

**Iowa Capital Investment Corporation**  
**Accomplishing the purposes of HF2078,**  
the Iowa Capital Formation Act

The “Purpose” section of the Act reads as follows:

Section 1. 15E.221 FINDINGS – PURPOSE.

The general assembly finds the following: Fundamental changes have occurred in national and international financial markets and in the financial markets of this state. A critical shortage of seed and venture capital resources exists in the state, and such shortage is impairing the growth of commerce in the state. A need exists to increase the availability of venture equity capital for emerging, expanding, and restructuring enterprises in Iowa, including, without limitation, enterprises in the life sciences, advanced manufacturing, information technology, and value-added agriculture areas. Such investments will create jobs for Iowans and will help to diversify the state's economic base.

The following reflects activity through December 31, 2014.

<b>Statutory Purpose</b>	<b>Accomplishments</b>
<i><b>This division is enacted to fulfill the following purposes:</b></i>	<i><b>ICIC has sought to fulfill these purposes as follows:</b></i>
1. To mobilize private investment in a broad variety of venture capital partnerships in diversified industries and locales.	ICIC has formed the Iowa Fund of Funds Fund A, LLLP (IFOF) to invest in venture capital partnerships. IFOF has closed on commitments totaling \$34,956,417 to seven venture capital funds (the “Portfolio Funds”). The sectors of focus among these funds include bioscience, information technology, financial services, advanced manufacturing, and other sectors. These funds are located throughout the country.
2. To retain the private-sector culture of focusing on rate of return in the investing process.	The Portfolio Funds are privately managed, merit based, and profit motivated.
3. To secure the services of the best managers in the venture capital industry, regardless of location.	With its Fund Allocation Manager, ICIC reviewed opportunities to invest in hundreds of venture capital funds, and selected only those it considered best able to achieve its targeted financial and strategic objectives.
4. To facilitate the organization of the Iowa fund of funds in which to seek such private investment and to create interest in such investments by offering state incentives for private persons to make investments in the Iowa fund of funds.	In 2003 ICIC formed Iowa Fund of Funds, Fund A, LLLP. In 2005 the IFOF closed on its first commitment of \$10 million from the Iowa Designated Investor, Inc. In 2008 and 2011 the IFOF closed on subsequent commitments from Iowa Designated Investor, Inc., bringing total committed capital to \$40 million.
5. To enhance the venture capital culture	ICIC has brought dozens of venture capital firms to

and infrastructure in the state of Iowa so as to increase venture capital investment within the state and to promote venture capital investing within Iowa.	Iowa to introduce them to the companies, technologies, research institutions and investment opportunities in the state. ICIC and the Portfolio Funds have been active participants in the venture capital forums and trade association events that encourage entrepreneurs.
6. To accomplish these purposes in such a manner as to minimize any appropriations by the state of Iowa.	All programs of ICIC have been accomplished at no direct cost to the state. Tax credits of \$24.1 million have been redeemed and exchanged for a note of equal amount, with interest compounding thereon. The managers of the selected Portfolio Funds have a history of producing market returns for investment of venture capital. If this performance is replicated, returns to the IFOF are expected to be sufficient to pay estimated future programs costs and minimize direct or indirect cost to the state.
7. To effectuate specific, measurable results, including all of the following:	
a. The creation of three new venture capital fund offices in Iowa within three years of the effective date of this Act.	Since the passage of the revised bill in 2005, through 2008, IFOF closed on six venture capital funds, with a seventh fund in 2009, completing the IFOF portfolio. These have used a variety of techniques to achieve substantial presence in Iowa, including local offices, local representatives, contracted local agents, sponsoring of events, teaching of courses, and extensive meetings with entrepreneurs and business builders. With changes in statute in 2013, no further commitments are planned.
b. The investment of resources from the Iowa fund of funds in Iowa businesses within three years of the effective date of this Act.	Since the passage of the revised bill in 2005 the Portfolio Funds invested \$35.2 million in Iowa businesses and attracted another \$62.6 million from other sources for a total of \$97.8 million for Iowa businesses.
c. A cumulative rate of return on venture investments of the Iowa fund of funds equal to a minimum of one and one-half percentage points above the ten-year treasury bill rate in effect at the end of five years following the effective date of this Act.	This target rate of return is reasonable over the long term. However, for the first five years of its ten to twelve-year life, the typical venture capital fund experiences what is called the “J-Curve”. In this period most funds lose money as capital is deployed, as companies are nurtured, and as operating costs are paid. Not until the companies in a fund begin to grow rapidly does the fund show positive earnings. As a fund of funds, investing year by year in new funds, the J-curve is extended until the investments cease and the portfolio begins to be harvested. Through 2014 IFOF has achieved a portfolio internal rate of return above 14.2%. The 10-year treasury yield at 12/31/2014 was 2.17%.