initiated, there were few choices for New York businesses seeking long-term equity investors. An important goal of CRF's In-State Investment Program is developing a permanent source of private equity capital. A collateral benefit of CRF's investment in attractive companies is the fund's indirect investment in the managers making those investments. CRF's commitments have frequently been instrumental in a fund manager being able to establish a private equity fund – absent CRF, many of the funds would not be in existence, or they would not have a New York focus.

In 1999, when the In-State Private Equity Program was initiated, there were seven funds operating in New York State with a focus of making private equity investments within the state. These seven funds had approximately $41 million in available capital and had collectively employed a total of seven investment professionals.

In addition to these seven, there were approximately five other funds organized under the Capco program. These funds had an estimated $65 million in equity capital to invest in 1999 and employed less than ten investment professionals combined. The Capco program is dependent on periodic allocations of tax credits by the legislature; the funds in the program have not attracted investors outside of the insurance companies that receive tax credits for investing through the Capco program.

In early 2006, there were twenty funds (aside from the Capco program) with a focus on equity investing in New York State. Today, these funds have total available capital of $842 million and together employ 77 investment professionals. Fifteen of the twenty funds have received capital from the Common Retirement Fund and employ 66 investment professionals. The dramatic growth in the private equity industry in New York State is a largely a function of CRF's support of its fund managers as well as a compelling investment environment.

Figure 2
Growth in Available Capital and Investment Professionals for New York Focused Private Equity Funds with CRF Investments
(Dollar amounts in millions)



Accompanying the growth in private equity investment professionals has been an expansion of expertise among legal and accounting firms in New York; services provided by these firms are needed to support the execution of private equity transactions.

Angel investing networks, groups of individuals who invest in very early stage companies, have also developed in New York. The Tech Valley Angel Network in Albany and the Rochester Area Investor Network are two examples. The Trillium Group's University Technology Seed Fund based in Rochester also makes very early stage investments. Angel investors are an important element of company formation, since they provide financial support and strategic advice before most venture capital firms are able to make investments.

Upstate New York is also home to a series of networking events for investors, entrepreneurs and service providers. Attendance at these events is at levels that would have been unimaginable in the late 1990s. The Smart Start Venture Forum, the Summit in Tech Valley and the Upstate Venture Association of New York (UVANY) all draw hundreds of attendees to their meetings.

The following is a profile of a number of the private equity funds in CRF's New York portfolio and a discussion of how CRF's capital commitments affected their investment program.

Ascend Ventures: CRF backed the group's first fund and provided a pool of capital dedicated to New York transactions. The CRF commitment allowed the group to have sufficient capital to operate. Ascend is the first fund in New York's in-state program to have completed its initial investment program. Ascend raised its second private equity fund in 2005.

Ascent Biomedical Ventures: Ascent raised its first fund in 2005; the fund's partners worked with CRF early in the fundraising process to design an investment strategy that would be suitable for CRF. CRF's capital commitment helped bring Ascent's total capital under management to a level where it could comfortably operate and build a diversified portfolio of companies in the life sciences and biotechnology.

CSFB Coinvestment Fund and the Hamilton Lane Coinvestment Fund were created by CRF to take advantage of New York transactions by private equity fund managers where there was an additional need for capital. These funds would not exist without the participation of the Common Retirement Fund,

DeltaPoint Capital operated a mergers and acquisition advisory business (Capital Formation Group) prior to receiving a commitment from CRF. The firm, like Summer Street, pursued a small number of private equity investments opportunistically. With CRF's commitment, the principals of DeltaPoint became full-time managers of their private equity fund, allowing them to pursue New York investment opportunities.

Founders Equity has been actively investing in private equity since 1969, but did not have a New York focus until CRF's commitment was made in 2003. The availability of CRF's capital encouraged the firm to pursue growth equity investments in New York State.

High Peaks Venture Partners received a $30 million commitment from CRF in 2003. Although the group had been able to attract capital from other investors, it was not at a level that would have allowed the firm to operate effectively. CRF's capital was instrumental in the formation and sustainability of High Peaks.

Paladin Homeland Security Fund has a national mandate to invest in companies developing technologies related to homeland security important to both government and private sector users. CRF's capital allowed it to open a New York office and seek out opportunities in New York companies developing services and technologies in the homeland security sector.

Softbank NY is staffed by three experienced investment professionals in Buffalo and is affiliated with a national venture capital fund, Softbank Capital. Softbank would not have created a New York focus to its investment program without CRF's commitment and the Buffalo partners would likely have relocated from Western New York if they were unable to raise a local venture capital fund.

Summer Street Capital: Summer Street Capital was originally organized as a mergers and acquisitions advisory firm (Buffalo Ventures) that also did individual private equity transactions opportunistically. As part of the process of seeking CRF capital, the firm became focused on private equity investing and no longer does advisory work.

Trillium Lakefront Partners was operating a small, early-stage venture fund in 2000 when the group initially approached CRF. CRF indicated that pending successful completion of Trillium's investment program, an investment in a subsequent fund would be considered. CRF's role as an anchor investor gave the group the credibility to raise other capital; CRF's commitment also allowed the organization to operate at a much larger scale than otherwise would have been possible.

Wheatley Partners had a national focus prior to receiving CRF capital, with an interest in doing local transactions. Since CRF's commitment was made, the firm has reformulated its investment approach and is focused on New York State companies. It has been successful in having two of its portfolio companies relocate to New York State as a condition of making an investment.

V. IN-STATE PRIVATE EQUITY PORTFOLIO

As of March 31, 2006, CRF has made nineteen commitments to fifteen private equity fund general partners. Comptroller Hevesi has made the investment program a high priority and has completed $321 million in new commitments since taking office.

Year-by-year commitment activity by CRF has been:

- 2000: Two commitments for New York investments totaling $50 million;
- 2001: Two commitments to one general partner with $7.5 million targeted to New York;
- 2002: Two commitments totaling $40 million;
- 2003: Five commitments totaling $155 million;
- 2004: Three commitments totaling $55 million;
- 2005: Four commitments totaling $76 million; and
- 2006 (Year to date): One commitment totaling $25 million.

Because CRF requires that funds included in the in-state program also seek capital from other sources, the impact of CRF's investments are leveraged. CRF's commitments of $425 million are supplemented by $325 million in additional capital raised by these funds from other investors, bringing total investments available for New York transactions to $750 million. Even more capital is involved when the impact of syndication of transactions (several private equity funds will generally participate in a single investment) and lending and other forms of financing is considered.

Stuart Waugh: "A Canadian Perspective – The Ontario Venture Capital Fund"

TD Capital Private Equity Investors - Indirect investor (LP)

TD Capital Private Equity Investors, the independent private equity fund and co-investment arm of Toronto Dominion Bank Financial Group, is one of North America's leading private equity investors. TD Capital has been investing in private equity funds since 1969. Over this time, TD Capital has invested in more than 200 buyout, venture capital, mezzanine, sector focused and special situations funds. TD Capital has built strong, long-term relationships with leading private equity fund managers active across the spectrum of private equity investment strategies in the U.S. and Canada (since 1969), Europe (since 1987) and Asia (since 1996).

TD Capital currently manages over $2.7 billion in private equity commitments through its global fund of funds program and a series of separately managed accounts with customized investment strategies tailored to meet the needs of individual institutional investors. Based in Toronto and London, TD Capital's team of investment professionals focuses exclusively on sourcing, selecting, evaluating, structuring, managing, monitoring and reporting on private equity fund investments and co-investments.

Stuart D. Waugh, Managing Director *(LP)*

Stuart Waugh is a Managing Director and member of the Investment Committee of TD Capital Private Equity Investors . TD Capital provides innovative global private equity solutions for institutional investors and has been investing successfully in private equity funds in the and since 1969, in Europe since 1987, and in Asia since 1996. TD Capital currently manages over $2.7 billion in private equity commitments through a global fund of funds program and a series of separately managed accounts and customized investment programs. TD Capital invests globally in buyout and venture funds and direct co-investments, and also has an allocation to secondary investments. TD Capital's 35-person team is located in Toronto, and London, .

Stuart has more than fifteen years' experience in private equity and asset management. Stuart joined TD Capital in 2002 from McKinsey & Company where he had specialized in private equity and alternative asset management, advising both global financial institutions and institutional investors. Prior to McKinsey, Stuart was Executive Vice President of BPI Asset Management, a publicly-traded investment management firm, and a corporate and securities lawyer with McCarthy Tétrault, where his practice focused on private equity, corporate finance and capital markets transactions.

Stuart received his LLB (Dean's Honours List) from the Faculty of Law, University of Toronto and his B.A. (Chancellor's Medal) from Trinity College , University of Toronto .

Providing innovative global private equity solutions for institutional investors

TD Capital
Private Equity Investors

TD Capital Private Equity Investors

TD Capital Private Equity Investors is the independent private equity fund of funds and co-investment arm of TD Bank Financial Group, one of North America's leading financial institutions. TD Capital has been investing in private equity funds globally since 1969 and currently manages over $2.7 billion in private equity commitments. TD Capital's 40-person team is located in Toronto, Canada and London, UK.

TD Capital's private equity program builds on its successful thirty-nine year track record of global private equity investing in the United States and Canada (since 1969), in Europe (since 1987) and in Australia/Asia (since 1996). TD Capital focuses on buyout and venture capital fund investments and co-investments, and also has an allocation to secondary investments.

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TD Capital Private Equity Investors

Thirty-nine year track record of strong performance and access to top tier funds

- Since its formation in 1969, TD Capital has earned attractive net returns significantly ahead of both North American public equity markets and the overall private equity benchmark
- TD Capital has invested in more than 200 buyout, venture capital, mezzanine and special situations funds and direct co-investments with more than 70 managers and has built long-term relationships with leading private equity fund sponsors

Professional, experienced investment team

- TD Capital has assembled a highly qualified Investment Team focused exclusively on building a long-term private equity fund of funds and co-investment business

Careful construction of a diversified pool of private equity investments

- TD Capital has developed a disciplined, rigorous approach to providing investors with diversified exposure to the global private equity market through investments with leading private equity funds

Independent investment process, leveraging the heritage and sponsorship of the TD Bank Financial Group ("TDBFG")

- TD Capital employs an independent decision making and approval process, leveraging a risk management approach, valuation framework and corporate governance discipline shaped by its bank heritage and long-standing sponsorship relationship with a large and sophisticated financial institution

Attractive, cost-effective investment vehicle for institutional investors

- TD Capital offers an efficient investment solution specifically designed to deal with the risks and issues faced by institutions seeking exposure to global private equity

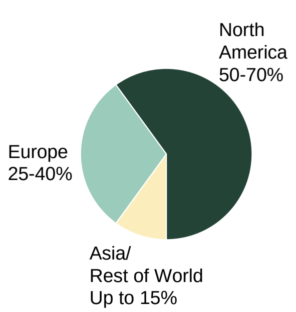
Fund Investment History

TD Capital currently manages over $2.7 billion in private equity commitments through its global fund of funds program and a series of separately managed accounts:

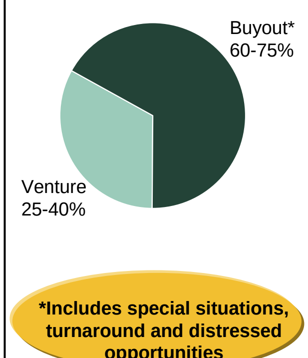
- TD Capital Private Equity Investors I (2002), a $350 million fund which is fully committed and is currently in the value creation and realization phase of its investment program.
- TD Capital Private Equity Investors II (2005), a $343 million fund which is fully committed and is currently in the initial value creation and realization phase of its investment program.
- TD Capital Private Equity Investors III (2007), a $348 million fund which is currently in the early investment phase of its investment program.
- TD Capital also manages a series of segregated accounts in amounts ranging from $100 million to $400 million with customized investment strategies for large institutional investors, including the Canada Pension Plan Investment Board and the Ontario Venture Capital Fund.

Global Fund Portfolio Guidelines

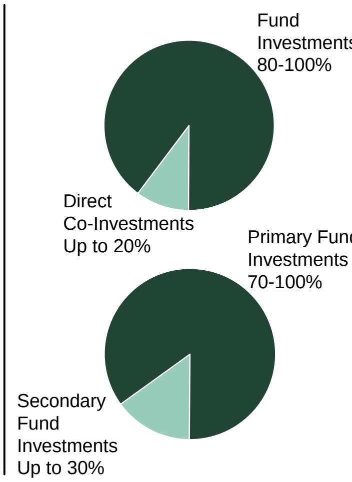
Geography



Fund Type



Transaction Type



OVCF

ONTARIO VENTURE CAPITAL FUND

LEAD INVESTORS

Ontario

OMERS

Manulife Financial

BDC

RBC

TD Bank Financial Group

About the OVCF

The Ontario Venture Capital Fund ("OVCF" or the "Fund") is a joint initiative between the Government of Ontario and leading institutional investors. The Fund is structured as a fund of funds that invests primarily in Ontario-based and Ontario-focused venture capital and growth funds that in turn make investments in innovative, high-growth companies.

OVCF was established to provide investment funding in Ontario for venture capital and growth equity managers capable of generating superior returns by investing in enterprises with a view to creating large, globally competitive companies.

Through its disciplined focus on generating superior returns for its Lead Investors and fostering the development of best-in class fund managers, OVCF serves as a new and important catalyst in ongoing efforts to create a profitable, globally competitive, and self sustaining venture capital industry in Ontario.

Key Principles

- OVCF's primary objective will be to generate long-term returns for its Lead Investors.
- In order to maximize its investment returns, OVCF will leverage the resources of TD Capital and the Lead Investors to promote industry development initiatives and the ongoing adoption of global best practices across the Ontario venture capital industry.
- OVCF will seek to construct a focused portfolio of high-potential managers with sufficient scale and resources to effectively execute on their investment strategy and deliver world-class returns.
- OVCF will play a proactive role as an anchor investor, but will not seek to represent a majority of the total capital commitments of any single fund investment.
- OVCF will invest selectively and opportunistically in direct co-investments alongside leading fund managers in high-potential Ontario-based portfolio companies.

FUND MANAGER

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Private Equity Investors

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Yigal Erlich: “Technology Innovation Ecosystem in Israel”

The Yozma Group - Direct investor (GP)

The Yozma Group has earned worldwide recognition as it effectively created the Israeli venture capital market in 1993 through the formation of its first venture fund, Yozma I. Originating from a government program aimed at prompting venture investments in Israel, Yozma has transformed the domestic landscape of private equity investments. Over a period of three years, the Group established ten drop-down funds, each capitalized with more than $20 million. This marked the beginning of a professionally managed venture capital market in Israel. In addition to its investments in drop down funds, Yozma, via its three funds: Yozma I, II and III has made direct investments in more than 45 portfolio companies, mostly in seed and early stage companies in the fields of Communication IT and medical devices.

Since 1997 Yozma is a private V.C. Fund.

Yigal Erlich, Founder, Chairman and Managing Partner

Mr. Yigal Erlich is the founding father of the Israeli venture capital industry and one of the most prominent figures in the Israeli high-tech arena in the past 15 years.

At the beginning of the 1990s, Mr. Erlich identified a market failure and a huge need in to establish for the first time a professionally-managed venture capital industry that will fund the exponential growth of high tech ventures coming out of .

In late 1992, Mr. Erlich convinced the Israeli government to allocate $100 million for his venture capital vision. Within a period of three years, Erlich, along with the other members of the core team at Yozma, established ten venture funds. These ten funds, which include Gemini, JPV, Nitzanim (Concord), Polaris, STAR and Walden , are the backbone of the vibrant and sophisticated venture capital market that has today.

Mr. Yigal Erlich is the founder of the Israel Venture Association and currently serves as its Chairman. Between 1984 and 1992, Mr. Erlich served as the Chief Scientist of 's Ministry of Industry and Trade. During his eight-year tenure as Chief Scientist, Mr. Erlich commanded an annual budget of $200 million, primarily directed at research and development projects of high-technology companies. In addition, Mr. Erlich initiated the Generic Technology program which fostered cooperation on long-term R&D activities through the creation of consortia of companies with research institutes and universities worldwide.

Mr. Erlich also started the Technology Incubator Program that led to the creation of 24 Incubation Centers throughout . Mr. Erlich was instrumental in the establishment of several bi-national industrial and technology R&D cooperation agreements with , , the , and . Mr. Erlich was the Chairman of the Executive Committee of the US-Israel Bi-national Industrial Research and Development Foundation (BIRD), and a Director of the Dead Sea Works, Israel Chemicals, Israel Oil Refineries, Hadassah's commercialization company - Hadassit, and the Technion Research and Development Co. Ltd.

Mr. Erlich holds B.Sc. and M.Sc. in Chemistry and an MBA from the Hebrew University of Jerusalem.

Franceska Banga: “Building a VC Market from Zero – The New Zealand Experience”

New Zealand Venture Investment Fund Ltd - Direct investor (GP) - 

The New Zealand Venture Investment Fund (NZVIF), established in 2002, is a venture capital investment fund of funds with NZ$200 million under management.

NZVIF is New Zealand Government owned company and a cornerstone investor in the emerging New Zeaalnd venture capital market.

NZVIF manages two investment funds: a venture capital fund of funds (investing into venture capital funds) and a seed co-investment fund (direct investment). 15 investment partnerships have been established to date with privately venture capital fund managers and angel investment groups. Equity investments have been made in 65 technology companies. All investments are made in partnership with private investors.

NZVIF places a strong emphasis on establishing high quality investment relationships and implementing industry best practice wherever possible.

Franceska Banga, Chief Executive

Franceska Banga is the founding Chief Executive of the New Zealand Venture Investment Fund. NZVIF is a $200 million venture capital fund of funds established in 2002, by the New Zealand Government, to catalyse investment and grow the venture capital market.

Franceska is responsible for managing all NZVIF investment activity including fund manager due diligence, contract negotiation and ongoing monitoring and management of fund investments.

NZVIF has made investments in 7 venture capital funds and formed 8 angel investment partnerships. Sixty five individual investments have been made so far.

Franceska has deep knowledge of Australasian venture capital and private equity markets, through her involvement in the industry over the last eight years and is currently the Chair of the New Zealand Venture Capital Association. She also played a critical role in progressing new Limited Partnership legislation, enacted this year.

Prior to the establishment of NZVIF, Franceska was responsible for advising the New Zealand Government on a range of strategic investment issues. Previous roles include Chief Strategist for the Ministry of Research, Science and Technology; Director for the New Zealand Treasury, responsible for hospital infrastructure investment; Senior Advisor, Reserve Bank of New Zealand.

Franceska has an Honours degree in Economics and Finance from the University of Auckland, New Zealand.

Other Appointments

Chair of the New Zealand Private Equity and Venture Capital Association NZVCA
Member of the New Zealand Capital Market Development Taskforce

New Zealand Venture Investment Fund and the New Zealand venture capital market

Prior to the establishment of the New Zealand Venture Investment Fund (NZVIF) there was a virtual absence of dedicated venture capital funds operating in New Zealand. Private equity investment activity had been focused in later stage investments and buy-outs, with occasional investments in the venture capital space.

NZVIF was established in 2002 with NZ$100 million of committed capital (since increased to NZ$200m) and structured along the following lines:

- As a Crown Owned Company with an independent board of directors. Directors are selected for their venture capital and commercial experience.

- As a fund of funds, investing in privately managed venture capital funds. Investment is typically on a 1:2 ratio of NZVIF to private capital, although in some cases is 1:1. The Funds must be a minimum of NZ$30 million (inclusive of NZVIF). To date seven such Funds have been established, with six Funds currently active.

- NZVIF invests in venture capital funds on industry standard terms alongside private investors, except that (i) other investors in each Fund are provided with an option that is exercisable up to the end of the fifth year of the Fund to buy out the NZVIF investment on the basis of capital plus interest only (i.e. other investors can access any upside above this amount). While the venture capital funds that NZVIF invests with can be cross border, all NZVIF investments must fit the investing profile of early through to expansion stage New Zealand companies.

- NZVIF participates in investor governance decisions on the same terms as private investors, with the same voting rights. Investor governance arrangements reflect current market practice.

NZVIF undertakes an extensive manager selection process prior to investing in a fund and plays an active role in monitoring funds post-investment.

Since its inception NZVIF has also undertaken several activities to promote and encourage the development of the market, including:

- Active support for new Limited Partnership legislation, which was enacted in 2008.

- Submissions to government on venture capital tax issues. Offshore investors in NZVIF backed venture capital funds are not required to pay tax in New Zealand.

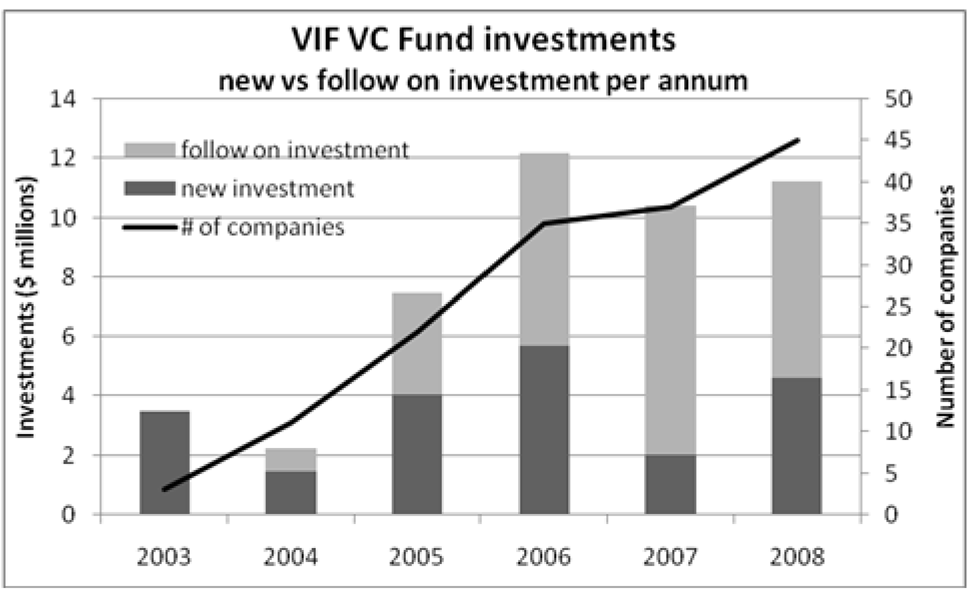
- Sponsorship of the New Zealand Venture Capital Association for specific market development initiatives, including investor education.

The overall size of the New Zealand venture capital market remains small (on a percentage of GDP basis) relative to other OECD countries.

The following observations have been made on the New Zealand venture capital market and the impact of NZVIF to date:

- Prior to NZVIF there was little formal venture capital activity and practically none of the infrastructure required to build a venture capital market.
- Since NZVIF's inception there has been a significant increase in the availability of venture capital funds for early stage investments. The programme has attracted over NZ$200 million of private investment capital for investment to date.
- The design of NZVIF as a fund of funds, and requiring private co-investors, appears to be working well.
- The NZVIF investment programme has contributed positively to the development of a larger pool of individuals with venture capital investment skills and expertise.

In summary, NZVIF has played a positive and important role in catalysing the venture capital sector. However, the New Zealand market is still small and at a very early stage in its overall development. The sector appears to continue to require government support to develop and does not appear to be close to a self-sustaining position.



Randy Mitchell & Glenda Napier: "Facilitating Venture Development: U.S. Policy with Contrast to Other Select Economies"

US Department of Commerce, International Trade Administration - Government -

Office of Finance
International Trade Administration

The International Trade Administration's Office of Finance has two primary functions. It supports the commercial interests of financial services industries and serves as ITA's in-house policy shop on official finance issues. Programs and activities in support of these functions are undertaken by the Financial Services Team and the Trade and Project Finance Team

Randy Mitchell, International Trade Strategist: Private Equity

International Trade Strategist for Private Equity
United States Representative to the OECD for Entrepreneurship

Randy Mitchell joined the International Trade Administration of the United States Department of Commerce in June 2001, from the private sector where he had a history of entrepreneurial development in Russia, Japan, and the United States. From 1997-2001 he was founder of a start-up e-commerce company exporting U.S. consumer goods to the Japanese. In that position he built a management team that included former Fortune 500 executives including the former Chairman, CEO and President of Avon Japan. Along with his team he raised $3.5 million in venture capital financing and built strategic partnerships with some of the largest companies in Japan and the United States.

Mr. Mitchell resided in Russia from 1992 through 1996, where he built distribution networks in Moscow and St. Petersburg for U.S. and Scandinavian food and beverage brands such as Nestle, Sara Lee, Anheuser-Busch, Tyson, Subway, Campbell Soup, and others. This included working with Russian entrepreneurs in distribution, retail, and food service.

Mr. Mitchell is currently the U.S. government official responsible for private equity / venture capital and is the United States Representative to the OECD for Entrepreneurship where he actively works to export entrepreneurship. He is an alumnus of the 2005 Venture Capital Institute and currently represents the International Trade Administration on the Board of Advisors to the Latin American Venture Capital Association (LAVCA). Mr. Mitchell has also served as U.S. Secretary on bilateral venture capital working groups with the governments of Australia, Brazil, and the European Union. Mr. Mitchell, a speaker of Russian, has traveled to 38 countries.

At the International Trade Administration, Mr. Mitchell is responsible for:

- Supporting foreign investments of U.S. private equity venture capital firms
- Increasing the exports of U.S. private equity and venture capital
- Enhancing the competitiveness of the U.S. private equity sector

FORA - The Danish Enterprise and Construction Authority - Government

FORA ensures a fact based platform for effective business policy development

FORA enables decision makers to make fact based decisions that take into account the current and future challenges faced by private enterprises by linking the current state of knowledge to policy making.

FORA's analyses are cutting edge and based on sound research, empirical evidence, public-private dialogue and partnerships with leading knowledge institutions and international organisations. Through dialogue with these key actors, FORA's state-of-the art analyses interconnect the newest knowledge and the shifting challenges faced by the business world.

Glenda Napier, Policy Analyst

Ms Napier joined the Danish Ministry of Economic Affairs in 2006 after having worked with international organisations including the UN, INSME and IKED. At the Danish Ministry, Ms Napier works with public policy in the field of Entrepreneurship and Innovation and provides the Danish government with international benchmarks and policy experience from other leading entrepreneurship countries.

She is also responsible for the International Consortium on Entrepreneurship (ICE) including policy makers from Canada, Denmark, Finland, Norway, the Netherlands and USA. Prior to the Ministry, Ms Napier worked with investment, science and technology policies in developing countries. In 2003-2005, Ms Napier was involved in developing the International Network for SMEs, an inter-governmental organisation with more than 60 members among policy makers worldwide. Ms Napier holds a particular interest in venture capital and venture capital policies, and assisted the Danish government with setting up business angel networks throughout Denmark in 2001-2003.

A Policy Perspective
On the USA Risk Capital Market

EXCERPTS

The International Consortium on Entrepreneurship (ICE)

Glenda Napier
Randy Mitchell
--DRAFT--
October 2008

THE ROLE OF THE PUBLIC INTERVENTION IN THE USA

Overview

The origins of the U.S. venture capital industry can be traced to the creation of American Research and Development (ARD) in 1946. ARD was a publicly traded, closed-end company investing in high-risk small firms that commercialised technologies developed for World War II.

However, attempts from the public sector to set the general framework for investment were done earlier. The first public initiatives date back to the 1930s and the public sector have played a role in fuelling risk capital investment since (Box 1).

Although the limited partnership organisational structure emerged in the United States in 1958, the pool of investors that could invest in risky assets was highly restricted. During the 1960s, venture capitalists raised funds mainly through closed-end companies such as ARD as well as the government *Small Business Investment Company* (SBIC) program which provided equity financing to new high-growth firms (Gompers and Lerner, 2001).

In the 1970s, venture capital activity was depressed by a weak stock market, high taxation of capital gains and a global economic recession. To revitalise the venture capital industry, the US government undertook regulatory and tax changes. Capital gains tax rates were reduced. The clarification of the Employee Retirement Income Security Act's (ERISA) "prudent man" rule allowed pension funds to allocate a small portion of assets to high-risk investments. These changes unlocked new capital sources for venture capital funds.

Box 1: The Government's Role in Setting the General Framework for Risk Capital Activities in the USA

1933:	The Securities Act
1934:	The Securities Exchange Act
1938:	Secondary market for residential mortgages (not a direct risk capital instrument, but it became a major source of start-up capital for entrepreneurs)
1939:	GAAP regulations
1953:	SBA's Guaranty Loan Program
1958:	Small Business Investment Company Act (SBIC)
1971:	Creation of NASDAQ by the SEC
1974:	ERISA
1976:	Hart-Scott-Rodino Act
1977:	FASB treatment of "pooling" of assets
1978:	Liberalization of bankruptcy system
1978:	Revenue Act cuts capital gains rates
1980:	ERISA regulations re: pension fund investment in high risk ventures ("Prudent Man Rule")
1980:	DOL gives VC's "safe harbor" exemption from ERISA
1980:	Business Investment Incentive Act
1980:	Bayh-Dole Act giving universities control over their inventions and research
1982:	Small Business Innovation Development Act, the Small Business Innovation Research (SBIR)
1986:	Tax Reform Act
1996:	Adoption of Uniform Blue Sky Law Creating Financial Markets to Fund Entrepreneurial Growth Companies
2002:	The Sarbanes-Oxley Act of 2002 legislation
2004:	SBIC Redesign

Source: The National Commission on Growth, 2002

To attract the growing national venture capital pool during the last two decades, several states have also provided generous fiscal incentives and created venture capital programs, with varying degrees of success. Despite boom and bust periods in U.S. venture capital markets, these federal and state programs have largely been maintained at their original levels.

In the following, the various public sector initiatives have been grouped according to their objectives. They are as follows:

- Facilitating New Funds
- Encouraging Pension Funds
- Attracting Business Angels
- Providing Tax Incentives
- Ensuring Exit Markets
- Stimulating Innovation among Entrepreneurs

Facilitating New Funds

According to Murray & Dimov (2004), the “single most common contemporary policy response” is based on the experience with the U.S. government’s Small Business Investment Company (SBIC) programme. Before SBICs, few knew what venture capital investing was and some claim that SBICs put venture capital into today’s national vocabulary.

The U.S. Small Business Investment Act of 1958 authorized the formation of SBICs as a hybrid scheme of venture capital and private funding for the purpose of investing in small firms of all types (Box 2). An SBIC is a privately managed firm and acts as an intermediary between large investors and the small enterprises targeted by the scheme.

Box 2: SBIC Program Overview

The Small Business Investment Company (SBIC) program is one of many financial assistance programs available through the U.S. Small Business Administration such as the SBIR.

The mission of the SBIC program is to support small business and the national economy by stimulating the flow of private equity capital and long term loan funds to small businesses nationwide.

The U.S. Small Business Administration does not invest directly into small business through the SBIC Program, but provides leverage to qualified and certified investment funds.

The SBA supplements private capital with two types of *"Leverage".* First, it can issue debentures. Secondly, it can issue participating preferred securities. The securities are pooled and trust certificates are issued. Institutional investors purchase trust certificates. SBA guarantees full repayment of principal and interest with the full faith and credit guarantee of the U.S. Government.

The structure of the program is unique in that SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make investments in qualifying small businesses.

A licensed SBIC in good standing, with a demonstrated need for funds, may receive leverage up to two times its private capital, but no fund management team may exceed the allowable maximum amount of leverage, currently $130 million. Once leverage is committed to an SBIC, it may be drawn down on a periodic basis over the entire 4 to 5 year commitment period. SBICs may invest only in qualifying small business concerns as defined by SBA regulations.

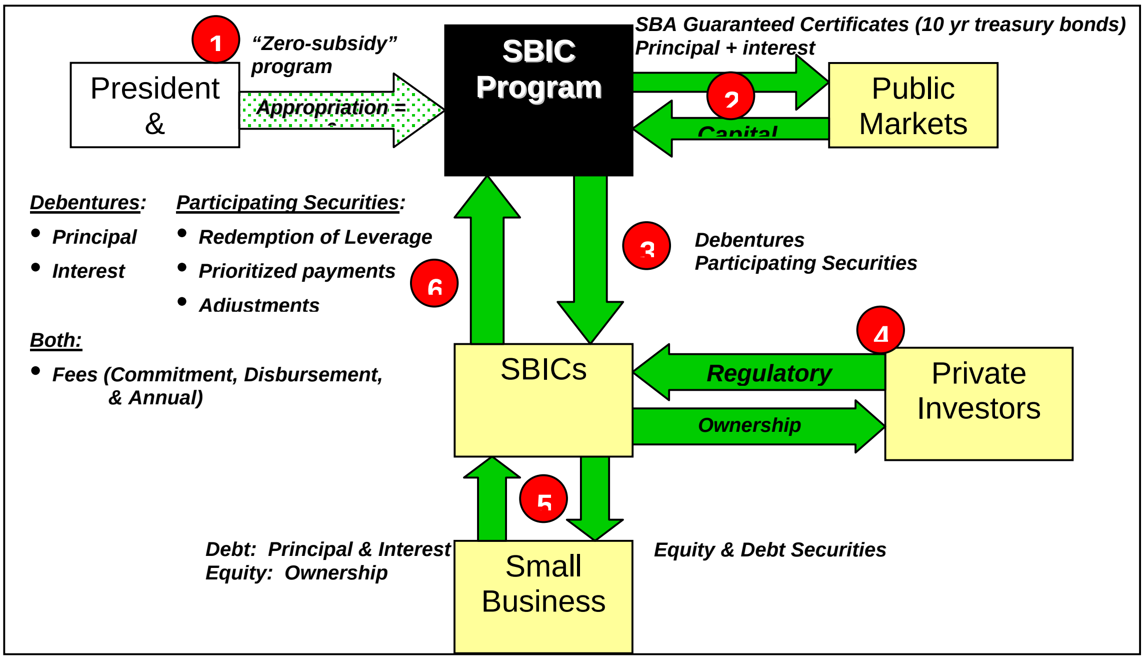
Over the past 40 years, the SBIC program has provided approximately $27 billion of long–term debt and equity capital to nearly 90,000 small U.S. companies, with $5.5 billion invested in 3,060 small businesses in 2000 alone.

In 2007, SBIC financings totalled $2.7 billion (Figure 4) and 2,057 companies benefited from SBIC financing. 33% of SBIC financings went to companies less than 2 years old and 13.2% of SBIC financings were made to "Competitive Opportunity Gap Businesses".

For more information on the SBIC program please visit, www.sba.gov/inv.

Over the years, the SBIC has been redesigned and improved. Through the SBIC programme, the public sector facilitates around 1/10 of the total market investment. In 2004, the SBIC programme provided 11.2% of all venture financing (SBA, 2005).

Figure 3: The SBIC: a zero-subsidy programme



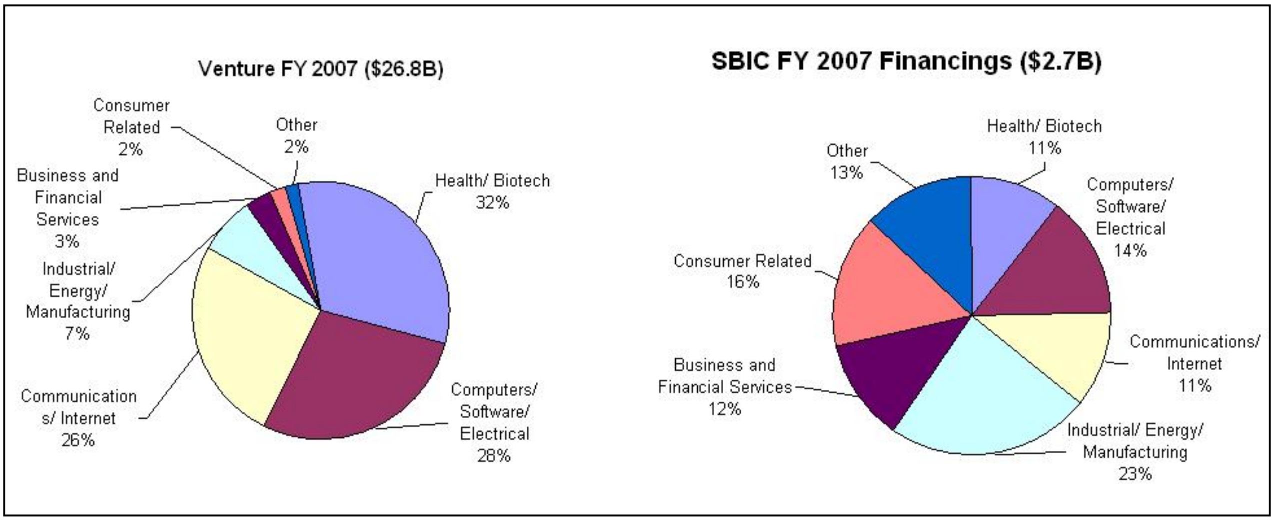
Source: SBA, 2005

The SBIC is designed as to provide new certified investment funds (SBICs) with leverage capital, which is obtained by selling treasury bonds on the public markets. These bonds are guaranteed by the federal state, and this guarantee is the only guarantee issued by the federal state in relation to the SBIC. It is important to underline that it is a zero-subsidy programme, with no cost to the federal state.

The SBICs differ from traditional venture funds in several ways. First, traditional venture capital is heavily concentrated in only a few states. The SBIC investment funds are spread out and therefore result in geographically diversified investing across the USA. That way, states with little or no venture investment activity can benefit from the programme.

Secondly, overall SBIC's do more transactions in the range of $500K to $3 million, which is above the business angel segment and below non-SBIC venture funds. Thirdly, 20% of the total dollars must be invested by SBIC's in smaller companies. Smaller companies are defined as not more than $6 million of net worth, with net income not more than $2 million averaged over prior two years. In addition to geographic diversity, it seems the United States also accomplishes racial diversity as SBIC's are known for investing in minority owned enterprises.

Figure 4: VC investment pr. sector, private and public, 2007



Source: SBA, 2007

Fourth, SBIC invest in sectors such as industrial/energy/ manufacturing and consumer related, which are less invested in by the larger venture capital funds (Figure 4).

Over the years, the SBIC programme has enabled new fund manager teams and thereby enabled development of talent for the U.S. venture capital market. As the venture capital industry evolved, the system of fund managers has otherwise been described as a “guild”. Existing fund managers teach others within their network or families as a sort of “guild apprenticeship”.

On the other hand, for many newcomers it was a challenge to enter the market. But in the early years, the SBIC programme allowed investment managers with little experience to become SBIC fund managers. Despite the risk of such a set-up, this helped develop new investment talent in a huge market where talented investors are in demand. Today the programme has much stricter experience criteria for investment managers.

However, it could be argued that the SBIC programme has its flaws too. Together with the rest of the market, the SBIC programme lost large amounts of capital during the downturns. Moreover, some say that the programme doesn’t do enough to encourage growth on firm level. It provides capital without segmentation in terms of growth, and the companies have only little incentive to grow as capital is provided to firms of certain sizes.

Although the federal government does not invest directly through the SBIC programme, this is not the case for the state governments. Some states are known to invest directly through venture capital funds to facilitate the development of local businesses. “The National Association of Seed and Venture Funds (NASVF) is an organization of innovation capital leaders including private, public and non-profit organizations committed to building their local economies by investing in local entrepreneurs." Members are private, public or semi public funds investing in entrepreneurs locally. NASVF is made up mostly of so-called “fly-over states”, where venture capital is not well developed by the private sector.

Over the years, public investment funds faced several challenges. For instance, programmes which lacked political support could not attract experienced fund managers; or had insufficient deal flow to effectively spread risk.

On the other hand, successful public programs benefited from political and business support as well as existing clusters of high-technology firms (Heard and Sibert, 2000). These state programs may be contributing to regional imbalances in venture investing.

Encouraging Pension Funds

But there were still hurdles to overcome as many funds were faced with the challenge of raising sufficient capital. In response to this, a new regulation was put in place. The Department of Labor issued new regulations under ERISA to allow public pension funds to invest a small portion of their assets in high-risk ventures, as part of prudently managed diversified-portfolio (Box 3).

The impact of this seemingly tiny change was immediate and enormous. Whereas venture capital funds had raised a paltry $5 million a year from pension funds from 1976 through 1978, they raised ten times that amount—$50 million—in just six months in 1979 (National Commission on Entrepreneurship, 2002).

Box 3: Strengthening Pension Fund Investment through Prudent Man Rule, 1978

In the United States, pension plans were traditionally prohibited from making risky investments or they are subject to quantitative ceilings on these investments in order to protect beneficiaries.

In 1978, U.S. legislation loosened these restrictions in applying a revised and restated version of the “prudent man” rule to pension plans. Pension funds could invest in new companies and venture capital funds, and fund managers did not assume fiduciary responsibility for these investment decisions.

According to the new rule, investments would be managed “*with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims*”.

This suggested that an investment position imprudent in isolation may be acceptable in a portfolio context.

In 1980, changes were made to the ERISA “safe harbor” rule to define pension funds legally as limited partnerships, further reducing the legal oversight and potential liabilities of venture capitalists (OECD, 2001).

Today pension funds in the USA continue to play a very important role as supplier of venture capital.

Attracting Business Angels

When entrepreneurs need more than $300,000 but less than $3,000,000, individual investors such as business angels play a big role. For example, consider that in 1999, while institutional venture capital funds invested $46 billion in entrepreneurial firms, private investment by individuals amounted to more than $63 billion. One policy that led to such a robust individual investor market to fund early-stage entrepreneurial firms was the favourable capital gains tax rate.

Before 1978, when founders, managers, employees, individual investors, and even suppliers and customers of entrepreneurial companies cashed out of their investments, they were subject to dramatically fluctuating capital gains tax rates. But after 1978, the fundamental tenet that capital gains on these stock sales should be taxed at rates lower than ordinary income rates started to take hold. Observers say that creating a differential between capital gains and ordinary income rates was instrumental in changing the attitudes of potential investors—creating a mind-set that successful investments in entrepreneurial companies offered extraordinary returns (National Commission on Entrepreneurship, 2002).

One way of organising and gathering business angels is through business angel networks. In the mid-1990s, informal networks of angel investors started to assemble, such as the *Band of Angels* in Silicon Valley and the *Dinner Clubs* in the mid-Atlantic region. In 1995, the SBA introduced the Angel Capital Network or *ACE-Net*, which linked individual investors, SBICs and institutional venture capitalists with small firms through an

Internet database. Mentoring services for entrepreneurs and investors are also provided through regional *ACE-Net* operators.

In 2001, *ACE-Net* was privatised as the government's role had been accomplished. Recently, the SBA developed the Technology Network or *TECH-Net*, a search engine for information and resources concerning small high-technology businesses.

Tax incentives

Venture capital investment in the United States has been stimulated by both low capital gains tax rates and targeted tax incentives. The capital gains tax rate went from a high of 49% in 1978 to 20% between 1981 and 1986, and 15% currently. This has had significant influence on the development of the U.S. venture capital industry.

Specific fiscal incentives for venture investments have been more common at the state than the federal level. For example, Maine and Ohio offer tax credits to business angel investors. Indiana, Vermont and West Virginia give tax credits to investors in qualifying venture capital partnerships, ranging from 20% to 30% of the amount invested.

The most generous tax breaks are given to insurance companies, which receive tax credits equal to 100% to 120% of the amount they invest in entities designated "*certified capital companies*"(CAPCOs). A CAPCO is a for-profit business organised to provide venture capital funds to "qualified" local businesses (whose definition differs by state) in the attempt to create new local employment opportunities. This program originated in Louisiana, but other states including Colorado, Florida, Louisiana, Missouri, New York and Wisconsin have similar schemes, which are perhaps the most generous fiscal incentives to venture investing in the OECD area. To date, the positive impact of these measures has been hard to quantify.

As the NASDAQ was critical to IPOs, so were tax laws, financial accounting standards, and antitrust regulations critical to the second, and more often used, path to investor liquidity—acquisitions. The tax-free reorganization provisions of the Internal Revenue Code, the treatment of the "pooling" of assets by the Financial Accounting Standards Board (FASB), and the available exemptions from antitrust review under the Hart-Scott-Rodino Act, all made the acquisition of entrepreneurial companies attractive to larger companies. And it was primarily through acquisitions that investors, employees, and suppliers owning stock in entrepreneurial companies realized the accrued value of their holdings (National Commission on Entrepreneurship, 2002).

Exit Markets

Another important aspect in the public involvement was creating an alternative stock market for those companies not able to go on the New York Stock Exchange.

The National Association of Securities Dealers Automated Quotation (*NASDAQ*) was crated in 1971 and outpaced all other U.S. markets in IPO listings.

The *NASDAQ SmallCap Market* was introduced in 1992 to handle even smaller IPOs. The creation of NASDAQ constituted a lynchpin of the financial market infrastructure that funds entrepreneurial firms. Because the firms with intangible assets, no or low earnings, and very short track records could not meet the strict listing requirements set by the NYSE.

NASDAQ gave these firms access to an initial public offering market for the first time (National Commission on Entrepreneurship, 2002).

Stimulating Innovation among Entrepreneurs

Created in 1982 through the Small Business Innovation Development Act, the Small Business Innovation Research (SBIR) is the nation's largest innovation program.

SBIR offers competition-based awards to stimulate technological innovation among small private-sector businesses while providing government agencies new, cost-effective, technical and scientific solutions to meet their diverse mission needs.

The program's goals are four-fold: "(1) to stimulate technological innovation; (2) to use small business to meet federal research and development needs; (3) to foster and encourage participation by minority and disadvantaged persons in technological innovation; and (4) to increase private sector commercialization derived from Federal research and development" (The Small Business Innovation Development Act (PL 97-219)).

Eleven federal agencies are currently required to set aside 2.5 percent of their extramural research and development budget exclusively for SBIR awards and contracts. Each year these agencies identify various R&D topics, representing scientific and technical problems requiring innovative solutions, for pursuit by small businesses under the SBIR program. These topics are bundled together into individual agency "solicitations" - publicly announced requests for SBIR proposals from interested small businesses.

A small business can identify an appropriate topic that it wants to pursue from these solicitations and, in response, propose a project for an SBIR grant. The required format for submitting a proposal is different for each agency. Proposal selection also varies, though peer review of proposals on a competitive basis by experts in the field is typical. Each agency then selects through a competitive process the proposals that are found to best meet program selection criteria, and awards contracts or grants to the proposing small businesses.

According to recent United States Office of Management and Budget (OMB) data, the SBIR and a sister program, the Small Business Technology Transfer (STTR) program annually provide contracts and awards worth over $2.3 billion.

The SBIR grant-making process is structured in three phases:

- Phase I grants essentially fund a feasibility study in which award winners undertake a limited amount of research aimed at establishing an idea's scientific and commercial promise. The 1992 legislation standardized Phase I grants at $100,000. Approximately 15 percent of all small businesses that apply receive a Phase I award.

- Phase II grants are larger—typically about $500,000 to $850,000—and fund more extensive R&D to develop the scientific and technical merit and the feasibility of research ideas. Approximately 40 percent of Phase I award winners go on to this next step.

- Phase III is the period during which Phase II innovation moves from the laboratory into the marketplace. No SBIR funds support this phase. To commercialize their product, small businesses are expected to garner additional funds from private investors, the capital markets, or from the government agency that made the initial award. The availability of additional funds and the need to complete rigorous testing and certification requirements at, for example, the Department of Defense or NASA can pose significant challenges for new technologies and products, including those developed using SBIR awards.

Summarizing the Policy Mapping

In the following, the results of the policy mapping are shown (Figure 3). The policy mapping indicates in which policy areas that the U.S. government has actively fuelled the risk capital market. It also indicates to what extent the public involvement has been demand or supply side oriented.

Figure 3: The Investment Policy Mapping in USA on Federal Government Level (the actual initiatives are shown in the single policy area)

INVESTMENT OPPORTUNITIES	INVESTMENT INCENTIVES	INVESTMENT CULTURE	INVESTMENT CAPITAL	INVESTMENT ABILITIES
High-Growth Firms	**Loans and Public Guarantees**	**Investment Values**	**Personal Capital** Secondary market for residential mortgages	**Human Capital** SBIC
Knowledge Intensive Sectors SBIR	**Public co-investment**		**Private Funding** SBIC Prudent Man Rule	**Social Capital**
Entrepreneurial Education SBIR	**Fiscal Incentives**		**Public Funding** SBIR	
Commercialisation of R&D SBIR Baye-Dole Act	**Taxation** Revenue act cuts capital gains rates Business Investment Incentive Act Tax Reform Act Secondary market for residential mortgages		**Regulation** Securities Act of 1933	
Investment Readiness	**Administrative Burdens**		**Internationalisation**	
Matchmaking Business Angel Networks SBIR	**Leverage Programme*** SBIC		**Exit Opportunities** NASDAQ	

Supply and Demand Orientation

Below the public initiatives have been grouped according to their focus on either the supply (investor) or demand (entrepreneur) side in the market. Evidently and as with many other countries, the USA has focused its policy efforts around fuelling the supply of capital.

Table 1: Supply and demand oriented policies

Supply oriented policies	***Demand oriented policies***
The Securities Act The Securities Exchange Act GAAP regulations SBA's 7(a) Guaranty Loan Program SBIC Creation of NASDAQ ERISA Hart-Scott-Rodino Act FASB treatment of "pooling" of assets Liberalization of bankruptcy system Revenue Act cuts capital gains rates ERISA regulations DOL gives VC's "safe harbor" exemption from ERISA Business Investment Incentive Act Tax Reform Act Adoption of Uniform Blue Sky Law Creating Financial Markets to Fund Entrepreneurial Growth Companies	Bayh-Dole Act SBIR

Source: ICE Policy Mapping 2008.

Two significant programmes aimed at strengthening the demand side are the Bayh-Dole Act and the SBIR, which were both implemented in the 1980s.

Figure 5: Federal Prioritised Investment Policy Areas in the USA (federal government level), 2008

<table>
<tr><td colspan="3">High Attention: Policy Areas with Minimum 3 Policies</td></tr>
<tr><td rowspan="4">▪ Taxation</td><td colspan="2">Middle Attention: Policy Areas with 1-2 Policies</td></tr>
<tr><td rowspan="3">▪ Knowledge Intensive Sectors
▪ Commercialisation of R&D
▪ Matchmaking
▪ Loans and public Guarantees
▪ Personal Capital
▪ Private Funding
▪ Public Funding
▪ Regulation
▪ Exit Opportunities
▪ Human Capital
▪ Entrepreneurial Education</td><td>Low Attention: Policy Areas with no Policies</td></tr>
<tr><td>▪ High Growth Firms
▪ Investment Readiness
▪ Public co-investment
▪ Fiscal Incentives
▪ Administrative Burdens
▪ Investment Values
▪ Internationalisation
▪ Social Capital</td></tr>
</table>

Source: ICE Policy Mapping 2008.

According to the ICE Investment Policy Analysis, the public involvement has been spread out over a number of areas (Figure 5). However, only Policy One area has received the highest attention, namely taxation.

Other policy areas such as supporting the knowledge intensive sector, supporting private funds, matchmaking, exit opportunities and human capital are also area, which have been subject for public intervention. In a larger number of areas, the public sector did not intervene at all.

CONCLUSIONS

In the USA, the public sector has over decades provided the risk capital market with policies, which seems to have had a profound impact on the creation of a vibrant risk capital market today. With a few well-designed and highly targeted reforms, the public sector has facilitated and encouraged the private market to invest in risk capital activities. The facilitator role is characteristic for the federal state since no direct investment programmes have been applied.

By providing investment leverage and training human capital (1958), enhanced exit opportunities (1971) and allowing public pension funds to invest (1978), the public sector has played a key role over a significant period of time. This is much earlier compared to many other countries, where government involvement only traces back 15-20 years.

The long period of time, in which the public sector has played a role - as facilitator - has possibly contributed to the development of a highly successful risk capital market. Today, the role of the public sector seems to be as a “gap-filler” in the sense, that it ensures that venture capital is evenly spread in terms of geography and sector.

Nikolay Dmitriev: “The Russian Venture Company”

Russian Venture Company - Indirect investor (LP) - 

Russian Venture Company (also RVC) is a 100% state owned fund of VC funds that was established in 2006 as part of the governmental public-private partnership program to encourage Russia’s own venture capital industry, increase financial resources of venture capital funds, develop Russian innovation-based economy and market Russian hi-tech products and services internationally. RVC’s authorized capital is $ 1.2 bln.

RVC operates through a series of Private-Public-Partnerships in which RVC contributes 49% of capital to the newly formed venture capital organisations. So far, RVC has held two tenders among management companies, with the following results: 2 venture capital funds formed in 2007—$250 mln; 5 venture capital funds to be formed in 2008—$500 mln. According to RVC estimates, the capitalization of the 7 venture capital funds in 2008—2009 will total $750 mln. RVC’s ultimate goal is to create a network of 10 funds with a total value of approximately $ 1.2 bln.

Nikolay Dmitriev

A graduate of the Moscow State University (Management of High Technologies), currently a PhD student in the Higher School of Economics (Corporate Finance and Economics), Nikolay Dmitriev was the first CEO of OJSC “Russian Venture Company” (2006—2007). His accomplishments in this position include reorganization, due diligence and increase of authorized capital by $ 200 mln.

Nikolay Dmitriev is an expert in tenders among management companies applying for partnership with RVC to create venture funds under a public-private partnership program. As a governmental fund of funds, OJSC “RVC” has held 2 tenders, investing 370 million dollars in 7 venture funds.

He has broad experience in tender procedures, negotiations with business community representatives and associations, international business relations and relations with international Board Members and consultants. Nikolay is an active participant in investment commetees of portfolio venture funds. His other responsibility is implementation of best international practices in RVC’s funds.

He has written several articles on venture capital, innovations, international experience and government policy and regulation.

Nikolay Dmitriev has a Master Degree in Physics.

RUSSIAN VENTURE COMPANY (OJSC) - GOVERNMENT FUND OF FUNDS

RUSSIAN VENTURE COMPANY

Established by Russian Government on June 7, 2006.

Goals: encourage Russia's own VC industry
develop an innovation-based economy
market Russian hi-tech products internationally

Authorized capital - $ 1.2 bln.

CEO Alexey Korobov

info@rusventure.ru www.rusventure.ru +7(495) 777-0104

RUSSIAN VENTURE COMPANY (OJSC) - GOVERNMENT FUND OF FUNDS

- **3 civil servants + 3 independent directors + CEO.**
- **RVC Board of Directors includes independent directors, each of them has been selected through a tender from among seasoned venture capitalists of world renown.**

BORD OF DIRECTORS

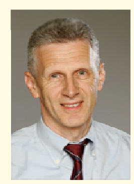
- IGOR ARTEMIEV
  Chairman Antitrust Committee
  RUSSIAN FEDERATION

- ESKO AHO
  President SITRA National Innovation Fund
  Former Prime Minister
  FINLAND

- ALEKSEY KOROBOV
  CEO "RVC", OJSC
  RUSSIAN FEDERATION

- ELVIRA NABIULLINA
  Minister for Economic Development
  Chairperson of the Board of Directors "RVC", OJSC
  RUSSIAN FEDERATION

- KONSTANTIN REMCHUKOV
  Editor-in-Chief "Independent Newspaper"
  RUSSIAN FEDERATION



- ANDREY FURSENKO
  Minister for Education and Science
  RUSSIAN FEDERATION

- YIGAL ERLICH
  Chairman YOZMA Fund of Venture Funds
  ISRAEL

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RUSSIAN VENTURE COMPANY (OJSC) -
GOVERNMENT FUND OF FUNDS

RUSSIAN VENTURE COMPANY

INVESTMENT POLICY OF RVC-BACKED VC FUNDS

VC funds invest into innovation-based hi-tech companies that comply with these key documents:

- "Priority Development Areas of Russian Science, Technology and Engineering"

- "Russian Critical Technologies List"

PRIORITY HI-TECH INDUSTRIES

- IT & telecom
- Clean and alternative energy
- Nanotechnology & advanced materials
- Transportation and aerospace
- Nature conservation
- Security and counterterrorism
- Life sciences (biotechnology, medical devices and equipment)

At least 80% of the VC fund must be invested into securities of Russian based early-stage innovation companies only.

20 % of the fund may be invested into later-stage companies.

After 5 years from inception the portfolio must hold securities of at least 10 innovation-based companies.

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RUSSIAN VENTURE COMPANY (OJSC) - GOVERNMENT FUND OF FUNDS

RUSSIAN VENTURE COMPANY

Russian venture company - 100% state owned Open Joint Stock Company

MISSION
Launch Russia's own VC industry

FINANCIAL TOOLS

- VC Funds (Closed-end Unit Funds)
- Seed Funds
- Adhesion to international VC funds (to study best international practices)

INFRASTRUCTURE PROJECTS

- Advanced training programs for Russian VC market participants
- Online info-hub, Market research.

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RUSSIAN VENTURE COMPANY (OJSC) -
GOVERNMENT FUND OF FUNDS

RUSSIAN VENTURE COMPANY

RVC Functions

Government Fund of Funds:

- Select best management companies.
- Increase engagement of private capital in innovation-based companies.

An institution to develop Russian innovation-based economy

- Advanced training programs for Russian VC market participants.
- Russian online info-hub.

OUTLOOKS FOR 2008-2009

10—12 start-up oriented VC funds (Closed-end Unit Funds),
total capitalization-$ 1.2 bln.

- 2 VC funds are in their active-life stage.
- 5 VC funds to be closed in 2008.
- 4—5 VC funds to be launched in 2009.

Seed funds program
Join foreign VC funds
Advanced training programs for venture capitalists
Online info-hub

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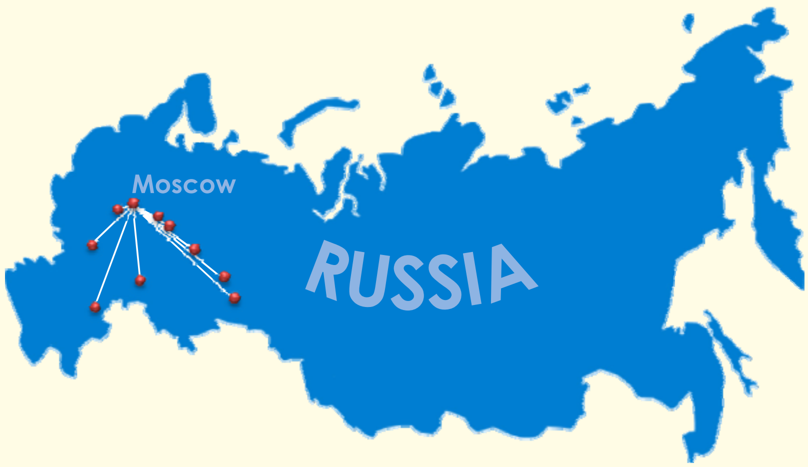
RUSSIAN VENTURE COMPANY (OJSC) -
GOVERNMENT FUND OF FUNDS

- Cheboksary
- Chelyabinsk
- Yekaterinburg
- Kaluga
- Nizhny Novgorod
- Saransk
- Saratov
- Volgograd
- Voronezh



•Regular-basis consultations on venture capital business.
•Consultations and informational support to innovators.
•Form deal flows for VC funds.

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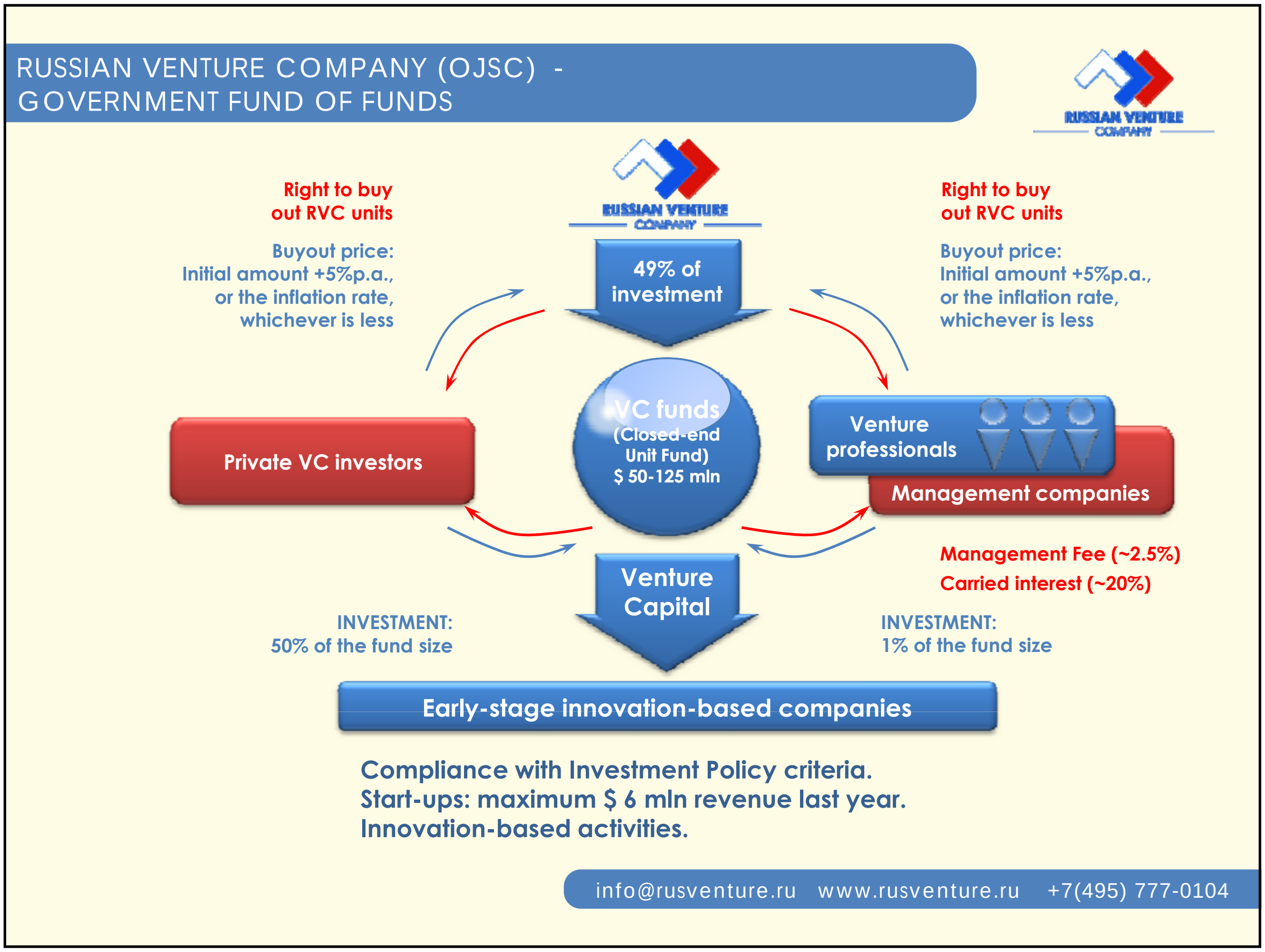
RUSSIAN VENTURE COMPANY (OJSC) -
GOVERNMENT FUND OF FUNDS
RUSSIAN VENTURE COMPANY
Right to buy out RVC units
Buyout price: Initial amount +5%p.a., or the inflation rate, whichever is less
49% of investment
Right to buy out RVC units
Buyout price: Initial amount +5%p.a., or the inflation rate, whichever is less
Private VC investors
VC funds (Closed-end Unit Fund) $ 50-125 mln
Venture professionals
Management companies
Management Fee (~2.5%)
Carried interest (~20%)
INVESTMENT: 50% of the fund size
Venture Capital
INVESTMENT: 1% of the fund size
Early-stage innovation-based companies
Compliance with Investment Policy criteria.
Start-ups: maximum $ 6 mln revenue last year.
Innovation-based activities.
info@rusventure.ru www.rusventure.ru +7(495) 777-0104

RUSSIAN VENTURE COMPANY (OJSC) - GOVERNMENT FUND OF FUNDS

VTB Venture Fund
$ 125 mln

Bioprocess Capital Ventures
$ 120 mln

Maxwell Biotech
$ 125 mln

Leader
$ 120 mln

C-Group Ventures
$ 70 mln

Tamir Fishman CiG Venture Fund
$ 80 mln

New Technologies
$ 125 mln

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Michael J. Nobrega: “How can private sector institutional investors join forces with governments to create a beneficial VC ecosystem? – an echo from the LP forum”

OMERS - 

OMERS (Ontario Municipal Employees Retirement System) highly skilled investment professionals manage over $52 billion in net investment assets.

OMERS is one of Canada's leading pension funds and institutional investors. We manage a diversified global portfolio with significant innovation in real estate, infrastructure and private equity investments, as well as more than 2,800 stocks and bonds. Through highly skilled investment professionals, our innovative asset mix consistently yields superior returns to fund about 70% of the plan's benefits. The remaining 30% comes from employee and employer contributions.

As a plan that is managed by and for its members and employers, OMERS has become synonymous with partnership - with our members, retirees, employers, employees and the many companies we invest in.

OMERS was established in 1962 to serve local government employees across Ontario . Today, we represent 910 employers, 380,000 members, retirees and survivors, including:

- Municipal workers
- Children’s Aid Society workers
- Firefighters
- Emergency Services staff
- Police
- School Board staff (non-teaching)
- Transit workers
- Hydro workers

Over the years, OMERS has evolved to reflect the changing needs of all our plan participants. Today, OMERS is a multi-employer plan that serves and supports our members, employer groups and retirees throughout the province.

Continuous high levels of investment performance, sound governance and our commitment to maintaining strong partnerships, have been key in making OMERS what it is today.

Our commitment is two-fold. To ensure that current pensions are paid in full and on time. And, to prepare for the future when today’s new employees retire.

At OMERS, our plan for the future is growing. Growing assets. Growing membership. And a strong vision for a secure, sustainable and prosperous future.

Michael J. Nobrega, President and CEO

Michael Nobrega is the President and Chief Executive Officer of the Ontario Municipal Employees Retirement System (OMERS), a position he has held since early 2007.

Mr. Nobrega is a veteran financial and investment executive with more than 30 years experience. Before his appointment as President and CEO of OMERS, Michael was the President and Chief Executive Officer of Borealis Infrastructure Management Inc., an investment entity which originated and structured infrastructure investments. Michael has held this position at Borealis since its formation by OMERS in 1999. Since 1999, Borealis has originated, structured and closed over $5.6 billion of equity investments in infrastructure assets. These assets include investments in energy, transportation and pipelines in , and Western Europe .

Prior to Borealis, Michael was a partner at a major international accounting firm. Michael holds an Honours BA from the University of Toronto and a chartered accountancy designation from the Institute of Chartered Accountants of Ontario and the Canadian Institute of Chartered Accountants. In 2002, Michael received the University of Toronto 's Arbor Award for outstanding community service.