

THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL
BOARD OF TRUSTEES
INNOVATION & IMPACT COMMITTEE
Wednesday – March 26, 2014
4:15 - 5:30 p.m.
The Carolina Inn – Hill Ballroom Central

OPEN SESSION

FOR INFORMATION ONLY

(No formal action is requested at this time)

1. Updates and Announcements (Attachment A)
Barbara Entwisle, Vice Chancellor for Research
Sallie Shuping-Russell
2. Reinvention and Renewal: Introduction
Barbara Entwisle, Vice Chancellor for Research
3. Making Space for Innovation
Judith Cone, Special Asst. to the Chancellor for Innovation and Entrepreneurship
4. Creating an Entrepreneurial Ecosystem in Chapel Hill
Jim Kitchen, Entrepreneur and Kenan-Flager Business School Lecturer in Entrepreneurship
5. Reinventing the Research Triangle
Bob Geolas, President and CEO, Research Triangle Foundation

*Some of the business to be conducted is authorized by the N.C. Open Meetings Law to be conducted in closed session.

Committee Members

Phillip (Phil) L. Clay, Chair
Steve Lerner, Vice Chair
Jefferson (Jeff) Brown
Peter T. Grauer
Kelly Hopkins
Christy Lambden
Sallie Shuping-Russell
Administrative Liaison:

Barbara Entwisle, Vice Chancellor for Research

Carolina Research Venture Fund

March 2014

Transformation of ideas from the lab to the commercial marketplace is one of the most important benefits UNC-CH can provide to the people of North Carolina and the world. As we have moved into the top ten research institutions in the nation, it becomes increasingly incumbent upon us to move this new knowledge from the confines of campus into the marketplace. Toward this purpose, two years ago the Board of Trustees, through its Finance and Audit Committee, asked the Administration to develop a plan through which we could facilitate development of certain research assets to commercialization, in order to maximize their overall return to the University.

Initially it was thought that such an effort would need to be coordinated through the UNC-CH Foundation, which would hold equity in start-up companies on behalf of the University. Chancellor Holden Thorp and Trustee Sallie Shuping-Russell presented the concept to the Foundation Board and it was approved in May 2011. Since then, a committee of trustees, administrators, and faculty has worked to develop the separate organizational structure through which Carolina can help fund promising technologies. The program, separate from the UNC Foundation, is called the Carolina Research Venture Fund (CRVF).

Many concepts were considered during the past two years. These ranged from modest seed grants to raising a full-scale venture capital fund. The final plan, presented here, is smaller and more focused. That is, providing support at the earliest stages of commercialization – prior to where the commercial market will get involved – and supporting only technology coming from research conducted at UNC-CH where the University has an intellectual property position. It is not intended to replace or usurp other efforts – either within the University or external -- to fund technology spin-outs at UNC. There are several such efforts throughout campus and rather than appear to compete with them this plan is intended to support them.

Purpose

The purpose of CRVF is two-fold: (1) a strategic purpose to maximize the research assets by getting them into the marketplace and (2) an investment purpose to get sufficient return on the investments which can be reinvested into the CRVF, making it an evergreen fund. Because of this two-fold mission– and because the initial funds will not come from the Investment Fund – the CRVF does not have to receive a “venture capital” level of return. Its return goal will be to generate return of capital and provide sufficient excess return to enable CRVF to become an evergreen fund.

In this way CRVF can continue to support further research commercialization efforts indefinitely into the future.

From a strategic point of view, CRVF provides Carolina with a means of supporting faculty research commercialization, generating additional revenue through increased grant support, and creating new companies that can bring new technologies and jobs to North Carolina. Having a mechanism for supporting faculty-founded enterprises is becoming increasingly important in recruiting outstanding researchers to the University. Top researchers are also most likely to secure outside research grants, which are becoming an increasingly important revenue source to Carolina. Equally important, it provides a means to get technology into the marketplace – the original intent of the Dole-Bayh Act. By starting young companies or providing additional areas of growth to existing firms, CRVF creates new technologies and grows the job market within North Carolina. Thus, it provides a direct benefit to the State of North Carolina in a way that only major research institutions can.

Governance

CRVF will be organized as a North Carolina Limited Liability Company with a single member, UNC-CH, and a Board, two of whom are appointed by the Chair of the Board of Trustees. The duties of the CRVF Board are to:

1. Establish investment and strategic objectives
2. Select investment manager(s)
3. Monitor investment manager performance
4. Report annually to the UNC-CH Board of Trustees through its Finance and Infrastructure Committee. The Company will also make a report for information to the Trustees' Innovation and Impact Committee.

It will not be the Board's responsibility to be involved in deciding which technologies to support; that will be outsourced to one or more investment managers who are experienced in investing in start-up companies.

The Board will consist of five ex-officio officers who will elect up to three additional members. The ex-officio officers will be

1. Vice Chancellor for Finance and Administration, or his/her designee;
2. A senior member of the UNC Management Co staff – preferable the Director of Private Investments;
3. Two members of the Board of Trustees, appointed by the Chairman of the Board of Trustees. The ex-officio trustee members shall be in different classes of trustees so that their terms do not expire in the same year; and
4. The Chancellor's advisor on Innovation and Technology (or comparable position)

Elected positions will consist of up to three members. These may include trustees, who in this case would not be considered ex-officio, but it is not expected or required that an elected position be a trustee. The term of the elected members shall be four years and individual directors may be re-elected for another four-year term. Individuals serving two consecutive four-year terms are eligible for re-election after one year off the Board.

The Board shall elect its Chairman, whose term is two years. The Chair can be re-elected for an additional two-year term. Legal documents provide additional detail about the Board, its members and terms of office.

Investment Management

The Fund will outsource its investment decision-making to one or more managers unaffiliated with Carolina but experienced in funding very early stage technology and life science companies. Because of our location in Research Triangle Park, existing organizations and resources can be leveraged to provide professional management in a very capital efficient model. As part of this process we will have industry input from potential strategic partners and also from potential venture partners. This will allow us to get early market feedback into the viability of a project before spending a significant amount of capital.

In addition, CRVG will establish its own Venture Capital Advisory Committee (VCAC). This will comprise leading venture capitalists from across the country and within North Carolina. Examples from outside the region include partners or ex-partners from Kleiner Perkins Caulfield & Byers, Greylock, NEA, Polaris, Domain, Andreessen Horowitz, Sequoia, Trident and others. VCAC will provide strategic advice to the Board as needed. It will also discuss with the manager(s) the viability of potential companies and offer advice to address concerns which start-up companies face as they grow. VCAC will also offer a long-term vision for new markets that could underwrite larger impact investments. It is also hoped that these venture firms would provide additional follow-on capital as the UNC-based companies develop.

Process

Under the plan, a technology would be identified through one of the existing University entities (UNC Kickstart, TRACS, Launch the Venture, Blackstone Network, etc), through independent scouting on the campus by the investment manager for technologies or through word-of-mouth. Once identified, the investment manager would evaluate the technology, help develop a business plan, identify the nascent management team, and facilitate introductions to accounting, legal, insurance, HR and other resources needed by young companies. It would also work with the UNC Office of Technology Development (OTD) to license or option the University technology upon which the company was based. During this time the manager would seek input from its internal advisors as well as Carolina's VCAC and others to

assess market attractiveness. CRVF would directly own equity in the new companies derived from its investments in the young firms. This would be different ownership from that received through OTD or other areas of the University via the technology transfer policies.

Currently we are assuming that later rounds of financing would not be supported by CRVF but instead would have investors such as venture capitalists, industry partners, angel capital or perhaps the UNC Management Company's direct investment program. Such details have yet to be determined. However, the University would try to retain the right to one non-dilutive round of financing. The question of CRVF participating in later rounds will remain outstanding until the Fund is operational and we have a better sense of its funds flow, returns, and other factors.

Summary

The University has long considered how best to advance commercialization of its research. Now that UNC-CH is among the top research institutions in America it is incumbent that we find a way to move these ideas into the marketplace. By providing initial capital for young companies, as well as strategic advice through its VCAC, Carolina Research Venture Fund is an important step in accomplishing this goal.