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# UCT Evergreen Fund Investment

The Evergreen Fund comprises donations given to the University and other sources of funds. The purpose of the Evergreen Fund is to enable the commercialisation and application of UCT research outputs; that enable the institution to achieve its intended impact. The outcome includes the promotion of research and it incentivises researchers to make a commercially sustainable positive impact on South Africa and beyond by commercialising patents and “know how” developed within the University.

The Evergreen fund is aimed at maturing opportunities in the pre-commercial or commercial phase of a project’s life cycle. The funds can be used as bridging finance, to support technology development and activities associated with the commercialisation of technology ventures. Qualifying applications must have achieved technical proof-of-concept that demonstrates the viability in action and use.

The Evergreen fund will consider applications where part of the project’s goal is a commercial product or service which generates an income and is economically viable and competitive.

The Evergreen Fund is a limited resource of the University of Cape Town. The fund intends to generate returns on investment through the allocation of funds to suitable projects and reinvesting the returns into new opportunities. The Evergreen Fund takes a portfolio view when it considers a return on investment. The Fund understands that given the early stage of investment that it is mandated to make; the risks involved at this stage are significant; hence its value proposition in enabling the university’s pipeline of opportunities.

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## Governance model

In terms of the Governance model, the investment decision lies with the University's Intellectual Property Advisory Committee (IPAC), as mandated by University Council.

IPAC has invited professionals with aligned backgrounds to constitute an advisory committee, the Private Equity Advisory Group (PAG). PAG provides independent, arm's length strategic advice to the IPAC on investments.

The University's Research Contracts and Innovation (RC&I) Department provides the secretariat role for both IPAC and PAG. The mandate of RC&I is to support the valorisation of research outputs towards application and commercialisation; thereby enabling the innovator's intended impact. RC&I does this by managing the University's intellectual property portfolio, spin-out companies, funding applications for translational research and all other funding contracts.

The work flow and decision-making support process is detailed in this document to facilitate the investment process, Governance, the allocation of resources and to assist the Evergreen Fund to achieve its objective.

## Evergreen Investment Process

It is divided into six stages:

1. Sourcing applications
2. Triage
3. Approvals by IPAC
4. Due diligence
5. Review and advice by PAG
6. Investment award, monitoring and evaluation.

The investment process is detailed in Annexure A for closer review.

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## Fund criteria

- i. A return on investment is required by the Evergreen Fund and applicants must demonstrate this together with the applicants' plan to achieving it.
- ii. The project and the commercial venture needs to demonstrate the potential to be commercially viable, competitive and achieve sustainability. Commercial viability must be demonstrated as far as possible. The applicant must demonstrate a clear market opportunity for the project or technology and show how this proposed project will exploit that identified market opportunity.
- iii. The financing vehicle could be an interest-bearing loan, equity, or a combination of both.
- iv. IPAC will determine whether a loan and/or equity funding model will be used in the award of funding and will on a case-by-case basis determine the level of equity in the future spin-out, or the terms of the loan.
- v. The applicant must demonstrate other sources of funding that have been applied for; and the reasons for rejection or success. In terms of a success, the applicant must disclose the structure of the deal and timeline in securing the funding. Co-funding will be considered by the Evergreen Fund.
- vi. The funds may not support any research activity (typically technology readiness levels 1, 2, and 3) except if that research activity is a key component of the commercialisation goal i.e. additional markets research activity.
- vii. The prescribed template for funding should be completed with all the supporting documents and sent to RC&I. It is advised that RC&I be contacted before submission to ensure the proper procedure is followed before submitting the application
- viii. The project must demonstrate a balanced management team to undertake the project for the duration of the project.
- ix. Project risks must be identified, discussed and a risk management strategy must be proposed.

## Qualifying applicants

- i. A UCT incubated venture or a UCT spin-off company that has the right to commercialise UCT IP.
- ii. Current members of staff and postgraduate students.

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## On-going investment monitoring and Governance

- i. From the time of funding is awarded, quarterly progress reports on the project progress will be required with a clear indication on the progress made, milestones reached and issues encountered and their mitigation plans.
- ii. In the case of an equity-based investment, IPAC will select a Board Director of observer who will act as a representative of the university.
- iii. The quarterly progress report approval will include a meeting with RCI.
- iv. IPAC reserves the right to terminate funding if project goals are not on time without proper explanation or motivation from the funding Recipients, or if the project is involved in illegal or unethical activities.
- v. If there is a need for additional funding in a project, a written motivation must be compiled and provided to IPAC for consideration. IPAC reserves the right to request the applicant to give a presentation on such a motivation.

## Non-fundable activities and items

The following will not be funded:

- i. No UCT GOB staff salaries or student bursaries may be supported by the fund.
- ii. Faculty overheads are not supported by the fund.
- iii. Funding should not replace research funding as this fund does not support pure research work.
- iv. Computer equipment will require specific motivation and it is not the intention of the fund to support the purchase of personal computing equipment.
- v. Conference expenses will not be supported and should not be included within a budget, unless special motivation has been provided. Trade shows or conferences as part of the marketing strategy may be considered but must be motivated.

## Budget deviations

Once funded, deviations in approved, funded budgets do happen from time-to-time. The approval of such deviations is governed by the quantum of the deviation and the delegation of authority for the approvals. These guidelines also assist the risk management in the funded recipients.

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- i. A budget deviation of less than R25 000 from the original approved project budget does not need approvals.
- ii. A budget deviation of between R25 000 – R100 000 from the original approved budget needs to be approved by RCI.
- iii. A budget deviation of more than R100 000 from the original approved budget needs to be approved by IPAC.

### Further enquiry

For enquiries into applying for funding from the Evergreen fund for you next venture, feel free to contact Saberi Marais, ext 4015 and [Saberi.marais@uct.ac.za](mailto:Saberi.marais@uct.ac.za)

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## Annexure A

### Evergreen Fund Investment Process

IPAC has approved this investment process.

It is divided into six stages:

1. Sourcing applications
2. Triage
3. Approvals by IPAC
4. Due diligence
5. Review and advice by PAG
6. Investment award, monitoring and evaluation.

The investment process is depicted in Annexure A, the individual activities are numbered and will be referred to below.

#### Sourcing applications

Applications are sourced from open engagements by RC&I and qualifying Applicants (Activity 1.1). Applications are received from UCT incubated ventures, a UCT spin-off company that has the right to commercialise UCT IP, and current staff and postgraduate students.

Applicants are expected to complete an application form from the RC&I website and/ or provide a business plan detailing the opportunity, the requested value of funding and the potential return on investment that UCT stands to gain.

#### Triage

Applications are reviewed by RC&I staff who interact with the Applicant for clarity, where required (Activity 2.1). RC&I staff apply the criteria of the fund, ensure that the information

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supplied is sound and take into consideration the existing and its portfolio. RC&I will also consider:

- the stage of technical development (where applicable),
- the activities needed to bring the opportunity to market,
- the intellectual property position and protection strategy,
- any freedom-to-operate, contractual and legal challenges,
- the amount of funding required for technical development, regulatory approvals (where needed), commercialisation activities,
- a brief analysis of the market and the market research information supplied by the Applicant

The triage stage and associated activities are part of RC&I's existing processes and services it offers researchers at the university.

If the triage uncovers significant challenges by the Applicant about the opportunity, RC&I staff will engage the Applicant to resolve these. If they cannot be resolved the application does not progress any further.

If the application meets the Fund criteria and demonstrates a return, the Approval stage is activated.

### Approvals by IPAC

RC&I present the opportunity to IPAC (Activity 3.1) by means of a summary of their findings and any supporting material.

After consideration, IPAC decides (Activity 3.2) to recommend the opportunity for due diligence (Activity 4.2), to immediately make the award (Activity 6.1), or that no investment can be made; in which case the opportunity is returned to the Applicant (Activity 1.1). The opportunity may proceed directly for award in the case of a loan application.

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Due diligence

If IPAC decides to proceed with the opportunity, due diligence is activated. PAG will be notified of the decision (Activity 4.1) when the IPAC memo is shared with PAG members for comment and guidance. RC&I and the Division of Finance will assemble a team (Activity 4.2), who will appoint a team lead. The team will review the information submitted by the Applicant (application for and/ or a business plan) and engage the Applicant on the opportunity. The purpose of the due diligence is to review and verify the information that the Applicant has submitted, engage the Applicant if additional information could be used in the development of the opportunity, to develop scenarios for funding with the Applicant that could be presented to the PAG to evaluate, and support PAG in the decisions and evaluation of the opportunity. The due diligence team leader drafts a letter addressed to the Applicant that details the terms of the due diligence. The letter is signed by the Director of RC&I and countersigned by the Applicant upon acceptance.

Depending on the opportunity and the availability of the information, the due diligence team will evaluate the technical, market, financial, and legal/ freedom to operate aspects of the opportunity (Activity 4.3). The team will have the opportunity to workshop the opportunity with the Applicant (Activity 4.4).

The due diligence team will prepare a memo to present their evaluation to the PAG for consideration (Activity 5.2). The memo will set out one or more investment scenarios for the PAG to deliberate on.

Review and advice by PAG

The Applicant will be given an opportunity to pitch the opportunity and engage with PAG (Activity 5.1) and the due diligence team will have an opportunity to present their recommendations (Activity 5.2). PAG will discuss and make a recommendation (Activity 5.3), which could either include:

- i. approving the opportunity with recommendations to IPAC (Activity 3.3),

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- ii. rejecting the application and referring the decision to IPAC (Activity 3.3), or
- iii. giving the opportunity a conditional approval where the opportunity will be referred to the due diligence team to address issues with the Applicant (Activity 4.5).

In the case of (i) above, a draft memo with conditions will be circulated to PAG members for electronic approval.

#### Investment award, monitoring and evaluation

In the case of an approval with recommendation by PAG, IPAC can approve the opportunity for award, triggering the drafting of an award letter that includes the conditions precedent for the award and the investment term sheet (Activity 6.1).

In the instance of an equity investment by UCT, RC&I will facilitate the engagement with the Applicant any amendments to of the company Memorandum of Incorporation and Share Subscription Agreement. RC&I will obtain approval and signatures from the University Registrar. The registrar has the mandate to authorised both. IPAC will decide on the appointment of a suitable Board Director (Activity 3.4) if the funding conditions require it.

IPAC decides on the post-investment monitoring and evaluation criteria, as may be set prescribed in the conditions of award and Term Sheet. RC&I will coordinate the reporting to IPAC and PAG.

Where payment to the Applicant is due either through meeting the performance criteria or when triggered by milestone event, and the payment is approved, the Applicant will invoice UCT for the payment. RC&I raises a Purchase Order and checks the milestone or conditions precedent as agreed in the award letter. The Executive Director: Finance authorises the payment to the Applicant.

In the case of a decision not to follow through with the opportunity, the RC&I will communicate the IPAC decision to the Applicant.

