

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. 22-19, which approves and adopts the investment process for the Expanding Venture Capital Access Fund (the "Venture Fund").

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](#)). Further, the Board approved Resolution No 22-14 authorizing the retention of an 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, in October 2022. Staff is now requesting approval of the attached investment process.

Rationale for Investment Process. There are three rationales for the approach that we have taken in the attached investment process:

- Our program design as submitted to the U.S. Treasury retained ultimate investment authority to be vested with the IBank Board, rather than transferring investment authority to an external contracted entity. We propose that the Board directly approves each venture fund investment, and delegates the approval of direct company co-investments to a newly formed IBank VC Investment Committee.
- By their nature, direct company co-investments require swift investment decisions in order to be part of the most attractive investment opportunities and to maintain IBank's reputation as a credible investment partner. For this reason, staff requests that the Board delegate investment making decisions for co-investments to a VC Investment Committee, comprised of staff members. The VC Investment Committee will evaluate each co-investment based on information provided by Cambridge Associates and on the following factors:
 - Does the investment benefit an underserved population or community of California or advance climate equity?
 - Since IBank will not be the lead investor directly to a company, is it either a co-investment or follow-on investment to a company within one of the program's existing venture capital fund investments, or does the company have a qualified fund manager that is leading the investment round?
 - Other considerations deemed beneficial for the success of the program, including certain business activities and public considerations.
- Our approach allows us to leverage Cambridge Associates' strong investment expertise throughout by utilizing the consultant's investment research as a basis for investment evaluation.

Recommendation. Staff recommends approval of Resolution No 22-19 which approves and adopts the investment process for the Expanding Venture Capital Access Fund (the "Venture Fund").

EXPANDING VC ACCESS PROGRAM | INVESTMENT PROCESS

Background

IBank selected an external consultant, Cambridge Associates (“Cambridge”) to aid in its investment into venture funds and co-investments for the Expanding VC Access Program (“program”). The following describes the process by which Cambridge will work with the program to make investments. The process differs between the two venture fund investment strategies and the co-investment strategy.

Fund Investment

1. *Deal Sourcing.* Cambridge will be primarily responsible for deal sourcing, through their existing networks and headed by their Diverse Manager team. IBank will assist by promoting the program through its website, mailing list and outreach events. IBank will refer any potential venture funds that approach it to Cambridge for evaluation.
2. *Due Diligence.* When Cambridge identifies a venture fund that fits the program’s mandate, it will provide a due diligence pack detailing its recommendation to the IBank staff. IBank staff will provide a staff report to the IBank Board ahead of its monthly meeting.
3. *Investment Approval.* The IBank Board will make a decision as to whether to make an investment in the proposed venture fund.
4. *Documentation & Execution.* Once a venture fund investment has been approved by the IBank Board, Cambridge will collect from the fund manager the below documentation for the IBank staff. Cambridge will not be obligated to certify that such documentation is complete and will initiate and facilitate communication between the fund manager and IBank for any required discussion or negotiation in regards to the following:
 - a. Investment documentation(s) that includes:
 - i. the use of a hybrid debt note from IBank to the venture fund, either directly or through a sidecar vehicle
 - ii. the mandate restrictions, the principal ones being:
 1. investments made by venture fund must be based in California
 2. investments cannot be made into rounds that are \$20 million or larger

3. investments must have a 1:1 match from private funds at initiation of the investment
- and
- iii. the self-certifications that must be completed by each company in which the venture fund invests SSBCI funds, being:
 1. Borrower/Investee Use of Proceeds and Conflict of Interest Certification. To facilitate completion of this documentation, IBank will circulate a list of the names of current SSBCI insiders and specified family members and business partners of SSBCI insiders for Cambridge to provide to potential venture fund investments to assess any conflicts of interest.
 2. Sex Offender Investor/Investee Certification (Venture Capital/Equity Program)
 3. Borrower/Investee Certification Related to Business Enterprises Owned and Controlled by Socially and Economically Disadvantaged Individuals (SEDI-Owned Businesses)

and

- iv. table 7 data (see page 12 onwards of [Capital Program Reporting Guidance](#) of September 30, 2022) required from any portfolio companies in which IBank funds are invested.

US Treasury reporting and compliance requirements for companies are details further in clause 9 below.

In addition, the investment documentation(s) will include the requirement to provide details of IBank funds invested and returned at least quarterly.

- b. A completed US Treasury investee Conflict of Interest Form. To facilitate the completion of this US Treasury self-certification form, the program will supply Cambridge with:
 - i. a copy of the relevant conflict of interest policy(s) and
 - ii. a list of the program's current insiders and specified family members and business partners.
- c. Written agreement to make available to the Treasury Inspector General and the Government Accountability Office all books and records related to the

use of the SSBCI funds, including detailed loan and investment records, as applicable. Such access to books and records is subject to applicable privacy laws, including but not limited to The Right to Financial Privacy Act, 12 U.S.C § 3401 et seq., which establishes procedural requirements for the release of certain financial records to governmental authorities.

- d. A US Treasury sex offender certification, as shown on page 8 of [Capital Program Sample Certifications of July 2022](#), to be signed by the venture fund manager.

Once documentation has been executed, funds will be transferred from IBank's trustee account to an investee's account or to a reserve account for capital calls.

5. *Tracking.* IBank staff will review information on the venture fund provided by Cambridge in its quarterly reviews and will participate in investor events hosted by the venture fund where appropriate. In the first week of each calendar year, IBank will request that the venture fund complete a US Treasury Certification Regarding Venture Capital Fund Services to Portfolio Companies (see page 12 of [Capital Program Sample Certifications of July 2022](#)).

Co-Investment

6. *Deal Sourcing.* Co-investments will be generated by venture funds in which IBank has already invested, from companies that directly approach the program and from venture funds that are not in the program's investment portfolio but are in other Cambridge client portfolios.
7. *Due Diligence.* Cambridge will screen opportunities, regardless of their origin, and conduct initial due diligence on potential co-investments for further review:
 - a. Cambridge will provide the initial due diligence (indication of interest) pack to the program.
 - b. IBank staff will provide a staff report for the IBank VC investment committee.
8. *Investment Approval.* The IBank VC investment committee will decide based on the indication of interest pack whether to proceed with the deal considering the following:
 - i. Does the investment benefit an underserved population or community of California or advance climate equity?
 - ii. Since IBank will not be the lead investor directly to a company, is it either a co-investment or follow-on investment to a company within one of the program's existing venture capital fund investments, or

does the company have a qualified fund manager that is leading the investment round?

- iii. Other considerations deemed beneficial for the success of the program, including certain business activities and public considerations.
 - b. IBank's VC investment committee will accept or reject the investment as soon as is practical after receiving the initial indication of interest pack from Cambridge. They will make a soft commitment at this stage, pending Cambridge's final investment due diligence and meeting all of the Program's investment documentation requirements.
 - c. Once Cambridge has completed its full due diligence, it will supply a copy of the full due diligence pack to the program for its records
9. *Documentation & Execution.* Once a co-investment has been approved by the IBank Board, Cambridge will collect from the company the below documentation for the IBank staff. Cambridge will not be obligated to certify that such documentation is complete and will initiate and facilitate communication between the fund manager and IBank for any required discussion or negotiation in regards to the following:
- a. Investment documentation(s) that includes:
 - i. the use of a hybrid debt note from IBank to the company
 - ii. quarterly and / or annual reporting requirements as outlined by Cambridge
 - iii. the self-certifications and
 - iv. table 7 data required ahead of investment.
 - b. Table 7 data, as shown on page 12 of [Capital Program Reporting Guidance](#) of September 30, 2022
 - c. Borrower/Investee Use of Proceeds and Conflict of Interest Certification. To facilitate completion of this documentation, IBank will circulate a list of the names of current SSBCI insiders, their family members and business partners to Cambridge for co-investment purposes. Note that this list will differ from the current insider list for fund investments as it will exclude the IBank Board, which does not direct nor approve co-investments.
 - d. Sex Offender Investor / Investee Certification (Venture Capital / Equity Program)

- e. Borrower/Investee Certification Related to Business Enterprises Owned and Controlled by Socially and Economically Disadvantaged Individuals (SEDI-Owned Businesses)

Once documentation has been executed, funds will be transferred from IBank's trustee account to an investee's account.

At this stage, IBank staff will share a description of the investment with the Board as an information item at the time of its next Board meeting.

10. *Tracking.* IBank staff will review information on the co-investment provided by Cambridge in its quarterly reviews.