



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

June 30, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Khosla Ventures IV, L.P.**

The New Jersey Division of Investment is proposing an investment of \$25 million in Khosla Ventures IV, L.P. Fund. This recommendation is the first in the effort to invest directly into high quality venture funds. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

Khosla Ventures is a venture capital firm focused on early stage companies in the internet, computing, mobile, silicon technology and clean technology sectors. The firm is based in Menlo Park, California and manages approximately \$1.3 billion of investor capital as well as earlier funds capitalized by founder Vinod Khosla.

The firm was founded in 2004 by Vinod Khosla, a former general partner of Kleiner Perkins Caufield & Byers and founder of Sun Microsystems. The firm's first two investment vehicles were funded with the founder's personal capital and were not open to institutional investors. In March 2009, Pierre Lamond, previously a Partner at Sequoia Capital, joined the firm as a General Partner. In December 2009, Khosla Ventures completed an institutional fundraising for two new funds to invest in clean tech and information technology start-ups.

Khosla Ventures Fund III (KV III), the first institutional fund, secured \$1 billion of investor commitments to invest in traditional early stage and growth stage companies. Amryis, Inc. (NASDAQ: AMRS) a clean tech company in the portfolio, completed its initial public offering in 2010. Additionally, the firm took Gevo, Inc (NASDAQ: GEVO) public in February 2011, both are clean tech companies. The portfolio is was valued at 1.25x cost on December 31, 2010 and is ranked top quartile among its peers.

The firm also raised \$300 million for the Khosla Seed Fund, which will invest in higher-risk opportunities. KV III is ranked in the top quartile among its peers. New Jersey is an investor in both KV III and the Seed Fund through its Fairview Capstone II, emerging manager separate account.

The Division of Investment ("Division") Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on these proposed additional investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council. As part of its due diligence process, staff determined that the fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey's potential investment.

We will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern each investment. In addition, each proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that this investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. Khosla Ventures IV will be considered private equity "venture capital" investments, as defined under N.J.A.C. 17:16-90.1.

Formal written due diligence reports for the proposed investment were sent to each member of the Investment Policy Committee on June 17, 2011, and a meeting of the Committee was held on June 21, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investment was made available to the Investment Policy Committee.

We look forward to discussing the proposed investment at the Council's June 30, meeting.

Attachments

*SIC Investment Committee Fund Review Memo

To: State Investment Council
From: Division of Investment
Date: June 30, 2011
Subject: Khosla IV Recommendation

Fund Facts

Fund Name:	Khosla Ventures IV, LP Fund
Fund Type:	Venture Capital
Current Fund Size:	1,050,000,000
Previous Fund Size/Vintage:	1,000,000,000
Final Close:	
Fund Address:	3000 Sand Hill Road, Bldg. Suite 190 Menlo Park, Ca.94025

GP Contact Info

Name:	Vinod Khosla
Telephone:	(650) 376-8500
Email:	da@khoslaventures.com

Summary of Terms and Investment Strategy

Investment Strategy:	Cleantech /IT
Geographic Focus:	Global
GP Co-Investment Amount:	Minimum of \$100 million.
Terms:	10 years, subject to three 1-year extensions by the GP, and beyond three years with the approval of a Majority in Interest of the LPs, in all cases if more than 10% of asset value consists of Nonmarketable Securities.
Term:	
Investment period:	6 years.
Management Fee:	2.0% of Capital Commitments per year during the Investment Period, and reduced thereafter by 0.25% per year until a minimum of 1.0% of Capital Commitments per year.
Other Fees:	100% of all fee income (including, without limitation, directors' fees; investment banking and transaction fees; break-up, topping and similar fees; and advisory, consulting or similar fees, net of unreimbursed expenses) to reduce the Management Fee. Offering and Organizational expenses up to \$750,000.
Carry/Performance Fee:	30% of net aggregate profits (profits net of all losses, expenses, and management fees) to be distributed to the GP.
Hurdle Rate:	NA
Attorney:	WilmerHale
Auditor:	
Accounting Firm:	

NJ AIP Program:

Recommended Allocation:	25,000,000.00
% of Fund:	2.38%
Placement Agent	NO

Advisory Committee:	TBD
Consultant Recommendation:	Yes
Compliance with SIC "Pay to Play" Reg:	Yes

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.