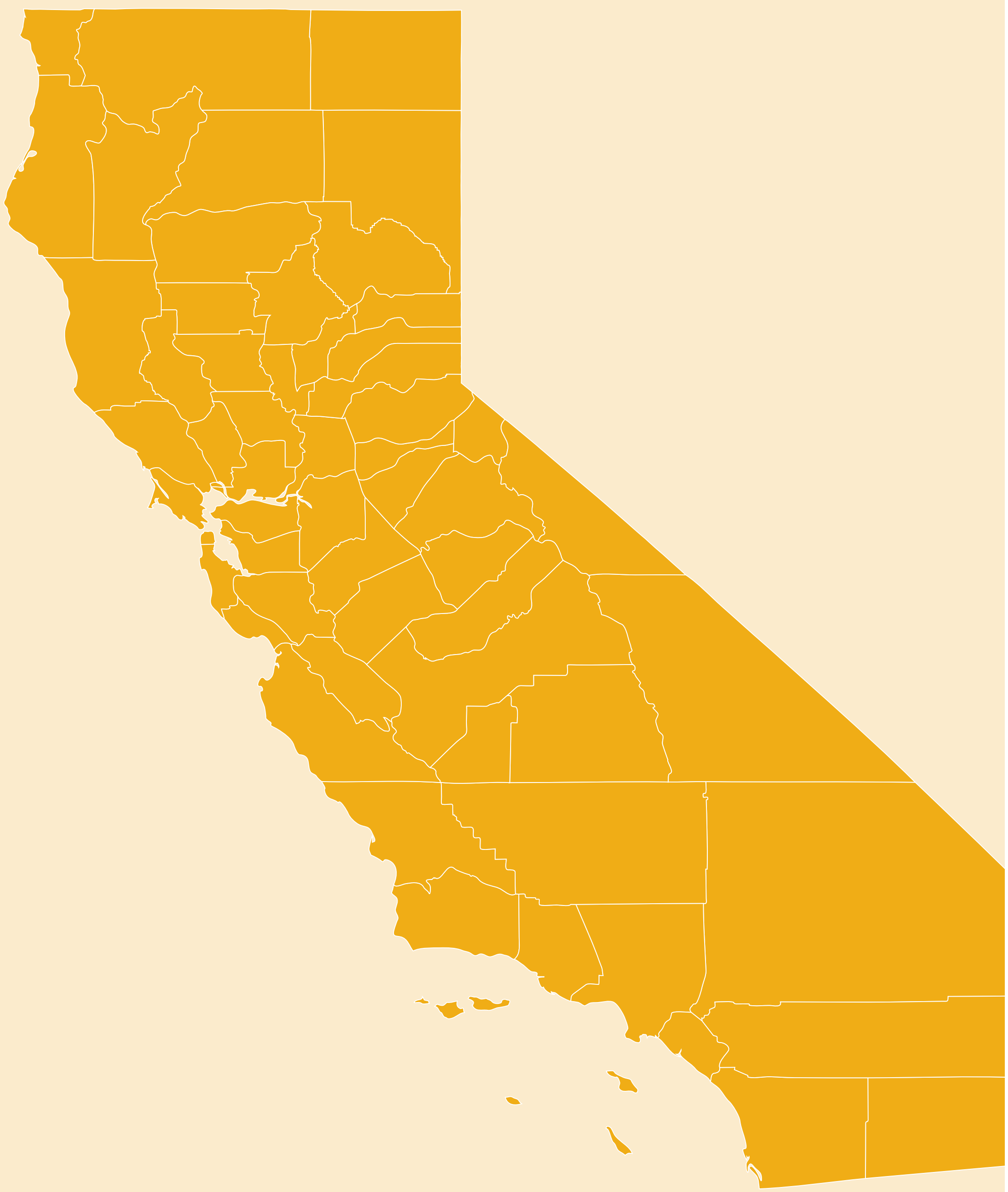
CalPERS California Initiative 2017

Creating Opportunities in California's Underserved Markets



CalPERS

The CalPERS California Initiative

The California Initiative committed over $1 billion to companies located in traditionally underserved markets, primarily, but not exclusively, located in California. The initiative 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 was to generate attractive financial returns, meeting or exceeding private equity benchmarks. As an ancillary benefit, the California Initiative was designed to create jobs and economic opportunity in California's underserved markets. The California Initiative invested in portfolio companies that:

- Create jobs and provide economic opportunity
- 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 and Highlights

In 2001, CalPERS established the California Initiative to invest private equity in "traditionally underserved markets, primarily, but not exclusively in California."[1] The objective of the California Initiative was 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 measured the impact of the California Initiative by examining portfolio companies that:

- Create jobs and promote economic opportunity
- 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

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 was known as Phase I. In 2006, CalPERS committed $560 million for a Phase II to be managed by Hamilton Lane, in an investment vehicle known as the Golden State Investment Fund (GSIF). GSIF invested in both partnerships and direct co-investments primarily in California. GSIF had invested in 16 private equity funds and made 17 direct co-investments. Across Phase I and Phase II the California Initiative invested approximately $1 billion in 569 private companies across the state.

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	207
Golden State Investment Fund	2006	Hamilton Lane	16 funds and 17 direct co-investments	$560,000,000	240
Totals				**$1,035,000,000**	**569**

This report represents the thirteenth consecutive and final examination of the California Initiative's ancillary benefits and has been prepared by Pacific Community Ventures (PCV), a provider of impact investing research and consulting services.[3] With few active investments in portfolio companies and little remaining data that could be collected in the future on the California Initiative's ancillary benefits, this final report focuses on since inception results, and concludes CalPERS' reporting. See the appendix for a summary of data on the few remaining active California Initiative companies.

The following diagram highlights the California Initiative's since inception results in generating the Initiative's intended ancillary benefits across the state.

Create jobs and promote economic opportunity

- The California Initiative has created and sustained jobs within California and the nation through continued economic uncertainty and has supported 176,404 workers at all companies since inception.
- California Initiative companies have provided high-quality jobs to employees, with benefit levels for health and retirement outpacing statewide and national levels.

Invest in areas that traditionally have had limited access to institutional equity capital

- The California Initiative has invested in areas of the state that have historically not received institutional equity capital, with an average of 16 percent of Phase I and 46 percent of GSIF dollars deployed in California allocated to companies located in these underserved markets.

Employ workers living in economically disadvantaged areas

- Economically disadvantaged communities have benefited from the California Initiative and its portfolio companies. California Initiative companies employed a significant number of economically disadvantaged persons, with an average of 49 percent of GSIF portfolio company employees classified as low- to moderate-income.

Provide employment opportunities to women and minority managers

- The California Initiative has invested in portfolio companies that provide employment opportunities to women and minorities. Women and minorities are represented in California Initiative company leadership and management positions at levels that exceed national benchmarks.

Data Reporting

This report utilizes data from only 333 of the 362 companies that have received funding through Phase I (122) and GSIF (240). The companies not included in this report are the 207 that received funding through a $100 million separate fund-of-funds account in Phase I, known as the California Community Venture Fund (CCVF), and 29 Phase I and GSIF companies that never reported. A summary of the community benefits derived from CCVF, prepared separately by HarbourVest Horizon, is presented at the end of this report, on page 20.

Over ninety percent of the 362 companies that received funding through Phase I and GSIF have contributed data to this report:

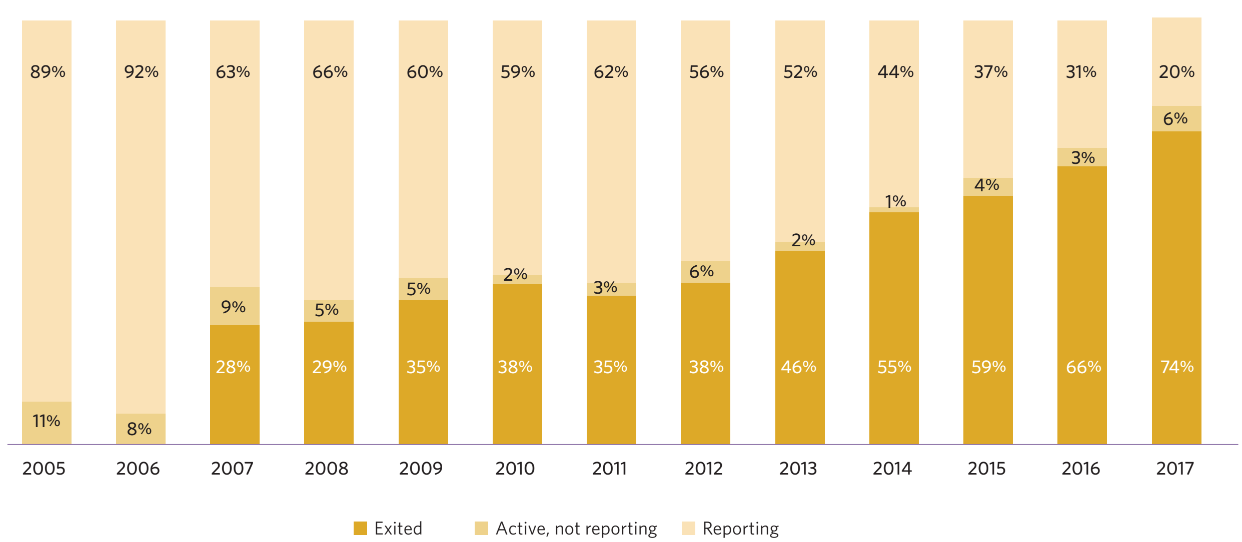
California Initiative Portfolio Investments[4]

	Phase I	GSIF	Total California Initiative
Number of companies	122	240	362
All companies ever reporting, including fully realized investments	104 (85%)	229 (95%)	333 (92%)

Since inception there have been 242 companies that have had exits and are fully realized investments.[5] As of June 30, 2017, 96 companies (5 in Phase I and 91 in GSIF) representing approximately one-quarter of California Initiative companies remained active investments. The following chart depicts the number of active California Initiative companies that have reported data over time.

In reporting on overall California Initiative results, a weighted average is used to analyze certain ancillary benefits that are reported on a percentage basis, such as employee benefit levels, examination of low- to moderate-income employees, etc.[7] Some of the weighted average analyses utilize reporting periods that begin after 2005 when data was first collected for the California Initiative. These lagging time periods generally reflect the year that the analysis was first introduced and the evolving methods that have been used to assess the California Initiative's ancillary benefits over the last 13 years.

Status of California Initiative Companies Reporting [6]



California Initiative Companies

Employment and Employment Growth

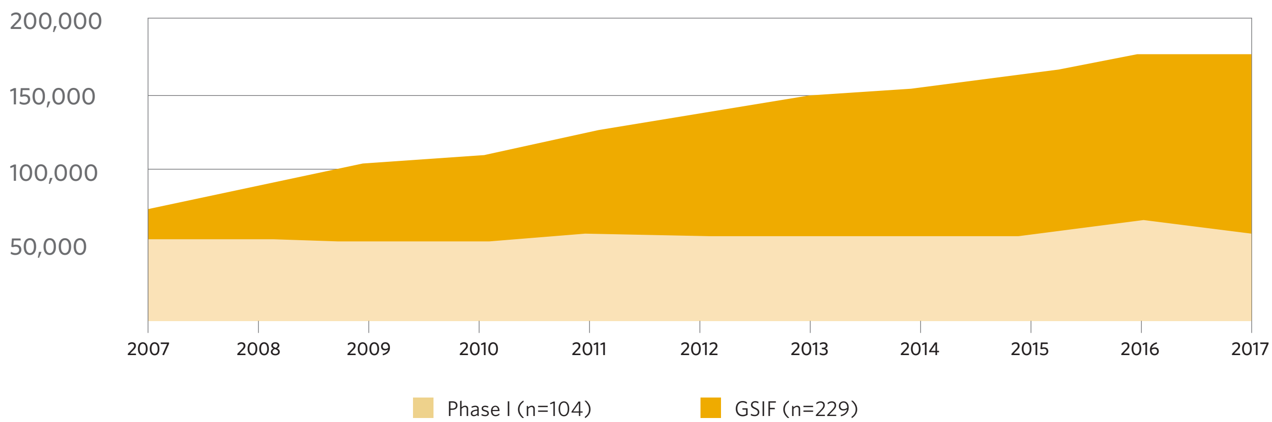
As an ancillary benefit, the California Initiative was designed to create jobs and economic opportunity in California's underserved markets. The following sections detail employment growth since the time of investment for companies in Phase I and GSIF of the California Initiative, benchmarked against the U.S. and California private sectors.

Since inception, 104 Phase I and 229 GSIF portfolio companies have contributed data to at least one assessment effort. Employment at the 333 California Initiative companies has grown steadily, with total employment of 176,404.

Within the California Initiative, the 104 Phase I portfolio companies that have contributed data since inception account for 9 percent of the total net new jobs created and 16 percent of the net new jobs created in California, whereas the 229 GSIF portfolio companies account for 91 percent of the total net new jobs created and 84 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 have predominately been driven by the GSIF.

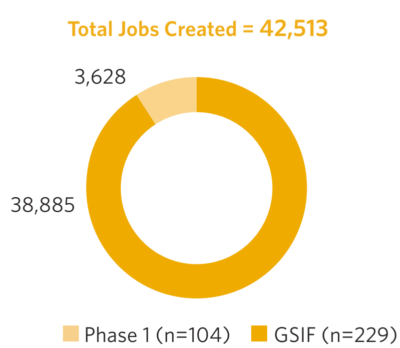
California Initiative Jobs

All Companies Ever Reporting



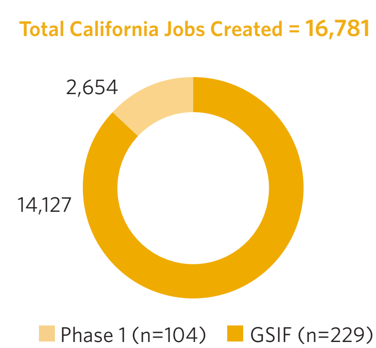
Total Jobs Created Since Investment

All Companies Including Fully Realized Investments



Total California Jobs Created Since Investment

All Companies Including Fully Realized Investments



Since the time of CalPERS investment, overall employment has increased 7 percent among the 104 Phase I companies, while California employment has increased 48 percent. The 229 GSIF portfolio companies have experienced 48 percent employment growth overall since investment and 68 percent employment growth in California.[8]

Phase I and GSIF rates of employment growth in the United States and California surpasses rates of job growth in the United States and California from 2007 to 2017, where private sector employment increased seven and nine percent, respectively.[9]

California Initiative Portfolio Companies, Employees[10]

	All Employees			CA Employees		
	At Investment	At June 30, 2017	Net Job Growth Since Investment (new jobs/ % growth)	At Investment	At June 30, 2017	Net Job Growth Since Investment (new jobs/ % growth)
Phase I — All companies reporting, including fully realized investments (n=104) [11]	53,645	57,273	3,628 / 7%	5,510	8,164	2,654 / 48%
GSIF — All companies reporting, including fully realized investments (n=229)[12]	80,246	119,131	38,885 / 48%	20,752	34,879	14,127 / 68%
Total CA Initiative — All companies ever reporting, including fully realized investments (n=333)[13]	133,891	176,404	42,513 / 32%	26,262	43,043	16,781 / 64%

As a point of reference: Between June 2007 and June 2017, U.S. employment increased seven percent and CA employment increased nine percent.[14]

Job Quality

In examining the California Initiative's progress towards promoting economic opportunity in California's underserved markets it is important to understand the extent to which quality employment opportunities have been supported by California Initiative investments. At both Phase I and GSIF portfolio companies, the "quality" of jobs, defined as the provision of medical coverage, retirement plans, and paid sick and vacation leave, has compared favorably with job quality at companies in California and the United States over the past ten years.

Job Quality at Phase I Portfolio Companies

Since reporting began in 2005, Phase I portfolio companies have created high-quality jobs, offering their employees health insurance, retirement plans, paid sick leave, paid vacation, and company stock. On average, a higher percentage of Phase I companies offered employees benefits than comparable companies in the United States and California. An average of 98 percent of Phase I companies provided health insurance to at least some of their employees compared with 61 percent of U.S. companies and 63 percent of California companies.[15] Between 2005 and 2017, an average of 84 percent of Phase I companies offered health insurance to between 76 percent and 100 percent of their employees, as compared to 71 percent of U.S. and 78 percent of California employees that are eligible for employer-based health insurance.[16 17]

Since inception, Phase I portfolio companies provided health and retirement benefits at levels that outpace national and state averages.[19]

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: Annual Average 2005–2017[18]

	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
Health Insurance	2%	4%	4%	6%	84%	98%
Retirement Plan	14%	8%	3%	8%	67%	86%
Paid Sick Leave	8%	8%	3%	5%	76%	92%
Paid Vacation	2%	5%	3%	4%	86%	98%
Company Stock	26%	12%	4%	5%	53%	74%

Job Quality at GSIF Portfolio Companies

GSIF portfolio companies report the number of employees eligible for each benefit, which allows for a more precise measurement of benefits. This gives 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. While eligibility rates tend to be higher among salaried employees, GSIF portfolio companies have consistently offered the majority of employees health insurance, retirement plans, and vacation benefits.

Since inception, benefits at GSIF portfolio companies compared favorably to the averages for companies in both the United States and California. [22]

GSIF Portfolio Companies, Employee Benefits: Annual Average 2005–2017

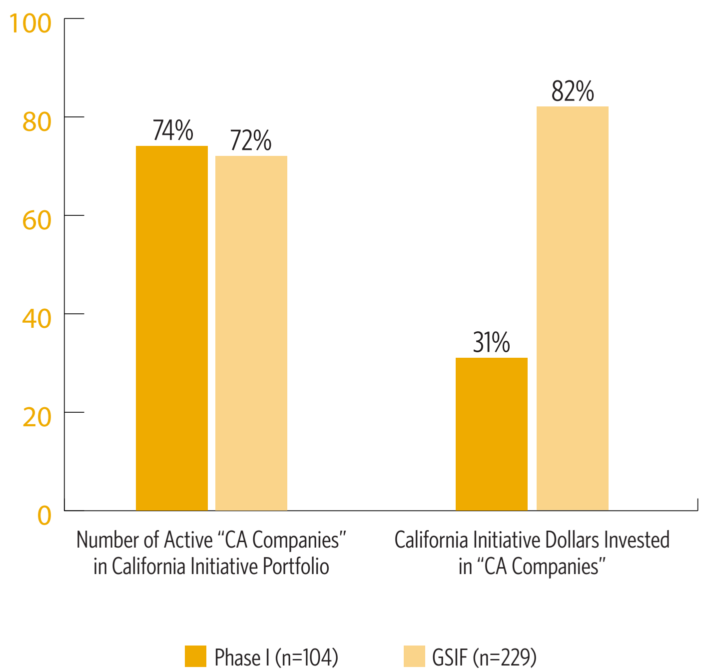
		GSIF Salaried	GSIF Non-salaried	U.S. — All Employees (Salaried and Non-salaried)[20]	CA — All Employees (Salaried and Non-salaried)[21]
Health Insurance	Establishments offering	93%	79%	61%	63%
	Employees eligible for	83%	82%	71%	78%
	Employees enrolled in	67%	43%	54%	65%
Retirement benefits	Establishments offering	77%	67%	47%	n/a
	Employees eligible for	78%	57%	64%	n/a
	Employees enrolled in	51%	20%	45%	n/a
Other benefits	Employees eligible for disability benefits	79%	48%	43%	n/a
	Employees eligible for paid vacation time	82%	74%	75%	n/a
	Employees eligible for paid sick leave	63%	40%	65%	n/a

California Focus

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

Since 2009, GSIF portfolios have reported $104 billion in revenue overall. Nearly $20 billion of this revenue was generated in California.[23]

California Initiative "California Companies" Annual Average 2009–2017 [26]



GSIF portfolio companies have also strengthened the California economy by investing in expansion initiatives throughout the state. Between 2009 and 2017, an average of 26 percent of GSIF portfolio companies reported plans for expansion in California in the coming year.[24] Of these companies, an average of 42 percent reported plans to open a new location, 34 percent reported plans to increase employment, and 42 percent report operating plans that are expected to result in increased plans in California.

A "California Company" is a company that meets at least one of the following three criteria:[25]

- Company headquarters in California
- More employees reside in California than in any other state
- More facility locations in California than in any other state

Based on this definition, an average of 74 percent of Phase I and 72 percent of GSIF portfolio companies were considered "California Companies" each year between 2009 and 2017, representing 31 percent of Phase I dollars and 82 percent of GSIF dollars invested.

On average, on an annual basis, the California Initiative had invested approximately $252 million in companies defined as "California Companies." California Initiative dollars are part of a larger total investment in most companies. On average, an additional $987 million ($60 million in Phase I and $927 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.

Locations

California Companies strengthen the economies of the communities in which they operate, including both headquarters and operating facilities. The 333 California Initiative companies that contributed data to this report have operated in an average of 2,500 locations each year, with an average of 20 percent of company locations based in California.

Suppliers

California Initiative companies support broader economic activity across the state through their supplier relationships. Over the past eleven years, California companies maintained supplier relationships with an average of 73,000 vendors each year. An average of 17,500 of these were California vendors (24 percent of all Phase I and GSIF suppliers), providing an additional boost to the economy beyond the benefits provided by California Initiative portfolio companies directly.[27]

Patents

The number of patents granted is an indicator of innovation, which often precedes job growth at a company. GSIF portfolio companies reported the number of patents granted to them annually. CalPERS' GSIF portfolio companies have been granted 422 new patents since 2008.[28]

California Initiative Investments in Underserved Markets

Investing in Areas That Have Historically Had Limited Access to Equity Capital

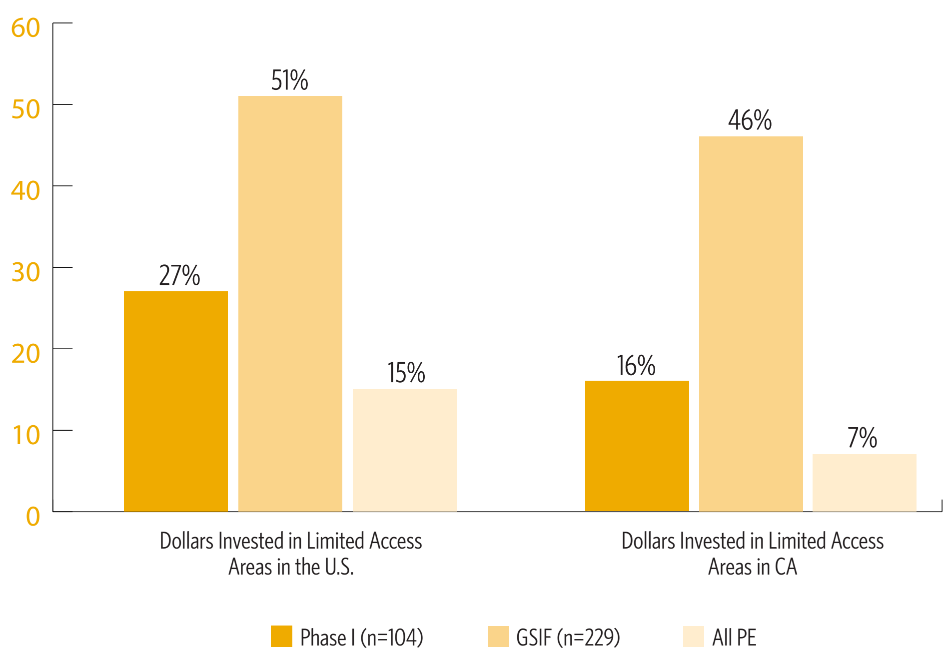
As an ancillary benefit, the California Initiative was designed to increase investment in areas that have historically had limited access to institutional equity capital. This section details the California Initiative's investments in these historically underserved markets, benchmarked against private equity industry transaction data.

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.[29] Most of these 1,000 postal codes (634 or 2 percent of all U.S. ZIP codes) are in the United States. More than 85 percent of all private equity in the United States and nearly 95 percent of all private equity in California has been invested in these 634 ZIP codes. For the purposes of this analysis, any company located 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.[30]

Since 2009, an average of just 15 percent of all U.S. private equity dollars were invested in areas that have historically had limited access to institutional equity capital each year.[31] The average percentage of California Initiative dollars invested in underserved markets has consistently exceeded the national benchmark.

Similarly, an average of just seven percent of all California private equity dollars were invested in areas that have historically had limited access to institutional equity capital each year since 2009.[32] On average, the California Initiative's private equity investments in California have significantly exceeded the state benchmark.

Percentage of CA Private Equity Dollars Invested in Areas That Have Historically Had Limited Access to Institutional Equity Capital: Annual Average 2009–2017



Employing Workers Living in Economically Disadvantaged Areas

As an ancillary benefit, the California Initiative sought to increase high-quality employment opportunities in economically disadvantaged communities. This section examines the California Initiative's job creation in low- to moderate-income communities (LMI).

California Initiative portfolio companies benefit LMI workers in a number of ways. First, these companies provide high-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 have supported employment for residents of LMI areas, PCV examined locations where companies operate as well as where company employees live.[33]

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, an average of 30 percent of California company headquarters and 51 percent of California operating facilities were located in predominantly LMI areas each year. GSIF portfolio companies had an average of 31 percent of California headquarters and 41 percent of total California facilities located in predominantly LMI areas each year.[34]

Since inception, an average of 46 percent of Phase I and 44 percent of GSIF portfolio company employees in California lived in predominantly low- to moderate-income areas.[35]

Employees Living, and Companies Located, in Low- and Moderate-Income Geographies: Annual Average 2007–2017

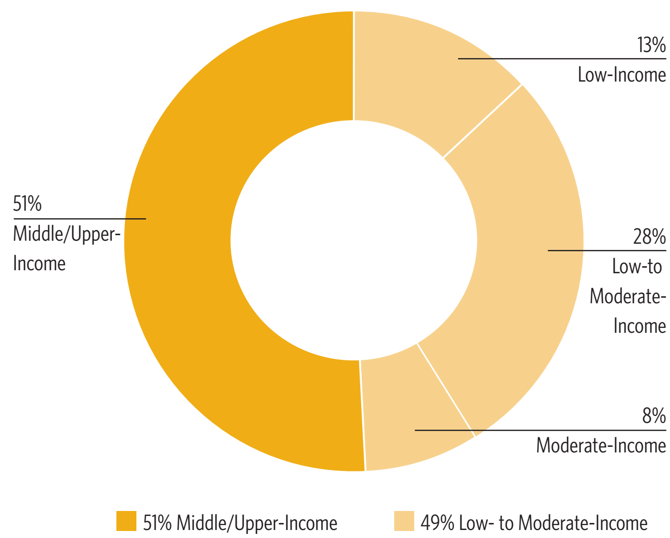
		Located in a ZIP Code that is Predominantly Comprised of LMI Census Tracts
Phase I	Headquarters	31%
	California Headquarters	30%
	California Facilities	51%
	California Employees	46%
GSIF	Headquarters	30%
	California Headquarters	31%
	Facilities	34%
	California Facilities	41%
	Employees	36%
	California Employees	44%

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.[36] 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.

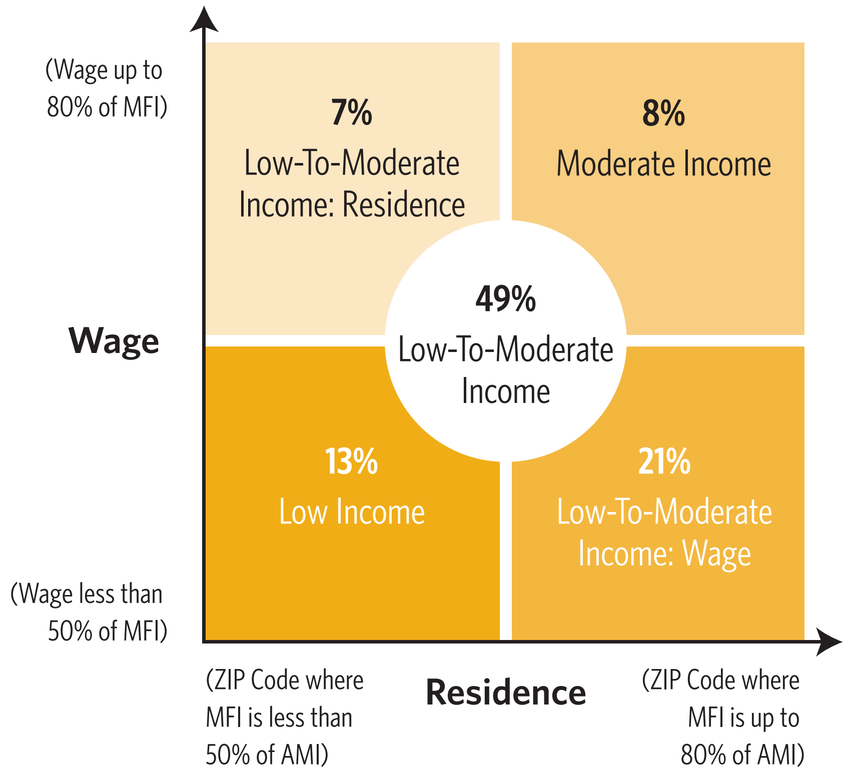
Middle/Upper Income Workers: GSIF portfolio company employees who earn a middle-income or upper-income wage are considered middle/upper income employees. Similarly, employees who earn less than a middle-income wage, but live in middle-income or upper-income communities are also considered middle/upper-income workers.[37] 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, an average of 51 percent of all GSIF portfolio company employees were classified middle/upper income each reporting year.

Low- to Moderate-Income Workers: An average of 49 percent of GSIF portfolio company employees were low- to moderate-income workers for whom the California Initiative provided economic opportunities. These employees earn an LMI wage and live in an LMI area.[38] 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: Annual Average 2007–2017[39]



Economic Status of Low- to Moderate-Income GSIF Portfolio Company Employees Annual Average 2007–2017[40]



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 and 80 percent of the MFA 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

Supporting Women and Minority Entrepreneurs and Managers

As an ancillary benefit, the California Initiative was intended to provide employment opportunities to women and minority managers. Furthermore, 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. This section examines the extent to which portfolio companies provide employment opportunities to women and minority entrepreneurs and managers.

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 among the leadership and management of California Initiative portfolio companies.

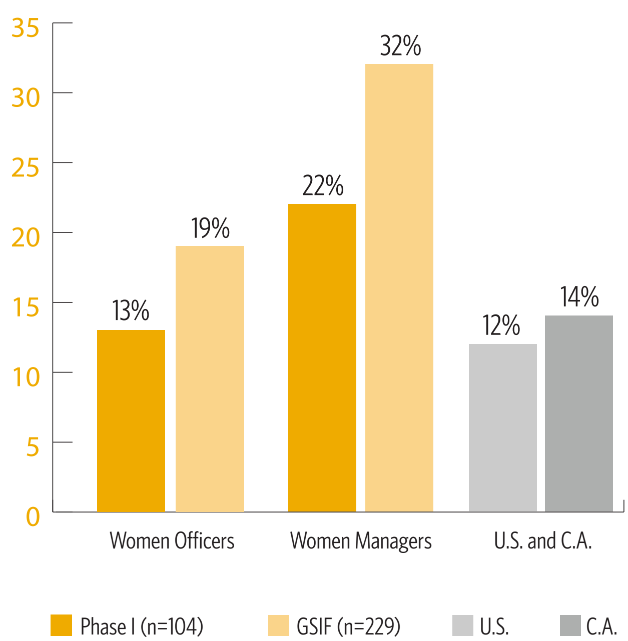
When private equity dollars are invested in a company, ownership often shifts from individuals to a fund, or group of funds. Prior to investment, company owners are commonly C-level officers. Accordingly, to better understand the proportion of women and minority entrepreneurs at portfolio companies,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

Since 2007, California Initiative portfolio companies employed an average of 600 officers (four officers per reporting company) and 1,900 key managers each year.

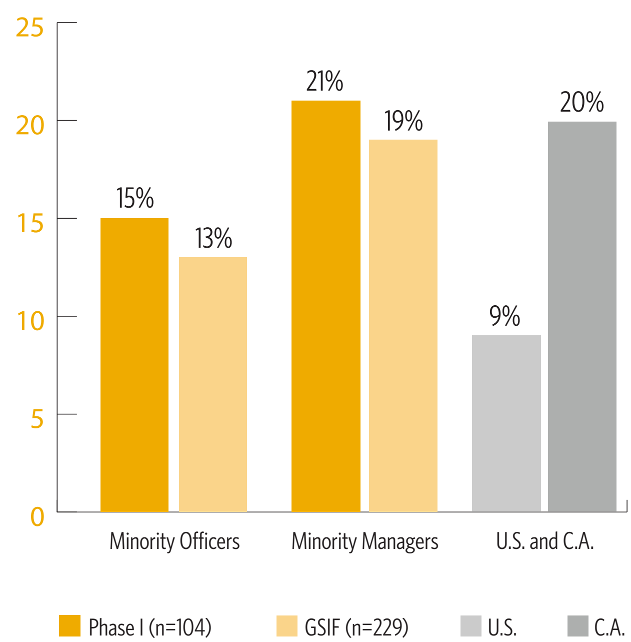
On average, 13 percent of Phase I Officers, 19 percent of GSIF officers, 22 percent of Phase I Key Managers, and 32 percent of GSIF Key Managers identified as women, suggesting that women have had substantial input into the management and growth of these companies. Female leadership at California Initiative companies significantly outpaces national and state benchmarks for businesses with paid employees and $1 million in revenue in California and the United States. 41

Similarly, California Initiative Companies have demonstrated significant minority leadership. On average 15 percent of Phase I Officers, 13 percent of GSIF officers, 21 percent of Phase I Key Managers, and 19 percent of GSIF Key Managers identified as minorities.

Women Entrepreneurs:
Annual Average 2007–2017[41]



Minority Entrepreneurs:
Annual Average 2007–2017[42]



CalPERS California Initiative — Final Results

In 2001 the California Initiative was launched with the goal of generating appropriate risk-adjusted financial returns through deploying $1 billion in private equity capital to attractive investment opportunities outside of geographies that typically had received the majority of institutional equity capital. By seeking to invest in California's untapped markets the California Initiative would generate attractive financial returns for CalPERS members alongside ancillary benefits that would strengthen members' and California residents' local economies.

For the last thirteen years the *CalPERS California Initiative Report* has annually examined the ancillary benefits generated by the Initiative, reporting on investments in companies that:

- Create jobs and promote economic opportunity
- 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

The California Initiative has supported employment for 176,404 workers and has helped create 42,513 new jobs since inception. The jobs at California Initiative portfolio companies have been high-quality jobs, with health and retirement benefits at levels that outpaced statewide and national averages. The jobs at California Initiative portfolio companies have fostered economic stability and wealth-building opportunities - enabling workers to provide for themselves and their families, while contributing to California's economy.

In addition to supporting job creation within the state, the California Initiative has deployed capital to California's underserved communities. Over thirty-percent of California Initiative companies that received investment have been headquartered in low- to moderate-income communities. Furthermore, 27 percent and 51 percent of Phase I and GSIF capital, respectively, has been invested in communities with limited access to institutional equity capital.

The California Initiative has also supported employment opportunities for underserved populations. California Initiative portfolio companies have employed nearly half (49 percent) of their workforce from low- to moderate-income communities and have consistently included women and minorities in company leadership positions at higher levels than the U.S. private sector more broadly.

Overall, the California Initiative has generated significant ancillary benefits over its investment period, particularly with its Phase II capital commitment to GSIF. While the California Initiative's investment activity is nearing an end, CalPERS will continue to pursue California-based investment opportunities grounded in the historic strength of the state economy, seeking attractive risk-adjusted financial returns that deliver retirement security for CalPERS members while benefiting local communities and California more broadly.

Appendix:

California Initiative Summary

	Phase I	GSIF	Total California Initiative	CA	U.S.
All companies ever reporting	104	229	333	n/a	n/a
Employment Opportunities: Aggregate Growth 2005–2017					
Percentage Employee Growth Since Investment	7%	48%	32%	n/a	7%[44]
Percentage California Employee Growth Since Investment	48%	68%	64%	9%[45]	n/a
Economically Disadvantaged Areas: Annual Average 2007–2017					
Percentage of California Headquarters in Predominately LMI Areas	30%	31%	n/a	n/a	n/a
Percentage of California Facilities in Predominately LMI Areas	51%	41%	n/a	n/a	n/a
Percentage of California Employees Living in Predominately LMI Areas	46%	44%	n/a	n/a	n/a
Underserved Markets: Annual Average 2009–2017					
Percentage of Dollars Invested in Companies Located in Areas Underserved by Institutional Equity Capital	27%	51%	n/a	7%	15%
Opportunities for Women and Minority Entrepreneurs and Managers: Annual Average 2007–2017					
Percentage of Dollars Invested in Companies with at least One Woman Officer	48%	37%	n/a	n/a	n/a
Percentage of Dollars Invested in Companies with at least One Minority Officer	51%	41%	n/a	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. In 2015, HarbourVest Horizon acquired CCVF from Banc of America Capital Access Funds. HarbourVest Horizon no longer tracks data on the ancillary benefits of CCVF. As a result, the following results reflect data as of December 31, 2015, the most recent data available.

CCVF Quick Facts[1]

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 invested in venture capital and private equity funds that invested in companies that were:

- Located in or employ residents of low- to moderate-income geographies
- Owned or managed by ethnic minorities[3]
- Owned or managed by women[3]
- 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 Table[4]

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

Of the 15 funds that received investment from CCVF, eleven focused on low- to moderate-income areas or individuals. One of the funds helped capitalize financial institutions that provided banking services to low-income and/or ethnic minority consumers and nine of the 15 funds focused on ethnic minority opportunities. Many of the funds also focused 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 had not traditionally been invested.[5] Three percent of companies were located in rural areas of the United States as defined by the U.S. Department of Agriculture.

Supporting women and minority entrepreneurs and managers

Of the companies in CCVF funds' portfolios, 29 percent of the companies were located in low- to moderate-income areas. Twenty-one percent were located in census tracts where 20 percent or more of the population lived in households with income below the federal poverty level, and 37 percent of the companies were located in census tracts where the median income was at or below 80 percent of median income for the surrounding area.

Employing workers living in economically disadvantaged areas

Nine of the 15 funds that received investment through CCVF focused on ethnic minority opportunities. Eleven of the funds had at least one ethnic minority partner; ten of the funds had two or more ethnic minority partners. Six of the funds had 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 was 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 was available for the companies that CCVF funds had invested in. In 29 percent of these companies, the CEO was diverse, including 33 percent where the CEO was African American, 14 percent where the CEO was Hispanic, and 37 percent where the CEO was 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 1/2 or less that of the MSA; unemployment rate of 1.5x times or more than that of the MSA.

2017 Annual Results

Since inception there have been 242 companies that have had exits and are fully realized investments.[46] As of June 30, 2017, 96 companies (5 in Phase I and 91 in GSIF), representing approximately one-quarter of California Initiative companies remained active investments. Of the 96 active companies, 74 companies (77 percent) provided data at June 30, 2017, including 5 Phase I portfolio companies (100 percent) and 69 GSIF portfolio companies (76 percent).[47]

Given the absence of new California Initiative investments and the small number of active reporting companies remaining, the primary focus of this report was the Initiative's results since inception. However, a summary of the California Initiative's 2017 results among active reporting companies can be found below.

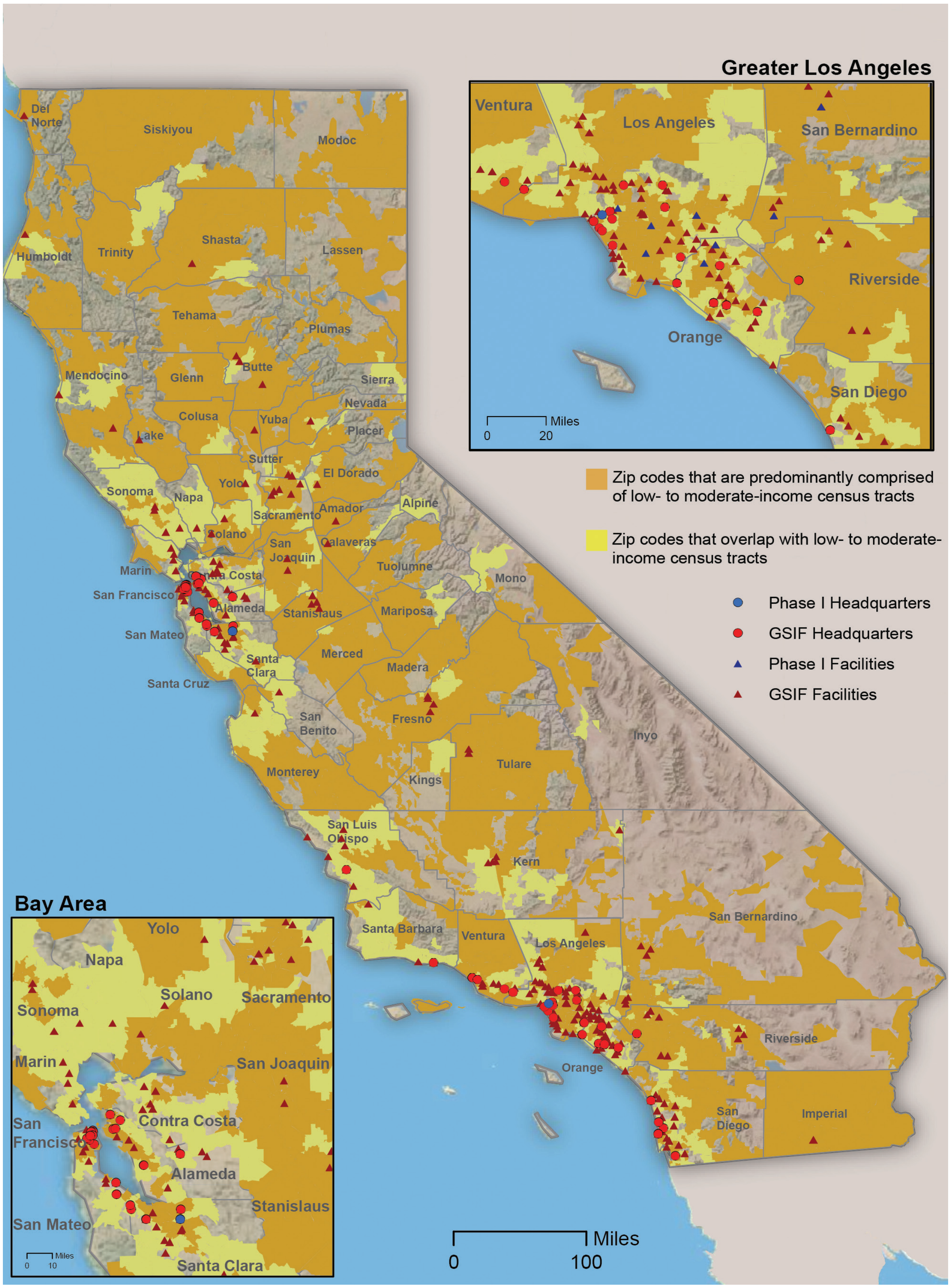
Summary Data

	Phase I	GSIF	Total California Initiative	CA	U.S.
Active Reporting Companies in 2017	5	69	74	n/a	n/a
Employment Opportunities					
Percentage Employee Growth Since Investment	55%	15%	22%	n/a	7%[48]
Percentage California Employee Growth Since Investment	44%	44%	44%	9%[49]	n/a
Economically Disadvantaged Areas					
Percentage of California Headquarters in Predominately LMI Areas	50%	40%	40%	n/a	n/a
Percentage of California Facilities in Predominately LMI Areas	69%	60%	61%	n/a	n/a
Percentage of California Employees Living in Predominately LMI Areas	86%	93%	92%	n/a	n/a
Underserved Markets					
Percentage of Dollars Invested in Companies Located in Areas Underserved by Institutional Equity Capital	0%	69%	64%	6%	13%
Opportunities for Women and Minority Entrepreneurs and Managers					
Percentage of Dollars Invested in Companies with at least One Woman Officer	85%	84%	84%	n/a	n/a
Percentage of Dollars Invested in Companies with at least One Minority Officer	85%	69%	70%	n/a	n/a

2017 Highlights

- The California Initiative had 30 percent of dollars invested in active reporting "California Companies," defined as those headquartered in California, or with a plurality of employees or facilities in the state.
- Among active and exited companies the California Initiative supported 176,404 workers at all companies since inception.
- Active reporting companies continued to provide high-quality jobs to employees, with benefit levels for health and retirement outpacing statewide and national levels.
- 64 percent of California Initiative dollars were invested in active reporting companies located in California underserved markets.
- Active reporting California Initiative companies employed a significant number of economically disadvantaged persons, with 48 percent of GSIF portfolio company employees classified as low- to moderate-income.
- Active reporting California Initiative portfolio companies include women and minorities in company leadership positions at levels that exceeded the national average.

California Initiative Portfolio Company Locations



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] With few remaining active California Initiative portfolio companies the Initiative's ancillary benefits have been realized and as such continued reporting is no longer necessary. Historical annual reports on the California Initiative's ancillary benefits are available at https://www.calpers.ca.gov/page/forms-publications&f=49

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

[5] The 242 fully realized investments consist of 117 companies that received investment through Phase I partners and 125 that received investment from GSIF partners.

[6] Note: The total number of portfolio companies enagaged in the California Initiative (as either active or exited investments) increased over time as CalPERS made new investments. The total number of California Initiative Portfolio companies represented in each reporting year in the chart above will be represented by n. In 2005 n=76, in 2006 n=89, in 2007 n=120, in 2008 n=160, in 2009 n= 196, in 2010 n=237, in 2011 n=268, in 2012 n=313, in 2013 n=338, in 2014 n=354, in 2015 n=361, in 2016 n=362, and in 2017 n=362.

[7] Where an average is used in calculating since inception ancillary benefits, the term average refers to a weighted average across all reporting years that data was available. The weighting across reporting years is based on the number of active reporting companies in the portfolio each year and is applied to all California Initiative data points. National and state benchmarks use a straight average across all reporting years.

[8] The first GSIF investments were made in 2007.

[9] Bureau of Labor Statistics. www.bls.gov/ces/.

[10] This table depicts total employment and California employment for all companies receiving investment through the California Initiative, including companies not headquartered in California.

[11] 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.

[12] Ibid.

[13] Ibid.

[14] Bureau of Labor Statistics. www.bls.gov/ces/. Total private sector employees, seasonally adjusted.

[15] Bureau of Labor Statistics. 2017 National Compensation Survey: Employee Benefits in the US, March 2017; Private Industry (excludes agriculture establishments, private households, and the self-employed). http://www.bls.gov/ncs/ebs/benefits/20176/

[16] Ibid.

[17] California Health Care Foundation California Employer Health Benefits Survey Data Files, 2016. http://www.chcf.org/publications/2017/03/employer-health-benefits

[18] Data from 2007 was excluded from this analyses as employee benefits were not reported in a parallel format in the 2007 report.

[19] Bureau of Labor Statistics. 2017 National Compensation Survey: Employee Benefits in the US, March 2017; Private Industry (excludes agriculture establishments, private households, and the self-employed). http://www.bls.gov/ncs/ebs/benefits/20176/

California Health Care Foundation California Employer Health Benefits Survey Data Files, 2016. http://www.chcf.org/publications/2017/03/employer-health-benefits

Note: Comparable national and state benchmarks for paid sick leave, paid vacation, and company stock were unavailable.

[20] Bureau of Labor Statistics. 2017 National Compensation Survey: Employee Benefits in the US, March 2017; Private Industry (excludes agriculture establishments, private households, and the self-employed). http://www.bls.gov/ncs/ebs/benefits/20176/

[21] California Health Care Foundation California Employer Health Benefits Survey Data Files, 2016. http://www.chcf.org/publications/2017/03/employer-health-benefits

[22] Bureau of Labor Statistics. 2017 National Compensation Survey: Employee Benefits in the US, March 2017; Private Industry (excludes agriculture establishments, private households, and the self-employed). http://www.bls.gov/ncs/ebs/benefits/20176/

California Health Care Foundation California Employer Health Benefits Survey Data Files, 2016. http://www.chcf.org/publications/2017/03/employer-health-benefits

[23] The California Initiative report did not include an examination of portfolio companies' revenues, or where those revenues are generated, prior to 2009.

[24] Data on GSIF companies' expansion initiatives was not collected prior to 2009.

[25] 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

[26] Analyses based on the "California Company" classification were not included in the California Initiative prior to 2009. All available data is included in this chart.

[27] For each year of reporting, an "active supplier relationship" was defined as one where the company made a purchase in the past year. Supplier data was not included in California Initiative reports prior to 2006.

[28] Information on patents granted to portfolio companies was not included in the California Initiative report prior to 2007.

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

[30] Ibid.

[31] The California Initiative report did not include an examination of U.S. investments in areas that have historically had limited access to institutional equity capital prior to 2009.

[32] The California Initiative report did not include an examination of California investments in areas that have historically had limited access to institutional equity capital prior to 2009.

[33] 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:

- <u>ZIP codes that overlap with LMI census tracts.</u> 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).
- <u>ZIP codes that are predominantly (50 percent or more) comprised of LMI census tracts.</u> 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.

[34] Phase I companies report a total of 16 facilities and headquarters but only California ZIP codes are reported by Phase I companies, of which there are 14. All data referring to the LMI status of Phase I facilities examines only these 14 locations.

35. Phase I portfolio companies only report the ZIP codes California employees, and thus the analysis of LMI workers is limited to California employees.

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

37. 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.

38. 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.

39. The figures shown in this chart represent the average for all GSIF portfolio companies, including those headquartered in and outside of California.

40. The figures shown in this chart represent the average for all GSIF portfolio companies, including those headquartered in and outside of California.

41. Most portfolio companies receiving investment from the California Initiative met these criteria.

42. 2007 Survey of Business Owners, http://www.census.gov/econ/sbo/index.html.

The U.S. and California data represented in this chart depicts women and minority business owners for businesses with $1 million revenue and paid employees that are at least 51 percent owned by the specified gender or race. While this benchmark is an imperfect proxy for women and minority officers and managers, it was selected because the $1 million revenue threshold and requirement for paid employees ensures that the companies represented are a relevant comparison for the California Initiative portfolio companies.

The shares of businesses owned by men and women does not add up to 100% since it does not include businesses 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 estimate of total minority owned businesses. The most recent survey data from 2012 was used for this analysis.

43. Ibid.

44. Bureau of Labor Statistics. www.bls.gov/ces/. Job growth from 2007-2017. Total private employees, seasonally adjusted.

45. Ibid.

46. The 242 fully realized investments consist of 117 companies that received investment through Phase I partners and 125 that received investment from GSIF partners.

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

48. Bureau of Labor Statistics. www.bls.gov/ces/. Job growth from 2007-2017. Total private employees, seasonally adjusted.

49. Ibid.

CalPERS Profile

The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund with assets of approximately $355 billion as of May 2018.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.9 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 1.4 million active and inactive members and more than 660,000 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.**

CalPERS

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

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