

**Private Equity/Venture Capital Investments in Maryland Technology with TEDCO for
Fiscal Year 2024
Maryland State Retirement and Pension System
State Personnel and Pensions Article § 21-123.2(f)(1)**

1. **A list of the investments, if any, made under § 21-123.2 of the State Personnel and Pensions Article**

Investments through Fiscal Year ended June 30, 2024

Investment	Invested Amount
Stay N Touch	1,100,000
HomeCare.com	499,934
Graybug	1,028,572
Aledade	1,488,996
Ashvattha	600,000
Xometry	2,649,989
PGDX	1,530,763
Apkudo	1,250,000
iLearningEngines	1,000,000
RackTop	1,399,998
Total Invested	12,548,252

2. **The recommendations, if any, made under § 21-123.2 of the State Personnel and Pensions Article**

MSRA investment staff recommended the CIO approve that the System contract with TEDCO to manage a \$25,000,000 mandate under this section.

3. **The actions, if any, taken by the Board of Trustees on the recommendations made under § 21-123.2 of the State Personnel and Pensions Article**

The System issued an RFI on September 28, 2016 to solicit proposals to administer the program as mandated under this section. Three responses were submitted by the November 10, 2016 deadline. TEDCO was selected to manage this mandate and an agreement between the System and TEDCO was finalized on November 3, 2017. TEDCO made ten investments totaling \$12,548,252 under the mandate.

In May of 2019, staff was notified that the Executive Director of TEDCO and all of the investment staff responsible for investing the System’s mandate would be submitting their resignations. On May 29, 2019 MSRA sent a letter to TEDCO, exercising its right under our management agreement with TEDCO to *suspend new portfolio investments* and to *terminate TEDCO’s ability to make capital calls*. This action was prompted by the fact that the entire investment team at TEDCO was leaving, and the System had no visibility on the ability of TEDCO to continue to manage assets on the System’s behalf.

Subsequent to the letter of May 29, 2019, MSRA sent an additional letter to TEDCO on June 27, 2019, which reminded TEDCO management and its board of their fiduciary responsibilities to MSRA for the management of MIOF. The letter reiterated that MSRA still retained the right to request a dissolution and liquidation of MIOF. MSRA requested a written transition plan from TEDCO on how they intended to fulfil their fiduciary duties.

TEDCO responded with a written transition plan on July 22, 2019. TEDCO indicated that Stephen Auvil will assume the position of Acting Executive Director of TEDCO and that he will be supported in oversight of the MIOF portfolio by TEDCO employees Frank Glover and Brian Corbett. It is not TEDCO's intent to hire an interim 3rd party advisor to assist in managing the MIOF and Maryland Venture Fund (MVF) assets. At that time, TEDCO's Board initiated a search to hire permanent replacements for the departed TEDCO investment staff.

On August 2, 2019, MSRA staff met with Brian Corbett and Frank Glover of TEDCO and with Myra Norton from Arena who is currently the TEDCO Board Chairperson. They updated staff on their plans to fill vacant positions and to manage the MIOF and MVF portfolios in the near term.

On September 19, 2019 the System amended its Operating Agreement with TEDCO to allow for follow-on investments in existing investments only to protect the value of the System's existing investments. The follow-on investments will only be allowed with approval from the System following a presentation by TEDCO detailing the business case for the follow-on investments. No follow-on investments have been presented by TEDCO under this revised Operating Agreement. TEDCO is still prohibited from making any new investments on behalf of the System.

On October 2, 2019 the System was notified by TEDCO that Brian Corbett had submitted his resignation effective October 8th.

On December 6, 2019 the System was notified that Elizabeth Good Mazhari had been hired as a part-time Interim Managing Director for MVF and would also assist with overseeing MIOF.

On April 15, 2020 the System was notified that TEDCO had hired Amy Walsh of Walsh Accounting as an outsourced CFO to work on financial reporting for MIOF.

As of the June 30, 2020, financial statements for MIOF, the \$1,000,000 investment in iLearningEngines was written down to a value of \$0. TEDCO is in the process of pursuing litigation on the behalf of MIOF against the company for alleged fraud.

On July 21, 2020 MIOF received a distribution of \$3,153,354.88 for the sale of its interest in Xometry representing a \$503,366 gain on its investment of \$2,649,989.

On July 22, 2020 the System was notified that Troy LeMaile-Stovall had been named the new CEO of TEDCO and that Michael Hauser had been named Managing Director replacing Elizabeth Good Mazhari, acting Managing Director. Subsequently, the System was notified on September 22, 2020 that Michael Hauser was no longer employed by TEDCO and that Elizabeth Good Mazhari would resume her role as acting Managing Director until a permanent replacement could be hired.

On July 28, 2020, MIOF made a small follow-on investment of \$31,533.68 in PGDx to prevent dilution of its investment during a follow-on fundraising. This was the first follow-on investment made since the System approved the ability to fund follow-on investments in September 2019.

On November 20, 2020, MIOF received a distribution of \$2,444,264 for the sale of its interest in Aledade, representing a gain of \$955,269 on its investment of \$1,488,996.

On January 4, 2021, MIOF received a distribution of \$1,162,411 representing \$1,000,000 in return on investment and \$162,411 in interest for iLearningEngines. This investment had been written down to \$0 as of June 30, 2020, however legal efforts by TEDCO resulted in a repayment of principal and accrued interest on the investment.

On March 4, 2021, the System had an introductory meeting with Jack Miner who had just been hired as CIO for TEDCO.

On August 19, 2021, the System received a partial distribution on its investment in HomeCare of \$337,841.07.

On June 10, 2022, the System received \$1,825,188.14 as a distribution on the investment in PGDx.

The System received three additional small distributions on PGDx; \$3,966.35 on 10/6/2022; \$8,269.82 on 12/22/2022; and \$1,113.86 on 4/12/2023.

On June 21, 2023, the System received a \$22,230.58 distribution on the sale of Graybug representing a \$1,006,341.22 loss on \$1,028,571.80 invested in the company.

There was no cash activity in Fiscal Year 2024.

4. The investment performance of any investments made under § 21-123.2 of the State Personnel and Pensions Article

As of June 30, 2024, the investments had generated a 14.70% IRR and the current value was \$11,490,797. The current valuation consists of significant unrealized gains in Apkudo, Ashvattha and HomeCare.com. Staff has instructed TEDCO to seek opportunities to realize these investments and distribute cash.

5. To the extent possible, an accounting of the fees and expenses incurred under § 21-123.2 of the State Personnel and Pensions Article

External legal fees of \$52,000 were incurred to complete the agreement with TEDCO. TEDCO has notified MSRA that they have neglected to pass through prior audit and valuation fees to the partnership of just over \$69,000. TEDCO will be submitting those fees for reimbursement which will negatively impact the currently reported return on the investment.

6. To the extent possible, the ratio of funds invested in projects under § 21-123.2 of the State Personnel and Pensions Article to the total percentage of venture capital funds raised in the State by all sources

Based upon our best available knowledge, the \$12.5 million invested under this program represents 0.88% of the total venture capital investments of \$1.42 billion invested in the State from January 1, 2018 through June 30, 2019 (investment period for MIOF I).

ADDENDUM

MSRA ongoing In-State investing efforts:

In addition to the \$12.5M invested in Maryland companies through the relationship with TEDCO, the System has invested \$129M in Maryland-based companies through its venture and private equity managers. Staff continuously engages with our existing managers to encourage them to evaluate investment opportunities in Maryland. Staff also searches for opportunities to invest in Maryland that would represent an appropriate portfolio fit and meet the System's fiduciary requirements. In the last year staff has met with Hamilton Lane, TEDCO, Stepstone (Greenspring Associates), 57 Stars, Ben Franklin Technology Partners and Allegis/Datatribe to discuss Maryland investment opportunities.

Considerations relating to in-state investing:

- The fact that a venture capital or private equity fund is based in Maryland does not necessarily result in positive economic results in Maryland, as the portfolio investments could be located out-of-state.
- The System could identify a manager to create a customized separate account to invest in Maryland. However, this structure would result in sizing and diversification challenges relative to the size of the total fund and Maryland's economy. To attract the type of high-quality manager that would meet staff's underwriting standards, the annual allocation would need to be between \$50M and \$100M a year. This level of commitment would equal 50% to 100% of the planned venture capital pacing and 5% to 10% of the System's total annual commitments to the total private equity program. These percentages are significantly higher than the size of Maryland's economy relative to the global opportunity set.