IBank’s Expanding VC Access Fund | Staff Report

**Issue.** The California Infrastructure and Economic Development Bank (“IBank”) staff recommends the IBank Board of Directors (the “Board”) adopt Resolution No. 22-14, which authorizes the retention of External Consultant(s) for the Expanding Venture Capital Access Fund (the “Venture Fund”), grants authority to the Executive Director or his assignees to conduct activities described in section 4 of the Resolution to further such purpose, and approves Cambridge Associates as a preferred External Consultant.

**Background.** The American Rescue Plan Act of 2021 included $10 billion for the reauthorization of the State Small Business Credit Initiative (SSBCI 2.0). SSBCI was originally created through federal legislation, the Small Business Jobs Act of 2010 (SSBCI 1.0). In 2010, SSBCI was funded with $1.5 billion to strengthen state programs that support financing of small businesses. California received $168 million of the $1.5 billion and the Infrastructure and Economic Development Bank (IBank) and the California Pollution Control Financing Authority (CPCFA) – an agency housed within the State Treasurer’s Office (STO) split the funding equally between the two agencies. California's SSBCI 2.0 allocation will again be split evenly between IBank and CPCFA. On September 28, 2022, IBank and CPCFA executed an interagency agreement memorializing our joint administration of the program.

In November 2021, the U.S. Treasury released a state-by-state allocation of the $10 billion appropriated, except the technical assistance funds, and California was allocated $1.182 billion. California’s allocations are as follows: $829 million main capital allocation, $66 million very small businesses allocation, $187 million for socially and economically disadvantaged individuals (SEDI) allocation, and $100 million SEDI performance funds, which will be received in three separate tranches as funds are utilized. The SEDI performance funds will be provided to states in tranches two and three and additional funds ($100 million nationally per tranche) may be available based on performance reaching the socially and economically disadvantaged individuals.

Over the course of SSBCI 2.0, IBank is expected to receive approximately $591 million and will use approximately $391 million to replenish and expand the Small Business Finance Center’s Small Business Loan Guarantee Program and $200 million to establish the Venture Fund. The Criteria, Priorities, and Guidelines (“guidelines”) for the Venture Fund were adopted by the Board on July 27, 2022 (see guidelines and staff report).

In the Venture Fund’s development, it was envisioned the program would be administered by an internal “IBank Venture Manager” and supported by IBank staff operating in conjunction with contracted External Program Administrators and/or External Consultants to aid in sourcing and evaluating: (i) venture capital funds and (ii) co-investments for the Venture Fund.
In determining whether to utilize an External Program Administrator or an External Consultant to support the program, IBank staff were advised by US Treasury that it would not be feasible to operate the External Program Administrator model under SSBCI 2.0 without amending the state’s application. Consequently, IBank proceeded with an open and competitive Request for Qualifications (RFQ) process to identify one or more External Consultants to support the Venture Fund. The main difference between an External Program Administrator and an External Consultant is that the former would have full discretion for investment decisions on behalf of IBank, while the latter will not. The External Consultant will source, diligence, and recommend fund investment opportunities for Board approval. The Board may elect to delegate direct co-investment discretion to the External Consultant, to be determined at a later date.

Selection Process. The RFQ was published on August 11, 2022. It was posted on the IBank website, distributed to the IBank venture capital and small business stakeholder email lists (711 contacts), included in IBank’s August Newsletter (10,636 contacts), and posted to IBank’s main social media accounts (1,800 followers). In addition, staff reached out to companies that had previously inquired about the mandate, and to a target list of larger firms whose qualifications appeared to meet the mandate. At the close of the application period on September 19, 2022, IBank received 20 RFQ responses. Using a standard scoresheet, a working group of four staff members each spent over 80 total hours scoring the 20 applications according to a range of suitability criteria, such as the respondent’s experience in managing similar mandates, team strength, legal and operational capacity. The initial 20 applications were then narrowed to the 8 highest scoring applicants. IBank staff interviewed those 8 applicants and narrowed the field to 3 finalists. IBank staff again met with the 3 finalists and, after much deliberation, recommends selecting Cambridge Associates as the External Consultant to support the Venture Fund. The contract will be executed ahead of US Treasury’s deadline for the program to be live of December 15, 2022.

Scope of Services. External Consultants will be tasked with the following duties:

1. Marketing the Venture Fund
2. Sourcing potential fund and / or direct business investments
3. Conducting due diligence
4. Providing recommendations to the IBank staff and board, including presenting at Board meetings
5. Creating a balanced portfolio
6. Overseeing that portfolio
7. Providing quarterly and annual portfolio valuations
8. Meeting IBank and US Treasury reporting requirements, which include:
   a. Federally required information to fulfill SSBCI program requirements on a quarterly and annual basis
   b. Self-certification forms required by the SSBCI program for each investment
   c. Quarterly and annual valuation data on all portfolio holdings
9. A final report at the end of the Venture Fund participation

Firm's Qualifications. Cambridge Associates is a large, well-established firm that can be considered a leader in the investment advisory field. It describes itself as “a global investment firm that aims to help institutional and private clients implement and manage custom investment portfolios that generate outperformance so they can maximize their impact on the world”. It manages both discretionary (Program Administrator) and non-discretionary (External Consultant) assets, has a licensed staff of 461 investment professionals and services 832 clients. Its advantages include:

- Long track record in venture capital advisory and management. The company introduced its first clients, a group of sophisticated US endowments, to venture capital investing in the late 1970s. Its internal rate of return (IRR) has exceeded that of the MSCI ACWI mPME (a global equity index) benchmark in each year since 2003.
- Significant assets under advisement. It advises on $52 billion in client venture capital net asset value. To illustrate the scale of these assets, the largest single venture capital fund in 2021 was one from ARCH Capital at $2.95 billion.\(^1\)
- Experience of working with state mandates. Cambridge Associates works with some of the largest public institutions in California on their venture capital programs, including CalSTRS, the San Francisco Employees Retirement System, and Kern County Employees' Retirement Association. It works in a similar capacity with public plans across the country including the State Board of Administration of Florida, the Tennessee Valley Authority, and the Arizona State Retirement System.
- Experience of working with Californian mandates. The company partners with several clients today on either location-based mandates focused on underserved and underrepresented populations or broader emerging manager mandates with exposure to California-based diverse managers. In California, examples of this type of work include partnerships with the California Wellness Foundation, the Weingart Foundation, and the Annenberg Foundation.

\(^{1}\) Crain figure
- Extensive databases of potential VC fund investments. Cambridge Associates’ 100+ private investment professionals globally are constantly meeting with managers and learning about the competitive landscape in which a manager operates. Its due diligence process on one manager can often lead to the discovery of additional relevant managers. In a given year its private investment team holds more than 2,500 meetings with private markets managers and the private investment team completed full due diligence on over 270 private markets strategies in 2021 alone.

- Extensive networks from which to source potential co-investments. Cambridge Associates has multiple avenues from which to source potential co-investments: its institutional clients make referrals, its staff speak at industry conferences, and its diversity initiative leads it to engage with women- and minority-related affinity groups and networks. It receives many “in-bound” requests for meetings directly from managers. Given its brand, reputation, and sophisticated client base of attractive investors, managers frequently view Cambridge Associates as a first “port-of-call” when fundraising.

- Large legal and operational teams, which is key for the Venture Fund given its higher-than-average requirements and complexity. As of December 31, 2021, Cambridge Associates’ Legal and Compliance team consists of 38 professionals and its Business Operations team (consists of investment operations and client and portfolio services professionals responsible for custom client reporting) consists of 273 professionals.

**Competitive Fees.** IBank has sought fee proposals from each of the top 8 firms, and Cambridge Associates proposed costs appear to be in line with market norms for a reputable consulting firm willing to take on a mandate with this level of complexity.

**Recommendation.** Staff recommends approval of Resolution No 22-14 authorizing the retention of External Consultant(s) for the Venture Fund, granting authority to the Executive Director or his assignee to conduct activities described in section 4 of the Resolution to further such purpose, and approving Cambridge Associates as a preferred External Consultant.