



## Investment Committee Program Guidelines and Policies

**OVERVIEW:** The BrightStar Foundation seeks to create high paying jobs throughout Wisconsin by investing in early stage companies in support of Wisconsin Economic Development Corporations and its economic development goals. According to research published by the Kaufmann Foundation, this is the most important job creation investment sector. The investment committee defines early stage companies as having three different levels of evolution beginning with: proof of principal (level 1), then commercialization (level 2), to revenue (level 3). Companies that have recurring profits are normally not of interest to the committee as these companies may seek traditional methods of financing. The committee has slightly different core investment principles that build on each other for each of these three levels of investment stage. They reserve the right to use maximum decision flexibility when responding to the challenges of this unique area of investment.

**COMMITTEE MAKE UP:** The Foundation seeks to keep a pool of at least ten investment committee members at any given time. Members will not have specific term lengths and will be voted on by the board of directors. Each member will have applicable business experience in angel investment, portfolio management, mergers & acquisitions, senior level operations or public accounting. At least five investment committee members must be present to have a quorum at each monthly investment committee meeting. Investments cannot be made without at least 80% of the members present at a meeting at which a quorum exists, voting in favor of the funding. The committee is challenged with making sound investment decisions in the same manner as if they were making for-profit investments using their own money.

**RETURN ON INVESTMENT:** As our mission is first and foremost to provide needed job creation, BrightStar will reduce its expected return on investment if the investment will yield a higher number of quality jobs. Though a job creation emphasis is by itself an admirable goal, funding should occur only if the company has the other necessary ingredients to be successful. If the company does not become successful, the jobs created would be tenuous. Therefore, BrightStar will seek a balance between return on investment and job creation by investing using a screen of well-established investment criteria that help to ensure at least a return of principal---and hopefully a full 2.3X return that is the Kaufmann early



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stage average. Then there is no net cost per job and the foundation is sustainable.

**INVESTMENT CRITERIA:** BrightStar will invest only in early stage, innovation based Wisconsin companies. The committee will have the discretion to infrequently invest in companies that are headquartered outside of the State, but have the potential for a sizable presence in State. Special consideration may be given to those in the minority and economically distressed communities.

Slightly different criteria will apply to each of three levels of applicant business maturity. BrightStar will almost always take an equity position in approved companies and those equity stakes will normally be based on the same terms and conditions as other investors. Occasionally, the foundation may need to hold convertible debt while waiting for the equity conversion. There may be occasions where BrightStar considers outright grants. Our cumulative maximum target investment in a company will be up to \$250,000 if level one, \$500,000 if level two and \$750,000 if level three. This can vary depending on circumstance and the Foundation's level of liquidity.

The criteria for any stage company will first be to pass a screen for job creation potential---how many and how high is the quality? Once that screen has been passed, then a "proof of principle" stage company will be tallied on an internal score sheet comprised of 1) Uniqueness and potential of the science or technology 2) Anticipated market size.

At both the next stages, "commercialization and "revenue", the additional criteria include 3) Intellectual property/barriers to entry 4) Management strength 5) Knowledge of marketplace and 6) Financial assumptions. The "revenue" stage company will also include criteria that factors in whether the company is eligible for traditional bank financing.

Individual investment committee members will make their own scoring decisions after hearing a presentation from the Foundation's portfolio manager about how he has assessed each of these criteria for his own internal purposes. No score



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threshold needs to be attained for any member to vote for or against the investment.

**CONFLICT POLICY:** A substantial portion of the Foundation’s board of directors and investment committee are angel investors. This should be expected as the Foundation was created by people who are active in the space as a response to the dearth of angel investment capital in the State. With the many dozens of early stage investments the group has cumulatively made in Wisconsin, sooner or later one of these companies will want to apply to BrightStar for a follow on round of funding.

BrightStar has “control” rules whereby conflicted board or investment committee members must recuse themselves from discussing the selection of a company or voting on its possible funding when a circumstance arises that could benefit them. BrightStar does not want to penalize these companies that happen to have a conflicted member or members on the investment committee. However, just so there is no hint of pressure on the other investment committee members, and so that no potential donor ever questions the integrity of the process; should a board or investment committee member have more than a 20% interest in the company applying for funds, then recusal is not sufficient. That company cannot be considered for funding from BrightStar.

Board of directors and committee members are welcome to invest personally in companies that BrightStar chooses to fund as long as it is under the same terms and conditions as given BrightStar and any other non foundation investors that choose to go into the deals that have room for additional investment. The maximum investment allowed is 5% of the offering if a committee member casts a vote for recommended funding. If the potential for more than 5% exists, then the member must have recused himself or herself from the decision-making process, to be able to invest.

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