

COMMONWEALTH ENERGY FUND (CEF)

A Blueprint for Federal Leadership in High-Growth Company Formation

CEF Background

Virginia's Department of Mines, Minerals and Energy (DMME) and The Center for Innovative Technology (CIT) launched the Commonwealth Energy Fund (CEF) in 2011 to make loans to high-growth potential early stage Virginia companies capable of driving job creation, reducing energy consumption, increasing energy generation from renewable resources, and reducing greenhouse gas emissions. DMME capitalized the CEF with funds from the Department of Energy's State Energy Program (SEP).

CEF Foundation – CIT GAP Funds

The Center for Innovative Technology (CIT), a non-profit corporation, develops next-generation technologies and technology companies. In 2004, CIT formed CIT GAP Funds to invest in high-growth potential early stage technology, life science and energy companies. Since inception, CIT GAP Funds has placed more than 50 early-stage investments, driven multiple companies to later-stage venture capital investment and realized significant financial returns to the portfolio. Entrepreneur Magazine and the Northern Virginia Technology Council have recognized CIT GAP Funds for its work in high-growth company formation.

CEF's Mission-Driven Portfolio

The CEF seeks "commercial-ready" high-growth potential loan candidates strategic to Commonwealth's energy goals for their ability to (1) Contribute to Virginia's energy efficiency and renewable energy portfolio; (2) Promote energy conservation in Virginia; (3) Reduce the growth rate of Virginia's energy demand; or (4) Reduce Virginia's dependence on imported oil. Search areas include: solar, wind, and geothermal technologies; transportation technologies; batteries and fuel cells; biofuel applications; green building technologies; water treatment and purification; and green IT.

CEF Investments

The CEF has evaluated more than 400 Virginia companies, making seven portfolio loans including one follow-on tranche:



Arlington, VA

www.sunnovations.com



Bristol, VA

www.wiretough.com



McLean, VA

www.servhawk.com



Charlottesville, VA

www.adiengineering.com



Cavitronix™ Corporation

Abingdon, VA

www.cavitronix.com



Louisa, VA

www.c3rs.com



Blacksburg, VA

www.miserware.com

The CEF Difference

Drawing upon the experience of CIT GAP Funds, the CEF incorporates key features distinguishing it from conventional revolving loan funds and promising DOE outcomes far surpassing those achieved by traditional lending approaches:

- **Private Sector Investment Committee** - The CEF draws on the expertise of a private sector investment committee -- the CEF Investment Advisory Board (IAB) -- to make all final investment decisions. This panel, consisting of leading regional entrepreneurs, angel and venture investors and corporate partners, includes: Alpha Natural Resources, GE Energy, SJF Ventures, and GSD Energy Consultants. DMME acts in an ex officio role. Available for additional consultation are members of other CIT investment committees, including New Enterprise Associates, HIG Ventures and In-Q-Tel.
- **Convertible Debenture Model** – Unlike conventional revolving loan funds, the CEF finances portfolio companies using a convertible debt structure. This vehicle permits the exchange of debt for stock in selected portfolio companies and enables the CEF to implement a “blended investment” strategy. This approach affords near-term debt recovery from some companies while capturing the economic rewards of ownership in those portfolio companies on a higher growth trajectory. This approach maximizes financial return to the fund and increases the pool of capital available for future company loans.
- **“Deep Engagement” Investment Strategy** – The CEF takes an active approach to investment and portfolio management. CEF does this in three-ways: (a) On a day-to-day basis, the CEF takes a hands-on approach to advising and mentoring portfolio firms on strategic business and technology development issues; (b) The CEF loan reporting requirements demand a level of accountability for company performance typically reserved for venture capital investors deeply engaged in company operations; and (c) The CEF takes a board observer role, ensuring a “place-at-the-table” alongside of senior management and key third-party investors.
- **Exploitation of Federal R&D Investment** – The CEF takes a two-pronged approach to leveraging federal R&D expenditure. In sourcing new deals, the CEF has targeted companies whose technologies have been significantly underwritten by R&D investment from NASA, NSF and DOE. In working with CEF portfolio companies, CEF will build upon CIT GAP Funds’ record of success in attracting federal R&D grant and contract money into CEF portfolio firms. These funds can significantly advance portfolio company growth and performance and significantly enhance the financial return to the CEF.

CEF Outcomes

- ✓ **Significant Private Investment** into CEF portfolio companies comparable to the 13:1 ratio of public-to-private dollars realized by CIT GAP Funds
- ✓ **New Job Creation** by CEF’s young companies at rate surpassing – and at a public cost undercutting – outcomes achieved from established company recruitment or subsidization

- ✓ **Extraordinary Leverage of Federal R&D Investment** through strategic deal sourcing and attraction of federal grants and contracts to CEF portfolio companies
- ✓ **Expanding Out-Year Investment Fund** resulting from CEF's "blended investment" strategy and exploitation of federal funds
- ✓ **A Proven, Scalable and Transferrable Investment Model** leveraging public and private experience in funds deployment, new company creation and federal R&D investment

For additional information on the Commonwealth Energy Fund, contact:

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