

IBank's Venture Capital Program | Staff Report

Issue.

The California Infrastructure and Economic Development Bank ("IBank") staff recommends the IBank Board of Directors (the "Board") adopt Resolution No. 25-12, which authorizes the retention of Recast Capital as an External Consultant for the Expanding Venture Capital Access Program (the "Venture Program"), 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 Recast Capital 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 is again split 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 Program. The Criteria, Priorities, and Guidelines ("guidelines") for the Venture Program were adopted by the Board on July 27, 2022.

In October 2023, the Board approved Resolution No. 23-14, which provided an additional \$50 million in state funding to supplement the Venture Program. This additional funding further enhances IBank's ability to support California's venture capital ecosystem and increases the resources available to invest in first-time fund managers, and the guidelines were updated accordingly.

In the Venture Program'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 Program.

In 2022, IBank proceeded with an open and competitive Request for Qualifications (RFQ) process to identify one or more External Consultants to support the Venture Program. 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.

On October 19, 2022, the Board approved Resolution No. 22-14 and Cambridge Associates was retained as the first External Consultant for the Venture Program. Cambridge Associates has been providing valuable support in sourcing and evaluating investment opportunities. To enhance the program's focus on emerging fund managers, IBank has determined that a second External Consultant with specific expertise in this area would be beneficial. To date, only one out of IBank's eight investments has been in a first-time fund, highlighting the need for specialized support in this segment.

For the second External Consultant, an RFQ was published on January 30, 2025. It was posted on the IBank website, distributed to IBank's venture capital and small business stakeholder email lists, included in IBank's newsletter, and posted to IBank's main social media accounts. In addition, staff reached out to companies that had previously inquired about the mandate, and to a target list of firms whose qualifications appeared to meet the mandate. At the close of the application period, IBank received 20 RFQ responses.

Using a standard scoresheet, the Deputy Director of Venture Capital and Venture Specialist evaluated all 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 6 highest scoring applicants for interviews.

The 6 candidates were interviewed by a panel consisting of a combination of the Executive Director, Chief Deputy Executive Director, Chief Credit Officer, Chief Counsel, and Deputy Director of Venture Capital. Following these interviews, 3 finalists were selected, and fee proposals were requested from each.

After reviewing the proposals and following further discussions, IBank staff recommends selecting Recast Capital as the second External Consultant to support the Venture Program.

Upon Board approval, IBank staff will finalize and execute the contract, with services expected to commence in August 2025.

Scope of Services.

Recast Capital will focus predominantly on prospective first-time funds and be tasked with the duties including:

- Marketing the Venture Program
- Sourcing potential fund and/or direct business investments
- Conducting due diligence
- Providing recommendations to the IBank staff
- Creating a balanced portfolio

Firm's Qualifications.

Recast Capital is a specialized firm that was built specifically to invest in and empower emerging managers in venture capital. The firm's focus aligns perfectly with IBank's goal to increase support for first-time fund managers. Its advantages include:

- Specialized focus on emerging managers. Recast Capital was purpose-built to support emerging venture managers, making them uniquely qualified to help IBank increase its investments in first-time funds.
- Experienced leadership team. Co-founders Courtney McCrea and Sara Zulkosky bring extensive experience in venture capital fund investments:
- Courtney McCrea previously served as Managing Director at Weathergaze Capital, where she made commitments to 100 funds and seven direct co-investments. She

was also a General Partner with Weston Presidio, a leading diversified private equity firm.

- Sara Zulkosky previously served as a Venture Partner at Greenspring Associates, a venture capital platform with over \$12B in assets under management, where she managed the early-stage venture fund evaluation committee and led the firm's impact investing initiative.
- Strong reputation in the emerging VC community. Recast Capital is highly recommended by emerging venture managers and has built a strong network within this ecosystem.
- Track record of supporting underrepresented managers and underserved regions. The firm's mission includes enabling high potential managers in the venture industry through their investments in emerging managers.
- Complementary expertise to Cambridge Associates. While Cambridge Associates provides broad coverage of the venture capital landscape, Recast Capital brings specialized expertise in the emerging manager segment, which will enhance IBank's ability to identify and evaluate first-time fund managers.
- Institutional investment experience. Both founding partners have extensive backgrounds working with institutional investors and understanding their requirements, which aligns well with IBank's needs as a public institution.

Competitive Fees.

IBank has sought fee proposals from each of the top 3 firms. The fee proposals were evaluated based on the value provided relative to the cost.

Recast Capital's proposed fees are competitive and in line with market norms for a specialized consulting firm willing to take on a mandate with this level of complexity and focus.

Recommendation.

Staff recommends approval of Resolution No. 25-12 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 Recast Capital as a preferred External Consultant.