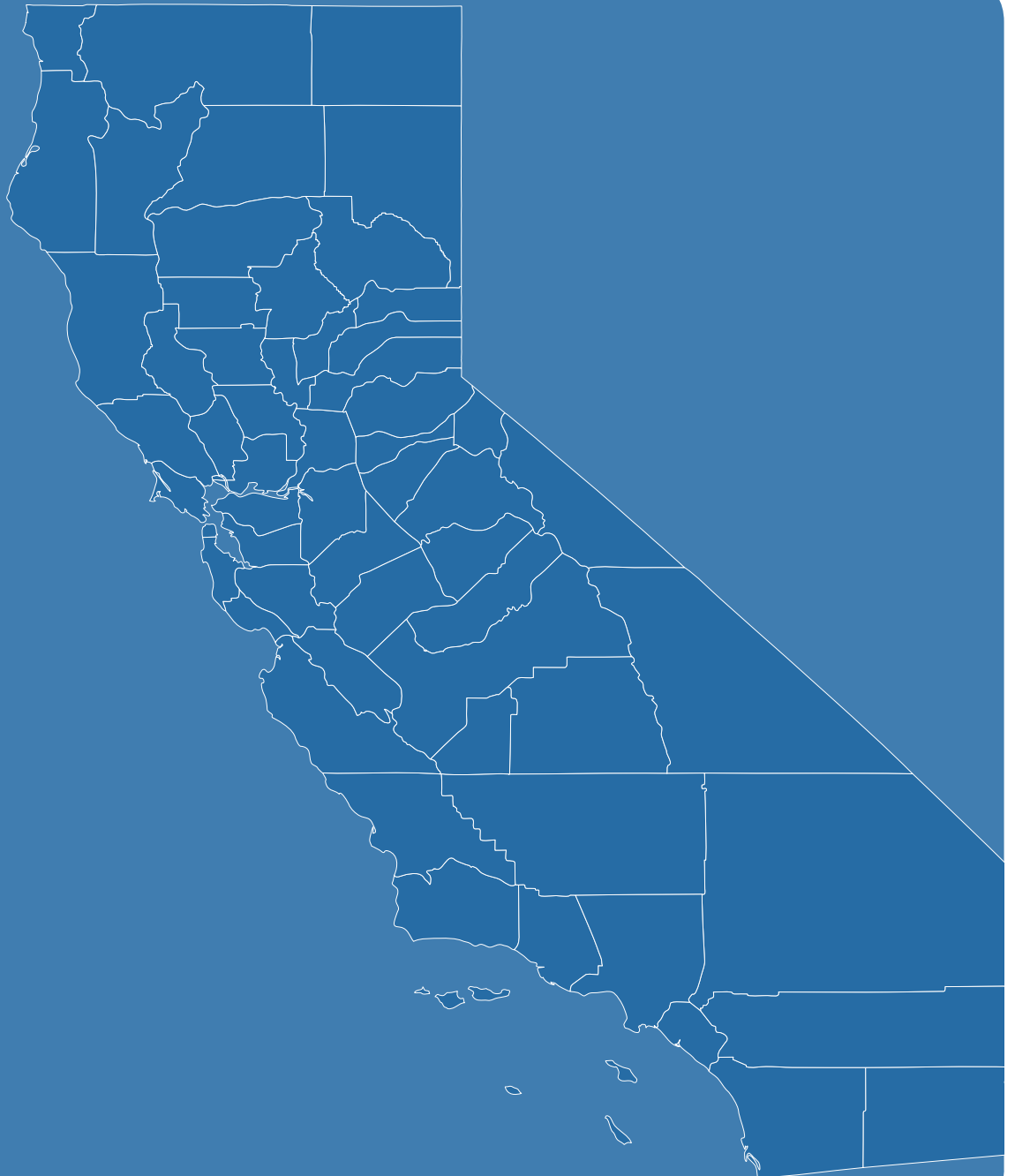


# CalPERS California Initiative 2008

Creating Opportunities in California's  
Underserved Markets



## Objectives of the CalPERS California Initiative

*The California Initiative seeks to invest in traditionally underserved markets, primarily, but not exclusively, located in California. The initiative seeks to discover and invest in opportunities that may have been bypassed or not reviewed by other sources of investment capital. The California Initiative's primary objective is to generate attractive financial returns, meeting or exceeding private equity benchmarks. As an ancillary benefit, the California Initiative seeks to have a meaningful impact on the economic infrastructure of California's underserved markets by:*

- *Providing capital to areas that have historically had limited access to institutional equity capital*
- *Employing workers who reside in economically disadvantaged areas*
- *Supporting women and minority entrepreneurs and managers*



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# Introduction

The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund. In 1990, the CalPERS Investment Committee established the Alternative Investment Management (AIM) program to specialize in private equity investments, and today CalPERS is one of the largest private equity investors in the world. The goal of the AIM program is to "capitalize on marketplace opportunities in order to achieve superior risk-adjusted returns." Consistent with this goal, in 2001 the CalPERS Investment Committee established, and the AIM team implemented, the California Initiative to invest private equity in "traditionally underserved markets, primarily, but not exclusively located in California."<sup>1</sup>

The California Initiative was launched with a capital commitment of \$475 million to nine private equity funds and one fund-of-funds. This initial allocation is known as Phase I. In October 2006, CalPERS made a second allocation, a \$500 million capital commitment to be managed by Hamilton Lane, a leading private equity investment manager. CalPERS and Hamilton Lane established an investment vehicle known as the Golden State Investment Fund (GSIF), which seeks to invest in both partnerships and direct co-investments located primarily in California. The capital commitment to GSIF was later increased to \$550 million. As of June 30, 2008, through the GSIF, Hamilton Lane had invested in eight private equity funds and made seven direct co-investments.

The primary objective of the California Initiative – comprised of both Phase I and GSIF – is to generate attractive financial returns, meeting or exceeding private equity benchmarks. As an ancillary benefit, the California Initiative seeks to create jobs and promote economic opportunity in underserved communities, primarily, but not exclusively in California, by providing capital to companies that:

- Are located in areas of California and the nation that have traditionally had limited access to institutional equity capital,
- Are located in, or employ workers living in, economically disadvantaged areas, and
- Support women and minority entrepreneurs and managers.

This report focuses on the ancillary benefits derived from both allocations of the California Initiative, with an increased focus on the GSIF, now in its second year.

CalPERS and Hamilton Lane engaged Pacific Community Ventures (PCV), a leader in measuring and interpreting community outcomes of private equity investments, to collect, analyze, and report on the California Initiative's ancillary benefits. Beginning with Phase I in 2005, 2008 is the fourth year PCV has collected and analyzed data from California Initiative portfolio companies.

# Highlights

Since the inception of the California Initiative in 2001, 281 companies have received investment through Phase I and the Golden State Investment Fund (GSIF). Of the 249 companies in Phase I, 129 have received funding through a \$100 million separate fund-of-funds account, allocated to the Banc of America California Community Venture Fund (BACCVF). Except where otherwise noted, *Creating Opportunities in California's Underserved Markets* focuses on data provided by 99 active Phase I and GSIF portfolio companies (excluding BACCVF) as of June 30, 2008.<sup>2</sup> BACCVF reports the community benefits derived from its fund-of-funds in a separate document — see page 24 for a copy of that report.

## Profile

Over 70 percent of active California Initiative companies are headquartered in California. Nearly 75 percent of the capital committed to GSIF active portfolio companies and 30 percent of capital committed to Phase I active portfolio companies have been invested in companies headquartered in California. Including all company operating locations, more than half of GSIF dollars and approximately 30 percent of all Phase I dollars have been invested in California.<sup>3</sup> In addition, over twenty percent of Phase I capital invested in active portfolio companies has been invested in companies that employ approximately one-quarter of their workforce in California, although they are headquartered elsewhere and operate few California facilities. Portfolio companies range in size from fewer than 10 to more than 5,000 employees, with the majority of portfolio companies (55 percent) employing between 11 and 100 workers.

Since the inception of the California Initiative, 134 companies have participated in at least one data collection effort. Employment growth since investment at these companies is 21 percent in California and 5 percent overall. The 99 active portfolio companies that provided data for this assessment show employment growth of 24 percent in California and 10 percent overall since investment.

## California Initiative Key Milestones<sup>4</sup> (Excluding BACCVF)

Total dollars committed to the California Initiative	\$925 million <sup>5</sup>
Total number of companies receiving investment	152 <sup>6</sup>
Percent of companies headquartered in California	70%
Jobs created since investment in the United States/California	4,135/2,933
Total employment at active portfolio companies	53,773
Percent of employees living in low and moderate income areas <sup>7</sup>	76%
Percent of portfolio company employees eligible for medical coverage <sup>8</sup>	87%

## Objective 1: Providing capital to areas of California and the United States that have historically had limited access to equity capital.

Between 2001 and 2007, more than 80 percent of all private equity in the United States and more than 90 percent of all private equity in California were committed to an area made up of 774 United States ZIP Codes (153 California ZIP Codes). California Initiative portfolio companies located outside of this area are considered to be located in an area that has historically had limited access to institutional equity capital.

Across California, only 25 percent of all companies receiving private equity investment are located in areas that have historically had limited access to institutional equity capital. By contrast, 44 percent of all California Initiative companies – including over 60 percent of GSIF companies – are located in areas that have historically had limited access to institutional equity capital, clearly indicating that the initiative's efforts to direct capital to these areas is working.

### **Objective 2: Employing workers living in economically disadvantaged areas**

In total, active California Initiative portfolio companies employ over 50,000 workers, approximately half of whom live in areas predominantly comprised of low and moderate (LMI) income census tracts. Over 60 percent of GSIF portfolio company employees are considered LMI workers, based on an analysis of both employee wage and residence location. Combined, these statistics indicate that the California Initiative is fulfilling its mission to provide employment opportunities to disadvantaged workers.<sup>9</sup>

### **Objective 3: Supporting women and minority entrepreneurs and managers**

When private equity dollars are invested in a company, the ownership often shifts from individuals to a fund, or group of funds. Given that ownership is transferred at the time of investment, the number of current female and minority officers (e.g., Chief Executive Officer, Chief Financial Officer, Chief Operating Officer) is used as a proxy to better understand the proportion of women and minority entrepreneurs at portfolio companies.

Over 40 percent of Phase I investment dollars and 50 percent of GSIF dollars are committed to 47 companies where there is at least one female officer, and over 40 percent of Phase I investment dollars and 60 percent of GSIF dollars are committed to 46 companies with at least one minority officer. As company officers, these women and minorities have substantial input into the management and growth of these companies.

As a frame of reference, the proportion of women and minority executives at California Initiative companies is greater than the proportion of comparable businesses in the United States that are women or minority-owned. At Phase I companies, 16 percent of officers are women and 22 percent are minorities, compared to 10 percent of similar United States businesses that are women-owned, and 6 percent that are minority-owned.<sup>10</sup>

# Profile – California Initiative Companies

Since the inception of the California Initiative, 281 companies have received investment through either Phase I (249 companies) or GSIF (32 companies). Of the 249 companies in Phase I, 129 companies have received funding through a \$100 million separate fund-of-funds account allocated to the Banc of America California Community Venture Fund (BACCVF). Except where otherwise noted, this report focuses on data provided by 99 active Phase I and GSIF portfolio companies (excluding BACCVF) as of June 30, 2008. BACCVF reports the community benefits derived from its fund-of-funds separately – see the addendum on page 24.

As of June 30, 2008, private equity funds that received capital through the California Initiative had active investments in 106 companies; 74 in Phase I and 32 in GSIF. Between June 30, 2007 and June 30, 2008, 12 companies that received investment from Phase I partners exited the portfolio, bringing the total number of fully realized investments over the life of the California Initiative to 46.

Of the 152 companies that have received investment throughout the life of the California Initiative, 134 (88 percent) have provided data for this report at some point during investment. Ninety-nine active companies (93 percent) provided data as of June 30, 2008: 68 (92 percent) Phase I portfolio companies and 31 (97 percent) GSIF portfolio companies.

California Initiative Portfolio Investments (Excluding BACCVF)			
	Phase I	GSIF	Total California Initiative
<b>Received investment</b>	120	32	<b>152</b>
<b>Active companies</b> <i>(as of June 30, 2008)</i>	74 (62%)	32 (100%)	<b>106 (70%)</b>
<b>Fully realized</b> <i>(as of June 30, 2008)</i>	46 (38%)	0	<b>46 (30%)</b>
<b>Active companies, contributed data 2008</b>	68 (92%)	31 (97%) <sup>11</sup>	<b>99 (93%)</b>
<b>All companies ever reporting, including fully realized investments.</b>	103 (86%)	31 (97%)	<b>134 (88%)</b>

## Employment and Employment Growth

The rate of employment growth at California Initiative companies exceeds the employment growth rate across the United States and California. Since 2005, 103 Phase I and 31 GSIF portfolio companies have contributed data to at least one assessment effort. At time of investment, these 134 California Initiative portfolio companies employed a total of 83,607 employees, including 13,778 Californians. The most recent data available from these companies shows employment growth of 5 percent overall (4,135 net new jobs) and 21 percent in California (2,933 net new jobs) since investment. By comparison, between 2001 and 2008, employment grew 4 percent across the country and 3 percent in California.<sup>12</sup>

The first GSIF portfolio company investment was made in 2007. By June 30, 2008, GSIF managers had closed investments in 32 companies. At time of investment, GSIF portfolio

companies employed 29,965 workers, and as of June 30, 2008 that number had grown 9 percent, to 32,560, far surpassing national and California job growth of less than 1 percent between 2007 and 2008.<sup>13</sup> California employment at GSIF portfolio companies increased at the same rate, growing 9 percent from 8,270 workers at investment, to 9,048 on June 30, 2008.

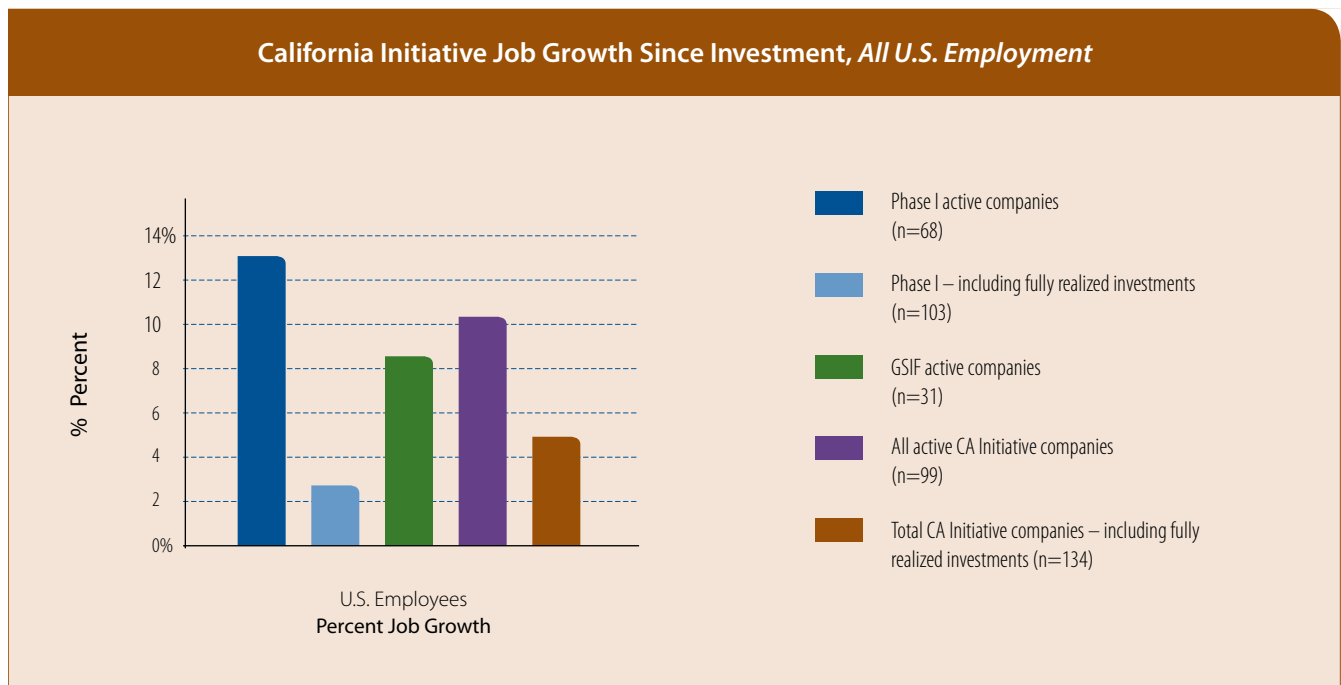
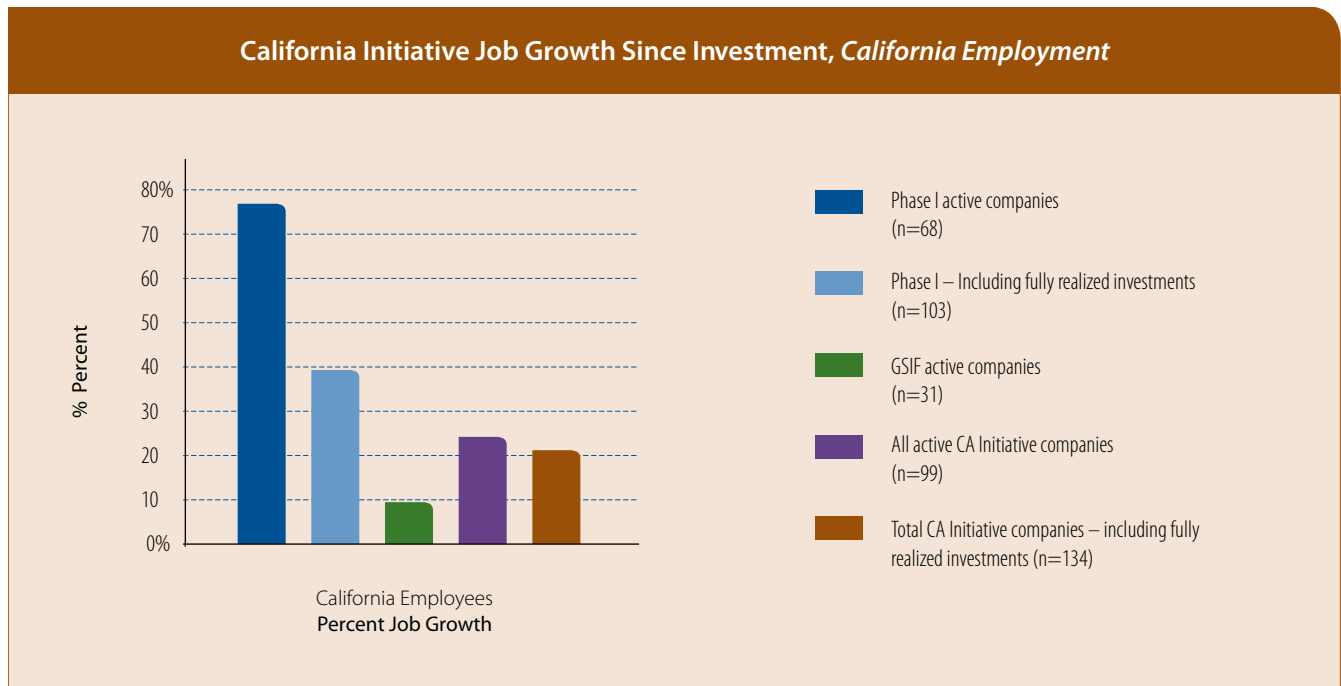
Between July 1, 2007 and June 30, 2008, 12 companies exited the Phase I portfolio. No companies exited the GSIF portfolio during this time. One fully realized Phase I company employed a disproportionate share of total portfolio company employees, and in total, 12 companies employing 28,548 workers exited the portfolio. Only 925 (3 percent) of these workers were employed in California.

### Employees, California Initiative Portfolio Companies

	Employees		CA Employees		Total Employees % growth	CA Employees % growth
	At Investment	At June 30, 2008	At Investment	At June 30, 2008		
<b>Phase I –</b> Active portfolio companies as of June 30, 2008 (n=68)	18,745	21,213	2,333	4,123	13%	77%
<b>Phase I –</b> All companies reporting, included fully realized investments (n=103) <sup>14</sup>	53,642	55,182	5,508	7,663	3%	39%
<b>GSIF (n=31)</b>	29,965	32,560	8,270	9,048	9%	9%
<b>Total CA Initiative –</b> Active portfolio companies as of June 30, 2008 (n=99)	48,710	53,773	10,603	13,171	10%	24%
<b>Total CA Initiative –</b> All companies ever reporting, including fully realized investments (n=134) <sup>15</sup>	83,607	87,742	13,778	16,711	5%	21%



## California Initiative Job Growth Since Investment



## Company Locations

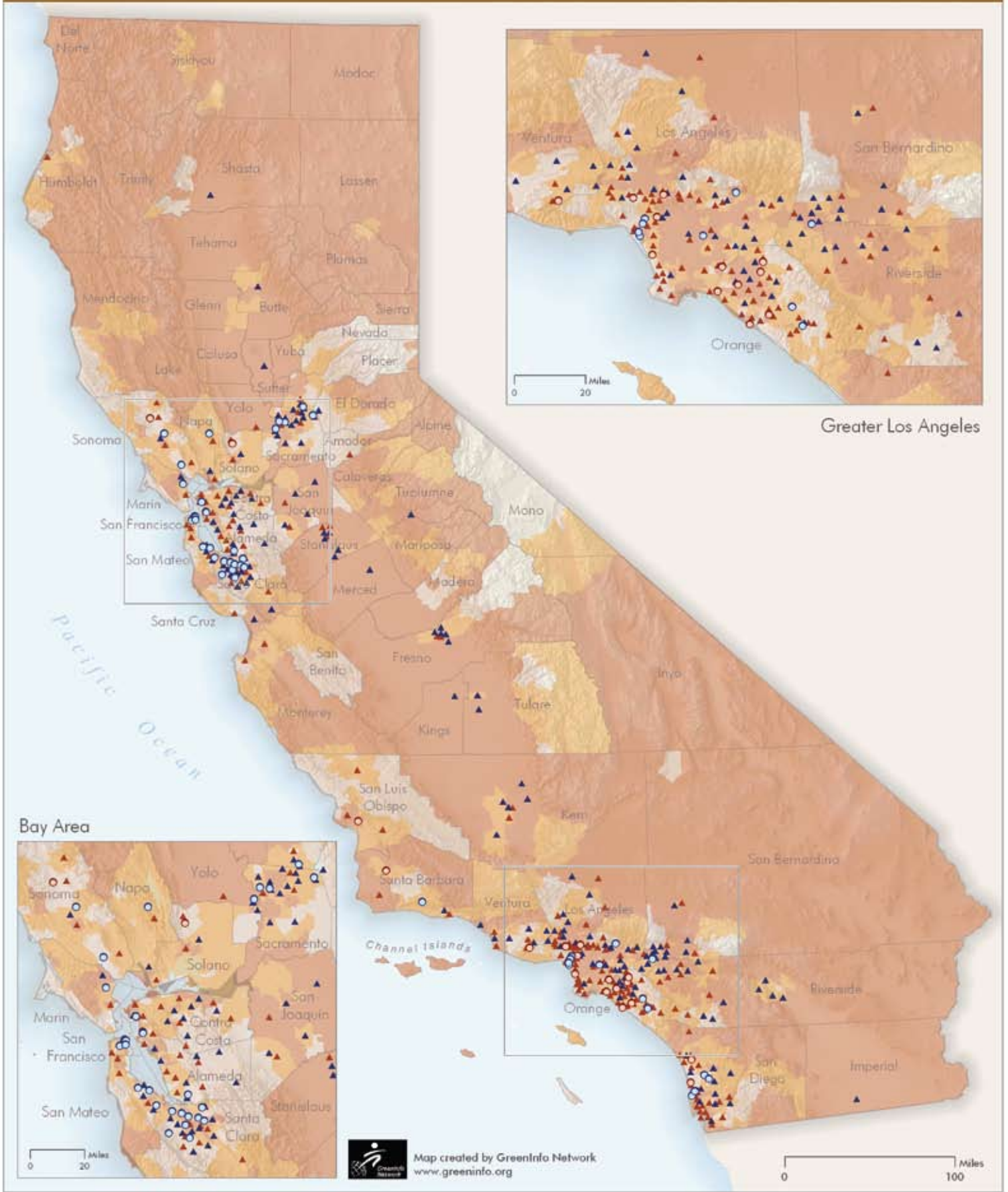
The 99 active California Initiative portfolio companies that contributed data in 2008 operate 2,410 total locations, including both headquarters and facilities; 73 percent of these companies are headquartered in California. Nearly 75 percent of the capital invested in GSIF portfolio companies, and 30 percent of that invested in Phase I companies, have been invested in companies headquartered in California. Including all company locations, approximately 30 percent of Phase I

dollars and more than half of GSIF dollars committed to date have been invested in California.<sup>16</sup> In addition, over twenty percent of Phase I capital invested in active portfolio companies has been invested in companies that employ approximately one-quarter of their workforce in California, although they are headquartered elsewhere and operate few California facilities.

### Operating Locations, California Initiative Portfolio Companies

Active Portfolio Companies	Headquarters	Facilities	Total
Phase I	68	945	1,013
Phase I in California	49 (72%)	171 (18%)	220 (22%)
GSIF	32	1,365	1,397
GSIF in California	24 (75%)	317 (23%)	341 (24%)
Total California Initiative	100	2,310	2,410
Total California Initiative in California	73 (73%)	488 (21%)	561 (23%)

# California Initiative Portfolio Company Locations



- ▲ Phase 1 Facilities
- Phase 1 Headquarters

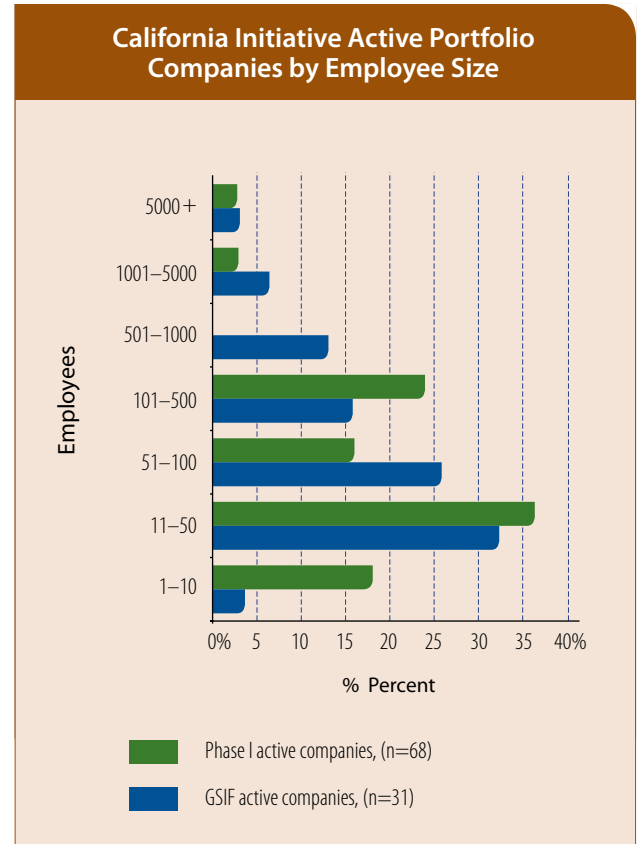
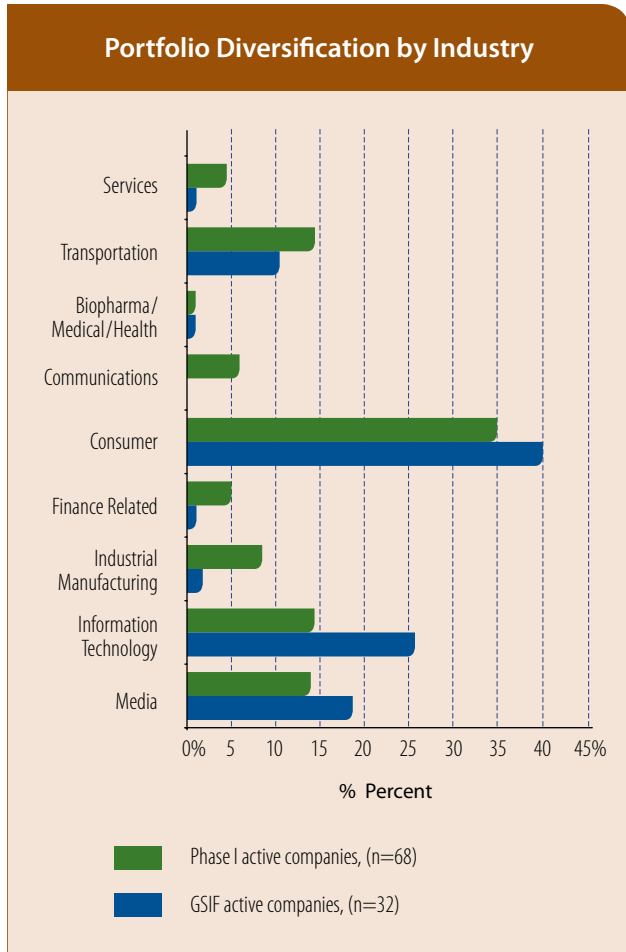
- ▲ Golden State Investment Fund Facilities
- Golden State Investment Fund Headquarters

- Zip codes that are predominantly comprised of low-to-moderate income census tracts
- Zip codes that overlap with low-to-moderate income census tracts

## Portfolio Diversification

California Initiative portfolio companies operate across a variety of industries.

Portfolio companies also range in size from fewer than 10 to more than 5,000 employees. The majority of portfolio companies (54 percent) employ between 11 and 100 workers.



## Evaluating the California Initiative's Ancillary Benefits: New Developments in Methodology

With the addition of GSIF, CalPERS, Hamilton Lane, and PCV implemented expanded data collection and analytical methods. These changes are described below.

### Benefit percentiles

Phase I companies collect benefits data categorically, with each company reporting data in quartile ranges. GSIF portfolio companies report the absolute number of employees eligible for and enrolled in each benefit. The GSIF approach allows for better comparisons to State and national data, while also providing a better picture of job quality for portfolio company employees.

### Patents granted

GSIF portfolio companies also report the number of patents granted to the company annually. The number of patents granted is an indicator of innovation, which often precedes job growth at a company.

### Employee wages

In order to assess employee economic status at GSIF portfolio companies, PCV collected the wage and ZIP Code of every employee. (To maintain employee confidentiality, PCV collected no identifying information.) Analyzing wages in combination with the associated ZIP Code produces a more accurate assessment of economic status. GSIF portfolio companies also report the ZIP Codes of all operating locations, not just those in California (as in Phase I). This additional data provides a more complete picture of the portfolio company communities.

### Job Quality

At both Phase I and GSIF portfolio companies, job quality – comprised of medical coverage, retirement plans, and paid sick and vacation leave – compares favorably to job quality at companies in California and the United States. A higher percentage of Phase I companies offer employee benefits – including medical insurance, retirement plans, vacation and sick leave – than companies in the United States and California. Ninety-six percent of Phase I companies provide medical insurance to at least some of their employees compared to 62 percent of U.S. companies and 71 percent

of California companies.<sup>17</sup> The majority of Phase I companies (84 percent) provide medical insurance to between 76 percent and 100 percent of their employees, whereas 71 percent of U.S. and 80 percent of California employees are eligible for employer-based medical insurance.<sup>18</sup> Of those companies that provide medical insurance, 98 percent have enrolled at least some employees, and 64 percent have enrolled 76 percent to 100 percent of eligible employees.

Phase I companies also compare favorably to the United States in the provision of employee retirement benefits, sick leave, and paid vacation.

### Employee Benefits, Phase I Portfolio Companies

		N/A	1–25%	26–50%	51–75%	76–100%
Percent of Phase I Portfolio companies offering benefits to employees <sup>19</sup>	Eligible for medical insurance	4%	1%	4%	6%	84%
	Eligible employees enrolled in medical insurance	2%	5%	12%	17%	64%
	Eligible for retirement plan	21%	3%	0%	6%	71%
	Eligible for paid sick leave	10%	4%	1%	6%	78%
	Eligible for paid vacation	3%	3%	1%	4%	88%
	Eligible for stock	28%	12%	4%	1%	54%

The more precise measurement of benefits at GSIF portfolio companies leads to a more complete measure of job quality. To more accurately represent job quality for lower income workers – many of whom are employed in hourly wage jobs – GSIF portfolio companies report data for salaried

and non-salaried employees separately. Benefit eligibility rates compare favorably to both the U.S. and California. However, enrollment rates, while similar for salaried employees, are lower for non-salaried employees in the GSIF portfolio.

### Employee Benefits, GSIF Portfolio Companies

		GSIF Salaried	GSIF Non-salaried	U.S. <sup>20</sup>	CA <sup>21</sup>
Medical Coverage	Establishments offering	94%		62%	71%
	Employees eligible for	97%	84%	71%	80%
	Employees enrolled in	82%	31%	53%	66%
Retirement Benefits	Establishments offering	74%		45%	n/a
	Employees eligible for	86%	50%	56%	n/a
	Employees enrolled in	51%	9%	56%	n/a
Other Benefits	Employees eligible for disability benefits	94%	7%	n/a	n/a
	Employees eligible for paid vacation time	95%	64%	57%	n/a
	Employees eligible for paid sick leave	64%	8%	78%	n/a

Health insurance enrollment rates for non-salaried employees are most likely low because lower income employees often cannot afford to pay the share of the premium not covered by the employer. Premium costs in California rose twice as fast as inflation over the last several years,<sup>22</sup> and both employers and employees have trouble keeping up with the rising costs.

### **Job quality changes since investment**

The influx of capital from GSIF investments has allowed many portfolio companies to make changes to employee benefit packages. Of 31 GSIF companies, 12 (40 percent) made changes to their benefit plans between July 1, 2007 and June 30, 2008. Of these 12, nine companies added employee benefits, one company made the benefits easier for employees to access, one company changed plan provider, and one company reduced its benefits package.

### **Suppliers**

As of June 30, 2008, California Initiative Phase I and GSIF companies had active supplier relationships<sup>23</sup> with nearly 9,000 and over 30,000 vendors, respectively. In addition to the boost to the economy provided directly by California Initiative portfolio companies, nearly 14,000 other California businesses (34 percent of all Phase I and GSIF suppliers) have been indirectly supported by this capital investment.

### **Patents**

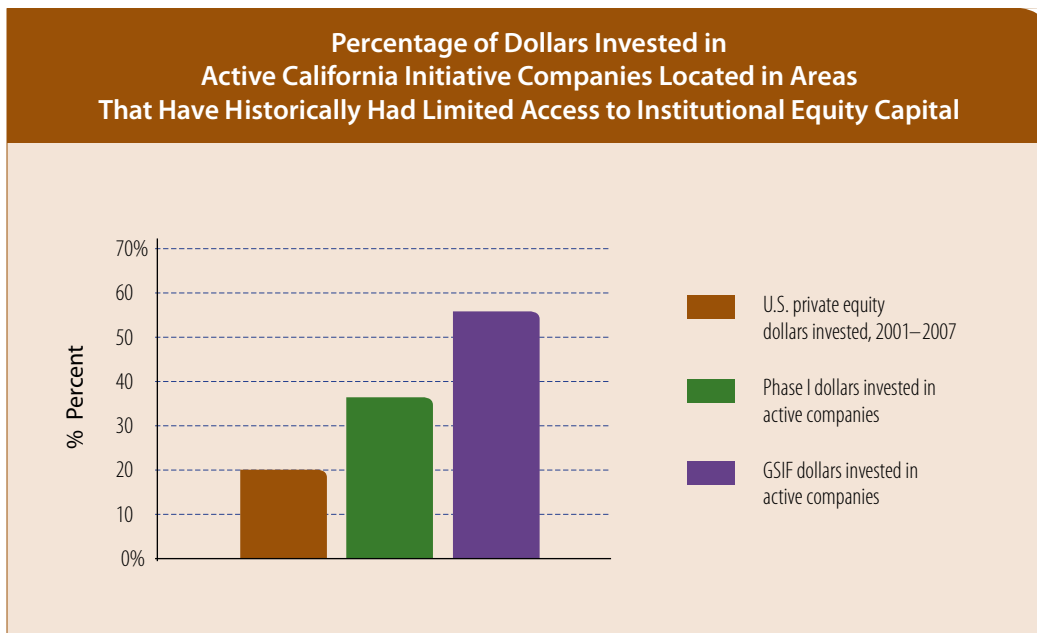
GSIF portfolio companies report the number of patents granted to them annually. Three new patents were granted to two portfolio companies between July 1, 2007 and June 30, 2008. GSIF patent rates compare favorably to both the U.S. and California, where patent growth rates were negative between 2006 and 2007.<sup>24</sup>

# CalPERS California Initiative – Investing in Underserved Markets

## Objective 1: Providing capital to areas of California and the United States that have historically had limited access to equity capital.

To define areas that have historically had limited access to institutional equity capital, PCV analyzed data from Thompson Financial (now Thomas Reuters) that tracked private equity transactions between 2001 and 2007. This data shows that approximately 75 percent of private equity investment dollars were concentrated in 1,000 postal codes worldwide.<sup>25</sup> Most of these 1,000 postal codes (774) are located in the United States. **For the purposes of this analysis, any company located outside of these 774 United States ZIP Codes – where more than 80 percent of all private equity in the United States and more than 90 percent of all private equity in California has been committed – is considered to be located in an area that has historically had limited access to institutional equity capital.**

Across California, only 25 percent of all companies receiving private equity investment are located in areas that have historically had limited access to institutional equity capital. By contrast, 44 percent of all California Initiative companies – including over 60 percent of GSIF companies – are located in areas that have historically had limited access to institutional equity capital, clearly indicating that the initiative’s efforts to direct capital to these areas is working. In the Phase I portfolio, 35 percent of all active companies and 30 percent of active California companies are located in areas that have historically had limited access to capital. Forty-seven percent of California-based GSIF companies are headquartered in areas of the State that have historically had limited access to capital.





## Objective 2: Employing workers living in economically disadvantaged areas

California Initiative portfolio companies benefit low and moderate income (LMI) workers in two ways. First, companies provide quality jobs to residents of LMI areas. Second, companies that are headquartered or operate facilities in LMI areas bring economic activity to distressed neighborhoods, indirectly supporting the creation of more jobs.

To assess the extent to which California Initiative companies are supporting employment for residents of LMI areas, PCV examines areas where companies operate as well as where company employees live.<sup>26</sup>

In the Phase I portfolio, over 80 percent of company headquarters and operating facilities are located in LMI areas.<sup>27</sup> GSIF portfolio companies have a total of 1,395<sup>28</sup> operating locations, including both facilities and headquarters; 73 percent are located in LMI areas.

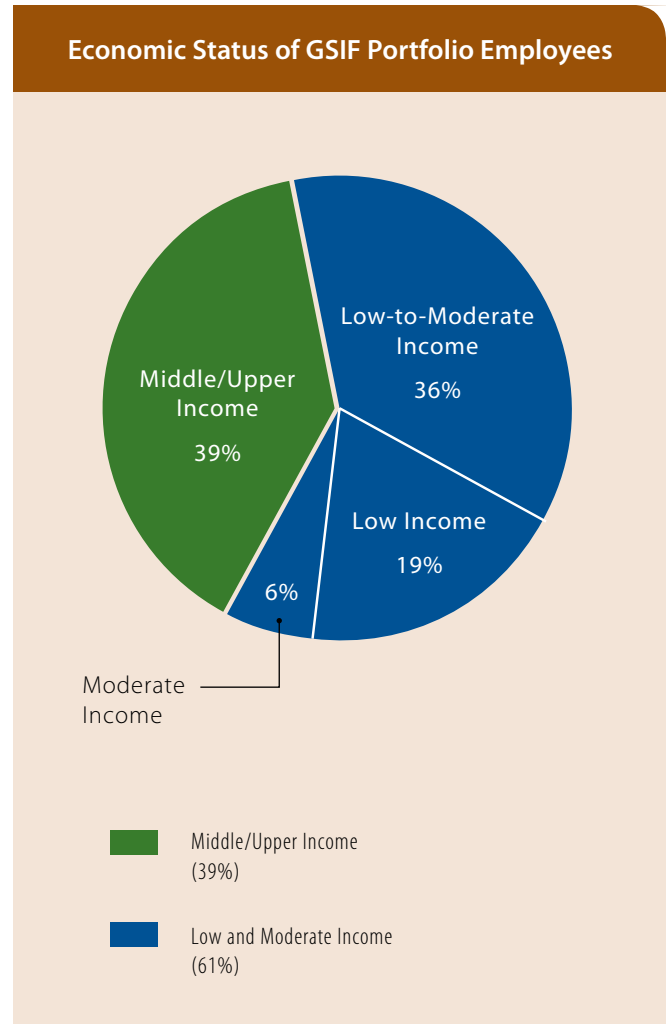
Eighty-seven percent of employees at Phase I portfolio companies can be classified as living in LMI areas, including 51 percent of employees who live in predominantly low income areas.<sup>29</sup>

### Employees Living, and Companies Located, in Low and Moderate Income Geographies

		Located in a Zip Code that <b>Overlaps</b> with LMI Census Tract	Located in a Zip Code that is <b>Predominantly</b> Comprised of LMI Census Tracts	Total LMI	Not LMI
Phase I	Headquarters (n=68)	35 (51%)	22 (32%)	57 (84%)	11(16%)
	California headquarters	29 (59%)	13 (27%)	42 (86%)	7 (14%)
	California facilities	77 (45%)	64 (38%)	141 (83%)	29 (17%)
	California employees	1,454 (36%)	2,054 (51%)	3,508 (87%)	514 (13%)
GSIF	Headquarters (n=30) <sup>30</sup>	17 (57%)	7 (23%)	24 (80%)	8 (20%)
	California headquarters	14 (58%)	6 (25%)	20 (83%)	4 (17%)
	Facilities	651 (48%)	339 (25%)	990 (73%)	375 (27%)
	California facilities	142 (45%)	118 (37%)	260 (82%)	57 (18%)
	Employees <sup>31</sup>	12,718 (40%)	11,535 (36%)	24,253 (76%)	7,416 (23%)
	California employees	3,383 (39%)	4,175 (48%)	7,558 (86%)	1,194 (14%)

Not all low-income workers live in a low-income area, and not all individuals living in low-income areas earn a low-income wage. With the addition of new data points collected from GSIF portfolio companies, PCV can report with greater precision the number of LMI workers at portfolio companies. A worker's ZIP Code of residence and wage combine to form a more complete picture of an individual's economic status. To assess the number of LMI workers at GSIF portfolio companies, PCV has created a system to classify individual workers:

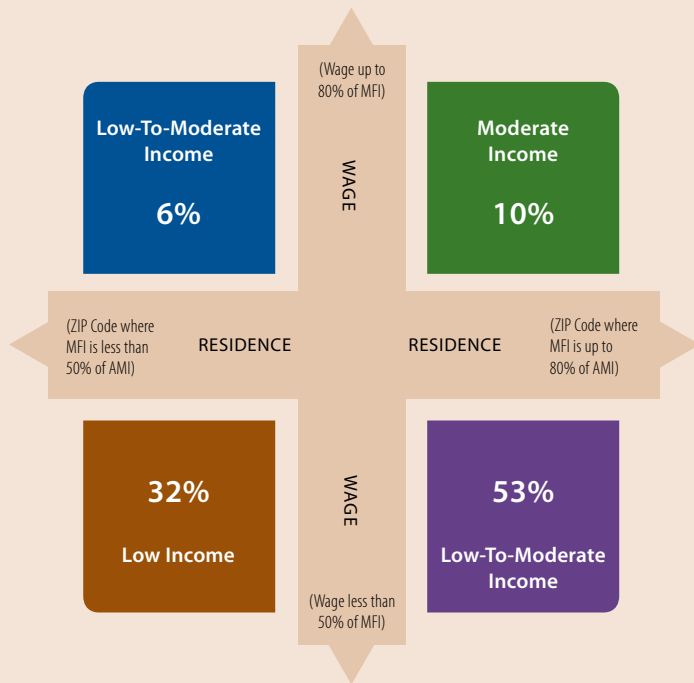
- Middle/Upper Income Workers: GSIF portfolio company employees who earn a middle or upper income wage are considered middle/upper income employees. Similarly, employees who earn less than a middle income wage, but live in middle or upper income communities are also considered middle/upper income workers.<sup>32</sup> These workers likely are part of households with other sources of income. Based on the associated ZIP Code and wage data collected for each employee, as of June 30, 2008, 39 percent of all GSIF portfolio company employees are classified middle/upper income.



- Low-to-Moderate Income Workers: The remaining 61 percent of GSIF portfolio company employees are low-to-moderate income workers for whom the California Initiative is providing economic opportunities. These employees both earn an LMI wage **and** live in an LMI area.<sup>33</sup> As a frame of reference, 35 percent of

all employed individuals in the United States, and 38 percent of working Californians live in LMI census tracts.<sup>34</sup> For more in-depth analysis, PCV further divides the LMI employees into three categories: low-income, low-to-moderate income, and moderate-income.

### Economic Status of Low and Moderate Income GSIF Portfolio Company Employees (n=17,576)<sup>35</sup>



#### Low Income

- Employee wage is less than 50 percent of the Median Family Income (MFI) in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is less than 50 percent of the Area Median Income (AMI)
- Number of Portfolio Employees: 5,548 (32%)

#### Low-To-Moderate Income

- Employee wage is between 50 percent and 80 percent of the MFI in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is less than 50 percent of the AMI
- Number of Portfolio Employees: 980 (6%)

#### Low-To-Moderate Income

- Employee wage is less than 50 percent of the MFI in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is between 50 percent and 80 percent of the AMI
- Number of Portfolio Employees: 9,332 (53%)

#### Moderate Income

- Employee wage is between 50 percent and 80 percent of the MFI in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is between 50 percent and 80 percent of the AMI
- Number of Portfolio Employees: 1,716 (10%)

### Objective 3: Supporting women and minority entrepreneurs and managers

The third ancillary benefit assessed for the California Initiative is the extent to which these investments support women and minority entrepreneurs and managers. By tracking the number of women and minority entrepreneurs, CalPERS can better understand the role the California Initiative plays in the training, professional development, and advancement of these populations.

When private equity dollars are invested in a company, ownership often shifts from individuals to a fund, or group of funds. Prior to investment, company owners are commonly C-level officers (e.g., Chief Executive Officer, Chief Financial Officer, Chief Operating Officer). Accordingly, to better understand the proportion of women and minority entrepreneurs at portfolio companies, officers and key managers are used as a proxy.

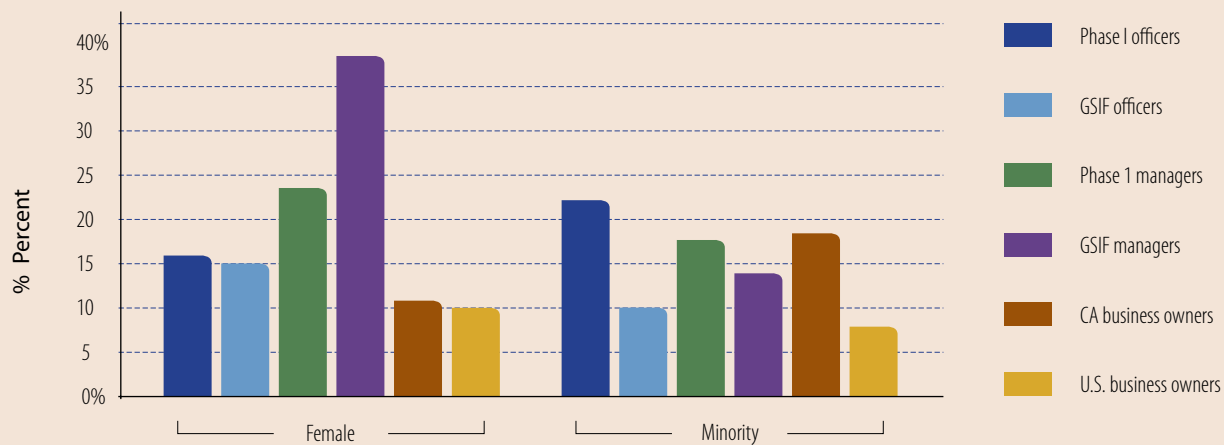
The 99 active California Initiative companies employ a total of 374 officers, an average of approximately four officers per company. More than 40 percent of Phase I and 50 percent of GSIF investment dollars are committed to 47 companies where there is at least one female officer, suggesting that women have substantial input into the management and growth of these companies. Similarly, more than 40 percent of Phase I and 60 percent of GSIF investment dollars are committed to 46 companies that have at least one minority officer.

The following table shows a breakdown of California Initiative portfolio company officers by gender and ethnicity. Provided as a frame of reference are ownership diversity statistics for businesses with paid employees and \$1 million in revenue in California and the United States. Most portfolio companies receiving investment from the California Initiative met these criteria.

**Minority and Female Officers and Key Managers, California Initiative Portfolio Companies**

	Phase I		GSIF		CA Business Owners <sup>39</sup>	U.S. Business Owners <sup>40</sup>
	Officers <sup>36</sup>	Key Managers	Officers <sup>37</sup>	Key Managers <sup>38</sup>		
<b>Men</b>	203 (84%)	500 (77%)	112 (85%)	296 (62%)	89%	90%
<b>Women</b>	39 (16%)	152 (23%)	20 (15%)	180 (38%)	11%	10%
<b>Hispanic/Latino</b>	15 (6%)	39 (6%)	6 (5%)	29 (6%)	5%	2%
<b>African American</b>	18 (8%)	31 (5%)	2 (2%)	11 (2%)	1%	1%
<b>Asian/Pacific Islander</b>	12 (5%)	39 (6%)	3 (2%)	23 (5%)	11%	4%
<b>Other Minorities</b>	8 (3%)	7 (1%)	2 (2%)	3 (1%)	1%	<1%
<b>White</b>	187 (78%)	534 (82%)	119 (90%)	410 (86%)	95%	98%

## Female and Minority Entrepreneurs<sup>41</sup>



## Endnotes

<sup>1</sup> CalPERS Press Release; February 19, 2008. "CalPERS California Initiative Program Deploys Private Equity Capital to Overlooked Markets."

<sup>2</sup> There are a total of 106 active companies excluding the BACCVF portfolio companies. Ninety-nine of these 106 companies contributed data for this report.

<sup>3</sup> This estimate assumes that portfolio companies allocate invested dollars evenly across operating locations.

<sup>4</sup> As of June 30, 2008; excludes the \$100 million committed to the Banc of America California Community Venture Fund.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid. Note that headquarters location data is available for 144 of the 152 companies.

<sup>7</sup> GSIF company employees only, as of June 30, 2008. All United States employees. Includes all employees living in ZIP Codes that overlap with low and moderate income census tracts.

<sup>8</sup> Ibid.

<sup>9</sup> Beginning with GSIF, portfolio companies now provide both a wage and residence ZIP Code for each employee, providing a more complete picture of workers' economic status.

<sup>10</sup> U.S. companies used for comparison are those that have employees and at least \$1 million in revenues; this is similar to the size and makeup of most California Initiative portfolio companies.

<sup>11</sup> Thirty-one companies contributed survey data, while for one company the only data presented in this report is the headquarters location. Any calculation that includes headquarter locations will include all 32 active GSIF portfolio companies.

<sup>12</sup> Bureau of Labor Statistics.  
[www.bls.gov/data/#employment](http://www.bls.gov/data/#employment)

<sup>13</sup> Ibid.

<sup>14</sup> For fully realized investments, the data used for this analysis is the most recent data available, typically as of the June 30 prior to exit.

<sup>15</sup> Ibid.

<sup>16</sup> This estimate assumes that portfolio companies allocate invested dollars evenly across operating locations.

<sup>17</sup> Bureau of Labor Statistics National Compensation Survey, March 2008.  
[www.bls.gov/NCS/ncspubs.htm#benefits](http://www.bls.gov/NCS/ncspubs.htm#benefits).

<sup>18</sup> Ibid.

<sup>19</sup> Numbers do not add to 100% due to rounding differences.

<sup>20</sup> U.S. benchmark data from the Bureau of Labor Statistics National Compensation Survey, March 2008.  
[www.bls.gov/NCS/ncspubs.htm#benefits](http://www.bls.gov/NCS/ncspubs.htm#benefits).

<sup>21</sup> California Health Care Foundation, California Employer Health Benefits Survey 2007.  
[www.chcf.org/documents/insurance/EmployerBenefitSurvey07.pdf](http://www.chcf.org/documents/insurance/EmployerBenefitSurvey07.pdf)

<sup>22</sup> Ibid.

<sup>23</sup> An "active supplier relationship" is defined as one where the company has made a purchase in the past year.

<sup>24</sup> U.S. Patent Office.  
[www.uspto.gov/web/offices/ac/ido/oeip/taf/pat\\_tr07.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/pat_tr07.htm)

<sup>25</sup> Thomson Reuters.  
[www.thomsonreuters.com/business\\_units/financial/](http://www.thomsonreuters.com/business_units/financial/)

<sup>26</sup> Portfolio companies provide the ZIP Code for each headquarter and facility, as well as for each employee. (In Phase I, portfolio companies reported ZIP Codes for California employees and facilities only.) While employee and facility locations are defined by ZIP Codes, LMI areas are identified by census tracts. ZIP Codes can be comprised of parts of many census tracts and census tracts can contain parts of several ZIP Codes. To evaluate the extent to which California Initiative companies

are supporting employment for residents of economically underserved areas, PCV made two distinctions:

- ZIP Codes that overlap with LMI census tracts. These workers and facilities may or may not be located in a lower-income census tract, but they are likely located near, and in a position to contribute to, the LMI area (20 percent of U.S. ZIP Codes fall into this category).
- ZIP Codes that are predominantly (50 percent or more) comprised of LMI census tracts. These workers and facilities are likely located in LMI areas (34 percent of U.S. ZIP Codes fall into this category).

A census tract is designated LMI if at least one of the following conditions holds true:

- For census tracts within metropolitan areas, the median income of the tract is at or below 80 percent of the metropolitan statistical area median. For census tracts outside of metropolitan areas, the median income of the tract is at or below 80 percent of the statewide, non-metropolitan area median income.
- At least 20 percent of the population lives in poverty.
- The unemployment rate is at least 1.5 times the national average.

<sup>27</sup> Phase I companies report a total of 171 California facilities, but only 170 ZIP Codes were reported. All data referring to the LMI status of Phase I facilities deals only with these 170 locations.

<sup>28</sup> There are 1,397 total operating locations in the GSIF profile. The LMI status of two New York City ZIP Codes cannot be determined at this time due to their proximity to the World Trade Center site. These two ZIP Codes have been left out of this analysis.

<sup>29</sup> Phase I portfolio companies only report the ZIP Codes of California employees; thus the analysis of LMI workers is limited to California employees. Phase I companies report a total of 4,123 California employees, but provided valid ZIP Codes for 4,022 employees, a difference of 101 or 2 percent.

<sup>30</sup> See footnote 28.

<sup>31</sup> Companies report 32,650 employees but only 32,382 ZIP Codes, 31,669 of which are valid U.S. ZIP Codes. Companies report 9,048 employees in CA, but only 8,901 ZIP Codes, 8,752 of which are valid. Approximately 2 percent of reported ZIP Codes are either missing, refer to P.O. boxes, or do not match U.S. Postal Service ZIP Codes. All analysis has been conducted only on the valid ZIP Codes.

<sup>32</sup> These workers earn more than 80 percent of the median family income (MFI) for the metropolitan statistical area (MSA) in which they live. Similarly, employees who earn 80 percent or less of the MFI for the MSA, but live in a ZIP Code area that is entirely comprised of middle- and upper-income census tracts, are also considered middle/upper income employees.

<sup>33</sup> These workers earn less than 80 percent of the MFI for the MSA of residence and live in a ZIP Code that overlaps a census tract where the median income is less than 80 percent of the area median income.

<sup>34</sup> Based on 2000 U.S. census data.

<sup>35</sup> This analysis was conducted on all low and moderate income employees of GSIF portfolio companies whose ZIP Codes match valid U.S. lists as referenced in footnote 31. Percents do not equal 100 due to rounding differences.

<sup>36</sup> One company with two officers and two key managers declined to provide ethnicity data. Percentages are for the total reported officers (240) and key managers (650).

<sup>37</sup> Numbers do not equal 100 due to rounding differences.

<sup>38</sup> Ibid.

<sup>39</sup> CalPERS California Initiative companies report the number of women and minority officers and managers. The comparison set for the United States and California is businesses with \$1 million in revenue and paid employees that are at least 51 percent women and/or minority owned. This is the closest comparison possible for the diverse group of California Initiative companies. U.S. Census 2002 data. 2007 data unavailable as of October 15, 2008. The census allows respondents to identify an ethnicity (Hispanic/Latino) and multiple racial categories; thus, minority categories cannot be combined for an accurate estimate of total minority-owned businesses.

<sup>40</sup> Ibid.

<sup>41</sup> Because of differences between the way CalPERS and the U.S. Census Bureau collect race and ethnicity data, PCV uses the most conservative estimates for comparison. Census participants can identify themselves as Hispanic/Latino as well as any other race, whereas CalPERS respondents choose the one category they most identify with. Based on U.S. Census data, between 7 and 18 percent of business owners in CA and between 6 and 8 percent of U.S. business owners are minority. PCV has elected to use the highest possible percentage for comparison in both categories. This percentage is most likely higher than the actual number.



# Banc of America Capital Access Funds

In addition to investing in nine private equity funds, the California Initiative, working with Banc of America Capital Access Funds (BACAF), has invested in a fund-of-funds, Banc of America California Community Venture Fund (BACCVF). As of June 30, 2008, BACCVF had invested in 15 funds, and these funds had invested in 129 portfolio companies.<sup>1</sup> BACAF expects its funds to ultimately invest in 150 to 175 companies. As of December 31, 2007, 90 companies of the initial 129 remained active.

## Profile of BACCVF Funds and Portfolio Companies

Of the 15 funds that have received an investment from BACCVF, nine have an office in California. The remaining funds are projected to have a solid lineup of California deals, based on their networks and investing history. As of June 30, 2008, 57 (44 percent) of the 129 companies in BACCVF funds' portfolios are headquartered in California.<sup>2</sup>

### Providing capital to areas of California and the United States that have historically had limited access to institutional equity capital

BACAF invests in well-run venture capital and private equity funds that invest in companies that have one or more of these characteristics:

- Located in or employ residents of low-to-moderate income geographies
- Owned or managed by ethnic minorities
- Owned or managed by women
- Focused on delivering products or services to an ethnically diverse customer base
- Located in areas – urban or rural – with limited access to investment capital

As of December 31, 2007, 69 percent of the companies funded by BACCVF met one or more of BACAF's definitions of "underserved." Of the 15 funds that have received investment from BACCVF, 11 (73 percent) focus on low-to-moderate income areas or individuals. Two (13 percent) of the funds are helping to capitalize financial institutions that provide banking services to low-income and/or ethnic minority consumers, and nine (60 percent) of the 15 funds focus on

ethnic minority opportunities. Many of the funds also focus on one or more of the other components of BACAF's definition of an underserved company.

Of the 90 companies in BACCVF funds' portfolios as of December 31, 2007, eight (9 percent) are located in areas of the United States classified by the Initiative for a Competitive Inner City (ICIC) as Inner City, where venture capital has not traditionally been invested.<sup>3</sup> Two (2 percent) of the 90 companies are located in rural areas of the United States as defined by the U.S. Department of Agriculture.

### Employing workers living in economically disadvantaged areas

Twenty-nine (32 percent) of the companies in BACCVF funds' portfolios as of December 31, 2007, are located in a low-to-moderate income area. Twenty-one (23 percent) are located in census tracts where 20 percent or more of the population live in households with income below the federal poverty level. Twenty-three (25 percent) of the companies are located in census tracts where the median income is at or below 80 percent of median income for the surrounding area.

### Supporting women and minority entrepreneurs and managers

Nine (60 percent) of the 15 funds receiving investment through BACCVF focus on creating opportunities for ethnic minorities. Eleven (73 percent) of the funds have at least one ethnic minority partner, and 10 (67 percent) of the funds have two or more ethnic minority partners. Six (40 percent) of the funds have at least one female partner.

Twenty-five (28 percent) of the companies in BACCVF funds' portfolios as of December 31, 2007, are majority-owned or managed<sup>4</sup> by minorities. Thirty-five (39 percent) of the companies are located in census tracts where more than half the population is an ethnic minority. Forty-five (50 percent) had some minority ownership, and 38 (42 percent) of the companies had some female ownership.

In 21(23 percent) of the companies active as of Dec. 31, 2007, the CEO is a minority. The CEO is African American in seven of the 21, Hispanic in seven, and Asian in six. Three companies have female CEOs. All 90 companies in the BACCVF employed a total of 19,008 employees; 5,983 (31 percent) of these employees were ethnic minorities and 8,779 (46 percent) were women.<sup>5</sup>

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<sup>1</sup> Includes companies held by BACAF portfolio funds that were subsequently exited; one company is held by two funds.

<sup>2</sup> Includes companies held by BACAF portfolio funds that were subsequently exited; one company is held by two funds.

<sup>3</sup> Inner Cities are defined as core urban areas that currently have higher unemployment and poverty rates and lower media income levels than surrounding Metropolitan Statistical Areas (MSA). Inner Cities have a 20 percent poverty rate or higher, or meet two of the following three criteria: poverty rate 1.5x or more than that of MSAs; median household income of 50 percent or less than that of their MSAs; unemployment rate of 1.5x times or more than that of their MSAs.

<sup>4</sup> Owned refers to a 50 percent or higher ownership stake; managed refers to the CEO.

<sup>5</sup> Includes companies held by BACAF portfolio funds that were subsequently exited; one company is held by two funds.



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