

July 6, 2018

Next Level Fund Investment Board  
c/o Indiana Finance Authority  
One North Capital, Suite 900  
Indianapolis, Indiana 46204

Dear Next Level Fund Investment Board,

50 South Capital Advisors, LLC is pleased to provide its semi-annual update to the Next Level Fund Investment Board. Since launching the program in March 2018, we have leveraged our program management expertise and deep relationships to establish the Indiana Next Level Fund, L.P. (“NLF”) with Indiana venture capital fund managers. Please see below our observations for activities to date.

### **Background**

During the 2017 Legislative Session, the Indiana General Assembly passed House Enrolled Act 1001-2017, which, among other items, directed proceeds in the Next Generation Trust Fund to be transferred to the newly created Next Level Indiana Trust Fund (“NLITF”). Pursuant to Indiana Code 8-14-15.1, as amended from time to time, the NLITF was established by the Indiana Finance Authority (“IFA”) as a chartable trust, separate from the State of Indiana. The NLITF consists of Two Hundred Fifty Million Dollars (\$250,000,000) and, pursuant to Indiana Code 8-14-15.1-8(a)(1), the monies may be invested in investments that include the purchase of equity or debt securities. On March 15, 2018, the Indiana Next Level Fund, L.P. was formed with a \$250,000,00.00 commitment from NLITF to fund NLF.

The purpose of the Next Level Fund (NLF) is to invest in venture capital firms located in Indiana or that have an Indiana ‘nexus’ with a goal of investing in technology businesses seeking to locate, expand or remain in Indiana. The Next Level Fund Investment Board (the “Investment Board”) shall serve as trustee of the Next Level Fund. An investment board composed of State government leaders and community representatives provide governance and oversight to the NLF. The investment board consists of seven members including:

- Elaine Bedel, President of the Indiana Economic Development Corp (Chairperson)
- Micah Vincent, Director of Office of Management & Budget (Vice-Chairperson)
- Kelly M. Mitchell, Indiana State Treasurer
- Bill Godfrey, Managing Director of 4G Ventures
- Cynthia Lucchese, Chief Financial Officer of Hulman & Company
- Dr. Tim Brown, State Representative (Advisory Member)
- Luke Kenley, State Senator (Retired) (Advisory Member)

The Next Level Investment Policy is designed to ensure that the Next Level Fund Investment Board, the Program Administrator as well as any contractors the Investment Board or Program Administrator retains to provide services related to NLF, take prudent measured, effective actions while supporting the NLF. The Investment 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 the NLF. The policy requires a fund-of-funds approach which means that investments will be spread across multiple venture capital firms based in Indiana and/or venture capital firms with a track record of investing

in Indiana companies. On March 15, 2018, the Investment Board adopted an investment policy for NLF that includes the following investment parameters:

- 1) The policy provides that money in the trust may be invested in investments that:
  - a. maximize risk appropriate returns, which may include the purchase of equity or debt securities;
  - b. make significant investments in Indiana funds and companies; and
- 2) Not more than twenty-five million dollars (\$25,000,000) may be invested in any one particular investment fund.

NLF will make targeted investments in Indiana venture capital funds and Indiana businesses in order to generate competitive investment performance as well as support increased entrepreneurship and innovation in the State. The main objectives of the program are to:

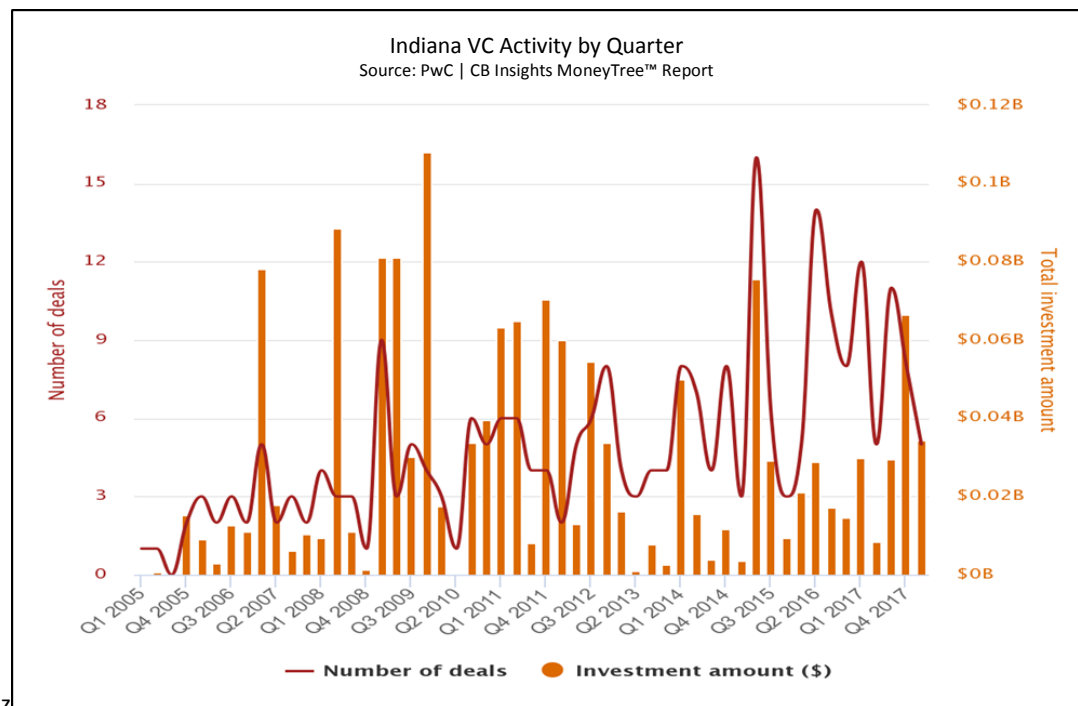
- 1) Foster a strong, vibrant ecosystem for entrepreneurs and raise the national profile of Indiana's rich healthcare, technology, agricultural and business communities.
- 2) Drive economic activity in Indiana by making investments in Indiana venture capital firms in order to attract, assist and retain quality technology businesses in Indiana.
- 3) Deliver competitive investment performance for the State by building a prudently diversified portfolio.

50 South Capital Advisors, LLC was selected as NLF's Program Administrator through a public bidding process. 50 South Capital Advisors, LLC serves as the General Partner of the Indiana Next Level Fund, L.P. Primary responsibilities of the Program Administrator include but are not limited to:

- Implementation of the investment strategy,
- Selection and evaluation of the recipient funds,
- Selection and evaluation of co-investments,
- Fund monitoring,
- Benchmarking,
- Reporting,
- Quarterly meetings,
- Annual report,
- Website,
- Communication and liaison duties,
- Encouraging additional investments and investor focus in Indiana technology businesses,
- Educational resource and advisor,
- Establish an Advisory council to assist with consultative and outreach matters.

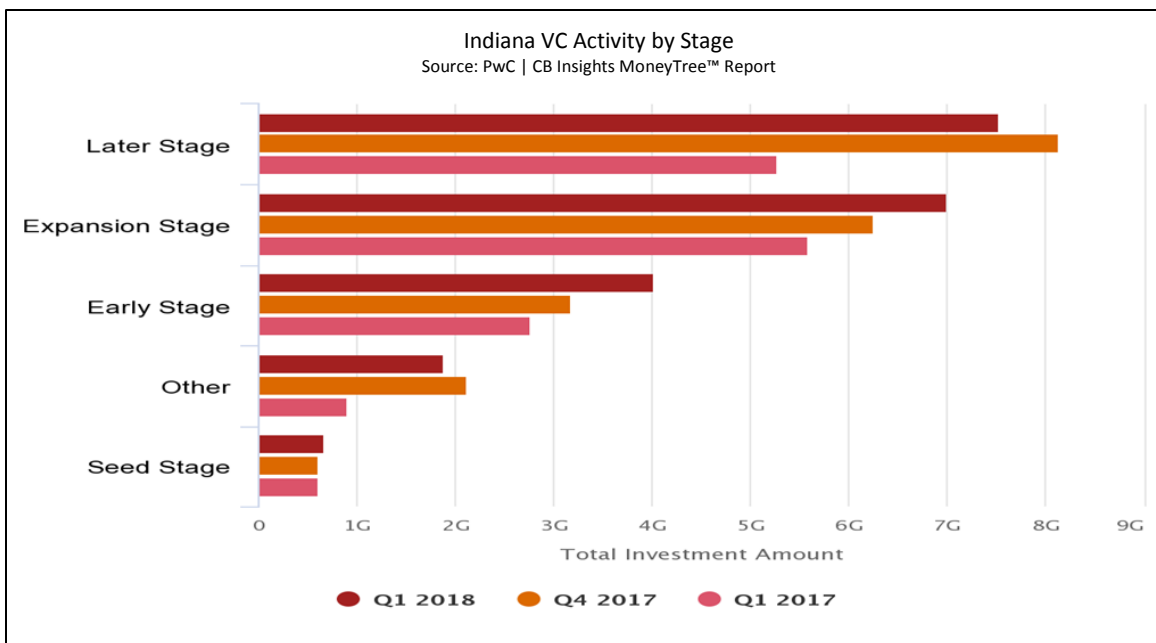
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## Market Update



During the first quarter of 2018, there was \$34.5 million invested in five Indiana-based, venture-backed companies, according to PricewaterhouseCoopers’ MoneyTree report. Indiana represented the 25<sup>th</sup> most active state in the country in terms of dollars invested in venture-backed companies, and the 24<sup>th</sup> in terms of number of venture deals in the United States. For the Midwest, Indiana ranked fifth in venture capital investments, along with leading states, Illinois, Ohio, Michigan and Missouri, respectively. The largest capital raise in the first quarter was Springbuk, an Indianapolis-based healthcare analytics software company which raised \$20.0 million in January 2018. The remaining four venture capital deals announced during the quarter included: Zyllo (\$9.3 million raised), Lumavate (\$2.5 million raised), Bolstra (\$1.5 million raised), and Demand Jump (\$1.2 million raised).

The US venture market saw a significant increase between first quarter of 2018 and the same period in 2017 with \$21.1 billion versus \$15.2 billion, respectively. However, deal activity declined to 1,206 in first quarter 2018 versus 1,371 in first quarter 2017. Mega round (\$100+ million) investments were almost twice as much in first quarter 2018 (34) as in first quarter 2017 (18) but only one less (35) than in fourth quarter 2017.



## NLF Program Status

### Program Kick-off & Ramp-up Activities

50 South Capital hosted a town hall meeting on April 9, 2018 to announce the kick-off of the NLF program to audience of approximately 100 attendees at the Union 525 offices in Indianapolis, Indiana. The event attracted fund managers, entrepreneurs, government officials, civic leaders and related parties. At the same time, 50 South Capital announced the addition of Aaron G. Gillum, a Senior Vice President at the Firm, who manages its new office at 55 Monument Circle in Indianapolis, Indiana, to further establish its presence in the community and provide a base for the NLF program. 50 South Capital also launched the NLF home page to provide further resources for the entrepreneurial community to better engage with local constituents, the 50 South Capital team, and NLF recipient funds. Please visit the NLF home page at [www.nextlevelindianafund.com](http://www.nextlevelindianafund.com) for additional information.

To engage the Indiana community the 50 South Capital team has made significant efforts to:

- Be a transparent, community-centric, value-added partner.
- Mentor venture capitalists and entrepreneurs.
- Work with universities and research parks across the State.
- Draw talent and capital into the State.
- Engage with community organizations and governmental agencies.
- Have an open door policy for all stakeholders.

Since launching NLF, 50 South Capital has been highly visible in the local tech community and throughout the State to network, educate and explore ways to work with many of the State's stakeholders including; entrepreneurs, accelerators and community groups to ensure NLF's success. Some examples of 50 South Capital's various collaborations with community partners include:

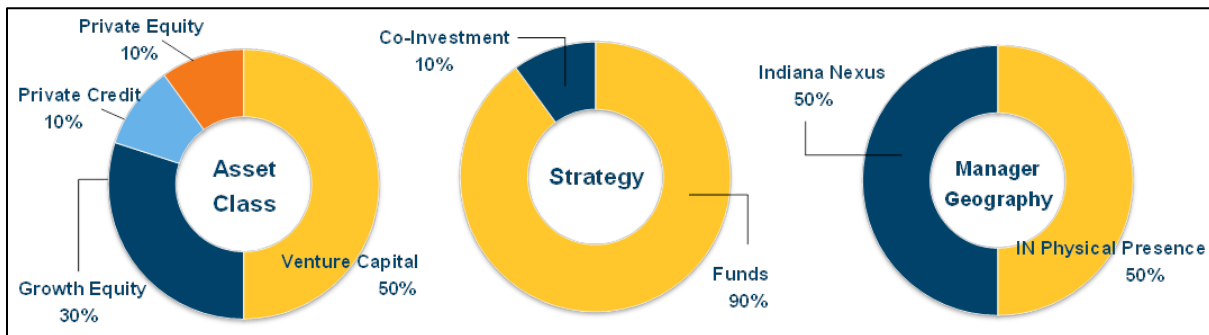
<p><b>Community:</b></p> <ul style="list-style-type: none"> <li>• Central Indiana Corporate Partnership (CICP)</li> <li>• BioCrossroads</li> <li>• AgriNovus</li> <li>• TechPoint</li> <li>• Venture Capital Club of Indiana</li> <li>• Elevate Ventures</li> </ul>	<p><b>Educational:</b></p> <ul style="list-style-type: none"> <li>• Indiana University</li> <li>• Purdue University</li> <li>• Notre Dame University</li> <li>• Indiana State University</li> <li>• Rose Hulman University</li> <li>• Ivy Tech</li> </ul>
<p><b>Tech &amp; Co-working:</b></p> <ul style="list-style-type: none"> <li>• Launch Indy &amp; Launch Terre Haute</li> <li>• gBeta Accelerator</li> <li>• 16 Tech</li> <li>• inX</li> </ul>	<p><b>Speaking Engagements:</b></p> <ul style="list-style-type: none"> <li>• Elevate Ventures – Kinetic Conference</li> <li>• AgriNovus - Indiana Innovation Council Meeting</li> <li>• TechPoint Board Meeting</li> <li>• Roundtable discussion in Bloomington with Mayor Hamilton</li> </ul>

The 50 South Capital team has made an intentional effort to meet with and understand the needs of local scale-up companies and entrepreneurs. To this extent, the firm has met with dozens of entrepreneurs of startup and scale-up companies across the State to better understand their specific needs and viewpoints of the capital formation process. These meetings will continue to be vital as the NLF program selects fund managers that will provide future capital to the State’s entrepreneurs and businesses. To achieve the goal of spreading the message throughout the state, the 50 South Capital has held meetings, office hours and conducted tours of the tech community throughout the Indianapolis metro area, Bloomington, West Lafayette, Ft. Wayne, Terre Haute, Warsaw and more. Just as important, these meetings and tours throughout the state will continue throughout the duration of the NLF program.

**Investment Strategy**

The NLF will execute a three-tiered, holistic investment strategy to capitalize existing Indiana managers, attract managers with an Indiana nexus and leverage Indiana’s diversified growth sectors. The NLF investment strategy will seek to provide a diverse portfolio of 25-30 fund investments diversified by: strategy, industry sector, size of investment, investment stage, vintage, geographic location, and business model. Fund investment strategies will include venture capital, private credit (including venture debt), growth private equity and growth equity. While NLF maintains the ability to invest in differing investment strategies across the capital spectrum, the focal point of the program is to invest in Indiana venture capital firms helping to attract, retain and grow businesses in the State. The NLF will also have the ability to commit up to ten percent (10%) of the portfolio to direct co-investments in Indiana companies alongside managers in the NLF program. NLF will not commit more than 10% of its total portfolio size to any underlying fund, and will not commit more than 1/3 of the Fund in any given vintage year.

**Portfolio Construction**



## Portfolio Updates

As of June 30, 2018, NLF had made two fund commitments totaling \$21,500,000, or approximately 8.6% of the total program size of \$250,000,000. NLF made commitments to High Alpha Capital Fund II, L.P. and Foundry Group Next 2018, L.P.

High Alpha Capital, based in Indianapolis, Indiana, was founded in 2015 by Scott Dorsey. It was established to be the enterprise cloud venture capital firm of choice for entrepreneurs, based on its founder's deep operational and entrepreneurial experience and relationships. High Alpha is uniquely positioned to attract top enterprise software deal flow through its strong brand reputation and hands-on approach to helping entrepreneurs scale. The Firm maintains a startup studio that incubates and launches several companies per year out of its office, as well as an early stage venture capital fund. The fund will make equity investments between \$1-5 million in its externally sourced portfolio companies. High Alpha has over twenty recognized SaaS experts at the Firm helping its Studio and Capital portfolio companies with expertise in product, talent recruiting, finance, research, data science, design and legal. CEOs and other venture capital firms want a syndicate partner with a SaaS operating voice as their partner and few other firms in the industry are as capable as High Alpha and its team.

Foundry Group is a venture capital firm founded in 2007 and headquartered in Boulder, Colorado. Foundry Group is one of the leading early stage venture capital firms in the industry and is credited with being one of the founders of the tech and entrepreneurial ecosystem in Boulder. Foundry Group was founded by Brad Feld, Seth Levine, Ryan McIntyre and Jason Mendelson. Foundry has developed a strong track record of investing in early stage and early growth stage companies in each of the consumer and enterprise sectors. Brad Feld is also a co-founder of Techstars, the global accelerator with twenty-nine accelerator programs across the globe. While the firm is based in Colorado, Foundry Group is an investor in High Alpha Studios and High Alpha Capital, and a number of Foundry portfolio companies have offices in Indiana, including Sympoz and Authentic8. We believe that Foundry Group will be a strong syndicate partner for High Alpha Capital's early stage investments, including the companies emerging from its startup studio.

<b>NLF Investment Portfolio (as of June 30, 2018)</b>				
<b>Fund Investment</b>	<b>Vintage</b>	<b>Fund Size</b>	<b>Strategy</b>	<b>Location</b>
High Alpha Capital Fund II, L.P.	2018	\$85.0M	Early stage venture capital	Indianapolis, IN
Foundry Group Next 2018, L.P.	2018	\$750.0M	Multi-stage venture capital	Boulder, CO

### Fund Manager Sourcing & Pipeline Status

The NLF has received strong interest from prospective fund managers and the pipeline for commitments is extensive. Since being selected as the NLF Program Administrator, 50 South Capital has held initial meetings or calls with over forty fund managers. Approximately one-third of the managers are considered Indiana based venture capital firms. Many of the remaining fund managers have made prior investments in the State and/or are actively tracking potential investments to include in their portfolios. Our meetings have included fund managers from across thirteen states including: Indiana, Illinois, Ohio, Michigan, Wisconsin, North Carolina, California, Massachusetts, Missouri, New York, Nebraska, Texas and Canada. 50 South Capital is actively conducting due diligence on a number of prospective fund recommendations for the balance of 2018 and we look forward to reporting on these exciting opportunities in the quarters to come.

Indiana Next Level Fund Capital Activity

<b>Indiana Next Level Fund Capital Activity</b> <i>(as of June 30, 2018)</i>	
Committed Capital	\$21,500,000.00
Committed Capital (%)*	8.6%
Capital Called (\$)	\$670,000.00
Capital Called (%)*	0.03%
Distributed Capital (\$)	-
Distributed Capital (%)	-
# of Fund Managers	2
# of Total Portfolio Companies	3

*\*The percentage of committed capital and called capital is as of the entire NLF program size of \$250,000,000. Distributed capital is a percentage of called capital and includes recallable distributions.*

For reference, reporting in the venture capital industry generally lags at least one quarter. Year-end statements are even further delayed as underlying fund managers have to complete their audited financial statements. For that reason, our updates will officially cover the most recent quarterly reporting period and we will try to provide more updated information where it is available. Our semi-annual updates are designed to provide an update on the venture capital markets, activity in NLF's underlying funds, and the current value of your investment. Please keep in mind that the current value of NLF is likely to fluctuate around investment cost (1.0x) for the first several years of the Fund's life. This is due mainly to upfront fees both at the Fund and the underlying fund level. Also, fund managers generally value portfolio companies at cost until a significant investment event occurs or liquidity event. After several years though, if NLF's underlying funds and portfolio companies produce positive performance you should expect to see investment gains above your investment cost.

Thank you for your continued partnership with 50 South Capital. Please let us know if you have any questions or comments regarding this letter, and we look forward to updating you in more detail on our future updates.

Kindest regards,

50 South Capital Advisors, LLC