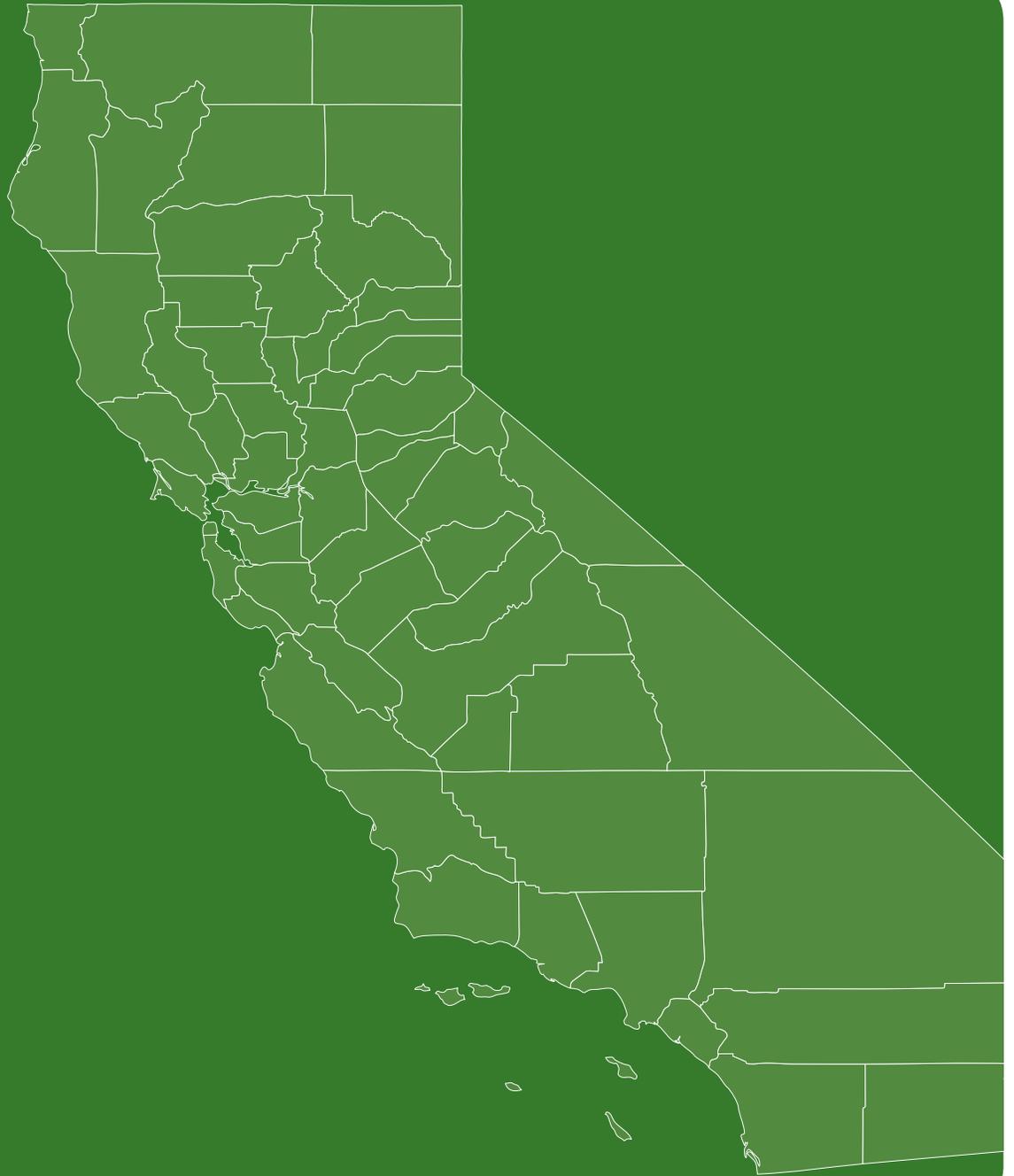


CalPERS California Initiative 2009

Creating Opportunities in California's
Underserved Markets



The CalPERS California Initiative

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

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

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 October 2006, CalPERS made a second allocation, a \$500 million capital commitment 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, 2009, through GSIF, Hamilton Lane had invested in 11 private equity funds and made 12 direct co-investments.

The primary objective of the California Initiative— comprised of both Phase I and GSIF— is to generate attractive financial returns, meeting or exceeding private equity benchmarks. As an ancillary benefit, the California Initiative was designed to create jobs and promote economic opportunity in California. In order to determine the extent of the ancillary benefits, CalPERS measures the impact of the program in the following areas:

- Portfolio companies that have traditionally had limited access to institutional equity capital;
- Portfolio companies that employ workers living in economically disadvantaged areas; and
- Portfolio companies that provide employment opportunities to women and minority entrepreneurs and managers

This report focuses on the ancillary benefits derived from both allocations of the California Initiative.

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

Highlights

Since the inception of the California Initiative in 2001, 341 companies have received investment through both Phase I and GSIF. Of the 267 companies in Phase I, 145 companies have received capital investment through a \$100 million separate fund-of-funds account, called the Banc of America California Community Venture Fund (BACCVF). BACCVF reports the community benefits derived from its fund-of-funds in a separate document—please see the addendum on page 24. Except where otherwise noted, this report focuses on data provided by 118 active Phase I and GSIF portfolio companies (excluding BACCVF) as of June 30, 2009.²

Profile

Since the inception of the California Initiative, 172 companies (88 percent) have provided data in at least one of the annual collection efforts. Net employment growth since investment at the 172 portfolio companies is 7 percent in California and less than 1 percent overall. The 118 active portfolio companies that provided data for this assessment show employment growth of 7 percent in California and 4 percent overall since investment.

California Initiative portfolio companies are considered “California Companies” if any of the following are true:

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

Thirty-seven⁴ (77 percent) of Phase I and 57⁵ (85 percent) of GSIF portfolio companies are considered “California Companies”, representing 68 percent of dollars invested (34 percent of Phase I dollars and 94 percent of GSIF dollars).

California Initiative Key Milestones⁶ (Excluding BACCVF)

Total dollars committed to the California Initiative	\$925 million ⁷
Total number of companies receiving investment	196 ⁸
Percent of companies headquartered in California	79%
Net new jobs ⁹ since investment in California (all companies ever in portfolio)	1,386
Total employment at active portfolio companies	61,962
Percent of employees living in low and moderate income areas (based on ZIP Code only) ¹⁰	75%
Percent of portfolio company employees eligible for medical coverage ¹¹	87%

Portfolio Companies That Have Historically Had Limited Access to Equity Capital

Between 2001 and 2007, more than 80 percent of all private equity in the United States and more than 90 percent of all private equity in California was committed to an area made up of 774 United States ZIP Codes (2 percent of all U.S. ZIP Codes); 153 of which are California ZIP Codes (3 percent of all CA ZIP Codes). California Initiative portfolio companies located outside of this area are considered to be in an area that has historically had limited access to institutional equity capital.

Across California, only 25 percent of all companies receiving private equity investment are in areas that have historically had limited access to institutional equity capital. By contrast, 46 percent of all California Initiative companies—including more than 60 percent of GSIF companies (or 66 percent of invested capital)—are in areas that have historically had limited access to institutional equity capital, indicating that the initiative's efforts to direct capital to these areas are working.

Portfolio Companies That Employ Workers Living in Economically Disadvantaged Areas

In total, active California Initiative portfolio companies employ over 60,000 workers. Approximately 50 percent of California Initiative portfolio company employees in California live in predominantly low-income areas.¹²

Fifty-eight percent of GSIF portfolio company employees are considered low-to-moderate income (LMI) workers, based on an analysis of both employee wage and residence location.¹³ Combined, these statistics indicate that the California Initiative is providing significant employment opportunities to disadvantaged workers.

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

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

Seventy-three percent of Phase I investment dollars and 60 percent of GSIF dollars are committed to 42 companies where there is at least one female officer, and 93 percent of Phase I investment dollars and 49 percent of GSIF dollars are committed to 68 companies with at least one minority officer. As company officers, these women and minorities have substantial input into the management and growth of these companies.

As a frame of reference, the proportion of women and minority executives at California Initiative companies is greater than the proportion of comparable businesses in the United States that are women or minority-owned. At California Initiative portfolio companies, 16 percent of officers are women and 16 percent are minorities, compared with 10 percent of similar United States businesses that are women-owned, and 6 percent that are minority-owned.¹⁴

Profile – California Initiative Companies

Since the inception of the California Initiative, 341 companies have received investment through both Phase I (267 companies) and GSIF (74 companies). Of the 267 companies in Phase I, 145 companies have received funding through a \$100 million separate fund-of-funds account allocated to the Banc of America California Community Venture Fund (BACCVF). Except where otherwise noted, this report focuses on data provided by 118 active Phase I and GSIF portfolio companies (excluding BACCVF) as of June 30, 2009.¹⁵ BACCVF reports the community benefits derived from its fund-of-funds separately—please see the addendum on page 24.

As of June 30, 2009, private equity funds that received capital through the California Initiative had active investments

in 127 companies; 59 in Phase I and 68 in GSIF. Between July 1, 2008 and June 30, 2009, 17 companies that received investment from Phase I partners, and six companies that received investment from GSIF partners exited the portfolio, bringing the total number of fully realized investments over the life of the California Initiative to 69.

Of the 196 companies that have received investment throughout the life of the California Initiative, 172 (88 percent) provided data for this report at some point during investment. One-hundred-eighteen active companies (93 percent) provided data as of June 30, 2009: 52 (88 percent) Phase I portfolio companies and 66 (97 percent) GSIF portfolio companies.

California Initiative Portfolio Investments (Excluding BACCVF)

	Phase I	GSIF	Total California Initiative
Received investment	122	74	196
Active companies (as of June 30, 2009)	59 (48%)	68 (92%)	127 (65%)
Fully realized (as of June 30, 2009)	63 (52%)	6 (8%)	69 (35%)
Active companies, contributed data 2009	52 (88%)	66 (97%) ¹⁶	118 (93%)
All companies ever reporting, including fully realized investments.	104 (85%)	68 (92%)	172 (88%)

Employment and Employment Growth

The rate of employment growth at California Initiative companies exceeds the employment growth rate across the United States and California. Since 2005, 104 Phase I and 68 GSIF portfolio companies have contributed data to at least one assessment effort. At time of investment, these 172 California Initiative portfolio companies employed a total of 103,231 employees, including 19,579 Californians. The most

recent data available from these companies shows overall employment holding steady (427 net new jobs) and growth of 7 percent in California (1,386 net new jobs) since investment. Overall employment at active Phase I companies has increased 7 percent (1,090 net new jobs), and California employment has increased 70 percent (1,334 net new jobs). By comparison, employment in the U.S. and California decreased 2 percent and 4 percent respectively between 2001 and 2009.¹⁷

The first GSIF portfolio company investment was made in 2007. By June 30, 2009, GSIF managers had closed investments in 74 companies.¹⁸ At time of investment, the 66 active GSIF portfolio companies that provided data employed 44,796 workers, and as of June 30, 2009 that number had grown 2 percent, to 45,837, far surpassing the United States where jobs declined 6 percent between 2007 and 2009.¹⁹ California employment at GSIF portfolio companies decreased 3 percent from 13,042 workers at investment, to 12,705 on June 30, 2009, which is better than overall job loss in California, which was 7 percent between 2007 and 2009.²⁰

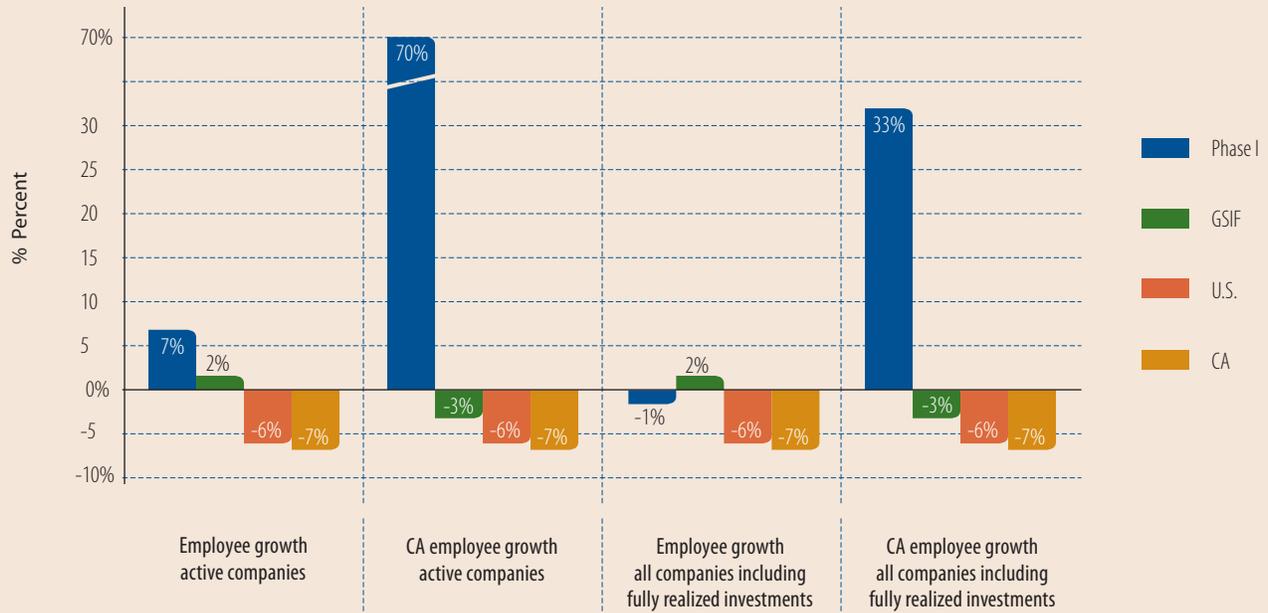
California Initiative companies have not been immune from the recent economic downturn. During the twelve months from June 2008 to June 2009, employment in the U.S. and California decreased 5 and 6 percent respectively.²¹ By comparison, at Phase I companies that participated in data collection efforts in both 2008 and 2009 (n=51), total employment decreased 12 percent and California employment decreased 9 percent. GSIF companies that reported data in both 2008 and 2009 (n=29) have fared better than the broader economy: total employment increased less than 1 percent, and California employment decreased 2 percent.

Employees, California Initiative Portfolio Companies

	Employees		CA Employees		Total Employees percent growth ²²	CA Employees percent growth
	At Investment	At June 30, 2009	At Investment	At June 30, 2009		
Phase I – Active portfolio companies reporting as of June 30, 2009 (n=52)	15,035	16,125	1,911	3,245	7%	70% ²³
Phase I – All companies reporting, including fully realized investments (n=104) ²⁴	53,645	53,088	5,510	7,331	-1%	33%
GSIF – Active portfolio companies reporting as of June 30, 2009 (n=66)	44,796	45,837	13,042	12,705	2%	-3%
GSIF – All companies reporting, including fully realized investments (n=67) ²⁵	49,586	50,570	14,069	13,364	2%	-3%
Total CA Initiative – Active portfolio companies reporting as of June 30, 2009 (n=118)	59,831	61,962	14,953	15,950	4%	7%
Total CA Initiative – All companies ever reporting, including fully realized investments (n=172) ²⁶	103,321	103,658	19,579	20,965	<1%	7%

As a point of reference: Between June 2007 and June 2009 U.S. employment decreased 6 percent and CA employment decreased 7 percent ²⁷

California Initiative Job Growth Since Investment



As a point of reference: Between June 2007 and June 2009 U.S. employment decreased 6 percent and CA employment decreased 7 percent.²⁸

Company Locations

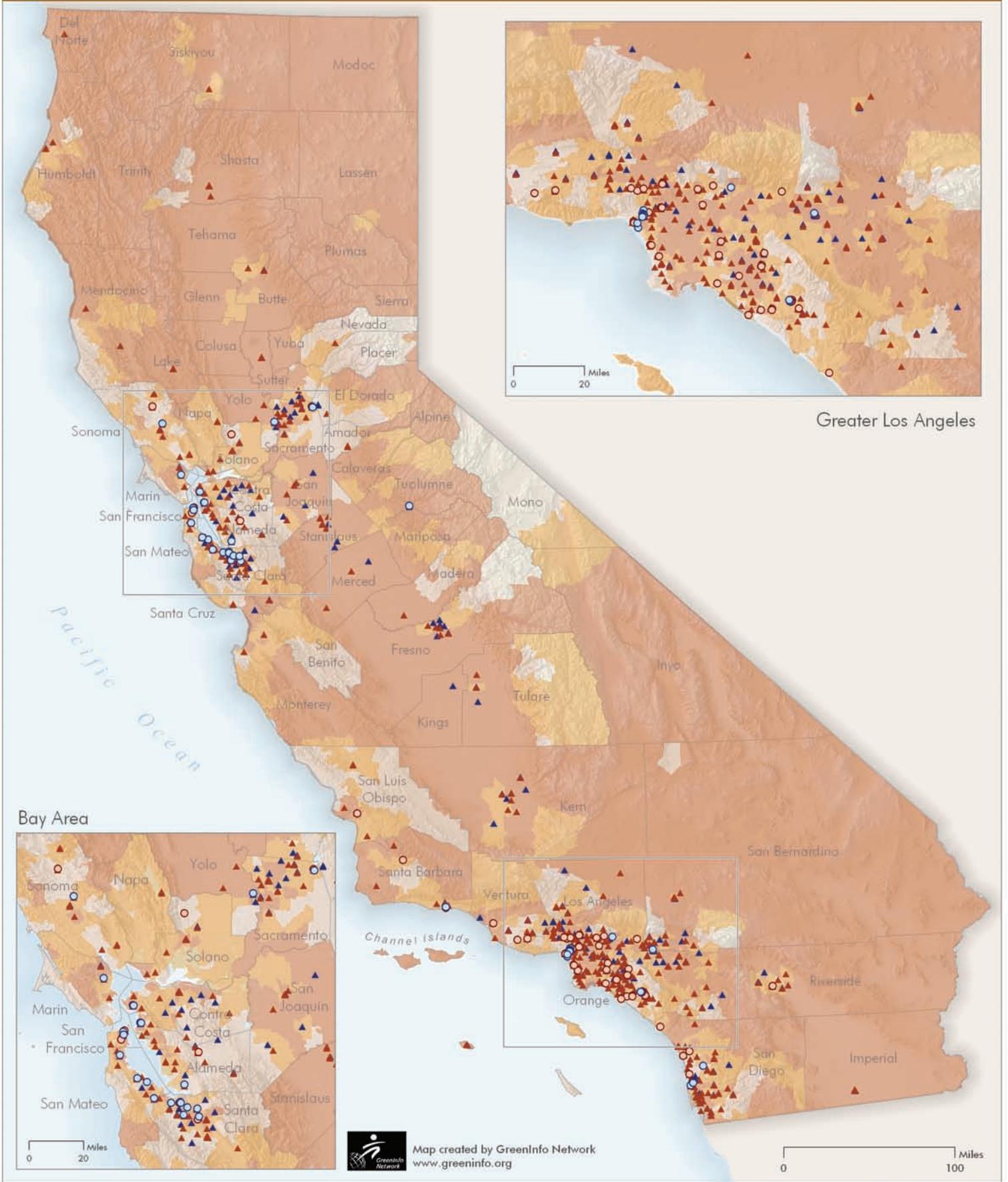
The 118 active California Initiative portfolio companies that contributed data in 2009 operate 3,227 total locations, including both headquarters and facilities; 79 percent of

these companies are headquartered in California, as are 20 percent of facility locations (excluding headquarters).

Operating Locations, California Initiative Portfolio Companies

Active Portfolio Companies	Headquarters	Facilities	Total
Phase I	52	926	978
Phase I in California	39 (75%)	174 (19%)	213 (22%)
GSIF	66	2,183	2,249
GSIF in California	54 (82%)	438 (20%)	492 (22%)
Total California Initiative	118	3,109	3,227
Total California Initiative in California	93 (79%)	612 (20%)	705 (22%)

California Initiative Portfolio Company Locations



- ▲ Phase 1 Facilities
- Phase 1 Headquarters

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

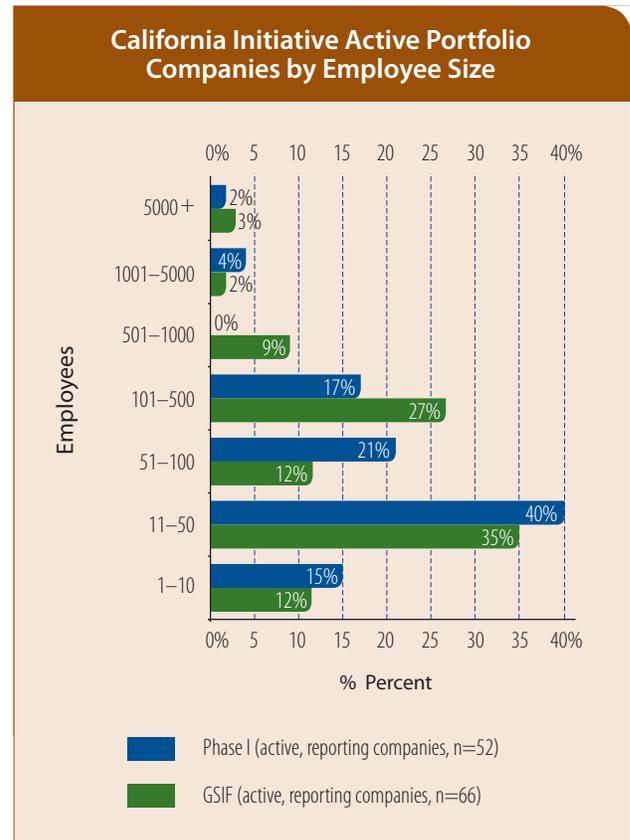
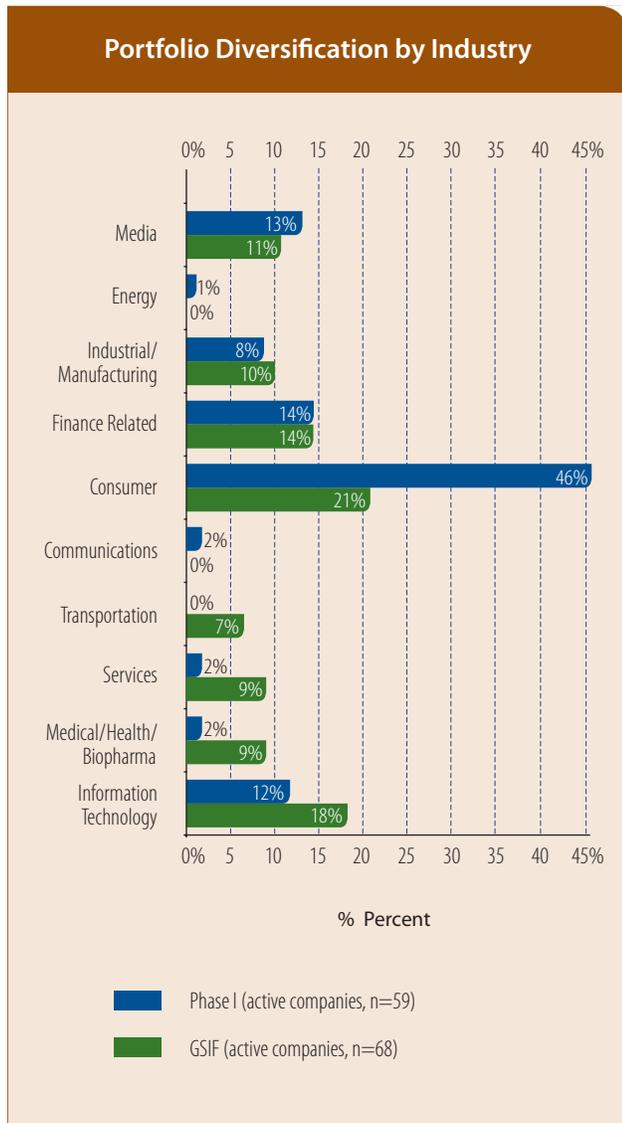
- Zip codes that are predominantly comprised of low-to-moderate income census tracts
- Zip codes that overlap with low-to-moderate income census tracts

Map created by GreenInfo Network
www.greeninfo.org

Portfolio Diversification

California Initiative portfolio companies operate across a variety of industries.

Portfolio companies range in size from fewer than ten to more than 20,000 employees. The majority of portfolio companies (59 percent) employ between 11 and 150 workers.



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

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

Benefit percentiles

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

Patents granted

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

Employee wages

In order to address employee economic status at GSIF portfolio companies, PCV collected the wage and ZIP Code of every employee.²⁹ Analyzing wages in conjunction with the associated ZIP Code produces a more accurate assessment of economic status. GSIF portfolio companies also report the ZIP Codes of all operating locations, not just those in California (as in Phase I). This additional data provides a more complete picture of the portfolio company communities.

California Focus

In 2009, GSIF portfolio companies were asked to report on the approximate annual revenues generated in California, the rest of the United States and outside the United States. GSIF portfolio companies were also asked to describe any plans to increase business activities in California in the next year. This additional data helps CalPERS gain a more complete understanding of the impact California Initiative investments are having in California.

Job Quality

At both Phase I and GSIF portfolio companies, job quality—comprised of medical coverage, retirement plans and paid sick and vacation leave—compares favorably with job quality at companies in California and the United States. A higher percentage of Phase I companies offer employee benefits—including medical insurance, retirement plans, vacation and sick leave—than companies in the United States and California. Ninety-eight percent of Phase I companies provide medical insurance to at least some of their employees compared with 63 percent of U.S. companies,³⁰ and 70 percent of California companies.³¹ Eighty-seven percent of Phase I

companies provide medical insurance to between 76 percent and 100 percent of their employees, whereas 71 percent³² of U.S. and 80 percent of California employees are eligible for employer-based medical insurance.³³ All Phase I portfolio companies that provide medical insurance have at least some employees enrolled, and 71 percent have enrolled 76 percent to 100 percent of eligible employees.

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

Employee Benefits, Phase I Portfolio Companies

		N/A	1–25%	26–50%	51–75%	76–100%
Percent of Phase I Portfolio companies offering benefits to employees ³⁴	Eligible for medical insurance	2%	4%	4%	4%	87%
	Eligible employees enrolled in medical insurance	2%	4%	8%	15%	71%
	Eligible for retirement plan	19%	2%	0%	8%	71%
	Eligible for paid sick leave	13%	6%	2%	2%	77%
	Eligible for paid vacation	2%	4%	2%	2%	90%
	Eligible for stock	25%	10%	4%	2%	58%

The more precise measurement of benefits at GSIF portfolio companies leads to a more complete measure of job quality. To more accurately represent job quality for lower income workers—many of whom are employed in hourly wage jobs—GSIF portfolio companies report data for salaried and non-salaried employees separately. Benefit eligibility rates compare favorably to both the U.S. and California. Enrollment rates, while similar for salaried employees, are lower for non-salaried employees in the GSIF portfolio.

Premium costs in California rose twice as fast as inflation over the last several years,³⁵ and both employers and employees have trouble keeping up with the rising costs. It is likely that health insurance enrollment rates for non-salaried employees are low because lower income employees often cannot afford to pay the share of the premium not covered by the employer.

Employee Benefits, GSIF Portfolio Companies

		GSIF Salaried	GSIF Non-salaried	U.S. ³⁶	CA ³⁷
Medical Coverage	Establishments offering	82%		63%	70%
	Employees eligible for	95%	85%	71%	80%
	Employees enrolled in	75%	37%	52%	65%
Retirement Benefits	Establishments offering	74%		47%	n/a
	Employees eligible for	87%	56%	67%	n/a
	Employees enrolled in	48%	14%	51%	n/a
Other Benefits	Employees eligible for disability benefits	83%	49%	n/a	n/a
	Employees eligible for paid vacation time	94%	75%	78%	n/a
	Employees eligible for paid sick leave	64%	28%	61%	n/a

Job Quality Changes Since Investment

The influx of capital from GSIF investments has allowed many portfolio companies to make changes to employee benefit packages. Of the 68 GSIF companies that have reported data since 2007, 26 (39 percent) have made changes to their benefit packages since the time of investment. The infusion of capital provided by the GSIF investment has allowed companies to increase the benefit packages offered to employees. Seventeen (65 percent) of the 26 companies improved employee benefit packages, while only three companies (12 percent) decreased benefits.

Suppliers

As of June 30, 2009, California Initiative Phase I and GSIF companies had active supplier relationships³⁸ with over 50,000 vendors. In addition to the boost to the economy provided directly by California Initiative portfolio companies, nearly 15,000 other California businesses (28 percent of all Phase I and GSIF suppliers) have been indirectly supported by this capital investment.

Patents

GSIF portfolio companies report the number of patents granted to them annually. Two new patents were granted to one portfolio company between July 1, 2008 and June 30, 2009. GSIF patent rates compare to both the U.S. and California, where patent growth rates were less than 1 percent between 2007 and 2008.³⁹

California Focus

More than one-third (35 percent) of all GSIF companies reported plans for expansion in California in the coming year. Of the companies that have expansion plans, 70 percent reported plans to open new operating locations in California, 26 percent reported plans to increase employment in California, and 26 percent report operating plans that are expected to result in increased sales in California.

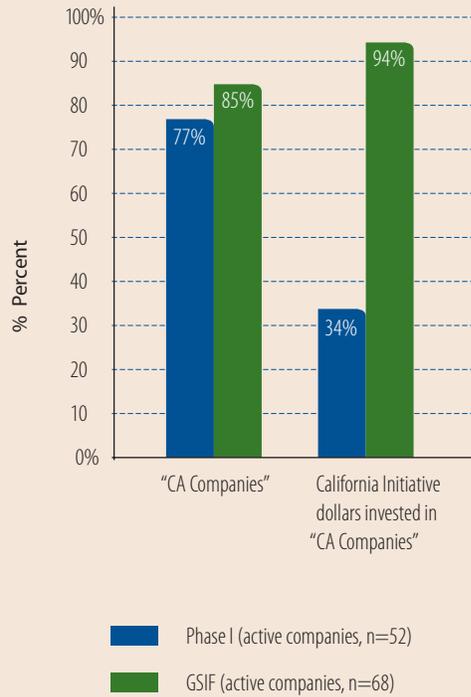
In 2009, GSIF companies were also asked to report their approximate annual revenue along with the share of revenue generated in California. The vast majority (89 percent) of companies reported on this metric, however, seven (12 percent) companies that reported data, provided only the percent of revenue generated in California, and not the approximate revenue. Total revenue generated by the companies is approximately \$6.6 billion, with 25 percent or \$1.6 billion generated in California, 74 percent produced in the U.S. outside of California and 1 percent created internationally.

PCV defines a “California Company” as a company that meets at least one of the following three criteria.⁴⁰

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, 37 (77 percent) of Phase I and 57⁴¹ (85 percent) of GSIF portfolio companies are considered “California Companies”, representing 68 percent of dollars (34 percent of Phase I dollars and 94 percent of GSIF dollars).

California Initiative "California Companies"



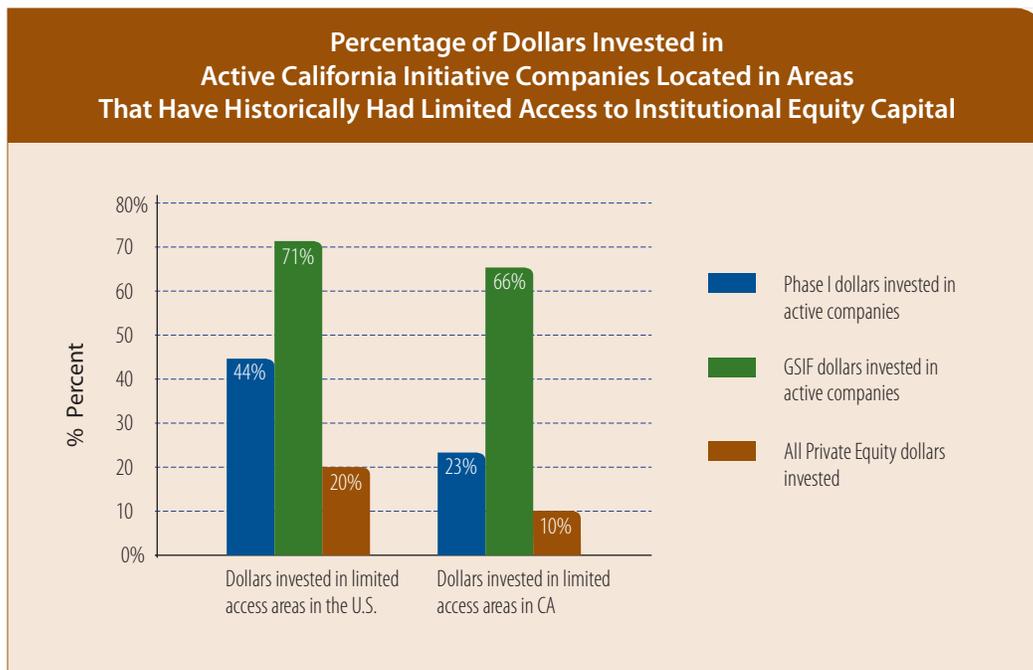
The California Initiative currently has close to \$400 million invested in 118 companies that provided data in 2009.⁴² Approximately \$220 million dollars are invested in "California Companies." As California Initiative dollars are part of a larger total investment in most companies, an additional \$413 million (\$94 million in Phase I and \$319 million in GSIF) in private equity capital from other investors is invested in active "California Companies". In total, the California Initiative has facilitated the investment of \$633 million in "California Companies." The Golden State Investment Fund has committed approximately \$167 million to 12 co-investment deals which has resulted in an additional \$7.4 billion dollars invested in "California Companies" by other investors.⁴³

CalPERS California Initiative – Investing in Portfolio Companies 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 Thompson Financial (now Thomas Reuters) that tracked private equity transactions between 2001 and 2007. This data shows that approximately 75 percent of private equity investment dollars were concentrated in 1,000 postal codes worldwide.⁴⁴ Most of these 1,000 postal codes (774 or 2 percent of all U.S. ZIP Codes) are in the United States. For the purposes of this analysis, any company outside of these 774 United States ZIP Codes—where more than 80 percent of all private equity in the United States and more than 90 percent of all private equity in California has been committed—is considered to be in an area that has historically had limited access to institutional equity capital.

Across California, only 25 percent of all companies receiving private equity investment are in areas that have historically had limited access to institutional equity capital. By contrast, 46 percent of all California Initiative companies—including over 60 percent of GSIF companies—are in areas that have historically had limited access to institutional equity capital, indicating that the initiative’s efforts to direct capital to these areas is working. In the Phase I portfolio, 27 percent of all active companies and 13 percent of active California companies, are in areas that have historically had limited access to capital. Of the 104 Phase I companies that have contributed data at any point during the initiative, 35 (34 percent) companies are in areas that have historically had limited access to capital. Approximately 60 percent of all GSIF companies (and companies with California headquarters), are headquartered in areas of the state that have historically had limited access to capital.



Portfolio Companies That Employ Workers Living In Economically Disadvantaged Areas

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

To assess the extent to which California Initiative companies are supporting employment for residents of LMI areas, PCV examines areas where companies operate as well as where company employees live.⁴⁵

In the Phase I portfolio, 40 percent of company headquarters and operating facilities are in predominantly LMI areas.⁴⁶ GSIF portfolio companies have a total of 2,249⁴⁷ operating locations, including both facilities and headquarters; approximately one-third are in predominantly LMI areas.

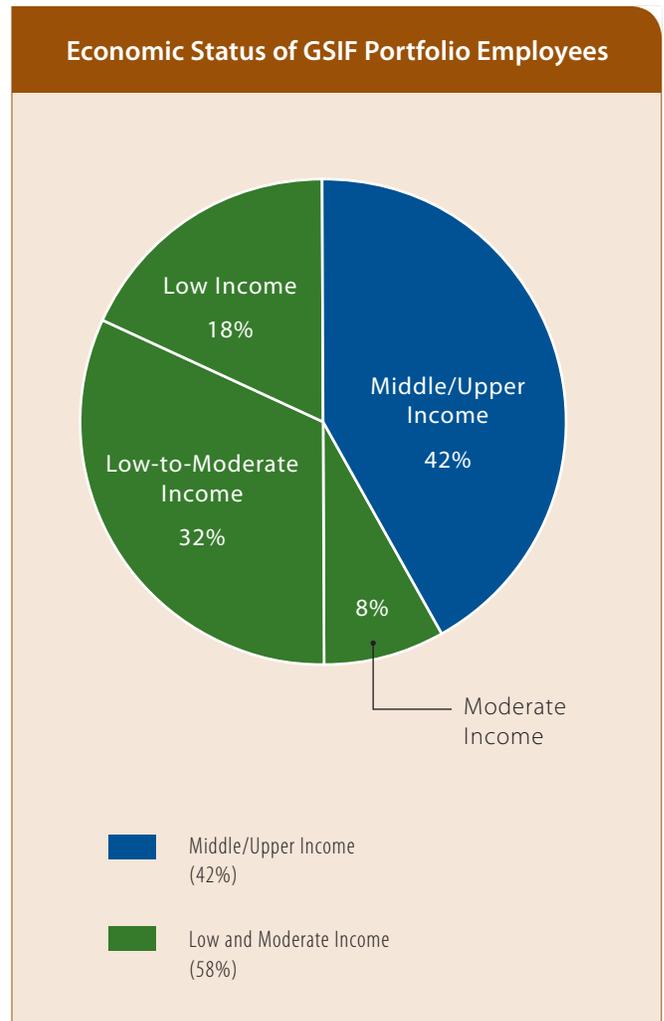
Fifty percent of Phase I, and 49 percent of GSIF portfolio company employees in California live in predominantly low-income areas.⁴⁸

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

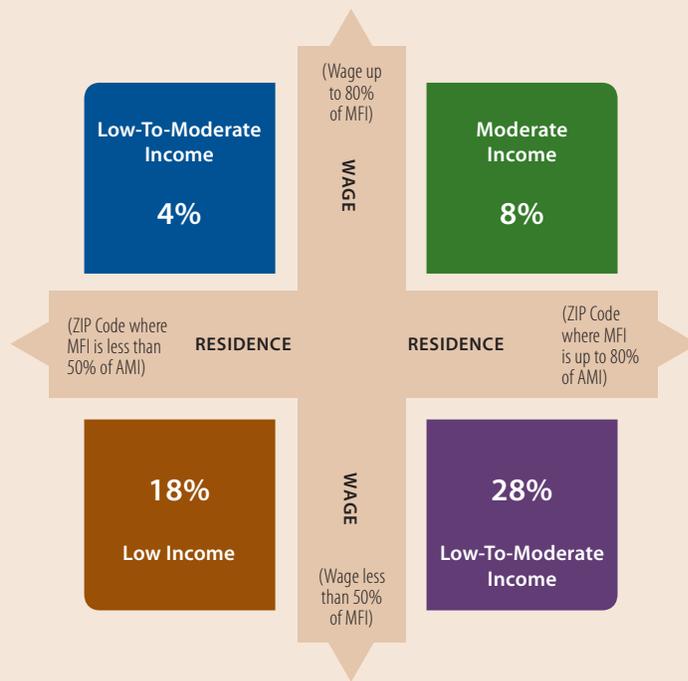
		Located in a ZIP Code that is Predominantly Comprised of LMI Census Tracts	Total LMI ⁴⁹
Phase I	Headquarters (n=52)	20 (38%)	47 (90%)
	California headquarters	13 (33%)	36 (92%)
	California facilities	71 (41%)	146 (84%)
	California employees	1,614 (50%)	2,750 (86%)
GSIF	Headquarters (n=66)	16 (24%)	53 (80%)
	California headquarters	12 (22%)	46 (85%)
	Facilities	650 (30%)	1,631 (76%)
	California facilities	196 (45%)	376 (86%)
	Employees ⁵⁰	15,130 (34%)	33,197 (75%)
	California employees	6,175 (49%)	10,916 (86%)

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

- Middle/Upper Income Workers:** GSIF portfolio company employees who earn a middle or upper income wage are considered middle/upper income employees. Similarly, employees who earn less than a middle income wage, but live in middle or upper income communities are also considered middle/upper income workers.⁵¹ 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, 2009, 42 percent of all GSIF portfolio company employees are classified middle/upper income.
- Low-to-Moderate Income Workers:** The majority (58 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.⁵² As a frame of reference, 35 percent of all employed individuals in the United States, and 38 percent of working Californians live in LMI census tracts.⁵³ For more in-depth analysis, PCV further divides the LMI employees into three categories: low-income, low-to-moderate income, and moderate-income.



Economic Status of Low and Moderate Income GSIF Portfolio Company Employees



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

- Employee wage is between 50 percent and 80 percent of the MFI in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is less than 50 percent of the AMI

Low-To-Moderate Income

- Employee wage is less than 50 percent of the MFI in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is between 50 percent and 80 percent of the AMI

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. By tracking the number of women and minority entrepreneurs, CalPERS can better understand the role the California Initiative portfolio companies play in the training, professional development and advancement of these populations.

When private equity dollars are invested in a company, ownership often shifts from individuals to a fund, or group of funds. Prior to investment, company owners are commonly C-level officers. Accordingly, to better understand the

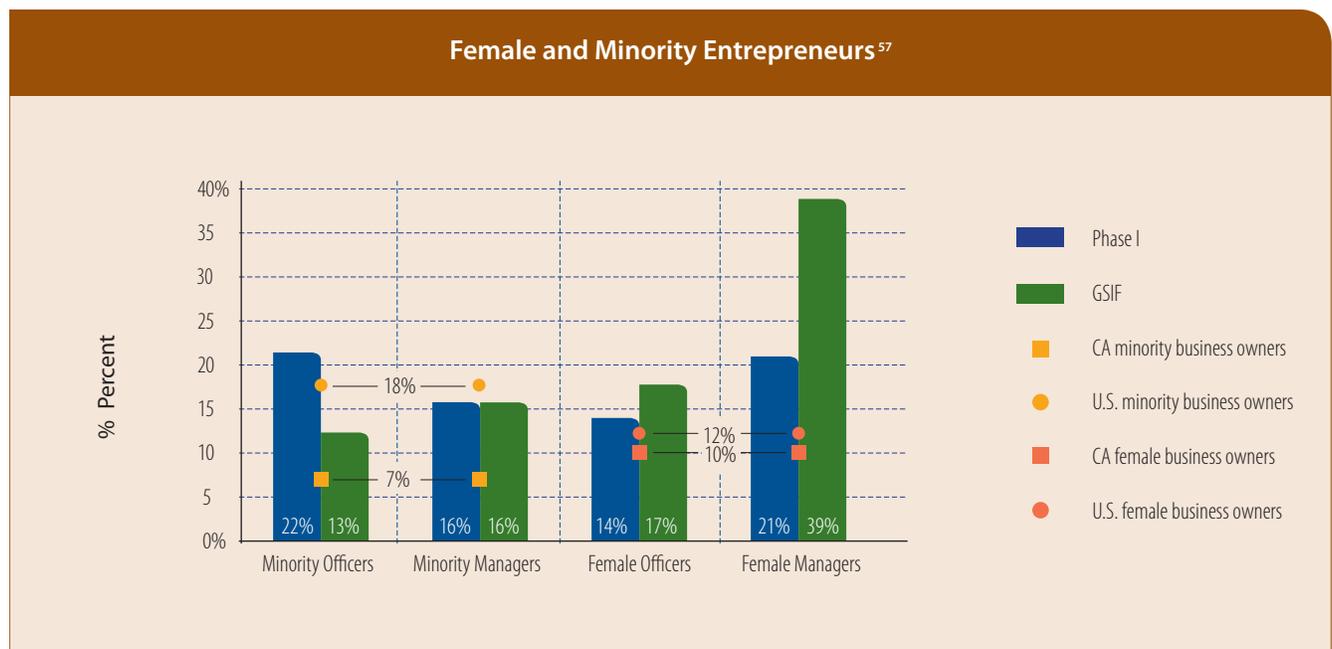
proportion of women and minority entrepreneurs at portfolio companies, PCV uses officers (e.g., Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer) and key managers as a proxy.

The 118 active California Initiative portfolio companies employ a total of 538 officers (an average of between four and five officers per company), 16 percent of whom are minorities, and another 16 percent are female. Sixty-six percent of California Initiative investment dollars are committed to 42 companies where there is at least one female officer, suggesting that women have substantial input into the management and growth of these companies. Similarly, 68 percent of California Initiative investment dollars are committed to 68 companies that have at least one minority officer.

The following table shows a breakdown of California Initiative portfolio company officers by gender and ethnicity. Provided as a frame of reference are ownership diversity statistics for businesses with paid employees and \$1 million

in revenue in California and the United States. Most portfolio companies receiving investment from the California Initiative met these criteria.

Minority and Female Officers and Key Managers, California Initiative Portfolio Companies						
	Phase I		GSIF		CA Business Owners ⁵⁵	U.S. Business Owners ⁵⁶
	Officers	Key Managers	Officers	Key Managers ⁵⁴		
Men	166 (86%)	380 (79%)	285 (83%)	651 (60%)	89%	90%
Women	27 (14%)	104 (21%)	60 (17%)	424 (40%)	11%	10%
Hispanic/Latino	17 (9%)	19 (4%)	14 (4%)	60 (6%)	5%	2%
African American	12 (6%)	26 (5%)	9 (3%)	23 (2%)	1%	1%
Asian/Pacific Islander	6 (3%)	24 (5%)	21 (6%)	64 (6%)	11%	4%
Other Minorities	7 (4%)	8 (2%)	1 (0%)	22 (2%)	1%	<1%
White	151 (78%)	407 (84%)	300 (87%)	906 (84%)	95%	98%



Endnotes

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

² This is a total of 127 (59 Phase I and 68 GSIF) companies and excludes the BACCVF portfolio companies. 118 of these 127 companies contributed data for this report.

³ Phase I portfolio companies do not report data on employees and facilities outside of California. The criteria for a Phase I portfolio company to be considered a "California Company" is at least one of the following:

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

⁴ This is out of a total of 48 companies. One company in the portfolio reports data from several separate entities. For this calculation, that company has been considered one entity.

⁵ 57 companies represent 85 percent of all 67 companies that are active in 2009 although one active company only reported data as of June 30, 2008. For this one company June 30, 2008 data is used in this calculation.

⁶ As of June 30, 2009; excludes the \$100 million committed to the Banc of America California Community Venture Fund.

⁷ Ibid.

⁸ Ibid.

⁹ Net new jobs is the total number of jobs today minus the number of jobs at investment.

¹⁰ GSIF company employees only, residing in the U.S., as of June 30, 2009. Includes all employees living in ZIP Codes that overlap with low and moderate income census tracts. Phase I companies report ZIP Codes for CA employees only.

¹¹ GSIF company employees only, as of June 30, 2009. Phase I companies report eligibility by range.

¹² 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 3,245 California employees, but provided valid ZIP Codes for 3,203 employees, a difference of 42 or 1 percent.

¹³ Beginning with GSIF, portfolio companies now provide both a wage and residence ZIP Code for each employee, providing a more complete picture of workers' economic status.

¹⁴ U.S. companies used for comparison are those that have employees and at least \$1 million in revenues; this is similar to the size and makeup of most California Initiative portfolio companies.

¹⁵ This is a total of 127 (59 Phase I and 68 GSIF) companies and excludes the BACCVF portfolio companies. 118 of these 127 companies contributed data for this report.

¹⁶ 66 companies contributed survey data, while for two companies the only data presented in this report is the headquarters location.

¹⁷ Bureau of Labor Statistics.
www.bls.gov/ces (Data accessed 10/20/2009.)

¹⁸ Six companies entered and exited the portfolio between July 1, 2008 and June 30, 2009. There is no data on these companies as they were not active during any annual data collection period. 68 portfolio companies have been active for data collection since the inception of the GSIF.

¹⁹ Bureau of Labor Statistics.
www.bls.gov/ces (Data accessed 10/20/2009.)

²⁰ Ibid.

²¹ Ibid.

²² Percentage growth in this chart is net employee growth.

²³ CA employee growth at Phase I companies is noticeably higher than at GSIF companies. This exaggerated percentage is most likely due to two factors.

1. The initial number of Phase I company employees living in California is much lower than that in the GSIF portfolio
2. Phase I companies have had more time to grow and mature as investments with Phase I dollars began in 2005 while GSIF investments began two years later in 2007.

²⁴ For fully-realized investments, the data used for this analysis is the most recent data available, typically as of the June 30 prior to exit.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Bureau of Labor Statistics.
www.bls.gov/ces (Data accessed 10/20/2009.)

²⁸ Ibid.

²⁹ To maintain employee confidentiality, PCV collected no identifying information.

³⁰ Bureau of Labor Statistics National Compensation Survey, March 2009.
www.bls.gov/ncs/ebs/benefits/2009/ebbl0044.pdf.

³¹ California Health Care Foundation California Employer Health Benefits Survey 2008.
www.chcf.org/documents/insurance/EmployerBenefitsSurvey08.pdf

³² Bureau of Labor Statistics National Compensation Survey, March 2009.
www.bls.gov/ncs/ebs/benefits/2009/ebbl0044.pdf.

³³ California Health Care Foundation California Employer Health Benefits Survey 2008.
www.chcf.org/documents/insurance/EmployerBenefitsSurvey08.pdf

³⁴ Numbers do not add to 100 percent due to rounding differences.

³⁵ California Health Care Foundation California Employer Health Benefits Survey 2008.
www.chcf.org/documents/insurance/EmployerBenefitsSurvey08.pdf

³⁶ U.S. benchmark data from the Bureau of Labor Statistics National Compensation Survey, March 2009.
www.bls.gov/ncs/ebs/benefits/2009/ebbl0044.pdf.
This data is for all employees, and does not separate out salaried vs. non-salaried employees.

³⁷ California benchmarks from California Health Care Foundation California Employer Health Benefits Survey 2008.
www.chcf.org/documents/insurance/EmployerBenefitsSurvey08.pdf.
This data is for all employees, and does not separate out salaried vs. non-salaried employees.

³⁸ An “active supplier relationship” is defined as one where the company has made a purchase in the past year.

³⁹ U.S. Patent Office.
www.uspto.gov/web/offices/ac/ido/oeip/taf/pat_tr08.htm

⁴⁰ Phase I portfolio companies do not report data on employees and facilities outside of California. The criteria for a Phase I portfolio company to be considered a “California Company” is at least one of the following:

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

⁴¹ This calculation includes all 68 companies that have provided data either in 2008 or 2009 as opposed to only the 66 that provided data in 2009.

⁴² This calculation includes all 68 GSIF companies that have provided data either in 2008 or 2009 as opposed to only the 66 that provided data in 2009, which brings the total number of companies to 120.

⁴³ This amount includes all 68 active companies. The two companies that did not provide data for the 2009 assessment are either qualified as a “California Company” because the headquarters location is in California or because data reported in 2008 qualifies the company as a “California Company.”

⁴⁴ Thomson Reuters.
www.thomsonreuters.com/business_units/financial/

⁴⁵ Portfolio companies provide the ZIP Code for each headquarter location and facility, as well as for each employee (In Phase I, portfolio companies reported ZIP Codes for California employees and facilities only). While employee and facility locations are defined by ZIP Codes, LMI areas are identified by census tracts. ZIP Codes can be comprised of parts of many census tracts and census tracts can contain parts of several ZIP Codes. To evaluate the extent to which California Initiative companies are supporting employment for residents of economically underserved areas, PCV made two distinctions:

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

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

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

⁴⁶ Phase I companies report a total of 174 California facilities, but only 173 ZIP Codes were reported. All data referring to the LMI status of Phase I facilities deals only with these 173 locations.

⁴⁷ There are 2,183 total operating locations (excluding headquarters) in the GSIF profile, but valid ZIP Codes are only available for 2,155 locations, a difference of 28 or 1 percent.

⁴⁸ 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 3,245 California employees, but provided valid ZIP Codes for 3,203 employees, a difference of 42 or 1 percent.

⁴⁹ This includes ZIP Codes that both overlap with and are predominantly composed of LMI census tracts.

⁵⁰ Companies report 45,837 employees but only 44,558 U.S. ZIP Codes. Companies report 12,705 employees in CA, but only 12,695 ZIP Codes. All analysis has been conducted only on the reported ZIP Codes.

⁵¹ 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 is entirely comprised of middle- and upper-income census tracts, are also considered middle/upper income employees.

⁵² 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 80 percent of the area median income.

⁵³ Based on 2000 U.S. census data

⁵⁴ The gender and ethnicity of 5 managers was not provided. Percentages are for total manager data reported n=1,075.

⁵⁵ CalPERS California Initiative companies report the number of women and minority officers and managers. The comparison set for the United States and California is businesses with \$1 million in revenue and paid employees that are at least 51 percent women and/or minority owned. This is the closest comparison possible for the diverse group of California Initiative companies. U.S. Census 2002 data was used as 2007 data will not be available until 2010. The census allows respondents to identify an ethnicity (Hispanic/Latino) and multiple racial categories, thus, minority categories cannot be combined for an accurate estimate of total minority-owned businesses.

⁵⁶ Ibid.

⁵⁷ Because of differences in the way CalPERS and the U.S. Census collect race and ethnicity data, PCV has elected to use the most conservative estimates for comparison. Census participants can identify as Hispanic/Latino as well as any other race, whereas CalPERS respondents choose the one category with which they most identify. Based on U.S. Census data, between 7 percent and 18 percent of business owners in CA and between 6 percent and 8 percent of U.S. business owners are minority. PCV has elected to use the highest possible percentage for comparison in both categories. This is most likely higher than the actual number.

BAML Capital Access Funds

In addition to investing in nine private equity funds, the California Initiative, working with BAML Capital Access Funds (CAF), has invested in a fund-of-funds, Banc of America California Community Venture Fund (BACCVF). As of June 30, 2009, BACCVF had invested in 15 funds, and these funds had invested in 145 portfolio companies.¹ CAF ultimately expects its funds to invest in as many as 175 companies.

Profile of BACCVF Funds and Portfolio Companies

Of the 15 funds that have received an investment from BACCVF, nine have an office in California. The remaining funds are projected to have a strong pipeline of California deals, based on their networks and investing history. As of June 30, 2009, of the 155 companies in BACCVF funds' portfolios, 66 (43 percent) are headquartered in California.

Portfolio Companies That Have Historically Had Limited Access to Institutional Equity Capital

CAF invests in well run 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;
- Owned or managed by women;
- Focused on delivering products or services to an ethnically diverse customer base; or
- Located in areas—urban or rural—with limited access to investment capital.

As of December 31, 2007, 69 percent of the companies funded by BACCVF met one or more of CAF's definitions of "underserved". Of the 15 funds that have received investment from BACCVF, 11 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 underserved company.

Of the companies in BACCVF funds' portfolios as of December 31, 2007, eleven (12 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.² Two (2 percent) of the companies are located in rural areas of the United States as defined by the U.S. Department of Agriculture.

Portfolio Companies That Employ Workers Living In Economically Disadvantaged Areas

Of the companies in BACCVF funds' portfolios as of December 31, 2007, twenty-nine (32 percent) of the companies are located in a low to moderate income area. Twenty-one (23 percent) are located in census tracts where 20 percent or more of the population lives in households with income below the federal poverty level. Twenty-three (25 percent) of the companies are located in census tracts where the median income is at or below 80 percent of median income for the surrounding area. BACCVF funds' portfolio company employee residential ZIP Codes were not available. As such, no direct analysis on the number of employees living in economically disadvantaged areas could be conducted.

Portfolio Companies That Provide Employment Opportunities to 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; 10 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, 2007, 25 (28 percent) are majority owned or managed by minorities.³ Thirty-five (39 percent) of the companies are located in census tracts where more than half the population is an ethnic minority. Forty-five (50 percent) had some minority ownership. Thirty-eight (42 percent) of the companies 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 2007. At 23 of these companies (25 percent), the CEO is a minority, including seven companies where the CEO is African American, seven companies where the CEO is Hispanic, and six companies where the CEO is Asian. Five companies had female CEOs. These companies employed a total of 28,326 employees; 9,202 (32 percent) of these employees were ethnic minorities and 14,760 (52 percent) were women.

¹ Includes companies held by CAF portfolio funds that were subsequently exited; one company held by 2 funds.

² Inner Cities are defined as core urban areas that currently have higher unemployment and poverty rates and lower media income levels than surrounding Metropolitan Statistical Areas (MSA). Inner Cities have a 20 percent poverty rate or higher, or meet two of the following three criteria: poverty rate 1.5x or more than that of 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.

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



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