

SYNOPSIS OF IAFC ANSWERS TO FINANCE COMMITTEE INQUIRY

1. What steps did you take to assure compliance with legislative intent?

- Engaged the Attorney General and corporate counsel involved with the development of the Act to structure the corporation, the fund and the loan agreement in a manner consistent with legislative intent.
- Included DED's General Counsel as an ex-officio member of the Board and representative of responsible State agency.
- Obtained a legal opinion from DED approving the fund, marketing plan and investment strategies.
- Held open forums and discussion with legislative leadership and the public.

2. How were the investment strategy or investment portfolio standards for the fund determined?

- The Act sets forth those basic purposes, strategies and standards.
- Those standards were incorporated in the loan agreement prepared by the Attorney General for DED and agreed to by the corporation.
- The Act mandates application of customary and acceptable lending standards.
- The Act mandates diversification of financing among various types of agricultural commodities and agribusinesses.
- The Act and loan agreement mandate the investments and strategies to provide for the repayment of the loan commencing in 2004.
- The standards reflect the extensive business experience of IAFC's Board and the fund's professional financial management firm in food processing.

3. How were potential investors targeted?

- By retaining U.S. Bancorp Piper Jaffray to solicit qualified private investors.
- Targeted investors must have the ability, understanding and willingness to invest in the specialized ventures mandated by the Act.
- Private investors must have the ability and willingness to accept the investment risks inherent in the financings mandated by the Act.

4. The legislation provided that the fund was to make a market rate of return and a draft of the 1998 annual report talks about producing competitive returns for the investors. What is the fund's targeted rate of return and why do you believe this is consistent with Legislative intent?

- The targeted average rate of return is 23% on outside private investors' funds.
- An investment may be lost in its entirety. So successes must counterbalance any losses.

- The rate of return is not only consistent, but required to meet the legislative intent of the financings of the type of ventures mandated by the Act. There is a high risk in these financings. There must be market rewards for success.
 - The rate of return reflects the private investors commitment to a guaranteed return to the corporation to enable it to make timely repayments on the State loan. Security of the State loan is a high priority.
 - The targeted rate of return reflects the probability that certain ventures in the type of portfolio of financing mandated by the Act will not produce a return and in fact may provide a 100% negative return by reason of failure.
- 5. A draft of the corporation's 1998 annual report talks about the creation of a Strategic Vision Subcommittee that will evaluate the success of the corporation in fulfilling the public purpose of the legislation. Has this subcommittee been formed? If so, who is on the committee and what are its findings?**
- Ultimately, the full Board is responsible for the corporation's vision. The subcommittee allows for focusing issues and individual input at times other than Board meetings.
 - The Committee was formed, and is currently comprised of Wayne Seaman, Bill Horan and Paul Hill.
 - On an on-going basis, the Committee evaluates proposals particularly with respect to the requirement of producer involvement.
- 6. Have the 1998 and 1999 annual reports been submitted to IDED, the Governor and Legislature as required by law?**
- 1998 Yes.
 - 1999 is scheduled for release at a Public Forum scheduled tomorrow.
- 7. How was Cybus Capital Markets chosen as the investment fund manager?**
- Through a competitive selection process.
 - By reason of their extensive experience in agribusiness and strong Iowa presence.
 - By reason of their proactive business origination ability.
 - By reason of their experience advising clients on venture investing and business development.
- 8. When they were chosen did the board and/or management know that Cybus had no experience as an investment fund manager? Was Cybus inexperience taken into account when a fee was negotiated?**
- Yes. Cybus has not acted as a fund manager, but has performed well in a variety of roles required of a successful fund manager.
 - This factor was considered in negotiating their fee and balanced against their superior experience in agribusiness.

- 9. What steps were taken to make sure that Cybus as the fund manager does not have a conflict of interest with current or future clients that Cybus is involved with?**
- Our agreement with Cybus provides for disclosures and procedures to guard against conflicts.
 - Independent reviews of transactions are made; a part of which is a determination of prior potential conflicting relationships.
- 10. What is the maximum that the fund will invest in any one venture? How was the maximum established? How is the maximum consistent with the legislation's intent?**
- \$1,000,000 to \$5,000,000 is the target. 20% of the fund is absolute maximum.
 - Necessary to comply with the statutory and loan agreement mandate of diversification of the fund's portfolio. Reflects business standards.
- 11. How many applications have been submitted? How many are actively being pursued? What percentage of time is spent by Cybus in assisting applicants in structuring their business, what percentage in reviewing applications, and what percentage in soliciting potential investors?**
- 40 formal applications have been received, a majority of which do not meet the standard of producer involvement, although further work and restructuring could increase the potential number ultimately qualified.
 - Typically 15 applications are being actively pursued at any one time.
 - The percentage of time spent by Cybus is as follows: assisting applicants and structuring their business 25%, reviewing applications 30%, soliciting potential investors 10%, and soliciting potential investments 35%.
- 12. What is Piper Jaffray's purpose as the fund's investment banker? What is their fee?**
- There is no fee to the corporation, only to the fund.
 - Piper Jaffray's purpose is to solicit matching private investment capital.
 - Their fee is 2.85% of the private capital actually invested in Iowa agribusiness ventures.
 - There is no fee with respect to the investment of state funds.
- 13. What is the total amount of administrative and other costs to raise and manage the fund? What percentage is this of the total fund? If you disregard the State's loan, what percentage does administrative costs make up of the remaining funds?**
- The total cost to manage the fund is provided contractually in the limited partnership agreement.

- During the commitment period the Fund Manager receives an annual management fee of 2.25%.
- After placing all committed capital or five years, whichever comes first, the Fund Manager receives an annual fee to manage investments, including arranging appropriate exit strategies, equal to 1.75% of the declining balance of investment funds.
- The fee is for the management of the investments regardless of the source, private or state loan.
- When the fund is liquidated Cybus is also entitled to 12% of the ultimate profits as an incentive for performance.

14. This fund was started with the idea of encouraging a beef packing plant; what have you done to help finance such a plant?

- There is initial and ongoing consideration of investment by the fund.
- There is additional discussion concerning direct loans by the corporation to cattlemen or a networking organization.
- As recently as Friday, January 7, representatives of ICA met with the IAFC Board and reported ICA is not yet ready to submit an application.
- The targeted organization has requested the details of the transaction be maintained confidential in view of their other negotiations.

15. Since you were established with public funds, what accountability do you have to the public?

- The corporation is accountable to the public as outlined in the Act and as detailed in the agreement prepared by the Attorney General between IDED and the corporation.
- The Board welcomes the opportunity to provide a full account of our efforts on behalf of Iowa and Iowa agricultural producers.
- The corporation has complied with the public disclosure requirements of the Act and the loan agreement and, in addition, has provided information beyond that technically required.

16. Amount of dollars currently held by IAFC?

- Approximately \$23 million in cash or trust assets.

17. Interest earned on account from inception?

- \$941,234, does not include accrued income on trust assets not yet received.

18. Payments made from the fund to attorneys, consulting firms and administrative expenses?

- Approximately \$496,568.49 to establish the fund and secure \$18 million in matching private capital.

19. Loans made to date?

- \$2.2 million equity investment in a specialty food company and a related \$275,000 loan to a networking farmers entity to purchase a significant minority interest for Iowans and create a new facility employing more than 100 at above average wages. These amounts are approved and committed but have not yet formally closed.
- Initial contact with 1st investee was May 1999. Terms agreed to in letter of intent in October. Due diligence investigation conducted in November and December. IAFC Board approved investment December 16. Finally closing and public announcement anticipated in early to mid-January.

20. Types of firms targeted for loans?

- The types of firms targeted for loans are those set out in the Act and more fully described in the Private Placement Memorandum. These include biotechnology, food, fiber and other high value-added agricultural processing, marketing and distribution companies offering opportunities to involve Iowa agricultural producers in ownership and other benefits of growth.

21. Whether attempts have been made to structure so farmers will share in equity generated by projects?

- Yes.
- The initial investment specifically provides for direct ownership involvement by a supply network of Iowa agricultural producers.
- In fact very few opportunities are presented which involve direct producer involvement; our function has been to work with applicants to restructure the investment to provide opportunities for producer involvement.

22. Please provide a copy of the prospectus or any similar document for tecTerra Food Capital Fund I, L.C.

- The prospectus has provided as requested.