

**County of Los Angeles
Chief Executive Office**

**Request for Information
for Los Angeles
Bioscience Investment Fund**

May 2018

1.0 PURPOSE

The County of Los Angeles (County) Chief Executive Office (CEO) is releasing this Request for Information (RFI) to obtain input from organizations that are interested and qualified to launch and manage an investment fund supporting regional bioscience and biomedical startup companies as well as the local ecosystem to which they belong.

We solicit this information to explore the range of expertise and activity in the investment community, as well as the demand for new investors in support of local early-stage life science companies. The information we garner from this RFI will help us assess the viability of a County role as limited partner in a new Los Angeles Bioscience Investment Fund. Pending the responses received, the CEO may then issue a formal Request for Proposals for an investment advisor or manager immediately following the completion of the RFI process. The County Board of Supervisors has previously approved \$15 million that can be allocated directly to a local bioscience investment fund.

This RFI is an exploratory request. It does not commit respondents or the County to contract or partner in any way. We ask the investment community to share its best ideas in supporting the County's potential investment into the local innovation ecosystem.

2.0 BACKGROUND

County Policy Objectives

In 2015, the County Board of Supervisors made economic development a priority to stimulate regional job growth and lift residents out of poverty. Seven industries were targeted based on their proven ability to create jobs and wealth. Bioscience is the first of the targeted industry sectors selected by the County for focused support. Over past economic cycles including the Great Recession, bioscience jobs have proven unaffected by economic downturn. The industry creates jobs for young and semi-skilled persons, as well as for scientists and entrepreneurs.

The strategic importance of the life sciences sector can be demonstrated by the County's \$7.6 billion annual budget for delivery of health services to its 10 million residents. The County Department of Health Services (DHS) boasts the nation's second largest municipal health system with five large hospital campuses, and is a powerful consumer of medical goods and innovations unto itself. In addition to funding general operations, County expenditures are directed to support new devices, processes, and therapies that improve the public health of Los Angeles.

As part of its economic development program, the County has committed itself to the life sciences sector and earmarked up to \$15 million towards the launch of a bioscience investment fund. A substantial portion of these funds have already been placed in trust awaiting deployment into a new Los Angeles-focused investment vehicle. The remainder of the commitment will become available in upcoming years.

While the County expects repayment of capital plus a modest return, it also has core strategic interests in local economic development and public health as a social impact.

Regional Economy

The Los Angeles region generates cutting edge healthcare R&D and enjoys a trained workforce capable of launching and supporting enterprises emerging from local research institutions and incubators. The quality and quantity of bioscience research being generated at UCLA, CalTech, and USC (as well as off-campus organizations like Cedars Sinai, City of Hope, and the Children's Hospital) is prolific. Last year, according to the LA Business Journal, Los Angeles received \$998 billion in NIH research funds. Two of the nation's top 15 tech transfer universities are located in Los Angeles, and Southern California is saturated with PhDs and Nobel laureates, according to the Boston Consulting Group. UCLA tops the nation in startup creation, per the Milken Institute. Despite a perception of a less hospitable startup environment, the County still boasts over 500 bioscience companies and a well-paid workforce of over 58,000, which often emerge from local research and talent. These metrics match or exceed San Diego, which is deservedly perceived as a national life sciences hub.

Innovation Ecosystem

The County is committed to expanding the availability of early stage capital for researchers and young companies in the process of product development and commercialization. While Southern California has substantial investment capital at its disposal, a relatively small amount of Los Angeles' high risk capital is placed in the life sciences. This condition can create a dynamic where small companies are forced to follow capital to other ecosystems and depart the region. Given its world class research and talent, the County believes Los Angeles can assert a competitive advantage as a region by signaling its interest in early stage companies. By becoming an intentional investor in bioscience, Los Angeles can make a national policy statement that it is an engaged and active protagonist in health care innovation. It also wants to send a signal to the financial marketplace that investors will find investable early-stage and growth companies in Southern California, on par with pipelines from Northern California, Boston, or other recognized hubs. As part of that signaling, the County intends to take a leadership role by lead-funding a Los Angeles-based Bioscience Investment Fund focused on early stage ventures.

3.0 FUND MODEL

The County seeks to launch a new investment vehicle (or expand an existing vehicle) to support regional bioscience and biomedical startup companies as well as the local ecosystem to which they belong. While the County is open to alternative structures or models to accomplish this objective, we prefer and propose a model with the following core aspects:

1. With the exception of the County's investment, limited partners will provide equity capital to the fund in a manner consistent with industry norms.
2. The County's investment will be in the form of debt with patient repayment terms consistent with early-stage payout expectations;
3. The Fund will have a geographic focus on Los Angeles County, with local offices and personnel, and an industry focus on the life sciences; and
4. The Fund Manager must have the experience and capability to work with early stage ventures that require both high-risk capital and high-touch advising to develop.

The County understands that debt investment and the geographic constraints are nontraditional aspects of this fund; however, the County believes the investment can still provide substantial incentive to quality managers and other investors.

With a County lead investment, the Fund's general partner will need to spend less time fundraising, thus freeing up resources to focus on making investments as well as supporting portfolio companies and the broader ecosystem. The proposed debt structure and terms will cater to early stage equity fund managers, which typically lack current income streams, because principal repayment will only be required once the Fund begins exiting its investments.

The Fund's limited partners will benefit from enhanced returns as a result of the leverage provided by the County, if the fund performs well. Their equity stakes in the Fund will not be subordinated to the County debt, thus keeping the limited partners' downside risk in line with that of their commitments in other early stage funds without a debt component.

Sample Debt Investment Terms

For its investment, the County expects to propose terms similar to those described below.

- **Amount:** The County anticipates making up to a \$15 million commitment and would expect a minimum 2:1 matching of equity investments.
- **Interest:** The interest rate on the debt investment is expected to be set at the United States ten-year treasury note, plus a one percentage point spread. Interest is not accrued until debt is drawn down for investments.
- **Fees:** LA County will charge the Fund an upfront commitment fee of no more than 1% of the total financing amount (i.e., \$150,000 for a \$15 million debt investment) as well as a drawdown fee of up to 2% on the amount of debt drawn each time the capital is called.
- **Maturity:** Principal and unpaid accrued interest will become due and payable when the term of the Fund ends; presumably, ten years from its inception or at the conclusion of its extension period.

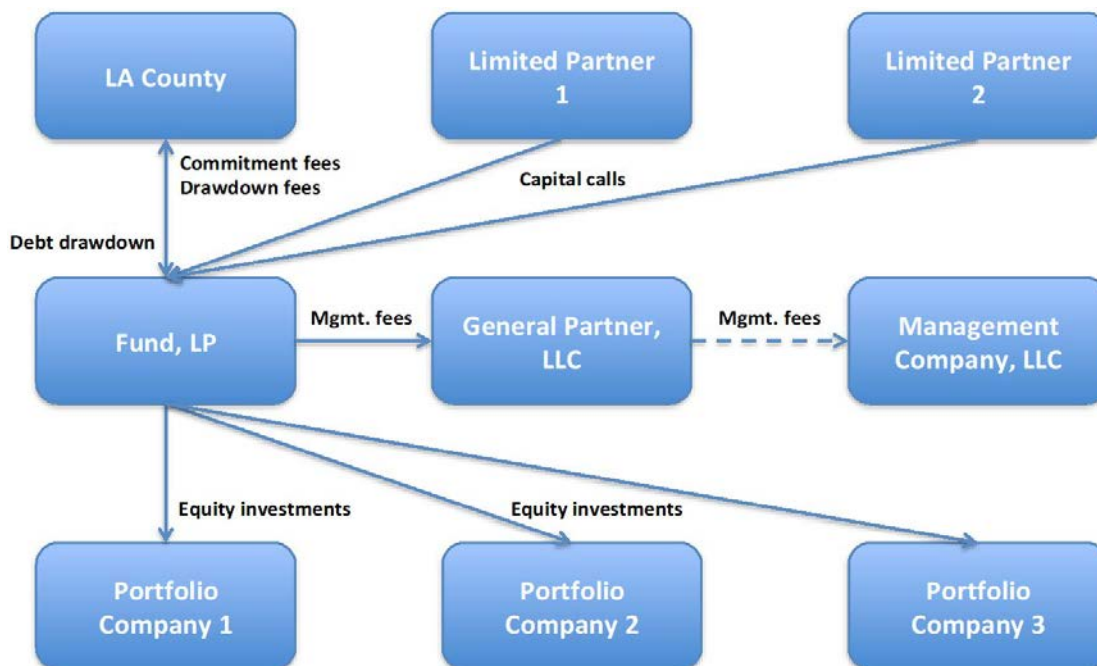
- **Security:** The debt is unsecured and requires no personal guarantees from the general partner of the Fund.
- **Drawdown:** The Fund’s general partner can draw down capital for the purposes of making investments at any time so long as the agreed upon matching capital (e.g., 2x, 3x, or 4x) has already been called or is being called from the limited partners in parallel.
- **Repayment:** Upon receiving any dividends or proceeds from the sale of a portfolio company, the Fund will treat repaying the debt pari passu with making distributions to the limited partners. Once the principal balance is paid off, any remaining accrued interest becomes payable.

Anticipated Fund Terms and Structure

While the County understands that a fund structure and terms are unique to the manager and partners, the County intends to invest its debt capital in a Fund that reflects industry standards. We would anticipate general partner economics of a 20% carried interest and management fees in the range of 2%, depending on negotiations with limited partners. The Fund’s term will be ten years with a traditionally agreed-upon extension period and approval mechanism.

It is important to call out, however, that the general partner will not receive management fees from LA County for the debt capital component of the Fund. The general partner must be able to expense the County’s commitment and drawdown fees to the Fund and the limited partnership agreement should explicitly include this provision.

Graphically, the fund structure would approximate the following:



4.0 INFORMATION REQUESTED

The County requests that respondents submit: (a) a letter or **narrative response to the inquiries below**, as well as (b) an **investor presentation** or pitch deck that shares as much useful information as possible regarding the respondent's thesis, criteria, partners, qualifications, capacity, and track record. The narrative should be five pages or less, and the deck 20 slides or less. Please include the company name, authorized owner/manager's name, address, telephone, and email address in the header or first page of the narrative.

1. **Organizational Background**. Please share information covering:
 - Your organization's background and experience regarding venture capital fund management;
 - Successes regarding past fundraising and fund performance;
 - Your connections and partnerships, if any, as they relate to the Greater Los Angeles ecosystem; and
 - Any connections and experience with the life science industry.
2. **Management Team**. Please share names and short bios of individuals who may have responsibility for managing the proposed LA Bioscience Fund. Please share relevant venture capital or private equity experience and performance, especially in the bioscience or biomedical arenas. Please share relevant experiences with early stage enterprises and Los Angeles companies specifically.
3. **Fundraising**. Please state your willingness to accept (and any thoughts regarding) debt capital from the County as a lead investment. Please speak to a preferred overall fund size to meet the LA market with a combination of Seed and Series A investments. Please speak to how much time you would anticipate fundraising additional LP capital to meet your preferred fund size.
4. **Geography**. Please state your willingness to accept (and any thoughts regarding) a geographic limitation on Fund investments to Los Angeles County. While County Funds must be spent in LA County, please speak to whether other LP investments (solely, or as part of a larger fund) could be practically restricted to Los Angeles.
5. **Preferred Sectors**. Please share your thinking and preferences regarding what industry sectors of life science investing most interest you. Los Angeles has a diverse array of research institutions and entrepreneurs that spans therapeutics, diagnostics, medical devices, digital health, and other biotechnologies. Drawing on your expertise, please share your perspective on the areas of greatest opportunity in Los Angeles.

5.0 SUBMISSION INSTRUCTIONS

If you have any questions about this RFI or need additional information, please email your questions to economicdevelopment@ceo.lacounty.gov by June 15, 2018.

If you are interested in responding to this RFI, please send us a narrative responding to our inquiries and an investor presentation. **Responses are due at or before 12:00 noon (Pacific Time) on June 29, 2018.** Late submittals may be accepted at the County's sole discretion.

Responses should be sent by **email** to:
Economic Development Division
County of Los Angeles - Chief Executive Office
[economicdevelopment@ceo.lacounty.gov]

Please include "RFI – Bioscience Investment Fund" in the subject line of the email, attaching a PDF of the narrative and deck.

All RFI submissions and questions will receive a confirmation email from the County that the message has been received.

6.0 ADDITIONAL NOTICES

This RFI does not commit the County to make an investment or contract for any services whatsoever. Further, the County shall not be liable in any way or have any responsibility for any costs incurred in connection with the preparation, submittal, or presentation of any response to this RFI.

Responses to this RFI shall become the exclusive property of the County. Responses to this RFI become a matter of public record, with the exception of those parts of each proposal which are justifiably defined as business or trade secrets, and, if by the proposer, plainly marked as "Trade Secret," "Confidential," or "Proprietary." Please mark your response as appropriate.

A blanket statement of confidentiality or the marking of each page of the proposal as confidential shall not be deemed sufficient notice of exception. The Respondents must specifically label only those provisions of their respective proposal which are "Trade Secrets," "Confidential," or "Proprietary" in nature.