



TOPIC: University System of Maryland: Creation of an Early Stage Investment Fund

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: June 9, 2016

SUMMARY: The University System of Maryland seeks to create a \$25 million venture fund focused on investing in USM-affiliated companies, such as companies based on USM-owned intellectual property, companies founded by USM faculty, students or recent graduates, and companies located in USM research parks, incubators or RISE Zones.

USM would invest \$10 million over 4 years in the fund and an additional \$15 million would be raised from Venture Funds, the State of Maryland, Foundations, and Friends of USM.

At its March 31st meeting, the Committee on Economic Development and Technology Commercialization unanimously recommended submitting a proposal to the Finance Committee for its consideration and recommendation to the Board of Regents.

ALTERNATIVE(S): The Finance Committee could elect to not approve the creation of this Early Stage Investment Fund, but access to early stage capital is vital to the successful formation and sustainability of USM-affiliated startups.

FISCAL IMPACT: The USM would invest \$10 million over 4 years in an Early Stage Investment Fund.

CHANCELLOR'S RECOMMENDATION: That the Finance Committee recommend that the Board of Regents approve this proposal to create a USM Early Stage Investment Fund.

COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: Joseph F. Vivona (301) 445-1923

USM Early Stage Investment Fund

In FY 2014, the USM Board of Regents approved the Policy on Investments and Loans to Maryland-based Businesses That License University Intellectual Property (Policy No: VIII – 14.00). This enabled UM Ventures to make modest investments and loans totaling \$400,000 in five start-ups in FY 2015. This funding has already helped to attract an additional \$17 million into these start-ups, leading to the creation of over 20 jobs.

Despite this early success, the program is limited. It is severely under-funded and excludes many exciting start-up companies that are closely affiliated with USM but have not licensed USM intellectual property. UMB, UMBC, UMCES, and UMCP have identified 17 USM-affiliated start-ups that are strong candidates for early stage investments. This group includes biotech, medical device, cybersecurity, environmental sciences, and energy companies affiliated with these universities. Additional candidates arise every month, far surpassing the resources and the scope of the UM Ventures existing investment program.

In order to capitalize on these opportunities to create jobs, the University System of Maryland proposes to create the USM Early Stage Investment Fund (ESIF):

- Goals:
 - o Accelerating the success of USM start-ups
 - o Expanding economic development in the State of Maryland
 - o Recruiting and retaining innovative students and faculty
 - o Keeping recent graduates in the State of Maryland
 - o Generating long-term financial returns which will be reinvested in future start-ups

- The types of companies eligible for investments will be expanded to include companies:
 - o Based on USM-owned intellectual property
 - o Founded by USM faculty, students or recent graduates
 - o Located in USM incubators, research parks, or RISE Zones

All companies must be located in Maryland.

- \$25 million total fund size:

	USM Investment	Additional Investment	Total Investment
FY2017	\$2 million	\$2 million	\$4 million
FY2018	\$2 million	\$3 million	\$5 million
FY2019	\$3 million	\$5 million	\$8 million
FY2020	\$3 million	\$5 million	\$8 million
Total	\$10 million	\$15 million	\$25 million

- Additional Investments will be raised from the State of Maryland, Foundations, Friends of USM Institutions, and Venture Funds. These investments may be made to the ESIF itself or as matching investments directly into ESIF portfolio companies.
- The ESIF is expected to make individual investments between \$50,000 and \$500,000, with larger investments requiring a minimum of a one-to-one match by outside investors. The ESIF External Investment Board will establish policies, make investment decisions, and monitor investments. The External Board also will assist UM Ventures to strengthen its connections with private Angel Investors and Venture Capital Funds which can invest in USM-affiliated companies and with serial entrepreneurs who can lead the companies.
- The USM will hire an Investment Manager. The Investment Manager will report to the External Investment Board and will be responsible for raising additional funds, identifying and evaluating investment opportunities, and monitoring investments. The Investment Manager will seek quality investment opportunities from all USM institutions.