

# MINUTES OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

For the meeting held on  
Wednesday, October 19, 2022, at 2:00 p.m.

IBank's meeting is virtual participation via teleconference, consistent with recent state law changes, with Board members attending remotely and meetings accessible and open to the public via teleconference only.

Chair Dee Dee Myers, Director of the Governor's Office of Business and Economic Development, welcomed everyone to IBank's Board meeting. She started by providing instructions to participants regarding process, participation, recording, and public comment.

## 1. Call to Order and Roll Call

Chair Myers then called the meeting of the California Infrastructure and Economic Development Bank (IBank) Board to order at approximately 2:05 p.m.

The following Board members attended in person:

Chair Dee Dee Myers, Director of the Governor's Office of Business and Economic Development,  
Gayle Miller for the Director of the Department of Finance,  
Carlos Quant for the Secretary of the State Transportation Agency,  
Blake Fowler for the State Treasurer, and  
Marc Steinorth, Governor's Appointee

IBank staff members attended in person:

Scott Wu, Jaymie Lutz, and Angel Lau

## Information Item

## 2. Executive Director's Report

Scott Wu, IBank's Executive Director, delivered the Executive Director's Report.

Mr. Wu began by noting that the stock and bond markets have experienced record-breaking volatility that have been both gut-wrenching and at times inexplicable.

He noted that 35 years ago today, a day known globally as Black Monday, the largest single day stock crash in history took place – the 23% drop in the Dow index, equivalent to a 7,000 point drop today, triggered massive declines in stock values around the world, wiping out an estimated \$1.7 trillion.

Mr. Wu stated that, while he knew absolutely nothing about the stock market back then, he remembered Black Monday and its impact on his future. The day after the crash, Mr. Wu's college professor canceled his planned lecture to hold a roundtable discussion on what had happened. Despite being unfamiliar with even the basic principles of the stock market, Mr. Wu recalled being fascinated and thirsting to learn more. The next semester, he enrolled entirely in economics classes. By the time the semester ended, Mr. Wu was employed on Wall Street.

Mr. Wu conveyed that, despite his degrees and years of work in the industry, to this date, he is still hard pressed to provide a simple explanation of what triggered Black Monday. The crash left a lasting impression that the efficient-market theory occasionally takes a beating and smart, strong regulatory rules and interventions are necessary to save the day – even in a free-market system.

Mr. Wu further noted that, on this day in 1973, the Arab oil embargo began when Arab OPEC members decided to use oil as a political weapon. They targeted the U.S. and other nations that supported Israel in the Yom Kippur War, driving up the price of oil fourfold and causing, at the time, the most significant global recession since the Great Depression. The embargo's effect was significantly exacerbated by the fact that, in the early 1970's, the US had turned to the Middle East for the vast majority of its imports as American oil production peaked and demand soared.

Mr. Wu recalled that the embargo caused devastating and immediate global impact and realigned geopolitics among many other long-term implications. The 55-mph national speed limit was imposed and sitting for hours in gas lines with rationing based on license plate numbers affected American's everyday lives. Even Christmas lights that winter were discouraged or banned. Fortunately, the embargo ushered in the creation of CAFÉ fuel standards, and later, the Department of Energy. The Strategic Petroleum Reserve that President Biden is currently tapping as part of his drive to reduce gas prices was also established.

Creeping stagflation became a stubbornly entrenched and pervasive feature of the decade's economic underpinnings. Today's policy makers are furiously attempting to avert another bout of stagflation as the experience from the 1970s was debilitating. But unlike the 1970's stagflation, which was precipitated by an oil supply shock, the current environment compounds the difficulty of a COVID-induced supply shock with an energy crisis resulting from the Russian invasion of Ukraine.

Mr. Wu highlighted that the long-lasting implications of the 1970's stagflation continue to influence us to this day, and include increased domestic oil and energy exploration and innovation, research and development of alternative energy, and a movement towards energy conservation.

In the aftermath of the embargo, demand shifted dramatically from large gas guzzlers to compact cars imported from Japan, impairing our auto industry. Mr. Wu's family 400cc V8 Chrysler Cordoba gave way to a 4-cylinder Nova. Much later, when the American auto industry barely survived another near-death experience with a government lifeline, the industry slowly and sometimes reluctantly learned the lessons of the day and now collectively lead the world toward the EV future.

Mr. Wu closed his address by noting that catastrophic events always present lessons from which to learn – which we can ignore or forget at our own peril. In the words of Winston Churchill, “never let a good crisis go to waste.” Crises can lead to long term positive changes in policies, behaviors, and outcomes. However, they can only be capitalized on if there is a common recognition and acknowledgement of the challenge at hand. Only then can society mobilize as a united force to avert catastrophe.

With the magnitude of today's challenges, anything less may haunt us forever.

Mr. Wu then turned to a few administrative announcements. He began by welcoming three new IBank employees.

- Dalibor Zivkovic who joined IBank’s Bond Unit. Prior to joining IBank, he worked with national banks and local credit unions as a customer relations representative, loan officer and financial fraud investigator. Mr. Wu noted that Mr. Zivkovic graduated from Cal Poly Humboldt with a degree in criminology & justice studies. He immigrated to the US at the age of five and has resided in Sacramento for the past 20+ years. Mr. Zivkovic is an archer and adds a border collie named Luka to the IBank dog family
- Bryan Fairman who joined IBank’s Legal Unit. Prior to joining IBank, he spent 13 years representing financial institutions. Most recently he was a managing attorney for a creditor rights firm, with a focus on bankruptcy law. Mr. Fairman earned a degree in psychology from UCLA and a law degree from UC Davis. Mr. Wu suggested that Mr. Fairman must be proud of his Bruins after the big win last weekend – with huge games coming up against the Ducks on Saturday and the Trojans a month from today. Mr. Fairman and his wife have a one-year old daughter and add a yorkie-poo to the IBank dog family.
- Jindra Reyes who joined IBank’s Small Business Finance Center. Prior to joining IBank, she was a retirement analyst with 16 years of delivering customer service to CalPERS’s members and business partners. Prior to CalPERS, she was at the DMV. Mr. Wu noted that, for IBank’s Filipino small business community, Ms. Reyes is fluent in Tagalog. She graduated from Sac State with a degree in business administration. Mr. Wu stated that he would be remiss to point out Sac State’s undefeated season and their current no. 3 national ranking in the FCS.

Mr. Wu concluded his report. Chair Myers welcomed Mr. Zivkovic, Mr. Fairman, and Ms. Reyes and announced the conclusion of information items.

### **Consent Item**

#### **3. Approve minutes from the meeting held July 27, 2022**

Chair Myers opened up discussion of the previous meeting’s minutes. Mr. Steinorth moved to approve the minutes, and Mr. Fowler seconded the motion. The Board unanimously approved the July 27, 2022 meeting Minutes.

### **Action Item**

#### **4. Resolution No. 22-13 approving lending Infrastructure State Revolving Fund Program funds to the County of Sacramento in an amount not to exceed \$35,000,000 to finance an eligible project known as the North Area Recovery Station Commercial Waste Transfer Building Project located in the North Highlands area of the County of Sacramento.**

Lina Moeller, Loan Origination Manager, introduced Resolution 22-13. She discussed the project, noting that a new commercial waste transfer building would mitigate odor pollution, reduce greenhouse gases, and reduce waste to landfills. Overall, the new building will improve Sacramento County’s ability to manage solid waste and meet the needs of a growing region – all in compliance with Senate Bill 1383.

Ms. Moeller stated that the repayment source for the loan is the County’s Solid Waste Enterprise fund, and the County anticipates creating 710 jobs during the construction period.

She then introduced representatives from the Sacramento County: Amanda Thomas, County Chief Fiscal Officer; Keith Goodrich, Director of the Department of Waste Management and Recycling; Brian Liebich, Principal Civil Engineer of the Department of Waste Management and Recycling; Megan Shepard, Chief Financial Administrative Officer of the Department of Waste Management and Recycling; Colin Bettis, County Debt Officer; Lisa Randall, CEO Management Analyst II; Nick Jones, PFM Senior Managing Consultant; and Eric Heidel, PFM Senior Analyst.

Chair Myers thanked Ms. Moeller, welcomed the representatives from the County, and asked them to comment on the project.

Mr. Bettis thanked the Board and IBank staff for bringing the financing before the Board. He noted that the project will assist the County in advancing and managing its compliance with the requirements of Senate Bill 1383.

Chair Myers thanked Mr. Bettis for his comments and asked if the Board members had any questions on the matter.

Hearing none, Chair Myers then asked for any public comment. Hearing none, Mr. Steinorth moved for approval of the resolution and Ms. Miller seconded. The Board voted unanimously to pass Resolution 22-13.

Chair Myers congratulated the County of Sacramento.

**5. Resolution No. 22-14 approving the selection of an External Consultant for IBank's Expanding Venture Capital Access Fund program.**

Nicola Kerslake, IBank's SSBCI Venture Capital Development Consultant, introduced Resolution 22-14. She reported that, after the July Board meeting, IBank ran a public RFQ process to identify an external consultant to support the Expanded Venture Capital Access Fund program ("Program"). The RFQ generated 20 applications, and a working group of IBank staff then scored each application across categories that included the respondent's experience in managing similar mandates and its team's strength. The eight highest scoring applicants were invited to meet with the IBank team, which then narrowed the pool of applicants to three finalists. Additional discussions with the three candidates led to the selection of one candidate, Cambridge Associates, the highest scoring candidate throughout the process.

Ms. Kerslake noted that IBank staff's recommendation of retaining Cambridge Associates was based on three principal factors:

First, Cambridge Associates is one of the largest and best-known investment advisory firms. It advises on \$52 billion in client venture capital – on a net asset value basis – nearly 18x the size of the largest single venture capital fund in 2021. Cambridge has been advising clients on venture capital investments since the late 1970s. It works with some of the largest public institutions in California on their venture capital programs, including CalSTRS, the San Francisco Employees Retirement System, and the Kern County Employees' Retirement Association.

Second, Cambridge Associates has a substantial deal sourcing network, which is important for finding strong venture capital funds to invest in and is key to making our Program sustainable. It has a dedicated diverse manager research team, making it unique among the respondents to the RFQ. Its reputation attracts emerging managers to Cambridge

Associates to seek fund allocations. In 2021, Cambridge Associates' private investment team held 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.

Finally, Cambridge Associates has large legal and operational teams, which is key for the Program given the complexity and depth of US Treasury's SSBCI compliance and reporting requirements. Its Legal and Compliance team consists of 38 professionals and its Business Operations team consists of 273 professionals.

At the conclusion of her comments, Ms. Kerslake noted that three representatives from Cambridge Associates were present and available to answer any questions.

Chair Myers thanked Ms. Kerslake, welcomed the representatives from Cambridge Associates, and asked them to make any additional comments.

Mr. Dan Desmarais, Managing Director at Cambridge, stated that he enjoyed the experience of getting to know IBank during the selection process and looked forward to working with the staff.

Chair Myers thanked Mr. Desmarais and asked if Cambridge Associates had experience working with any other states' SSBCI venture capital program. Mr. Desmarais answered that this would be Cambridge Associates' first mandate related to SSBCI. Mr. Clint Kellum stated that IBank had spent a lot of time discussing and working with Cambridge Associates on the requirements of SSBCI and expected a positive collaboration going forward.

Chair Myers then asked where Cambridge Associates is headquartered. Mr. Desmarais responded that the company is headquartered in Boston, Massachusetts. Mr. Wu asked Mr. Desmarais to discuss Cambridge Associates' presence in California. Mr. Desmarais explained that Cambridge Associates has a San Francisco office where many of the venture staff and head of private investments are located. The company will look to add additional staff in San Francisco to support this and other initiatives. In addition to San Francisco, Cambridge Associates also has an office in Menlo Park. Chair Myers noted that it was good to know that Cambridge Associates has offices nearby in California and is experienced in investing in the state.

Chair Myers then asked if Board members had any questions.

Mr. Fowler asked for a discussion on the details behind Cambridge Associates' proposed fee structure. Mr. Wu stated that IBank had asked for outlines of fee proposals from the selected applicants. The larger national players had structurally similar fee proposals and were all very much in line with each other. The smaller and more niche applicants had significantly higher fee and carried interest proposals – in some instances, multiples higher than Cambridge Associates and the other national players. Mr. Wu further explained that, for the fund investing component, the fee is 10 to 55 basis points per year – declining over time – on the commitment amount in any given year. The commitment amount will grow over time. For the direct investments, there are two components – (1) a management fee component based on the invested capital, net of any distributions and write-offs, and (2) a carried interest component based on the profits from the investments. In support of the total program there is an annual minimum fee of \$500,000. Mr. Wu concluded by asking Cambridge Associates representatives to provide any additional fee information. Mr. Desmarais responded that Mr. Wu had laid out the fee structure perfectly and welcomed any further questions.

Ms. Miller asked Mr. Desmarais to explain the fee structure that was described as a percentage basis. Mr. Desmarais explained that, for fund investments, the management or advisory fee structure was a waterfall based on the commitment amount – the intent was to create a flat fee so that it would be easier for IBank to budget for on a regular basis and to bring some consistency to the budgeting process. On the co-investment side, the structure is management fee plus carried interest to align with the incentives of the Program. Mr. Desmarais further elaborated that Cambridge Associates took into consideration that the Program may be evergreen. The fee structure is designed to be flexible and can evolve as the program is being implemented over the next few years.

Ms. Miller then asked Mr. Desmarais if he plans to regularly report to the Board so that the members will be aware of the fees and the values added. For example, for co-investments, the management fees and carried interest can be significant, and CalSTRS regularly provides transparency and reports on fees. Mr. Desmarais responded that the plan is to comply with IBank's requirements. He also emphasized that profits will be returned to IBank, with carried interests to be paid to Cambridge Associates by IBank, so there will be transparency and control in the process. Ms. Miller stated that some form of cost reporting would be very helpful going forward – so everyone is held accountable on the fees and costs. She also suggested that as programs are set up across the country, there will be opportunities for states to share information to keep costs low and add value – and Cambridge Associates probably had seen similar requirements from the boards of other entities it works with in California and across the country. Mr. Desmarais affirmed that fees and costs will be fully transparent.

Ms. Miller further inquired as to Cambridge Associates' experience as related to the goals of the program – particularly on equity and inclusion – and how Cambridge Associates will incorporate those elements into the work that it will be doing with IBank. Mr. Desmarais referred the question to his colleague, Ms. Jasmine Richards, to discuss Cambridge Associates' relevant experiences in inclusive initiatives and how they relate to California. Ms. Richards stated that she heads Cambridge Associates' dedicated diverse managers research team, which spans across all asset classes including venture capital and private equities. She emphasized that the impact of IBank's portfolio will be significant as Cambridge Associates' business model is fully integrated such that when IBank invests in, for example, a firm owned by traditionally underrepresented communities, the company will not only have access to IBank's portfolio but also to Cambridge Associates' entire platform. As such, Cambridge Associates is excited to work with IBank as the relationship will also expand Cambridge Associates' impact and magnify its platform. IBank's investments will be catalytic as the diverse managers will be introduced and gain access to Cambridge Associates' entire platform. Ms. Richards also noted that Cambridge Associates doubled its assets with diverse managers several years ago – increasing from 5% to almost 10% of assets. In the last two years, the percentage exceeded over 9%, which spanned across over 200 managers. Thus, Cambridge Associates has deep experience in the diverse managers area. She further stated that Cambridge Associates also works with several institutions in California and is excited to include IBank's mandate to expand upon the California investments.

Ms. Miller found it fantastic that companies that are part of the SSBCI investments will have opportunities to access Cambridge Associates' portfolios and increase their access to investments as they grow. Ms. Richards agreed and further clarified that the companies will have access to over 2,000 clients with custom portfolios that Cambridge Associates manages.

Ms. Miller thanks Ms. Richards for her clarification.

Mr. Wu stated that, with respect to Ms. Miller's first question on fees and carried interest reporting, IBank will disclose the total fees and carried interest paid in its annual financial reporting.

Chair Myers noted that IBank staff put forth several options in the July Board meeting and ultimately decided on a consultant model for which Cambridge Associates has been selected. She inquired as to what the Board members should be expecting in terms of their responsibilities going forward with respect to the venture capital initiative. Mr. Wu responded that IBank had planned on presenting three Board resolutions around this initiative. The first resolution was presented at the July Board meeting in which IBank proposed program criteria, priorities, and guidelines. That resolution was unanimously approved by the Board. The second resolution was currently being presented at this Board meeting in which IBank outlined the RFQ process and the consultant selected through the process. In the next Board meeting in November, IBank will present the third resolution related to the investment selection and approval process. Between now and the next Board meeting, IBank staff will fine-tune and hone the process with Cambridge Associates. Afterwards, IBank will put forth the resolution to the Board for approval.

Chair Myers thanked Mr. Wu and the Cambridge Associates' representatives and asked if the Board members had any additional questions or comments on this matter. Hearing none, Chair Myers then asked for any public comments. Hearing none, Ms. Miller moved for approval of the resolution and Mr. Steinorth seconded. The Board voted unanimously to pass Resolution 22-14.

Chair Myers congratulated Cambridge Associates and IBank's Expanding Venture Capital Access Program.

### **Reporting/Non-Action Business**

### **Public Comment and Adjournment**

Chair Myers then asked for a final general public comment. Hearing none, Chair Myers declared the meeting adjourned at approximately 2:36 p.m.