InvestSC Annual Reports to Venture Capital Authority

During the House Legislative Oversight Committee's Economic Development, Transportation, and Natural Resources meeting on September 20, 2022, members requested various information. Attached, and listed below, is information requested that relates to InvestSC and the Venture Capital Authority. Venture Capital Authority staff provided the information to House Legislative Oversight Committee staff via email during the days following the meeting.

- InvestSC, Inc. Annual Reports to S.C. Venture Capital Authority
  - 2007
  - 2008
  - 2009
  - 2020
  - 2011
  - 2012
  - 2013
  - 2014
  - 2015
  - 2016
  - 2017
  - 2018
  - 2019
  - 2020
  - 2021

2021 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2021 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven-member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Greenville, SC, that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin June 22, 2019 until the notes are paid off on June 22, 2022. Principal payments of $12,500,000 each were made on June 22, 2019, June 22, 2020 and June 22, 2021. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2021 was $12,500,000.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". On December 31, 2021, the interest reserve and premium reserve totaled $1,875,226 and $3,750,453, respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2021, the Capital Contribution Account balance was $132,933 and the unfunded capital commitments were $123,210.

The creation of the Capital Contribution Account lessens the near-term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. All proceeds were used for the payment of interest to Deutsche Bank.

It is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. The InvestSC Board has taken steps to sell tax credits over the next few years to meet these cash needs. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and Interest Prepayment accounts were established. Funds received from tax credit sales in anticipation of future, not current, needs are deposited in these accounts. On December 21, 2017, December 21, 2018, and December 20, 2019, tax credits in the amount of $3,000,000, $3,000,000 and $9,000,000 were sold each year, respectively, by RBC Tax Credit Equity for $0.85 for each dollar of tax credits and the funds were deposited in the Principal Prepayment Account. The net amounts received in 2017, 2018 and 2019 were $2,550,000, $2,550,000 and $7,650,000, respectively. No tax credits were sold in 2020. Tax credits were sold on February 16, 2021 and March 12, 2021 for $2,500,000 and $11,500,000, respectively, by RBC Tax Credit Equity for $0.85 for each dollar of tax credits and the funds were deposited in the Principal Prepayment Account.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007
4/15/2015	1,000,000	9,997,993	2,007

Noro-Moseley made investments in 22 companies and the only remaining investment was sold in 2020. The partnership agreement was extended to allow for an orderly wind down of the investments, and no further management fees are being charged. Noro-Moseley investments are focused in three sectors: Healthcare, Technology, and Finance. The partnership agreed to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based company that provides workforce management software for service-based industries. PeopleMatter's solutions are specifically designed to help companies manage high-volume, high-churn workforces such as those in the restaurant, convenience store, hospitality and retail sectors. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has grown to over 140 employees in South Carolina. Noro-Moseley has led several rounds of funding and attracted other investors for over $50 million into the company. PeopleMatter was bought by Snag Holdings in 2017.

The fund made its final distribution to InvestSC in December 2021 and the fund was closed as of yearend. As of December 31, 2021, InvestSC invested $9,997,993 and received cumulative distributions of $23,614,380 from the fund. Noro-Moseley was the best performing of the VCA funds, with a multiple of 2.36x cash on cash net value to limited partners. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 18.1%, 18.1%, 18.1%, 18.3%, 18.4%, 17.9%, 16.9%, 14.8%, 16.6%, 16.8%, 10.7%, -2.6% and -1.8% as of December 31, 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010 and 2009, respectively.

Nexus Medical Partners II, LP: InvestSC executed the limited partnership agreement on July 5, 2007. InvestSC funded the initial capital draw of $5,000,000 (twenty-five percent of commitment) on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only limited partner investor in this Fund and all investments will be in South Carolina based companies or companies expecting to have significant operations in the State. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus made investments in 13 companies through December 2018. Swisslog acquired their first investment, Sabal Medical, located in Charleston, in January 2011. They have also exited their positions in Mini-Lap, Myconostica, Deltex Medical, Vital Sensors, EKF Diagnostic and DANI, Inc.

Most of the Nexus investments are in the healthcare sector (93% of portfolio).

- Sultan Scientific has built a portfolio of healthcare businesses which need to expand to the US. This should create multiple opportunities for launching South Carolina based companies. Sultan merged with Innoveas, a private German company, in 2014.

- In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. Selah was purchased in May 2014 by EKF Diagnostics, a publicly traded company in the UK, making it one of the major exits in the Upstate's biotech industry. Unfortunately, EKF's stock price has fallen on the news of Selah's loss of revenue due to the unfavorable reimbursement decision of the local SC Medicare Administrator. The EKF stock holdings were sold by Nexus in 2017. Selah was repurchased from EKF by its founder in 2015.

- Lab 21 was acquired in July 2014 by Novacyt, a publicly traded French diagnostics company. Lab 21 provides and extensive range of oncology and infectious disease products globally.

- Kiyatec, based in Greenville, SC, creates and sells high fidelity 3D cell-based assay products and services for human tissue cell cultures focused on cancer efficacy and liver damage.

- Zipit, based in Greenville, SC, is developing a device and hosting the network services for an exclusive pager replacement solution for Verizon Wireless. The initial market focus is hospitals. Pilot programs are underway at MUSC and Greenville Hospital System.

Nexus has also made investments in two advanced materials companies in South Carolina. American Titanium works (July 2010) is developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $1 billion and create 300 high paying jobs.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. Management has significant experience in the automotive and electronics industry and the company is projecting significant growth in the next few years. Proterra was taken public in 2021 and the shares are traded on NASDAQ under the symbol PTRA.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $7,001,496 compared to a cost of $13,428,576. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. As of December 31, 2021, InvestSC has invested $20,000,000 in Nexus and received cumulative distributions of $4,475,000. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is (6.8%), (3.21%), (6.81%), (7.08%), (5.16%), (7.56%), (8.50%), (5.96%), 0.68%, (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: InvestSC executed the limited partnership agreement on September 21, 2007. The Fund closed that day with total subscriptions of $115 million. InvestSC made the initial capital draw of $1,200,000 (fifteen percent of commitment) on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

Frontier made investments in eleven companies and is fully allocated, including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012. Frontier had its first exited company (Ryla) in 2010, two companies in 2012 (Lanyon and Azaleos), four companies in 2014 (Social Solutions, Daxko, BIA and Perceptis) and two companies (Conclusive and Inclinix) in 2015. The remaining two companies, Celergo and Viverae, were sold in 2018. The final distribution of escrows was collected in December 2019 and the fund was closed at year end. Fund II finished with a 1.9x net return on invested capital and 12% net IRR, a top quartile performer for 2006 vintage funds.

Frontier agreed to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs approximately 200 people. Frontier sold its investment in Perceptis in May 2014.

As of December 31, 2019, InvestSC invested $8,000,000 in Frontier II and received cumulative distributions of $14,941,718 from the Fund. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 11.8%, 11.9%, 12.5%, 12.6%, 13.6%, 15.0%, 13.4%, 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: InvestSC executed the limited partnership agreement on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested this change be in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund was a one-third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010, InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. InvestSC realized a gain of $678,137. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22, 2011. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred within a 27-month period.

Azalea III Fund, LP: InvestSC executed the limited partnership agreement on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000		5,950,000

		2,550,000	
6/1/2020	-1,402.50	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352
2/23/2012	720,775	3,854,423	4,645,577
7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395
11/8/2013	628,104	6,708,709	1,791,291
12/20/2013	1,045,124	7,753,833	746,167
9/30/2014	205,936	7,959,769	540,231
4/8/2015	205,936	8,165,705	334,295
11/25/2016	154,452	8,320,157	179,843
12/22/2017	36,039	8,356,196	143,804
3/1/2019	20,594	8,376,790	123,210

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agreed to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company, Sage Automotive Interiors, is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. Ivize is now called Modus eDiscovery, Inc. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

The fourth quarter of 2013 was very active for Azalea. Azalea sold its investments in KLMK and Star Packaging in the Q4 2013. InvestSC received distributions of $1,950,396. The fund made two acquisitions in Q4 2013: an add-on for Orbital Tool (Century Turbine) and the acquisition of Turbine Generator Maintenance. These companies have been combined into Power Services Group, Inc. These are the last investments for Fund III. Remaining uncalled capital in Fund III will be used to support the growth of the existing portfolio and for partnership expenses.

InvestSC carries the investment in Azalea Fund III at their audited book value of $1,765,618 compared to a cost of $4,437,559. As of December 31, 2021, InvestSC has invested $8,376,790 in Azalea III and received cumulative distributions of $8,729,260 from the fund. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 34.9%, 36.3%, 37.9%, 40.9%, 42.6%, 51.3%, 57.8%, 70%, 95%, 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2021			2020	
		Estimated			Estimated
Investment	Cost	Fair Value		Cost	Fair Value
Noro-Moseley Partners VI, LP	-	-		33,073	98,870
Nexus Medical Partner II, LP	13,428,576	7,001,496		13,428,576	9,794,271
Frontier Fund II, LP	-	-		-	-
Azalea Fund SC, LP	-	-		-	-
Azalea Fund III, LP	4,437,559	1,765,618		4,437,559	1,817,297
Totals	17,866,135	8,767,114		17,899,208	11,710,438

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. Additional tax credit sales were made in June and December of 2011 and 2012. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

As mentioned in the FINANCING section above, it is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and

Interest Prepayment accounts were established for funds received from tax credit sales in anticipation of future, not current, needs. On December 21, 2017, December 21, 2018, December 20, 2019, and February/March 2021, tax credits in the amount of $3,000,000, $3,000,000, $9,000,000 and $14,000,000 were sold each year, respectively, by RBC Tax Credit Equity for $0.85 for each dollar of tax credits and the funds were deposited in the Principal Prepayment Account. The net amounts received in 2017, 2018 and 2019 were $2,550,000, $2,550,000 and $7,650,000, $11,900,000, respectively.

TAX CREDIT SALES

DATE SOLD	TAX CREDITS	$ RECEIVED
December 21, 2010	2,300,000	1,840,000
June 22, 2011	2,300,000	1,840,000
December 15, 2012	2,300,000	1,840,000
June 14, 2012	2,300,000	1,840,000
December 17, 2012	2,300,000	1,840,000
December 21, 2017	3,000,000	2,550,000
December 21, 2018	3,000,000	2,550,000
December 20, 2019	9,000,000	7,650,000
February 16, 2021	2,500,000	2,125,000
March 12, 2021	11,500,000	9,775,000
TOTAL	40,500,000	33,850,000

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are amortized over the 15-year term of the notes.

For the period ending December 31, 2021, interest expense on the notes was $1,427,658 and interest earned on all deposits was $1,192 for a net investment expense of $1,426,466. General administrative expenses for the period were $120,819. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2017 through 2021 is shown below:

	2021	2020	2019	2018	2017
Fair Value of Assets	14,745,788	19,687,730	30,650,128	39,595,258	42,421,630
Notes Payable to DBAH	12,500,000	25,000,000	37,500,000	50,000,000	50,000,000
Investment Expense for Period	1,426,466	2,330,084	2,753,138	3,309,011	3,579,686
As a Percentage of Fair Value of Assets	9.67%	11.84%	8.98%	8.36%	8.44%
General Administrative Expenses for Period	120,819	91,648	115,140	113,327	131,641
As a Percentage of Fair Value of Assets	0.82%	0.47%	0.38%	0.29%	0.31%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended December 31, 2010 and 2009, they did, however, include a note to the statements that addressed the risk of being unable to make the required capital contributions upon receiving a capital call and, thus, being in default with the individual venture capital funds. While tax credit certificates are available to meet interest and principal payments, they cannot be used to meet capital calls. Working with Deutsche Bank, the Securities Purchase Agreement was amended in 2010 to create the Capital Contributions Account, requiring all distributions to be deposited in this account until the balance in the account was at least as much as the unfunded capital commitments.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that. As of December 31, 2021, the only unfunded commitment is to Azalea Capital for $123,210. The Capital Contribution Account balance is $132,933.

Internal Rate of Return (IRR) by Venture Capital Fund					
	2021	**2020**	**2019**	**2018**	**2017**
Noro-Moseley Partners VI	18.1%	18.1%	18.1%	18.3%	18.4%
Nexus Medical Partners II	-6.8%	-3.2%	-6.8%	-7.1%	-5.2%
Frontier Fund II	n/a	n/a	11.8%	11.9%	12.5%
Azalea SC Fund	n/a	n/a	n/a	n/a	n/a
Azalea III Fund	34.9%	36.3%	37.9%	40.9%	42.6%
(IRR's as reported by funds)					

2020 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2020 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven-member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a “Designated Investor Group” for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Greenville, SC, that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin June 22, 2019 until the notes are paid off on June 22, 2022. Principal payments of $12,500,000 each were made on June 22, 2019 and June 22, 2020. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2020 was $25,000,000.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the “Premium Account Control Agreement”. On December 31, 2020, the interest reserve and premium reserve totaled $1,952,667 and $3,905,333, respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2020, the Capital Contribution Account balance was $132,917 and the unfunded capital commitments were $123,210.

The creation of the Capital Contribution Account lessens the near-term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. All proceeds were used for the payment of interest to Deutsche Bank.

It is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. The InvestSC Board has taken steps to sell tax credits over the next few years to meet these cash needs. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and Interest Prepayment accounts were established. Funds received from tax credit sales in anticipation of future, not current, needs are deposited in these accounts. On December 21, 2017, December 21, 2018, and December 20, 2019, tax credits in the amount of $3,000,000, $3,000,000 and $9,000,000 were sold each year, respectively, by RBC Tax Credit Equity for $0.85 for each dollar of tax credits and the funds were deposited in the Principal Prepayment Account. The net amounts received in 2017, 2018 and 2019 were $2,550,000, $2,550,000 and $7,650,000, respectively.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007

10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007
4/15/2015	1,000,000	9,997,993	2,007

Noro-Moseley made investments in 22 companies and the only remaining investment was sold in 2020. The partnership agreement has been extended to allow for an orderly wind down of the investments, and no further management fees are being charged. Noro-Moseley investments are focused in three sectors: Healthcare, Technology, and Finance. The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based company that provides workforce management software for service based industries. PeopleMatter's solutions are specifically designed to help companies manage high-volume, high-churn workforces such as those in the restaurant, convenience store, hospitality and retail sectors. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has grown to over 140 employees in South Carolina. Noro-Moseley has led several rounds of funding and attracted other investors for over $50 million into the company. PeopleMatter was bought by Snag Holdings in 2017.

InvestSC carries the investment in Noro-Moseley at their audited book value of $98,870 compared to a cost of $33,073. As of December 31, 2020, InvestSC has invested $9,997,993 and received cumulative distributions of $23,517,394 from the fund. The fund is performing very well overall, with a multiple of 2.37x cash on cash net value to limited partners. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 18.1%, 18.1%, 18.3%, 18.4%, 17.9%, 16.9%, 14.8%, 16.6%, 16.8%, 10.7%, -2.6% and -1.8% as of December 31, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010 and 2009, respectively.

Nexus Medical Partners II, LP: InvestSC executed the limited partnership agreement on July 5, 2007. InvestSC funded the initial capital draw of $5,000,000 (twenty-five percent of commitment) on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only limited partner investor in this Fund and all investments will be in South Carolina based companies or companies expecting to have significant operations in the State. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus made investments in 13 companies through December 2018. Swisslog acquired their first investment, Sabal Medical, located in Charleston, in January 2011. They have also exited their positions in Mini-Lap, Myconostica, Deltex Medical, Vital Sensors, EKF Diagnostic and DANI, Inc.

Most of the Nexus investments are in the healthcare sector (93% of portfolio).

- Sultan Scientific has built a portfolio of healthcare businesses which need to expand to the US. This should create multiple opportunities for launching South Carolina based companies. Sultan merged with Innoveas, a private German company, in 2014.

- In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. Selah was purchased in May 2014 by EKF Diagnostics, a publicly traded company in the UK, making it one of the major exits in the Upstate's biotech industry. Unfortunately, EKF's stock price has fallen on the news of Selah's loss of revenue due to the unfavorable reimbursement decision of the local SC Medicare Administrator. The EKF stock holdings were sold by Nexus in 2017. Selah was repurchased from EKF by its founder in 2015.

- Lab 21 was acquired in July 2014 by Novacyt, a publicly traded French diagnostics company. Lab 21 provides and extensive range of oncology and infectious disease products globally.

- Kiyatec, based in Greenville, SC, creates and sells high fidelity 3D cell-based assay products and services for human tissue cell cultures focused on cancer efficacy and liver damage.

- Zipit, based in Greenville, SC, is developing a device and hosting the network services for an exclusive pager replacement solution for Verizon Wireless. The initial market focus is hospitals. Pilot programs are underway at MUSC and Greenville Hospital System.

Nexus has also made investments in two advanced materials companies in South Carolina. American Titanium works (July 2010) is developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. Management has significant experience in the automotive and electronics industry and the company is projecting significant growth in the next few years.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $9,794,217 compared to a cost of $13,428,576. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. As of December 31, 2020, InvestSC has invested $20,000,000 in Nexus and received cumulative distributions of $4,475,000. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is (3.21%), (6.81%), (7.08%), (5.16%), (7.56%), (8.50%), (5.96%), 0.68%, (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: InvestSC executed the limited partnership agreement on September 21, 2007. The Fund closed that day with total subscriptions of $115 million. InvestSC made the initial capital draw of $1,200,000 (fifteen percent of commitment) on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000

6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

Frontier made investments in eleven companies and is fully allocated, including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012. Frontier had its first exited company (Ryla) in 2010, two companies in 2012 (Lanyon and Azaleos), four companies in 2014 (Social Solutions, Daxko, BIA and Perceptis) and two companies (Conclusive and Inclinix) in 2015. The remaining two companies, Celergo and Viverae, were sold in 2018. The final distribution of escrows was collected in December 2019 and the fund was closed at year end. Fund II finished with a 1.9x net return on invested capital and 12% net IRR, a top quartile performer for 2006 vintage funds.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs approximately 200 people. Frontier sold its investment in Perceptis in May 2014.

As of December 31, 2019, InvestSC invested $8,000,000 in Frontier II and received cumulative distributions of $14,941,718 from the Fund. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 11.8%, 11.9%, 12.5%, 12.6%, 13.6%, 15.0%, 13.4%, 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: InvestSC executed the limited partnership agreement on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested this change be in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund was a one-third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010, InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. InvestSC realized a gain of $678,137. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22, 2011. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred within a 27-month period.

Azalea III Fund, LP: InvestSC executed the limited partnership agreement on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	-1,402.50	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352

2/23/2012	720,775	3,854,423	4,645,577
7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395
11/8/2013	628,104	6,708,709	1,791,291
12/20/2013	1,045,124	7,753,833	746,167
9/30/2014	205,936	7,959,769	540,231
4/8/2015	205,936	8,165,705	334,295
11/25/2016	154,452	8,320,157	179,843
12/22/2017	36,039	8,356,196	143,804
3/1/2019	20,594	8,376,790	123,210

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company, Sage Automotive Interiors, is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. Ivize is now called Modus eDiscovery, Inc. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

The fourth quarter of 2013 was very active for Azalea. Azalea sold its investments in KLMK and Star Packaging in the Q4 2013. InvestSC received distributions of $1,950,396. The fund made two acquisitions in Q4 2013: an add-on for Orbital Tool (Century Turbine) and the acquisition of Turbine Generator Maintenance. These are the last investments for Fund III. Remaining uncalled capital in Fund III will be used to support the growth of the existing portfolio and for partnership expenses. These companies have been combined into Power Services Group, Inc.

InvestSC carries the investment in Azalea Fund III at their audited book value of $1,817,297 compared to a cost of $4,437,559. As of December 31, 2019, InvestSC has invested $8,376,790 in Azalea III and received cumulative distributions of $8,729,260 from the fund. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 36.3%, 37.9%, 40.9%, 42.6%, 51.3%, 57.8%, 70%, 95%, 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2020		2019	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	33,073	98,870	33,073	98,118
Nexus Medical Partners II, LP	13,428,576	9,794,271	13,428,576	5,765,954
Frontier Fund II, LP	-	-	-	-
Azalea Fund SC, LP	-	-	-	-
Azalea Fund III, LP	4,437,559	1,817,297	4,108,062	1,658,912
Totals	17,899,208	11,710,438	17,569,711	7,522,984

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. Additional tax credit sales were made in June and December of 2011 and 2012. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

As mentioned in the FINANCING section above, it is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and Interest Prepayment accounts were established for funds received from tax credit sales in anticipation of future, not current, needs. On December 21, 2017, December 21, 2018, and December 20, 2019, tax credits in the amount of $3,000,000, $3,000,000 and $9,000,000 were sold each year, respectively, by RBC Tax Credit Equity for $0.85 for each dollar of tax credits and the funds were deposited in the Principal Prepayment Account. The net amounts received in 2017, 2018 and 2019 were $2,550,000, $2,550,000 and $7,650,000, respectively.

TAX CREDIT SALES

DATE SOLD	TAX CREDITS	$ RECEIVED
December 21, 2010	2,300,000	1,840,000
June 22, 2011	2,300,000	1,840,000
December 15, 2011	2,300,000	1,840,000

June 15, 2012	2,300,000	1,840,000
December 17, 2012	2,300,000	1,840,000
December 21, 2017	3,000,000	2,550,000
December 21, 2018	3,000,000	2,550,000
December 20, 2019	9,000,000	7,650,000
TOTAL	26,500,000	21,950,000

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are amortized over the 15-year term of the notes.

For the period ending December 31, 2019, interest expense on the notes was $3,213,340 and interest earned on all deposits was $460,202 for a net investment expense of $2,753,138. General administrative expenses for the period were $115,140. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2014 through 2019 is shown below:

	2020	2019	2018	2017	2016	2015
Fair Value of Assets	19,687,730	30,650,128	39,595,258	42,421,630	41,935,471	45,989,884
Notes Payable to DBAH	25,000,000	37,500,000	50,000,000	50,000,000	50,000,000	50,000,000
Investment Expense for Period	2,330,084	2,753,138	3,309,011	3,579,686	3,681,369	3,672,213
As a Percentage of Fair Value of Assets	11.84%	8.98%	8.36%	8.44%	8.78%	7.98%
General Administrative Expense for Period	91,648	115,140	113,327	131,641	82,617	83,206
As a Percentage of Fair Value of Assets	0.47%	0.38%	0.29%	0.31%	0.20%	0.18%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended December 31, 2010 and 2009, they did, however, include a note to the statements that addressed the risk of being unable to make the required capital contributions upon receiving a capital call and, thus, being in default with the individual venture capital funds. While tax credit certificates are available to meet interest and principal payments, they cannot be used to meet capital calls. Working with Deutsche Bank, the Securities Purchase Agreement was amended in 2010 to create the Capital Contributions Account, requiring all distributions to be deposited in this account until the balance in the account was at least as much as the unfunded capital commitments.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that. As of December 31, 2020, the only unfunded commitment is to Azalea Capital for $123,210. The Capital Contribution Account balance is $132,917.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2020	2019	2018	2017	2016	2015	2014	2013
Noro-Moseley Partners VI	18.10%	18.1%	18.3%	18.4%	17.9%	16.9%	14.8%	16.6%
Nexus Medical Partners II	-3.20%	-6.8%	-7.1%	-5.2%	-7.6%	-8.5%	-5.9%	0.7%
Frontier Fund II	n/a	11.8%	11.9%	12.5%	12.6%	13.6%	15.0%	15.6%
Azalea SC Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Azalea III Fund	36.30%	37.9%	40.9%	42.6%	51.3%	57.8%	70.0%	95.0%

(IRR's as reported by Funds)

2019 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2019 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven-member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Greenville, SC, that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. The first principal payment of $12,500,000 was made on June 22, 2019. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2019 was $37,500,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin June 22, 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the “Premium Account Control Agreement”. On December 31, 2019, the interest reserve and premium reserve totaled $1,945,677 and $3,891,353, respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2019, the Capital Contribution Account balance was $132,441 and the unfunded capital commitments were $123,210.

The creation of the Capital Contribution Account lessens the near-term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. All proceeds were used for the payment of interest to Deutsche Bank.

It is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. The InvestSC Board has taken steps to sell tax credits over the next few years to meet these cash needs. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and Interest Prepayment accounts were established. Funds received from tax credit sales in anticipation of future, not current, needs are deposited in these accounts. On December 21, 2017, December 21, 2018, and December 20, 2019, tax credits in the amount of $3,000,000, $3,000,000 and $9,000,000 were sold each year, respectively, by RBC Tax Credit Equity for $0.85 for each dollar of tax credits and the funds were deposited in the Principal Prepayment Account. The net amounts received in 2017, 2018 and 2019 were $2,550,000, $2,550,000 and $7,650,000, respectively.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007

10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007
4/15/2015	1,000,000	9,997,993	2,007

Noro-Moseley made investments in 22 companies and has investments remaining in one company as of December 31, 2019. The partnership agreement has been extended to allow for an orderly wind down of the investments, and no further management fees are being charged. Noro-Moseley investments are focused in three sectors: Healthcare, Technology, and Finance. The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based company that provides workforce management software for service based industries. PeopleMatter's solutions are specifically designed to help companies manage high-volume, high-churn workforces such as those in the restaurant, convenience store, hospitality and retail sectors. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has grown to over 140 employees in South Carolina. Noro-Moseley has led several rounds of funding and attracted other investors for over $50 million into the company. PeopleMatter was bought by Snag Holdings in 2017.

InvestSC carries the investment in Noro-Moseley at their audited book value of $98,118 compared to a cost of $33,073. As of December 31, 2019, InvestSC has invested $9,997,993 and received cumulative distributions of $23,517,394 from the fund. The fund is performing very well overall, with a multiple of 2.37x cash on cash net value to limited partners. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 18.1%, 18.3%, 18.4%, 17.9%, 16.9%, 14.8%, 16.6%, 16.8%, 10.7%, -2.6% and -1.8% as of December 31, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010 and 2009, respectively.

Nexus Medical Partners II, LP: InvestSC executed the limited partnership agreement on July 5, 2007. InvestSC funded the initial capital draw of $5,000,000 (twenty-five percent of commitment) on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only limited partner investor in this Fund and all investments will be in South Carolina based companies or companies expecting to have significant operations in the State. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus made investments in 13 companies through December 2018. Swisslog acquired their first investment, Sabal Medical, located in Charleston, in January 2011. They have also exited their positions in Mini-Lap, Myconostica, Deltex Medical, Vital Sensors and EKF Diagnostics.

Most of the Nexus investments are in the healthcare sector (93% of portfolio).

- Spectra Analysis is a molecular spectroscopy and optical detection platform technology company. Currently located in Massachusetts, Spectra is looking to relocate to Greenville, SC. During 2014 Spectra was merged into Praine Management, SA, a Luxembourg Holding Company and owner of DANI Instruments S.p.a., a larger, profitable company based in Italy and Switzerland.

- Sultan Scientific has built a portfolio of healthcare businesses which need to expand to the US. This should create multiple opportunities for launching South Carolina based companies. Sultan merged with Innoveas, a private German company, in 2014.

- In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. Selah was purchased in May 2014 by EKF Diagnostics, a publicly traded company in the UK, making it one of the major exits in the Upstate's biotech industry. Unfortunately, EKF's stock price has fallen on the news of Selah's loss of revenue due to the unfavorable reimbursement decision of the local SC Medicare Administrator. The EKF stock holdings were sold by Nexus in 2017. Selah was repurchased from EKF by its founder in 2015.

- Lab 21 was acquired in July 2014 by Novacyt, a publicly traded French diagnostics company. Lab 21 provides and extensive range of oncology and infectious disease products globally.

- Kiyatec, based in Greenville, SC, creates and sells high fidelity 3D cell-based assay products and services for human tissue cell cultures focused on cancer efficacy and liver damage.

- Zipit, based in Greenville, SC, is developing a device and hosting the network services for an exclusive pager replacement solution for Verizon Wireless. The initial market focus is hospitals. Pilot programs are underway at MUSC and Greenville Hospital System.

Nexus has also made investments in two advanced materials companies in South Carolina. American Titanium works (July 2010) is developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. Management has significant experience in the automotive and electronics industry and the company is projecting significant growth in the next few years.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $5,765,954 compared to a cost of $13,428,576. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. As of December 31, 2019, InvestSC has invested $20,000,000 in Nexus and received cumulative distributions of $4,475,000. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is (6.81%), (7.08%), (5.16%), (7.56%), (8.50%), (5.96%), 0.68%, (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: InvestSC executed the limited partnership agreement on September 21, 2007. The Fund closed that day with total subscriptions of $115 million. InvestSC made the initial capital draw of $1,200,000 (fifteen percent of commitment) on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000

12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

Frontier made investments in eleven companies and is fully allocated, including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012. Frontier had its first exited company (Ryla) in 2010, two companies in 2012 (Lanyon and Azaleos), four companies in 2014 (Social Solutions, Daxko, BIA and Perceptis) and two companies (Conclusive and Inclinix) in 2015. The remaining two companies, Celergo and Viverae, were sold in 2018. The final distribution of escrows was collected in December 2019 and the fund was closed at year end. Fund II finished with a 1.9x net return on invested capital and 12% net IRR, a top quartile performer for 2006 vintage funds.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs approximately 200 people. Frontier sold its investment in Perceptis in May 2014.

As of December 31, 2019, InvestSC invested $8,000,000 in Frontier II and received cumulative distributions of $14,941,718 from the Fund. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 11.8%, 11.9%, 12.5%, 12.6%, 13.6%, 15.0%, 13.4%, 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: InvestSC executed the limited partnership agreement on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested this change be in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund was a one-third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010, InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. InvestSC realized a gain of $678,137. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22, 2011. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred within a 27-month period.

Azalea III Fund, LP: InvestSC executed the limited partnership agreement on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	-1,402.50	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352
2/23/2012	720,775	3,854,423	4,645,577
7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395
11/8/2013	628,104	6,708,709	1,791,291
12/20/2013	1,045,124	7,753,833	746,167
9/30/2014	205,936	7,959,769	540,231
4/8/2015	205,936	8,165,705	334,295
11/25/2016	154,452	8,320,157	179,843
12/22/2017	36,039	8,356,196	143,804
3/1/2019	20,594	8,376,790	123,210

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company, Sage Automotive Interiors, is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. Ivize is now called Modus eDiscovery, Inc. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

The fourth quarter of 2013 was very active for Azalea. Azalea sold its investments in KLMK and Star Packaging in the Q4 2013. InvestSC received distributions of $1,950,396. The fund made two acquisitions in Q4 2013: an add-on for Orbital Tool (Century Turbine) and the acquisition of Turbine Generator Maintenance. These are the last investments for Fund III. Remaining uncalled capital in Fund III will be used to support the growth of the existing portfolio and for partnership expenses. These companies have been combined into Power Services Group, Inc.

InvestSC carries the investment in Azalea Fund III at their audited book value of $2,292,492 compared to a cost of $4,087,468. As of December 31, 2019, InvestSC has invested $8,376,790 in Azalea III and received cumulative distributions of $8,729,260 from the fund. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 37.9%, 40.9%, 42.6%, 51.3%, 57.8%, 70%, 95%, 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2019		2018	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	33,073	98,118	174,054	689,884
Nexus Medical Partners II, LP	13,428,576	5,765,954	13,428,576	6,150,576
Frontier Fund II, LP	-	-	47,050	86,653
Azalea Fund SC, LP	-	-	-	-
Azalea Fund III, LP	4,108,062	1,658,912	4,087,468	2,292,492
Totals	17,569,711	7,522,984	17,737,148	9,219,605

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. Additional tax credit sales were made in June and December of 2011 and 2012. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

As mentioned in the FINANCING section above, it is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and Interest Prepayment accounts were established for funds received from tax credit sales in anticipation of future, not current, needs. On December 21, 2017, December 21, 2018, and December 20, 2019, tax credits in the amount of $3,000,000, $3,000,000 and $9,000,000 were sold each year, respectively, by RBC Tax Credit Equity for $0.85 for each dollar of tax credits and the funds were deposited in the Principal Prepayment Account. The net amounts received in 2017, 2018 and 2019 were $2,550,000, $2,550,000 and $7,650,000, respectively.

TAX CREDIT SALES

DATE SOLD	TAX CREDITS	$ RECEIVED
December 21, 2010	2,300,000	1,840,000
June 22, 2011	2,300,000	1,840,000
December 15, 2011	2,300,000	1,840,000
June 15, 2012	2,300,000	1,840,000
December 17, 2012	2,300,000	1,840,000

December 21, 2017	3,000,000	2,550,000
December 21, 2018	3,000,000	2,550,000
December 20, 2019	9,000,000	7,650,000
TOTAL	26,500,000	21,950,000

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are amortized over the 15-year term of the notes.

For the period ending December 31, 2019, interest expense on the notes was $3,213,340 and interest earned on all deposits was $460,202 for a net investment expense of $2,753,138. General administrative expenses for the period were $115,140. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2014 through 2019 is shown below:

	2019	2018	2017	2016	2015	2014
Fair Value of Assets	30,650,128	39,595,258	42,421,630	41,935,471	45,989,884	48,310,973
Notes Payable to DBAH	37,500,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Investment Expense for Period	2,753,138	3,309,011	3,579,686	3,681,369	3,672,213	3,672,370
As a Percentage of Fair Value of Assets	8.98%	8.36%	8.44%	8.78%	7.98%	7.60%
General Administrative Expense for Period	115,140	113,327	131,641	82,617	83,206	115,016
As a Percentage of Fair Value of Assets	0.38%	0.29%	0.31%	0.20%	0.18%	0.24%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended December 31, 2010 and 2009, they did, however, include a note to the statements that addressed the risk of being unable to make the required capital contributions upon receiving a capital call and, thus, being in default with the individual venture capital funds. While tax credit certificates are available to meet interest and principal payments, they cannot be used to meet capital calls. Working with Deutsche Bank, the Securities Purchase Agreement was amended in 2010 to create the Capital Contributions Account, requiring all distributions to be deposited in this account until the balance in the account was at least as much as the unfunded capital commitments.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that. As of December 31, 2019, the only unfunded commitment is to Azalea Capital for $123,210. The Capital Contribution Account balance is $132,441.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2019	2018	2017	2016	2015	2014	2013	2012
Noro-Moseley Partners VI	18.1%	18.3%	18.4%	17.9%	16.9%	14.8%	16.6%	16.8%
Nexus Medical Partners II	-6.8%	-7.1%	-5.2%	-7.6%	-8.5%	-5.9%	0.7%	-2.3%
Frontier Fund II	11.8%	11.9%	12.5%	12.6%	13.6%	15.0%	15.6%	16.3%
Azalea SC Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Azalea III Fund	37.9%	40.9%	42.6%	51.3%	57.8%	70.0%	95.0%	109.0%

(IRR's as reported by Funds)

2018 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2018 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven-member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Greenville, SC, that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2018 was $50,000,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin June 22, 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". On December 31, 2018, the interest reserve and premium reserve totaled $1,909,838 and $3,819,675, respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2018, the Capital Contribution Account balance was $150,495 and the unfunded capital commitments were $143,804.

The creation of the Capital Contribution Account lessens the near term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the

tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. All proceeds were used for the payment of interest to Deutsche Bank.

It is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. The InvestSC Board has taken steps to sell tax credits over the next few years to meet these cash needs. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and Interest Prepayment accounts were established. Funds received from tax credit sales in anticipation of future, not current, needs are deposited in these accounts. On December 21, 2017, and December 21, 2018, tax credits in the amount of $3,000,000 each year were sold for $2,550,000 ($0.85 for each dollar of tax credits) by RBC Tax Credit Equity and the funds deposited in the Principal Prepayment Account.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007

5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007
4/15/2015	1,000,000	9,997,993	2,007

Noro-Moseley made investments in 22 companies and has investments remaining in two companies as of December 31, 2018: Snag Holdings (formerly PeopleMatter) and Streamline Health Solutions. Noro-Moseley investments are focused in three sectors: Healthcare, Technology, and Finance. The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based company that provides workforce management software for service based industries. PeopleMatter's solutions are specifically designed to help companies manage high-volume, high-churn workforces such as those in the restaurant, convenience store, hospitality and retail sectors. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has grown to over 140 employees in South Carolina. Noro-Moseley has led several rounds of funding and attracted other investors for over $50 million into the company. PeopleMatter was bought by Snag Holdings in 2017.

InvestSC carries the investment in Noro-Moseley at their audited book value of $689,884 compared to a cost of $174,054. As of December 31, 2018, InvestSC has invested $9,997,993 and received cumulative distributions of $23,200,168 from the fund. The fund is performing very well overall, with a multiple of 3.0x of fair value to cost. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 18.3%, 18.4%, 17.9%, 16.9%, 14.8%, 16.6%, 16.8%, 10.7%, -2.6% and -1.8% as of December 31, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010 and 2009, respectively.

Nexus Medical Partners II, LP: InvestSC executed the limited partnership agreement on July 5, 2007. InvestSC funded the initial capital draw of $5,000,000 (twenty-five percent of commitment) on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000

6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only limited partner investor in this Fund and all investments will be in South Carolina based companies or companies expecting to have significant operations in the State. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus made investments in 13 companies through December 2018. Swisslog acquired their first investment, Sabal Medical, located in Charleston, in January 2011. They have also exited their positions in Mini-Lap, Myconostica, Deltex Medical, Vital Sensors and EKF Diagnostics.

Most of the Nexus investments are in the healthcare sector (93% of portfolio).

- Spectra Analysis is a molecular spectroscopy and optical detection platform technology company. Currently located in Massachusetts, Spectra is looking to relocate to Greenville, SC. During 2014 Spectra was merged into Praine Management, SA, a Luxembourg Holding Company and owner of DANI Instruments S.p.a., a larger, profitable company based in Italy and Switzerland.

- Sultan Scientific has built a portfolio of healthcare businesses which need to expand to the US. This should create multiple opportunities for launching South Carolina based companies. Sultan merged with Innoveas, a private German company, in 2014.

- In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. Selah was purchased in May 2014 by EKF Diagnostics, a publicly traded company in the UK, making it one of the major exits in the Upstate's biotech industry. Unfortunately, EKF's stock price has fallen on the news of Selah's loss of revenue due to the unfavorable reimbursement decision of the local SC Medicare Administrator. The EKF stock holdings were sold by Nexus in 2017. Selah was repurchased from EKF by its founder in 2015.

- Lab 21 was acquired in July 2014 by Novacyt, a publicly traded French diagnostics company. Lab 21 provides and extensive range of oncology and infectious disease products globally.

- Kiyatec, based in Greenville, SC, creates and sells high fidelity 3D cell-based assay products and services for human tissue cell cultures focused on cancer efficacy and liver damage.

- Zipit, based in Greenville, SC, is developing a device and hosting the network services for an exclusive pager replacement solution for Verizon Wireless. The initial market focus is hospitals. Pilot programs are underway at MUSC and Greenville Hospital System.

Nexus has also made investments in two advanced materials companies in South Carolina. American Titanium works (July 2010) is developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. Management has significant experience in the automotive and electronics industry and the company is projecting significant growth in the next few years.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $6,150,576 compared to a cost of $13,428,576. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. As of December 31, 2018, InvestSC has invested $20,000,000 in Nexus and received cumulative distributions of $4,475,000. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is (7.08%), (5.16%), (7.56%), (8.50%), (5.96%), 0.68%, (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: InvestSC executed the limited partnership agreement on September 21, 2007. The Fund closed that day with total subscriptions of $115 million. InvestSC made the initial capital draw of $1,200,000 (fifteen percent of commitment) on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000

6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

Frontier made investments in eleven companies and is fully allocated, including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012. Frontier had its first exited company (Ryla) in 2010, two companies in 2012 (Lanyon and Azaleos), four companies in 2014 (Social Solutions, Daxko, BIA and Perceptis) and two companies (Conclusive and Inclinix) in 2015. The remaining two companies, Celergo and Viverae, were sold in 2018. Fund escrows are expected to be collected in 2019 and the fund will wind down. Fund II finished with a 1.9x net return on invested capital and 12% net IRR, a top quartile performer for 2016 vintage funds.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs approximately 200 people. Frontier sold its investment in Perceptis in May 2014.

InvestSC carries the investment in Frontier Fund at their audited book value of $86,653 compared to a cost of $47,050. This recognizes the unrealized gains and losses in the portfolio companies and the management fees and expenses paid to the general partner. As of December 31, 2018, InvestSC has invested $8,000,000 in Frontier and received cumulative distributions of $14,766,696 from the Fund. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 11.9%, 12.5%, 12.6%, 13.6%, 15.0%, 13.4%, 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: InvestSC executed the limited partnership agreement on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested this change be in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund was a one-third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010, InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. InvestSC realized a gain of $678,137. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22, 2011. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred within a 27-month period.

Azalea III Fund, LP: InvestSC executed the limited partnership agreement on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	(1,402.500)	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352

2/23/2012	720,775	3,854,423	4,645,577
7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395
11/8/2013	628,104	6,708,709	1,791,291
12/20/2013	1,045,124	7,753,833	746,167
9/30/2014	205,936	7,959,769	540,231
4/8/2015	205,936	8,165,705	334,295
11/25/2016	154,452	8,320,157	179,843
12/22/2017	36,039	8,356,196	143,804

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company, Sage Automotive Interiors, is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. Ivize is now called Modus eDiscovery, Inc. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

The fourth quarter of 2013 was very active for Azalea. Azalea sold its investments in KLMK and Star Packaging in the Q4 2013. InvestSC received distributions of $1,950,396. The fund made two acquisitions in Q4 2013: an add-on for Orbital Tool (Century Turbine) and the acquisition of Turbine Generator Maintenance. These are the last investments for Fund III. Remaining uncalled capital in Fund III will be used to support the growth of the existing portfolio and for partnership expenses. These companies have been combined into Power Services Group, Inc.

InvestSC carries the investment in Azalea Fund III at their audited book value of $2,292,492 compared to a cost of $4,087,468. As of December 31, 2018, InvestSC has invested $8,356,196 in Azalea III and received cumulative distributions of $8,729,260 from the fund. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 40.9%, 42.6%, 51.3%, 57.8%, 70%, 95%, 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2018		2017	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	174,054	689,884	1,024,983	4,099,749
Nexus Medical Partners II, LP	13,428,576	6,150,576	13,974,402	8,063,251
Frontier Fund II, LP	47,050	86,653	1,810,258	3,765,747
Azalea Fund SC, LP	-	-	-	-
Azalea Fund III, LP	4,087,468	2,292,492	4,087,468	2,129,540
Totals	17,737,148	9,219,605	20,897,111	18,058,287

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. Additional tax credit sales were made in June and December of 2011 and 2012. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

As mentioned in the FINANCING section above, it is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and Interest Prepayment accounts were established for funds received from tax credit sales in anticipation of future, not current, needs. On December 21, 2017 and December 21, 2018, tax credits in the amount of $3,000,000 were sold each year for $2,550,000 ($0.85 for each dollar of tax credits) by RBC Tax Credit Equity and the funds deposited in the Principal Prepayment Account.

December 21, 2010	$ 2,300,000	$ 1,840,000
June 22, 2011	2,300,000	1,840,000
December 15, 2011	2,300,000	1,840,000
June 15, 2012	2,300,000	1,840,000
December 17, 2012	2,300,000	1,840,000
December 21, 2017	3,000,000	2,550,000
December 21, 2018	3,000,000	2,550,000
TOTAL	$ 17,500,000	$ 14,300,000

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are amortized over the 15-year term of the notes.

For the period ending December 31, 2017, interest expense on the notes was $3,673,826 and interest earned on all deposits was $94,140 for a net investment expense of $3,579,686. General administrative expenses for the period were $131,641. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2013 through 2018 is shown below:

	2018	2017	2016	2015	2014	2013
Fair Value of Assets	39,595,258	42,421,630	41,935,471	45,989,884	48,310,973	56,467,092
Notes Payable to DBAH	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Investment Expense for Period	3,309,011	3,579,686	3,681,369	3,672,213	3,672,370	3,672,528
As a Percentage of Fair Value of Assets	8.36%	8.44%	8.78%	7.98%	7.60%	6.50%
General Administrative Expense for Period	113,327	131,641	82,617	83,206	115,016	105,833
As a Percentage of Fair Value of Assets	0.29%	0.31%	0.20%	0.18%	0.24%	0.19%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended December 31, 2010 and 2009, they did, however, include a note to the statements that addressed the risk of being unable to make the required capital contributions upon receiving a capital call and, thus, being in default with the individual venture capital funds. While tax credit certificates are available to meet interest and principal payments, they cannot be used to meet capital calls. Working with Deutsche Bank, the Securities Purchase Agreement was amended in 2010 to create the Capital Contributions Account, requiring all distributions to be deposited in this account until the balance in the account was at least as much as the unfunded capital commitments.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that. As of December 31, 2018, the only unfunded commitment is to Azalea Capital for $143,805. The Capital Contribution Account balance is $150,495.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2018	2017	2016	2015	2014	2013	2012	2011
Noro-Moseley Partners VI	18.3%	18.4%	17.9%	16.9%	14.8%	16.6%	16.8%	10.7%
Nexus Medical Partners II	-7.1%	-5.2%	-7.6%	-8.5%	-5.9%	0.7%	-2.3%	0.0%
Frontier Fund II	11.9%	12.5%	12.6%	13.6%	15.0%	15.6%	16.3%	20.5%
Azalea SC Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Azalea III Fund	40.9%	42.6%	51.3%	57.8%	70.0%	95.0%	109.0%	123.0%

(IRR's as reported by Funds)

2017 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2017 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven-member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Greenville, SC, that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2017 was $50,000,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". On December 31, 2017, the interest reserve and premium reserve totaled $1,884,093 and $3,768,185, respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2017, the Capital Contribution Account balance was $148,465 and the unfunded capital commitments were $143,804.

The creation of the Capital Contribution Account lessens the near term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the

tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. All proceeds were used for the payment of interest to Deutsche Bank.

It is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. The InvestSC Board has taken steps to sell tax credits over the next few years to meet these cash needs. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and Interest Prepayment accounts were established. Funds received from tax credit sales in anticipation of future, not current, needs are deposited in these accounts. On December 21, 2017, tax credits in the amount of $3,000,000 were sold for $2,550,000 ($0.85 for each dollar of tax credits) by RBC Tax Credit Equity and the funds deposited in the Principal Prepayment Account.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007

5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007
4/15/2015	1,000,000	9,997,993	2,007

Noro-Moseley has investments in the following 4 companies as of December 31, 2017: Navitas, Network Medical, Snag Holdings (formerly PeopleMatter), and Streamline Health Solutions. The fund successfully exited Remit Data and closed out its investments in 2080 Media and Front Stream Payments. Noro-Moseley investments are focused in three sectors: Healthcare, Technology, and Finance. The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based company that provides workforce management software for service based industries. PeopleMatter's solutions are specifically designed to help companies manage high-volume, high-churn workforces such as those in the restaurant, convenience store, hospitality and retail sectors. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has grown to over 140 employees in South Carolina. Noro-Moseley has led several rounds of funding and attracted other investors for over $50 million into the company. PeopleMatter was bought by Snag Holdings in 2017.

InvestSC carries the investment in Noro-Moseley at their audited book value of $4,099,749 compared to a cost of $1,024,983. As of December 31, 2017, InvestSC has invested $9,997,993 and received cumulative distributions of $19,825,420 from the fund. The fund is performing very well overall, with a multiple of 3.0x of fair value to cost. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 18.4%, 17.9%, 16.9%, 14.8%, 16.6%, 16.8%, 10.7%, -2.6% and -1.8% as of December 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010 and 2009, respectively.

Nexus Medical Partners II, LP: InvestSC executed the limited partnership agreement on July 5, 2007. InvestSC funded the initial capital draw of $5,000,000 (twenty-five percent of commitment) on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only investor in this Fund and all investments will be in South Carolina based companies or companies expecting to have significant operations in the State. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus made investments in 13 companies through December 2017. Swisslog acquired their first investment, Sabal Medical, located in Charleston, in January 2011. They have also exited their positions in Mini-Lap, Myconostica, Deltex Medical, Vital Sensors and EKF Diagnostics.

Most of the Nexus investments are in the healthcare sector (93% of portfolio).

- Spectra Analysis is a molecular spectroscopy and optical detection platform technology company. Currently located in Massachusetts, Spectra is looking to relocate to Greenville, SC. During 2014 Spectra was merged into Praine Management, SA, a Luxembourg Holding Company and owner of DANI Instruments S.p.a., a larger, profitable company based in Italy and Switzerland.

- Sultan Scientific has built a portfolio of healthcare businesses which need to expand to the US. This should create multiple opportunities for launching South Carolina based companies. Sultan merged with Innoveas, a private German company, in 2014.

- In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. Selah was purchased in May 2014 by EKF Diagnostics, a publicly traded company in the UK, making it one of the major exits in the Upstate's biotech industry. Unfortunately, EKF's stock price has fallen on the news of Selah's loss of revenue due to the unfavorable reimbursement decision of the local SC Medicare Administrator. The EKF stock holdings were sold by Nexus in 2017. Selah was repurchased from EKF by its founder in 2015.

- Lab 21 was acquired in July 2014 by Novacyt, a publicly traded French diagnostics company. Lab 21 provides and extensive range of oncology and infectious disease products globally.

- Kiyatec, based in Greenville, SC, creates and sells high fidelity 3D cell-based assay products and services for human tissue cell cultures focused on cancer efficacy and liver damage.

- Zipit, based in Greenville, SC, is developing a device and hosting the network services for an exclusive pager replacement solution for Verizon Wireless. The initial market focus is hospitals. Pilot programs are underway at MUSC and Greenville Hospital System.

Nexus has also made investments in two advanced materials companies in South Carolina. American Titanium works (July 2010) is developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. Management has significant experience in the automotive and electronics industry and the company is projecting significant growth in the next few years.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $8,063,251 compared to a cost of $13,974,402. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. As of December 31, 2017, InvestSC has invested $20,000,000 in Nexus and received cumulative distributions of $4,225,000. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is (5.16%), (7.56%), (8.50%), (5.96%), 0.68%, (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: InvestSC executed the limited partnership agreement on September 21, 2007. The Fund closed that day with total subscriptions of $115 million. InvestSC made the initial capital draw of $1,200,000 (fifteen percent of commitment) on September 24, 2007. In addition, InvestSC paid “catch-up interest” of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000

6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

Frontier made investments in eleven companies and is fully allocated, including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012. Frontier had its first exited company (Ryla) in 2010, two companies in 2012 (Lanyon and Azaleos), four companies in 2014 (Social Solutions, Daxko, BIA and Perceptis) and two companies (Conclusive and Inclinix) in 2015. Fund II has realized $193.9 million from these nine liquidity events, representing 180% of invested capital and 170% of contributed capital. Of its eleven investments, the Fund has two remaining active companies cumulatively valued at $67.5 million, and an overall portfolio multiple of 2.3x of fair value to cost at December 31, 2017.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs approximately 200 people. Frontier sold its investment in Perceptis in May 2014.

InvestSC carries the investment in Frontier Fund at their audited book value of $3,765,747 compared to a cost of $1,810,258 (includes $122,663 interest). This recognizes the unrealized gains and losses in the portfolio companies and the management fees and expenses paid to the general partner. As of December 31, 2017, InvestSC has invested $8,000,000 in Frontier and received cumulative distributions of $11,508,682 from the Fund. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 12.5%, 12.6%, 13.6%, 15.0%, 13.4%, 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: InvestSC executed the limited partnership agreement on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested this change be in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund was a one-third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010, InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. InvestSC realized a gain of $678,137. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22, 2011. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred within a 27-month period.

Azalea III Fund, LP: InvestSC executed the limited partnership agreement on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	(1,402.500)	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352
2/23/2012	720,775	3,854,423	4,645,577
7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395
11/8/2013	628,104	6,708,709	1,791,291
12/20/2013	1,045,124	7,753,833	746,167
9/30/2014	205,936	7,959,769	540,231
4/8/2015	205,936	8,165,705	334,295
11/25/2016	154,452	8,320,157	179,843
12/22/2017	36,039	8,356,196	143,804

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company, Sage Automotive Interiors, is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

The fourth quarter of 2013 was very active for Azalea. Azalea sold its investments in KLMK and Star Packaging in the Q4 2013. InvestSC received distributions of $1,950,396. The fund made two acquisitions in Q4 2013: an add-on for Orbital Tool (Century Turbine) and the acquisition of Turbine Generator Maintenance. These are the last investments for Fund III. Remaining uncalled capital in Fund III will be used to support the growth of the existing portfolio and for partnership expenses.

InvestSC carries the investment in Azalea Fund III at their audited book value of $2,129,540 compared to a cost of $4,087,468. As of December 31, 2017, InvestSC has invested $8,356,196 in Azalea III and received cumulative distributions of $8,674,279 from the fund. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 42.6%, 51.3%, 57.8%, 70%, 95%, 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2017		2016	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	1,024,983	4,099,749	1,429,971	4,251,259
Nexus Medical Partners II, LP	13,974,402	8,063,251	18,307,146	9,308,652
Frontier Fund II, LP	1,810,258	3,765,747	1,810,258	3,401,039
Azalea Fund SC, LP	-	-	-	-
Azalea Fund III, LP	4,087,468	2,129,540	4,051,429	3,533,692
Totals	20,897,111	18,058,287	25,598,804	20,494,642

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. Additional tax credit sales were made in June and December of 2011 and 2012. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

As mentioned in the FINANCING section above, it is anticipated that additional tax credit sales will be necessary to retire a portion of the debt to Deutsche Bank. In December 2017, the Securities Purchase Agreement was amended and the Principal Prepayment and

Interest Prepayment accounts were established for funds received from tax credit sales in anticipation of future, not current, needs. On December 21, 2017, tax credits in the amount of $3,000,000 were sold for $2,550,000 ($0.85 for each dollar of tax credits) by RBC Tax Credit Equity and the funds deposited in the Principal Prepayment Account.

TAX CREDIT SALES

DATE SOLD	TAX CREDITS	$ RECEIVED
December 21, 2010	$ 2,300,000	$ 1,840,000
June 22, 2011	2,300,000	1,840,000
December 15, 2011	2,300,000	1,840,000
June 15, 2012	2,300,000	1,840,000
December 17, 2012	2,300,000	1,840,000
December 21, 2017	3,000,000	2,550,000
TOTAL	$ 14,500,000	$ 11,750,000

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are amortized over the 15-year term of the notes.

For the period ending December 31, 2017, interest expense on the notes was $3,673,826 and interest earned on all deposits was $94,140 for a net investment expense of $3,579,686. General administrative expenses for the period were $131,641. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2012 through 2017 is shown below:

	2017	2016	2015	2014	2013	2012
Fair Value of Assets	42,421,630	41,935,471	45,989,884	48,310,973	56,467,092	55,205,779
Notes Payable to DBAH	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Investment Expense for Period	3,579,686	3,681,369	3,672,213	3,672,370	3,672,528	3,682,499
As a Percentage of Fair Value of Assets	8.44%	8.78%	7.98%	7.60%	6.50%	6.67%
General Administrative Expense for Period	131,641	82,617	83,206	115,016	105,833	120,316
As a Percentage of Fair Value of Assets	0.31%	0.20%	0.18%	0.24%	0.19%	0.22%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended December 31, 2010 and 2009, they did, however, include a note to the statements that addressed the risk of being unable to make the required capital contributions upon receiving a capital call and, thus, being in default with the individual venture capital funds. While tax credit certificates are available to meet interest and principal payments, they cannot be used to meet capital calls. Working with Deutsche Bank, the Securities Purchase Agreement was amended in 2010 to create the Capital Contributions Account, requiring all distributions to be deposited in this account until the balance in the account was at least as much as the unfunded capital commitments.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that. As of December 31, 2017, the only unfunded commitment is to Azalea Capital for $143,805. The Capital Contribution Account balance is $148,465.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2017	2016	2015	2014	2013	2012	2011	2010
Noro-Moseley Partners VI	18.4%	17.9%	16.9%	14.8%	16.6%	16.8%	10.7%	-2.6%
Nexus Medical Partners II	-5.2%	-7.6%	-8.5%	-5.9%	0.7%	-2.3%	0.0%	2.6%
Frontier Fund II	12.5%	12.6%	13.6%	15.0%	15.6%	16.3%	20.5%	16.4%
Azalea SC Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Azalea III Fund	42.6%	51.3%	57.8%	70.0%	95.0%	109.0%	123.0%	140.3%

(IRR's as reported by Funds)

2016 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2016 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven-member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Greenville, SC, that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2015 was $50,000,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". On December 31, 2016, the interest reserve and premium reserve totaled $1,876,151 and $3,752,300, respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2016, the Capital Contribution Account balance was $138,735 and the unfunded capital commitments were $179,843.

The creation of the Capital Contribution Account lessens the near term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the

tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. No tax credits were sold after December 2012. As of December 31, 2016, the total amount of tax credits sold were $11,500,000 for a net of $9,200,000. All proceeds were used for the payment of interest to Deutsche Bank.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007
4/15/2015	1,000,000	9,997,993	2,007

Noro-Moseley has investments in the following 7 companies as of December 31, 2016: FrontStream Payments, Navitas, Network Medical, PeopleMatter, 2080 Media, RemitDATA, and Streamline Health Solutions. The fund successfully exited Tower Cloud and WellCentive in 2016 (combined 4.5x return). Noro-Moseley investments are focused in three sectors: Healthcare (34%), Technology (58%), and Finance (8%). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based company that provides workforce management software for service based industries. PeopleMatter's solutions are specifically designed to help companies manage high-volume, high-churn workforces such as those in the restaurant, convenience store, hospitality and retail sectors. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has grown to over 140 employees in South Carolina. Noro-Moseley has led several rounds of funding and attracted other investors for over $50 million into the company.

InvestSC carries the investment in Noro-Moseley at their audited book value of $4,251,259 compared to a cost of $1,429,971. As of December 31, 2016, InvestSC has invested $9,997,993 and received cumulative distributions of $18,205,540 from the fund. The fund is performing very well overall, with a multiple of 2.8x of fair value to cost. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 17.9%, 16.9%, 14.8%, 16.6%, 16.8%, 10.7%, -2.6% and -1.8% as of December 31, 2016, 2015, 2014, 2013, 2012, 2011, 2010 and 2009, respectively.

Nexus Medical Partners II, LP: InvestSC executed the limited partnership agreement on July 5, 2007. InvestSC funded the initial capital draw of $5,000,000 (twenty-five percent of commitment) on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only investor in this Fund and all investments will be in South Carolina based companies or companies expecting to have significant operations in the State. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus made investments in 13 companies through December 2016. Swisslog acquired their first investment, Sabal Medical, located in Charleston, in January 2011. They have also exited their positions in Mini-Lap, Myconostica, Deltex Medical and Vital Sensors.

Most of the Nexus investments are in the healthcare sector (93% of portfolio).

- Spectra Analysis is a molecular spectroscopy and optical detection platform technology company. Currently located in Massachusetts, Spectra is looking to relocate to Greenville, SC. During 2014 Spectra was merged into Praine Management, SA, a Luxembourg Holding Company and owner of DANI Instruments S.p.a., a larger, profitable company based in Italy and Switzerland.

- Sultan Scientific has built a portfolio of healthcare businesses which need to expand to the US. This should create multiple opportunities for launching South Carolina based companies. Sultan merged with Innoveas, a private German company, in 2014.

- In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. Selah was purchased in May 2014 by EKF Diagnostics, a publicly traded company in the UK, making it one of the major exits in the Upstate's biotech industry. Unfortunately, EKF's stock price has fallen on the news of Selah's loss of revenue due to the unfavorable reimbursement decision of the local SC Medicare Administrator. Selah was repurchased from EKF by its founder in 2015. InvestSC retains its interest in EKF, but at a much lower valuation.

- Lab 21 was acquired in July 2014 by Novacyt, a publicly traded French diagnostics company. Lab 21 provides and extensive range of oncology and infectious disease products globally.

- Kiyatec, based in Greenville, SC, creates and sells high fidelity 3D cell-based assay products and services for human tissue cell cultures focused on cancer efficacy and liver damage.

- Zipit, based in Greenville, SC, is developing a device and hosting the network services for an exclusive pager replacement solution for Verizon Wireless. The initial market focus is hospitals. Pilot programs are underway at MUSC and Greenville Hospital System.

Nexus has also made investments in two advanced materials companies in South Carolina. American Titanium works (July 2010) is developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. Management has significant experience in the automotive and electronics industry and the company is projecting significant growth in the next few years.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $9,308,652 compared to a cost of $18,307,146. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. The significant change in book value from the prior years is due to write-downs totaling $2.6 million in 2015 and $5.9 million in 2014 for Novacyt, EKF and Spectra. As of December 31, 2016, InvestSC has invested $20,000,000 in Nexus and received cumulative distributions of $1,725,000. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is (7.56%), (8.50%), (5.96%), 0.68%, (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: InvestSC executed the limited partnership agreement on September 21, 2007. The Fund closed that day with total subscriptions of $115 million. InvestSC made the initial capital draw of $1,200,000 (fifteen percent of commitment) on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000

4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

Frontier made investments in eleven companies and is fully allocated, including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012. Frontier had its first exited company (Ryla) in 2010, two companies in 2012 (Lanyon and Azaleos), four companies in 2014 (Social Solutions, Daxko, BIA and Perceptis) and two companies (Conclusive and Inclinix) in 2015. Fund II has realized $193.9 million from these nine liquidity events, representing 180% of invested capital and 170% of contributed capital. Of its eleven investments, the Fund has two remaining active companies cumulatively valued at $61 million, and an overall portfolio multiple of 2.3x of fair value to cost at December 31, 2016.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs approximately 200 people. Frontier sold its investment in Perceptis in May 2014.

InvestSC carries the investment in Frontier Fund at their audited book value of $3,401,039 compared to a cost of $1,810,258 (includes $122,663 interest). This recognizes the unrealized gains and losses in the portfolio companies and the management fees and expenses paid to the general partner. As of December 31, 2016, InvestSC has invested $8,000,000 in Frontier and received cumulative distributions of $11,508,682 from the Fund. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 12.6%, 13.6%, 15.0%, 13.4%, 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: InvestSC executed the limited partnership agreement on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA

Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund was a one-third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010, InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. InvestSC realized a gain of $678,137. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22, 2011. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred within a 27-month period.

Azalea III Fund, LP: InvestSC executed the limited partnership agreement on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	(1,402.500)	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352

2/23/2012	720,775	3,854,423	4,645,577
7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395
11/8/2013	628,104	6,708,709	1,791,291
12/20/2013	1,045,124	7,753,833	746,167
9/30/2014	205,936	7,959,769	540,231
4/8/2015	205,936	8,165,705	334,295
11/25 2016	154,452	8,320,157	179,843

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company, Sage Automotive Interiors, is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

The fourth quarter of 2013 was very active for Azalea. Azalea sold its investments in KLMK and Star Packaging in the Q4 2013. InvestSC received distributions of $1,950,396. The fund made two acquisitions in Q4 2013: an add-on for Orbital Tool (Century Turbine) and the acquisition of Turbine Generator Maintenance. These are the last investments for Fund III. Remaining uncalled capital in Fund III will be used to support the growth of the existing portfolio and for partnership expenses.

InvestSC carries the investment in Azalea Fund III at their audited book value of $3,533,682 compared to a cost of $4,051,429. As of December 31, 2016, InvestSC has invested $7,959,769 in Azalea III and received cumulative distributions of $8,674,279 from the fund. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 51.3%, 57.8%, 70%, 95%, 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2016		2015	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	1,429,971	4,251,259	2,792,145	6,347,342
Nexus Medical Partners II, LP	18,307,146	9,308,652	18,307,146	11,017,983
Frontier Fund II, LP	1,810,258	3,401,039	1,858,728	3,909,280
Azalea Fund SC, LP	-	-	-	-
Azalea Fund III, LP	4,051,429	3,533,692	3,896,977	3,495,503
Totals	25,598,804	20,494,642	26,854,996	24,770,108

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC.

There were additional tax credit sales in June and December of 2011 and 2012 in the amount of $2,300,000 each, which were sold for $1,840,000 each ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

Through December 31, 2016, there have been five tax credit sales for a total of $11,500,000 and a net of $9,200,000. Distributions totaling $4,140,761, $11,142,400, $6,115,141 and $7,803,800 were received from Frontier, Noro-Moseley and Azalea in 2016, 2015, 2014 and 2013, respectively. These distributions provided sufficient liquidity so that no tax credit sales have been required since 2012.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are amortized over the 15-year term of the notes.

For the period ending December 31, 2016, interest expense on the notes was $3,683,622 and interest earned on all deposits was $2,253 for a net investment expense of $3,681,369. General administrative expenses for the period were $82,617. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2011 through 2016 is shown below:

	2016	**2015**	**2014**	**2013**	**2012**	**2011**
Fair Value of Assets	41,935,471	45,989,884	48,310,973	56,467,092	55,205,779	52,582,387
Notes Payable to DBAH	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Investment Expense for period	3,681,369	3,672,213	3,672,370	3,672,528	3,682,499	3,672,721
As a percentage of fair value of assets	8.78%	7.98%	7.60%	6.50%	6.67%	6.98%
General Administrative Exp. for period	82,617	83,206	115,016	105,833	120,316	119,285
As a percentage of fair value of assets	0.20%	0.18%	0.24%	0.19%	0.22%	0.23%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended December 31, 2010 and 2009, they did, however, include a note to the statements that addressed the risk of being unable to make the required capital contributions upon receiving a capital call and, thus, being in default with the individual venture capital funds. While tax credit certificates are available to meet interest and principal payments, they cannot be used to meet capital calls. Working with Deutsche Bank, the Securities Purchase Agreement was amended in 2010 to create the Capital Contributions Account, requiring all distributions to be deposited in this account until the balance in the account was at least as much as the unfunded capital commitments.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that. As of December 31, 2016, the only unfunded commitment is to Azalea Capital for $154,452. The Capital Contribution Account balance is $183,735.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2016	2015	2014	2013	2012	2011	2010	2009
Noro-Moseley Partners VI	17.9%	16.9%	14.8%	16.6%	16.8%	10.7%	-2.6%	-1.8%
Nexus Medical Partners II	-7.6%	-8.5%	-5.9%	0.7%	-2.3%	0.0%	2.6%	6.0%
Frontier Fund II	12.6%	13.6%	15.0%	15.6%	16.3%	20.5%	16.4%	7.9%
Azalea SC Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	32.8%
Azalea III Fund	51.3%	57.8%	70.0%	95.0%	109.0%	123.0%	140.3%	-8.9%

(IRR's as reported by Funds)

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a “J”curve.

The “J”curve shows a fund’s internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the “J” curve illustration below.

By the second half of a fund’s life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

• The first few years or so give little, if any, indication of final returns

• The annual return over any single year is relatively meaningless

• The IRR over the life of the fund is the real measure of a fund’s success

2015 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2015 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven-member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Greenville, SC, that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2015 was $50,000,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". On December 31, 2015, the interest reserve and premium reserve totaled $1,875,954 and $3,751,908, respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2015, the Capital Contribution Account balance was $338,153 and the unfunded capital commitments were $336,302.

The creation of the Capital Contribution Account lessens the near term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the

tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. No tax credits were sold in 2013 and 2014. As of December 31, 2015, the total amount of tax credits sold were $11,500,000 for a net of $9,200,000. All proceeds were used for the payment of interest to Deutsche Bank.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007
4/15/2015	1,000,000	9,997,993	2,007

Noro-Moseley has investments in the following 10 companies as of December 31, 2015: Digital Turbine (formerly Appia), FrontStream Payments, Navitas, Network Medical, PeopleMatter, 2080 Media, RemitDATA, Streamline Health Solutions, Tower Cloud, and WellCentive. The fund successfully exited Clearleap and Virtustream in 2015 (combined 7.2x return). Investments in Diabetes Care Group and nCrowd were recorded as full losses. Noro-Moseley investments are focused in three sectors: Healthcare (34%), Technology (58%), and Finance (8%). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based company that provides workforce management software for service based industries. PeopleMatter's solutions are specifically designed to help companies manage high-volume, high-churn workforces such as those in the restaurant, convenience store, hospitality and retail sectors. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has grown to over 140 employees in South Carolina. Noro-Moseley has led several rounds of funding and attracted other investors for over $50 million into the company.

InvestSC carries the investment in Noro-Moseley at their audited book value of $6,347,342 compared to a cost of $2,792,145. As of December 31, 2015, InvestSC has invested $9,997,993 and received cumulative distributions of $14,155,843 from the fund. The fund is performing very well overall, with a multiple of 2.5x of fair value to cost. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 16.9%, 14.8%, 16.6%, 16.8%, 10.7%, -2.6% and -1.8% as of December 31, 2015, 2014, 2013, 2012, 2011, 2010 and 2009, respectively.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only investor in this Fund and all investments will be in South Carolina based companies or companies expecting to have significant operations in the State. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus made investments in 13 companies through December 2015. Their first investment, Sabal Medical, located in Charleston, was acquired by Swisslog in January 2011. They have also exited their positions in Mini-Lap, Myconostica, Deltex Medical and Vital Sensors.

Most of the Nexus investments are in the healthcare sector (93% of portfolio).

- Spectra Analysis is a molecular spectroscopy and optical detection platform technology company. Currently located in Massachusetts, Spectra is looking to relocate to Greenville, SC. During 2014 Spectra was merged into Praine Management, SA, a Luxembourg Holding Company and owner of DANI Instruments S.p.a., a larger, profitable company based in Italy and Switzerland.

- Sultan Scientific has built a portfolio of healthcare businesses which need to expand to the US. This should create multiple opportunities for launching South Carolina based companies. Sultan merged with Innoveas, a private German company, in 2014.

- In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. Selah was purchased in May 2014 by EKF Diagnostics, a publicly traded company in the UK, making it one of the major exits in the Upstate's biotech industry. Unfortunately, EKF's stock price has fallen on the news of Selah's loss of revenue due to the unfavorable reimbursement decision of the local SC Medicare Administrator. Selah was repurchased from EKF by its founder in 2015. InvestSC retains its interest in EKF, but at a much lower valuation.

- Lab 21 was acquired in July 2014 by Novacyt, a publicly traded French diagnostics company. Lab 21 provides and extensive range of oncology and infectious disease products globally.

- Kiyatec, based in Greenville, SC, creates and sells high fidelity 3D cell-based assay products and services for human tissue cell cultures focused on cancer efficacy and liver damage.

- Zipit, based in Greenville, SC, is developing a device and hosting the network services for an exclusive pager replacement solution for Verizon Wireless. The initial market focus is hospitals. Pilot programs are underway at MUSC and Greenville Hospital System.

Nexus has also made investments in two advanced materials companies in South Carolina. American Titanium works (July 2010) is developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. Management has significant experience in the automotive and electronics industry and the company is projecting significant growth in the next few years.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $11,017,983 compared to a cost of $18,307,146. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. The significant change in book value from the prior years is due to write downs totaling $2.6 million in 2015 and $5.9 million in 2014 for Novacyt, EKF and Spectra. As of December 31, 2015, InvestSC has invested $20,000,000 in Nexus and received cumulative distributions of $1,725,000. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is (8.50%), (5.96%), 0.68%, (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The Fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000

4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

Frontier made investments in eleven companies and is fully allocated including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012. Frontier had its first exited company (Ryla) in 2010, two companies in 2012 (Lanyon and Azaleos), four companies in 2014 (Social Solutions, Daxko, BIA and Perceptis) and two companies (Conclusive and Inclinix) in 2015. Fund II has realized $193.9 million from these nine liquidity events, representing 180% of invested capital and 170% of contributed capital. Of its eleven investments, the Fund has two remaining active companies cumulatively valued at $72.9 million, and an overall portfolio multiple of 2.4x of fair value to cost at December 31, 2015.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs approximately 200 people. Frontier sold its investment in Perceptis in May 2014.

InvestSC carries the investment in Frontier Fund at their audited book value of $3,909,080 compared to a cost of $1,858,728 (includes $122,663 interest). This recognizes the unrealized gains and losses in the portfolio companies and the management fees and expenses paid to the general partner. As of December 31, 2015, InvestSC has invested $8,000,000 in Frontier and received cumulative distributions of $11,417,618 from the Fund. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 13.6%, 15.0%, 13.4%, 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund was a one third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010 InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. A gain of $678,137 was realized by InvestSC. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22, 2011. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred within a 27-month period.

Azalea III Fund, LP: The limited partnership agreement was executed by InvestSC on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	(1,402.500)	1,147,500	7,352,500

12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352
2/23/2012	720,775	3,854,423	4,645,577
7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395
11/8/2013	628,104	6,708,709	1,791,291
12/20/2013	1,045,124	7,753,833	746,167
9/30/2014	205,936	7,959,769	540,231
4/8/2015	205,936	8,165,705	334,295

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company is called Sage Automotive Interiors. It is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

The fourth quarter of 2013 was very active for Azalea. Azalea sold its investments in KLMK and Star Packaging in the Q4 2013. InvestSC received distributions of $1,950,396. The fund made two acquisitions in Q4 2013: an add-on for Orbital Tool (Century Turbine) and the acquisition of Turbine Generator Maintenance. These are the last investments for Fund III. Remaining uncalled capital in Fund III will be used to support the growth of the existing portfolio and for partnership expenses. InvestSC received distributions of $140,958 in 2015.

InvestSC carries the investment in Azalea Fund III at their audited book value of $3,495,503 compared to a cost of $3,848,190. As of December 31, 2015, InvestSC has invested $7,959,769 in Azalea III and received cumulative distributions of $8,674,279 from the fund. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 57.8%, 70%, 95%, 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

Investment	2015 Cost	2015 Estimated Fair Value	2014 Cost	2014 Estimated Fair Value
Noro-Moseley Partners VI, LP	2,792,145	6,347,342	5,643,946	10,919,567
Nexus Medical Partners II, LP	18,307,146	11,017,983	18,307,146	12,253,146
Frontier Fund II, LP	1,858,728	3,909,280	2,926,240	5,696,165
Azalea Fund SC, LP	-	-	-	-
Azalea Fund III, LP	3,896,977	3,495,503	3,848,190	4,404,364
Totals	26,854,996	24,770,108	30,725,522	33,273,242

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC.

There were additional tax credit sales in June and December of 2011 and 2012 in the amount of $2,300,000 each, which were sold for $1,840,000 each ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

Through December 31, 2015, there have been five tax credit sales for a total of $11,500,000 and a net of $9,200,000. Distributions totaling $11,142,400, $6,115,141 and $7,803,800 were received from Frontier, Noro-Moseley and Azalea in 2015, 2014 and 2013, respectively. These distributions provided sufficient liquidity so that no tax credit sales have been required since 2012.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15-year term of the notes.

For the period ending December 31, 2015, interest expense on the notes was $3,673,826 and interest earned on all deposits was $1,613 for a net investment expense of $3,672,213. General administrative expenses for the period were $83,206. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2010 through 2015 is shown below:

	2015	**2014**	**2013**	**2012**	**2011**
Total Assets	46,467,033	48,862,689	57,092,375	55,904,662	53,354,837
Less, Note Issuance Cost (net)	-478,149	-551,716	-625,283	-698,883	-772,450
Fair Value of Assets	45,989,884	48,310,973	56,467,092	55,205,779	52,582,387
Notes Payable to DBAH	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Investment Expense for period	3,672,213	3,672,370	3,672,528	3,682,499	3,672,721
As a percentage of fair value of assets	7.98%	7.60%	6.50%	6.67%	6.98%
General Administrative Exp. for period	83,206	115,016	105,833	120,316	119,285
As a percentage of fair value of assets	0.18%	0.24%	0.19%	0.22%	0.23%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended December 31, 2010 and 2009, they did, however, include a note to the statements that addressed the risk of being unable to make the required capital contributions upon receiving a capital call and, thus, being in default with the individual venture capital funds. While tax credit certificates are available to meet interest and principal payments, they cannot be used to meet capital calls. Working with Deutsche Bank, the Securities Purchase Agreement was amended in 2010 to create the Capital Contributions Account, requiring all distributions to be deposited in this account until the balance in the account was at least as much as the unfunded capital commitments.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that. As of December 31, 2015, the unfunded commitments to the individual funds are $338,153 and the Capital Contribution Account balances is $336,302.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2015	2014	2013	2012	2011	2010	2009
Noro-Moseley Partners VI	16.9%	14.8%	16.6%	16.8%	10.7%	-2.6%	-1.8%
Nexus Medical Partners II	-8.5%	-5.9%	0.7%	-2.3%	0.0%	2.6%	6.0%
Frontier Fund II	13.6%	15.0%	15.6%	16.3%	20.5%	16.4%	7.9%
Azalea SC Fund	n/a	n/a	n/a	n/a	n/a	n/a	32.8%
Azalea III Fund	57.8%	70.0%	95.0%	109.0%	123.0%	140.3%	-8.9%

(IRR's as reported by Funds)

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a “J”curve.

The “J”curve shows a fund’s internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the “J” curve illustration below.

By the second half of a fund’s life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

• The first few years or so give little, if any, indication of final returns

• The annual return over any single year is relatively meaningless

• The IRR over the life of the fund is the real measure of a fund’s success

2014 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2014 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Charleston that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2013 was $50,000,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Semi-annual interest payments of approximately $1,832,000 are required each June and December. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". On December 31, 2014, the interest reserve and premium reserve totaled $1,875,767 and $3,751,532, respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2014, the Capital Contribution Account balance was $1,544,011 and the unfunded capital commitments were $1,542,238.

The creation of the Capital Contribution Account lessens the near term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the

tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. No tax credits were sold in 2013 and 2014. As of December 31, 2014, the total amount of tax credits sold were $11,500,000 for a net of $9,200,000. All proceeds were used for the payment of interest to Deutsche Bank.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007

Noro-Moseley has investments in the following 14 companies as of December 31, 2014: Appia, Clearleap, Diabetes Care Group, FrontStream Payments, Half Off Depot, Navitas, Network Medical, PeopleMatter, 2080 Media, RemitDATA, Streamline Health Solutions, Tower Cloud, Virtustream, and WellCentive. The fund successfully exited Change Healthcare in 2014. Noro-Moseley investments are focused in three sectors: Healthcare (34%), Technology (58%), and Finance (8%). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based company that provides workforce management software for service based industries. PeopleMatter's solutions are specifically designed to help companies manage high-volume, high-churn workforces such as those in the restaurant, convenience store, hospitality and retail sectors. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has grown to over 140 employees in South Carolina. Noro-Moseley has led several rounds of funding and attracted other investors for over $50 million into the company.

InvestSC carries the investment in Noro-Moseley at their audited book value of $10,919,567 compared to a cost of $5,643,946. As of December 31, 2014, InvestSC has invested $8,997,993 and received cumulative distributions of $5,399,595 from the fund. The fund is performing very well overall, with a multiple of 2.1x of fair value to cost. Noro-Moseley expects to make its final capital call and be fully invested by the second quarter of 2015. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 14.8%, 16.6%, 16.8%, 10.7%, -2.6% and -1.8% as of December 31, 2014, 2013, 2012, 2011, 2010 and 2009, respectively.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only investor in this Fund and all investments will be in South Carolina based companies or companies expecting to have significant operations in the State. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus made investments in 13 companies through December 2014. Their first investment, Sabal Medical, located in Charleston, was acquired by Swisslog in January 2011. They have also exited their positions in Mini-Lap, Myconostica, Deltex Medical and Vital Sensors.

Most of the Nexus investments are in the healthcare sector (93% of portfolio).

- Spectra Analysis is a molecular spectroscopy and optical detection platform technology company. Currently located in Massachusetts, Spectra is looking to relocate to Greenville, SC. During 2014 Spectra was merged into Praine Management, SA, a Luxembourg Holding Company and owner of DANI Instruments S.p.a., a larger, profitable company based in Italy and Switzerland.

- Sultan Scientific has built a portfolio of healthcare businesses which need to expand to the US. This should create multiple opportunities for launching South Carolina based companies. Sultan merged with Innoveas, a private German company, in 2014.

- In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. Selah was purchased in May 2014 by EKF Diagnostics, a publicly traded company in the UK, making it one of the major exits in the Upstate's biotech industry. Unfortunately, EKF's stock price has fallen on the news of Selah's loss of revenue due to the unfavorable reimbursement decision of the local SC Medicare Administrator.

- Lab 21 was acquired in July 2014 by Novacyt, a publicly traded French diagnostics company. Lab 21 provides and extensive range of oncology and infectious disease products globally.

- Kiyatec, based in Greenville, SC, creates and sells high fidelity 3D cell-based assay products and services for human tissue cell cultures focused on cancer efficacy and liver damage.

- Zipit, based in Greenville, SC, is developing a device and hosting the network services for an exclusive pager replacement solution for Verizon

Wireless. The initial market focus is hospitals. Pilot programs are underway at MUSC and Greenville Hospital System.

Nexus has also made investments in two advanced materials companies in South Carolina. American Titanium works (July 2010) is developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. Management has significant experience in the automotive and electronics industry and the company is projecting significant growth in the next few years.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $12,253,146 compared to a cost of $18,307,146. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. The significant change in book value from the prior year is due to write downs totaling $5.9 million in 2014 for Lab 21, Selah and Sultan. As of December 31, 2014, InvestSC has invested $20,000,000 in Nexus and received cumulative distributions of $1,725,000. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is (5.96%), 0.68%, (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The Fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on September 24, 2007. In addition, InvestSC paid “catch-up interest” of $122,663 at closing. A schedule of all capital calls is as follows:

Date	**Capital Call**	**Total Drawn**	**Remaining Commitment**
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000

9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

Frontier made investments in eleven companies and is fully allocated including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012. Frontier exited one company (Ryla) in 2010, two companies in 2012 (Lanyon and Azaleos) and four companies in 2014 (Social Solutions, Daxko, BIA and Perceptis). Fund II has realized $162.1 million from these seven liquidity events, representing 153% of invested capital and 142% of contributed capital. Of its eleven investments, the Fund has four remaining active companies cumulatively valued at $92.9 million, which is a multiple of 2.4x of fair value to cost at December 31, 2014, up from 2.1x at the end of 2013.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs approximately 200 people. Frontier sold its investment in Perceptis in May 2014.

InvestSC carries the investment in Frontier Fund at their audited book value of $5,696,165 compared to a cost of $2,926,240 (includes $122,663 interest). This recognizes the unrealized gains and losses in the portfolio companies and the management fees and expenses paid to the general partner. As of December 31, 2014, InvestSC has invested $8,000,000 in Frontier and received cumulative distributions of $9,530,233 from the Fund. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 15.0%, 13.4%, 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund is a one third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010 InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. A gain of $678,137 was realized by InvestSC. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22, 2011. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred within a 27 month period.

Azalea III Fund, LP: The limited partnership agreement was executed by InvestSC on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	(1,402.500)	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352
2/23/2012	720,775	3,854,423	4,645,577

7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395
11/8/2013	628,104	6,708,709	1,791,291
12/20/2013	1,045,124	7,753,833	746,167
9/30/2014	205,936	7,959,769	540,231

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company is called Sage Automotive Interiors. It is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

The fourth quarter of 2013 was very active for Azalea. Azalea sold its investments in KLMK and Star Packaging in the Q4 2013. InvestSC received distributions of $1,950,396. The fund made two acquisitions in Q4 2013: an add-on for Orbital Tool (Century Turbine) and the acquisition of Turbine Generator Maintenance. These are the last investments for Fund III. Remaining uncalled capital in Fund III will be used to support the growth of the existing portfolio and for partnership expenses.

InvestSC carries the investment in Azalea Fund III at their audited book value of $4,404,364 compared to a cost of $3,848,190. As of December 31, 2014, InvestSC has invested $7,959,769 in Azalea III and received cumulative distributions of $8,533,321 from the fund. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 70%, 95%, 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2014, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2014		2013	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	5,643,946	10,919,567	6,298,055	11,525,645
Nexus Medical Partners II, LP	18,307,146	12,253,146	18,307,146	18,747,471
Frontier Fund II, LP	2,926,240	5,696,165	5,374,764	8,779,029
Azalea Fund SC, LP	-	-	-	-
Azalea Fund III, LP	3,848,190	4,404,364	3,711,188	4,479,683
Totals	30,725,522	33,273,242	33,691,153	43,531,828

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC.

There were additional tax credit sales in June and December of 2011 and 2012 in the amount of $2,300,000 each, which were sold for $1,840,000 each ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

Through December 31, 2014, there have been five tax credit sales for a total of $11,500,000 and a net of $9,200,000. Distributions totaling $6,115,141 and $7,803,800 were received from Frontier, Noro-Moseley and Azalea in 2014 and 2013, respectively. These distributions provided sufficient liquidity so that no tax credit sales have been required since 2012.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15 year term of the notes.

For the period ending December 31, 2014, interest expense on the notes was $3,673,826 and interest earned on all deposits was $1,456 for a net investment expense of $3,672,370. General administrative expenses for the period were $115,016. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2010 through 2014 is shown below:

	2014	2013	2012	2011	2010
Total Assets	48,862,689	57,092,375	55,904,662	53,354,837	53,086,896
Less, Note Issuance Cost (net)	-551,716	-625,283	-698,883	-772,450	-846,017
Fair Value of Assets	48,310,973	56,467,092	55,205,779	52,582,387	52,240,879
Notes Payable to DBAH	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Investment Expense for period	3,672,370	3,672,528	3,682,499	3,672,721	3,444,696
As a percentage of fair value of assets	7.60%	6.50%	6.67%	6.98%	6.54%
General Administrative Exp. for period	115,016	105,833	120,316	119,285	150,532
As a percentage of fair value of assets	0.24%	0.19%	0.22%	0.23%	0.29%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended December 31, 2010 and 2009, they did, however, include a note to the statements that addressed the risk of being unable to make the required capital contributions upon receiving a capital call and, thus, being in default with the individual venture capital funds. While tax credit certificates are available to meet interest and principal payments, they cannot be used to meet capital calls. Working with Deutsche Bank, the Securities Purchase Agreement was amended in 2010 to create the Capital Contributions Account, requiring all distributions to be deposited in this account until the balance in the account was at least as much as the unfunded capital commitments.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that. The unfunded commitments to the individual funds and the Capital Contribution Account balances are as follows:

	12/31/2014
Noro-Moseley Partners VI	$1,002,007
Azalea Fund III	540,231
Total Unfunded Commitments	$1,542,238
Capital Contribution Account	$1,544,011

Internal Rate of Return (IRR)
by Venture Capital Fund

	2014	2013	2012	2011	2010	2009
Noro-Moseley Partners VI	14.80%	16.6%	16.8%	10.7%	-2.6%	-1.8%
Nexus Medical Partners II	-5.90%	0.7%	-2.3%	0.0%	2.6%	6.0%
Frontier Fund II	15.00%	15.6%	16.3%	20.5%	16.4%	7.9%
Azalea SC Fund	n/a	n/a	n/a	n/a	n/a	32.8%
Azalea III Fund	70.00%	95.0%	109.0%	123.0%	140.3%	-8.9%

(IRR's as reported by Funds)

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a "J"curve.

The "J"curve shows a fund's internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the "J" curve illustration below.

By the second half of a fund's life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

• The first few years or so give little, if any, indication of final returns

• The annual return over any single year is relatively meaningless

• The IRR over the life of the fund is the real measure of a fund's success

2013 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2013 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a “Designated Investor Group” for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Charleston that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2013 was $50,000,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Required interest payments were made in June and December of 2013 in the amount of $1,831,880 and $1,841,946, respectively. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". On December 31, 2013, the interest reserve and premium reserve totaled $1,875,579 and $3,751,157 respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2013, the Capital Contribution Account balance was $1,749,770 and the unfunded capital commitments were $1,748,175.

The creation of the Capital Contribution Account lessens the near term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. No tax credits were sold in 2013. As of December 31, 2013, the total amount of tax credits sold were $11,500,000 for a net of $9,200,000. All proceeds were used for the payment of interest to Deutsche Bank.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007

Noro-Moseley has investments in the following 17 companies as of December 31, 2013: Adaptivity, Appia, Change Healthcare, Clearleap, Diabetes Care Group, FrontStream Payments, Half Off Depot, Navitas, Network Medical, PeopleMatter, 2080 Media, RemitDATA, Streamline Health Solutions, Tower Cloud, Virtustream, Vocalocity, and WellCentive. Noro-Moseley investments are focused in three sectors: Healthcare (32%), Technology (59%), and Finance (7%). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based company that provides workforce management software for service based industries. PeopleMatter's solutions are specifically designed to help companies manage high-volume, high-churn workforces such as those in the restaurant, convenience store, hospitality and retail sectors. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has grown to over 140 employees in South Carolina. Noro-Moseley has led several rounds of funding and attracted other investors for over $50 million into the company.

InvestSC carries the investment in Noro-Moseley at their audited book value of $11,525,645 compared to a cost of $6,298,055. As of December 31, 2013, InvestSC has invested $8,997,993 and received cumulative distributions of $4,134,065 from the fund. The fund is performing very well overall, with a multiple of 2.1x of fair value to cost. Noro-Moseley expects to make its final capital call and be fully invested by the end of 2014. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 16.6%, 16.8%, 10.7%, -2.6% and -1.8% as of December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. A schedule of all capital calls is as follows:

Date	**Capital Call**	**Total Drawn**	**Remaining Commitment**
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only investor in this Fund and all investments will be in South Carolina based companies. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus has made investments in 14 companies through December 2013 that are either South Carolina based or will have significant operations in the State. Their first investment, Sabal Medical, located in Charleston, was acquired by Swisslog in January 2011. They also closed their positions in Mini-Lap and Myconostica, and sold a major portion of their investment in Deltex Medical. Spectra Analysis is a Massachusetts based company looking to relocate to Greenville, SC. Sultan Scientific, a publicly listed company in the UK, has built a portfolio of healthcare businesses which need to expand to the US. This should create multiple opportunities for launching South Carolina based companies.

An investment was made in American Titanium works in July 2010. They are developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

Nexus made an investment in Zipit in November 2010. This is a Greenville, SC company that provides device and software network services. They are working with Verizon Wireless to market a pager replacement solution for hospitals.

In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. Selah was purchased in May 2014 by EKF Diagnostics, a publicly traded company in the UK, making it one of the major exits in the Upstate's biotech industry.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. The management of the company has significant experience in the automotive and electronics industry. The company is projecting significant growth in the next few years.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $18,747,471 compared to a cost of $18,307,146. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. As of December 31, 2013, InvestSC has invested $20,000,000 in Nexus and received cumulative distributions of $1,725,000. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is 0.68%, (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The Fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

The Fund has invested $100.4 million in eleven companies and is fully allocated including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012.

Frontier is pleased with the overall portfolio performance and continues to see increased valuations for individual portfolio companies. Frontier II completed its first exit in April 2010 with the sale of Ryla, Inc. The next two exits were in December 2012 of Lanyon and Azaleos and resulted in a distribution of $3,575,450 to InvestSC in January 2013. These three exits were at a multiple of 2.75x invested capital. The fund had eight remaining active companies as of December 31, 2013. The portfolio is performing very well The fund is performing very well overall, with a multiple of 2.1x of fair value to cost.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs approximately 200 people. Frontier sold its investment in Perceptis in May 2014.

InvestSC carries the investment in Frontier Fund at their audited book value of $8,779,029 compared to a cost of $5,374,764 (includes $122,663 interest). This recognizes the unrealized gains and losses in the portfolio companies and the management fees and expenses paid to the general partner. As of December 31, 2013, InvestSC has invested $8,000,000 in Frontier and received cumulative distributions of $4,404,284 from the fund. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 15.6%, 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund is a one third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010 InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. A gain of

$678,137 was realized by InvestSC. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred within a 27 month period.

Azalea III Fund, LP: The limited partnership agreement was executed by InvestSC on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	(1,402.500)	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352
2/23/2012	720,775	3,854,423	4,645,577
7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395
11/8/2013	628,104	6,708,709	1,791,291
12/20/2013	1,045,124	7,753,833	746,167

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company is called Sage Automotive Interiors. It is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

The fourth quarter of 2013 was very active for Azalea. Azalea sold its investments in KLMK and Star Packaging in the Q4 2013. InvestSC received distributions of $1,950,396. The fund made two acquisitions in Q4 2013: an add-on for Orbital Tool (Century Turbine) and the acquisition of Turbine Generator Maintenance. These are the last investments for Fund III. Remaining uncalled capital in Fund III will be used to support the growth of the existing portfolio and for partnership expenses.

InvestSC carries the investment in Azalea Fund III at their audited book value of $4,479,683 compared to a cost of $3,711,188. As of December 31, 2013, InvestSC has invested $7,753,833 in Azalea III and received cumulative distributions of $8,449,963 from the fund. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 95%, 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2013, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

Investment	2013 Cost	2013 Estimated Fair Value	2012 Cost	2012 Estimated Fair Value
Noro-Moseley Partners VI, LP	6,298,055	11,525,645	7,542,816	11,932,907
Nexus Medical Partners II, LP	18,307,146	18,747,471	18,307,146	16,638,308
Frontier Fund II, LP	5,374,764	8,779,029	7,563,753	11,654,944
Azalea Fund SC, LP	-	-	-	-
Azalea Fund III, LP	3,711,188	4,479,683	3,194,527	3,959,557
Totals	33,691,153	43,531,828	36,608,242	44,185,716

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC.

There were additional tax credit sales in June and December of 2011 and 2012 in the amount of $2,300,000 each, which were sold for $1,840,000 each ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

Through December 31, 2013, there have been five tax credit sales for a total of $11,500,000 and a net of $9,200,000. Distributions totaling $7,803,800 were received from Frontier, Noro-Moseley and Azalea in 2013 which provided sufficient liquidity so that no tax credit sales were required in 2013.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15 year term of the notes.

For the period ending December 31, 2013, interest expense on the notes was $3,673,826 and interest earned on all deposits was $1,298 for a net investment expense of $3,672,528. General administrative expenses for the period were $105,833. In addition, the amortized portion of the note issuance costs was $73,600. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2009 through 2013 is shown below:

	Year Ended Dec 31, 2013	Year Ended Dec 31, 2012	Year Ended Dec 31, 2011	Year Ended Dec 31, 2010	June 22 to Dec 31, 2009
Total Assets	57,092,375	55,904,662	53,354,837	53,086,896	43,941,532
Less, Note Issuance Cost (net)	-625,283	-698,883	-772,450	-846,017	-919,583
Fair Value of Assets	56,467,092	55,205,779	52,582,387	52,240,879	43,021,949
Notes Payable to DBAH	50,000,000	50,000,000	50,000,000	50,000,000	44,800,000
Investment Expense for period	3,672,528	3,682,499	3,672,721	3,444,696	2,478,037
As a percentage of fair value of assets	6.50%	6.67%	6.98%	6.54%	5.76%
General Administrative Expense for period	105,833	120,316	119,285	150,532	125,940
As a percentage of fair value of assets	0.19%	0.22%	0.23%	0.29%	0.29%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended

December 31, 2010 and 2009, they did, however, include a note to the statements that reads as follows:

NOTE 9 – INVESTMENT COMMITMENTS

The Organization has committed to invest an additional $11,575,070, with four venture capital funds. The timing and amount of the capital calls by the venture capital funds for these additional investments is uncertain. The Organization will use the distributions from existing investments with the venture capital funds to fund these future capital calls. Those distributions will be deposited into the capital contribution account and capital call will be funded by disbursing funds from this account. At December 31, 2010, the capital contribution account had a balance of $3,553,783. The timing and amount of distributions from the venture capital funds is also uncertain. If the Organization is unable to make the required capital contributions upon receiving a capital call, the Organization would be in default in accordance with its agreements with the individual venture capital funds. Upon default, the Organization may be subject to a default fee and possible liquidation of portfolio investments if capital contributions are not paid within certain time frames as noted within its agreements with the individual venture capital funds.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that. The unfunded commitments to the individual funds and the Capital Contribution Account balances are as follows:

	12/31/2013
Noro-Moseley Partners VI	$1,002,007
Frontier Fund II	-0-
Azalea Fund III	746,167
Total Unfunded Commitments	$1,748,174
Capital Contribution Account	$1,749,770

Internal Rate of Return (IRR)
by Venture Capital Fund

	2013	2012	2011	2010	2009	2008
Noro-Moseley Partners VI	16.6%	16.8%	10.7%	-2.6%	-1.8%	n/a
Nexus Medical Partners II	0.7%	-2.3%	0.0%	2.6%	6.0%	17.0%
Frontier Fund II	15.6%	16.3%	20.5%	16.4%	7.9%	-21.3%
Azalea SC Fund	n/a	n/a	n/a	n/a	32.8%	11.3%
Azalea III Fund	95.0%	109.0%	123.0%	140.3%	-8.9%	-67.1%

(IRR's as reported by Funds)

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a “J”curve.

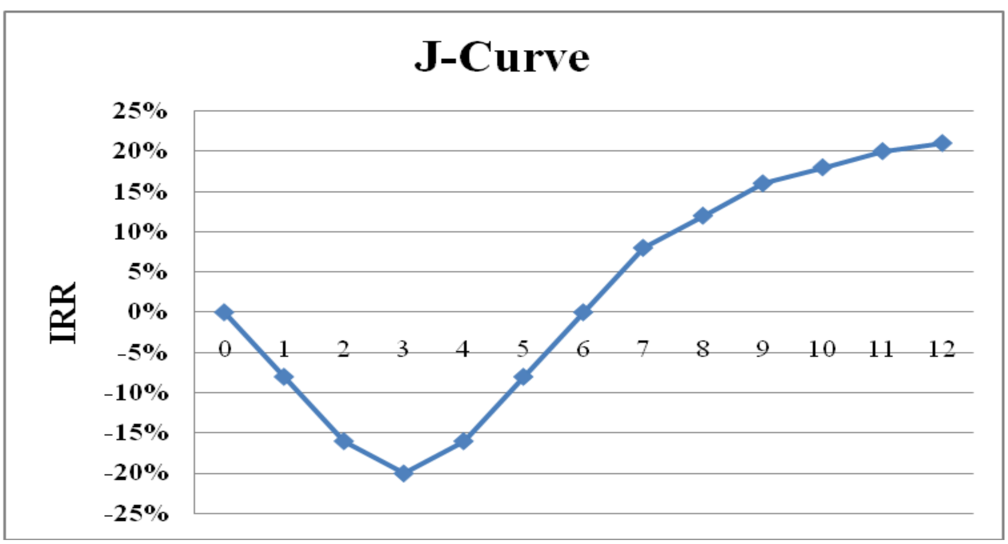
The “J”curve shows a fund’s internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the “J” curve illustration below.

By the second half of a fund’s life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

• The first few years or so give little, if any, indication of final returns

• The annual return over any single year is relatively meaningless

• The IRR over the life of the fund is the real measure of a fund’s success



Source: Mowbray Capital

2012 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2012 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority (VCA) was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the VCA. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare

and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Charleston that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The VCA Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The final required draw of $5,200,000 was made on June 22, 2010. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2012 was $50,000,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Required interest payments were made in June and December of 2012 in the amount of $1,841,946 each. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released in October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the “Premium Account Control Agreement”. On December 31, 2012, the interest reserve and premium reserve totaled $1,875,392 and $3,750,782 respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2012, the Capital Contribution Account balance was $3,881,889 and the unfunded capital commitments were $3,880,640.

The creation of the Capital Contribution Account lessens the near term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011 and 2012. As of December 31, 2012, the total amount of tax credits sold were $11,500,000 for a net of $9,200,000. All proceeds were used for the payment of interest to Deutsche Bank.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina VCA and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The VCA has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007
4/2/2012	1,000,000	7,997,993	2,002,007
9/10/2012	1,000,000	8,997,993	1,002,007

Noro-Moseley has investments in the following twenty companies as of December 31, 2012: Acumen Brands, Adaptivity, Appia, Clearleap, Diabetes Care Group, Dormir, FrontStream Payments, Gateway One Lending and Finance, Half Off Depot, Lanx, Navitas, Network Medical, PeopleMatter, 2080 Media, Renal CarePartners, RemitDATA, Streamline Health Solutions, Tower Cloud, Virtustream, Vocalocity, and WellCentive. Noro-Moseley investments are focused in three sectors: Healthcare (41%), Technology (45%), and Finance (14%). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based software company that manages the needs of the food service industry. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 “Top Up-and-Coming Entrepreneur” by the Southeast Chapter of TiE. The company has approximately 60 employees.

InvestSC carries the investment in Noro-Moseley at their audited book value of $11,932,907 compared to a cost of $7,542,816. The fund is performing very well overall, with a multiple of 1.9x of fair value to cost. Noro-Moseley expects to make its final capital call and be fully invested by the middle of 2014. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) for the Partnership is 16.8% as of December 31, 2012.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only investor in this Fund and all investments will be in South Carolina based companies. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus has made investments in 14 companies through December 2012 that are either South Carolina based or will have significant operations in the State. They expect to make one additional investment from this fund. Their first investment, Sabal Medical, located in Charleston, was acquired by Swisslog in January 2011. They also closed their positions Mini-

Lap and Myconostica, and sold a major portion of their investment in Deltex Medical. Spectra Analysis is a Massachusetts based company looking to relocate to Greenville, SC. Sultan Scientific, a publicly listed company in the UK that has built a portfolio of healthcare businesses which need to expand to the US should create multiple opportunities for launching South Carolina based companies.

An investment was made in American Titanium works in July 2010. They are developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

Nexus made an investment in Zipit in November 2010. This is a Greenville, SC company that provides device and software network services. They are working with Verizon Wireless to market a pager replacement solution for hospitals.

In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. This acquisition will provide a strong basis from which to launch Lab 21's US business.

The most recent investment (2012) is Proterra, a manufacturer of an all-electric bus which has a manufacturing plant located in Greenville, SC. This was part of a $23M financing Series B round involving other prominent private equity funds. The management of the company has significant experience in the automotive and electronics industry. The company is projecting significant growth in the next few years.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $16,638,308 compared to a cost of $18,307,146. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is (2.03%), 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The Fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000

12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000
3/26/2012	262,832	7,782,832	217,168
7/12/2012	217,168	8,000,000	0

The capital commitment of $8,000,000 to Frontier has been 100% funded.

The Fund has invested $96 million in eleven companies and is fully allocated including reserves. The Fund will no longer be investing in new companies as its investment period ended in 2012.

Frontier is pleased with the overall portfolio performance and continues to see increased valuations for individual portfolio companies. Frontier II completed its first exit in April 2010 with the sale of Ryla, Inc. The next two exits were in December 2012 of Lanyon and Azaleos and resulted in a distribution of $3,575,450 to InvestSC in January 2013. These three exits were at a multiple of 2.75x invested capital. The fund has eight remaining active companies. The portfolio is performing very well and the carrying value of the remaining investments is a multiple of 1.7x of cost.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs over 200 people.

InvestSC carries the investment in Frontier Fund at their audited book value of $11,651,944 compared to a cost of $7,563,753 (includes $122,663 interest). This recognizes the unrealized gains and losses in the portfolio companies and the management fees and expenses paid to the general partner. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 16.3%, 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The VCA Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund is a one third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010 InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. A gain of $678,137 was realized by InvestSC. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred in only a 27 month period.

Azalea III Fund, LP: The limited partnership agreement was executed by InvestSC on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000

8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	(1,402.500)	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352
2/23/2012	720,775	3,854,423	4,645,577
7/12/2012	648,698	4,503,121	3,996,879
9/4/2012	212,129	4,715,250	3,784,750
11/2/2012	906,118	5,621,368	2,878,632
1/30/2013	459,237	6,080,605	2,419,395

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company is called Sage Automotive Interiors. It is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry.

In 2012, Azalea III made investments in two companies in the power generation industry. Orbital Tool Technologies in Belvidere, Illinois performs on-site machining and fabrication throughout the United States. Power Services Group in Savannah, Georgia provides specialty staffing services to power generation plants and industrial customers.

InvestSC carries the investment in Azalea Fund III at their audited book value of $3,959,557 compared to a cost of $3,194,527. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 109%, 123%, 140.3%, (8.9%) and (67.1%) through December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2012		2011	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	7,542,816	11,932,907	5,542,816	7,069,984
Nexus Medical Partners II, LP	18,307,146	16,638,308	18,307,146	18,267,892
Frontier Fund II, LP	7,563,753	11,654,944	7,083,753	10,472,950
Azalea Fund SC, LP	-	-	-	-
Azalea Fund III, LP	3,194,527	3,959,557	1,189,475	1,663,185
Totals	36,608,242	44,185,716	32,123,190	37,474,011

TAX CREDIT CERTIFICATES

The South Carolina VCA Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC.

There were additional tax credit sales in June and December of 2011 and 2012 in the amount of $2,300,000 each, which were sold for $1,840,000 each ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity. All of the tax credits were sold to insurance companies and used to pay insurance premium taxes.

Through December 31, 2012, there have been five tax credit sales for a total of $11,500,000 and a net of $9,200,000. A distribution of $3,575,450 was received in January 2013 from Frontier and no tax credit sales are expected in 2013.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the VCA and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15 year term of the notes.

For the period ending December 31, 2012, interest expense on the notes was $3,683,892 and interest earned on all deposits was $1,393 for a net investment expense of $3,682,499. General administrative expenses for the period were $120,316. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2008 through 2012 is shown below:

	Year Ended Dec 31, 2012	Year Ended Dec 31, 2011	Year Ended Dec 31, 2010	Year Ended Dec 31, 2009	June 22 to Dec 31, 2008
Total Assets	55,904,662	53,354,837	53,086,896	43,941,532	23,501,557
Less, Note Issuance Cost (net)	-698,883	-772,450	-846,017	-919,583	-993,150
Fair Value of Assets	55,205,779	52,582,387	52,240,879	43,021,949	22,508,407
Notes Payable to DBAH	50,000,000	50,000,000	50,000,000	44,800,000	25,000,000
Investment Expense for period	3,682,499	3,672,721	3,444,696	2,478,037	1,494,813
As a percentage of fair value of assets	6.67%	6.98%	6.89%	5.76%	6.64%
General Administrative Expense for period	120,316	119,285	150,532	125,940	143,376
As a percentage of fair value of assets	0.22%	0.23%	0.30%	0.29%	0.64%

AUDIT REPORT COMMENTS

Elliott Davis, LLC has audited the financial statements of InvestSC since its inception and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. In the audited Report on Financial Statements for the years ended December 31, 2010 and 2009, they did, however, include a note to the statements that reads as follows:

NOTE 9 – INVESTMENT COMMITMENTS

The Organization has committed to invest an additional $11,575,070, with four venture capital funds. The timing and amount of the capital calls by the venture capital funds for these additional investments is uncertain. The Organization will use the distributions from existing investments with the venture capital funds to fund these future capital calls. Those distributions will be deposited into the capital contribution account and capital call will be funded by disbursing funds from this account. At December 31, 2010, the capital contribution account had a balance of $3,553,783. The timing and amount of distributions from the venture capital funds is also uncertain. If the Organization is unable to make the required capital contributions upon receiving a capital call, the Organization would be in default in accordance with its agreements with the individual venture capital funds. Upon default, the Organization may be subject to a default fee and possible liquidation of portfolio investments if capital contributions are not paid within certain time frames as noted within its agreements with the individual venture capital funds.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that.

The unfunded commitments to the individual funds and the Capital Contribution Account balances are as follows:

	12/31/2012
Noro-Moseley Partners VI	$1,002,007
Frontier Fund II	-0-
Azalea Fund III	2,878,633
Total Unfunded Commitments	$3,880,640
Capital Contribution Account	$3,881,889

RATES OF RETURN

InvestSC has received distributions from all of the funds as of December 31, 2012. During 2012 a distribution was received from Azalea III of $1,005,096. All of the funds expect a ten year life with additional time as necessary for timely exits from investments. Azalea SC made its final distribution in July 2011 and the partnership has been closed.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2012	**2011**	**2010**	**2009**
Noro-Moseley Partners VI	16.8%	10.7%	-2.6%	-1.8%
Nexus Medical Partners II	-2.3%	0.0%	2.6%	6.0%
Frontier Fund II	16.3%	20.5%	16.4%	7.9%
Azalea SC Fund	n/a	n/a	n/a	32.8%
Azalea III Fund	109.0%	123.0%	140.3%	-8.9%

(IRR's as reported by Funds)

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a “J”curve.

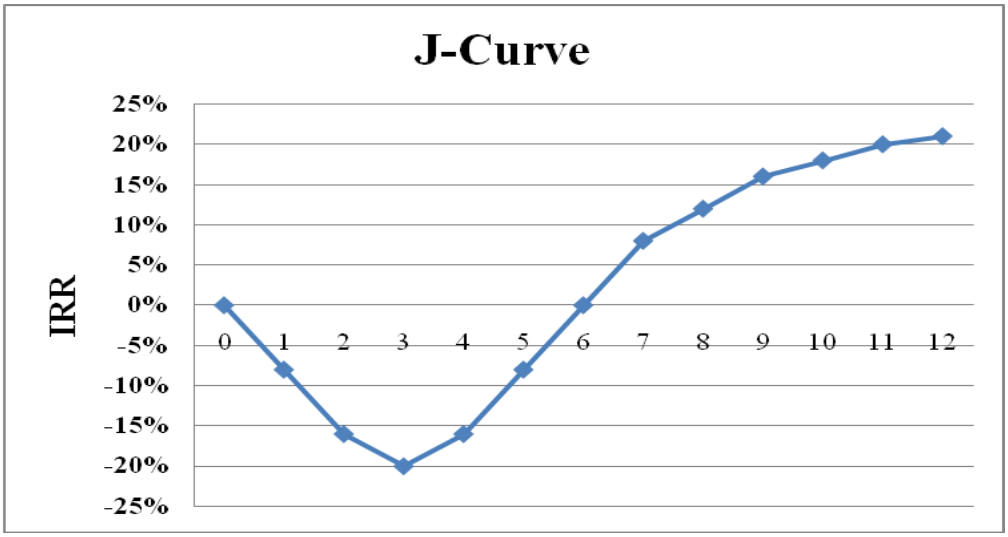
The “J”curve shows a fund’s internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the “J” curve illustration below.

By the second half of a fund’s life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

• The first few years or so give little, if any, indication of final returns

• The annual return over any single year is relatively meaningless

• The IRR over the life of the fund is the real measure of a fund’s success



Source: Mowbray Capital

2011 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2011 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the Venture Capital Authority. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to

established companies looking for capital. Their focus industries include technology, healthcare and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Charleston that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The Venture Capital Authority Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The outstanding balance of the notes on December 31, 2009 was $44,800,000.

The final and required draw of $5,200,000 was made on June 22, 2010. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2011 was $50,000,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Required payments of interest and commitment fees were made in June and December of 2011 in the amount of $1,831,881 and $1,841,946 respectively. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released during October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". On December 31, 2011, the interest reserve and premium reserve totaled $1,875,203 and $3,750,406 respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2011, the Capital Contribution Account balance was $8,848,942 and the unfunded capital commitments were $8,848,359.

The creation of the Capital Contribution Account lessens the near term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC. This was followed by the sale of tax credits in the same amount in June and December of 2011. As of December 31, 2011, the total amount of tax credits sold were $6,900,000 for a net of $5,520,000.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina Venture Capital Authority and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The Venture Capital Authority has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007

Investments have been made in the following twenty companies (16 active) as of December 31, 2011: Acumen Brands, Adaptivity, Navitas, Virtustream, FrontStream Payments, Gateway One Lending and Finance, Vocalocity, 2080 Media, Renal CarePartners, Clearleap, Lanx, RemitDATA, Appia, Diabetes Care Group, Dormir, Tower Cloud, WellCentive, Half Off Depot, and PeopleMatter. Noro-Moseley investments are focused in three sectors: Healthcare (41%), Technology (45%), and Finance (14%). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based software company that manages the needs of the food service industry. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 “Top Up-and-Coming Entrepreneur” by the Southeast Chapter of TiE. The company has approximately 50 employees.

During the fourth quarter of 2011, the fund completed two successful exits in which InvestSC received a cash distribution of $1,856,111 (27% of contributed capital). InvestSC carries the investment in Noro-Moseley at their audited book value of $7,069,984 compared to a cost of $5,542,816. This recognizes the unrealized gain in value of eight of its portfolio companies and unrealized loss in value of one, and the management fees and expenses paid to the general partner. Noro-Moseley expects to be fully invested by the end of 2012, with 22 to 24 portfolio companies. According to the Noro-Moseley audited financial statements, the cash on cash net value to limited partners is 1.28x as of December 31, 2011.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only investor in this Fund and all investments will be in South Carolina based companies. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus has made investments in 11 companies through December 2011 that are either South Carolina based or will have significant operations in the State. They expect to make one additional investment from this fund. Their first investment, Sabal Medical, located in Charleston, was acquired by Swisslog in January 2011. The sale recognized a gain and a distribution of $1,100,000 was made to InvestSC in January. Four companies, Deltex Medical, Lab 21, Myconostica and Vital Sensors are establishing their United States headquarters in South Carolina. Spectra Analysis is a Massachusetts based company looking to relocate to Greenville, SC. Sultan Scientific, a publicly listed company in the UK that has built a portfolio of healthcare businesses which need to expand to the US should create multiple opportunities for launching South Carolina based companies.

An investment was made in American Titanium works in July 2010. They are developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

Nexus made an investment in Zipit in November 2010. This is a Greenville, SC company that provides device and software network services. They are working with Verizon Wireless to market a pager replacement solution for hospitals.

In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. This acquisition will provide a strong basis from which to launch Lab 21's US business.

Mini-Lap Technologies entered into a licensing agreement which will prevent them from moving to South Carolina. This violated Nexus' investment requirement so they demanded payment of their $500,000 investment plus a 25% premium. InvestSC received $200,000 in February 2010 and received the balance of $425,000 in June 2010.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $18,267,892 compared to a cost of $18,307,146. This recognizes the realized and unrealized gains and losses in value, and the management fees and expenses paid to the general partner. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is 0.04%, 2.60%, 6.0% and 16.95% through December 31, 2011, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The Fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000
9/9/2011	200,000	7,520,000	480,000

Frontier made additional capital calls in the first two quarters of 2012 and the commitment has been 100% funded.

Frontier invested $13.6 million in 2010, adding Perceptis as a new investment and providing follow-on financings for four portfolio companies. In March 2011, Frontier made its final investment in Celergo. The Fund has invested $88 million in eleven companies and is fully allocated including reserves.

Frontier is pleased with the overall portfolio performance and continues to see increased valuations for individual portfolio companies. Frontier II completed its first exit in April 2010 with the sale of Ryla, Inc. A distribution of $828,834 was made in May 2010.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs over 200 people.

InvestSC carries the investment in Frontier Fund at their audited book value of $10,472,950 compared to a cost of $7,083,753 (includes $122,663 interest). This recognizes the unrealized gains and losses in the portfolio companies and the management fees and expenses paid to the general partner. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 20.5%, 16.4%, 7.9% and (21.3%) through December 31, 2011, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The Venture Capital Authority Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	**Capital Call**	**Total Drawn**	**Remaining Commitment**
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000
7/22/2011	Fund Dissolved		-0-

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund is a one third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010 InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. A gain of $678,137 was realized by InvestSC. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

The Azalea SC fund was dissolved in 2011 and $100,323 was distributed to InvestSC on July 22. To summarize the Azalea SC Fund, $1,050,000 was invested and a total of $1,766,882 was returned. Most of the activity occurred in only a 27 month period.

Azalea III Fund, LP: The limited partnership agreement was executed by InvestSC on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
6/1/2020	(1,402.500)	1,147,500	7,352,500
12/7/2010	1,059,437	2,206,937	6,293,063
6/17/2011	926,711	3,133,648	5,366,352
2/23/2012	720,775	3,854,423	4,645,577

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company is called Sage Automotive Interiors. It is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. In 2011, Azalea III made an investment in Star Packaging, a producer of flexible plastic packaging primarily for the food industry. The fund plans to make more investments in 2012.

InvestSC carries the investment in Azalea Fund III at their audited book value of $1,663,185 compared to a cost of $1,189,745. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 123%, 140.3%, (8.9%) and (67.1%) through December 31,2011, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2011		2010	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	5,542,816	7,069,984	5,997,993	6,259,924
Nexus Medical Partners II, LP	18,307,146	18,267,892	19,409,510	20,543,866
Frontier Fund II, LP	7,083,753	10,472,950	6,283,753	8,545,753
Azalea Fund SC, LP	-	-	70,613	102,990
Azalea Fund III, LP	1,189,475	1,663,185	2,206,937	7,297,926
Totals	32,123,190	37,474,011	33,968,806	42,750,459

TAX CREDIT CERTIFICATES

The South Carolina Venture Capital Authority Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC.

There were additional tax credit sales in June and December of 2011 in the amount of $2,300,000 each, which were sold for $1,840,000 each ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity. Through December 31, 2011, there have been three tax credit sales for a total of $6,900,000. Since no distributions have been received as of this report, it is expected that an additional tax credit sale (under the same terms as above) will take place in June 2012.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the Venture Capital Authority and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15 year term of the notes.

For the period ending December 31, 2010, interest expense on the notes was $3,492,732 and interest earned on all deposits was $48,036 for a net investment expense of $3,444,696. General administrative expenses for the period were $150,532. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2010, 2009 and 2008 is shown below:

	Year Ended Dec 31, 2011	Year Ended Dec 31, 2010	Year Ended Dec 31, 2009	June 22 to Dec 31, 2008
Total Assets	53,354,837	53,086,896	43,941,532	23,501,557
Less, Note Issuance Cost (net)	-772,450	-846,017	-919,583	-993,150
Fair Value of Assets	52,582,387	52,240,879	43,021,949	22,508,407
Notes Payable to DBAH	50,000,000	50,000,000	44,800,000	25,000,000
Investment Expense for period	3,672,721	3,444,696	2,478,037	1,494,813
As a percentage of fair value of assets	6.98%	6.89%	5.76%	6.64%
General Administrative Expense for period	119,285	150,532	125,940	143,376
As a percentage of fair value of assets	0.23%	0.30%	0.29%	0.64%

AUDIT REPORT COMMENTS

Elliott Davis, LLC audited the financial statements of InvestSC as of December 31, 2010 and 2009 and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. They did, however, include a note to the statements that reads as follows:

NOTE 9 – INVESTMENT COMMITMENTS

The Organization has committed to invest an additional $11,575,070, with four venture capital funds. The timing and amount of the capital calls by the venture capital funds for these additional investments is uncertain. The Organization will use the distributions from existing investments with the venture capital funds to fund these future capital calls. Those distributions will be deposited into the capital contribution account and capital call will be funded by disbursing funds from this account. At December 31, 2010, the capital contribution account had a balance of $3,553,783. The timing and amount of distributions from the venture capital funds is also uncertain. If the Organization is unable to make the required capital contributions upon receiving a capital call, the Organization would be in default in accordance with its agreements with the individual venture capital funds. Upon default, the Organization may be subject to a default fee and possible liquidation of portfolio investments if capital contributions are not paid within certain time frames as noted within its agreements with the individual venture capital funds.

Since establishing the Capital Contribution Account, InvestSC has eliminated the risk of default to the funds. The corresponding note in the audited financial statements has been revised to reflect that.

The unfunded commitments to the individual funds and the Capital Contribution Account balances are as follows:

	12/31/2011
Noro-Moseley Partners VI	$3,002,007
Frontier Fund II	480,000
Azalea Fund III	5,366,352
Total Unfunded Commitments	$8,848,359
Capital Contribution Account	$8,848,942

RATES OF RETURN

InvestSC had received distributions from all of the funds by December 31, 2011. During 2011 distributions were received from Azalea SC ($100,323), Azalea III ($5,449,130), Nexus ($1,100,000) and Noro-Moseley ($1,856,111). All of the funds expect a ten year life with additional time as necessary for timely exits from investments. Azalea SC made its final distribution in July 2011 and the partnership has been closed.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2011	2010	2009
Noro-Moseley Partners VI	10.7%	-2.6%	-1.8%
Nexus Medical Partners II	0.04%	2.6%	6.0%
Frontier Fund II	21%	16.4%	7.9%
Azalea SC Fund	n/a	n/a	32.8%
Azalea III Fund	123%	140.3%	-8.9%

(IRR's as reported by Funds)

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a “J”curve.

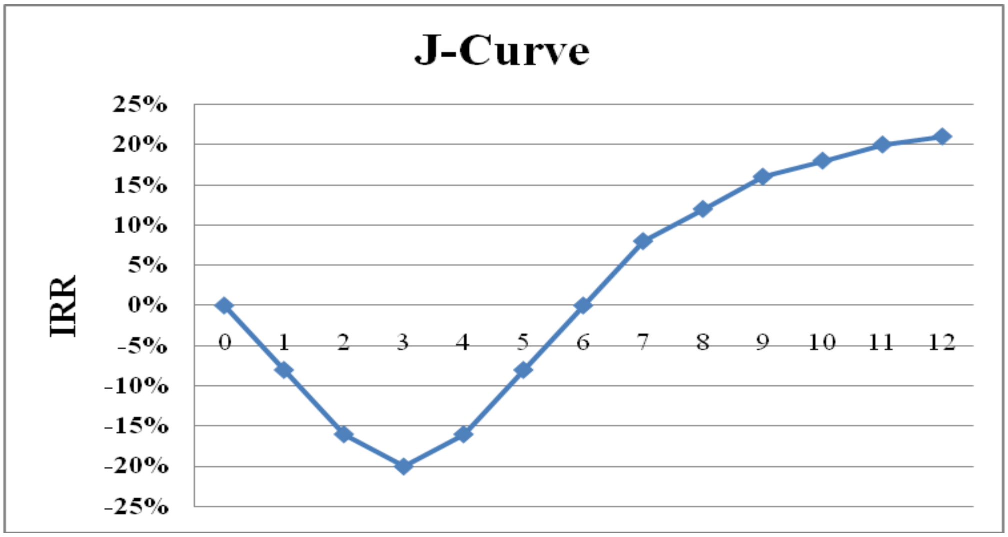
The “J”curve shows a fund’s internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the “J” curve illustration below.

By the second half of a fund’s life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

• The first few years or so give little, if any, indication of final returns

• The annual return over any single year is relatively meaningless

• The IRR over the life of the fund is the real measure of a fund’s success



Source: Mowbray Capital

2010 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2010 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the Venture Capital Authority. The authority selected InvestSC to serve as a “Designated Investor Group” for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to

established companies looking for capital. Their focus industries include technology, healthcare and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Charleston that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The Venture Capital Authority Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008 and an additional $19,800,000 during 2009. The outstanding balance of the notes on December 31, 2009 was $44,800,000.

The final and required draw of $5,200,000 was made on June 22, 2010. The outstanding balance of the notes payable to Deutsche Bank on December 31, 2010 was $50,000,000. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Required payments of interest and commitment fees were made in June and December of 2010 in the amount of $1,641,365 and $1,841,946 respectively. Semi-annual interest payments of approximately $1,840,000 are required each June and December. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released during October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the “Premium Account Control Agreement”. On December 31, 2010, the interest reserve and premium reserve totaled $1,875,015 and $3,750,031 respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

In the Report on Financial Statements issued by Elliott Davis on May 4, 2010 and June 20, 2011, the risk of default to the venture capital funds was disclosed. The AUDIT REPORT COMMENTS section below further discusses this risk. Upon the recommendation of Deutsche Bank, the Securities Purchase Agreement was amended on December 21, 2010, whereby, the Capital Contribution Account was established to receive all distributions from the funds and other amounts as necessary to meet the unfunded obligations to the venture capital funds. Prior fund distributions held in escrow by the funds of $653,783 and $2,900,000 from the Operating Account were transferred to the Capital Contribution Account on December 22, 2010. As of December 31, 2010, the Capital Contribution Account balance was $3,553,783 and the unfunded capital commitments were $11,575,070.

The creation of the Capital Contribution Account lessens the near term risk of default to the venture capital funds, but created the need to sell tax credits to fund the semi-annual interest payment of $1,841,946 in December 2010. InvestSC had discussions with various brokers of tax credits, individual companies and Deutsche Bank to determine the best method of monetizing the tax credits. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina Venture Capital Authority and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The Venture Capital Authority has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007
12/14/2010	1,000,000	5,997,993	4,002,007
5/10/2011	1,000,000	6,997,993	3,002,007

Investments have been made in the following sixteen companies as of December 31, 2010: Acumen Brands, Adaptivity, Navitas, Virtustream, FrontStream Payments, Gateway One Lending and Finance, Vocalocity, 2080 Media, Renal CarePartners, Clearleap, Lanx, RemitDATA, Appia, Diabetes Care Group, Dormir, and Tower Cloud. Noro-Moseley investments are focused in three sectors: Healthcare (41%), Technology (45%), and Finance (14%). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Noro-Moseley made its first South Carolina investment in May 2011 in PeopleMatter, a Charleston based software company that manages the needs of the food service industry. The founder of the company, Nate DaPore was congratulated in a resolution by the SC Legislature for being recognized as the 2011 "Top Up-and-Coming Entrepreneur" by the Southeast Chapter of TiE. The company has approximately 50 employees.

InvestSC carries the investment in Noro-Moseley at their audited book value of $6,259,924 compared to a cost of $5,997,993. This recognizes the unrealized gain in value of six of its portfolio companies and unrealized loss in value of three, and the management fees and expenses paid to the general partner. Noro-Moseley expects to be fully invested by the end of 2012, with 22 to 24 portfolio companies. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) since inception of the Partnership to the Limited Partners is (2.6%) through December 31, 2010.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only investor in this Fund and all investments will be in South Carolina based companies. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus has made investments in 10 companies through December 2010 that are either South Carolina based or will have significant operations in the State. They expect to make one additional investment from this fund. Their first investment, Sabal Medical, located in Charleston, was acquired by Swisslog in January 2011. The sale recognized a gain and a distribution of $1,100,000 was made to InvestSC in January. Four companies, Deltex Medical, Lab 21, Myconostica and Vital Sensors are establishing their United States headquarters in South Carolina. Spectra Analysis is a Massachusetts based company looking to relocate to Greenville, SC. Sultan Scientific, a publicly listed company in the UK that has built a portfolio of healthcare businesses which need to expand to the US should create multiple opportunities for launching South Carolina based companies.

An investment was made in American Titanium works in July 2010. They are developing the first titanium mini-mill in the world in Laurens, SC. The investment is to assist the company in attracting an equity investment which could result in a total project of over $350 million.

Nexus made an investment in Zipit in November 2010. This is a Greenville, SC company that provides device and software network services. They are working with Verizon Wireless to market a pager replacement solution for hospitals.

In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several years ago. This acquisition will provide a strong basis from which to launch Lab 21's US business.

Mini-Lap Technologies entered into a licensing agreement which will prevent them from moving to South Carolina. This violated Nexus' investment requirement so they demanded payment of their $500,000 investment plus a 25% premium. InvestSC received $200,000 in February 2010 and received the balance of $425,000 in June 2010.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $20,543,866 compared to a cost of $19,498,750. This recognizes the write-up in value for unrealized gains for Lab 21 and Sabal Medical, and the management fees and expenses paid to the general partner. All other investments are carried at or near cost. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is 2.60%, 6.0% and 16.95% through December 31, 2010, 2009 and 2008, respectively.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The Fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000
10/5/2010	520,000	6,720,000	1,280,000
3/29/2011	600,000	7,320,000	680,000

Frontier invested $13.6 million in 2010, adding Perceptis as a new investment and providing follow-on financings for four portfolio companies. In March 2011, Frontier made its final investment in Celergo. The Fund has invested $88 million in eleven companies and is fully allocated including reserves.

Frontier is pleased with the overall portfolio performance and continues to see increased valuations for individual portfolio companies. Frontier II completed its first exit in April 2010 with the sale of Ryla, Inc. The transaction generated a 2.9x return on invested capital and a 41% IRR. Over the course of Frontier's three year investment period, Ryla grew annual revenue from $15 million to over $100 million. A distribution of $828,834 was made in May 2010.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Perceptis, a leading provider of outsourced help desk and information technology services for educational institutions was located in Cleveland, OH. In May 2011 the company moved to Greenville, SC and employs over 200 people.

InvestSC carries the investment in Frontier Fund at their audited book value of $8,545,753 compared to a cost of $6,391,293 (includes $122,663 interest). This recognizes the unrealized gains and losses in the portfolio companies and the management fees and expenses paid to the general partner. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 16.4%, 7.9% and (21.3%) through December 31, 2010, 2009 and 2008, respectively.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The Venture Capital Authority Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund is a one third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010 InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. A gain of $678,137 was realized by InvestSC. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

InvestSC carries the remaining investment in Azalea SC at $102,990 which is the approximate amount that will be distributed upon the dissolution of the fund in 2011. There will be no additional investments made by Azalea SC and there are no plans by the general partner to draw the remaining $450,000 in committed capital. According to the Azalea SC audited financial statements, the internal rate of return since inception of the fund, net of profit allocations (carried interest) to the General Partner, is 32.8% and 11.3% through December 31, 2009 and 2008, respectively.

Azalea III Fund, LP: The limited partnership agreement was executed by InvestSC on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000
12/7/2010	1,059,437	3,609,437	4,890,563
6/17/2010	926,711	4,536,148	3,963,852

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in September 2009 with the acquisition of the auto textile division of Milliken. The new company is called Sage Automotive Interiors. It is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and saved over 600 jobs in South Carolina.

Azalea sold Sage in May 2011 to The Gores Group, a private equity firm headquartered in Los Angeles, CA. Sage has grown to over 1000 employees and will continue to operate its three plants in South Carolina. The holding period of the investment was only 20 months and realized a significant gain. InvestSC received a distribution of $5,156,000 from the sale and the funds were deposited in the Capital Contributions Account.

Azalea III made two additional investments in 2010. KLMK in Richmond, Virginia is a leading provider of healthcare facility consulting services to hospitals in the United States. Ivize in Atlanta, Georgia is a provider of litigation document support services to law firms and corporations in the Midwest and Southeast United States. Multiple investments are expected in 2011.

InvestSC carries the investment in Azalea Fund III at their audited book value of $7,297,926 compared to a cost of $2,206,938. This recognizes the mark up in value of Sage, management fees and expenses paid to the general partner as well as a portion of the organizational costs. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is 140.3%, (8.9%) and (67.1%) through December 31, 2010, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

Investment	2010 Cost	2010 Estimated Fair Value	2009 Cost	2009 Estimated Fair Value
Noro-Moseley Partners VI, LP	5,997,993	6,259,924	3,997,993	3,914,658
Nexus Medical Partners II, LP	19,498,750	20,543,866	20,000,000	21,524,083
Frontier Fund II, LP	6,391,293	8,545,753	5,242,663	5,922,527
Azalea Fund SC, LP	71,118	102,990	90,318	154,139
Azalea Fund III, LP	2,206,938	7,297,926	2,550,000	2,419,076
Totals	$ 34,166,092	$ 42,750,459	$ 31,880,974	$ 33,934,483

TAX CREDIT CERTIFICATES

The South Carolina Venture Capital Authority Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised.

As mentioned in the FINANCING section above, Elliott Davis disclosed a risk of default to the venture capital funds due to the timing and amount of capital call and distributions by the venture capital funds. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

In order to maintain the required liquidity to meet both required interest payments and capital calls as they come due, the InvestSC Board of Directors approved a resolution in December 2010 to sell tax credits as needed to meet the required interest payment of $1,841,946 on December 22, 2010. On December 21, 2010, tax credits in the amount of $2,300,000 were sold for $1,840,000 ($0.80 for each dollar of tax credits) by RBC Tax Credit Equity, LLC in Charlotte, NC.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the Venture Capital Authority and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15 year term of the notes.

For the period ending December 31, 2010, interest expense on the notes was $3,492,732 and interest earned on all deposits was $48,036 for a net investment expense of $3,444,696. General administrative expenses for the period were $150,532. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2010, 2009 and 2008 is shown below:

	Year Ended December 31, 2010	Year Ended December 31, 2009	June 22 to December 31, 2008
Total Assets	53,086,896	43,941,532	23,501,557
Less, Note Issuance Cost (net)	(846,017)	(919,583)	(993,150)
Fair Value of Assets	52,240,879	43,021,949	22,508,407
Notes Payable to DBAH	50,000,000	44,800,000	25,000,000
Investment Expense for period	3,444,696	2,478,037	1,494,813
As a percentage of fair value of assets	6.89%	5.76%	6.64%
General Administrative Expense for period	150,532	125,940	143,376
As a percentage of fair value of assets	0.30%	0.29%	0.64%

AUDIT REPORT COMMENTS

Elliott Davis, LLC audited the financial statements of InvestSC as of December 31, 2010 and 2009 and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. They did, however, include a note to the statements that reads as follows:

NOTE 9 – INVESTMENT COMMITMENTS

The Organization has committed to invest an additional $11,575,070, with four venture capital funds. The timing and amount of the capital calls by the venture capital funds for these additional investments is uncertain. The Organization will use the distributions from existing investments with the venture capital funds to fund these future capital calls. Those distributions will be deposited into the capital contribution account and capital call will be funded by disbursing funds from this account. At December 31, 2010, the capital contribution account had a balance of $3,553,783. The timing and amount of distributions from the venture capital funds is also uncertain. If the Organization is unable to make the required capital contributions upon receiving a capital call, the Organization would be in default in accordance with its agreements with the individual venture capital funds. Upon default, the Organization may be subject to a default fee and possible liquidation of portfolio investments if capital contributions are not paid within certain time frames as noted within its agreements with the individual venture capital funds.

As of June 17, 2011, the unfunded commitments to the individual funds are as follows:

Noro-Moseley Partners VI	$3,002,007
Frontier Fund II	680,000
Azalea Fund III	3,963,852
Total Unfunded Commitments	$7,645,859

The balance in the Capital Contribution Account as of that date was $7,283,458.

RATES OF RETURN

InvestSC has received distributions from Azalea SC, Azalea III, Frontier and Nexus. All of the funds expect a ten year life with additional time as necessary for timely exits from investments. Nexus has drawn its entire commitment of $20 million. Azalea SC does not plan to draw its remaining $450,000 and the partnership will be unwound during 2011.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2010	2009	2008
Noro-Moseley Partners VI	-2.6%	-1.8%	n/a
Nexus Medical Partners II	2.6%	6.0%	17.0%
Frontier Fund II	16.4%	7.9%	-21.3%
Azalea SC Fund	n/a	32.8%	11.3%
Azalea III Fund	140.3%	-8.9%	-67.1%

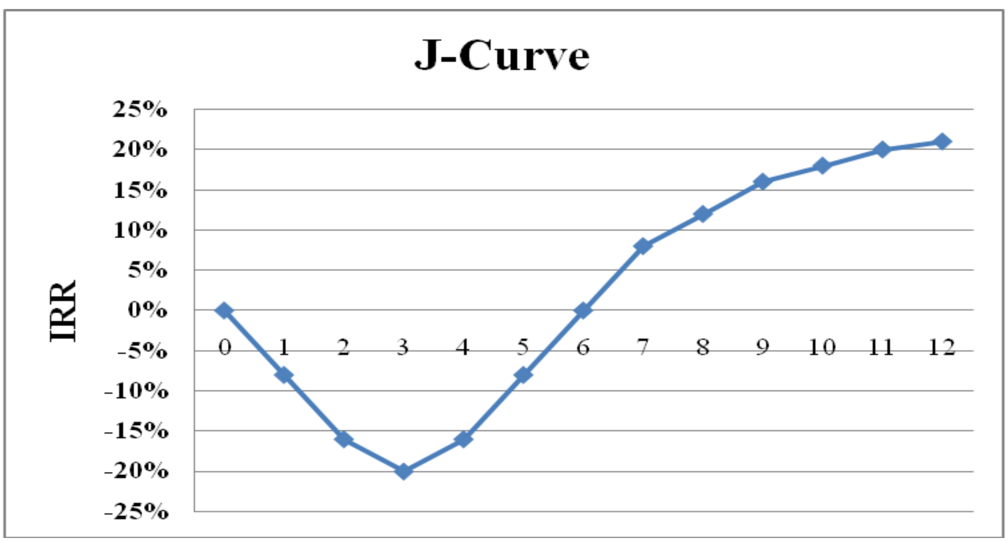
(IRR's as reported by Funds)

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a “J”curve.

The “J”curve shows a fund’s internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the “J” curve illustration below.

By the second half of a fund’s life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

- The first few years or so give little, if any, indication of final returns
- The annual return over any single year is relatively meaningless
- The IRR over the life of the fund is the real measure of a fund’s success



Source: Mowbray Capital

2009 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2009 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the Venture Capital Authority. The authority selected InvestSC to serve as a “Designated Investor Group” for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to

established companies looking for capital. Their focus industries include technology, healthcare and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Charleston that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The Venture Capital Authority Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. This was followed by a required draw of $10 million in June 2008. The outstanding balance of the notes on December 31, 2008 was $25 million.

During 2009 six draws were made on the notes as follows:

DATE	**AMOUNT**	**PURPOSE**
January 28	$6,300,000	Nexus $5,000,000 and Frontier $800,000
March 3	$1,000,000	Noro-Moseley $1,000,000
June 22	$2,700,000	Required payment of $1,122,582 and balance of required drawdown. Frontier $280,000
August 19	$1,000,000	Azalea III $1,700,000 and Frontier $280,000
October 16	$6,500,000	Nexus $5,000,000 and Noro-Moseley $1,000,000
December 22	$2,300,000	Required payment of $1,322,455 and Frontier $720,000
TOTAL	$19,800,000	

The outstanding balance of the notes payable to Deutsche Bank on December 31, 2009 was $44,800,000. The next draw will be the final required draw of $5,200,000 on June 22, 2010. Each draw requires a contribution to the premium reserve fund (described below) equal to 7.5% of the amount drawn.

Interest is payable semi-annually at a fixed rate of 7.247%. Required payments of interest and commitment fees were made in June and December of 2009 in the amount of $1,122,583 and $1,322,455 respectively. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released during October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". On December 31, 2009, the interest reserve and premium reserve totaled $1,875,572 and $3,361,231 respectively. The funds in these reserve accounts are held in trust and are not available to meet future capital calls by the Funds.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the Funds selected by the South Carolina Venture Capital Authority and verified that each Fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The Venture Capital Authority has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the Fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			10,000,000
9/28/2007	1,000,000	1,000,000	9,000,000
6/4/2008	1,000,000	2,000,000	8,000,000
3/3/2009	997,993	2,997,993	7,002,007
10/22/2009	1,000,000	3,997,993	6,002,007
3/9/2010	1,000,000	4,997,993	5,002,007

Investments have been made in the following twelve companies as of December 31, 2009: FrontStream Payments, Gateway One Lending and Finance, Vocalocity, 2080 Media, Renal CarePartners, Clearleap, Lanx, RemitDATA, PocketGear, Diabetes Care Group, Dormir, and Tower Cloud. Noro-Moseley investments are focused in three sectors: Healthcare (43%), Technology (31%), and Technology (26%). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund. There were no investments in South Carolina based companies at the end of 2009.

InvestSC carries the investment in Noro-Moseley at their audited book value of $3,914,658 compared to a cost of $3,997,993. This recognizes the unrealized gain in value of Lanx and RemitData, unrealized loss in value of Gateway One Lending and Finance, and the management fees and expenses paid to the general partner. Noro-Moseley expects to be fully invested by the end of 2012, with 22 to 24 portfolio companies. According to the Noro-Moseley audited financial statements, the internal rate of return (IRR) since inception of the Partnership to the Limited Partners is (1.8%) through December 31, 2009.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$20,000,000
7/6/2007	5,000,000	5,000,000	15,000,000
6/24/2008	5,000,000	10,000,000	10,000,000
1/28/2009	5,000,000	15,000,000	5,000,000
10/16/2009	5,000,000	20,000,000	0

InvestSC is the only investor in this Fund and all investments will be in South Carolina based companies. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Nexus has made investments in eight companies through December 2009 that are either South Carolina based or will have significant operations in the State. They expect to make one additional investment from this fund. Their first investment, Sabal Medical, is located in Charleston. Four companies, Deltex Medical, Lab 21, Myconostica and Vital Sensors are establishing their United States headquarters in South Carolina. Spectra Analysis is a Massachusetts based company looking to relocate to Greenville, SC. The most recent investment is Sultan Scientific, a publicly listed company in the UK that has built a portfolio of healthcare businesses which need to expand to the US. Nexus believes this will create multiple opportunities for launching South Carolina based companies.

In December 2009, Lab 21 acquired Selah Technologies, a South Carolina based company whose technology originated from a Clemson University researcher. The InnoVenture conference in Greenville brought together a local entrepreneur and the Clemson University Research Foundation to form Selah several ago. This acquisition will provide a strong basis from which to launch Lab 21's US business.

Mini-Lap Technologies entered into a licensing agreement which will prevent them from moving to South Carolina. This violated Nexus' investment requirement so they demanded payment of their $500,000 investment plus a 25% premium. InvestSC received $200,000 in February 2010 and is to receive the balance in June 2010.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $21,524,083 compared to a cost of $20,000,000. This recognizes the write-up in value for unrealized gains for Lab 21 and Sabal Medical, and the management fees and expenses paid to the general partner. All other investments are carried at or near cost. According to the Nexus Medical Partners audited financial statements, the internal rate of return since inception (IRR) of the fund is 6.0% and 16.95% through December 31, 2009 and 2008, respectively.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The Fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on September 24, 2007. In addition, InvestSC paid "catch-up interest" of $122,663 at closing. A schedule of all capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,000,000
9/24/2007	1,200,000	1,200,000	6,800,000
12/6/2007	800,000	2,000,000	6,000,000
6/19/2008	800,000	2,800,000	5,200,000
8/5/2008	960,000	3,760,000	4,240,000
1/28/2009	800,000	4,560,000	3,440,000
6/24/2009	280,000	4,840,000	3,160,000
8/27/2009	280,000	5,120,000	2,880,000
1/4/2010	720,000	5,840,000	2,160,000
4/28/2010	360,000	6,200,000	1,800,000

Frontier invested $27.7 million in 2009, the most active year in the firm's history. Investments included initial funding for Lanyon, Viverae and Social Solutions, and follow-on financings for DAXKO and Azaleos. The Fund has invested $70 million in nine companies and has identified a tenth company to add to the portfolio in the second quarter of 2010. At that point, the Fund will be fully allocated (inclusive of reserves).

Frontier is pleased with the overall portfolio performance and continues to see increased valuations for individual portfolio companies. Frontier II completed its first exit in April 2010 with the sale of Ryla, Inc. The transaction generated a 2.9x return on invested capital and a 41% IRR. Over the course of Frontier's three year investment period, Ryla grew annual revenue from $15 million to over $100 million.

Frontier agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. There were no investments in South Carolina based companies at the end of 2009. They have put out term sheets on at least four SC companies, two of which were accepted. The owners of both companies later reneged on their agreements prior to closing.

InvestSC carries the investment in Frontier Fund at their audited book value of $5,922,527 compared to a cost of $5,242,663 (includes $122,663 interest). This recognizes the unrealized gains in two portfolio companies, unrealized losses in two companies and the management fees and expenses paid to the general partner. According to the Frontier II audited financial statements, the internal rate of return since inception of the partnership is 7.9% and (21.3%) through December 31, 2009 and 2008, respectively.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The Venture Capital Authority Board approved of this change at its meeting on October 28, 2008. A schedule of all Azalea SC capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$1,500,000
9/28/2007	1,000,000	1,000,000	500,000
1/16/2009	50,000	1,050,000	450,000

InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund is a one third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were add-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

Spartan Foods was sold in December 2009 to another private equity firm. Azalea's original investment in Spartan Foods was made in March 2005 and the Azalea Fund II realized a return of 6.25 times its invested capital on this investment. Azalea SC Fund's return was approximately 3.0 times its invested capital. In January 2010 InvestSC received a cash distribution of $1,637,819, followed by another distribution of $28,740 in April 2010. A gain of $678,137 was realized by InvestSC. The investment in Horizon CNC Products was written off in December 2008 as the General Partner found it necessary to discontinue the business operations.

InvestSC carries the remaining investment in Azalea SC at $154,139 which is the approximate amount that will be distributed upon the dissolution of the fund in 2011. There will be no additional investments made by Azalea SC and there are no plans by the general partner to draw the remaining $450,000 in committed capital. According to the Azalea SC audited financial statements, the internal rate of return since inception of the fund, net of profit allocations (carried interest) to the General Partner, is 32.8% and 11.3% through December 31, 2009 and 2008, respectively.

Azalea III Fund, LP: The limited partnership agreement was executed by InvestSC on October 31, 2008. A schedule of all Azalea III capital calls is as follows:

Date	Capital Call	Total Drawn	Remaining Commitment
			$8,500,000
10/31/2008	850,000	850,000	7,650,000
8/30/2009	1,700,000	2,550,000	5,950,000

Azalea III had its final closing on April 30, 2010 and raised a total of $82.5 million. Grove Street Partners (Boston) and the SC Retirement Fund were among the institutional investors making commitments. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley, in that the Fund agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the Fund.

Azalea III made its first investment in August 2009 with the acquisition of the auto textile division of Milliken. The new company is called Sage Automotive Interiors. It is the largest seat fabric producer in North America with a 40% market share. Three manufacturing locations are in South Carolina (Abbeville, Spartanburg and Greenville) and one in Georgia. This acquisition marks the first time that Milliken has ever sold a division and will save over 600 jobs in South Carolina.

InvestSC carries the investment in Azalea Fund III at their audited book value of $2,419,076 compared to a cost of $2,550,000. This recognizes the management fees and expenses paid to the general partner as well as a portion of the organizational costs. Even though Sage is profitable and is exceeding expectations, the Fund chose not to mark up the value of the investment as of December 31, 2009. According to the Azalea III audited financial statements, the internal rate of return since inception of the fund is a negative return of (8.9%) and (67.1%) through December 31, 2009 and 2008, respectively.

SUMMARY OF INVESTMENTS AND FAIR VALUES

Investment	2009 Cost	2009 Estimated Fair Value	2008 Cost	2008 Estimated Fair Value
Noro-Moseley Partners VI, LP	3,997,993	3,914,658	2,000,000	1,605,592
Nexus Medical Partners II, LP	20,000,000	21,524,083	10,000,000	11,733,059
Frontier Fund II, LP	5,242,663	5,922,527	3,882,663	3,264,597
Azalea Fund SC, LP	90,318	154,139	1,000,000	1,144,104
Azalea Fund III, LP	2,550,000	2,419,076	850,000	759,332
Totals	$ 31,880,974	$ 33,934,483	$ 17,732,663	$ 18,506,684

TAX CREDIT CERTIFICATES

The South Carolina Venture Capital Authority Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised. No tax credit certificates have been issued as of December 31, 2009.

There is an increased likelihood that tax credits will be required to fund the semi-annual interest payments to Deutsche Bank beginning in December 2010. It is doubtful that anyone foresaw the severe economic downturn when this program was being organized in 2006. It is unlikely that investment returns will be sufficient in the near future to prevent the use of tax credits to fund the required bank payments. The next semiannual interest payment due June 2010 will be approximately $1.64 million, increasing to $1.84 million semiannually in December 2010. Tax credits can only be used to fund required payments to the bank and cannot be used to fund capital calls. The AUDIT REPORT COMMENTS section below further discusses this.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the Venture Capital Authority and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15 year term of the notes.

For the period ending December 31, 2009, interest expense on the notes was $2,450,230, note commitment fees were $29,195 and interest earned on all deposits was $1,388 for a net investment expense of $2,478,037. General administrative expenses for the period were $125,940. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2009, 2008 and 2007 is shown below:

	Year Ended December 31, 2009	Year Ended December 31, 2008	June 22 to December 31, 2007
Total Assets	43,941,532	23,501,557	14,427,372
Less, Note Issuance Cost (net)	(919,583)	(993,150)	(1,066,717)
Fair Value of Assets	43,021,949	22,508,407	13,360,655
Notes Payable to DBAH	44,800,000	25,000,000	15,000,000
Investment Expense for period	2,478,037	1,494,813	460,651
As a percentage of fair value of assets	5.76%	6.64%	3.45%
General Administrative Expense for period	125,940	143,376	112,104
As a percentage of fair value of assets	0.29%	0.64%	0.84%

AUDIT REPORT COMMENTS

Elliott Davis, LLC audited the financial statements of InvestSC as of December 31, 2009 and 2008 and issued their opinion that they are in conformance with accounting principles generally accepted in the United States. They did, however, include a note to the statements that reads as follows:

NOTE 9 – INVESTMENT COMMITMENTS

The Organization has committed to invest an additional $14,832,007, with four venture capital funds. The timing and amount of the capital calls by the venture capital funds for these additional investments is uncertain. The Organization will use the remaining proceeds from the notes payable of $5,200,000 and distributions from existing investments with the venture capital funds to fund these future capital calls. However, the timing and amount of distributions from the venture capital funds is also uncertain. If the Organization is unable to make the required capital contributions upon receiving a capital call, the Organization would be in default in accordance with its agreements with the individual venture capital funds. Upon default, the Organization may be subject to a default fee and possible liquidation of portfolio investments if capital contributions are not paid within certain time frames as noted within its agreements with the individual venture capital funds.

As of May 1, 2010, the unfunded commitments to the individual funds are as follows:

Noro-Moseley Partners VI	$5,002,007
Frontier Fund II	1,800,000
Azalea Fund III	5,950,000
Total Unfunded Commitments	$12,752,007

It will be necessary to develop a strategy to meeting the required semiannual interest payments and sale of tax credits with the required capital contributions so as to not cause InvestSC to be in default with the individual venture capital funds.

RATES OF RETURN

InvestSC received its first return from Azalea SC Fund as described above. All of the funds expect to draw down their capital during the first few years before selling investments and returning capital. Nexus has drawn its entire commitment of $20 million. Azalea SC does not plan to draw its remaining $450,000 and the partnership will be unwound during 2011.

Internal Rate of Return (IRR)
by Venture Capital Fund

	2009	2008
Noro-Moseley Partners VI	-1.8%	n/a
Nexus Medical Partners II	6.0%	17.0%
Frontier Fund II	7.9%	-21.3%
Azalea SC Fund	32.8%	11.3%
Azalea III Fund	-8.9%	-67.1%

(IRR's as reported by Funds)

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a “J”curve.

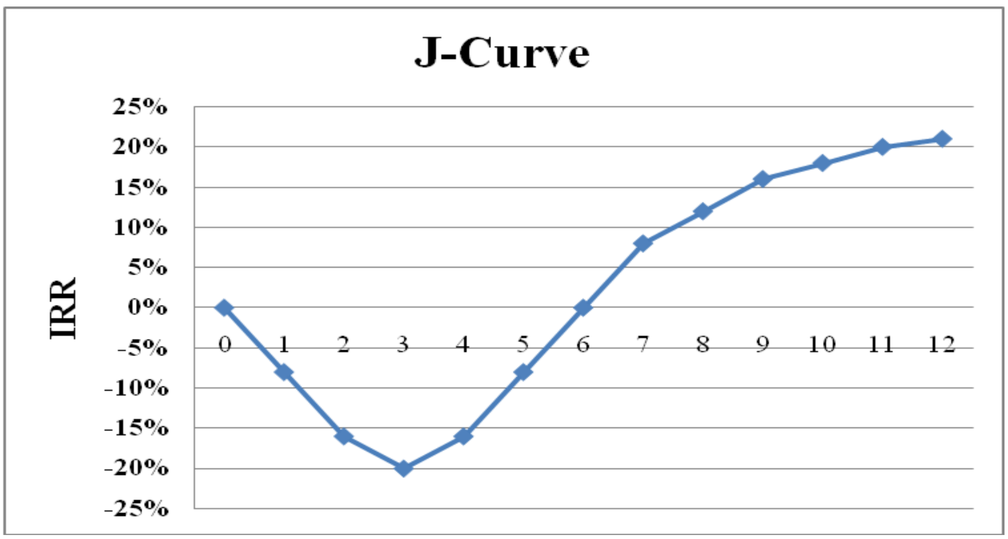
The “J”curve shows a fund’s internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the "J" curve illustration below.

By the second half of a fund's life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

• The first few years or so give little, if any, indication of final returns

• The annual return over any single year is relatively meaningless

• The IRR over the life of the fund is the real measure of a fund's success



Source: Mowbray Capital

2008 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2008 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state. It is anticipated that the returns from these ventures will be sufficient to repay the lenders without having to utilize the tax credits. When managed successfully, South Carolina is positioned to benefit from economic growth without added state expenditure.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the Venture Capital Authority. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Charleston that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The Venture Capital Authority Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. In June of 2008, the next required draw of $10 million was made. The remainder must be drawn during the next two years ($10 million by June 22, 2009 and the remaining $15 million by June 22, 2010). A draw of $6.3 million was made in January 2009 to meet capital calls by Nexus and Frontier. An additional draw of $1 million was made in March 2009 to meet a capital call by Noro-Moseley. As of December 31, 2008, the Notes Payable to DBAH was $25 million. As of March 31, 2009, the Notes Payable had increased to $32.3 million.

Interest is payable semi-annually at a fixed rate of 7.247%. Required payments of interest and commitment fees were made in June and December of 2009 in the amount of $594,943 and $952,045 respectively. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released during October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". At December 31, 2008, the interest reserve and premium reserve totaled $1,944,272 and $1,919,848 respectively.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the funds selected by the South Carolina Venture Capital Authority and verified that each fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The Venture Capital Authority has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. There was a second capital call made in June 2008 of $1,000,000 (and an additional capital call of $1,000,000 made in March 2009). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund.

Investments have been made in nine companies as of December 31, 2008. FrontStream Payments (Nashville), Gateway One Lending and Finance (Atlanta), Vocalocity (Atlanta), 2080 Media (Atlanta), Renal CarePartners, Clearleap, Lanx, RemitDATA, and PocketGear There were no investments in South Carolina based companies at the end of 2008.

InvestSC carries the investment in Noro-Moseley at their audited book value of $1,605,592 compared to a cost of $2,000,000. This recognizes the unrealized gain in value of one company, unrealized loss in value of one company, and the management fees and expenses paid to the general partner.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. The next capital call of $5,000,000 was made in June 2008 (and an additional capital call of $5,000,000 in January 2009). Nexus expects to make its final capital call of $5,000,000 in July 2009. InvestSC is the only investor in this fund and all investments will be in South Carolina based companies. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Investments were made in seven companies during 2008 that are either South Carolina based or will have significant operations in the State. Their first investment, Sabal Medical, is located in Charleston. Two other companies, Mini Lap Technologies and Spectra Technologies, are relocating to South Carolina from New York and Massachusetts, respectively. Four companies, Deltex Medical, Lab 21, Myconostica and Vital Sensors are establishing their United States headquarters in South Carolina.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $11,733,059 compared to a cost of $10,000,000. This recognizes the write-up in value for unrealized gains for three of the portfolio investments and the management fees and expenses paid to the general partner. All other investments are carried at cost.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on

September 24, 2007. Additional capital calls of $2,560,000 were made through December 31, 2008, bringing the total investment to $3,760,000 (47% of commitment). An additional capital call of $800,000 was made in January 2009 (57% of commitment called).

The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Investments were made in the following companies through December 31, 2008: Conclusive Marketing (Nashville, TN), Ryla Teleservices (Atlanta), M3 Technology Group (Charlotte), Inclinix (Wilmington, NC), BIA (Virginia), and Daxko (Birmingham). There were no investments in South Carolina based companies at the end of 2008.

InvestSC carries the investment in Frontier Fund at their audited book value of $3,264,597 compared to a cost of $3,882,663 (includes $122,663 interest). This recognizes the unrealized gains in two portfolio companies, unrealized losses in two companies and the management fees and expenses paid to the general partner.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. The initial capital draw of $1,000,000 (ten percent of commitment) was made by InvestSC that day. There were no additional capital calls by December 31, 2008. InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund is a one third participant in all South Carolina investments made by the Azalea II Fund.

Investments were made in the following South Carolina based companies through the end of 2008: Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were ad-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

InvestSC carries the investment in Azaleas SC at $1,144,104 compared to a cost of $1,000,000. The investment in Horizon CNC Products was written off as the general partner found it necessary to discontinue the business operations. The value of Spartan Foods has increased significantly due to improvements in its core business and the unrealized gain is included in its valuation, as well as management fees and expenses paid to the general partner.

An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The Venture Capital Authority Board approved of this change at its meeting on October 28, 2008.

Azalea III Fund, LP: The limited partnership agreement was executed by InvestSC on October 31, 2008 and the initial draw of $850,000 (ten percent of commitment) was made that day. There were no additional capital calls made before December 31, 2008. Azalea currently has over $30 million committed and a target amount of $75 million by November 1, 2009. There have been no investments made by Azalea III through March 31, 2009 as they continue to raise capital. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley. The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund.

InvestSC carries the investment in Azalea Fund III at their audited book value of $759,332 compared to a cost of $1,000,000. This recognizes the management fees and expenses paid to the general partner as well as a portion of the organizational costs.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2008		2007	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	2,000,000	1,605,592	1,000,000	1,000,000
Nexus Medical Partners II, LP	10,000,000	11,733,059	5,000,000	5,000,000
Frontier Fund II, LP	3,882,663	3,264,597	2,122,663	2,122,663
Azalea Fund SC, LP	1,000,000	1,144,104	1,000,000	1,000,000
Azalea Fund III, LP	850,000	759,332	-	-
Totals	$ 17,732,663	$ 18,506,684	$ 9,122,663	$ 9,122,663

TAX CREDIT CERTIFICATES

The South Carolina Venture Capital Authority Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised. No tax credit certificates have been issued as of December 31, 2008. It is not anticipated that any tax credit certificates will be issued in 2009.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the Venture Capital Authority and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15 year term of the notes.

For the period ending December 31, 2008, interest expense on the notes was $1,488,856 note commitment fees were $75,500 and interest earned on all deposits was $69,543 for a net investment expense of $1,494,813. General administrative expenses for the period were $143,376. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2008 and December 31, 2007 is shown below:

	Year Ended December 31, 2008	Period from June 22 to December 31, 2007
Total Assets	23,501,557	14,427,372
Less, Note Issuance Cost (net)	(993,150)	(1,066,717)
Fair Value of Assets	22,508,407	13,360,655
Notes Payable to DBAH	25,000,000	15,000,000
Investment Expense for period	1,494,813	460,651
As a percentage of fair value of assets	6.64%	3.45%
General Administrative Expense for period	143,376	112,104
As a percentage of fair value of assets	0.64%	0.84%

RATES OF RETURN

There have been no investment returns since the original investments in the funds. All of the funds expect to draw down their capital during the first few years before selling investments and returning capital. Overall, the funds drew capital as expected during 2008. Some of the funds have slowed their investment pace due to the weakening economy.

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a "J"curve.

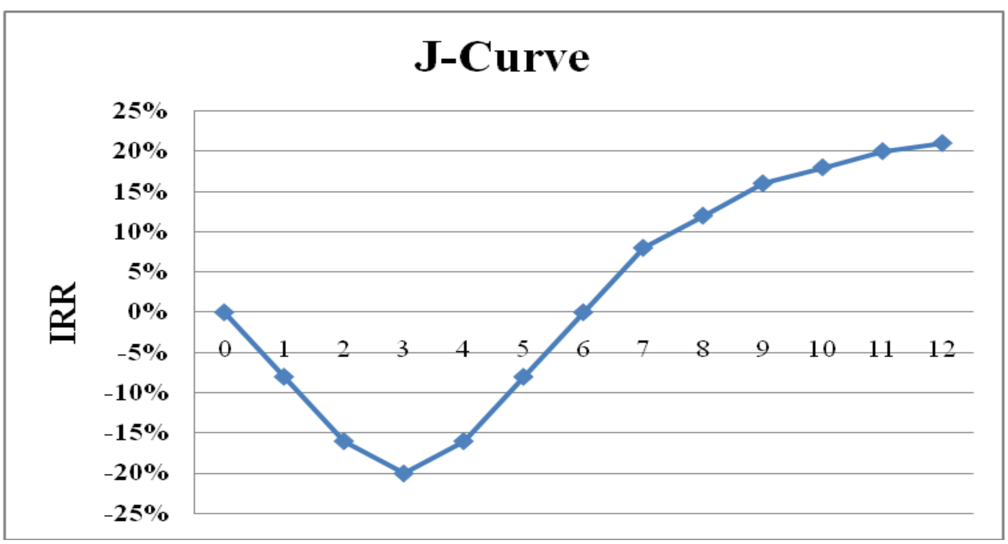
The "J"curve shows a fund's internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the "J" curve illustration below.

By the second half of a fund's life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

• The first few years or so give little, if any, indication of final returns

• The annual return over any single year is relatively meaningless

• The IRR over the life of the fund is the real measure of a fund's success



Source: Mowbray Capital

2007 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2007 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state. It is anticipated that the returns from these ventures will be sufficient to repay the lenders without having to utilize the tax credits. When managed successfully, South Carolina is positioned to benefit from economic growth without added state expenditure.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the Venture Capital Authority. The authority selected InvestSC to serve as a “Designated Investor Group” for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Charleston that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Frontier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The Venture Capital Authority Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. The remainder must be drawn during the next three years. Interest is payable semi-annually at a fixed rate of 7.247%. Annual principal payments of $12,500,000 will begin in 2019 until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released during October 2007, since InvestSC received notification from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". At December 31, 2007, the interest reserve and premium reserve totaled $1,911,435 and $1,146,861, respectively.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the funds selected by the South Carolina Venture Capital Authority and verified that each fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The Venture Capital Authority authorized investments in the following four funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP (Frontier Capital) - $8 Million commitment
Azalea SC Fund, LP (Azalea Capital) - $10 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. There were no additional capital calls by December 31, 2007. The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Investments were made by the fund in the following companies during 2007: FrontStream Payments (Nashville), Gateway One Lending and Finance

(Atlanta) and Vocalocity (Atlanta). There were no investments in South Carolina based companies at the end of 2007.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. There were no additional capital calls by December 31, 2007. InvestSC is the only investor in this fund and all investments will be in South Carolina based companies. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment. There were no investments as of December 31, 2007.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on September 24, 2007. There was an additional capital call of $800,000 on December 6, 2007 making InvestSC's total investment in the fund $2,000,000 (twenty-five percent of commitment) as of December 31, 2007. The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Investments were made in the following companies through December 31, 2007: Conclusive Marketing (Nashville, TN), Ryla Teleservices (Atlanta), M3 Technology Group (Charlotte), and Inclinix (Wilmington, NC). There were no investments in South Carolina based companies at the end of 2007.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. The initial capital draw of $1,000,000 (ten percent of commitment) was made by InvestSC that day. There were no additional capital calls by December 31, 2007. InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund is a one third participant in all South Carolina investments made by the Azalea II Fund. Investments were made in the following South Carolina based companies through the end of 2007: Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were ad-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated. The InvestSC investment was $622,050 in Spartan Foods and $82,500 in CNC Products.

TAX CREDIT CERTIFICATES

The South Carolina Venture Capital Authority Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. These certificates are held in trust by a custodial bank until such time that they must be exercised. No tax credit certificates have been issued as of December 31, 2007. It is not anticipated that any tax credit certificates will be issued in 2008.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the Venture Capital Authority and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15 year term of the notes.

For the period ending December 31, 2007, interest expense on the notes was $579,760, note commitment fees were $55,125 and interest earned on all deposits was $174,234 for a net investment expense of $460,651. General administrative expenses for the period were $112,104. In addition, the amortized portion of the note issuance costs was $36,783. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2007 is shown below:

Total Assets on December 31, 2007	$14,427,372
Less, Note Issuance Costs, net	(1,066,717)
Fair Value of Assets	$13,360,655
Investment Expense for period 6/22/07 to 12/31/07	$460,651
As a percentage of fair value of assets	3.45%
General Administrative Expense for period 6/22/07 to 12/31/07	$112,104
As a percentage of fair value of assets	0.84%

RATES OF RETURN

There were no investment returns during the first six months from the funds. All of the funds expect to draw down their capital during the first few years before selling investments and returning capital. The funds drew capital as expected during 2007.

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a “J”curve.

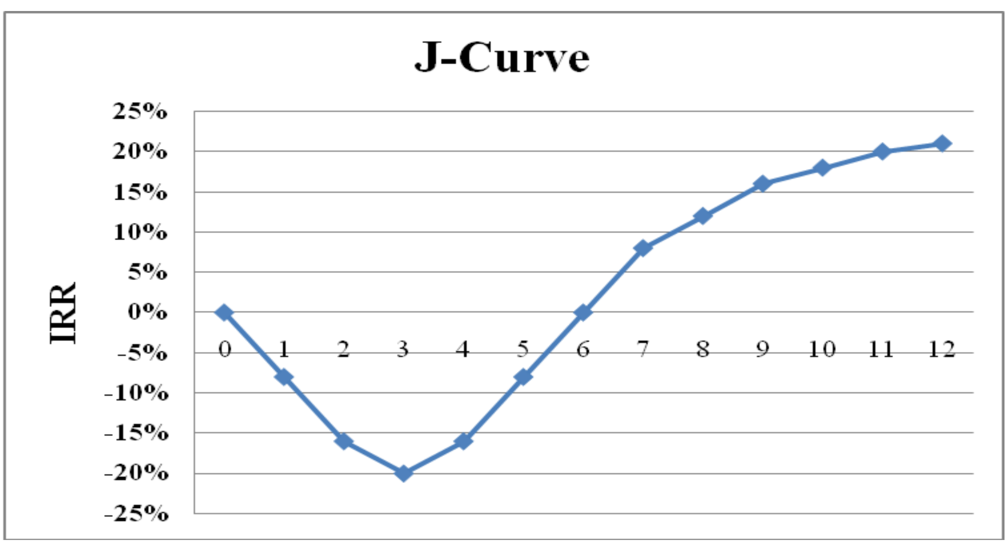
The “J”curve shows a fund’s internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the “J” curve illustration below.

By the second half of a fund’s life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

• The first few years or so give little, if any, indication of final returns

• The annual return over any single year is relatively meaningless

• The IRR over the life of the fund is the real measure of a fund’s success



Source: Mowbray Capital