



NORTH DAKOTA GROWTH FUND INVESTMENT POLICY

1.0 PURPOSE

This document sets forth the investment policy (“Policy”) for the 1889 Growth Fund, L.P. (“1889” or “North Dakota Growth Fund” or “NDGF”). This Policy shall apply to all monies in the NDGF that have been called and/or committed by the Investment Advisor (as defined herein).

The purpose of the Policy is to ensure that the North Dakota State Investment Board (“SIB”), the Investment Advisor, as well as any contractors SIB or Investment Advisor retains to provide services related to NDGF, take prudent, measured, effective actions while supporting NDGF. Specifically, this Policy addresses the following key areas:

- a) The investment objectives and underlying investment strategy of NDGF;
- b) General parameters for the investment of assets in NDGF;
- c) The roles and responsibilities of the Investment Advisor and any contractors retained to provides services related to NDGF; and
- d) The processes for the performance evaluation of contractors who provide investment, administrative, advisory, and/or reporting services on behalf of SIB for NDGF.

This Policy is designed to allow for sufficient flexibility in the management oversight process to take advantage of investment opportunities as they arise, while setting forth reasonable parameters to ensure prudence and care in the execution of NDGF.

SIB establishes and executes this Policy in accordance with applicable local, State and federal laws.

2.0 ESTABLISHMENT AND AUTHORITY OF ENTITY

Pursuant to North Dakota Century Code § 21-10, as amended from time to time, SIB may show preference to qualified investment firms and financial institutions with a presence in North Dakota for purposes of investment of SIB’s Legacy Fund. In 2020 and 2021, SIB conducted a study to determine the most efficient and prudent manner to expand SIB’s and the Legacy Fund’s in-state investment activity. After reviewing the study, in February 2021, SIB approved a three percent (3%) private capital allocation with a preference for in-state investments. In April 2021, 50 South Capital Advisors, LLC was selected by SIB following its public bidding process and RFP, as a partner to expand the Legacy Fund’s in-state investment activity as the general partner of NDGF.

2.1 DEFINITIONS

- a) **“North Dakota venture capital firm”** means
1. an entity that (i) has a majority of its employees physically located in North Dakota, or (ii) has at least one (1) member of its investment team based in the State; or
 2. an entity that has a “track record” of identifying, evaluating and investing in “North Dakota companies” and that provides equity financing for starting up or expanding a company, or related purposes, such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital.
- b) **“Track record”** means having made, on average, at least one (1) investment in a North Dakota company in each of its funds if the North Dakota venture capital firm has multiple funds. If a North Dakota venture capital firm has not established a track record of investing in North Dakota companies since its inception, but has at least one (1) investment in a North Dakota company in its most recent investment fund(s) with a demonstrated pipeline and network to further establish a track record of investing in North Dakota companies, the Investment Advisor may, using its prudent judgment, determine that such a firm is a North Dakota venture capital firm based on its most recent investment history and current investment strategy.
- c) **“Venture capital”** means equity or debt financing that is provided for starting up, expanding, or relocating a company, or related purposes such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital. This includes, but is not limited to, financing classified as venture capital, mezzanine, private equity, private credit, infrastructure, real assets, venture debt, buyout or growth equity.
- d) **“North Dakota companies”** are firms that are headquartered in or otherwise have a demonstrable presence in the State of North Dakota at the time of initial or follow-on investment.
- e) **“Demonstrable presence”** means (i) at least one (1) physical office (including a home office) and one (1) full-time employee within the geographic borders of North Dakota; (ii) have a material portion of total sales/revenue (or equivalent metric) from customers or clients physically located within the geographic borders of North Dakota; or (iii) at the time of initial investment, have a clear plan to use NDGF monies to create a demonstrable presence in the State as a result of NDGF’s investment.

3.0 INVESTMENT OBJECTIVES

SIB maintains a number of underlying objectives for the investment of monies from NDGF in accordance with this Investment Policy:

- a) **Performance** – NDGF has collinear objectives of achieving strong investment performance, growing North Dakota’s investment community, and accelerating the development of growth businesses in North Dakota. NDGF will endeavor to make investments in North Dakota venture capital firms and North Dakota-based operating companies in order to attract, assist and retain quality growth businesses in the State. It is expected that the returns generated by NDGF will be sufficient to compensate NDGF for the long-term and illiquid commitments associated with these investments.

Recognizing the long-term nature of these investments, this relative performance will be measured over a period of multiple market cycles. As a result, SIB has adopted a long-term total return strategy for NDGF investments. As such, NDGF assets will be managed on a total return basis. While SIB recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally remunerated with compensating returns in the long-term:

- **Performance Benchmarking** – The goal will be to create and utilize a customized benchmark that incorporates benchmark data from Cambridge Associates. As NDGF’s asset mix becomes apparent during the commitment period, a review shall be conducted to assess whether use of a blended benchmark is more appropriate for performance measurement purposes. Furthermore, the Investment Advisor shall perform and report benchmark comparisons against pertinent public market equivalents (PMEs), in addition to benchmarking the performance of NDGF against SIB’s Legacy Fund five-year trailing investment performance. The Investment Advisor will review the most appropriate benchmarks for performance reporting purposes with SIB on a periodic basis.

Recognizing the stated investment objectives of NDGF, the risk-adjusted investment performance expectations are importantly different than those of an alternatives investment portfolio without a geographic-focused investment policy. Understanding this, the performance benchmarking objectives of NDGF are more inhibited as there is not an accordant sample set of investment portfolios with NDGF’s investment objectives.

- b) **Diversification** – In order to achieve NDGF’s investment objectives, investments shall be diversified so as to minimize the risk of loss. A long-term focus on investment results, as well as prudent diversification and active oversight, will be the primary risk control mechanisms. Diversification shall chiefly be considered along the

following lines: (i) strategy; (ii) industry sector; (iii) size of investment; (iv) investment stage; (v) vintage; (vi) geographic location; and (vii) business model.

- c) **Strategy Classifications** – NDGF investments may be classified by strategy, including, but not limited to the following:
1. Venture Capital (including accelerators, startup studios and incubators);
 2. Private Credit (including venture debt);
 3. Private Equity;
 4. Growth Equity;
 5. Infrastructure; and
 6. Real assets.
- d) **Cost-Efficiency and Fee Transparency** – SIB, the Investment Advisor and its contractors shall seek to minimize any fees or costs that diminish from the total assets or value of NDGF. Furthermore, the Investment Advisor and its contractors shall strive to achieve full transparency by delineating accordant fees and expenses.
- e) **Encouraging Additional Investments and Investor Focus in North Dakota Growth Businesses** – SIB, the Investment Advisor and any contractors servicing NDGF shall encourage the investment and philanthropic communities to explore and monitor investment opportunities in North Dakota businesses in tandem with NDGF. This may include hosting investor forums, facilitating meetings between investors and NDGF, or various other efforts.

4.0 INVESTMENT PARAMETERS

- a) **Commitment Amount** – No more than \$250,000,000.00 shall be committed to NDGF.
- b) **Investment Period** – The Investment Advisor shall endeavor to commit assets placed in NDGF over the course of five (5) years. The Investment Advisor shall not invest more than one-third of NDGF’s total committed capital in any given calendar year. In an effort to accommodate the re-investment of distributions received by NDGF (discussed further below), the investment period shall automatically renew for an additional one-year period at the end of Year 5, and, thereafter, the investment period shall automatically renew at the end of each subsequent year for an additional one-year period, unless SIB or the Investment Advisor provides written notice to the Investment Advisor or SIB, as applicable, on or before October 31 of the then current year to not extend the investment period.
- c) **Re-Investment of Distributions** – Distributions from NDGF may be re-invested into NDGF by the Investment Advisor without being counted against the \$250 million cap on monies invested in NDGF. The re-investment does not need to occur in the same recipient fund or direct investment. The Investment Advisor may re-invest an amount

equal to all distributions (less the aggregate amount of all previous permanent write-downs and write-offs) to NDGF (regardless of the sources or character thereof). With respect to such re-invested distributions, the Investment Advisor shall ensure that the aggregate amount of (i) investment contributions with respect to unrealized investments as of any date of determination plus (ii) any amounts proposed to be recalled by the Investment Advisor as of such date would be less than or equal to \$250 million.

- d) **Diversified Portfolio Approach** – NDGF investments shall be spread across multiple venture capital firms and direct investments based in North Dakota and/or venture capital firms with a track record of investing in North Dakota companies.
- e) **\$25M Cap on the Amount Invested in Individual Funds** – No more than \$25,000,000.00 may be invested in any one particular recipient fund.
- f) **North Dakota Investment Activity.** Any fund in which the Investment Advisor places money under NDGF shall seek to invest a multiple of the aggregate amount of investable capital that is received from NDGF in North Dakota companies during the life of the fund. The Investment Advisor shall use its prudent judgment to negotiate with each recipient fund the multiple of investable capital on NDGF's investment amount in North Dakota companies. Investable capital is calculated as committed capital (as defined in the recipient fund's applicable governing documents) less related estimated fees and expenses to be incurred during the life of the fund. For instance, if NDGF invests \$5 million in an NDGF recipient fund, the recipient fund shall endeavor to invest at least \$5 million in North Dakota companies over the life of the fund. As such, NDGF shall endeavor to invest a minimum of \$250,000,000.00 in North Dakota companies over the life of the program. The Investment Advisor shall enter into certain side letter agreements with each recipient fund to ensure an alignment of interest in each firm's pursuit of its North Dakota investment activity. The Investment Advisor shall monitor each recipient fund's North Dakota investment activity and report to SIB on each firm's compliance with this Policy.
- h) **Underlying Funds** – The following investment considerations apply to all underlying recipient funds:
 - 1. The minimum fund size shall be \$10 million for North Dakota venture capital firms with a physical presence in the State. The minimum fund size shall be \$25 million for North Dakota venture capital firms without a physical presence in the State but a track record of investing in North Dakota companies.
 - 2. The Investment Advisor reserves the ability to grant exceptions to investment funds under the fund size minimum that possess a demonstrable North Dakota nexus.

3. Utilize reputable service providers in their administration of their legal, accounting, tax, audit fund administration, technology, and other various needs.
4. Provide audited financials within 120 days of calendar year-end.

i) **Direct Investments** – This Policy authorizes the use of direct investments. Direct investments can only be made in businesses that have received investments or commitments from a recognized, proven, uninvolved third-party investor. In the event, the Investment Advisor makes a co-investment alongside a recipient fund(s), NDGF’s co-investment shall be made at the same time and on the same terms as such recipient fund(s).

The maximum amount of each direct investment shall not exceed \$10 million. The Investment Advisor will review and provide a concrete recommendation for each direct investment opportunity to SIB. Due diligence, reporting, and all other responsibilities shall be consistent, appropriate, and abide by the requirements set forth for NDGF investments in this Policy.

Direct investments are limited to direct investments in North Dakota companies and to venture capital, growth capital, infrastructure, real assets, private credit and private equity strategy classifications. Direct investments may take the form of equity, debt, convertible preferred equity, or a comparable instrument, which provides an equity-type of return. Venture capital direct investments are expected to be in expansion/growth stage North Dakota companies.

5.0 INVESTMENT ROLES AND RESPONSIBILITIES

a) State Investment Board

SIB exercises authority and control over the management of NDGF, by setting policy and procedures which the Investment Advisor executes either internally or through the use of contractors. As such, key roles and responsibilities include, but are not limited to:

1. **Investment Policy** – SIB is responsible for this Policy and shall review this Policy at least annually to ensure accuracy and continued relevance.
2. **Oversight** – SIB is responsible for the direction of investments and administration of the assets of NDGF. This includes the ability to reject any investment selected by the Investment Advisor prior to implementation and contract formation, if it is deemed to violate this Policy;
3. **Contractors** – In order to properly carry out its responsibilities, SIB may rely on one or more contractors to assist in the administration of NDGF. SIB may

engage and rely on experienced contractors (the “Investment Advisor”) for various investment management, administrative and reporting services. SIB intends to retain an Investment Advisor to perform such investment management, administrative and reporting services for NDGF, as the general partner of NDGF.

4. **Performance and Fee Monitoring** – SIB will review the investment performance of each NDGF recipient fund and direct investment, as well as the fees, at least biannually.
5. **Due Diligence** – SIB will monitor investments and review operational due diligence activities performed by the Investment Advisor and any subcontractors retained by the Investment Advisor.

b) Investment Advisor

The chief responsibilities of the Investment Advisor shall include, but not be limited to:

1. **Implementation of Investment Strategy** – Among the chief responsibilities of the Investment Advisor is the implementation of the investment strategy outlined in this Policy, the development of portfolio allocation recommendations, and the rebalancing of NDGF assets when market movements and/or cash flows cause a breach of this Policy or applicable statutes.
2. **Selection and Evaluation of Recipient Funds** – The Investment Advisor shall evaluate and select fund recommendations for NDGF based on this Investment Policy, with the advice and counsel of SIB. This responsibility includes the screening of venture capital and private equity firms and their associated investment funds. The Investment Advisor’s up-front due diligence on potential fund investments may include but not be limited to:
 - a.) Research;
 - b.) Reference checking;
 - c.) Financial analysis;
 - d.) Vetting of firms, funds, executives, managers;
 - e.) Evidence of prior investment performance track records for prior investment offerings, as well as for key individuals;
 - f.) Level of fit or complementary characteristics of a given investment in the context of the overall NDGF portfolio and broader allocation targets (*i.e.*, sector and business stage diversification);
 - g.) Review and negotiation of contractual fee structures; and

- h.) Review and negotiation of favorable limited partnership agreement and side letter agreement provisions, including but not limited to, recipient funds' commitment to reviewing and evaluating investments in North Dakota companies presented to them by the Investment Advisor or other NDGF recipient funds (or otherwise).
3. **Selection and Evaluation of Direct Investments** – The Investment Advisor shall evaluate and select direct investment recommendations for NDGF based on this Investment Policy.
 4. **Fund Monitoring** – The Investment Advisor will be responsible for monitoring the performance of NDGF recipient funds and direct investments, tracking the diversification of invested assets and the amounts invested by recipient funds, and facilitating and reconciling all reporting and accounting requirements of portfolio companies and recipient funds. When possible, the Investment Advisor shall seek to serve on limited partner advisory committees of individual recipient funds and attend annual board meetings of recipient funds. The Investment Advisor shall also document its efforts to present potential North Dakota companies to recipient funds for their evaluation and potential investment.
 5. **Benchmarking** – The Investment Advisor is responsible for establishing applicable investment benchmarks (including public market equivalents), measuring the performance of recipient funds against such benchmarks, and reviewing benchmarks at a minimum of every two (2) years to ensure accuracy and relevance.
 6. **Reporting** – The Investment Advisor is chiefly responsible for administering all pertinent reporting and recordkeeping duties of this Policy. See Section 6.0 of this Policy for additional information. In addition to the Investment Advisor's reporting responsibilities as further outlined in Section 6.0 of this Policy, it shall hold an annual town hall summit to:
 - a.) Report on the progress of NDGF;
 - b.) Provide updates from recipient funds on their portfolios, investment performance and economic impact;
 - c.) Provide reports from underlying portfolio companies and NDGF direct investments;
 - d.) Provide networking opportunities for recipient funds, as well as other local, regional and national venture capital and private equity firms to engage with NDGF's underlying North Dakota companies to foster a more collaborative and engaged community.
 - e.) Provide educational content and discussion topics for North Dakota entrepreneurs, civic leaders, university business officers,

governmental officials and other key constituents on NDGF's impact on the North Dakota economy.

7. **Biannual Meetings** – SIB and the Investment Advisor shall meet at least biannually to review fund performance as compared to applicable benchmarks and peer group performance. The Investment Advisor shall provide detailed pipeline reports to SIB recording the number of North Dakota investment opportunities sourced and presented to recipient funds for their evaluation and review, and prospective recipient North Dakota venture capital firms under consideration.
8. **Annual Report** – The Investment Advisor will prepare and provide SIB with an annual report that (a) contains a summary of recipient fund and direct investment performance, (b) outlines the impact on North Dakota companies and the North Dakota economy, (c) delineates percentages and amounts of investment options/returns, and (d) notes other pertinent reporting information that illustrates NDGF impact and developments.
9. **Website** – The Investment Advisor shall create and maintain a publicly accessible webpage dedicated to NDGF. The webpage shall feature a standardized submission process that allows North Dakota-based, profit-driven entrepreneurial ventures to submit their endeavors for funding consideration to the Investment Advisor. The Investment Advisor shall maintain a list of submissions and make them available to recipient funds. The webpage will also feature information on the purpose, impact and general performance of NDGF and its investments. This may include quarterly or annual reports, content that showcases the economic impact of the program, or documents that demonstrate compliance with reporting requirements. The Investment Advisor and all other pertinent contributors shall treat the information reported by recipient funds as confidential proprietary information that cannot be shared publicly.
10. **Communication and Liaison Duties** – The Investment Advisor shall create and distribute program information to existing and prospective venture capital funds and portfolio companies. The Investment Advisor shall collaborate with appropriate governmental agencies to interface with local and national media outlets, as well as participate in and publish content related to NDGF to raise the profile of the program.
11. **Encouraging Additional Investments and Investor Focus in North Dakota Growth Businesses** – The Investment Advisor, working independently as well as in active collaboration with SIB, shall make a concerted effort to encourage the investment and philanthropic community to explore and monitor investment opportunities in North Dakota businesses in tandem with

SIB. This may include hosting investor forums, facilitating meetings between investors and NDGF, or various other efforts.

- a.) The Investment Advisor shall work to cultivate relationships with established North Dakota businesses and seek to connect them with North Dakota portfolio companies that receive investment through NDGF recipient funds. The Investment Advisor shall document for SIB connections made and the potential impact of such connections.

12. Educational Resource and Advisor – The Investment Advisor shall serve as a general resource and advisor to SIB and its consultants for information, guidance and training regarding investment, reporting, fund and direct investment vetting and management, portfolio company valuation, and marketing strategies. The Investment Advisor shall work with leading academic and non-profit institutions in North Dakota to attract talent to consider entrepreneurship and employment at a startup as a first-order career path, especially amongst NDGF’s underlying North Dakota portfolio companies hiring within the State.

- a.) The Investment Advisor shall collaborate with Economic Development Association of North Dakota and the North Dakota Department of Commerce’s Economic Development & Finance Division in their efforts to target companies receiving investment through NDGF for North Dakota expansion or relocation.

13. Other duties as assigned by SIB and its designees.

In managing the investments of NDGF, its recipients funds and direct investments, the Investment Advisor agrees that it will act with the skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives. Responsibilities are subject to contractual terms agreed upon between SIB and the Investment Advisor.

6.0 REPORTING REQUIREMENTS

The Investment Advisor is required to obtain quarterly reports with information from all NDGF recipient funds and direct investments. In order to fulfill these duties, SIB will require the Investment Advisor to track, aggregate and report specific data and information to SIB on a quarterly basis for all NDGF investments. Not only is this intended to ensure compliance with pertinent statutes, but it will SIB and the State of North Dakota to obtain a more precise, comprehensive review on the outcomes and impact of NDGF.

Key reporting components include, but are not limited, to the following:

- a) Quarterly cash flows (*e.g.*, commitments, capital calls, distributions, etc.);
- b) Asset class/strategy;
- c) Vintage;
- d) Internal Rate of Return (IRR) / net investment performance (*e.g.*, TVPI, RVPI, DPI);
- e) Beginning and ending Net Asset Values (NAV);
- f) Management fees, transaction fees, partnership expenses and carried interest;
- g) Contractual dates and fund investment terms;
- h) Benchmark comparisons (including public market equivalents);
- i) Fund size;
- j) Percent (%) of capital called;
- k) NDGF percent (%) of ownership in fund;
- l) Total number of companies in portfolio;
- m) Portfolio company sectors/industries;
- n) Portfolio company financial metrics (*e.g.*, revenue, EBITDA, cash burn, net debt, etc.);
- o) Pertinent portfolio company business updates;
- p) Figures related to underlying portfolio company full-time employment and payroll with descriptions of notable increases or decreases;
- q) The aggregate amount of capital that is invested in North Dakota companies by NDGF recipient funds during the life of the recipient fund;
- r) The names of portfolio companies within recipient funds;
- s) The addresses of portfolio companies within recipient funds;
- t) The date of the initial and any follow-on investments;
- u) The cost of the investment, including all pertinent fees;
- v) The current fair market value of the investment;
- w) For North Dakota companies within recipient funds, the number of North Dakota-based employees on the investment date;
- x) For North Dakota companies within recipient funds, the current number of North Dakota employees;
- y) The annual North Dakota state taxes paid by participating funds and portfolio companies; and
- z) The number of patents (provisional or issued) held by NDGF's underlying portfolio companies.

The Investment Advisor will be required to ensure standardization of reporting across all recipient funds.

In order to maintain sound accounting and financial reporting processes in accordance with generally accepted accounting principles (GAAP), NDGF investments and disclosures must be tracked and reported at fair market value. The Investment Advisor shall provide quarterly reports to SIB no later than one-hundred-and-twenty (120) days of the final day in the pertinent quarter. The Investment Advisor shall provide calendar year-end reports to SIB no later than one-hundred-and-eighty (180) days of the final day in the pertinent year. An

audited financial report shall be provided to SIB. Annual financial statements from recipient funds shall follow Financial Accounting Standards Board (FASB) topics 820 and 946.

7.0 EXCEPTIONS TO THIS POLICY

SIB shall review exceptions to this Policy to ensure activities remain relevant and appropriate with the intent of this Policy, and prudent investment standards.

8.0 POLICY REVIEW

SIB shall review this Policy at least once every year to ensure that it remains relevant and appropriate.

APPENDIX A

As of the date of approval of this Policy, the following contractors and sub-contractors have been retained and authorized:

Investment Advisor:	50 South Capital Advisors, LLC
Legal:	Kirkland & Ellis LLP HMB Legal Counsel
Fund Administration:	Strata Fund Solutions, LLC
Forensic Background Checks:	Financial Risk Mitigation, Inc.
Tax and Audit:	Deloitte LLP
Custody:	Bank of North Dakota