

# Spotlight on practice

## NOTE :

This column features NBIA members who have found creative ways to better manage their programs and serve clients. If your program has found a unique way to improve operations, let us know by sending an e-mail to [news@nbia.org](mailto:news@nbia.org).



## Dakota Venture Group trains young investors

Here's a twist on incubator seed fund investments. The Center for Innovation at the University of North Dakota in Grand Forks, N.D., developed a program to educate students about the nuances of angel and venture investing by setting up a venture fund – the Dakota Venture Group – and letting students manage everything from investment decisions to annual reporting. As a result, the students learn private equity investing through experience; the region's start-up companies gain access to vital seed-stage capital; and the innovation economy of North Dakota grows its entrepreneur and investor base.

In 2006, the Center for Innovation Foundation created a dedicated fund with a \$400,000 gift on behalf of the Dakota Foundation, a nonprofit organization fostering social entrepreneurship in North Dakota and New Mexico. Using an ever-green model, where all capital gains are reinvested, the fund provides early-stage seed funding ranging from \$15,000 to \$50,000 per company.

## Center for Innovation



Students participating in the Dakota Venture Group are educated in a variety of backgrounds, but all share a passion for entrepreneurship and the opportunities brought forth by venture capital. Pictured are DVG's founding managing directors and associates.

DVG is expected to syndicate with other angel funds, so companies receive seed-stage funding from DVG and go to other investors for future rounds.

To date, DVG has invested in 11 companies, including two student ventures. According to Bruce Gjovig, entrepreneur coach and director of the Center for Innovation, multiples of those investments have returned to the fund.

DVG operates primarily on donated time. Students receive no class credit, and much of the advising comes from volunteer mentors. Auditors, accountants and legal personnel from the foundation also work with DVG to ensure the financial paperwork is correct, so some administrative cost is borne by CIF and sponsorships, but Gjovig says those costs are minimal.

Three of the 11 investment companies are resident incubator clients. Gjovig says students tend to interact with incubator companies more because they are on campus; however, opening the fund to nonincubated companies was deliberate. "We didn't want to restrict students to investment only in incubator companies. It is their decision to make a good investment where they see the opportunity," Gjovig says.

The fund is open to companies throughout the U.S., but the majority of deal flow comes from the upper Midwest. "We had one company specifically seek out our investment firm because they were seeking a young market," Gjovig says. "They made a strategic decision to approach a young angel group."

Undergraduate and graduate students typically participate in the program for one to three years. Each year, there are five managing directors and 20 to 30 members of the investment group. Since 2006, 70 students from various majors have participated.

Students perform due diligence, draw their own term sheets, follow up with companies and work to meet legal and reporting requirements. "Students make all the investment decisions and report four times a year to the foundation," says Gjovig. "The new members learn the ropes from the experienced students."

Gjovig says students appreciate the chance to learn equity investment, noting the knowledge and opportunity are priceless. “The personal and professional gratification from the program is a real enhancement of their skills,” he says.

Students undergo a vigorous application process, with typically one in four individuals accepted. The group meets weekly in addition to meetings with mentors or client companies. “Students are learning by doing,” says Gjovig. “It’s very hands-on. Young people are developing professional relationships and determining what opportunity is best for the situation.” Lee Groeschl, a DVG alumnus and entrepreneurial services manager at the University of Iowa in Iowa City, Iowa, says DVG was the most beneficial experiential learning opportunity he had in college, and other alumni echo his sentiment.

“As an undergraduate business student, I didn’t learn about raising capital and capitalization strategies in class; I learned it as fund manager of the Dakota Venture Group,” says Andrew Christensen, DVG alumnus and analyst at Arthur Ventures in Fargo, N.D. “Most people begin angel investing or join a venture capital firm after a long successful career of buying and selling companies. I was able to enter and gain exposure at age 20.”

The program offers benefits for the university and the community at large, including capital for region’s entrepreneurs, a rich learning environment for students and an experienced entrepreneur base for the future. “We look for a triple bottom line: return on investment for the fund, support for entrepreneurs and enhanced learning opportunities for students,” Gjovig says.—*Bridget Lair*

### Maryland program opens two specialty incubators

How do you transform your incubator from two trailers into a 71-acre campus that is home to three incubation programs and a university-affiliated business park for technology companies and research institutions?



According to Ellen Hemmerly, executive director of the University of Maryland Baltimore County Research Park and special assistant to UMBC’s vice president of institutional

advancement, you must seize new opportunities and take calculated risks.

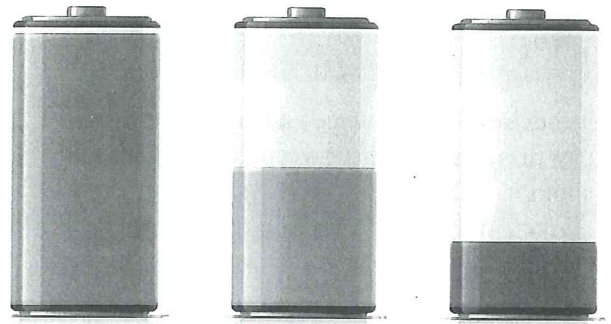
In 2009, bwtech@UMBC expanded its life science and technology business incubation program by opening two niche incubators: the

Cyber Incubator@bwtech and the Maryland Clean Energy Technology Incubator@bwtech. The Cyber Incubator focuses on cybersecurity and directly supports underserved groups – specifically women, minorities and veterans – interested in securing government contracts. The incubator’s proximity to Washington, D.C., and its HUBZone (historically underutilized business zone) designation make it attractive to start-ups in the field.

The Cyber Incubator specifically identifies programs to help clients navigate federal procurement processes and services designed for underserved groups. “As an incubator, we have better access to funding,” Hemmerly says. “Investment funds are geared to empowerment or federal HUBZones and provide a benefit for individuals interested in gaining federal contracts because the government has incentives and provides specific advantage to businesses in those groups.”

The university-affiliated clean energy incubator operates with state and federal funding support for clean energy organizations. “University incubators in the state of Maryland are considered important economic development projects,” Hemmerly says. A joint venture with the Maryland Clean Energy Center – a nonprofit organization created by the state legislature in 2008 to promote economic development and jobs in the clean energy sector – CETI is the first of a series of clean energy incubators planned for the state.

Hemmerly says that diversifying into specialty areas with strong market demand has helped bwtech@UMBC grow. “With clean energy, we’re looking ahead in this growing industry,” Hemmerly says. “Cybersecurity is also a real growth area. We didn’t even consider other types of incubators. Each of these has strong opportunities in the marketplace.”—*BL*



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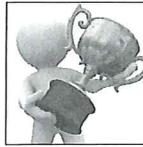
—Ellen Hemmerly, executive director, University of Maryland Baltimore County Research Park, Baltimore



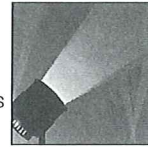
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seed and  
venture funds  
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## Revolving loan funds

How incubators establish and manage internal funds  
or network with others to serve client needs

By Bridget Lair

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