

CalPERS California Initiative 2016

Creating Opportunities in
California's Underserved Markets



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.

The objective of the California Initiative is to generate attractive financial returns. The performance of the California Initiative is reported regularly by CalPERS Private Equity and is reported annually with the presentation of this Initiative. Additional goals for the California Initiative included creating jobs and promoting economic opportunity in California. This report is intended to document those objectives. 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 539 companies.

Summary Findings

- The California Initiative represents a significant capital investment in California’s economy with 55 percent of capital allocated to “California Companies”, defined as those headquartered in California, or with a plurality of employees or facilities in the state.
- The California Initiative has created and sustained jobs within California and the nation through continued economic uncertainty, supporting 176,559 workers at all companies since inception.
- 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 20 percent of all dollars deployed in California allocated to companies located in these underserved markets.
- Economically disadvantaged communities benefit from the California Initiative and its portfolio companies. The California Initiative employs a significant number of economically disadvantaged persons, with 44 percent of GSIF portfolio company employees classified as low- to moderate-income.
- California Initiative portfolio companies have leadership that includes women and minorities at levels that outpace national and state and local 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: California Community Venture Fund ²	2002	HarbourVest Horizon	15 funds	\$100,000,000	177
Golden State Investment Fund	2006	Hamilton Lane	16 funds and 17 direct co-investments	\$560,000,000	240
Totals				\$1,035,000,000	539

Introduction

In 2001, the CalPERS Investment Committee established, and CalPERS staff implemented, the California Initiative. This was done 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. This investment vehicle is known as the Golden State Investment Fund (GSIF). GSIF seeks to invest in both partnerships and direct co-investments primarily in California. As of June 30, 2016, GSIF had invested in 16 private equity funds and made 17 direct co-investments. Since inception, CalPERS has invested approximately \$1 billion in the California Initiative supporting 539 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 provider of impact investing research and consulting, to collect, analyze and report on the California Initiative’s ancillary benefits.

This report focuses solely on data from 362 of the 539 companies that have received funding through Phase I (122) and GSIF (240). 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. This is known as the California Community Venture Fund (CCVF). A summary of the community benefits derived from CCVF, prepared separately by HarbourVest Horizon, is presented at the end of this report, on page 23.

Of the 362 companies, 333 (92 percent) provided data for this report. Since inception there have been 215 companies that have had exits and are fully realized investments. Twelve of these 215 companies exited between July 1, 2015 and June 30, 2016.³

As of June 30, 2016, private equity funds that received capital through the California Initiative had active investments in 123 companies (6 in Phase I and 117 in GSIF). Of the 123 active companies, 113 companies (92 percent) provided data at June 30, 2016. This included 6 Phase I portfolio companies (100 percent) and 107 GSIF portfolio companies (91 percent).⁴

California Initiative Portfolio Investments¹

	Phase I	GSIF	Total California Initiative
Number of companies	122	240	362
Active companies (as of June 30, 2016)	6 (5%)	117 (49%)	123 (34%)
Fully realized (as of June 30, 2016)	116 (95%)	99 (41%)	215 (60%)
Active companies, contributed data 2016	6 (100%)	107 (91%)	113 (92%)
All companies ever reporting, including fully realized investments	104 (85%)	229 (95%)	333 (92%)

¹This 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 California Community Venture Fund.

California Initiative Companies

Employment and Employment Growth

The following sections detail employment growth since the time of investment for companies in Phase I and GSIF of the California Initiative, and from July 1, 2015 to June 30, 2016, benchmarked against the U.S. and California private sectors.

Employment growth since investment

All Investments

Since 2005, 104 Phase I and 229 GSIF portfolio companies have contributed data to at least one assessment effort. The most recent data available from these 333 companies shows total employment of 176,559. This demonstrates a growth rate of 26 percent overall (36,365 net new jobs) and 53 percent in California (14,175 net new jobs) since investment.

Within the California Initiative, the 104 Phase I portfolio companies that have contributed data since inception account for 21 percent of the total net new jobs created and 21 percent of the net new jobs created in California. Whereas, the 229 GSIF portfolio companies account for 79 percent of the total net new jobs created and 79 percent of the net new jobs created in California. Given the greater number of companies receiving investment through GSIF, the ancillary benefits for the California Initiative are predominantly driven by the performance of GSIF.

Active Investments

The California Initiative has 113 active portfolio companies that reported data as of June 30, 2016. This includes six active Phase I portfolio companies and 107 active GSIF portfolio companies. Since the time of CalPERS investment, overall employment has increased 61 percent among the six active Phase I companies. California employment has increased 43 percent. This increase far exceeds rates of employment growth in the United States and California between 2001 and 2016.⁵

The 107 active GSIF portfolio companies have experienced 53 percent employment growth overall since investment and 134 percent employment growth in California.⁶ This also surpasses rates of job growth in the United States and California from 2007 to 2016, where employment increased eight percent in the private sector.⁷

California Initiative Portfolio Companies, Employees

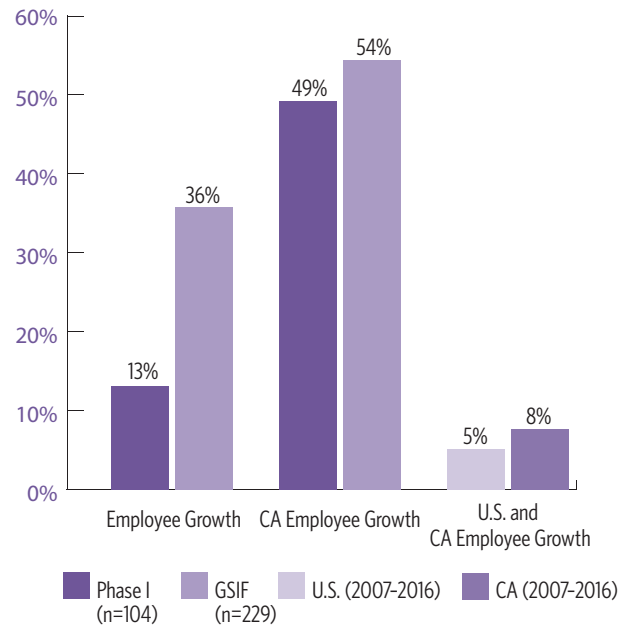
	All Employees			CA Employees		
	At Investment	At June 30, 2016	Net Job Growth Since Investment (new jobs/ % growth)	At Investment	At June 30, 2016	Net Job Growth Since Investment (new jobs/ % growth)
Phase I - Active portfolio companies reporting as of June 30, 2016 (n=6)	6,303	10,174	3,871 / 61%	510	727	217 / 43%
Phase I - All companies reporting, including fully realized investments (n=104) ⁸	59,984	67,487	7,539 / 13%	6,020	8,974	2,954 / 49%
GSIF - Active portfolio companies reporting as of June 30, 2016 (n=107)	36,143	55,207	19,064 / 53%	7,734	18,133	10,399 / 134%
GSIF - All companies reporting, including fully realized investments (n=229) ⁹	80,246	109,072	28,826 / 36%	20,752	31,973	11,221 / 54%
Total CA Initiative - Active portfolio companies reporting as of June 30, 2016 (n=113)	42,446	65,381	22,935 / 54%	8,244	18,860	10,616 / 129%
Total CA Initiative - All companies ever reporting, including fully realized investments (n=333) ¹⁰	140,194	176,559	36,365 / 26%	40,947	40,947	14,175 / 53%

As a point of reference: Between June 2007 and June 2016, U.S. employment increased five percent and CA employment increased eight percent. Between June 2001 and June 2015, U.S. employment increased ten percent and CA employment increased fifteen percent.¹¹

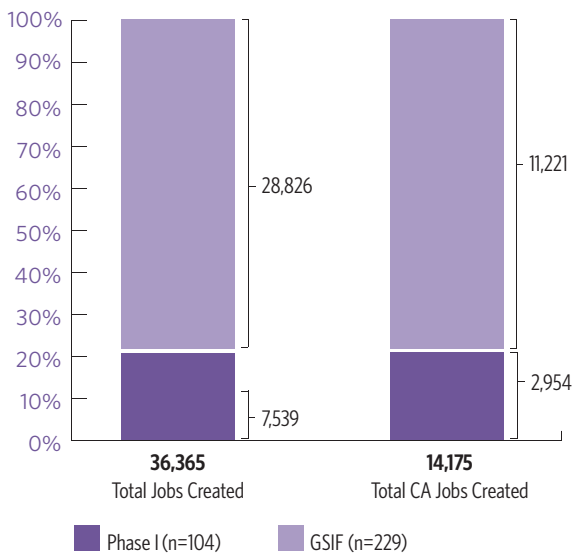
Annual employment growth

Driven by GSIF, California Initiative companies reporting data to PCV in both 2015 and 2016 (n=105) created jobs at a higher rate than the U.S. and California economies as a whole. For the remaining Phase I companies (n=6), total employment decreased 6 percent and California employment decreased 10 percent. However, GSIF companies that reported data in both 2015 and 2016 (n=99) increased total employment by 3 percent and California employment by 8 percent. By comparison, employment in the United States and California increased 2 percent and 3 percent respectively in the 12 months to June 30, 2016.¹²

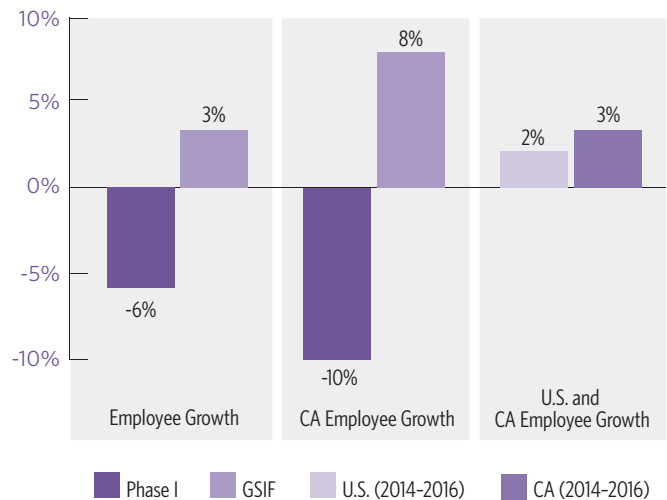
California Initiative Job Growth Since Investment
All Companies Including Fully Realized Investments



California Initiative Jobs Created Since Investment
All Companies Including Fully Realized Investments



California Initiative Annual Job Growth
June 30, 2015 to June 30, 2016 — Active Reporting Companies

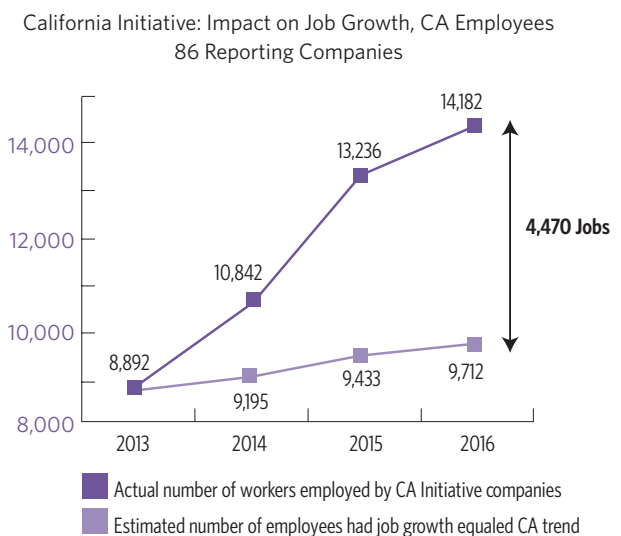
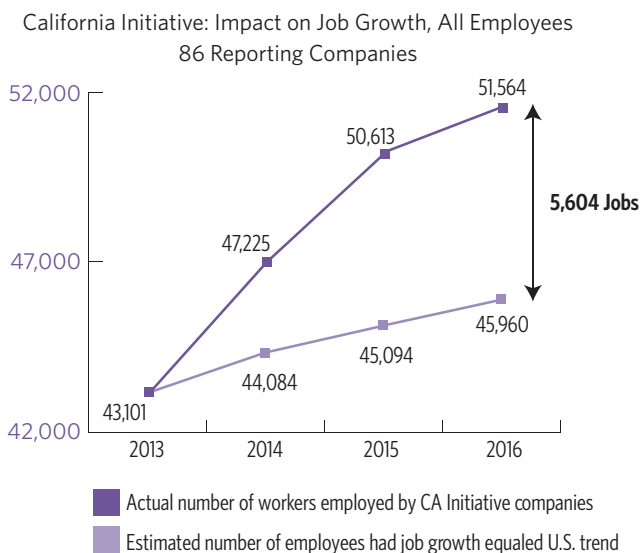


Job Preservation and Growth – California Initiative Employment Growth versus U.S. and California Employment Growth

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. Eighty-six California Initiative portfolio companies participated in four consecutive years of data collection from 2013 to 2016.¹³ In 2013, these 86 companies had a total of 43,101 employees, including 8,892 in California. In 2016, they had 51,564 employees, including 14,182 in California, representing 20 percent job growth overall and 59 percent job growth in California.

The following charts show:

- Actual job growth for these 86 companies from 2013 to 2016, from 43,101 to 51,564 employees nationwide, and from 8,892 to 14,182 employees in California.
- Hypothetical employee numbers at these 86 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, 5,604 nationwide and 4,470 in California, had these companies hypothetically experienced the annual job growth rates of the overall U.S. and California private sectors.



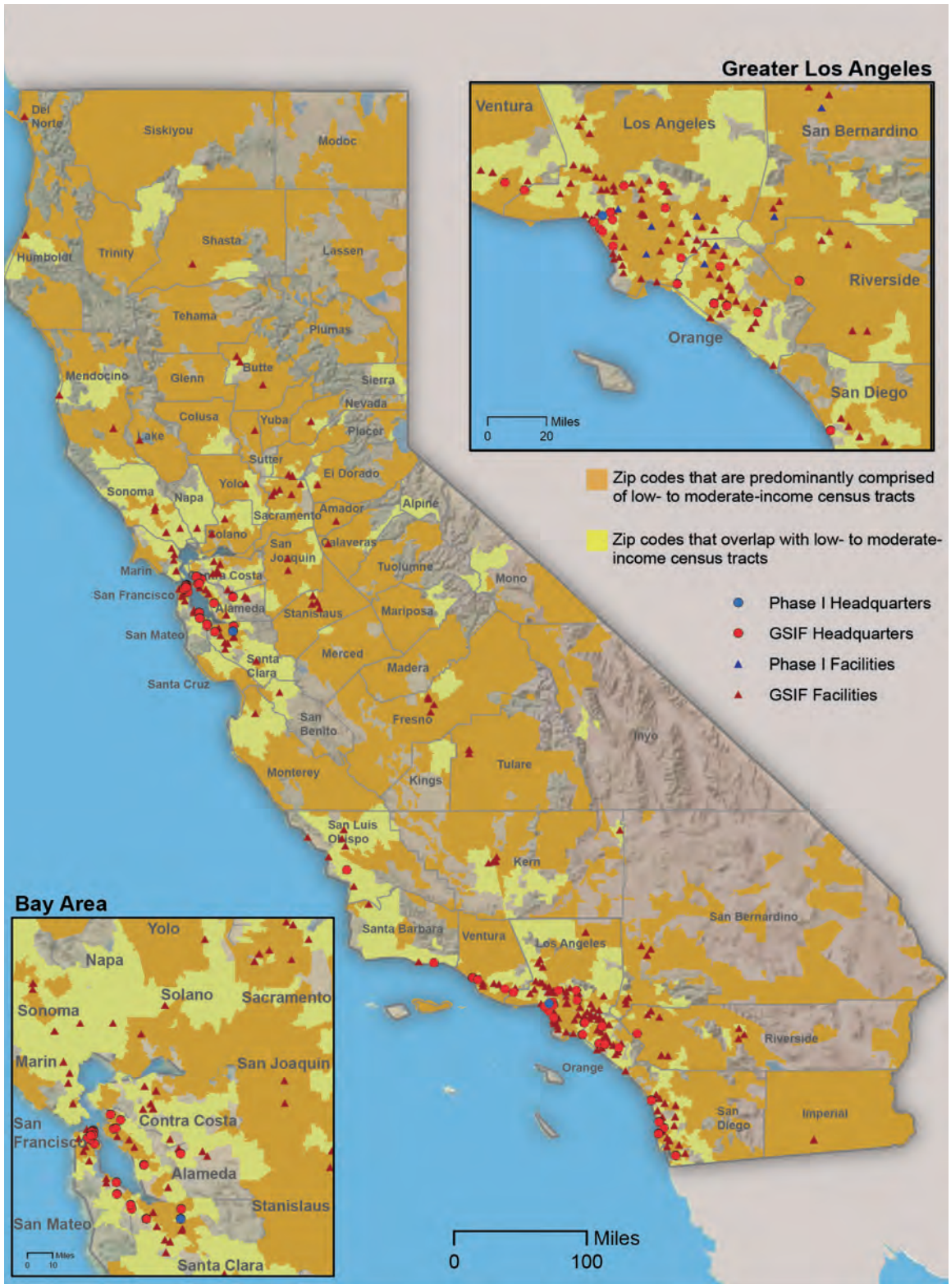
Company Locations

The 113 active California Initiative portfolio companies that contributed data in 2016 operate 1,605 total locations, including both headquarters (107) and facilities (1,492); 57 percent of these companies are headquartered in California, as are 22 percent of facility locations (excluding headquarters).

California Initiative Active Portfolio Companies, Operating Locations

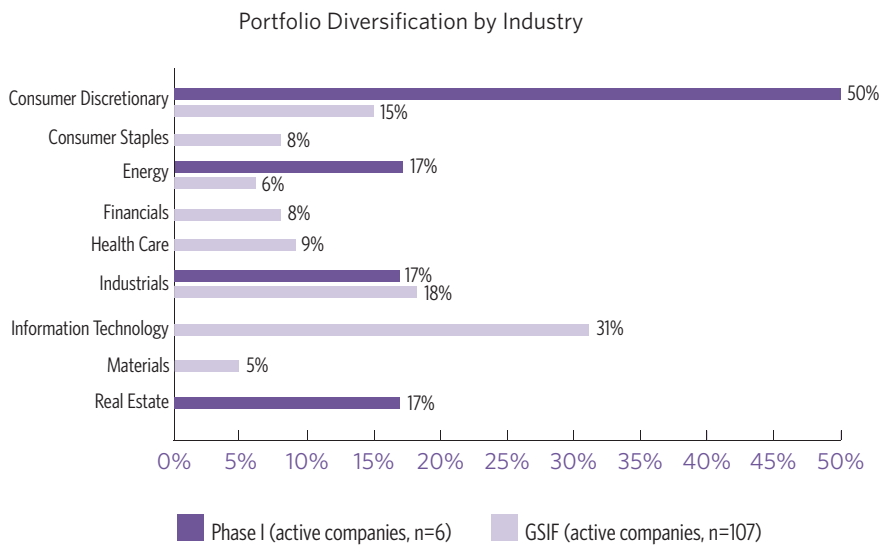
	Headquarters	Facilities	Total
Total California Initiative	113	1,492	1,605
Total California Initiative in California	64 (57%)	335 (22%)	399 (25%)
Phase I	6	182	188
Phase I in California	2 (33%)	16 (9%)	18 (10%)
GSIF	107	1310	1,417
GSIF in California	62 (58%)	319 (24%)	381 (27%)

California Initiative Portfolio Company Locations

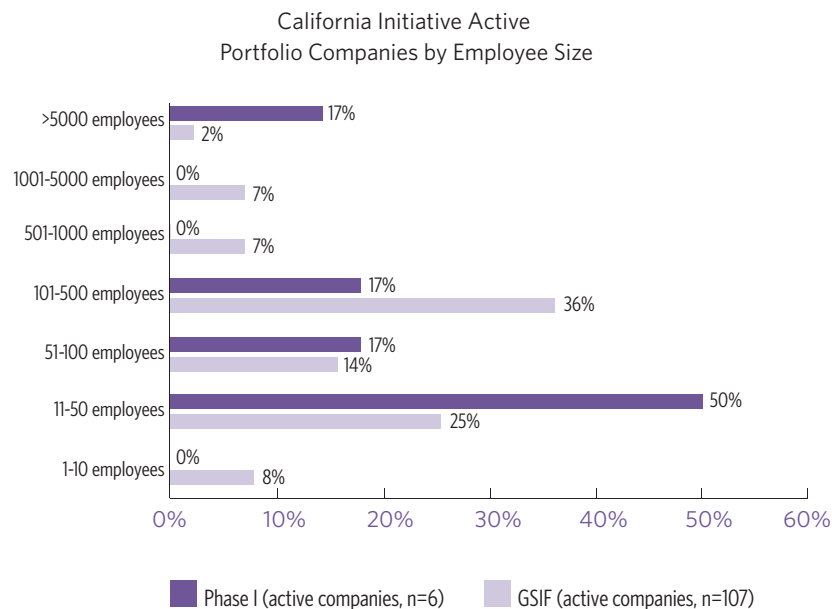


Portfolio Diversification

California Initiative portfolio companies operate across a variety of industries.¹⁴



Portfolio companies range in size from fewer than 10 to more than 15,000 employees. The majority of portfolio companies (54 percent) employ between 11 and 150 workers.



Job Quality

At both Phase I and GSIF portfolio companies reporting data as of June 30, 2016, the “quality” of jobs, defined as the provision of 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. All Phase I companies provide medical insurance to at least some of their employees compared with 57 percent of U.S. companies¹⁵ and 58 percent of

California companies.¹⁶ Ninety-three percent of Phase I companies offer medical insurance to between 76 percent and 100 percent of their employees, as compared to 68 percent of U.S.¹⁷ and 76 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.

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	0%	0%	0%	0%	100%	100%
Retirement Plan	0%	0%	0%	0%	100%	100%
Paid Sick Leave	0%	0%	0%	0%	100%	100%
Paid Vacation	0%	0%	0%	0%	100%	100%
Company Stock	83%	0%	0%	0%	17%	17%

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. This provides 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.

Job quality changes since investment

As part of measuring job quality at GSIF portfolio companies, changes to employee benefit packages are tracked. Of the 229 GSIF portfolio companies that have ever reported data, including fully realized investments, 130 (57 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 81 (62 percent) of the 130 companies reporting improvements to employee benefits packages. Only 15 companies (12 percent) have reported decreased benefits. Another 34 (26 percent) of the 130 companies indicated changes in benefit providers or benefits package with an indeterminate impact on employee benefits since investment.

GSIF Portfolio Companies, Employee Benefits

		GSIF Salaried	GSIF Non-salaried	U.S. — All Employees ¹⁹	CA — All Employees ²⁰
Medical coverage	Establishments offering	93%	63%	57%	58%
	Employees eligible for	83%	84%	68%	76%
	Employees enrolled in	72%	68%	54%	64%
Retirement benefits	Establishments offering	79%	56%	47%	n/a
	Employees eligible for	82%	80%	66%	n/a
	Employees enrolled in	57%	31%	49%	n/a
Other benefits	Employees eligible for disability benefits	80%	76%	40%	n/a
	Employees eligible for paid vacation time	82%	80%	76%	n/a
	Employees eligible for paid sick leave	68%	77%	64%	n/a

Suppliers

As of June 30, 2016, California Initiative Phase I and GSIF companies had active supplier relationships with more than 69,000 vendors.²¹ In addition to the boost to the economy provided directly by California Initiative portfolio companies, 11,965 other California businesses (17 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. Twelve portfolio companies were granted 45 new patents between July 1, 2015, and June 30, 2016.

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. This includes any plans to increase business activities in California in the next year.

Twenty-one percent of active GSIF companies reported plans for expansion in California in the coming year. Of the companies that have expansion plans, 32 percent reported plans to open new operating locations in California. 32 percent reported plans to increase employment in California. 50 percent reported operating plans that are expected to result in increased sales in California.

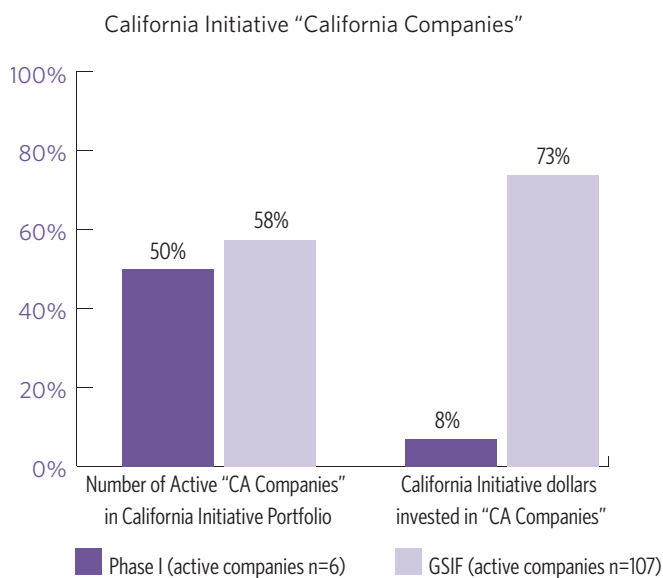
Total revenue generated by GSIF companies is approximately \$9.1 billion, with 20 percent or \$1.8 billion generated in California. 73 percent of the revenue was generated in the United States outside of California, and 7 percent generated internationally.²²

A “California Company” is a company that meets at least one of the following three criteria:²³

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, two Phase I (33 percent) and 62 GSIF (58 percent) portfolio companies are considered “California Companies,” representing 55 percent of dollars (8 percent of Phase I dollars and 73 percent of GSIF dollars).

At June 30, 2016, approximately \$162 million was 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 \$479 million (\$11 million in Phase I and \$468 million in GSIF) in private equity capital from other third-parties was co-invested alongside CalPERS in these same active “California Companies.” Since inception, GSIF has also committed approximately \$194 million to 17 co-investments in “California Companies”, alongside \$8.3 billion invested by other third-parties.



CalPERS California Initiative – Investing in Underserved Markets

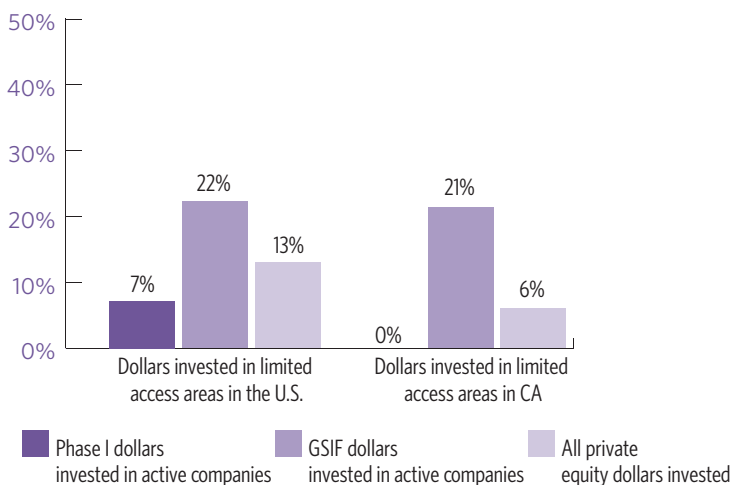
Portfolio Companies That Have Historically Had Limited Access to Equity Capital

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.²⁴ 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 to 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, 17 percent of all California Initiative investment dollars deployed in the United States, including 22 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.

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. Twenty percent of all California Initiative dollars deployed in California are invested in areas of the state 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.²⁵

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, 45 percent of company headquarters and operating facilities are located in predominantly LMI areas.²⁶ GSIF portfolio companies have a total of 1,417 operating locations, including both facilities and headquarters; approximately 44 percent are in predominantly LMI areas.

Seventy-five percent of Phase I and 52 percent of GSIF portfolio company employees in California live in predominantly low-income areas.²⁷

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=6)	0 (0%)
	California Headquarters	0 (0%)
	California Facilities	9 (64%)
	California Employees	581 (75%)
GSIF	Headquarters (n=107)	34 (33%)
	California Headquarters	24 (43%)
	Facilities	592 (45%)
	California Facilities	155 (49%)
	Employees	13,126 (44%)
	California Employees	4,789 (52%)

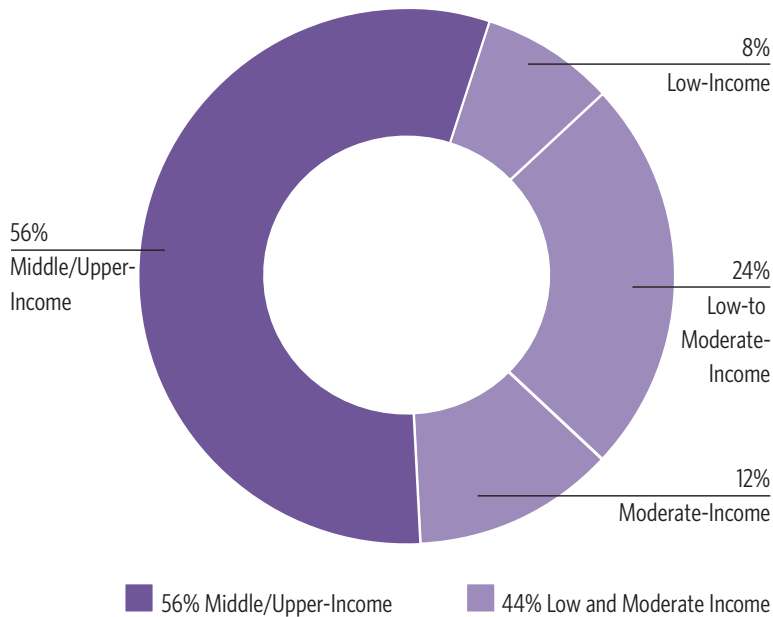
Not all low-income workers live in low-income areas and not all individuals living in low-income areas earn a low-income wage. In order to precisely measure the economic status of employees at GSIF portfolio companies, wage and ZIP code information was collected from every employee.²⁸ A worker's ZIP 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

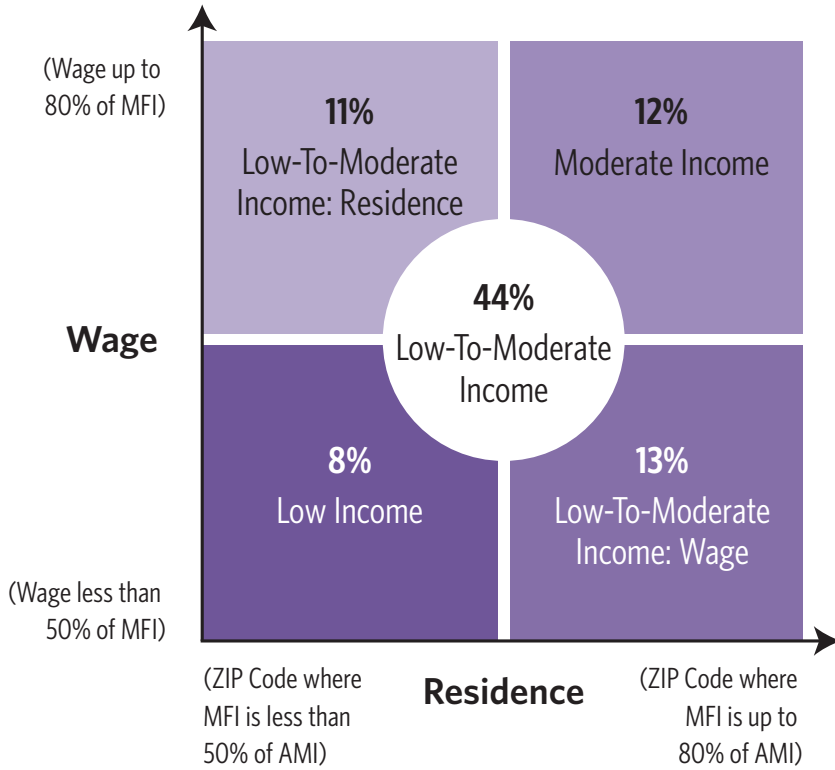
communities are also considered middle/upper-income workers.²⁹ These workers likely are part of households with other sources of income. Based on the associated ZIP code and wage data collected for each employee, as of June 30, 2016, 56 percent of all GSIF portfolio company employees are classified middle/upper income.

- Low- to Moderate-Income Workers: Forty-four 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.³⁰ 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- to Moderate-Income
GSIF Portfolio Company Employees



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)

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 between 50 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.

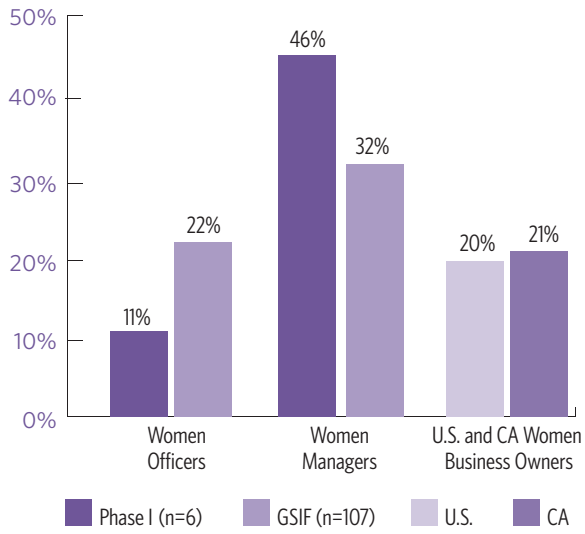
The 113 active California Initiative portfolio companies employ a total of 636 officers (an average of five officers per company), 16 percent of whom are minorities and another 22 percent of whom are women. Thirty-six percent of California Initiative investment dollars are invested in 41 companies with at least one woman officer, suggesting that women have substantial input into the management and growth of these companies. Similarly, 55 percent of California Initiative investment dollars are committed to 46 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. 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.

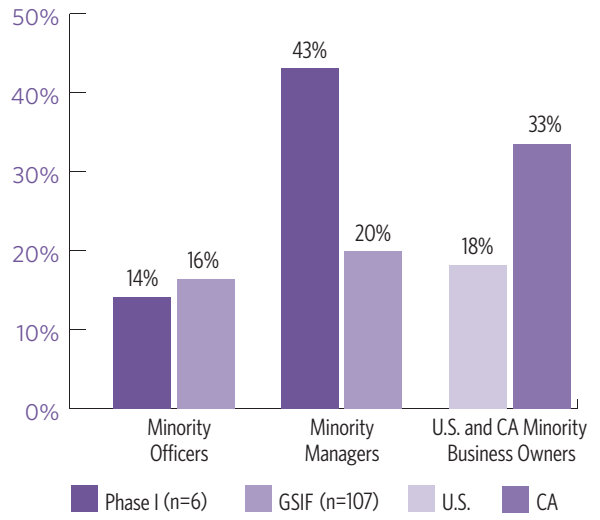
California Initiative Portfolio Companies, Minority and Women Officers and Key Managers

	Phase I Officers	Phase I Key Managers	GSIF Officers	GSIF Key Managers	CA business owners ³¹	U.S. business owners ³²
Men	39 (89%)	15 (54%)	445 (75%)	1,035 (70%)	63%	65%
Women	5 (11%)	13 (46%)	132 (22%)	449 (30%)	21%	20%
Minority	6 (14%)	12 (43%)	96 (16%)	291 (20%)	33%	18%
Hispanic/Latino	2 (5%)	3 (11%)	30 (5%)	100 (7%)	10%	9%
African American	1 (2%)	6 (21%)	12 (2%)	27 (2%)	1%	2%
Asian/Pacific Islander	2 (5%)	1 (4%)	43 (7%)	135 (9%)	21%	9%
Other Minorities	1 (2%)	2 (7%)	11 (2%)	29 (2%)	1%	2%
White	38 (86%)	16 (57%)	483 (83%)	1,189 (80%)	73%	81%

Women Entrepreneurs



Minority Entrepreneurs



CalPERS California Initiative – Summary Findings

- The California Initiative represents a significant capital investment in California’s economy with 55 percent of capital allocated to “California Companies”, defined as those headquartered in California, or with a plurality of employees or facilities in the state.
- The California Initiative has created and sustained jobs within California and the nation through continued economic uncertainty, supporting 176,559 workers at all companies since inception.
- 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 20 percent of all dollars deployed in California allocated to companies located in these underserved markets.
- Economically disadvantaged communities benefit from the California Initiative and its portfolio companies. The California Initiative employs a significant number of economically disadvantaged persons, with 44 percent of GSIF employees classified as low- to moderate-income.
- California Initiative portfolio companies have leadership that includes women and minorities at levels that outpace national and state and local levels.

Appendix:

California Initiative Summary Data

	Phase I	GSIF	Total California Initiative	CA	U.S.
Active Reporting Companies in 2016	6	107	113	n/a	n/a
Employment Opportunities					
Percentage Employee Growth Since Investment	61%	53%	54%	n/a	-1% ³³
Percentage California Employee Growth Since Investment	43%	172%	164%	-3% ³⁴	n/a
Economically Disadvantaged Areas					
Percentage of California Headquarters in Predominately LMI Areas	0%	43%	41%	n/a	n/a
Percentage of California Facilities in Predominately LMI Areas	56%	49%	49%	n/a	n/a
Percentage of California Employees Living in Predominately LMI Areas	74%	52%	54%	n/a	n/a
Underserved Markets					
Percentage of Dollars Invested in Companies Located in Areas Underserved by Institutional Equity Capital	7%	22%	17%	6%	13%
Opportunities for Women and Minority Entrepreneurs and Managers					
Percentage of Dollars Invested in Companies with at least One Woman Officer	52%	30%	36%	n/a	n/a
Percentage of Dollars Invested in Companies with at least One Minority Officer	92%	40%	55%	n/a	n/a

California Community Venture Fund

In addition to investing in nine private equity funds, the California Initiative invested in a fund-of-funds, the California Community Venture Fund (CCVF) managed by HarbourVest Horizon.

CCVF Quick Facts¹

Year of Inception	2002
Investment Amount	\$100 million
Funds Receiving Capital	15
California-based Funds Receiving Capital	9 / 60% of funds
Companies Receiving Investment ²	207
California Headquartered Companies Receiving Investment	86 / 42% of companies

Since 2002, 15 funds have received capital from CCVF. CCVF 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 minorities³
- Owned or managed by women³
- Focused on delivering products or services to an ethnically diverse customer base
- Located in urban or rural areas with limited access to investment capital

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

CCVF Investments Summary Table⁴

Low- to Moderate-Income Areas	
Funds with a Low- to Moderate-Income Focus	73%
Companies within Low- to Moderate-Income Areas	29%
Owned or Managed by Ethnic Minorities	
Funds with a Focus on Opportunities for Ethnic Minorities	60%
Companies Majority Owned or Managed by Ethnic Minorities	33%
Owned or Managed by Women	
Funds Managed by at Least One Woman Partner	40%
Companies Majority Owned or Managed by Women	24%
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	29%
Located in Urban or Rural Areas with Limited Access to Capital	
Companies Located in Inner City Areas of the U.S.	17%
Companies Located in Rural Areas of the U.S.	3%

¹ The number of funds receiving CCVF capital, the number of California based funds receiving CCVF capital, the number of companies receiving investment, the number of California companies receiving investment reflect September 30, 2015 data.

² Includes companies held by CCVF portfolio funds that were subsequently exited; one company held by two funds.

³ Owned refers to a 50% or higher ownership stake; managed refers to the CEO.

⁴ Data on Low- to Moderate-Income areas, ethnic minority ownership or management, woman ownership or management, companies serving an ethnically diverse customer base, and company location in an urban or rural areas with limited access to capital is as of December 31, 2014.

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 CCVF, 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 CCVF's definition of an underserved company.

Of the companies in CCVF funds' portfolios, 17 percent were 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.⁵ Three 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 CCVF funds' portfolios, 29 percent of the companies were located in a low- to moderate-income areas. Twenty-one percent were located in census tracts where 20 percent or more of the population lives in households with income below the federal poverty level, and 37 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 CCVF 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 woman partner.

Of the companies in CCVF funds' portfolios, 33 percent were majority owned or managed by minorities and 28 percent were located in census tracts where more than half the population is an ethnic minority. Further, nearly 34 percent of the companies had some minority ownership and 31 percent had some women ownership.

Specific gender and ethnic information on the chief executive officer at CCVF funds' portfolio companies is available for the companies that CCVF funds had invested in. In 29 percent of these companies, the CEO is diverse, including 33% where the CEO is African American, 14% where the CEO is Hispanic, and 37% where the CEO is Asian. Sixteen percent of companies had women as CEOs. CCVF portfolio companies employed a total of 155,093 employees; 34 percent of these employees were ethnic minorities and 52 percent were women.

⁵ Inner Cities are defined as core urban areas that currently have higher unemployment and poverty rates and lower median 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 the MSA; median household income of ½ or less that of the MSA; unemployment rate of 1.5x times or more than that of the MSA.

Endnotes

1. CalPERS press release; February 19, 2008. "CalPERS California Initiative Program Deploys Private Equity Capital to Overlooked Markets."
2. The California Community Venture Fund was formerly known as the Banc of America California Community Venture Fund.
3. The 26 total exits consist of five companies that received investment from Phase I partners and 21 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
5. Bureau of Labor Statistics. www.bls.gov/ces/. Total private sector employees, seasonally adjusted. Employment in the United States private sector increased ten percent between 2001 and 2016. In California, employment in the private sector increased fifteen percent over the same period.
6. The first GSIF investments were made in 2007.
7. Bureau of Labor Statistics. www.bls.gov/ces/. Total private sector employees, seasonally adjusted.
8. 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.
9. Ibid.
10. Ibid.
11. Bureau of Labor Statistics. www.bls.gov/ces/. Total private sector employees, seasonally adjusted.
12. Ibid.
13. Ninety-one companies participated in four consecutive years of data collection from 2013-2016, including 6 Phase I and 80 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 86 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 86 companies to all companies within the portfolio that reported data in consecutive years.

		2013-2014	2014-2015	2015-2016
86 Company Sample	Annual Employee Growth	10%	7%	2%
	Annual California Employee Growth	22%	22%	7%
CA Initiative Portfolio	CA Initiative Portfolio Company Count	n = 134	n = 122	n = 103
	Annual Employee Growth	4%	4%	2%
	Annual California Employee Growth	11%	12%	7%

14. Industry data is available for 115 of the 117 active GSIF companies, regardless of whether they reported data or not.
15. 2016 Employer Health Benefits Survey, <http://kff.org/health-costs/report/2016-employer-health-benefits-survey/>
16. Bureau of Labor Statistics National Compensation Survey, March 2016; Private Industry (excludes agriculture establishments, private households, and the self-employed). <http://www.bls.gov/ncs/ebs/benefits/2016/>
17. Bureau of Labor Statistics National Compensation Survey, March 2016. <http://www.bls.gov/ncs/ebs/benefits/2016/>
18. California Health Care Foundation California Employer Health Benefits Survey Data Files, 2014. <http://www.chcf.org/publications/2015/04/employer-health-benefits>

¹⁹ Bureau of Labor Statistics National Compensation Survey, March 2016. <http://www.bls.gov/ncs/ebs/benefits/2016/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 Health Care Foundation California Employer Health Benefits Survey Data Files, 2016. <http://www.chcf.org/publications/2016/04/employer-health-benefits>

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

²² The majority (74 percent) of companies reported on this metric. While 28 (26 percent) companies did not report approximate revenue data, thirteen of these companies provided the percentage breakdown of revenue generated in California, the United States outside California, and outside the United States.

²³ 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

²⁴ Thomson Reuters, thomsonreuters.com/products_services/financial/

²⁵ 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 (68 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 (46 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.

²⁶ Phase I companies report a total of 182 facilities and headquarters but only California ZIP codes are reported by Phase I companies, of which there are 16. All data referring to the LMI status of Phase I facilities examines only these 16 locations.

²⁷ 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 584 California employees but provided valid ZIP codes for 278 employees, a difference of 306 or 52 percent.

²⁸ To maintain employee confidentiality, PCV collected no identifying information for employees.

²⁹ 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.

³⁰ 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.

³¹ 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. The most recent data from the 2012 survey was used for this analysis.

³² Ibid.

³³ Bureau of Labor Statistics. www.bls.gov/ces/. Job growth from 2007-2016. Total private employees, seasonally adjusted.

³⁴ Ibid.

CalPERS Profile

The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund with assets of approximately \$296 billion as of April 2016.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.8 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 1.2 million active and inactive members and more than 600,000 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

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