

REQUEST FOR PROPOSALS FOR DESIGNATED INVESTOR GROUP

For the Management of an Institutional Venture Capital Investment Fund

Supported by the

Arkansas Development Finance Authority



SPECIAL NOTE: YOUR IMMEDIATE ATTENTION IS CALLED TO SECTION I.C. YOU NEED TO SEND TO US AN E-MAIL ADDRESS FOR TRANSMISSION OF NOTICES OF INQUIRIES.

January 10, 2002

**Arkansas Development Finance Authority
100 Main Street, Suite 200
Little Rock, AR 72201
(501) 682-5900**

SECTION I: INSTRUCTIONS TO PROPOSERS/ GENERAL INFORMATION

A. PURPOSE. The Venture Capital Investment Act of 2001 authorized the Arkansas Development Authority (ADFA) to capitalize a private institutional partnership fund for the State of Arkansas, to promote and provide for a targeted equity and venture capital program for the State of Arkansas. The goal of ADFA is to utilize institutional funding sources to maintain and strengthen strategic and organizational partnerships in an effort to further develop the financial industry within the State of Arkansas.

ADFA is requesting proposals from qualified firms and individuals to manage and to help capitalize the private institutional venture capital fund (the Institutional Fund) supported by the Authority's Venture Investing Program (VIP). The project requires the respondent to obtain and manage any agreements for the transfer of tax credits. ADFA will issue a separate RFP for legal counsel for the VIP.

Description of ADFA. ADFA was created in 1985 as an instrumentality of the State of Arkansas to provide access to capital for qualified activities that enhance the quality of life for Arkansans. Those qualified activities include all types of economic development, home ownership and affordable rental housing. ADFA runs as a business and is structured as a corporate body, with corporate succession, corporate financial management, proactive Board of Directors, and professional management team. In 1999, ADFA financed the single largest investment in Diamond State Ventures (DSV), a licensed SBIC, that is managed by the Arkansas Capital Group. An officer from ADFA sits on the DSV Investment Committee.

Description of VIP. ADFA will pursue both traditional investment objectives such as achieving a positive IRR and encouraging leveraged co-investment. Key strategic objectives include maximizing an efficient and effective utilization of ADFA's Capital Guaranty and striving to keep any expenditure herein contingent. When extending the Capital Guaranty, ADFA desires to provide that the risk assumed by the State is reasonably compensated, to the extent that the price for each guarantee be commensurate with the risk to the extent possible. In an effort to strengthen the venture capital network in Arkansas, and to accomplish a portion of its mission, ADFA will support the capitalization of and investment by an Institutional Fund that will invest the capital in private seed and venture capital entities that mobilize a wide variety of capital investments in ventures promoting economic growth within the State. ADFA wishes to consider small transactions as well as large. The Fund will be authorized to invest in professionally managed venture capital funds that in turn make investments meeting agreed upon investment criteria as specified in a limited partnership agreement or other binding arrangement. Through the execution of this strategy, ADFA expects to attract investors and venture capital funds to Arkansas on a long-term basis and to provide better access for Arkansas companies to the capital markets. ADFA will extend a guaranty of principal and interest to the Fund and its investors. ADFA anticipates authorizing a Capital Guaranty of up to \$70 million.

Commitments by the Institutional Fund will only be made to funds that meet the objectives of ADFA but will generally range from \$3 – 10 million in size. Funds must have some nexus or "fit" with the deal flow indigenous to or emerging within Arkansas. These funds must be active and aggressive in their in-state deal prospecting. A copy of the Act can be downloaded from the following address: <http://www.arkleg.state.ar.us/ftproot/acts/2001/Winword/Act1791.rtf>

B. SUBMISSION OF PROPOSALS. Written proposals responding to the questions and requests for information in the manner specified in this Request For Proposal ("RFP") should be submitted to the following:

ppatton@adfa.state.ar.us

To be considered, one (1) copy of the proposal should be delivered to ADFA not later than February 1, 2002, by 12:00 p.m., via email. All proposals shall be time and date stamped upon receipt. Late proposals will not be accepted. ADFA reserves the right to reject any or all proposals.

C. ADDITIONAL INFORMATION. It is the responsibility of the proposer to inquire about and clarify any aspect of the RFP. Questions should be directed to Gene Eagle (geagle@adfa.state.ar.us), Vice President for Development Finance at 501-682-5905 or Patrick Patton (ppatton@adfa.state.ar.us), Vice President for Internal Audit at 501-682-5902. Substantive questions and answers will be documented in letter form and will be sent by electronic mail to those who provide us with an e-mail address. **IN ORDER TO BE ON THE DISTRIBUTION LIST FOR INTERNET TRANSMISSION OF ALL RESPONSES TO INQUIRIES, YOU MUST IMMEDIATELY ADVISE PATRICK PATTON OF ADFA, THE INTERNET E-MAIL ADDRESS TO WHICH YOU WANT ALL SUCH TRANSMISSIONS SENT.**

D. PROPERTY OF ADFA. Any information or materials submitted as a response to this RFP shall become the property of ADFA and will not be returned. All submitted materials will be available for public review.

E. RESPONSE TO REQUEST FOR PROPOSAL. Firms wishing to respond to this RFP can interact and contact Patrick Patton, Chair of the Staff Professional Selection Committee. **NO CONTACT WITH ADFA BOARD MEMBERS IS ALLOWED AND ANY SUCH CONTACT WILL BE GROUNDS FOR IMMEDIATE REJECTION OF A FIRM'S PROPOSAL.**

F. PROPOSAL TIMETABLE.

January 10, 2002	Request for Proposal Issued
February 1, 2002	Proposals Due @ 12:00 noon
February 15, 2002	Short List chosen and announced (if necessary)
TBA	Oral Presentations (if necessary)
February 21, 2002	Board Action (Appoint/ratify appointment of the Designated Investor Group)

G. SELECTION PROCESS. The ADFA Staff Professional Selection Committee will review the submitted proposals. Proposals will be evaluated based on responses to specifics outlined in the Proposal Format section of this RFP and based upon the selection criteria. Proposals which omit any of these items may be rejected as non-responsive. From this review, a select group of firms could be chosen for oral interviews. All proposing firms will be advised of the firms selected for oral interviews, if necessary. After interviewing, the Board of Directors Professional Selection Committee will make its decision on a recommendation for selection, which will be reported to the Board of Directors of the Authority at its February 21, 2002, regular meeting. The final selection will be made by a vote of Board members.

ADFA may at any time prior to the selection of the designated investor group reject any and all proposals and cancel this RFP, without liability therefor, upon finding that there is good cause for

rejecting all proposals and that it would be in its interest to cancel the solicitation. Further, ADFA shall under no circumstances be responsible for any proposer costs and expenses incurred in submitting a response to this RFP. Each proposer who submits a response does so solely at the proposer's cost, risk and expense. ADFA accepts no responsibility for the return of successful or unsuccessful proposals. This RFP in no way obligates ADFA to select a firm.

SECTION II: SCOPE OF SERVICES AND REQUIREMENTS

The Designated Investor Group will be expected to perform the following management services, including but not limited to:

A. Gain necessary approvals for the Capital Guaranty

- i) Work with ADFA to develop plans to maintain Standard & Poors rating on the ADFA Bond Guaranty Program.
- ii) Work with ADFA staff to obtain necessary ADFA Board of Directors approval
- iii) Work with ADFA and the State Board of Finance to implement the tax credit component of the Act.

B. Refine ADFA Business Plan for the Venture Investing Program

- i) Assist ADFA in the development of the investment strategy
- ii) Establish the method for calculation of the fee for the Capital Guaranty
- iii) Develop marketing plan
- iv) Assist ADFA with documenting accounting treatment, procedures, policies, procedures and controls

C. Gain Commitments to Capitalize the Institutional Fund

- i) Work with ADFA to solicit proposals to capitalize the Institutional Fund at up to \$70 million.
- ii) Work with ADFA to select the most favorable proposals, negotiate terms, and close on commitments.
- iv) Monitor and negotiate the rates charged on these commitments as conditions merit.
- v) Renew or replace these commitments as appropriate.
- vi) Work with ADFA to evaluate other options available to the Authority to fund its Venture Investing Program.

D. Administer the Funding Mechanism for the Institutional Fund

- i) Work with ADFA and the Revenue Division of the Department of Finance and Administration to develop a system for the registration and transfer of tax credits that support the Capital Guaranty.
- ii) Work with ADFA to gain commitments from institutions to stand ready to purchase tax credits upon a request from ADFA.

E. Invest the Resources of the Institutional Fund

- i) Recruit and market to seed and venture capital funds.
- ii) Introduce venture fund managers wanting to establish a presence within Arkansas to the appropriate contacts within the state so that they can coordinate their efforts.
- iii) Review fund offerings that are received.
- iv) Interview fund managers that have fund offerings which could contribute to ADFA's strategic objectives.
- v) Perform due diligence work that includes background checks, site visits, etc.
- vi) Prepare and present investment recommendations to the Authority for funds that the management team feels should receive a commitment of capital.
- vii) Negotiate the terms of the investments.

F. Manage the Institutional Fund Investments

- i) Participate on limited partner advisory committees for each fund.
- ii) Attend annual meetings of each fund.
- iii) Review fund financials.
- iv) Calculate current and projected IRRs.
- v) Meet capital calls on a timely basis.
- vi) Manage distributions and liquidations.
- vii) Monitor the efforts of each fund in meeting Arkansas-specific strategic objectives.

G. Meet all Reporting Requirements for the Institutional Fund

- i) Prepare quarterly financials.
- ii) Coordinate an annual audit.
- iii) Publish an annual report.
- iv) As requested, present the annual report in writing and by testimony to the State Board of Finance, the ADFA Board of Directors, the Governor, the House and Senate Interim Committees on Agriculture and Economic Development of the Arkansas General Assembly.

SECTION III: PROPOSAL FORMAT

A. TRANSMITTAL LETTER. A brief transmittal letter prepared on the proposer's business stationery should accompany the original and required copies of the proposal.

B. PROPOSAL. The proposal should be labeled "Proposal to serve as Designated Investor Group for the Venture Capital Program". The proposal must contain sufficient information to enable the Committee to evaluate the proposal. It should be prepared in a clear and precise manner and should address all appropriate subsections.

1) Describe the organization, size, structure and stability of the firm, including:

- a) Type of firm (such as bank, registered investment advisor, consultant or other) and the number of professionals in each major functional area of the firm;
- b) Year founded and current ownership structure;
- c) Focus of business and what portion of the business is devoted to advising on or investing in venture capital funds; and
- d) Brief history of the firm.

2) Identify the representative of the firm who is submitting the proposal on behalf of the firm and his/her address and telephone number.

3) Identify individuals that will be assigned substantive and on-going roles for this relationship. Describe each individual's responsibilities and indicate whether primary or secondary and include each person's detailed resume of qualifications, years of experience with the firm, position within the firm and years of experience in prior firms.

4) Venture Capital Partnership Investing

- a) Indicate the venture capital fund investing or advising experience of your firm using the following format for each and every fund (note: IRR figures should be the returns to a limited partner net of all fees, expenses and carried interest, describe method of IRR calculations and whether the performance presentation conforms to AIMR standards):
 - i) name of fund,
 - ii) type or investment focus of fund,
 - iii) total size of fund,
 - iv) year of initial commitment,
 - v) size of initial commitment,
 - vi) whether discretionary or non-discretionary,
 - vii) cash on cash IRR to date (specify date), and
 - viii) IRR to date (specify date) including remaining estimated net asset value.

- b) Describe your firm's criteria for selecting venture capital funds. Describe the portfolio of funds that would result from those criteria.
 - c) Describe the process your firm uses in doing due diligence, including the typical number and kind of contacts utilized.
 - d) Describe your experience in negotiating fund terms unique to certain clients or client needs.
 - e) Describe your firm's general position regarding the following areas of venture fund terms and conditions:
 - i) management fee levels,
 - ii) levels of profit sharing,
 - iii) co-investment and conflict of interest issues,
 - iv) governance and valuation issues,
 - v) new funds formed by general partners, and
 - vi) fund distribution issues.
 - f) Describe any experiences your firm has had with geographically or regionally focused investment vehicles.
- 5) Strategic and organizational relationships
- a) Describe your firm's current strategic relationships in Arkansas.
 - b) Describe your firm's plan for developing and strengthening those relationships described in the Scope of Services herein.
 - c) Describe your firm's current and past organizational relationships as they relate to venture capital investing and economic development finance entities.
 - d) Describe your firm's plan for developing and strengthening those relationships described in the Scope of Services herein.
- 6) Experience with State Sponsored Investment Programs
- a) Describe your firm's knowledge of and experience with investment programs supported by state or federal tax credits, and with structuring loan or investment funds and raising capital with the use of tax credits.
 - b) Describe your firm's experience managing public sector investment or finance programs and your relevant experience managing relationships with public sector officials who served as sponsors or supervisors of the programs.
- 7) Provide at least five references. References should be clients for whom your firm has provided services similar to those listed above or others with in-depth knowledge of your firm's

abilities with respect to the relevant question. For each reference, include the name, telephone number, relationship and nature of the service provided or reference relationship.

- 8) Describe each transaction (if any) in which your firm or any present employee has been the subject of a proceeding of any nature (with or without formal hearings) to, in, or by the Securities and Exchange Commission, any state agency, any other governmental agency of the United States, Canada or other country, or a political subdivision thereof with jurisdiction over securities or similar activities, a securities or similar exchange, a national securities association (e.g. National Association of Securities Dealers), or other self-regulatory organization or professional organization or judicial or quasi-judicial body.
- 9) Describe each situation (if any) in which your firm or any present employee of your firm has been involved as a defendant in any action contesting performance.
- 10) Describe any transaction, agreement or arrangement for the rendering of services, or potential conflict of interest, that might arise between your firm or any individuals in your firm and:
 - a) Any of the Directors, Officers or Professional Advisors of ADFA listed herein and their respective firms; or
 - b) The State of Arkansas, or any public trust or agency of the State.
- 11) Describe in detail the proposed level and method of compensation (including any incentive, performance based or “upside participation”) that the managing entity of the Institutional Fund will receive for the services rendered.
- 12) Describe in detail the proposed level and method of calculating the fee to be paid to the ADFA as compensation for the guarantee extended.
- 13) Arkansas Presence. Please explain your firm’s presence within Arkansas and describe how that presence is relevant to the proposed transaction.
- 14) Potential Conflicts. List any relationship which might lead to a potential conflict in performing any services for ADFA. Please list specifically any conflicts resulting from material adverse matters, as distinguished from the conduct of business as usual. Indicate what steps would be taken to eliminate any such conflict.
- 15) Provide your estimate of a time table for the capitalization of the institutional fund listing the key areas of work and identifying the parties responsible for the work.
- 16) Provide a financial projection for the expected life of a \$70,000,000 institutional fund which would detail the initial funding, commitments, draws, disbursements, liquidations and final closure. Provide written assumptions supporting this projection.

17) Rationale for Appointment and Proposal Summary. This section of the proposal should be used by each proposer to present the case for its appointment to the position sought. It is not necessary for you to recite comprehensively your firm's qualifications and experience, but it would be useful for you to describe how your qualifications and experience is relevant to the proposed transaction. In particular, you may want to describe a current relationship with another client and summarize the similarity to this program. Also summarize your plan for the implementation of this legislation in Arkansas.

Other Terms and Conditions

ADFA reserves the right to take any or all of the following actions:

- 1) Cancel, delay or re-open this solicitation;
- 2) Reject any or all proposals or award the contract to the next most qualified firm if the firm receiving the award does not execute a contract acceptable to ADFA and its general counsel within 20 working days after receiving the award;
- 3) Select for contract negotiations the respondent's proposal which in its judgment will best meet ADFA's needs, regardless of any differences in estimated cost between that respondent and all others;
- 4) Negotiate one or more contracts that cover selected parts of the proposal or that will be interrupted for a period of time or terminated; and
- 5) Accept joint proposals.

Any proposal may be withdrawn up until the date and time set forth above as the deadline for submission of proposals. Any proposal not so withdrawn shall constitute an irrevocable offer, for a period of 90 days, to provide to ADFA the services set forth herein, or until one or more of the proposals has received an award and a contract has been executed.

The respondent selected shall not assign any interest in the contract and shall not subcontract or otherwise transfer any interest in the same without the prior written consent of ADFA.

SECTION IV: SELECTION CRITERIA

The proposals will be reviewed by the Staff Professional Selection Committee. The committee may use the following criteria to rank all acceptable proposals and to develop recommendations to be presented to the ADFA Board Professional Selection Committee, although ADFA reserves the right to consider factors beyond those mentioned below and to follow a process of selection that involves means other than ranking based on such scores.

<i>Factor</i>	<i>Point Range</i>
Appropriateness of proposer for work provided (question 1)	10.0
Collective level of experience of lead and support individuals (question 3)	10.0
Relevant experience, track record and demonstrated breadth and depth of organization (question 4)	20.0
Relevant experience (question 5)	10.0
Depth and breadth of knowledge of tax credit programs, experience in managing the same and public sector management experience (question 6)	10.0
Strength of reputation (question 7)	10.0
Value received for services provided (question 11)	15.0
Quality of plan and commitment to perform (questions 12, 15, 16, 17)	<u>15.0</u>
<i>Maximum Points</i>	<u>0-100</u>

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AIG Capital Partners, Inc. Peter Yu, President & Chief Executive Officer Peter.yu@aig.com	Bank of America Capital Corporation Bill Franklin, President & Managing Director William.b.franklin@bankofamerica.com
Champion Ventures Harris Barton, Managing Partner Harris@championventures.com	Cramer Rosenthal McGlynn, LLC Chris Jackson, Vice President & Director of Alternative Investments Cjackson@crmlc.com
Frye-Louis Capital Advisors Timothy Maloney, Director Tmaloney@fryelouis.com	Knightsbridge Advisers Inc. Rich Castleberry, Managing Principal Rc@knightsbridgeUSA.com
Pathway Capital Management Jim Reinhardt, Managing Director Mail@pathwaycapital.com	Venture Investments Associates Stathis Andris, President SandrisSA@aol.com
Edge Development Capital Robert G. Heard, President Rheard@nasvf.org	Stephens Inc. Dana Silaski Dsilaski@stephens.com
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Sterne, Agee & Leach, Inc. Ro Arrington rarrington@sterneagee.com	Oppenheim, A Division of BOSC, Inc. Field Wasson fwasson@mail.bokf.com
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