

For HB 1425 Legacy Investments in North Dakota

Chairman Bell and members of the Senate Finance & Tax Committee:

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HB 1425 is excellent legislation providing much needed access to capital for infrastructure and equity – critical needs of our state. The bill allows and targets 10% of the Legacy Investment to fixed income investments in North Dakota and an additional 10% towards equity investments in North Dakota. The bill does not mandate an allocation, but sets a direction for the asset allocation recommendation for the Legacy Fund.

Our Legacy Fund is now invested heavily in China, Europe, Africa, etc. **(20% in international equity)** California, New York, Boston, etc. **(30% in domestic equity)**, etc. ... *and very little of the Legacy Fund is invested in North Dakota to grow our economy.* That is a big problem for a state with an access to capital problem. This bill corrects that problem.

North Dakota suffers from a lack of capital because we are in “flyover country” where investment houses in urban centers think we are too small in population and too little deal flow to bother with. The haves get more, the have nots get less. Time to re-balance the equation.

North Dakota needs **equity financing (seed, angel, early stage, mid-stage venture capital)** for our state’s expansion, diversification, and growth – esp. of the innovation and technology economy. North Dakota remains too dependent on the oil and ag sectors. We need that diversification and growth. That takes equity capital.

I believe **Venture Capital Funds** from around the nation will set up an office in North Dakota to manage the funds. That may be appropriate, but I also think we have equity investor talent and expertise among North Dakotans.

It appears to me that the language of the bill allows for *some* private equity investment through the **North Dakota Development Fund** and the **Innovation Technology Loan Fund**, better known as **LIFT**. HB 1425 states on Page 5, lines 4-7 that “the money can be management by qualified investment firms, financial institutions, or equity funds.” *If LIFT or the Development Fund do not qualify under this language, the bill should be amended so that they are qualified.*

An easy way for the **Development Fund and LIFT** to increase the amount invested into early seed, angel and early stage equity is to **match private investors** from within and

outside North Dakota. When an equity investment is made in a growth venture, the legacy fund could invest side-by-side (syndication) after the entrepreneur and investor conduct their due diligence, negotiate investment terms and agree on exit strategies. The difficult pre-investment work is borne by the private equity investors, and the fund gets to ride along without the transaction costs and time. This is attractive to the entrepreneur having to raise only half the funds through private equity investors or firms, and it is attractive to investors to know they have a dependable syndication partner.

Thank you for your favorable consideration.