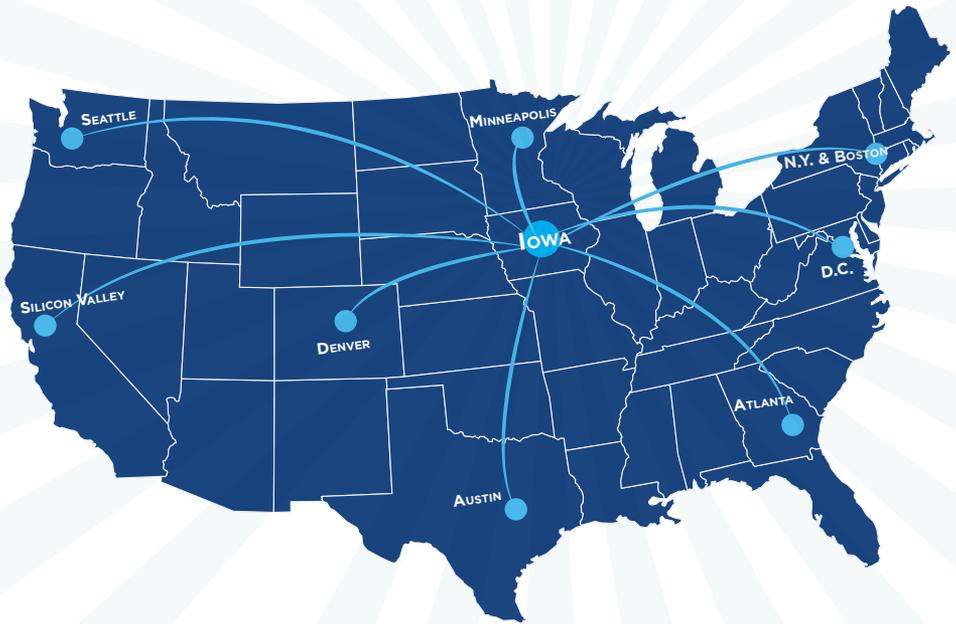


CONNECTING IOWA TO THE U.S. VENTURE CAPITAL NETWORK



Iowa Fund of Funds

THE VENTURE CAPITAL PROGRAM OF THE IOWA CAPITAL
INVESTMENT CORPORATION

2013/2014 Success Report

BIG RETURNS! NO COST TO IOWA TAXPAYERS!

The Iowa Fund of Funds has delivered!

Historically, Iowa has been a “fly over” state that the national venture capital community often ignored. In 2002, Iowa lawmakers created the Iowa Fund of Funds (IFOF) to address that problem by attracting coveted U.S. venture capital professionals to spend time in Iowa through direct investments into their venture funds. The IFOF was to make investments using private sector best practices in order to generate market-rates of return. Only venture funds with successful track records were to be considered. The program was to pay its own way, avoid burdening taxpayers and return profits that could be reinvested for the same purpose for fifty years. It was to cause capital and know-how to be infused into cream-of-the-crop Iowa companies to help them grow and create jobs. It was designed to merge what the public and private sectors do best through a novel public/private partnership.

THE IFOF HAS WORKED AS ENVISIONED AND HAS DELIVERED IN FULL ON ITS PROMISE.

Venture Capital Professionals From Around the Country Spent Hundreds of Days in Iowa

Millions into Iowa Companies due to IFOF Investee Funds

No Cost to Iowa Taxpayers via an Innovative Public/Private Partnership

Hundreds of Jobs Created

Millions of Dollars in Wages Paid to Iowa citizens

Table of Contents

MESSAGE FROM THE PRESIDENT - DENNIS MURDOCK – 4

RESULTS OF IFOF INVESTMENTS – 5

IOWA'S VENTURE CAPITAL ENVIRONMENT – 6

IFOF INVESTEE FUNDS – 7

IFOF SUCCESS STORIES – 9

IFOF HELPS BUILD IOWA'S ENTREPRENEURIAL ECOSYSTEM – 12

ABOUT THE ICIC – 13

ABOUT THE IFOF – 14

IFOF'S INVESTMENT OBJECTIVES – 16

THE ICIC BOARD OF DIRECTORS – 17

Message from the President

In 2002, with the passage of the Iowa Capital Investment Act (The Act), the citizen-volunteer board of the new Iowa Capital Investment Corporation (ICIC) was charged with creating the Iowa Fund of Funds (IFOF), a unique resource designed primarily to attract out-of-state venture capital investors to Iowa. The lawmakers who crafted and passed the Act knew that Iowa, despite a wealth of innovation and talent, was virtually ignored by the national venture capital community. They were determined to change our “fly over” status and put Iowa on the national venture capital map.

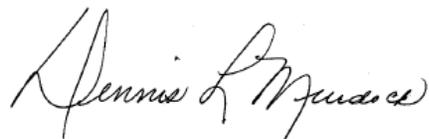
The IFOF has allowed Iowa to invest in U.S. venture capital funds which, in return for such investments, have been required to send investment professionals to spend time in Iowa to work with our entrepreneurs and seek investment opportunities. Because of the magnetic draw of a potential and/or actual investment by the IFOF, venture capitalists from around the country have trekked to Iowa. Without the draw of the IFOF, venture capitalists simply don't and won't come to Iowa in large numbers.

Our policymakers had a long term vision in 2002. They wanted the IFOF to avoid making politically-driven decisions and instead to adhere to “best investment practices” as do pension funds. It was to invest in proven firms that had done well for their investors in the past. It was expected to cover all its own costs and avoid burdening taxpayers. It was to operate profitably and use its profits to fund the program and its investments for fifty years. Lessons-learned from prior, similar State efforts were incorporated. They sought to merge the best aspects of the public and private sectors.

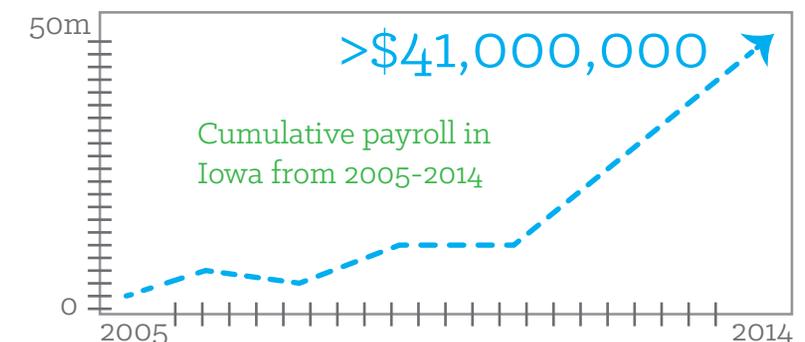
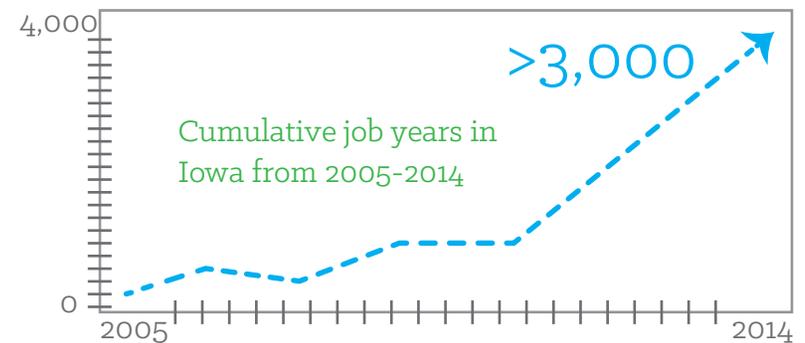
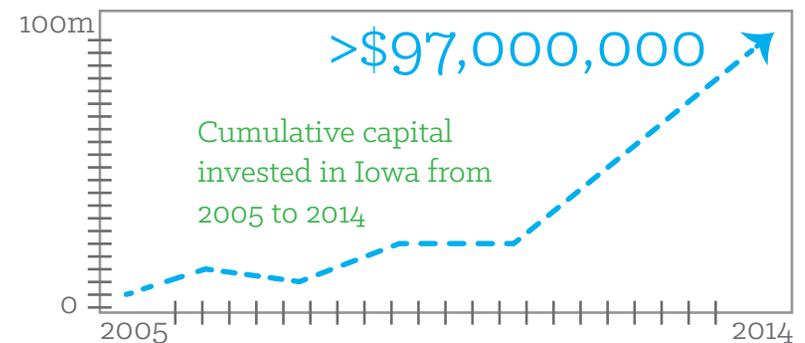
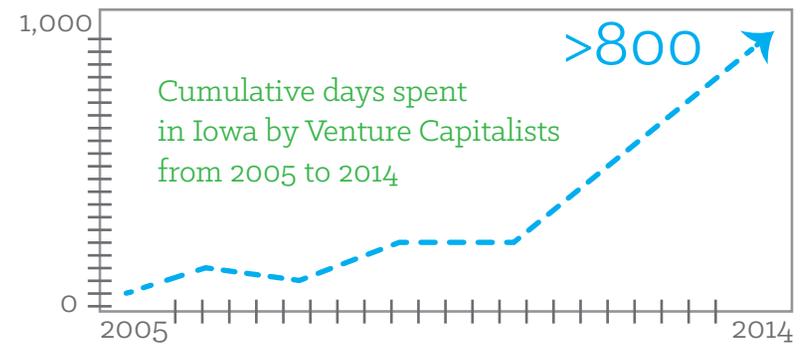
The ICIC board of directors was to be made up of knowledgeable Iowa citizens who would govern the IFOF program. They were to establish the investment policies and approve all investments. They were to be aided by private sector experts who would manage the investment process.

In the ensuing years, the Iowa Fund of Funds has considered more than one thousand venture capital funds while making commitments to seven. As required, professionals from the selected funds have spent hundreds of days in Iowa working with Iowa entrepreneurs. The seven funds have caused more than \$100 million to be invested in Iowa companies, creating hundreds of jobs and causing millions of dollars to be paid in wages to Iowa workers. The IFOF portfolio continues to grow in value. The program works!

With the help of our many partners, public and private, the IFOF and ICIC have made a meaningful impact in Iowa. We are very proud of our work and its contribution to the betterment of our beloved Iowa. Recently, the IFOF was curtailed and is currently unable to make investments in new venture funds. If it is not authorized to continue playing its valuable and unique role, Iowa will have lost an important economic development tool. That would be a shame.



Results of IFOF Investments



Iowa's Venture Capital Environment



The economic well-being of Iowa depends on the creation and growth of competitive, knowledge-intensive companies capable of success in high-growth domestic and international markets. These companies depend on Iowa's access to sophisticated risk capital and investment skills, employee talent, and a network of connections to entrepreneurial resources. These are all essential ingredients for a vigorous entrepreneurial Iowa.

One important source of such money, talent and connections is found in America's professional venture capital firms. Most of these firms have traditionally focused their efforts on the east and west coasts, leaving the rest of the country, including Iowa, with little access to

the necessary resources of the national venture capital network. In recent years, leading states (including Iowa) have forged creative ways to connect themselves to this network, seeking to ensure that their most promising entrepreneurs have a chance to compete on a level playing field with their peers in the venture capital-rich areas of the country.

In the venture capital world, many companies seeking funding from experienced venture capitalists do not meet minimum investment standards and are not funded. The same will be true of companies in Iowa, and perhaps to a larger extent because the venture capital environment in Iowa is still young. For that reason, success of the Fund of Funds is substantially more than just the number of Iowa companies that receive funding from professional venture capitalists.

Aspiring entrepreneurs are provided the opportunity to gain an understanding of the standards required by venture capital firms, to address deficiencies, and to meet those standards. Companies that achieve these national standards of quality will be more likely to find the capital they need to grow and prosper. The ultimate success of IFOF's investments will help build overall economic momentum, and catalyze cultural change and a more robust entrepreneurial ecosystem in Iowa in the years and decades to come.



IFOF Investee Funds

The IFOF made seven investment commitments in venture capital funds consistent with the ICIC investment policy.

THEY INCLUDE THE FOLLOWING FUNDS:



Village Ventures Fund II - A \$5 million commitment to a \$104 million seed and early stage fund launched in 2007 focused on consumer media and retail, healthcare and financial services in emerging technology centers which possess world class innovation but generally lack local sources of institutional early stage capital. Village Ventures is based in Boston, MA.

Bayview Capital Partners Fund II - A \$2.7 million commitment in 2006 to a \$125 million fund focused on late-stage manufacturing, services and distribution companies in the Midwest. The fund is a licensed Small Business Investment Company which means it is able to leverage its private capital with debentures from the U.S. Small Business Administration. Tonka Bay Equity Partners, based in Minneapolis, MN is the manager of the fund.



Prolog Capital II - A \$5 million commitment in 2005 to a \$66 million fund that invests in early stage life science companies including those in the area of plant and agriculture bioscience. Prolog is led by people with both investment know-how and direct experience in getting new ventures off the ground. Prolog is based in St. Louis, MO.



LFE Capital

LFE Growth Fund II A \$5 million commitment to a \$32.8 million fund that invests growth and expansion capital in smaller middle-market growth-stage companies in the business services, consumer and health sectors. Based in Minneapolis with an office in Ankeny, LFE has a special emphasis on businesses that are owned or led by female entrepreneurs or that serve markets of interest to women.



OCA VENTURES **OCA Ventures II** - A \$5 million commitment in 2008 to a \$50 million seed and early stage venture fund focused on core technologies, financial services, for-profit education and technology-enabled services. OCA Ventures is based in Chicago, IL.



Petra Growth Fund II - A \$5 million commitment in 2008 to a \$160 million fund, also licensed as a Small Business Investment Company, focused on debt and equity investments in high growth small businesses. Petra is based in Nashville, TN.

STONE ARCH CAPITAL

Stone Arch Capital II - A \$6 million commitment in 2008 to a \$151 million fund focused on investing in later stage companies that offer solid potential for growth, introduction of new products and add-on acquisitions. Stone Arch has special expertise in manufacturing of agricultural equipment. Stone Arch Capital is based in Minneapolis, MN.



IFOF Success Stories

Investments by ICIC portfolio venture funds have catalyzed millions of dollars of investment in Iowa companies, helping them grow rapidly and create hundreds of jobs. Here are some examples:

DWOLLA

In an exciting announcement in early 2012, **Dwolla**, a mobile payment services company headquartered in Des Moines, announced a \$5 million B round



of venture capital. The participants included Village Ventures, one of the portfolio funds within the Iowa Fund of Funds, who were joined by Union Square Ventures and Thrive Capital, and angel investors Paige Craig and Marc Ecko. Launched by Ben Milne, Dwolla is at the cutting edge of an industry that is transforming how consumers pay for their purchases. Dwolla's promise of "No percentages. No hidden fees. Just 25¢ per transaction or free for transactions \$10 or less" is disruptive. "The investment is all about getting the product out nationally," says Milne.



East Iowa Machine Company, Inc. (EIMCo.) is an ISO 9001:2008 certified manufacturing company employing over 120 people at its location in Farley, Iowa. EIMCo converts raw metals into finished component parts and assemblies utilizing a wide variety of computerized numeric controlled (CNC) equipment and state-of-the-art manufacturing processes. Since 1992, EIMCo has been providing quality machined products to customers in a variety of industries throughout the country. Stone Arch Capital made an investment in 2013 that enabled EIMCo to rapidly expand its production and create many new jobs.





Global ID Group of Fairfield, IA is a family of companies dedicated to the production of safe, healthy, and ethical food. Global ID Group began in 1996 with the founding of Genetic ID, Inc., whose central mission was to provide the tools and knowledge needed to respond to consumer concerns, industry needs, and government regulations regarding genetically engineered foods. Genetic ID is a global leader in the analysis of genetically modified organisms (GMOs) in food and agricultural products. In recent years, Genetic ID has diversified its services to include third-party certification and consulting and a range of advanced testing services, enabling Global ID to broaden its mission over a much wider portfolio of emerging food safety, quality, and authenticity issues. Today, Global ID serves more than 1,000 of the largest firms in the global food and agricultural industries with offices in 5 countries and 18 licensee laboratories in 14 countries. Global ID received an investment from LFE Capital in 2008 that helped to catalyze its rapid growth.



AppleWhite Dental Partners, based in Dubuque, IA, provides both business support and professional mentoring and consulting services to the dental industry. Existing dental practices joining the group receive business support in areas such as accounting, marketing, finance, purchasing, human resources and information technology, while the dentists continue to deliver dental services to their patients. This cooperative partnership allows the established dentist to focus on delivery of care and to maintain ownership status without having to deal with the hassles of administration. In addition, the group provides mentoring and support for new and young dentists, allowing them a stress-free transition from education to private practice. AppleWhite Dental Partners received an investment from Tonka Bay Equity Partners, helping to fund its expansion.



Accumold® began in a rented garage in 1985 manufacturing micro-sized parts other companies could not produce. Today, Accumold is one of the oldest companies still in the micro-molding business. The original 1985 Micro-Molder® was designed to manufacture small parts with minimal waste and short cycle times for the electronic component manufacturers. They continue to focus on industries that demand fast turnaround and small, complex parts such as Micro Electronics, Automotive, Fiber/Optic, Medical, and Military, as well as emerging technologies and markets. The company’s tooling, molding, packaging and metrology are all done under one roof in a new 200,000 square foot facility located near Ankeny, Iowa. Strategically located near Des Moines Area Community College (DMACC), Accumold has access to some of the most skilled and brightest professionals in the business. Accumold received an investment and support from Tonka Bay Equity Partners allowing it to rapidly expand.

JobDig is a national employment-focused media company. They deliver weekly job opportunities through print, radio, television and online channels to help local employers connect with active and passive job seekers. JobDig serves 16 markets in 15 states including Arkansas, Illinois, Iowa, Kansas, Kentucky, Minnesota, Nebraska, North Dakota, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, and Wisconsin. They have a significant presence in Iowa and distribute a weekly free newspaper for job seekers throughout the state. JobDig received investment and support from LFE Capital.



Building Momentum in Iowa's Entrepreneurial Ecosystem –

NEXT LEVEL VENTURES

Iowa native and entrepreneur, Craig Ibsen, mixed a life working his way up the corporate ladder with founding and building companies. Once a top executive with Maytag in Newton, IA, Craig was drawn to the world of venture capital when, in 2010, he joined Minneapolis-based, LFE Capital as a senior advisor and principal. LFE Capital, one of the seven venture firms in which the Iowa Fund of Funds invested, needed help identifying investment opportunities in Iowa. Craig fit the bill. When LFE decided to back Global ID, an innovative food safety company based in Fairfield, Iowa; Craig became chairman of the Global ID board in June, 2010 where he helped steer its growth and, ultimately, a successful exit in November, 2013.



Craig Ibsen
Founder and Managing Principal
Next Level Ventures

Having developed a growing appetite for helping entrepreneurs build companies and observing the booming entrepreneurial culture in Iowa, Craig decided to raise a venture fund his own. Shortly thereafter, Iowa-focused, Next Level Ventures, was established and working closely with the Iowa Innovation Corporation's innovation fund tax credit program to attract investors. Due to the enhanced entrepreneurial environment created by the Iowa Fund of Funds, the Iowa Innovation Corporation, the Iowa Innovation Fund Tax Credits and a determined Iowa son, Iowa has a new venture fund seeking to help local entrepreneurs build new companies and create the jobs of the future.

Today, Next Level Ventures is up and running with a full investment team that provides both financial and operating assistance to the companies it backs. It typically invests \$1 to \$4 million per company and prefers companies in biosciences, advanced manufacturing and information technology. It seeks companies that already have product(s) in the market and want to scale rapidly.

For more information go to: www.nextlevelventures.com.

About Iowa Capital Investment Corporation

In 2002, the Iowa Legislature enacted an economic stimulus package designed to enhance Iowa's entrepreneurial ecosystem and stimulate the formation and growth of Iowa companies. The measures included incentives for angel investors, new local seed funds and the Iowa Fund of Funds (IFOF), a program to better connect Iowa to the national venture capital community.

To oversee the IFOF, the Legislature established the Iowa Capital Investment Corporation (ICIC), a state chartered independent not-for-profit corporation organized under Iowa Code Chapter 504A and acting in the interests of the State of Iowa, and the Iowa Capital

Investment Board (ICIB), a state agency. In 2005, the Legislature made technical revisions in the Act, enabling the IFOF to begin operations. Under the direction of the ICIC, IFOF raises private capital supported by contingent state tax credits which, ideally, would never be used. The capital raised is used to make investments in professionally-managed venture capital funds and to pay for all IFOF operating costs. Upon its termination, the ICIC will turn the assets of the IFOF over to the State.

The objectives of the ICIC as stated in its enabling legislation (Iowa Code §§ 15E.61) are as follows:

- **Mobilize private investment in a broad variety of venture capital partnerships in diversified industries and locales.**
- **Retain the private-sector culture of focusing on rate of return in the investing process.**
- **Secure the services of the best managers in the venture capital industry, regardless of location.**
- **Facilitate the organization of the IFOF 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 IFOF.**
- **Enhance the venture capital culture 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.**
- **Accomplish these purposes in such a manner as to minimize any appropriations by the state of Iowa.**

The ICIC Board has successfully implemented both the letter and the spirit of the Act. This has been accomplished at no cost to Iowa taxpayers.

THE ICIC RUNS A CLEAN SHOP!

The Iowa Capital Investment Corporation and its affiliates have been audited by private accounting firms selected by the Iowa State Auditor every year since 2002. It has also been carefully reviewed by the FEG Group, the investment managers for the University of Iowa Foundation and by the Attorney General's Office. *There have been no material findings.*

About Iowa Fund of Funds

**IFOF FINANCING APPROACH
BENEFITS IOWA BY \$10 MILLION**

“We estimate that a long-term, fixed rate, financing structure would have cost the ICIC an incremental \$10 million in net interest expense to date.”

FEG Group, September 2010

The IFOF invests in venture capital funds from around the U.S. Each investee fund, led by experienced business builders, is required to spend time in Iowa working with our entrepreneurs. By doing so, the venture fund managers contribute valuable expertise, networking and/or capital that might otherwise be unavailable to our folks. Without the IFOF, Iowa has a more difficult time attracting such important talent and know-how to our state.

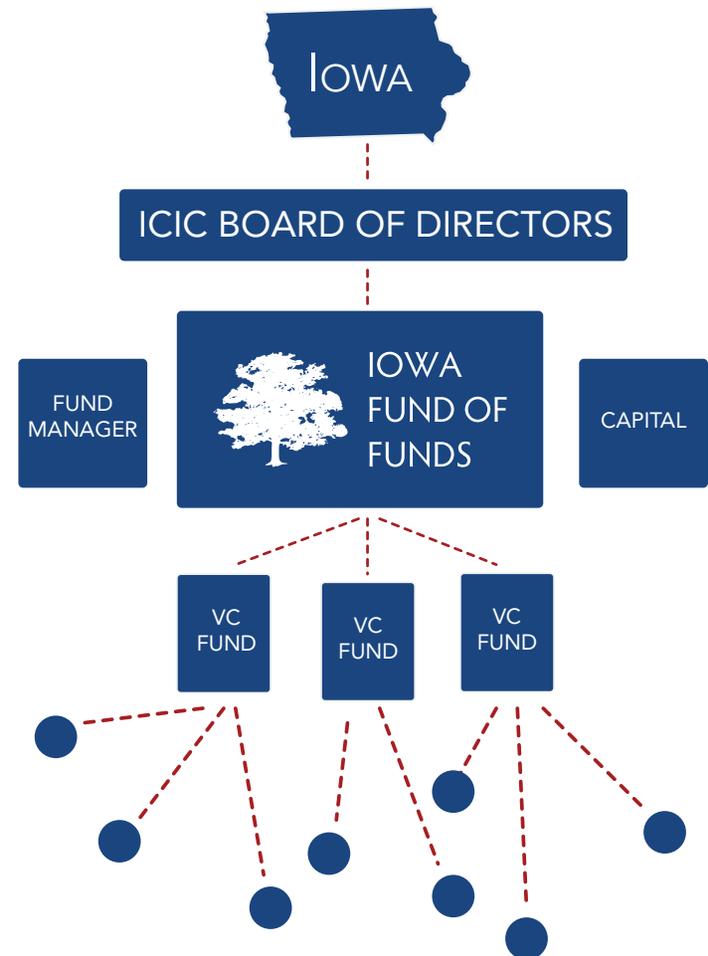
Codified in Iowa Code §§ 15E.61 et. seq., the Act, as amended in 2010, provides \$60 million of transferable Iowa tax credits to be used to support the capitalization of the IFOF and its

investments. Beginning in 2005, the credits have been used to guarantee private loans which are to be fully repaid by IFOF from returns generated by its investee funds. Because of this unique funding mechanism, IFOF operated without State appropriations and is managed to avoid burdening taxpayers with any cost. This is the approach outlined in the enabling legislation.

Recent actions by the State of Iowa resulted in some tax credits being liquidated in order to pay down IFOF’s private sector loans. As a result, instead of paying down our loans with our traditional private-sector capital providers, IFOF has assumed interest bearing notes repayable to the State in like amounts. Unfortunately, the interest rate charged by the State is higher than that owed the private-sector capital providers. Throughout the years, IFOF has been able to repay its loans as projected and remains on course to repay all loans, including those now held by the State of Iowa.

A team of Iowa corporations, organized by the ICIC years ago, continue to stand ready to purchase the tax credits, as needed. They have agreed to make such purchases without a discount as a way to help the people of Iowa and build the Iowa economy. Their pledge to make purchases at par is a significant commitment that has helped to minimize the cost of the program to the State of Iowa. These commitments have been at a low cost through the years. Their efforts on behalf of all Iowans is appreciated.

Other recent actions by the State have curtailed the ability of the IFOF to continue making new investments in venture capital funds. As the “investment periods” (the period of time, usually five years, during which a venture fund makes new investments) of the initial seven investee funds expire, those funds are no longer obligated to come to Iowa to work with our entrepreneurs and seek investment opportunities. To continue attracting venture capital professionals to Iowa from out-of-state, it will be necessary for lawmakers to authorize the IFOF to begin investing again.



Iowa Fund of Funds' Investment Objectives

Working with its fund manager, ICIC has developed a formal policy to guide the allocation of venture fund investments and achieve the strategic objectives of the IFOF. By investing in a diverse set of private venture capital funds, the IFOF can connect Iowa's most promising entrepreneurs with the full resources of the national venture capital network.

Each fund management team agrees to establish an appropriate presence within the state and work with entrepreneurs. They may also interface with angel investors, other venture funds, university tech transfer and development staff, economic developers, and corporate business development groups to identify promising Iowa opportunities.

IFOF invests in venture capital funds with proven management teams and a demonstrated history of earning market rates of return. To improve the likelihood of positive overall returns and to protect against losses, IFOF's investments are broadly diversified across industries, time and geography, and across stages of investment within the following guidelines.

INVESTMENT STAGE	PERCENT OF INVESTMENT
Early Stage (includes seed & startup)	10% - 20%
Traditional Venture Capital	30% - 40%
Later Stage (includes expansions & mezzanine)	40% - 50%
Special Situations (turnarounds, restructuring, etc.)	3% - 7%

To meet the needs of the Iowa economy, fund commitments are focused in several strategic cluster industries:

Life Sciences (including agricultural technology, animal sciences and clean-tech)

Information Technologies

Financial Services

Advanced Manufacturing

Other Emerging Sectors

Board of Directors

The ICIC Board of Directors consists of voting members that were selected based upon their expertise in areas related to venture capital investment, investment management, and supervision of investment managers and investment funds. They are volunteer and are uncompensated including expenses. Each has served continuously since the inception of the program in 2002.



DENNIS MURDOCK
President



BRUCE TAMISIEA
Treasurer



TIM URBAN

DENNIS MURDOCK CEO and Executive Vice President of Central Iowa Power Cooperative (CIPCO based in Marion).

BRUCE TAMISIEA President of Tecton Industries, a precision manufacturer in Spencer, and a former board member of the Iowa Seed Capital Corporation.

TIM URBAN President of Urban Development Corporation, a commercial and residential real estate development company, former Des Moines City Councilman and member of the Governor's 2010 Commission.

FUND MANAGER Cimarron Capital Associates I, L.L.C.

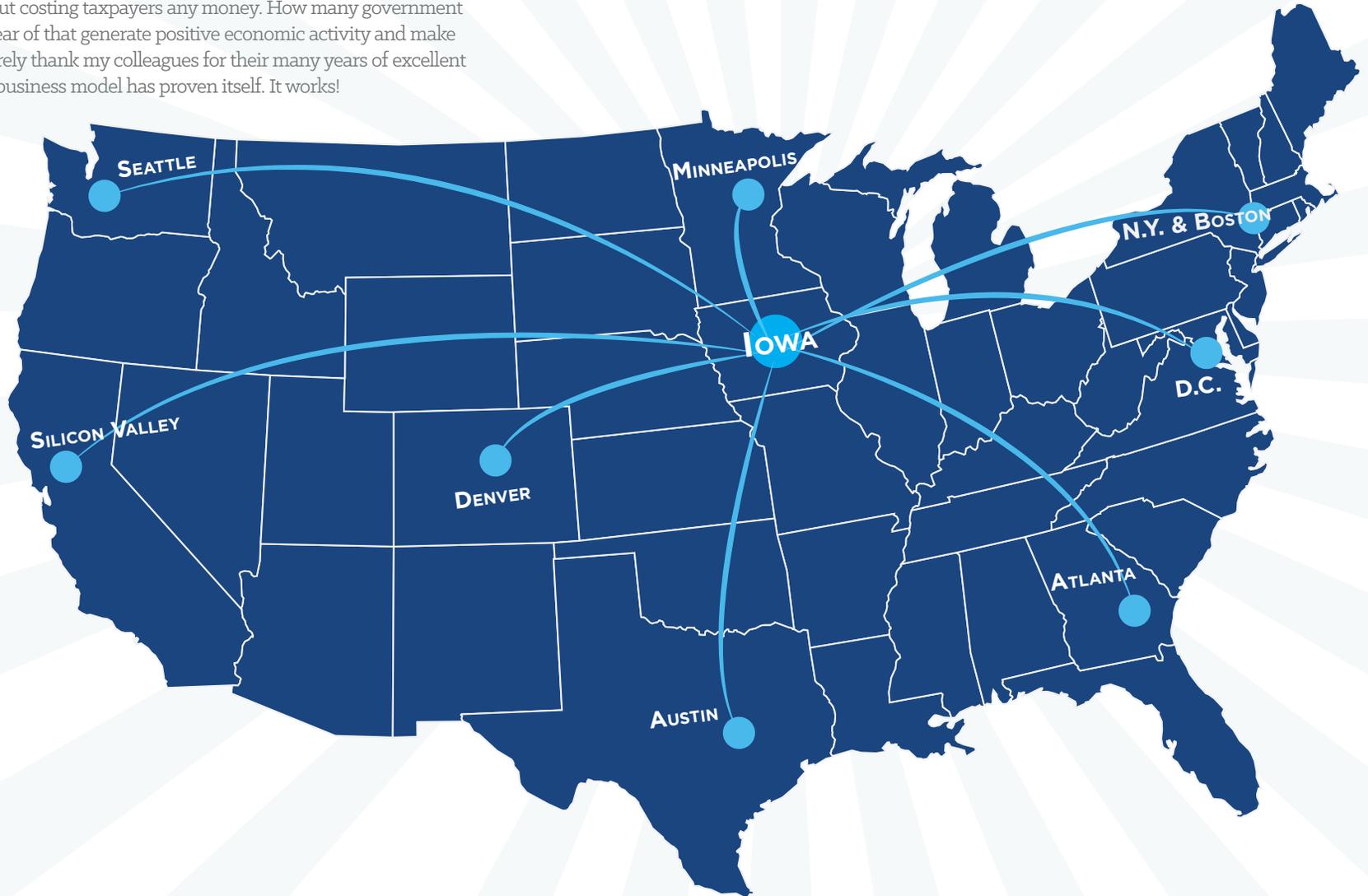
COUNSEL Davis Brown Law Firm

AUDITOR ICIC, IFOF, and affiliated entities are audited by KPMG, who is selected by the Iowa Auditor of State, who reviews and published all audit reports.

Note from the President

DENNIS MURDOCK

Bruce Tamisiea, Tim Urban and I have served together on the ICIC Board since its inception in 2002. We remain enthusiastic about IFOF's important mission to bring professional venture investors to Iowa to help our entrepreneurs create and grow their companies. We have been equally enthused about our goal to manage the program profitably using best investment practices, to use our earnings to expand our reach and to do it all without costing taxpayers any money. How many government programs have you ever hear of that generate positive economic activity and make money? Not many! I sincerely thank my colleagues for their many years of excellent service to Iowa. The IFOF business model has proven itself. It works!



THE IOWA FUND OF FUNDS HAS DELIVERED!

VENTURE CAPITAL PROFESSIONALS FROM
AROUND THE COUNTRY
SPENT HUNDREDS OF DAYS IN IOWA



MILLIONS INTO IOWA COMPANIES
DUE TO IFOF INVESTEE FUNDS



NO COST TO IOWA TAXPAYERS VIA AN INNOVATIVE
PUBLIC/PRIVATE PARTNERSHIP



HUNDREDS OF JOBS CREATED



MILLIONS OF DOLLARS IN WAGES
PAID TO IOWA CITIZENS

IT WORKS!