CalPERS California Initiative 2012

Creating Opportunities in California's Underserved Markets

CalPERS

The CalPERS California Initiative

The California Initiative has committed over $1 billion to companies located in traditionally underserved markets, primarily, but not exclusively, located in California. The initiative has sought 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 was designed to focus investment in California's underserved markets and invest in portfolio companies that:

- *Have historically had limited access to institutional equity capital*
- *Employ workers who reside in economically disadvantaged areas*
- *Provide employment opportunities to women and minority entrepreneurs and managers*

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Executive Summary

In 2001 CalPERS established the California Initiative to invest private equity in "traditionally underserved markets, primarily, but not exclusively in California."[1]

The California Initiative began with a capital commitment of $475 million, known as Phase I. In 2006, CalPERS made a second commitment totaling $560 million in an investment vehicle known as the Golden State Investment Fund (GSIF), externally managed by Hamilton Lane, a leading private equity investment manager.

The objective of the California Initiative is to generate attractive financial returns. As an ancillary benefit, the California Initiative was designed to create jobs and promote economic opportunity in California. To determine the extent of the ancillary benefits, CalPERS engaged Pacific Community Ventures to measure the impact of the California Initiative by examining portfolio companies that:

- Traditionally have had limited access to institutional equity capital
- Employ workers living in economically disadvantaged areas
- Provide employment opportunities to women and minority entrepreneurs and managers

Since the inception of the California Initiative, CalPERS has invested approximately $1 billion in 490 companies.

Summary Findings

- The California Initiative represents a significant capital investment in California's economy with 72 percent of capital allocated to "California Companies."
- The California Initiative has created and sustained jobs within California and the nation through continued economic uncertainty supporting 16,213 workers as of June 30, 2012.
- Companies receiving investment through the California Initiative have provided quality jobs to employees, with benefit levels for health and retirement outpacing statewide and national levels.
- The California Initiative has invested in areas of the state that have historically not received institutional equity capital, with 47 percent of capital allocated to companies located in these underserved markets.
- Economically disadvantaged communities are supported by the California Initiative and its portfolio companies. The California Initiative employs a significant number of economically disadvantaged persons, with 49 percent of GSIF employees classified as low- to moderate-income.
- Women and minorities provide leadership to California Initiative portfolio companies, with female representation outpacing national levels and minority representation on par with national levels.

Quick Facts on the California Initiative since Inception

California Initiative Capital Allocations	Year of Inception	Manager of Funds	Private Equity Vehicles	Capital Committed	Companies Receiving Investment
Phase I	2001	CalPERS	9 funds	$375,000,000	122
Phase I: Banc of America Fund[2]	2002	Bank of America	15 funds	$100,000,000	177
Golden State Investment Fund	2006	Hamilton Lane	15 funds and 18 direct co-investments	$560,000,000	191
Totals				**1,035,000,000**	**490**

Introduction

In 2001 the CalPERS Investment Committee established, and CalPERS staff implemented, the California Initiative to invest private equity in "traditionally underserved markets, primarily, but not exclusively in California.

The California Initiative was initially 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 2006, CalPERS committed $560 million for a Phase II 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 primarily in California. As of June 30, 2012, through GSIF, Hamilton Lane had invested in 15 private equity funds and made 18 direct co-investments. Since inception, CalPERS has invested approximately $1 billion in the California Initiative supporting 490 private companies across the state.

The objective of the California Initiative is to generate attractive financial returns. As an ancillary benefit, the California Initiative was designed to create jobs and promote economic opportunity in California. To determine the extent of the ancillary benefits, CalPERS measures the impact of the California Initiative by examining portfolio companies that:

- Traditionally have had limited access to institutional equity capital
- Employ workers living in economically disadvantaged areas
- Provide employment opportunities to women and minority entrepreneurs and managers

CalPERS and Hamilton Lane engaged Pacific Community Ventures (PCV), a leader in impact investing research and evaluation, to collect, analyze and report on the California Initiative's ancillary benefits. PCV has collected and analyzed data from California Initiative portfolio companies for the last eight years, beginning in 2005.

This report focuses solely on data from 313 of the 490 companies that have received funding through Phase I (122) and GSIF (191). The companies not included in this report are the 177 that received funding through a $100 million separate fund-of-funds account in Phase I, known as the Banc of America California Community Venture Fund (BACCVF), managed by Bank of America Merrill Lynch Capital Access Funds. A summary prepared by Bank of America on the community benefits derived from BACCVF is presented separately at the end of this report, on page 28.

Of the 313 companies, 284 (91 percent) provided data for this report. Since inception there have been 119 companies that have had exits and are fully realized investments. Twenty-five of these 119 companies exited between July 1, 2011 and June 30, 2012, the period of this report.[3]

As of June 30, 2012, private equity funds that received capital through the California Initiative had active investments in 194 companies (34 in Phase I and 160 in GSIF). Of the 194 active companies, 176 companies (91 percent) provided data at June 30, 2012, including 26 Phase I portfolio companies (76 percent) and 150 GSIF portfolio companies (94 percent).[4]

California Initiative Portfolio Investments[1]

	Phase I	GSIF	Total California Initiative
Number of companies	122	191	313
Active companies (as of June 30, 2012)	34 (28%)	160 (84%)	194 (62%)
Fully realized (as of June 30, 2012)	88 (72%)	31 (16%)	119 (38%)
Active companies, contributed data 2012	26 (76%)	150 (94%)	176 (91%)
All companies ever reporting, including fully realized investments	104 (85%)	180 (94%)	284 (91%)

[1]This table does not include the 177 companies that received funding through the $100 million separate fund-of-funds account in Phase I allocated to the Banc of America California Community Venture Fund.

California Initiative Companies

Employment and Employment Growth

The following sections detail the employment growth since the time of investment for companies in Phase I and GSIF of the California Initiative, and from July 1, 2011 to June 30, 2012, benchmarked against the U.S. and California private sectors.

Employment growth since investment

Since 2005, 104 Phase I and 180 GSIF portfolio companies have contributed data to at least one assessment effort.
The most recent data available from these 284 companies shows overall employment increasing throughout the United States (18,212 net new jobs) and a growth rate in California specifically of 23 percent (5,720 net new jobs) since investment.

Since the time of CalPERS investment, overall employment at active Phase I companies increased 24 percent, while California employment in Phase I increased 105 percent. This increase exceeds the comparable rates of employment growth in the United States and California. Employment in the United States non-farm sector increased one percent between 2001 and 2012. In California, employment in the private sector decreased two percent over the same period.[5]

The outsized rate of California job growth experienced by Phase I companies reflects the smaller proportion of employees located in California (eight percent) at time of investment.

The first GSIF portfolio company investment was made in 2007. By June 30, 2012 GSIF managers had made investments in 191 companies.[6] The 150 active GSIF portfolio companies that provided data as of June 30, 2012, experienced 23 percent employment growth overall since investment. This also surpasses rates of job growth in the United States over the same period (2007-2012), where employment declined three percent in the private sector.[7]

California employment at GSIF portfolio companies increased 22 percent since investment, compared to employment in California which declined six percent between 2007 and 2012.[8]

The more modest rate of job growth in California for GSIF portfolio companies, at least compared to Phase I, is attributable to GSIF's investment in more mature companies with a larger proportion of employees in California (29 percent) at time of investment. It is also important to note that GSIF accounts for a much larger share of employees, five times the number of employees than Phase I. Consequently, the ancillary benefits for the CA Initiative are driven by the performance of GSIF.

California Initiative Portfolio Companies, Employees

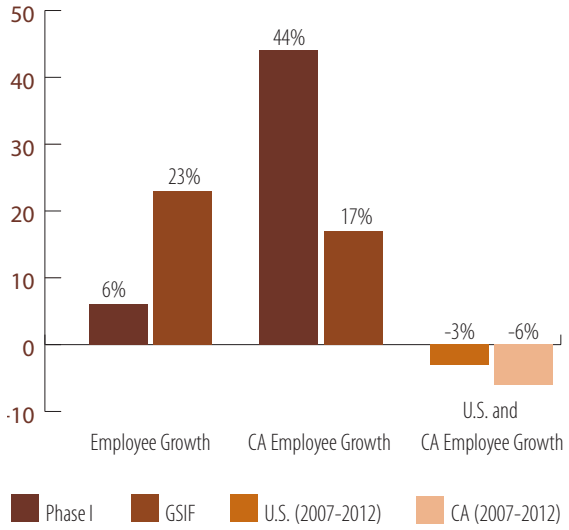
	All Employees			CA Employees		
	At Investment	At June 30, 2012	Net Job Growth Since Investment (new jobs/% growth)	At Investment	At June 30, 2012	Net Job Growth Since Investment (new jobs/% growth)
Phase I – Active portfolio companies reporting as of June 30, 2012 (n=26)	12,102	14,975	2,873 / 24%	852	1,744	892 /105%
Phase I – All companies reporting, including fully realized investments (n=104)[9]	53,645	56,810	3,165 / 6%	5,510	7,927	2,417 / 44%
GSIF – Active portfolio companies reporting as of June 30, 2012 (n=150)	58,117	71,457	13,340 / 23%	16,322	19,850	3,528 / 22%
GSIF – All companies reporting, Including fully realized investments (n=180)[10]	64,752	79,799	15,047 / 23%	19,355	22,658	3,303 / 17%
Total CA Initiative – Active portfolio companies reporting as of June 30, 2012 (n=176)	70,219	86,432	16,213 / 23%	17,174	21,594	4,420 / 26%
Total CA Initiative – All companies ever reporting, including fully realized investments (n=284)[11]	118,397	136,609	18,212 / 15%	24,865	30,585	5,720 / 23%

As a point of reference: Between June 2007 and June 2012, U.S. employment declined three percent and CA employment declined six percent. Between June 2001 and June 2012 U.S. employment declined one percent and CA employment declined two percent.[12]

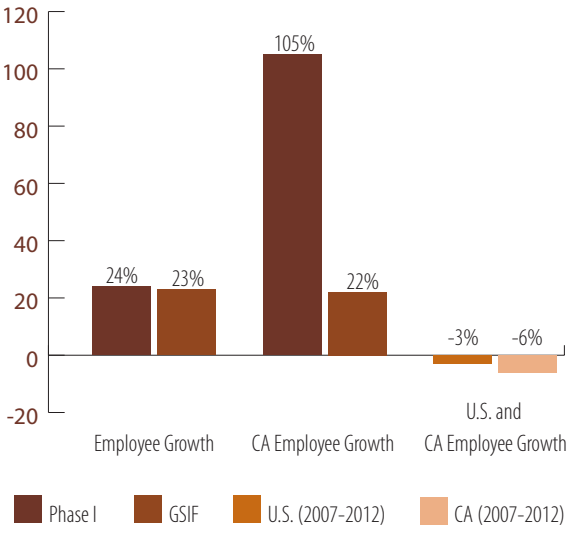
Annual employment growth

California Initiative companies reporting data in both 2011 and 2012 generally fared better than the broader economy. At Phase I companies (n=26), total employment declined 4 percent while California employment increased 8 percent. The total employment loss is attributable to declines at the two largest Phase I companies, which account for 88% of total Phase I employment. GSIF companies that reported data in both 2011 and 2012 (n=106) increased total employment by 9 percent and California employment by 10 percent. By comparison, employment in the United States and California increased 1 and 2 percent respectively in the 12 months to June 30, 2012.[13] Driven primarily by GSIF, all California Initiative companies that reported in both 2011 and 2012 increased total employment by 7 percent and California employment by 10 percent.

California Initiative Job Growth Since Investment
All Companies Including Fully Realized Investments



California Initiative Job Growth Since Investment
Active Companies



California Initiative Annual Job Growth
June 30, 2011 to June 30, 2012 — Active Reporting Companies

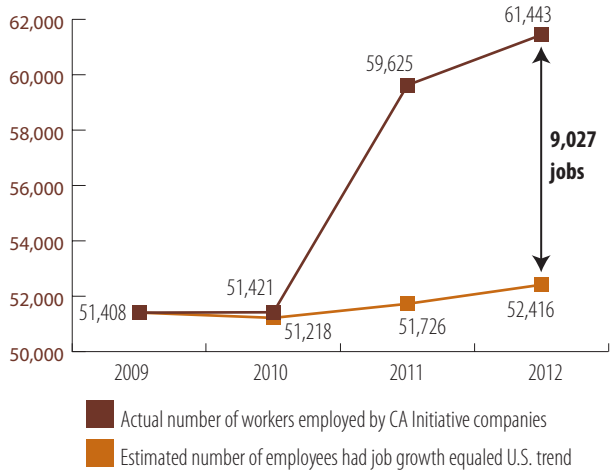
Job Preservation and Growth – California Initiative Employment Growth versus U.S. and California Employment Growth

Overall, California Initiative employment growth exceeded employment growth in the United States and California with most California Initiative companies preserving and creating jobs despite a sluggish, recovering economy. Sixty-eight California Initiative portfolio companies participated in four consecutive years of data collection from 2009 to 2012.[14] In 2009, these 68 companies had a total of 51,408 employees, including 11,626 in California. In 2012, they had 61,443 employees, including 13,978 in California, representing 20 percent job growth both overall and in California.

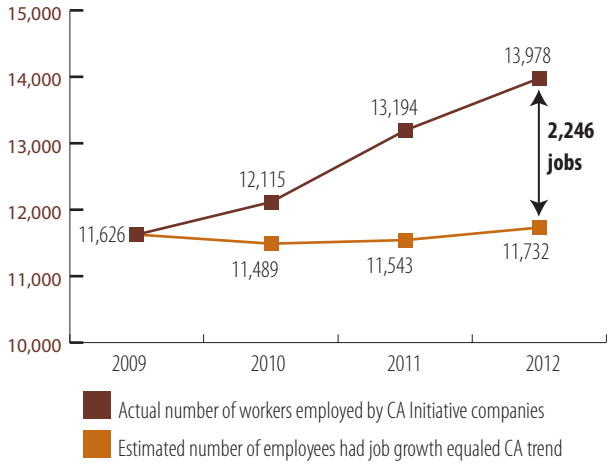
The following charts show:

- Actual job growth for these 68 companies from 2009 to 2012, from 51,408 to 61,443 employees nationwide, and from 11,626 to 13,978 employees in California.
- Hypothetical employee numbers at these 68 companies, had job growth been equivalent to the annual workforce trends in the overall United States and California private sectors.
- The number of jobs that would have been lost or would not have existed, 9,027 nationwide and 2,246 in California, had these companies hypothetically experienced the annual job growth rates of the overall U.S. and California private sectors.

California Initiative: Impact on Job Growth, All Employees
68 Reporting Companies



California Initiative: Impact on Job Growth, CA Employees
68 Reporting Companies



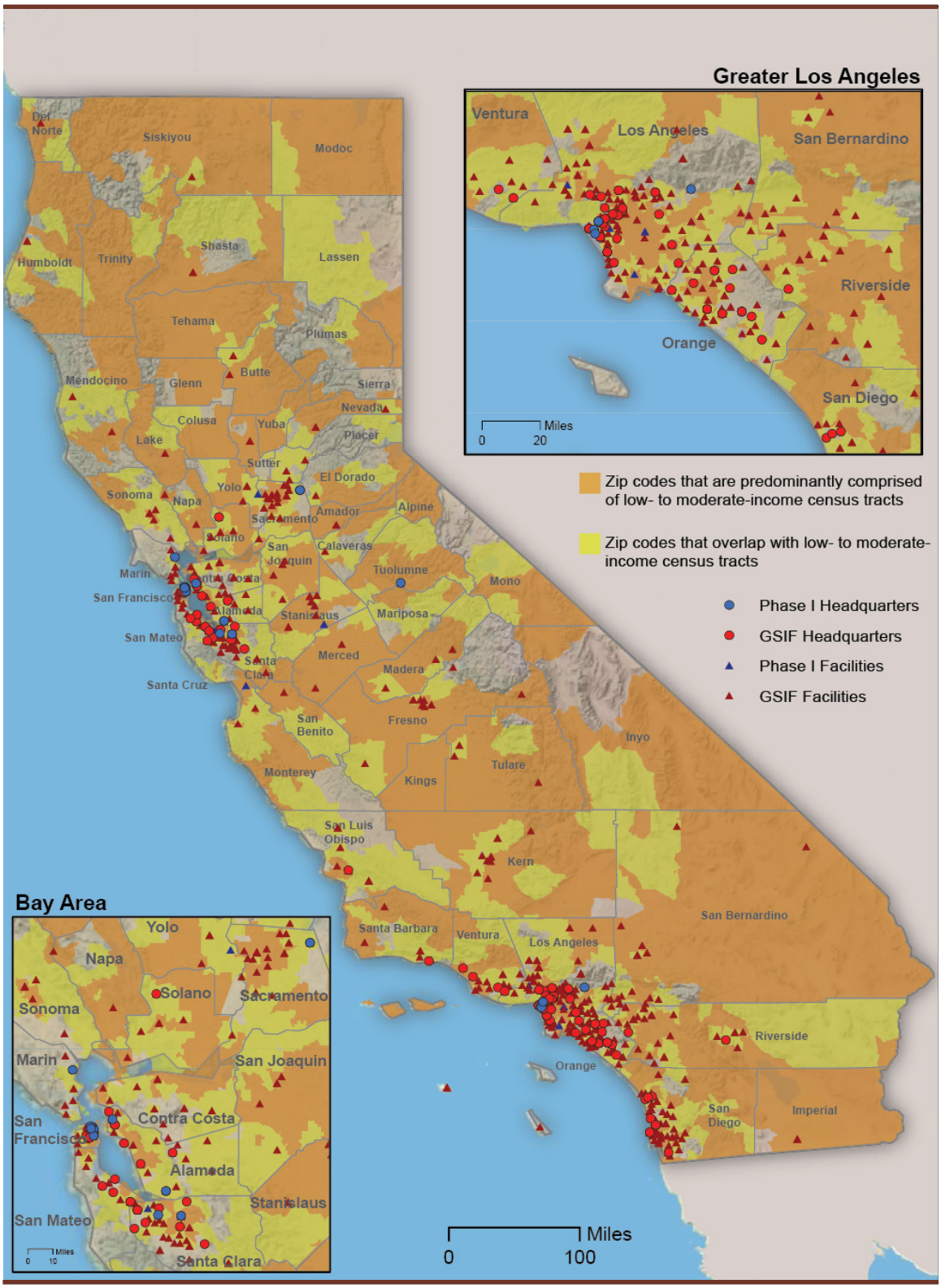
Company Locations

The 176 active California Initiative portfolio companies that contributed data in 2012 operate 3,021 total locations, including both headquarters (176) and facilities (2,845); 72 percent of these companies are headquartered in California, as are 20 percent of facility locations (excluding headquarters).

California Initiative Active Portfolio Companies, Operating Locations

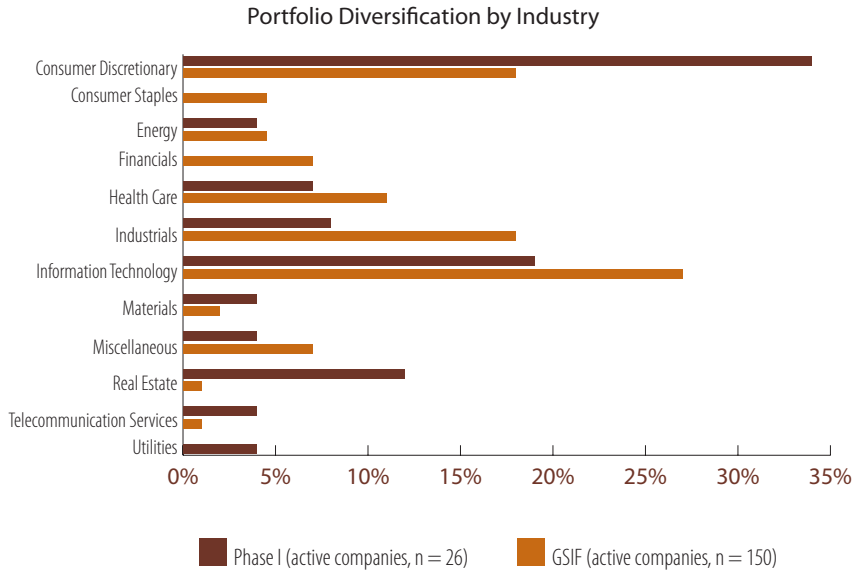
	Headquarters	Facilities	Total
Total California Initiative	176	2,845	3,021
Total California Initiative in California	126 (72%)	563 (20%)	689 (23%)
Phase I	26	263	289
Phase I in California	18 (69%)	23 (9%)	41 (14%)
GSIF	150	2,582	2,732
GSIF in California	108 (72%)	540 (21%)	648 (24%)

California Initiative Portfolio Company Locations

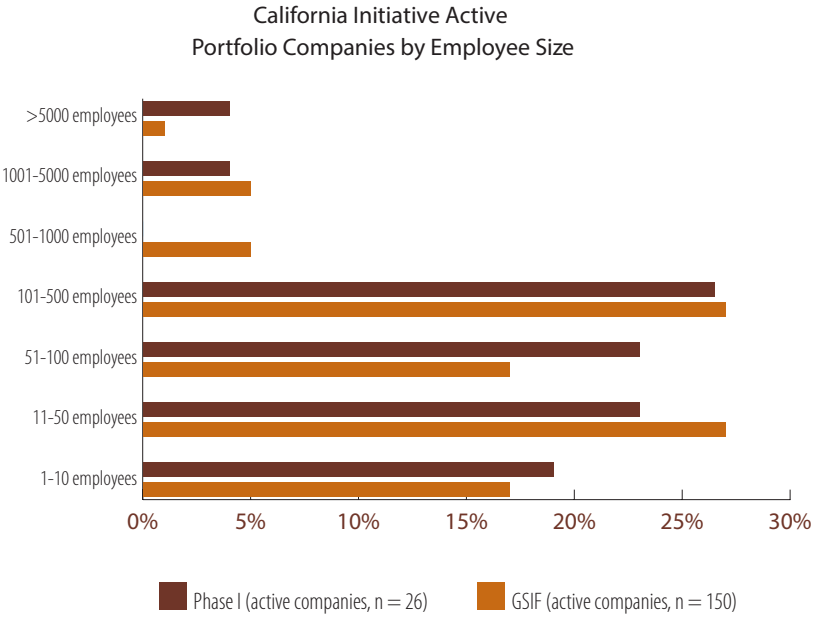


Portfolio Diversification

California Initiative portfolio companies operate across a variety of industries.



Portfolio companies range in size from fewer than 10 to more than 20,000 employees. The majority of portfolio companies (53 percent) employ between 11 and 150 workers.



Job Quality

At both Phase I and GSIF portfolio companies reporting data as of June 30, 2012, job quality, including medical coverage, retirement plans, and paid sick and vacation leave compares favorably with job quality at companies in California and the United States.

Job quality at Phase I portfolio companies

A higher percentage of Phase I companies offer employees benefits than comparable 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 with 60 percent of U.S. companies[15] and 63 percent of California companies.[16] Eighty-five percent of Phase I companies offer medical insurance to between 76 percent and 100 percent of their employees, as compared to 70 percent of U.S.[17] and 79 percent of California employees that are eligible for employer-based medical insurance.[18]

Phase I companies compare favorably to U.S companies as a whole in the provision of retirement benefits, sick leave and paid vacation. Phase I companies report job quality data by the percentage range of employees eligible to receive a particular benefit, as demonstrated in the table below.

Job quality at GSIF portfolio companies

GSIF portfolio companies report the absolute number of employees eligible for and enrolled in each benefit. The GSIF approach allows for more precise measurement of benefits and better comparisons to state and national data, providing a clearer picture of job quality for portfolio company employees. To 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 of these portfolio companies compare favorably to the rates in both the United States and California. Enrollment rates, while similar for salaried employees, are lower for non-salaried employees in the GSIF portfolio.

Phase I Portfolio Companies, Employee Benefits

	Benefits provided to zero employees	Benefits provided to 1-25% of employees	Benefits provided to 26-50% of employees	Benefits provided to 51-75% of employees	Benefits provided to 76%-100% of employees	Total percentage of companies offering benefits to at least some employees
Medical Insurance	4%	0%	4%	8%	85%	96%
Retirement Plan	15%	4%	4%	12%	65%	85%
Paid Sick Leave	8%	8%	4%	4%	77%	92%
Paid Vacation	0%	4%	8%	4%	85%	100%
Company Stock	27%	15%	4%	4%	50%	73%

GSIF Portfolio Companies, Employee Benefits

		GSIF Salaried	GSIF Non-salaried	U.S. — All Employees[19]	CA — All Employees[20]
Medical coverage	Establishments offering	94%	94%	60%	63%
	Employees eligible for	87%	80%	70%	79%
	Employees enrolled in	67%	37%	55%	67%
Retirement benefits	Establishments offering	75%	75%	45%	n/a
	Employees eligible for	80%	54%	65%	n/a
	Employees enrolled in	53%	18%	48%	n/a
Other benefits	Employees eligible for disability benefits	81%	38%	n/a	n/a
	Employees eligible for paid vacation time	86%	70%	77%	n/a
	Employees eligible for paid sick leave	67%	31%	61%	n/a

Job quality changes since investment

As part of measuring job quality at GSIF portfolio companies changes to employee benefit packages are tracked. Of the 180 GSIF portfolio companies that have ever reported data, including fully realized investments, 93 (52 percent) have made changes to their benefits packages since the time of investment. A majority of companies have increased benefits packages offered to employees with 56 (60 percent) of the 93 companies reporting improvements to employee benefits packages, while only twelve companies (13 percent) have reported decreased benefits. Another 25 (27 percent) of the 93 companies indicated changes in benefit providers or benefits package with an indeterminate impact on employee benefits since investment.

Suppliers

As of June 30, 2012, California Initiative Phase I and GSIF companies had active supplier relationships with more than 80,000 vendors.[21] In addition to the boost to the economy provided directly by California Initiative portfolio companies, 22,416 other California businesses (27 percent of all Phase I and GSIF suppliers) have indirectly benefited from this capital investment.

Patents

The number of patents granted is an indicator of innovation, which often precedes job growth at a company. GSIF portfolio companies report the number of patents granted to them annually. Thirty-two portfolio companies were granted 118 new patents between July 1, 2011, and June 30, 2012.[22]

California Focus

To gain a more complete understanding of the impact California Initiative investments have in California, GSIF portfolio companies provide additional data on the approximate annual revenues they generate in California, in the rest of the United States, and outside the United States, as well as any plans to increase business activities in California in the next year.

About one quarter of active GSIF companies reported plans for expansion in California in the coming year. Of the companies that have expansion plans, 40 percent reported plans to open new operating locations in California, 29 percent reported plans to increase employment in California, and 49 percent report operating plans that are expected to result in increased sales in California.

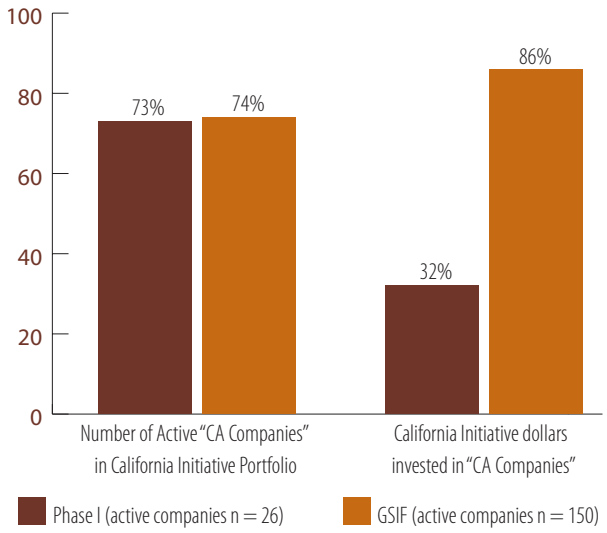
Total revenue generated by GSIF companies is approximately $11.9 billion, with 22 percent or $2.7 billion generated in California, 75 percent generated in the United States outside of California, and 3 percent generated internationally.[23]

A "California Company" is a company that meets at least one of the following three criteria:[24]

1. Company headquarters in California
2. More employees reside in California than in any other state
3. More facility locations in California than in any other state

Based on this definition, 19 Phase I (73 percent) and 111 GSIF (74 percent) portfolio companies are considered "California Companies", representing 72 percent of dollars (32 percent of Phase I dollars and 86 percent of GSIF dollars).

California Initiative "California Companies"



Approximately $239 million is invested in active California Initiative companies defined as "California Companies." California Initiative dollars are part of a larger total investment in most companies. An additional $964 million ($35 million in Phase I and $929 million in GSIF) in private equity capital from other investors was invested alongside CalPERS in these same active "California Companies." In total, CalPERS anchor partnership commitment to funds through the California Initiative has facilitated the investment of $1.2 billion in active "California Companies."

GSIF has committed approximately $189 million to 17 co-investments, supporting an additional $8.3 billion in equity capital invested in "California Companies" by other investors.

CalPERS California Initiative — Investing in Underserved Markets

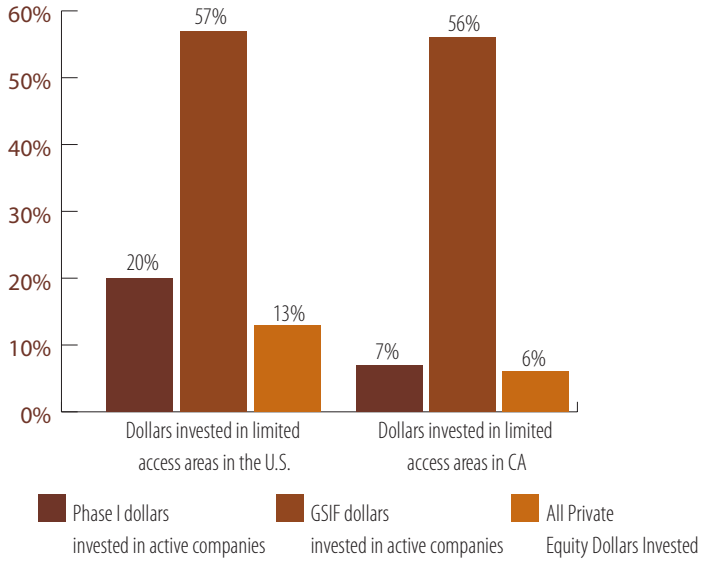
Portfolio Companies That Have Historically Had Limited Access to Equity Capital

To define areas that have historically had limited access to institutional equity capital, PCV analyzed data from Thomson Reuters that tracked private equity transactions from 2002 through 2011. This data shows that approximately 73 percent of private equity investment dollars were concentrated in 1,000 postal codes worldwide.[25] Most of these 1,000 postal codes (634 or 2 percent of all U.S. ZIP codes) are in the United States. More than 85 percent of all private equity in the United States and nearly 95 percent of all private equity in California has been invested in these 634 ZIP codes. For the purposes of this analysis, any company outside of these 634 United States ZIP codes is considered to be in an area that has historically had limited access to institutional equity capital.

Across the U.S., just 13 percent of all private equity investment dollars are deployed in areas that have historically had limited access to institutional equity capital. By contrast, 47 percent of all California Initiative investment dollars, including 57 percent of GSIF investment dollars, have been invested in areas that have historically had limited access to institutional equity capital. This indicates that the initiative's efforts to direct capital to underserved markets has worked. In Phase I, 20 percent of private equity investment dollars are in areas that have historically had limited access to capital.

For private equity investment in California, 6 percent of investment dollars are deployed in areas that have historically had limited access to institutional equity capital. Fifty-one percent of all California Initiative dollars, including 56 percent of GSIF investment dollars, are invested in areas that have historically had limited access to institutional equity capital.

Percentage of Dollars Invested in Active California Initiative Companies Located in Areas that have Historically had Limited Access to Institutional Equity Capital



Portfolio Companies That Employ Workers Living In Economically Disadvantaged Areas

California Initiative portfolio companies benefit low- to moderate-income (LMI) workers in a number of ways. First, these companies provide quality jobs to residents of LMI areas, generating wealth in places that need it most. 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 support employment for residents of LMI areas, locations where companies operate as well as where company employees live have been examined.[26]

Phase I portfolio companies report the ZIP codes of operating locations in California. GSIF portfolio companies report the ZIP codes of all operating locations, not just those in California. In the Phase I portfolio, 47 percent of company headquarters and operating facilities are located in predominantly LMI areas.[27] GSIF portfolio companies have a total of 2,732 operating locations, including both facilities and headquarters; approximately 32 percent are in predominantly LMI areas.

Fifty-one percent of Phase I and 40 percent of GSIF portfolio company employees in California live in predominantly low-income areas.[28]

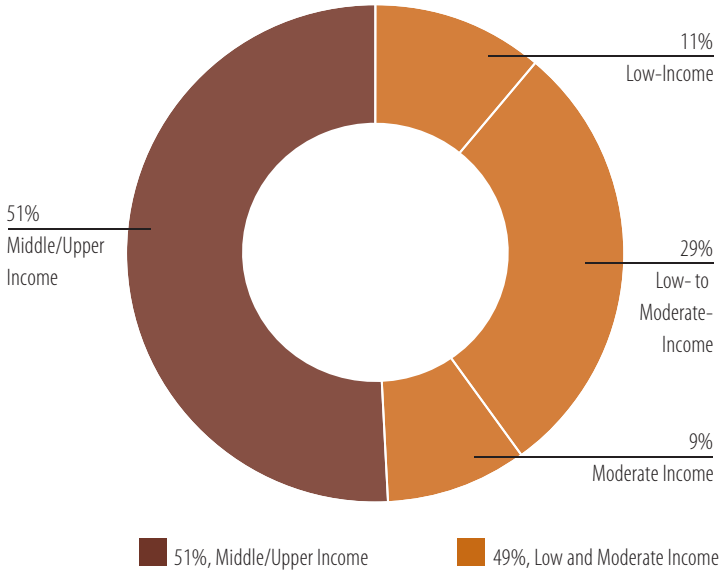
Employees Living, and Companies Located, in Low- and Moderate-Income Geographies

		Located in a ZIP Code that is Predominantly Comprised of LMI Census Tracts
Phase I	Headquarters (n=26)	8 (31%)
	California Headquarters	6 (33%)
	California facilities	15 (65%)
	California employees	871 (51%)
GSIF	Headquarters (n=150)	47 (31%)
	California Headquarters	33 (31%)
	Facilities	819 (32%)
	California Facilities	201 (37%)
	Employees	22,982 (34%)
	California Employees	7,509 (40%)

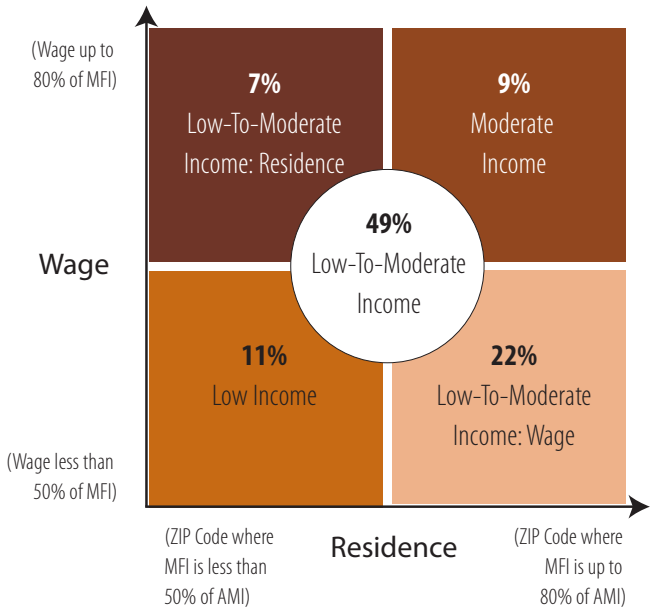
Not all low-income workers live in low-income areas and not all individuals living in low-income areas earn a low-income wage. In order to precisely measure the economic status of employees at GSIF portfolio companies, wage and ZIP code information was collected from every employee.[29] A worker's ZIP 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, a system has been created to classify individual workers:

- Middle/Upper Income Workers: GSIF portfolio company employees who earn a middle-income or upper-income wage are considered middle/upper income employees. Similarly, employees who earn less than a middle-income wage, but live in middle-income or upper-income communities are also considered middle/upper-income workers.[30] 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, 2012, 51 percent of all GSIF portfolio company employees are classified middle/upper income.
- Low- to Moderate-Income Workers: Forty-nine 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.[31] As a frame of reference, 39 percent of all employed individuals in the United States, and 47 percent of working Californians, live in LMI census tracts.[32] For more in-depth analysis, LMI employees were further divided into three categories: low-income, low- to moderate-income, and moderate-income.

Economic Status of GSIF Portfolio Employees



Economic Status of Low- and Moderate-Income GSIF Portfolio Company Employees



Low Income

- Emplyee wage is less than 50 percent of the Median Family Income (MFI) in the metropolitan statictical 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)

Low-To-Moderate Income: Wage

- 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

Low-To-Moderate Income: Residence

- Employee wage is less than 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

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

Portfolio Companies That Provide Employment Opportunities to Women and Minority Entrepreneurs and Managers

The third ancillary benefit assessed for the California Initiative is the extent to which portfolio companies provide employment opportunities to women and minority entrepreneurs and managers. As the nation's largest public pension fund, within the nation's most ethnically and culturally diverse state, CalPERS recognizes diversity is a competitive advantage.

CalPERS broadly interprets diversity to mean differences such as age, ethnicity, culture, or gender that result in diversity of thinking. By tracking the number of women and minority entrepreneurs, CalPERS is better able to understand to what degree diversity is represented amongst the leadership and management of California Initiative portfolio companies.

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. Accordingly, to better understand the proportion of women and minority entrepreneurs at portfolio companies, PCV uses officers (e.g., Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer) and key managers as a proxy.

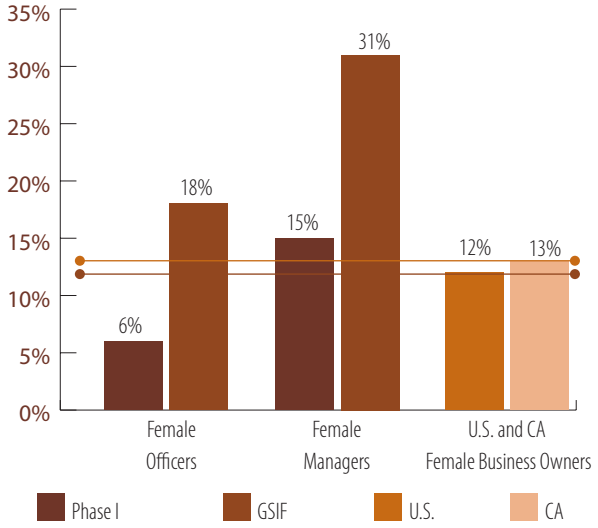
The 176 active California Initiative portfolio companies employ a total of 718 officers (an average of four officers per company), 13 percent of whom are minorities and another 17 percent of whom are women. Twenty-four percent of California Initiative investment dollars are invested in 50 companies with at least one female officer, suggesting that women have substantial input into the management and growth of these companies. Similarly, 34 percent of California Initiative investment dollars are committed to 55 companies that have at least one minority officer.

The following table and graphs show a breakdown of California Initiative portfolio company officers by gender and ethnicity as well as the breakdown of California Initiative dollars at these companies. 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.

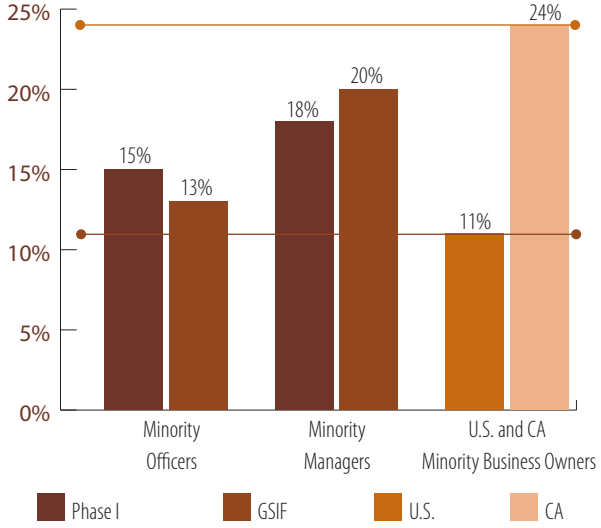
California Initiative Portfolio Companies, Minority and Female Officers and Key Managers

	Phase I Officers	Phase I Key Managers	GSIF Officers[33]	GSIF Key Managers[34]	CA business owners[35]	U.S. business owners[36]
Men	59 (94%)	343 (85%)	534 (82%)	1,334 (69%)	66%	72%
Women	4 (6%)	62 (15%)	118 (18%)	602 (31%)	13%	12%
Minority	9 (15%)	71 (18%)	84 (13%)	386 (20%)	24%	11%
Hispanic/Latino	1 (2%)	20 (8%)	18 (3%)	133 (7%)	7%	4%
African American	3 (5%)	21 (5%)	12 (2%)	52 (3%)	1%	1%
Asian/Pacific Islander	4 (6%)	15 (4%)	46 (7%)	146 (7%)	16%	6%
Other Minorities	1 (2%)	5 (1%)	8 (1%)	55 (3%)	1%	1%
White	54 (85%)	334 (82%)	568 (87%)	1,550 (80%)	82%	92%

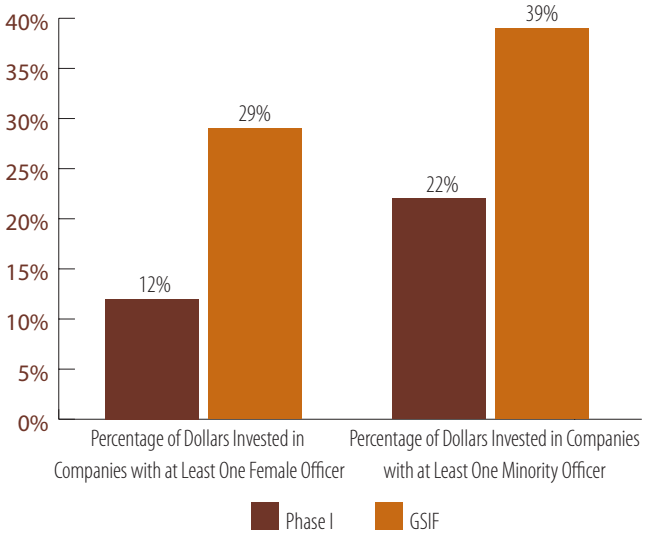
Female Leadership at California Initiative Companies



Minority Leadership at California Initiative Companies



California Initiative Investments in Female and Minority Companies



CalPERS California Initiative — Summary Findings

- The California Initiative represents a significant capital investment in California's economy with 72 percent of capital allocated to "California Companies."
- The California Initiative has created and sustained jobs within California and the nation through continued economic uncertainty supporting 16,213 workers as of June 30, 2012.
- Companies receiving investment through the California Initiative have provided quality jobs to employees, with benefit levels for health and retirement outpacing statewide and national levels.
- The California Initiative has invested in areas of the state that have historically not received institutional equity capital, with 47 percent of capital allocated to companies located in these underserved markets.
- Economically disadvantaged communities are supported by the California Initiative and its portfolio companies. The California Initiative employs a significant number of economically disadvantaged persons, with 49 percent of GSIF employees classified as low- to moderate-income.
- Women and minorities provide leadership to California Initiative portfolio companies, with female representation outpacing national levels and minority representation on par with national levels.

APPENDIX

California Initiative Summary Data	Phase I	GSIF	Total California Initiative	CA	U.S.
Active Reporting Companies in 2012	26	150	176	n/a	n/a
Employment Opportunities					
Percentage Employee Growth Since Investment	24%	23%	23%	n/a	-3%[37]
Percentage California Employee Growth Since Investment	105%	22%	26%	-6%[38]	n/a
Economically Disadvantaged Areas					
Percentage of California Headquarters in Predominately LMI Areas	33%	31%	31%	n/a	n/a
Percentage of California Facilities in Predominately LMI Areas	65%	37%	38%	n/a	n/a
Percentage of California Employees Living in Predominately LMI Areas	51%	40%	41%	n/a	n/a
Underserved Markets					
Percentage of Dollars Invested in Companies Located in Areas Underserved by Institutional Equity Capital	20%	57%	47%	6%	13%
Opportunities for Women and Minority Entrepreneurs and Managers					
Percentage of Dollars Invested in Companies with at least One Female Officer	12%	29%	24%	n/a	n/a
Percentage of Dollars Invested in Companies with at least One Minority Officer	22%	39%	34%	n/a	n/a

Endnotes

1. CalPERS press release; February 19, 2008. "CalPERS California Initiative Program Deploys Private Equity Capital to Overlooked Markets."

2. The Bank of America Fund is the Banc of America California Community Venture Fund

3. The 25 total exits consist of seven companies that received investment from Phase I partners and eighteen companies that received investment from GSIF partners.

4. Percentage of reporting Phase I portfolio companies is unusually low since the portfolio investments of one fund were sold and purchased by a "New Fund" which has very limited information rights with CalPERS.

5. Bureau of Labor Statistics. www.bls.gov/ces/. Total non-farm employees, seasonally adjusted.

6. 180 portfolio companies have taken part in data collection since the inception of the GSIF.

7. Bureau of Labor Statistics. www.bls.gov/ces/.

8. Ibid.

9. For fully-realized investments, the data used for this analysis is the most recent data available, typically as of June 30 prior to exit. The data for this analysis does not include all fully realized investments as some companies entered and exited without ever submitting survey data.

10. Ibid.

11. Ibid.

12. Bureau of Labor Statistics. www.bls.gov/ces/.

13. Ibid.

14. Sixty-eight companies participated in four consecutive years of data collection from 2009-2012, including 24 Phase I and 44 GSIF companies. By focusing only on these companies in our counterfactual comparison, we are able to directly compare the California Initiative's history of job creation and preservation to companies that have not been recipients of CalPERS capital over the same period. The smaller sample size can be attributed to considerable activity in the California Initiative portfolio, with companies entering and exiting on an annual basis. The 68 companies are relatively representative of the entire portfolio, with job growth characteristics that are similar to those of the entire portfolio–suggesting that survivorship bias is unlikely to have inflated the data. In the table below, we compare annual job growth at the 68 companies to all companies within the portfolio that reported data in consecutive years.

		2009-2010	2010-2011	2011-2012
68 Company Sample	Annual Employee Growth	0%	16%	3%
	Annual California Employee Growth	4%	9%	6%
CA Initiative Portfolio	CA Initiative Portfolio Company Count	n = 103	n = 220	n = 132
	Annual Employee Growth	1%	15%	7%
	Annual California Employee Growth	5%	10%	10%

15. Bureau of Labor Statistics National Compensation Survey, March 2012; Private Industry (excludes agriculture establishments, private households, and the self-employed). www.bls.gov/ncs/ebs/benefits/2012

16. California Health Care Foundation California Employer Health Benefits Survey, December 2011. http://www.chcf.org/~/media/MEDIA%20LIBRARY%20Files/PDF/E/PDF%20EmployerBenefitsSurvey2011.pdf

17. Bureau of Labor Statistics National Compensation Survey, March 2012. www.bls.gov/ncs/ebs/benefits/2012

18. California Health Care Foundation California Employer Health Benefits Survey, December 2011. http://www.chcf.org/~/media/MEDIA%20LIBRARY%20Files/PDF/E/PDF%20EmployerBenefitsSurvey2011.pdf. The 79 percent employees eligible for medical coverage only considers employees at establishments offering medical coverage, thus this statistic is likely higher than if it also included employees at establishments not offering medical coverage.

19. U.S. benchmark data from the Bureau of Labor Statistics National Compensation Survey, March 2012. http://www.bls.gov/ncs/ebs/benefits/2012/ownership_private.htm. This data is for all private industry employees excluding agricultural establishments, private households and self-employed. It does not separate out salaried vs. non-salaried employees.

20. California benchmarks from California Health Care Foundation California Employer Health Benefits Survey, December 2011. http://www.chcf.org/~/media/MEDIA%20LIBRARY%20Files/PDF/E/PDF%20EmployerBenefitsSurvey2011.pdf. The 79 percent of employees eligible for medical coverage only considers employees at establishments offering medical coverage thus this statistic is likely higher than if it also included employees at establishments not offering medical coverage. This data is for all employees and does not separate out salaried vs. non-salaried employees.

[21.] An "active supplier relationship" is defined as one where the company has made a purchase in the past year.

[22.] GSIF patents per company grew 84 percent between 2011 and 2012. This large percentage increase is due to the small number of GSIF companies that utilize patents. GSIF patent rates compare favorably to the rates in both the United States and California, where patent growth rates were 0.1 percent and 2.2 percent respectively, between 2010 and 2011. U.S. Patent Office. www.uspto.gov/web/offices/ac/ido/oeip/taf/pat_tr11.htm.

[23.] The majority (75 percent) of companies reported on this metric. However, 37 (25 percent) companies did not report approximate revenue data, while thirteen of these companies provided only the percentage of revenue generated in California.

[24.] The GSIF definition for a "California Company" differs from the definition used for Phase I portfolio companies. As Phase I portfolio companies do not report data on employees and facilities located outside of California there is not sufficient data to determine if more facilities or employees are located in California than in any other state. The criteria for a Phase I portfolio company to be considered a "California Company" relies on comparing data captured on California employees and California facilities against the total number of employees and facilities at the company. The Phase I definition for a "California Company" requires that a company meet at least one of the following:

1. Company headquarters located in California
2. At least 33 percent of facilities located in California
3. At least 33 percent of employees located in California.

[25.] Thomson Reuters, thomsonreuters.com/products_services/financial/

[26.] Portfolio companies provide the ZIP code for each headquarters location and facility, as well as for each employee. (For 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 consist 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 (21 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 (35 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.

[27.] Phase I companies report a total of 263 facilities but only California ZIP codes are reported by Phase I companies, of which there are 23. All data referring to the LMI status of Phase I facilities examines only these 23 locations.

[28.] Phase I portfolio companies only report the ZIP codes of California employees, and thus the analysis of LMI workers is limited to California employees. Phase I companies report a total of 1,744 California employees but provided valid ZIP codes for 1,723 employees, a difference of 17 or 1 percent.

[29.] To maintain employee confidentiality, PCV collected no identifying information for employees.

[30.] These workers earn more than 80 percent of the median family income (MFI) for the metropolitan statistical area (MSA) they live in. Similarly, employees who earn 80 percent or less of the MFI for the MSA, but live in a ZIP code area that consists entirely of middle- and upper-income census tracts also are considered middle/upper-income employees.

[31.] 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.

Employed individuals living in LMI census tracts is based on data from the US Census Bureau's American Community Survey. The table below compares the proportion of ZIP codes defined

as LMI for California and the U.S. using 2000 census data and the US Census Bureau's 2006-2010 American Community Survey data.

Percentage of LMI ZIP Codes

	2000 U.S. Census Data	2006-2010 American Community Survey Data
U.S.	34%	38%
California	55%	49%

[33.] Complete officer and manager data was not provided by two companies. Percentages and totals are based on data from 148 companies that submitted gender and ethnicity data.

[34.] Ibid.

[35.] 2007 Survey of Business Owners, http://www.census.gov/econ/sbo/index.html. Includes businesses with $1 million in revenue and paid employees that are at least 51 percent owned by the specified gender or race. The shares of businesses owned by men and women do not add to 100% since it does not include businesses equally owned 50/50 by men and women. The U.S. Census allows respondents to identify by ethnicity and multiple racial categories, thus minority categories are not additive and cannot be combined for an accurate estimate of total minority owned businesses.

[36.] Ibid.

[37.] Ibid.

[38.] Bureau of Labor Statistics. www.bls.gov/ces/. Job growth from 2007-2012. Total non-farm employees, seasonally adjusted.

BAML Capital Access Funds

In addition to investing in nine private equity funds, the California Initiative, working with Bank of America Merrill Lynch Capital Access Funds (CAF), has invested in a fund-of-funds, Banc of America California Community Venture Fund (BACCVF).

BACCVF Quick Facts

Year of Inception	2002
Investment Amount	$100 million
Funds Receiving Capital	15
California-based Funds Receiving Capital	9 / 60% of funds
Companies Receiving Investment[1]	192
California Headquartered Companies Receiving Investment	79 / 41% of companies

Since 2002, 15 funds have received capital from BACCVF. CAF invests in venture capital and private equity funds that invest in companies that are:

- Located in or employ residents of low- to moderate-income geographies
- Owned or managed by ethnic minorities[1]
- Owned or managed by women[2]
- Focused on delivering products or services to an ethnically diverse customer base
- Located in urban or rural areas with limited access to investment capital

1 Includes companies held by CAF portfolio funds that were subsequently exited; one company held by 2 funds.
2 Owned refers to a 50% or higher ownership stake; managed refers to the CEO

The following table summarizes BACCVF's investments in companies that fit within the above categories:

BACCVF Investments Summary Table

Low- to Moderate-Income Areas	
Funds with a Low- to Moderate-Income Focus	73%
Companies within Low- to Moderate-Income Areas	33%
Owned or Managed by Ethnic Minorities	
Funds with a Focus on Opportunities for Ethnic Minorities	60%
Companies Majority Owned or Managed by Ethnic Minorities	32%
Owned or Managed by Women	
Funds Managed by at Least One Female Partner	40%
Companies Managed by Women	40%
Deliver Products or Services to an Ethnically Diverse Customer Base	
Companies Located in Areas where greater than half the Population is Composed of Ethnic Minorities	28%
Located in Urban or Rural Areas with Limited Access to Capital	
Companies Located in Inner City Areas of the U.S.	19%
Companies Located in Rural Areas of the U.S.	7%

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

Of the 15 funds that have received investment from BACCVF, eleven focus on low- to moderate-income areas or individuals. One of the funds is helping to capitalize financial institutions that provide banking services to low-income and/or ethnic minority consumers and nine of the 15 funds focus on ethnic minority opportunities. Many of the funds also focus on one or more of the other components of CAF's definition of under-served company.

Of the companies in BACCVF funds' portfolios as of December 31, 2011, forty-one or 19 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.[1] Fourteen companies or seven percent of 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

Of the companies in BACCVF funds' portfolios as of December 31, 2011, seventy-two or 33 percent of the companies are located in a low- to moderate-income area. As of December 31, 2011, 18 percent are located in census tracts where 20 percent or more of the population lives in households with income below the federal poverty level, and 39 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 of the 15 funds receiving investment through BACCVF focus on ethnic minority opportunities. Eleven of the funds have at least one ethnic minority partner; ten of the funds have two or more ethnic minority partners. Six of the funds have at least one female partner.

Of the companies in BACCVF funds' portfolios as of December 31, 2011, seventy or 32 percent of the companies are majority owned or managed by minorities and 29 percent of the companies are located in census tracts where more than half the population is an ethnic minority.[2] Further, nearly 41 percent of the companies had some minority ownership and 40 percent had some women ownership.

Specific gender and ethnic information on the chief executive officer at BACCVF funds' portfolio companies is available for the companies that BACCVF funds had invested in as of year-end 2011. At forty-nine or 22 percent of these companies, the CEO is a minority, including twelve companies where the CEO is African American, seven companies where the CEO is Hispanic, and twenty-two companies where the CEO is Asian. Seventeen companies had female CEOs. Companies in the BACCVF portfolio employed a total of 102,510 employees as of December 31, 2011; 41,304 or 40 percent of these employees were ethnic minorities and 43,123 or 42 percent were women.

1 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% poverty rate or higher, or meet two of the following three criteria: poverty rate 1.5x or more than that of MSA's; median household income of ½ or less that of their MSA's; unemployment rate of 1.5x times or more than that of their MSA's.

CalPERS Profile

The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund with assets of approximately $255 billion.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.6 million members and more than 3,000 school and public employers. The System also operates 8 Regional Offices located in Fresno, Glendale, Orange, Sacramento, San Diego, San Bernardino, San Jose, and Walnut Creek. Led by a 13-member Board of Administration, consisting of member-elected, appointed, and ex officio members, CalPERS membership consists of approximately 1.1 million active and inactive members and more than 500,000 retirees, beneficiaries, and survivors from State, school and public agencies.

Established by legislation in 1931, the System became operational in 1932 for the purpose of providing a secure retirement to State employees who dedicate their careers to public service. In 1939, new legislation allowed public agency and classified school employees to join the System for retirement benefits. CalPERS began administering health benefits for State employees in 1962, and 5 years later, public agencies joined the Health Program on a contract basis.

A defined benefit retirement plan, CalPERS provides benefits based on a member's years of service, age, and highest compensation. In addition, benefits are provided for disability and death.

Today CalPERS offers additional programs, including a deferred compensation retirement savings plan, member education services, and an employer trust for post-retirement benefits. Learn more at our website at **www.calpers.ca.gov**.

California Public Employees' Retirement System
400 Q Street | Sacramento, CA 95811

www.calpers.ca.gov

For more information, please contact:
Pacific Community Ventures | www.pacificcommunityventures.org
Hamilton Lane | www.hamiltonlane.com
Golden State Investment Fund | www.gsif.com

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