

NEVADA CAPITAL INVESTMENT CORPORATION

INVESTMENT POLICY

SILVER STATE OPPORTUNITIES FUND



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I. AUTHORITY

Nevada Revised Statute (NRS) §355.060(2)(1) permits the State Treasurer (“Treasurer”) to invest in limited partnerships or limited-liability companies described in NRS §355.280 for the purpose of making private equity investments. Furthermore, NRS §355.260-355.285 requires that a corporation for public benefit shall be established for administering the private equity program. In accordance with these requirements, the Nevada Capital Investment Corporation (“Corporation” or “NCIC”) was formed in 2011. The Corporation qualifies as a State entity and was formed as a nonprofit corporation under NRS Chapter 82. The NCIC Board of Directors (the “Board”), of which the State Treasurer is chairperson, is responsible for the selection and appointment of external manager(s) to manage the private equity portfolio.

Pursuant to NRS §355.280 the State Treasurer has the ability to transfer an amount not to exceed \$50 million from the State Permanent School Fund for private equity investments. In accordance with these requirements, the Silver State Opportunities Fund (the “SSOF”) will be structured as a limited liability company, of which NCIC is a member, and which will be managed by a professional Fund of Funds manager. The terms of each investment will be consistent with the purpose of the SSOF and the other provisions of this Private Equity Statement of Investment Policy (the “Policy”).

II. SCOPE

The purpose of the Policy is to formalize investment objectives and policies with respect to the SSOF and to define the duties and responsibilities of the various entities involved. This statement is to be considered an extension of the State Permanent School Fund Investment Policy. No provision of this Statement of Investment Policy shall be construed in contravention of the enabling legislation found in the Nevada Revised Statutes or the operating agreement of the SSOF (the “Operating Agreement”) unless amended.

III. STRATEGIC OBJECTIVES

The primary investment objective for the SSOF is to provide greater diversification of the investment portfolio of the Permanent School Fund of the State of Nevada and thereby enhance the risk-adjusted return of the Permanent School Fund portfolio through investments directly, including through co-investments that are made along with private equity and other investment sponsors, and indirectly through private equity funds. An ancillary benefit of the program, based on the geographic requirements set in State law, is to foster economic development and diversification in Nevada.

IV. ROLES AND RESPONSIBILITIES

A. State Treasurer – NRS §355.270 establishes the State Treasurer as the chair of the board of directors. In addition to his/her duties as chair of the board, the State Treasurer also is responsible for:

- Recommending statutory revisions
- Adoption of state regulations regarding this program, as required by NRS §355.285.
- The current bylaws for NCIC also establish the State Treasurer as the President of the corporation, with certain administrative powers and responsibilities set forth in that document.

B. Board of Directors – the NCIC board will provide oversight of the Silver State Opportunities Fund. The Board will also ensure that the Fund of Funds Manager (described below) is in compliance with the NRS, and any Investment Policy(ies). As such, the Board’s responsibilities include:

- Retain one or more qualified fund of funds managers in accordance with appropriate fiduciary standards
- Approve contracts with fund-of-funds manager(s) and other entities
- Approve policy/revisions
- Approve Fund of Funds Manager’s annual budget of expenses
- Approve annual report and transmit to Governor and legislature by December 1 of each year
- Provide oversight of fund-of-funds manager(s) and review performance not less than on a quarterly basis

NRS §355.270 allows for the expansion of the Board by up to five additional members who are direct investors in SSOF, upon majority approval of the Board.

C. Fund of Funds Manager – the Fund of Funds Manager (“Manager”) is responsible for the daily operations of the SSOF and has complete discretionary authority in making fund investments. The Manager will:

- Maintain an office within Nevada, to be staffed with at least one full-time representative of the firm.
- Source, screen and select investment opportunities for the SSOF
- Conduct due diligence using substantially the same thorough, comprehensive, and consistent due diligence process for all investments

- Make investment decisions using a prudent process focused on expected return and risk consistent with the investment objectives set forth in the Operating Agreement
- Negotiate transaction documentation
- Diversify the SSOF across vintage years, opportunity types, and investment styles/strategies, when practicable.
- Monitor all investments on a regular and ongoing basis.
- Prepare investment reports at least quarterly which include both investment statistics and ancillary benefits, and prepare the annual report for SSOF due to the Governor and legislature on December 1 of each year, all in accordance with the Operating Agreement.
- Prepare an initial Strategic Plan within six months of appointment and periodically update the Strategic Plan, as needed and as conditions change, in consultation with the NCIC.
- Maintain and periodically update the Treasurer’s Office on the pipeline of opportunities
- Work to develop relationships with important constituencies in this State, including governments, educational institutions, corporations, entrepreneurs, and private equity and venture capital organizations, and foster cooperation among these institutions and organizations.
- Work with venture capital and entrepreneurial organizations to organize regional forums and conferences.
- Monitor cash flows, including capital calls and distributions.

D. State Treasurer Staff (“Staff”) - The current bylaws for NCIC establish respectively the Chief Deputy State Treasurer as the Treasurer and the Deputy Treasurer-Finance/Cash Management as Secretary of the corporation. The duties of these positions are detailed in these bylaws. In addition to these responsibilities, the Chief Deputy Treasurer and Deputy Treasurer-Finance/Cash Management shall:

- Consult with the Manager on the implementation of investment policies and guidelines including the pacing of investments, sourcing of potential investments, and other operational aspects of the program
- Through access to the Manager’s database of fund investments for SSOF, monitor the Manager’s compliance with this Policy and adherence to guidelines as set forth in this policy.
- Monitor, evaluate, and report on program performance to the Board and State Treasurer.
- Monitor cash flows and transfer funds from the Permanent School Fund to the manager for payment of fees, expenses and capital calls.
- Recommend statutory and policy revisions.

V. CONFLICTS OF INTEREST

A. Conflict of Interest Defined, and Applicability

1. A “Conflict of Interest” is defined as any financial or other interest which prevents or appears to prevent an impartial action or decision on behalf of the Board or a member of the Board. A Conflict of Interest, real or appearance of, could apply to:
 - a) A member of the Board of Directors
 - b) Employees; including Executive Director and Finance Officer
 - c) Independent contractor
 - d) Consultant
 - e) Volunteer
 - f) Any other person in a decision-making capacity for the Board

2. A “Conflict of Interest” applies to the personal interests of the individual or an organization and to the interests of others with whom the individual has substantial common financial or other interests. A conflict occurs when a financial or other interest of an individual could:
 - a) Significantly impair the individual’s objectivity
 - b) Create an unfair competitive advantage for any person or organization
 - c) Provide a direct or indirect fiduciary interest or financial gain for that individual

B. State Law Generally – Pronouncement of Legislative Intent and Intent of NCIC

Legislative Policy on Conflicts of Interest. It is the public policy of this State that: (a) a public office is a public trust and shall be held for the sole benefit of the people; and (b) a public officer or employee must commit himself or herself to avoid conflicts between the private interests of the public officer or employee and those of the general public whom the public officer or employee serves. The Legislature has declared that: (a) the increasing complexity of state and local government, more and more closely related to private life and enterprise, enlarges the potentiality for conflict of interests; and (b) to enhance the people’s faith in the integrity and impartiality of public officers and employees, adequate guidelines are required to show the appropriate separation between the roles of persons who are both public servants and private citizens. With those legislative pronouncements in mind, the NCIC hereby adopts and sets forth this policy dealing with Conflicts of Interest.

State Law Requirements. State law establishes practices and policies governing disclosure of potential conflicts of interest for State board and State officers and employees. These

apply to the NCIC and State Treasurer staff. A member of the Board:

1. Shall not vote, abstain from voting or otherwise act upon a matter;
2. Shall not participate in the discussions or deliberations of a matter;
3. Must not be present for the portion of a meeting during which the Board discusses or deliberates a matter or votes upon a matter; or
4. Shall not discuss a matter with another member of the Board

In accordance with NRS 281A.420, if the action or opinion of the member of the Board would reasonably be affected by his or her commitment in a private capacity to the interest of another person, the member shall not approve, disapprove, vote, abstain from voting or otherwise act on a matter. If a member of the Board is prohibited from discussing or taking action on a matter pursuant to this subsection, immediately before the Board discusses the matter at a meeting, the member of the Board shall disclose the conflict of interest. The disclosure must be included in the record of the meeting.

An officer, employee or agent of the Corporation shall not take any action with respect to his or her work for the Corporation which would reasonably be affected by his or her commitment in a private capacity to the interest of another person and shall disclose to the Board in writing the existence and nature of such a conflict of interest.

The Corporation may not make expenditures or investments to finance or influence political activities. In making decisions concerning expenditures or investments by the Corporation, the members of the Board shall not consider whether the recipient of the expenditure or investment has made a contribution or expenditure which is subject to the requirements of chapter 294A of NRS.

C. Requirements of NRS §355.270(6)

1. SB 75 Requirements

In addition to these general guidelines, NRS §355.270(6) sets additional requirements for the Board, as follows:

Board Members - A member may not have an equity interest in any:

- a) External asset manager, venture capital or private equity investment firm contracting for the placement of investments/capital with the SSOF ; or
- b) Any business which receives private equity funding from the SSOF.

Therefore, each member shall disclose no less than annually any investments which may meet the criteria set forth in NRS§355.270(6). Investment by a board member in a business or firm, as outlined above, will necessitate either

his/her immediate resignation from the Board or divestment of such interests, effective upon the board member becoming aware of such a conflict.

2. Other Requirements for Board Members

In addition to the above requirements, both the Board and State Treasurer staff should make an effort to avoid any appearance of any impropriety or conflict of interest. Accordingly, the following requirements shall apply:

- a) For a period of one year after the resignation of a Board member, that Board member shall have no financial or business relationship with the Manager or companies or funds receiving SSOF investments.
- b) Board members are expected to maintain independence and objectivity by, among other actions, refraining from self-dealing and refusing any gift that could reasonably be expected to affect their loyalty.
- c) Board members may have access to confidential information concerning various businesses and investment opportunities. So long as the information remains confidential, it should not be disclosed to non-Staff or non-Board members for any reason. The duty to protect confidential information of NCIC and its business partners includes avoiding intentional, as well as unintentional and indirect, disclosure.
- d) Board members shall refrain from publishing any writing or making any statement to the media, to state administrators, legislative personnel, or members of the public which purports to represent NCIC position or policy on any matter or subject, before the Board has formally adopted policy or position on the matter or subject.
- e) This policy does not attempt to specify every possible activity that might be inappropriate or prohibited under applicable laws and regulations and shall not be construed as the sole provision of laws and administrative rules which must be observed by the Board. When in doubt, Board members should contact Staff in order to place an item on the Board's next agenda to discuss a possible conflict of interest.

3. Requirements for State Treasurer Staff

Staff will refrain from personal business activity that could create an appearance of impropriety or could conflict with the proper execution of the investment program. Employees shall disclose to the Treasurer any material financial interest in businesses within Nevada, and they shall further disclose any larger personal financial/investment positions that could be related to the performance of the SSOF. Employees and officers shall refrain from undertaking personal investment transactions with the any business which receives private equity

funding from SSOF or individual or entity with which business is conducted on behalf of the State.

VI. ASSET ALLOCATION POLICY

The above requirements apply to monies placed by NCIC with the Manager for investment in the private equity asset class and do not apply to temporary fixed income investments, as described in Section VIII of this Policy.

A. Eligible investments – Sectors or sub-asset classes of private equity in which the Manager may invest are:

1. Fund Investments

- Buyout/Corporate Finance
- Mezzanine
- Growth Equity
- Venture Capital
- Secondary
- Special Situation

2. Co-Investments

- Buyout/Corporate Finance
- Mezzanine
- Growth Equity
- Venture Capital
- Special Situation

B. Asset Allocation Targets

1. Fund versus Co-Investments – Investments in an underlying private equity fund versus a co-investment in a specific business carry a different risk-return profile, costs, and other characteristics. In order to maintain a diversified program, the Manager shall adhere to the breakdown below:

- Fund Investments – 30% to 50% of assets
- Co-Investments – 50% to 70% of assets

2. Strategy Allocation – one of SSOF’s goals is to maintain a well-diversified set of investments across both available strategies and industries. Accordingly, the Manager shall adhere to the following asset allocation targets:

- Buyout/Corporate Finance - 20% - 40%
- Mezzanine/Debt - 20% - 40%
- Growth Equity/Venture Capital - 20% – 40%
- Special Situations - 0% - 20%

3. Industries

The Manager will seek to opportunistically source and may invest in the following industries:

- Healthcare and life sciences
- Cyber security
- Homeland security and defense
- Alternative energy
- Advanced materials and manufacturing
- Information technology
- Any other industry the Manager identifies through its due diligence process as possessing return targets commensurate with the investment risk-return requirements identified in State law, adopted regulations, the NCIC Strategic Plan and this Policy.

VII. INVESTMENT RESTRICTIONS

The above requirements apply to monies placed by NCIC with the Manager for investment in the private equity asset class and do not apply to temporary fixed income investments, as described in Section VIII of this Policy.

A. General Approach

The Fund of Funds Manager shall source and manage the SSOF as a whole with specific criteria appropriate to fund investments and direct co-investments which are defined below.

- Fund investments: Invests capital in a private equity fund which is a pool of capital raised periodically and usually is in the form of limited partnerships.
- Co-investments: Invests capital alongside general partners in direct co-investments in Nevada-based companies.

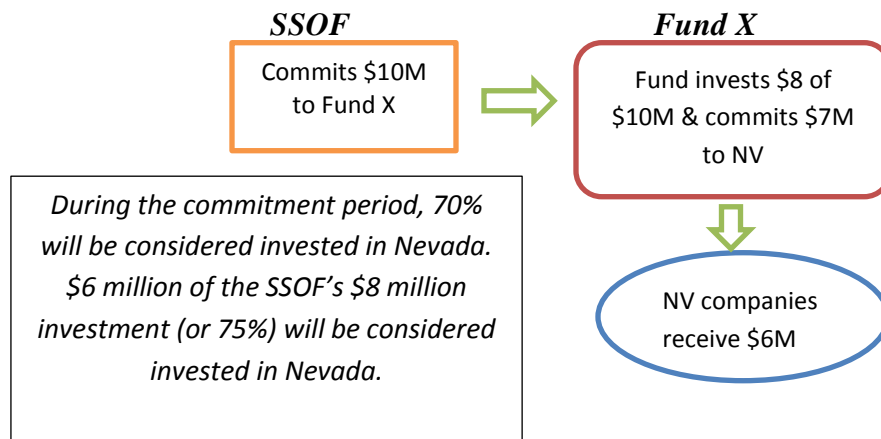
B. Nevada-centric Requirements

1. The Fund of Funds Manager will:

- Ensure that 70% of all investments (“the 70% requirement”) are located in the State or in the process of relocating to the State as defined in NRS §355.280 and the Operating Agreement.
 - Ensure that 100% of venture capital co-investments are located in the State. Venture capital is defined as equity, near-equity and seed capital financing, including, without limitation, early stage research and development capital for start-up enterprises, and other equity, near-equity or seed capital for growth and expansion of entrepreneurial enterprises. An entrepreneurial enterprise is further defined as a start-up company of under two years of age with (i) a high growth strategy in line with typical venture capital investments, (ii) less than \$2 million of revenue, and (iii) lack of profitability.
2. Investments will be considered located in the State if they meet one or more of the following criteria:
- Have a headquarters in Nevada – this is defined as the location and staffing of a headquarters facility in Nevada in which executive management, including positions such as the Chief Executive Officer, President, Chief Operating Officer or Chief Financial Officer, of the company spends a majority of their time. This contrasts with as an example the use of a post office box located in Nevada or shell office in Nevada with very few employees and upper management that work or live in Nevada.
 - Have a significant presence or percentage of employees residing in Nevada – a “significant presence or percentage” is defined as either having at least 25 employees or greater than 20% of a businesses’ total employees in Nevada ; or
 - Are in the process of expanding into or relocating to Nevada – a business must sign a Letter of Intent to expand into or locate in Nevada prior to receiving SSOF funds and must move or expand within 180 days of signing the Letter of Intent or similar document.
3. The 70% requirement is measured in aggregate across SSOF investments and not on a fund-by-fund basis or in the case of direct co-investments, on a company-by-company basis. For purposes of determining whether the 70% requirement has been met, the following principles shall apply:
- During a fund’s commitment period, the total amount committed to the fund by SSOF will be included in the denominator and, after the commitment period, only amounts drawn from SSOF and actually

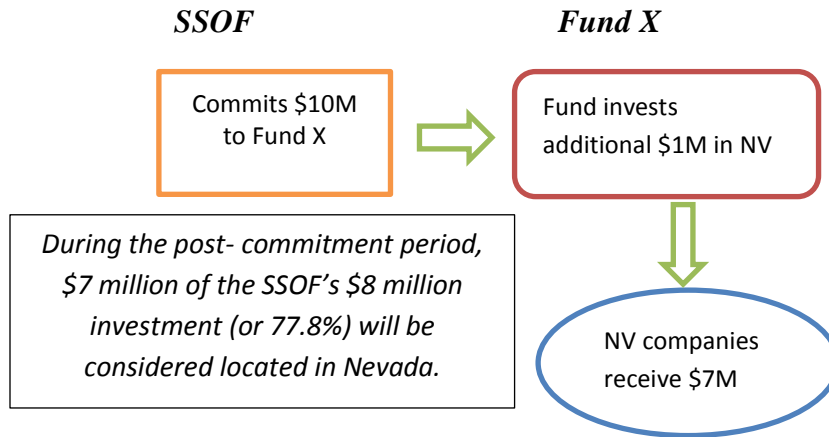
invested will be included in the denominator for purposes of calculating the percentage. The numerator will include all fund capital committed to Nevada during commitment periods or invested in Nevada following the commitment periods.

For example: *SSOF commits \$10 million to a fund investment and that fund investment in turn commits \$7 million of its total capital to companies located in the State of Nevada. Upon expiration of the fund's commitment period, the amount of capital called from SSOF was \$9 million but only \$8 million was invested and \$6 million is invested in Nevada companies. Upon expiration of the commitment period, \$6 million of the SSOF's \$8 million investment (or 75%) will be considered located in Nevada.*



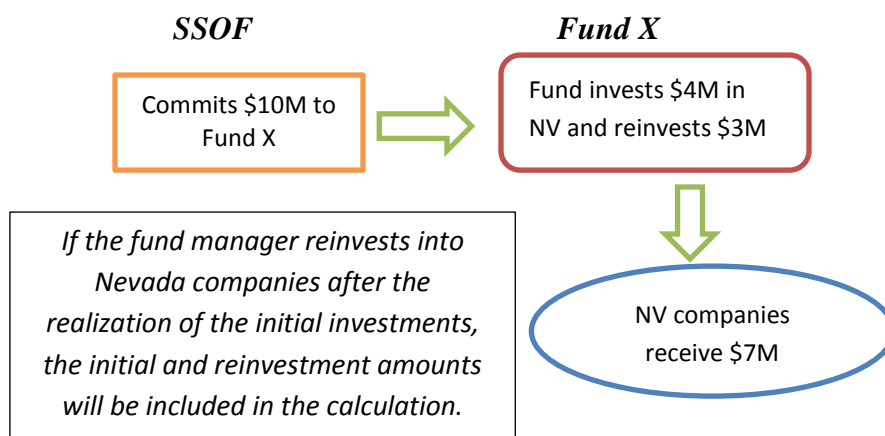
- Amounts may be recalculated upon investment of any additional amounts in the post-commitment period.

For example: *Assuming the same example above, if in its post-commitment period, the fund draws capital to make a follow-on investment in the amount of \$1 million in Nevada-based investments, then the percentage of the 70% requirement will be revised to 77.8% (\$7 million divided by \$9 million multiplied by 100). If a \$1 million follow-up investment is made outside Nevada, then the percentage invested in Nevada will be 66.7% (\$6 million divided by \$9 million multiplied by 100).*



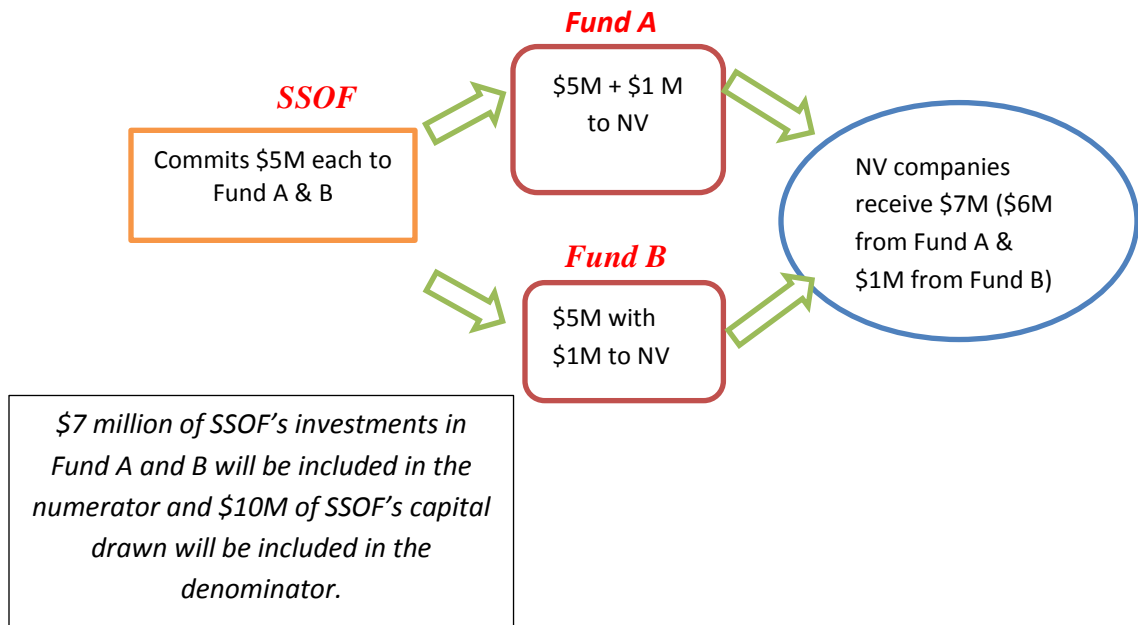
- All amounts invested in Nevada will continue to be included in the calculation for determining the 70% requirement regardless of whether such investment has been realized. If a fund uses realization proceeds from companies located in Nevada to reinvest in Nevada, the reinvested amount shall be counted twice.

For example: SSOF makes a \$10 million commitment to a fund investment. If the fund invests \$4 million of its total capital in companies based in Nevada, and upon realization of such investments, the fund manager reinvests \$3 million in Nevada companies; the total of \$7 million will be considered located in Nevada.



- If the 70% requirement is not met after application of the noted circumstances above, than any additional investment made by a fund in companies located in Nevada in excess of SSOF's investment in such a fund will be added to the amount invested in Nevada.

For example: SSOF commits \$5 million each to Fund A and Fund B, of which 100% is called and used for investment. Fund A invests a total of \$6 million of its capital in companies located in Nevada and Fund B invests only \$1 million in companies located in Nevada. \$7 million of SSOF's investments in Funds A and B (\$6 million to Fund A and \$1 million to Fund B) will be included in the numerator and \$10 million of SSOF's capital drawn will be included in the denominator.



4. Clawback Provisions

- Due to the requirement that 100% of venture capital co-investments be located in Nevada, the Manager shall require businesses which receive venture capital co-investments to enter into an agreement which includes penalties for ceasing to have a presence in Nevada, pursuant to NRS §355.285.6. The penalties at a minimum shall include the return of SSOF's capital (i.e., principal) if the business leaves Nevada or otherwise fails to comply with the definition of a "Nevada business" as defined in this Policy during the investment period of SSOF or its underlying funds. The Manager shall use commercially reasonable efforts to exit its investment at the first liquidity event in which the SSOF is offered a fair value for its securities that fully reflect the company's economic potential. This Policy recognizes that NCIC is a minority investor in co-investments and may not be able to compel the General Partner or the business receiving the investment to incorporate such requirements in a contract; in such cases, the NCIC may not make co-investments in such a business no matter what the potential return or how potentially attractive the investment may be in other respects.
- The Fund of Funds Manager will negotiate partnership agreements with fund investments to obtain favorable terms for a fund manager's investment in Nevada. These terms will include, but are not limited to, capital commitments in Nevada which equal SSOF's investment in the fund investment and consideration of office space and personnel in Nevada.
- If the 70% requirement has not been met by the Fund of Funds Manager at the time of distribution of carried interest to the Manager, then the amount of such distribution will be deposited in an escrow account and held until the requirement has been met. If at the end of the commitment period, the requirement has not been met, any escrowed proceeds will be distributed to all other members.

- C. Investment Risk – The Manager will seek to mitigate and manage risks through the following means:
1. Diversification - The Manager shall seek to reduce risk through appropriate diversification by industry, vintage year, and investment strategy.
 2. Per-Issuer Limits
 - a) Fund Investments
 - The Fund of Funds Manager shall not invest in a single underlying fund more than the greater of
 - i. \$10 million, and
 - ii. 20% of the aggregate capital commitments to the SSOF. The SSOF's commitment shall not exceed 20% of the total capital committed by all partners to the fund at the time of the final closing for the fund (including any parallel or alternative investment vehicles investing with the fund).
 - b) Direct and Co-Investments
 - The Fund of Funds Manager shall not invest in excess of \$5.0 million in a direct or co-investment, unless specifically waived by the board, in which case the maximum authorized investment will never exceed \$7.5 million. Any capital commitment of a member other than the NCIC will not count against this limit.
 3. The Manager shall seek to manage the following major categories of uncertainties commensurate with the expected return:
 - a) Operating and Business Risk: Certain investments may entail above average operating and business risk
 - b) Liquidity risk: Private equity investments lack liquidity and typically have time horizons of 5 – 10 years
- D. Valuation risk: The Fund of Funds Manager shall evaluate fund investment to determine if the general partner employs an appropriate valuation discipline.
- Opportunistic Partnering - The Fund of Funds Manager will consider partnering with public and private entities, including strategies that leverage SSOF assets by bringing federal, state or additional private investments to the State of Nevada.

- E. Fees – the maximum fees paid by SSOF shall be set as follows:
- a) Management fees paid to the Fund of Funds Manager shall not exceed 1% of committed assets (not to exceed \$50 million) and 10% in carried interest.
 - b) Management fees paid to managers of underlying private equity funds receiving investments from SSOF shall not exceed 2.5% of assets under management and 20% carried interest.
- F. Eligibility Criteria for Underlying Fund Investments – The Manager may invest in underlying private equity funds that meet the following criteria:
1. Must be managed by persons who have at least 10 years of experience in commercial banking, private equity investing, mezzanine funding or venture capital.
 2. Must be managed by a registered investment advisor, registered either by a state if its assets under management falls below \$110 million or the Securities Exchange Commission, unless there is an application exemption from such registration requirements such as in the case of:
 - a) Advisors only to venture capital funds
 - b) Advisors only to small business investment companies (SBIC's) that are licensed under the Small Business Investment Act of 1958.

In cases where a fund manager is exempt from such registration requirements, the Manager must have in place procedures, policies and/or contract requirements for periodic due diligence of the fund.
 3. Must have a fiduciary duty to the Corporation with respect to the Corporation's investment in the fund.
 4. Must have a commitment period that does not exceed 6 years, excluding extensions
 5. Must have a fund term that does not exceed 10 years, excluding extensions
 6. Must have a "key man" provision for at least one team member
 7. Must ensure the fund returns at a minimum invested capital attributable to all realized investments before participating in carry
 8. Must ensure the fund has a cap on organizational expenses in line with the size of the fund.

9. Must provide to the Manager an annual financial statement prepared by an accredited audit firm.
10. The Corporation must not be a general partner in a private equity fund in which the Corporation invests.

G. Distributions

The Fund of Funds Manager will distribute investment proceeds in proportion to each member's percentage interest in SSOF. The Fund of Funds Manager will first return 100% of the aggregate amount of invested capital attributable to realized investments and expenses apportioned to such realized investments. Thereafter, 90% of the investment proceeds will be distributed to the members and 10% to the Manager.

- 1.State Permanent School Fund: Investment proceeds will be returned to the State Permanent School Fund upon distribution to members unless the Board authorizes reinvestment of the proceeds, as provided below. However, notwithstanding the above, investment proceeds will be distributed back to the Permanent School Fund after not more than 10 years following the capital drawdown by the Fund of Funds Manager, plus any extensions authorized by the partnership agreements or the majority of members in SSOF.
- 2.Reinvestments: The Fund of Funds Manager must seek prior approval from the Board for any reinvestment of capital and/or investment proceeds. Ideally, any reinvestment of capital should be made within the Manager's initial commitment period.
- 3.Second Tranche: After the Manager's initial commitment period ends, NCIC shall have the right, but not the obligation, to reinvest any distribution of principal received back from the Manager with the Manager upon its acceptance in a Second Tranche, so long as the total amount transferred by the State Treasurer to NCIC does not exceed \$50 million at any time. Monies to be reinvested in a Second Tranche shall not include any realized gains or other returns received that are required to be returned to the Permanent School Fund, as required above.

4. Marketable securities: The Fund of Funds Manager shall use commercially reasonable efforts to sell stocks received as in-kind distributions from the fund investments and/or direct co-investments.

VIII. TEMPORARY INVESTMENTS

- A. Senate Bill 75 (2011) authorizes the Treasurer to transfer up to \$50 million to the Board to administer a private equity investment program. Due to the long-term nature of private equity investments, the commitment period for placements by the Manager selected by the Board is four years from the contract approval date, which was August 2012. Additionally, capital drawdowns from underlying external managers could conceivably take place an additional four years after the commitment to specific funds. During the interim period when funds have not been committed or have been committed to external managers but not yet drawn, the Nevada Administrative Code allows the Board to place monies in a fixed income mutual fund or common trust fund. Upon Board approval, the Corporation may use the earnings of the mutual fund or common trust fund to pay the Manager's management fees and fund expenses.
- B. In order to qualify for investment, mutual funds or common trust funds must meet the following criteria:
1. Total assets under management, including all share classes, for the fund must exceed \$500 million.
 2. Fund investments are limited primarily to US Treasury and US Agency government securities including mortgage-backed securities; securities fully guaranteed by the US government; and repurchase agreements collateralized by the above types of securities. The fund's prospectus may allow for a small allocation of the fund to high-quality corporate securities.
 3. The duration of the fund must not exceed 7.5 years.

IX. FAIR LABOR REQUIREMENTS

The Board and Manager shall comply with Exhibit A, "Responsible Contractor Policy".

X. PERFORMANCE MEASUREMENT

The evaluation of the investment performance of the SSOF portfolio, including underlying funds and co-investments, to appropriate investment benchmarks is an important tool for the Board to evaluate the ongoing performance of the Manager. Accordingly, the Manager(s) is required to measure and report this performance to the Board as follows:

- A. Benchmarks – due to the complex nature of in-state private equity programs, the Manager should be evaluated using multiple investment benchmarks, with the goal of exceeding at least one of the following benchmarks:
 1. The first long-term (5-10 years) benchmark, given the previous composition of the Permanent School Fund, which was allocated 100% to US Treasury and Agency securities, shall be the Barclay’s U.S. Intermediate Government/Credit Index.
 2. A second long-term benchmark shall be an absolute return benchmark of 5% total net return per annum, in recognition of other in-state private equity programs’ performance.
 3. A third long-term benchmark shall be the Russell 3000, a proxy for the broad US public equity markets, plus a 300 basis point risk premium.
 4. Given the nature of the asset class and difficulty benchmarking shorter-term results, the Manager and staff will use widely accepted private equity benchmarks that are available to the Manager at the time. These could include Preqin, Thomson Reuters, Cambridge Associates LLC U.S. Private Equity Index and/or others.

The Manager does not guarantee any rate of return on, or market value of, any investments of the SSOF.

B. Monitoring of Portfolio Performance

1. Quarterly Reporting Requirements – Subject to receipt of relevant information from underlying fund managers, the Manager shall provide net total returns for each underlying fund, co-investment and the overall SSOF program and shall compare performance for the overall program against the above benchmarks.
2. Annual Reporting Requirements

Subject to receipt of relevant information from underlying fund managers, the Fund of Funds Manager will prepare an annual report following the close of the fiscal year for the Board's approval which contains, at a minimum, the following:

- Investment metrics
- Ancillary benefits
- Accounting of the total capital received and expended, including any investments from additional members or investors, and
- Name and brief description of all businesses receiving capital

3. Investment Metrics

- Committed capital
- Invested capital
- Distributions
- Market value
- Internal Rate of Return (IRR)
- Gross Total Return
- Net Total Return
- Performance drivers
- Net portfolio cash flow
- Exposure by strategy, industry and state
- Percent of capital invested/ committed to NV

4. Ancillary Benefits

- Total monies invested in Nevada companies by funds with SSOF participation
- # of NV companies receiving investment
- # of NV employees of companies receiving investments
- # of NV jobs created/retained
- Estimated payroll/average salary of jobs created/retained

In certain cases, upon approval by Staff, the reporting of certain metrics above may be deferred if, for instance, the investment period has been so short that the reporting of that metric does not provide any meaningful basis for analysis.

XI. ACCOUNTING AND REPORTING

A. Independent Auditor

1. The Fund of Funds Manager will retain an independent audit firm for the purpose of conducting audits on the Fund. Audits shall be conducted on an annual basis with a report, including financial statements presented to the Board.

B. Annual Report

1. The Fund of Funds Manager will draft a report following the close of each fiscal year for the Board's approval which contains, at a minimum, the following:
 - Investment Metrics;
 - Ancillary Benefits;
 - Accounting of the total capital received and expended, including any investments from additional members or investors, and
 - Name and brief description of all businesses receiving capital
2. Delivery
 - On or before December 1 of each even- numbered year, the Board will provide an annual report to the Governor and the Director of the Legislative Counsel Bureau for the next session of the Legislature.
 - The report will be submitted to the Legislative Commission in an odd-numbered year.

C. Annual Budget for Partnership Expenses

The Manager must submit for prior approval by the Board its recommended annual budget for the fiscal year which includes company expenses and marketing expenses.

1. Company expenses shall include, but are not limited to, wire expenses, custodial fees, legal and accounting fees and expenses, audit expenses, management fees of underlying funds and applicable fees and charges incurred in the connection with the purchase, holding, sale or exchange of securities.
2. Marketing expenses shall include conferences, memberships and special events approved by the Board of up to \$50,000 annually.

XII. INTERNAL CONTROLS

A system of controls will be established to ensure that investment transactions and associated activities are monitored. These controls are created to safeguard against fraud, staff error, or other actions that could result in a loss of money. The Treasurer shall develop and maintain written procedures for the operation of the investment program, which are consistent with this investment policy. These procedures shall include reference to separation of duties, safekeeping, wire transfers and banking related activities.

XIII. REVIEW OF POLICY

The Board will review this Policy at least once every two years. Changes can be made at any time to this Policy; however, changes are expected to be infrequent, as they will reflect long-term considerations, rather than short-term changes in the financial markets. The State Treasurer's office will communicate modifications in writing on a timely basis to interested parties.

XIV. GLOSSARY

Buyout/Corporate Finance: Investments in, or acquisitions of, relatively mature private companies with developed products and/or services. Such companies typically have significant and relatively stable annual revenues and are profitable. Buyout funds typically employ leverage, or company-level debt, to facilitate acquisitions.

Carried interest: The share of profits that the fund manager is due once it has returned the cost of investment to investors. Carried interest is normally expressed as a percentage of the total profits of the fund.

Clawback: A provision in a limited partnership agreement which allows for the return of capital should certain agreed upon provisions not be executed in accordance with the agreement.

Committed capital: Pledges of capital to a private equity fund. Typically, this money is not received all at once, but rather taken down over several years starting in the year the fund is formed.

Distribution: The transfer of cash from a private equity investment to the partners.

Fund: A pool of capital raised periodically by a private equity organization, usually in the form of limited partnerships, private equity funds usually have a 10-year life, though extensions are possible.

Fund-of-Funds: A fund that invests primarily in other private equity funds rather than operating companies frequently organized by an investment advisor or investment bank.

General Partner: The control partner in private equity partnerships, analogous to the

portfolio manager in a public stock portfolio. Under the Internal Revenue Service (IRS) code, the General Partner must commit some personal capital to the partnership (a minimum of 1% of the partnership's committed capital), and unlike the limited partners, is liable for leverage and other losses generated by the partnership.

Growth equity: The sale of equity in a (typically) privately held operating company, frequently one that is profitable, to raise funds to increase production capacity, supply working capital, or further develop the business.

In-Kind Distributions: Most distributions from private equity partnerships are in cash. However, in some cases, a private deal will be taken public through an initial public offering (IPO), or through a trade sale for stock to a public company. In these cases, the Limited partners will receive their distributions in the form of publicly traded common stocks and/or rights and warrants.

Internal Rate of Return (IRR): The annualized effective compounded return rate that can be earned on the invested capital; the investment's yield.

Limited Partner: All investors in a limited partnership other than the named General Partner are defined under the IRS code as Limited Partners. Limited partners have only the control rights defined in the limited partnership agreement, and are generally passive investors in the partnership's deals. Limited partner's total liability for all deals made by the partnership are limited strictly by law to the limited partners committed capital.

Limited Partnership: An organizational form that entails a finitely lived contractual agreement between limited and general partners, governed by a partnership agreement.

Mezzanine: Either (1) a private equity financing round shortly before an initial public offering, or (2) an investment that employs subordinated debt that has fewer privileges than bank debt but more than equity and often has attached warrants.

Secondary: The purchase by a limited partnership or a fund of funds existing limited partnership holding from another limited partner.

Special situation: These strategies may vary broadly, but generally include secondary strategies, due to their cash flow and diversification characteristics, funds focused on specific sectors undergoing significant change, and other cyclical specialty strategies.

Vintage year: The group of funds whose first closing was in a certain year.

Venture capital: Pursuant to NRS 355.265, venture capital means equity, near-equity and seed capital financing, including, without limitation, early stage research and development capital for start-up enterprises, and other equity, near-equity or seed capital for growth and expansion of entrepreneurial enterprises.

EXHIBIT A
RESPONSIBLE CONTRACTOR POLICY

I. PURPOSE

This document sets forth the policy (“the Policy”) of the Responsible Contractor Program (“the Program”). The design of this Policy is intended to ensure that contractors, investors, managers, consultants, or other participants selected by the Nevada Silver State Opportunities Fund (“SSOF”) take prudent and careful action while managing the Program in a manner consistent with the Board’s fiduciary responsibility.

II. INTRODUCTION

SSOF has a deep interest in the condition of workers employed by its Managers and Underlying Businesses (as defined in the next section). SSOF, through the Policy set forth in this document, supports and encourages fair wages and benefits for workers employed by its contractors and subcontractors, subject to fiduciary principles concerning duties of loyalty and prudence, and the desire to achieve competitive returns on SSOF investments.

SSOF endorses small business development, market competition, and control of operating costs. SSOF supports many of the ideals espoused by labor unions and encourages participation by labor unions and their signatory contractors in the development and management of SSOF investments. SSOF believes that an adequately compensated and trained worker delivers a higher quality product and service. The Policy includes provisions for transition, monitoring, and enforcement.

III. DEFINITIONS

Capitalized terms used in this Policy have the following meanings for purposes of this Policy:

- A. **Board** – The SSOF Board of Directors
- B. **Fiduciary Duty Requirement** – The duty of the SSOF Board, Staff, and Managers to be loyal and prudent.
- C. **Fund of Funds Manager** – A person or entity that is responsible for discretionary investment decisions for the SSOF, which the Board has contracted with.
- D. **Manager** – A person or entity that directly contracts with SSOF to manage or otherwise control an investment, such as an investment manager or the general partner of a partnership in which SSOF directly invests.

- E. **Policy** – The policy set forth in this document, as amended from time to time.
- F. **Responsible Contractor** – A business that pays workers a fair wage and a fair benefit, as evidenced by payroll and employee records.
- G. **Staff** – Staff or management of the Nevada State Treasurer’s Office.
- H. **Underlying Business** – A company receiving an investment, either directly through a direct or co-investment, or through a Manager’s or Fund or Fund Manager’s investment.

IV. **PRINCIPAL REQUIREMENTS OF THE RESPONSIBLE CONTRACTOR PROGRAM POLICY**

- A. **Duty of Loyalty** – Notwithstanding any other considerations, assets shall be managed for the benefit of SSOF participants and beneficiaries. SSOF and its Managers’ duty to the participants and their beneficiaries shall take precedence over any other duty.
- B. **Prudence** – SSOF and its Managers are charged with the fiduciary duty of exercising the care, skill, prudence, and diligence appropriate to the task.
- C. **Competitive Return** –All investments and services must be made and managed in a manner that seeks to produce a competitive risk-adjusted return.
- D. **Eligible Projects**
 - 1. Direct investments or co-investments – This policy shall apply to direct or co-investments when the investment placed by SSOF exceeds \$2,500,000 and such amount directly funds or is used for construction work or work performed by construction trades. In such cases, the Fund of Funds Managers shall use commercially reasonable efforts to encourage the Underlying Business to provide fair wages and benefits to employees engaged in these trades. The Underlying Business’ efforts may include:
 - a. Communicate the Policy to independent contractors seeking to secure applicable Service contracts;
 - b. Use commercially reasonable efforts to communicate the Policy to any interested party;
 - c. Seek to encourage a selection process that includes potentially eligible Responsible Contractors, where applicable and commercially reasonable. Good faith efforts may include, but are not limited to, encouraging the use of Responsible Contractors, supplying timely information on bidding opportunities to interested Responsible

Contractors, and facilitating meetings with organized labor.

- d. Request independent contractors seeking to secure applicable service contracts to provide information on whether they provide fair wages and benefits, either by letter or by evidence of completed forms submitted to other governmental agencies.

2. Investments Placed by Manager – In recognition of SSOF’s status as a limited, minority partner in funds managed by a Manager, this policy shall not apply to SSOF investments placed with a Manager. However, the SSOF encourages the Fund of Funds Manager to work with Managers to encourage the payment of Fair Wages by Underlying Businesses.

E. Fair Labor

The Policy avoids a narrow definition of “fair labor”, “fair wage”, “fair benefits”, and “training” that might not be practical in all markets. Furthermore, the Policy does not require a “prevailing wage”, as defined by government surveys. Instead, the Policy looks to local practices concerning type of trade and type of project. The Policy recognizes that practices and labor market conditions vary across the country and that flexibility in its implementation is very important.

“Fair benefits” are defined as including, but not limited to: employer-paid family health care coverage (subject to reasonable employee contributions and co-pays), pension or retirement plan benefits, and training and/or apprenticeship programs. What constitutes a “fair wage” and a “fair benefit” will depend on the wages and benefits paid on comparable infrastructure projects, based upon local market factors that include the nature of the project (e.g., municipal or commercial; public or private), comparable job or trade classifications and the scope and complexity of Services provided. In determining “fair wages” and “fair benefits” concerning a specific contract in a specific market, items that may be considered include local wage practices, state laws, prevailing wages, labor market conditions and other items.

In determining fair wages and fair benefits concerning a specific contract in a specific market, items that may be considered include local wage practices, state laws, prevailing wages, labor market conditions, and other items.

- E. Local, State, and National Laws** – All Managers, Delegates and the contractors and subcontractors they hire, while performing services with respect to RCP Investments, shall observe all local, state, and national laws (including, by way of illustration, those pertaining to applicable licensing and permitting, insurance, withholding taxes, minimum wage, and health and occupational safety).

V. ENFORCEMENT OF THE RESPONSIBLE CONTRACTOR PROGRAM POLICY

The Fund of Funds Manager is not expected to and is no way required to enforce the payment of fair wages and fair benefits under this Policy. Furthermore, this Policy is in no way intended to supersede or mitigate the Fund of Fund Manager's Fiduciary Duty Requirement to the Board or Treasurer. Considerations of fair wages or fair benefits shall not influence the investment decisions of the Fund of Funds Manager, which has complete discretionary investment authority under SSOF.