



As of June 30, 2007, private equity funds that received capital through the California Initiative had completed investments in 202 companies; 197 (98%) of these companies received investment from the California Initiative's Phase I, while the remaining five (2%) received investment from the Initiative's second allocation, through a vehicle known as the Golden State Investment Fund (GSIF). Of the 197 investments made through the Phase I, 82 (42%) were made through a fund-of-funds that performs its own assessment of ancillary benefits, discussed on page 15 of this report. *Impacting California's Underserved Communities 2007* focuses on the 120 companies that have received investment through all the funds in California Initiative, excluding the fund-of-funds which performs its own assessment of ancillary benefits.¹

Profile—California Initiative Companies (See page 3)

California Initiative companies range in size from three to over 22,000 employees. Over 70% have 100 or fewer employees and nearly 60% have 50 or fewer employees. Approximately 10% of companies receiving investment through the California Initiative have over 1,000 employees. In total, California Initiative portfolio companies employ over 75,000 workers including nearly 12,000 Californians. Since receiving California Initiative investment, portfolio company employment in California, in the aggregate, has grown over 18%.

CalPERS California Initiative—Investing in Underserved Markets (See page 7)

Objective 1: Providing capital to areas that have historically had limited access to institutional equity capital (See page 7)

Between 2001 and 2007, the overwhelming majority of ALL California-based companies receiving private equity investment were concentrated in the geographic area encompassing 153 of the state's over 1,700 zip codes, defining this geography as the area where institutional equity capital has traditionally been committed. While just 25% of all California-based companies receiving private equity between 2001 and 2007 were located outside this area, approximately 50% of California-based California Initiative companies were headquartered outside areas where institutional equity capital has traditionally been committed.

Objective 2: Employing workers living in economically disadvantaged areas (See page 10)

Over 40% of California Initiative portfolio company employees live in zip code areas that are predominantly comprised of low-to-moderate income (LMI) census tracts. Over 80% of California Initiative portfolio company employees live in zip code areas that overlap with LMI census tracts. While these employees may or may not reside in a lower-income census tract, they live proximate to a lower-income area, in a position to contribute economically to the LMI community. As a frame of reference, 35% of all employed Americans and 38% of all employed Californians live in LMI census tracts.

Objective 3: Supporting women and minority entrepreneurs and managers (See page 12)

California Initiative companies report a total of 344 officers. Of these officers, 13% are women, 3% are Hispanic or Latino, 5% are African American and 6% are Asian/Pacific Islander. Of United States businesses that have employees and over \$1 million in annual revenues, approximately 10% are owned by women, 2% are owned by Hispanics, less than 1% are owned by African Americans and 4% are owned by Asian/Pacific Islanders.



Impacting California's Underserved Communities 2007

For over 75 years, the California Public Employees' Retirement System (CalPERS) has provided pension benefits to state, public school and local public agency employees, retirees and their families. Over the years, the community of workers and retirees that CalPERS serves has grown over one-hundred-fold, from 14,000 state employees in 1933 to 1.5 million active workers and retirees in 2008. Assets under management have increased nearly one hundred thousand times, from \$2.6 million in 1933 to approximately \$250 billion.²

CalPERS is administered by a Board of Administration, whose thirteen members also constitute the Investment Committee that oversees the management of CalPERS assets. These assets are invested in five major asset classes: Global Equities, Global Fixed Income, Real Estate, Inflation-Linked Assets and Alternative Investments, which includes private equity and other vehicles. Consistent with its Guiding Principles, all CalPERS assets are managed through "the highest quality, secure and innovative programs" designed to obtain "the highest return on our investment portfolio to survive, prosper and grow in a safe and prudent manner."³ In keeping with these principles, approximately 10% of CalPERS' assets are invested or committed within California. Within the Alternative Investments asset class, the California Initiative is one of CalPERS' innovative programs designed to facilitate investment opportunities that offer attractive, risk-adjusted returns, commensurate with their asset class, in California.

Under the direction of the Investment Committee, the CalPERS Alternative Investment Management (AIM) team launched CalPERS' California Initiative in 2001. The California Initiative seeks to invest private equity in "traditionally underserved markets primarily, but not exclusively, located in California," by discovering and investing in opportunities that may have been bypassed or not reviewed by other sources of investment capital.⁴ The primary objective of the California Initiative is to generate attractive financial returns, meeting or exceeding private equity benchmarks.⁵ As an ancillary benefit, the California Initiative seeks to have a meaningful impact on the economic landscape of California's underserved markets.

¹ Of these 120 companies, 102 (85%) have provided data that is incorporated into this report; 98 (96%) of these 102 companies received investment from the Phase I while the remaining four (4%) received investment from the GSIF. Eighty-four companies (82%) were active in the portfolio as of June 30, 2007; the remaining 18 (18%) had exited the portfolio. Except where otherwise indicated, the most recent data available from each portfolio company is used to compile the aggregate portfolio statistics in this report. Data is not collected from companies once the investment is realized. Not all companies active in the portfolio provided a complete set of data in each year.

² See information on CalPERS history and development at <http://www.calpers.ca.gov/index.jsp?bc=/about/anniversary/home.xml> and Facts at a Glance available at <http://www.calpers.ca.gov/index.jsp?bc=/about/facts/home.xml>

³ CalPERS Guiding Principles available at <http://www.calpers.ca.gov/index.jsp?bc=/about/mission/guiding-principles.xml>

⁴ See California Initiative objectives available at <http://www.calpers.ca.gov/eip-docs/investments/bus-opportunities/ca-initiative-info-packet.pdf>.

⁵ The AIM team has generally used the Venture Economics benchmark for private equity as its standard. See <http://www.calpers.ca.gov/index.jsp?bc=/investments/assets/equities/aim/programoverview.xml> for more information on private equity benchmarks as employed by the CalPERS AIM team.

The California Initiative has been implemented in two phases. Phase I, a capital commitment of \$475 million to nine private equity funds and one fund-of-funds, was approved in May 2001. In October 2006, CalPERS announced a second allocation, a \$500 million capital commitment to be managed by Hamilton Lane, a leading private equity investment manager. As a result, 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 located in California. (The second phase allocation was later increased to \$550 million.) Within this report, “California Initiative” refers to both Phase I and GSIF. A complete list of all California Initiative investment managers is provided on the back of this report.

This report examines the ancillary benefits derived from the California Initiative. It is designed to measure the extent to which the California Initiative is meeting its goal of investing in “traditionally underserved markets,” using the following indicators:

1. Providing capital to areas of California and the United States that have historically had limited access to institutional equity capital.
2. Investing in businesses that employ workers living in economically disadvantaged areas.
3. Supporting women and minority entrepreneurs and managers.

CalPERS 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 outcomes in these three areas. PCV has collected data from California Initiative portfolio companies as of June 30th in each of the years 2005, 2006 and 2007.

As of June 30, 2007, a total of 197 companies had received investment of California Initiative dollars from Phase I. Of these 197 company investments, 115 were made through nine private equity funds while the remaining 82 were made through Banc of America Capital Access Funds (BACAF), which manages a fund-of-funds whose investment objectives parallel those of the California Initiative. BACAF has prepared a report examining the community benefits derived from its fund-of-funds. This report can be found on page 15.

Of the 115 companies that have received investment from the nine funds in Phase I, data has been collected on 98 (85%).⁶ Of these 98 companies, 19 (19%) have exited the portfolio and 79 (81%) remain active investments.⁷ As of June 30, 2007, a total of five companies had received investment through GSIF.⁸ Of these five companies, four (80%) provided data for this report. Except where otherwise stated, the bulk of this report focuses on the 102 companies that have received investment from either Phase I (98) or GSIF (4) and have provided data for this assessment at least once since non-financial outcomes data collection began in 2005. Also, except where noted, this analysis uses the most recent data available from each portfolio company.⁹ An overview of companies currently active in the portfolio can be found on page 14.

Number of Portfolio Companies	Phase I	GSIF
Received investment through June 30, 2007	115 (100%)	5 (100%)
Active as of June 30, 2007	81 (70%)	5 (100%)
Exited as of June 30, 2007	34 (30%)	0 (0%)
Received investment through June 30, 2007	115 (100%)	5 (100%)
Contributed data to at least one assessment effort in 2005, 2006 or 2007	98 (85%)	4 (80%)
Did not participate in an assessment effort	17 (15%)	1 (20%)
Active as of June 30, 2007	81 (100%)	5 (100%)
Contributed data to assessment effort in 2007	71 (88%)	4 (80%)
Most recent data available is June 30, 2006	7 (9%)	NA
Most recent data available is June 30, 2005	1 (1%)	NA
Did not participate in an assessment effort	2 (2%)	1 (20%)
Exited as of June 30, 2007	34 (100%)	0 (0%)
Most recent data available is June 30, 2006	8 (24%)	NA
Most recent data available is June 30, 2005	11 (32%)	NA
Did not participate in an assessment effort	15 (44%)	NA

⁶ Data is collected as of June 30th each year. The 98 companies contributed data to at least one of the data collection efforts, in 2005, 2006 and/or 2007. The most recent data available from each company is used in this analysis. Please see the table on this page for more information.

⁷ Since the California Initiative began in 2001, 34 companies have entered and exited the portfolio. Eleven of these 34 companies entered and exited before June 30, 2005 (when PCV began collecting ancillary benefits data). Of the remaining 23 companies that have exited the portfolio, data is available on 19.

⁸ The CalPERS Alternative Investment Team established the GSIF in October 2006. By June 2007, Hamilton Lane had made commitments to 4 funds. These funds and Hamilton Lane direct co-investments had invested in a total of five companies. The portfolio is expected to grow significantly; additional companies will be included in the next round of non-financial data collection, as of June 30, 2008.

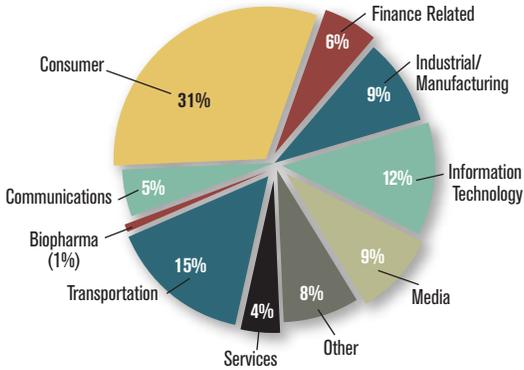
⁹ Not all companies provided all data requested in all years. Further, data is not collected on companies once the investment is realized.

Profile—California Initiative Companies

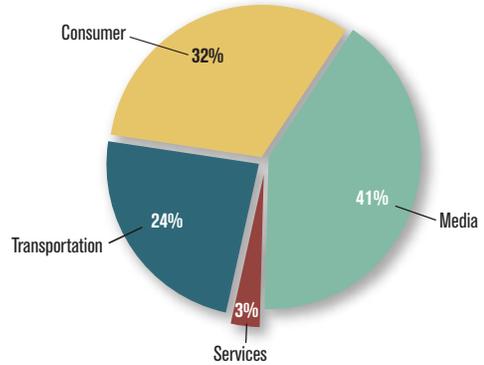
Portfolio Diversity

The following tables showcase portfolio diversity by industry and company size for both Phase I and the GSIF.

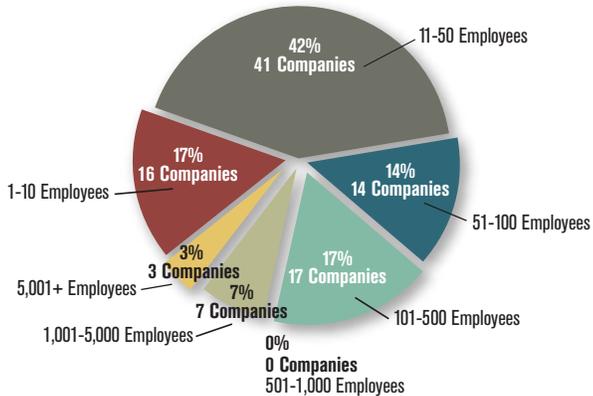
Phase I Portfolio Diversification by Industry
(Total Cost as of June 30, 2007)
(n=120)



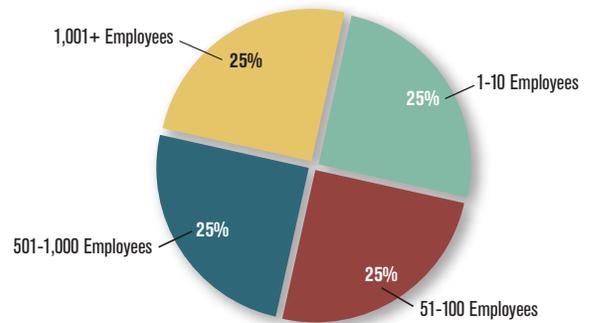
GSIF Portfolio Diversification by Industry
(Total Cost as of June 30, 2007)
(n=5)



Phase I Portfolio Diversification by Company Size Measured by Number of Employees
(n=98)



GSIF Portfolio Diversification by Company Size Measured by Number of Employees
(n=4)



Company Locations

California Initiative portfolio companies operate facilities—and employ Californians—across the state. The tables below showcase the distribution of company headquarters, facilities and employees across California. The maps on pages 8 and 9 provide a pictorial representation of all of the locations where California Initiative companies conduct business—and where portfolio company employees live—in the state.

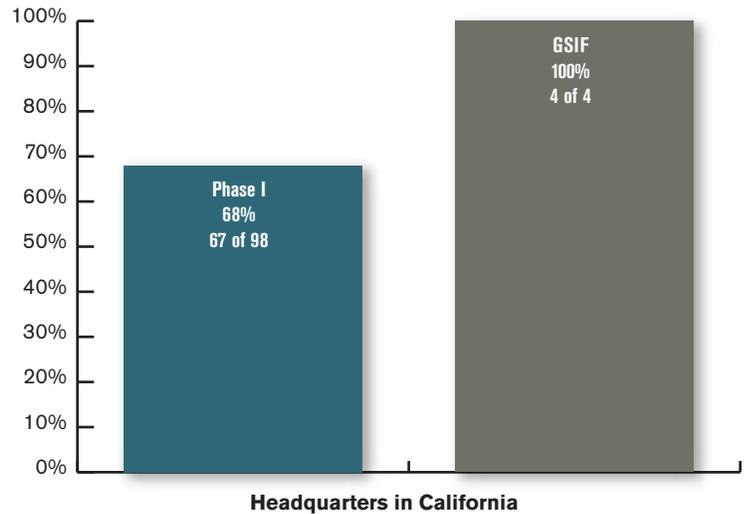
PHASE I

Sixty-seven (68%) of the 98 Phase I portfolio companies are headquartered in California.¹⁰ The remaining 31 (32%) companies are headquartered in sixteen states. Based on the most recent data available from each portfolio company¹¹, Phase I companies operate a total of 329 facilities¹² across California and employ 7,038 workers who reside in the state.¹³ Of the 31 companies headquartered outside of California, 13 operate facilities and employ workers in California; 18 (18%) of the 98 Phase I California Initiative companies have no California-based employees.

GOLDEN STATE INVESTMENT FUND

All four of the companies that had received investment from GSIF as of June 30, 2007 are located in California. These companies operate 164 facilities and employ 4,960 workers in California, largely concentrated in Southern California.

Portfolio Company Headquarters in California



¹⁰ Of the 98 companies, 67 are headquartered in California. The remaining 31 companies are headquartered in sixteen states—1 each in Arizona, Connecticut, Florida, Georgia, Louisiana, Michigan, Nebraska, Texas and Utah; 2 each in Colorado, Hawaii, and Illinois; 3 each in New Jersey and Oregon and 5 each in Maryland and New York.

¹¹ Companies do not provide data after they exit the portfolio. Not all companies active in the portfolio have provided data each year for every metric.

¹² Includes headquarters facilities.

¹³ Phase I companies report a total of 54,634 employees including 7,038 California resident employees (13%). Accurate California residence zip codes were provided for 6,921 employees.

¹⁴ US Bureau of the Census, 2005 County Business Patterns.

¹⁵ Includes Del Norte, Siskiyou, Modoc, Lassen, Shasta, Trinity, Humboldt, Mendocino, Glenn, Tehama, Butte, Plumas, Sierra, Nevada, Placer, Sutter, Yolo, Lake, Colusa, and Yuba counties.

¹⁶ Includes Contra Costa, Alameda, Marin, San Francisco, Santa Clara, Sonoma, Solano, Napa and San Mateo counties.

¹⁷ Includes Sacramento, El Dorado, Calaveras, Amador and Tuolumne counties.

¹⁸ Includes Kern, Kings, Tulare, Fresno, Madera, Merced, Stanislaus and San Joaquin counties.

¹⁹ Includes San Luis Obispo, Monterey, Santa Cruz, San Benito, Santa Barbara, and Ventura counties.

²⁰ Includes San Bernardino, Riverside and Imperial counties.

²¹ Zip codes for 6 facilities were not available.

Facilities by Region

Region	Phase I		GSIF		California Number of Business Establishments ¹⁴
	Headquarters	Other Facilities	Headquarters	Other Facilities	
Northern California ¹⁵	1 (2%)	7 (3%)	--	7 (4%)	41,599 (5%)
Bay Area ¹⁶	32 (48%)	76 (30%)	--	36 (23%)	189,090 (22%)
Sacramento Area ¹⁷	7 (11%)	26 (10%)	--	5 (3%)	36,365 (4%)
Central Valley ¹⁸	2 (3%)	23 (9%)	--	8 (5%)	60,737 (7%)
Central Coast ¹⁹	4 (6%)	12 (5%)	--	11 (7%)	55,198 (6%)
Los Angeles and Orange Counties	15 (22%)	57 (22%)	3 (75%)	57 (36%)	332,764 (38%)
Inland Empire ²⁰	3 (4%)	36 (14%)	--	15 (9%)	66,501 (8%)
San Diego County	3 (4%)	19 (7%)	1 (25%)	21 (13%)	76,559 (9%)
Alpine, Inyo, Mariposa and Mono counties	--	--	--	--	1,651 (<1%)
Total	67 (100%)	256²¹ (100%)	4 (100%)	160 (100%)	860,464 (100%)

Employees by Region

Region	Phase I	GSIF	California Population ²²
Northern California ²³	94 (1%)	140 (3%)	1,725,258 (5%)
Bay Area ²⁴	1750 (25%)	755 (15%)	7,117,284 (19%)
Sacramento Area ²⁵	363 (5%)	128 (3%)	1,703,886 (5%)
Central Valley ²⁶	594 (9%)	213 (4%)	3,819,513 (10%)
Central Coast ²⁷	357 (5%)	235 (5%)	2,247,033 (6%)
Los Angeles and Orange Counties	2,240 (33%)	1,592 (32%)	13,317,908 (36%)
Inland Empire ²⁸	1,256 (18%)	718 (14%)	4,111,744 (11%)
San Diego County	267 (4%)	1,179 (24%)	3,066,820 (8%)
Alpine, Inyo, Mariposa and Mono counties	--	--	51,569 (<1%)
Total	6,921²⁹ (100%)	4,960 (100%)	37,161,015 (100%)

²² See California State Association of Counties at www.csac.counties.org/default.asp?id=399. Estimates for 2006.

²³ Includes Del Norte, Siskiyou, Modoc, Lassen, Shasta, Trinity, Humboldt, Mendocino, Glenn, Tehama, Butte, Plumas, Sierra, Nevada, Placer, Sutter, Yolo, Lake, Colusa, and Yuba counties.

²⁴ Includes Contra Costa, Alameda, Marin, San Francisco, Santa Clara, Sonoma, Solano, Napa and San Mateo counties.

²⁵ Includes Sacramento, El Dorado, Calaveras, Amador and Tuolumne counties.

²⁶ Includes Kern, Kings, Tulare, Fresno, Madera, Merced, Stanislaus and San Joaquin counties.

²⁷ Includes San Luis Obispo, Monterey, Santa Cruz, San Benito, Santa Barbara, and Ventura counties.

²⁸ Includes San Bernardino, Riverside and Imperial counties.

²⁹ Portfolio companies reported a total of 7,038 California resident employees. However, companies provided only 6,921 valid zip codes.

³⁰ An "active supplier relationship" is defined as one where the company has made a purchase in the past year.

³¹ Data on minority suppliers is not collected from Phase I companies.

³² Since the California Initiative began in 2001, 34 companies have entered and exited the portfolio. Eleven of these 34 companies entered and exited before June 30, 2005 (when PCV began collecting ancillary benefits data). Of the remaining 23 companies that have exited the portfolio, data is available on 19.

³³ Change in employment is calculated using data as of date of investment compared to most recent data available; in most cases, this is data as of the June 30th preceding the exit.

³⁴ For 71 companies, data is as of June 30, 2007. For 15 companies, data is as of June 30, 2006. For 12 companies, data is as of June 30, 2005.

³⁵ Two companies that have no California operations have lost a total of 3,445 jobs since investment, causing overall national job growth in the portfolio to lag national trends. Excluding these two companies from the analysis, job growth nationally at Phase I portfolio companies is 18%.

³⁶ US Bureau of Labor Statistics, comparing civilian employment in June 2000 to June 2007.

³⁷ CA Employment Development Department comparing civilian employment in June 2000 to June 2007.

Supplier Relationships

California Initiative companies also support California employment by doing business with other companies in the state. In total, the 98 Phase I companies have maintained active relationships with over 48,000 suppliers.³⁰ Approximately 10,000 of these suppliers are located in California. The four GSIF companies maintain over 4,700 active supplier relationships, 24% of which are with California companies. Two of the four GSIF companies have programs in place to track minority supplier relationships. These two companies report a total of 174 minority supplier relationships, 5% of their total supplier base.³¹

Employment and Employment Growth

In total, California Initiative companies employ over 75,000 workers across the United States. Of these, nearly 12,000 (16%) are California residents.

PHASE I

In the aggregate, the 98 Phase I portfolio companies employ 54,634 workers, up from 53,502 since investment, a growth of 2%. By comparison, employment growth across the country between June 2001 and June 2007 was 8%. Since investment, two portfolio companies that have no California operations have lost a total of 3,445

jobs, causing overall job growth in the portfolio to lag national trends. Excluding these two companies from the analysis, job growth nationally at Phase I portfolio companies is 18%. California employment at these 98 companies has grown from 5,374 to 7,038, a growth of 31%. Approximately half of Phase I portfolio company employees are full-time workers and half are part-time workers.

Since non-financial impact data was first collected in 2005, 23 companies have exited the portfolio.³² The data available on 19 of these companies shows that employment grew by 35% in the aggregate while these companies were part of the portfolio. California employment at these companies grew 38%.³³

California Initiative Phase I Employment

Number of Companies	98	
	United States Employment	California Employment
Employment at investment	53,502	5,374
Employment per most recent data available ³⁴	54,634	7,038
Change	1,132	1,664
Percent change	2% ³⁵	31%
Employment growth June 2000 to June 2007, US and California	8% ³⁶	8% ³⁷

GOLDEN STATE INVESTMENT FUND

GSIF portfolio companies employed a total of 20,789 workers as of June 30, 2007. Consistent with Phase I, slightly more than half of GSIF portfolio company employees are full-time workers; slightly less than half are part-time workers. Approximately 5,000 (24%) of GSIF portfolio company employees are California residents.

As GSIF was established in October 2006, the four companies in the portfolio as of June 30, 2007 had been in the portfolio for just a few months. In the aggregate, the four companies increased their workforce 5% between investment and June 30, 2007. Portfolio company employment in California grew by 4%.

JOB QUALITY

Benefits. With the establishment of GSIF, CalPERS, its investment partners and Pacific Community Ventures have instituted enhanced reporting methodologies to more fully explore the ancillary benefits of California Initiative investments. For example, for Phase I portfolio

companies, data on employee benefits is collected in ranges. In order to facilitate more extensive analysis and comparison to state and national trends, GSIF portfolio companies are providing specific data on employee benefits. A complete explanation of these enhanced reporting procedures is provided on page 14 of this report.

As the tables below demonstrate, California Initiative companies generally compare equally or favorably to state and national trends in employee benefits offered.

³⁸ Exact data on employees eligible/enrolled in benefit programs has not been collected for Phase I companies. For Phase I companies, this data is collected in ranges—0%-25%, 26%-50%, 51%-75% and 76%-100%.

³⁹ Medical coverage statistics for California and the United States are from the California Health Care Foundation's "California Employer Health Benefits Survey, November 2006.

⁴⁰ *National Compensation Survey: Employee Benefits in Private Industry in the United States*, US Department of Labor, US Bureau of Labor Statistics, August 2006, pages 5-7.

⁴¹ *Ibid.*

⁴² *Ibid.* Note that statistic is for the Pacific region of the US and includes Washington and Oregon as well as California.

⁴³ *National Compensation Survey: Employee Benefits in Private Industry in the United States*, US Department of Labor, US Bureau of Labor Statistics, August 2006, page 24.

⁴⁴ Medical coverage statistics for California and the United States are from the California Health Care Foundation's "California Employer Health Benefits Survey, November 2006.

⁴⁵ One GSIF company has fewer than 10 employees and does not offer medical coverage. Across the United States fewer than half of companies with fewer than 10 employees offer coverage.

⁴⁶ *National Compensation Survey: Employee Benefits in Private Industry in the United States*, US Department of Labor, US Bureau of Labor Statistics, August 2006, pages 5-7.

⁴⁷ *National Compensation Survey: Employee Benefits in Private Industry in the United States*, US Department of Labor, US Bureau of Labor Statistics, August 2006, pages 5-7. Note that statistic is for the Pacific region of the US and includes Washington and Oregon as well as California.

⁴⁸ *National Compensation Survey: Employee Benefits in Private Industry in the United States*, US Department of Labor, US Bureau of Labor Statistics, August 2006, page 24.

Phase I Company Employee Benefits

	US	CA	Phase I Companies ³⁸
% of companies offering medical coverage	61% ³⁹	71%	99%
% of employees eligible for medical coverage	78%	77%	At 83% of companies in the Phase I, at least 75% of employees are eligible for health insurance.
% of companies offering a retirement plan	51% ⁴⁰	NA	82%
% of employees eligible for retirement plan	60% ⁴¹	56% ⁴²	At 65% of Phase I companies, at least 75% of employees are eligible for the retirement program.
% of companies offering paid vacation	NA	NA	97%
% of employees eligible for paid vacation	77% ⁴³	77%	At 74% of Phase I companies, at least 75% of employees are eligible for paid vacation.

GSIF Company Employee Benefits

	US	CA	GSIF Companies		
			Salaried Workers	Non-Salaried workers	All Workers
% of companies offering medical coverage	61% ⁴⁴	71%	75% ⁴⁵		
% of employees eligible for medical coverage	78%	77%	99%	99%	99%
% of companies offering a retirement plan	51%	NA	75%		
% of employees eligible for retirement plan	60% ⁴⁶	56% ⁴⁷	89%	50%	55%
% of companies offering paid vacation	NA	NA	75%		
% of employees eligible for paid vacation	77% ⁴⁸	77%	94%	68%	71%

CalPERS California Initiative—Investing in Underserved Markets

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

Assessing the extent to which the California Initiative is successfully investing capital in areas of California and the United States that have historically had limited access to institutional equity capital requires first defining the areas of the state and nation that have traditionally received institutional equity capital investment.

According to Thomson Financial Private Equity,⁴⁹ the leading industry organization that tracks private equity transactions,⁵⁰ between January 2001 and June 2007, private equity totaling over \$600 billion was committed to nearly 33,000 companies located in over 14,000 global postal codes. Approximately 75% of these invested dollars were committed to companies based in the United States, with almost 20% committed to companies based in California.

Approximately 75% of all private equity dollars committed between 2001 and 2007 was concentrated in 1,000 global postal code geographies; 774 of these zip codes represent geographic areas of the United States, while 153 of these zip codes represent geographic areas of California. Nearly 92% of all private equity dollars committed to California-based companies and 75% of all California-based companies receiving private equity investment were headquartered inside the geographic area encompassed by these 153 California zip codes.

For the purposes of this report, areas of the state and nation that have traditionally received institutional equity capital investment are defined as *inside* the geography encompassed by these 774 United States

1000 Global Postal Codes Receiving the Most Private Equity Worldwide, January 2001 to June 2007

	Global	Within the United States	Within California
Total number of postal codes	335,000 ⁵¹	33,000	1,700
Number of postal codes defined as area that has traditionally received institutional equity capital investment	1000 <1%	774 2%	153 9%
% of all private equity dollars committed <i>inside</i> this area (Companies located in geographies that have <i>historically received institutional equity capital investment</i> .)	74%	83%	91%
% of all private equity dollars committed <i>outside</i> this area (Companies located in geographies that have <i>historically had limited access to institutional equity capital</i> .)	26%	17%	9%

California Initiative Portfolio Company Locations and Areas Where Institutional Equity Capital Investments are Traditionally Made

United States (Including California)			
	United States	Phase I	GSIF
# of postal codes	774	774	774
% of all companies that received private equity investment that are located <i>inside</i> the area that has traditionally received institutional equity capital investment.	47%	50% ⁵²	50%
% of all companies that received private equity investment that are located <i>outside</i> the area that has traditionally received institutional equity capital. These companies are located in areas that have historically had limited access to institutional equity capital and are referred to as Underserved Market Companies.	53%	50% ⁵³	50%
California Only			
	California	Phase I	GSIF
# of postal codes	153	153	153
% of all companies that received private equity investment that are located <i>inside</i> the area that has traditionally received institutional equity capital investment.	75%	53% ⁵⁴	50%
% of all companies that received private equity investment that are located <i>outside</i> the area that has traditionally received institutional equity capital. These companies are located in areas that have historically had limited access to institutional equity capital and are referred to as Underserved Market Companies.	25%	47% ⁵⁵	50%

⁴⁹ Formerly known as Venture Economics.

⁵⁰ Thomson Financial uses the term Private Equity to describe the universe of all venture investing, buyout investing and mezzanine investing. Fund of fund investing and secondaries are also included in this broadest term. The term does not include angel investors or business angels, real estate investments or other investing scenarios outside of the public market.

⁵¹ See <http://www.postcode.ws/>

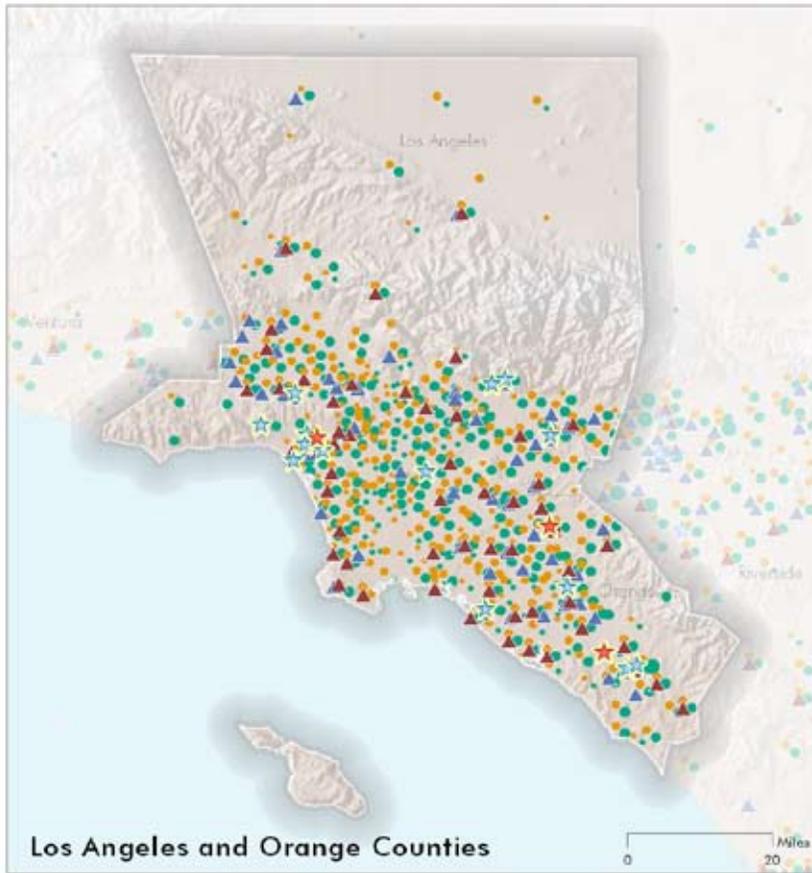
⁵² Of the 98 companies, 49 were located in areas where access to capital has not historically been limited, based on the definition described here, at the time of investment.

⁵³ Of the 98 companies where data is available, 49 are located in areas where access to institutional equity capital has historically been limited, based on the definition described here, at time of investment.

⁵⁴ Of the 98 companies, 68 were headquartered in California at the time investment was made. Of these 68 companies, 36 were located in areas where access to capital has not historically been limited, based on the definition described here.

⁵⁵ Of the 98 companies, 68 were headquartered in California at the time investment was made. Of these 68 companies, 32 companies were located in areas where access to institutional equity capital has historically been limited, based on the definition described here.

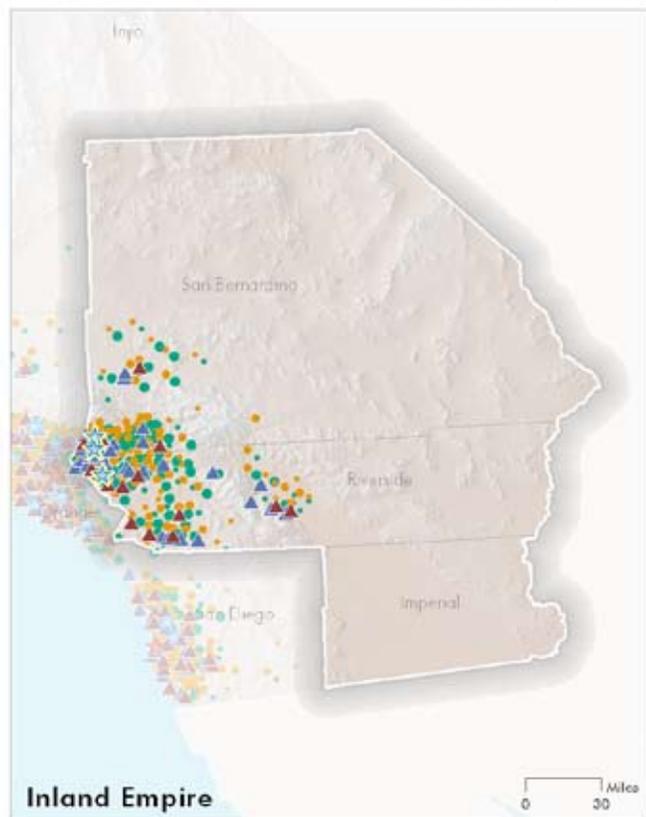
California Initiative Company Locations



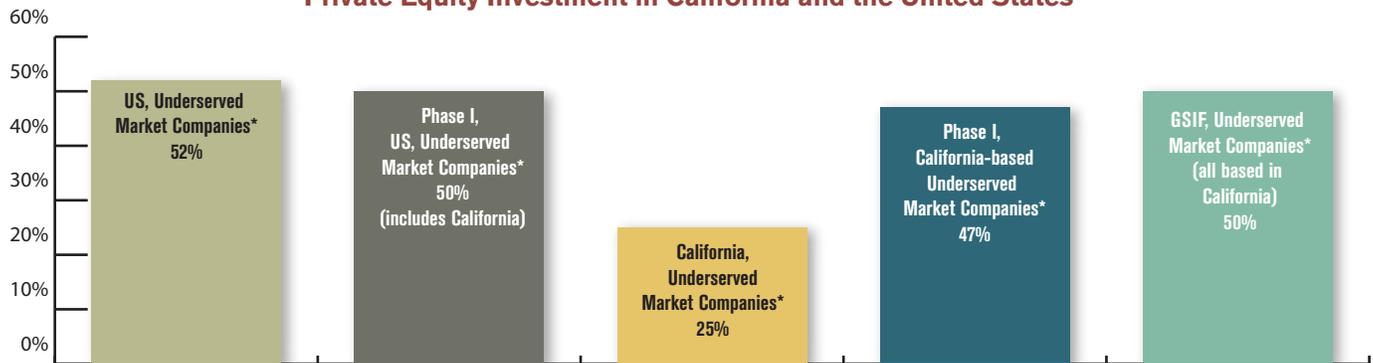
Phase I	
▲ Facilities	• 1 - 2 employees
★ Headquarters	• 3 - 50 employees
	• > 50 employees

Golden State Investment Fund	
▲ Facilities	• 1 - 2 employees
★ Headquarters	• 3 - 50 employees
	• > 50 employees

Map created by GreenInfo Network
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California Initiative Underserved Market Companies Compared to Private Equity Investment in California and the United States



*Underserved market companies refers to companies located (at time of investment) in areas of the state and nation that have historically had limited access to institutional equity capital.

zip codes, including 153 California zip codes. Areas of the state and nation that have historically had limited access to institutional equity capital are defined as the areas *outside* the geography encompassed by these 774 zip codes. Thus, companies located *inside* these 774 zip codes, including the 153 California zip codes, are considered located in areas that are NOT underserved. Companies located *outside* of these 774 zip codes are considered located in underserved communities, areas of the state and nation that have historically had limited access to institutional equity capital.

Objective 2: Employing workers living in economically disadvantaged areas.

The California Initiative helps to employ workers living in economically disadvantaged areas in two ways. First, California Initiative companies directly employ workers living in low-to-moderate income (LMI) areas of California. Second, California Initiative companies operate facilities in LMI communities which help to generate economic activity in these areas and indirectly support employment of other local residents.

To assess the extent to which California Initiative companies are employing workers living in economically disadvantaged areas, a zip code of residence is collected from each portfolio company employee and facility. While employee and facility locations are defined by zip codes, LMI areas are identified by census tracts. Zip code and census tract boundaries do not match—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 employing workers living in economically disadvantaged areas, two distinctions are made:

- Workers that reside and facilities that are located in 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 proximate to a lower-income area, in a position to contribute economically to the LMI area.⁵⁶
- Workers that reside and facilities that are located in zip code areas that are *predominantly* (50% or more) comprised of LMI census tracts. These workers and facilities are likely located in lower-income areas.

Earlier efforts to assess the extent to which California Initiative portfolio companies are employing workers living in economically disadvantaged areas examined California resident workers only. Beginning with GSIF portfolio companies, analysis of employees and facilities in LMI areas will include LMI areas across the entire United States, in addition to those in California. As a frame of reference, 35% of all employed Americans and 38% of all employed Californians live in LMI census tracts.⁵⁷

⁵⁶ A census tract is designated LMI if at least one of the following conditions holds true:
 a. For census tracts within metropolitan areas, the median income of the census tract is at or below 80% of the metropolitan statistical area median. For census tracts outside of metropolitan areas, the median income of the census tract is at or below 80% of the statewide, non-metropolitan area median income.
 b. At least 20% of the population lives in poverty.
 c. The unemployment rate is at least 1.5 times the national average.
⁵⁷ Based on US Census data, 2000.

LMI Employment and Facilities

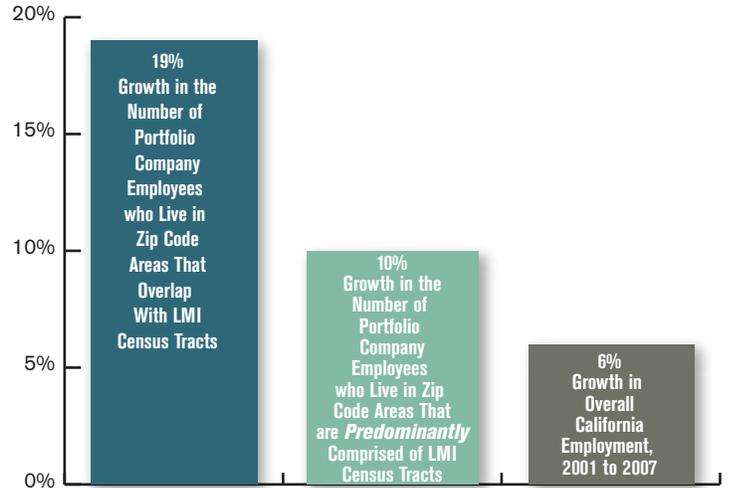
	Phase I		GSIF	
	Employees Living in	Facilities Located in	Employees Living in	Facilities Located in
Total United States (including California)	54,634	1,354	20,789	890
US Zip code areas that overlap with LMI census tracts	na ⁵⁸	na	15,251 (73%)	624 (70%)
US Zip code areas that are predominantly comprised of LMI census tracts	na	na	6,614 (32%)	181 (20%)
Total California only	7,038	329	4,960	164
CA Zip code areas that overlap with LMI census tracts	5,646 (80%)	269 (82%)	4,250 (86%)	128 (78%)
CA Zip code areas that are predominantly comprised of LMI census tracts	3,010 (43%)	111 (34%)	2,275 (46%)	50 (31%)

⁵⁸ Employee and facility location data outside of California is not collected from Phase I companies.

Employment growth among workers living in economically disadvantaged areas.

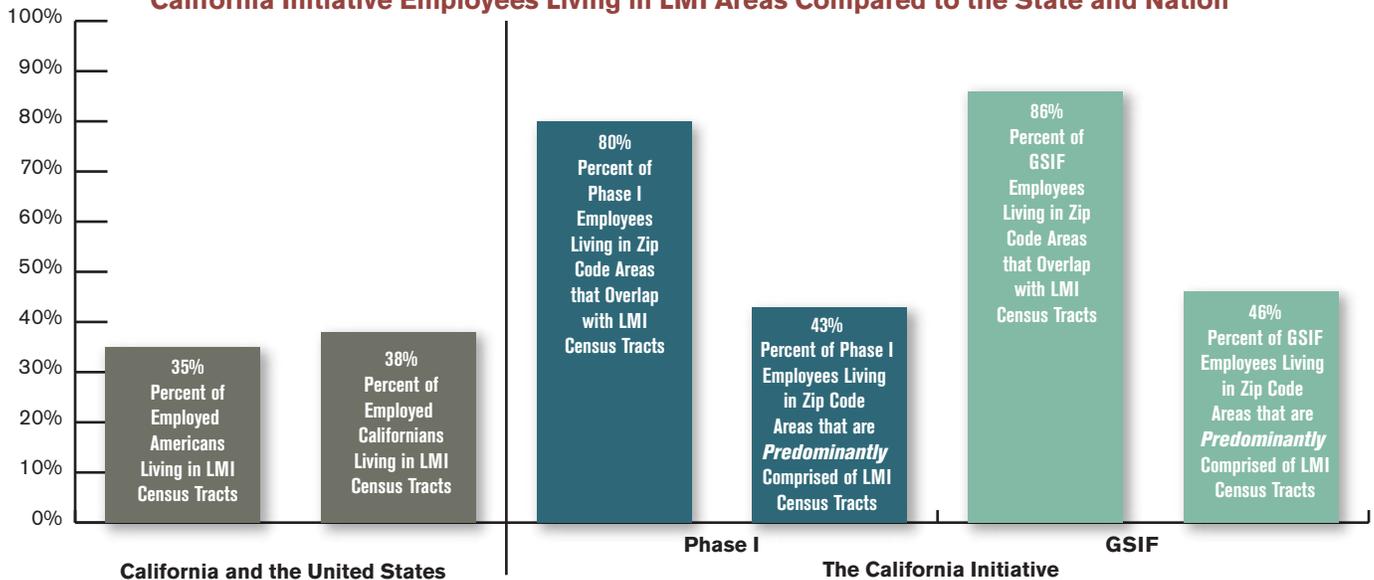
As of June 30, 2007, 47 companies had been in the California Initiative Phase I portfolio since 2005 and have contributed data to all three efforts to evaluate the non-financial impacts of the California Initiative. The number of workers at these 47 companies that live in zip code areas that overlap with LMI census tracts has increased by 19%; the number of workers living in predominantly LMI areas has grown by 10%. To place this data in context, from June 2001 (when the California Initiative was established) through June 2007, employment in California grew a total of 6%.

Growth in LMI Employment at Phase I Portfolio Companies Compared to Employment Growth in California*



*Based on data collected from the 46 companies that have been in the portfolio since before June 30, 2005 and have contributed data to all three evaluation efforts.

California Initiative Employees Living in LMI Areas Compared to the State and Nation



Objective 3: Supporting women and minority entrepreneurs and managers.

When institutional equity capital is invested in companies, primary ownership often changes from an individual or group of individuals to an investment fund or group of funds. Company founders relinquish some of their ownership interest in exchange for capital infusion to fund growth. Often these company founders remain at the companies, taking officer-level positions and frequently retaining a small ownership stake. Tracking the number of minority and women officers at these companies is one method of assessing the extent to which California Initiative companies are supporting women and minority entrepreneurs and managers. Tracking the number of women and minority key managers assesses the extent to which California Initiative companies are helping to train future minority and women officers and business leaders, and are providing current leadership opportunities for women and minorities.

Data on minority and women entrepreneurs at California Initiative Phase I portfolio companies is available for 86 of the 98 companies that have provided data for this report.⁵⁹ In the aggregate, using the most recent data available on each portfolio company, California Initiative Phase I portfolio

companies report a total of 289 officers and 1,335 key managers. The four GSIF portfolio companies providing data for this assessment report a total of 55 officers and 333 key managers.

Given that the California Initiative portfolio is a diverse group of companies by industry, revenue and employment size, there is no direct comparison set of businesses against which to judge California Initiative companies' diversity. However, all of these businesses have received institutional equity capital investment, which only a small subset of all United States businesses is likely to receive.

Typically companies receiving institutional equity capital investment have paid employees and at least \$1 million in annual revenues. At the time of investment, most California Initiative companies had paid employees and annual revenue in excess of \$1 million. Just 5% of all United States businesses and 6% of all California businesses fit these criteria. Gender and ethnic breakdown of officers and key managers at Phase I and GSIF companies is provided in the table below. Also presented, as a frame for comparison, are ownership diversity statistics for businesses with paid employees and over \$1 million in revenues in California and the United States.

Officers and Key Managers in the Context of US and California Business Ownership

	Phase I		GSIF		California	United States
	Officers	Key Managers	Officers	Key Managers	Business Owners ⁶¹	Business Owners ⁶²
All	289 ⁶⁰	1,335	55	333 ⁶³	100%	100%
Women	35 (13%)	366 (27%)	9 (16%)	99 (36%) ⁶⁴	11%	10%
Men	254 ⁶⁵ (87%)	969 (73%)	46 (84%)	180 (64%)	89%	90%
Hispanic or Latino	10 (3%)	76 (6%)	2 (4%)	14 (5%)	5%	2%
African American	16 (6%)	71 (5%)	1 (2%)	4 (1%)	1%	1%
Asian/ Pacific Islander	18 (6%)	272 (20%)	1 (2%)	15 (5%)	11%	4%
Other Minorities	6 (2%)	10 (1%)	0 (0%)	3 (1%)	1%	<1%
White, Non-Hispanic	236 (83%)	906 (68%)	51 (92%)	243 (87%)	95% ⁶⁶	98%

⁵⁹ When data was collected as of June 30, 2005, companies were not asked to provide the ethnic makeup of their officers and key managers. Beginning with data collected as of June 30, 2006, this data was requested. Since data is not collected from companies once they exit the portfolio, ethnicity data is not available from companies that exited the portfolio between July 1, 2005 and June 30, 2006.

⁶⁰ Ethnicity not available for 3 officers.

⁶¹ Owners of businesses with paid employees and at least \$1 million in annual revenue. United State Bureau of the Census. Data collected in 2002, but not released until September 2006. See www.census.gov/csd/sbo/. Note that the census allows respondents to identify both an ethnicity (e.g. Hispanic) and a racial category (e.g., African American). Thus, minority categories cannot be combined for an accurate estimate of total minority-owned businesses.

⁶² Ibid.

⁶³ 54 key managers at one portfolio company declined to classify themselves by gender or ethnicity.

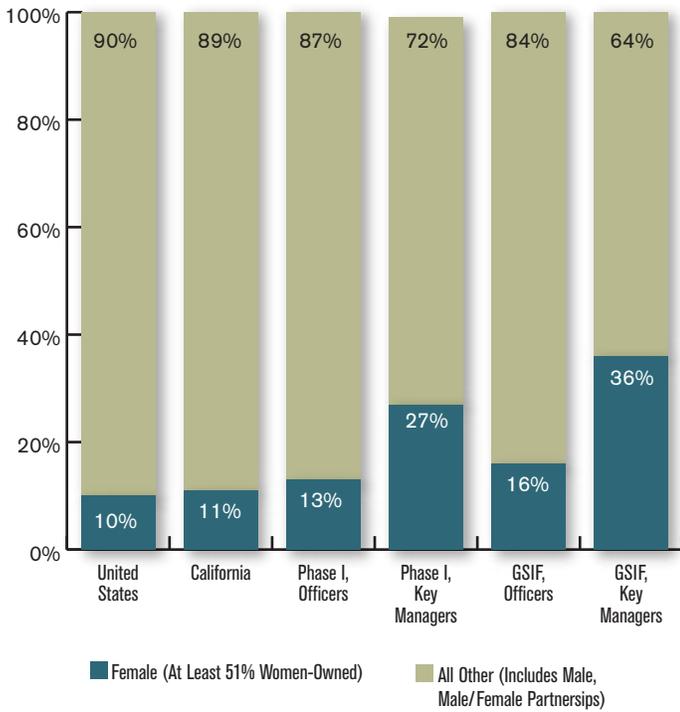
⁶⁴ Percentages are calculated based on the 279 key managers that classified themselves by gender and ethnicity.

⁶⁵ Three male officers declined to specify ethnicity.

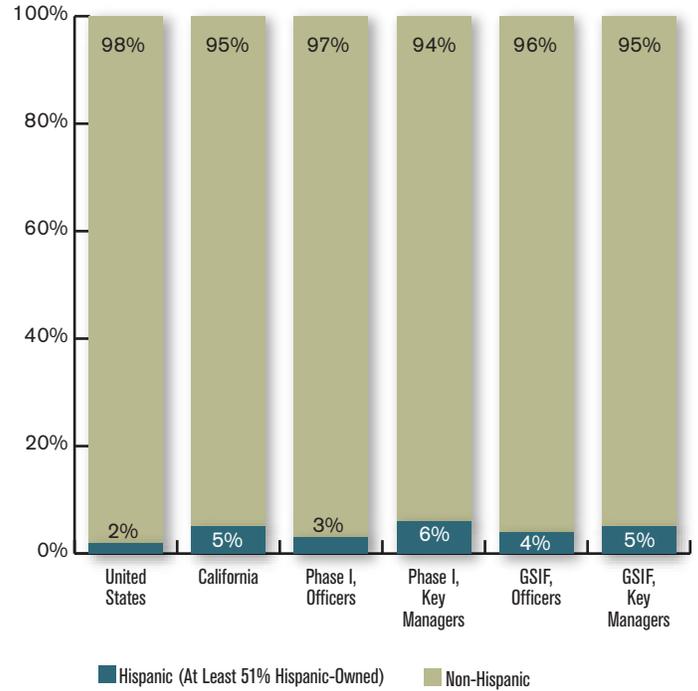
⁶⁶ Numbers do not add to 100% because business owners can be part of more than one minority, e.g. Hispanic and African American.

Women and Minority-Owned Businesses in California and the United States and Officers/Key Managers at California Initiative Companies

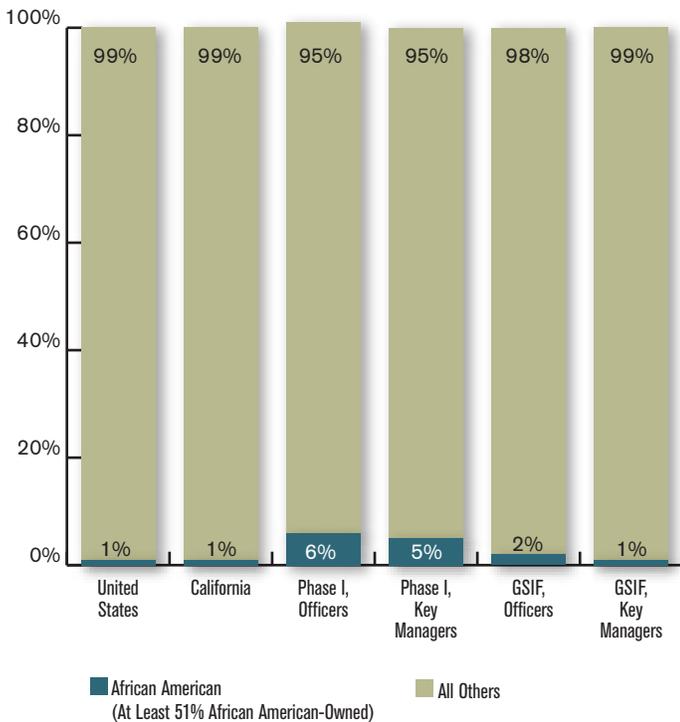
Women-Owned Businesses (US and California) and Officers at California Initiative Companies



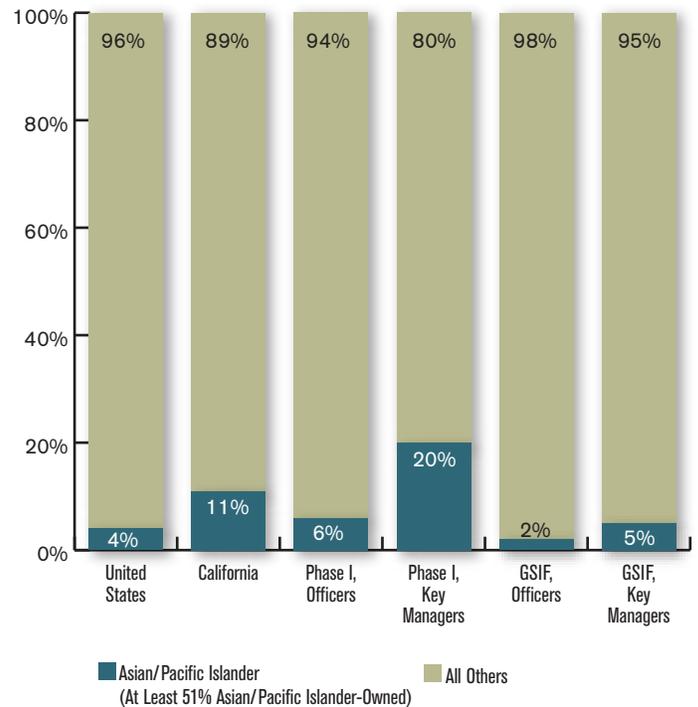
Hispanic-Owned Businesses (US and California) and Officers at California Initiative Companies



African American-Owned Businesses (US and California) and Officers at California Initiative Companies



Asian/Pacific Islander-Owned Businesses (US and California) and Officers at California Initiative Companies



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

Since the establishment of the GSIF, CalPERS, its investment partners and Pacific Community Ventures instituted enhanced reporting methodologies to more fully explore the ancillary benefits of California Initiative investments. These enhancements are described below.

Wages. GSIF asks portfolio companies to provide the hourly wage or annual salary, alongside zip code of residence, for each employee. To protect employee privacy, this data is collected anonymously. Collecting wage data alongside zip code of residence allows more precise analysis of low-to-moderate income employment and enables comparisons with state and national data. As one of the four GSIF current portfolio companies accounts for over 90% of portfolio-wide employment, to protect company privacy, wage data will be reported on an aggregate basis, across the portfolio, beginning in 2008.

Benefits. Phase I portfolio companies provide the percent of employees eligible for certain benefits within quartile ranges. To facilitate more extensive analysis of job quality and comparisons to state and national trends, GSIF portfolio companies provide more precise data on employee benefits. The initial benefits data collected from GSIF companies this year is discussed on page 6 of this report.

Patents granted. Patents granted is an indicator of the extent to which portfolio companies are achieving significant innovations that often precede employment growth both within the company and across the economy. As GSIF investment managers invest in companies that hold patents and/or portfolio companies are granted patents, this data will be reported in future years.

The California Initiative—Combined Phase I and Golden State Investment Fund: Current Active Portfolio Companies

As of June 30, 2007, 86 companies were active in the combined portfolios of Phase I and GSIF. Of these 86 companies, data has been collected from 75 (87%). Seventy-one (95%) of these companies received investment from Phase I and the remaining 4 (5%) received investment from GSIF. This overview of the combined Phase I and GSIF portfolio examines these 75 companies that are currently active in the portfolio.

Investing in California. Of these 75 companies, 55 (73%) are headquartered in California. Of these 55 companies, 45 (82%) are headquartered in areas that overlap with low-to-moderate income census tracts while 16 (29%) are located in predominantly low-to-moderate income areas.

Investing capital in areas that have historically had limited access to institutional equity capital. Of the 55 California-based companies, 20 (36%) are located in areas that have historically had limited access to institutional equity capital. By comparison, only 25% of all California-based companies receiving private equity investment, and 9% of all private equity dollars invested in California, between 2001 and 2007, went to areas of the state that have historically had limited access to capital.

Employing workers living in disadvantaged areas. As of June 30, 2007, currently active portfolio companies in the aggregate employed 69,615 workers. Approximately 11,000 (15%) of these workers were residents of California; 8,796 (83%) live in zip code areas that overlap with low-to-moderate income census tracts while 4,690 (44%) workers live in zip code areas that are predominantly low-to-moderate income. By comparison, 38% of all employed Californians live in low-to-moderate income census tracts.

Supporting women entrepreneurs and managers. Current California Initiative portfolio companies employ a total of 292 officers; 41 (14%) are women, 8 (3%) are Hispanic, 16 (5%) are African American, and 17 (6%) are Asian/Pacific Islander. As a framework for comparison, of all United States businesses with paid employees and at least \$1 million in annual revenue—companies likely to attract institutional equity capital investment such as California Initiative investment—10% are owned by women, 2% by Hispanics, 1% by African Americans and 4% by Asians.

Banc of America Capital Access Funds

In addition to investing in nine private equity funds, the California Initiative, working with Banc of America Capital Access Funds (BACAF), has invested in a fund-of-funds, Banc of America California Community Venture Fund (BACCVF). As of June 30, 2007, BACCVF had invested in 13 funds, and these funds had invested in 82 portfolio companies.* BACAF expects its funds to ultimately invest in 150 to 175 companies.

Profile of BACCVF Funds and Portfolio Companies

Of the 13 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, 2007, of the 82 companies in BACCVF funds' portfolios, 38 (46 %) are headquartered in California.*

BACAF 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.

Of the 13 funds that have received investment from BACCVF, ten 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 seven of the 13 funds focus on ethnic minority opportunities.

Investing in Underserved Markets

As of December 31, 2006, 68% of the companies funded by BACCVF met one or more of BACAF's definitions of "underserved."

PROVIDING CAPITAL TO AREAS OF CALIFORNIA AND THE UNITED STATES THAT HAVE HISTORICALLY HAD LIMITED ACCESS TO INSTITUTIONAL EQUITY CAPITAL

Of the 82 companies in BACCVF funds' portfolios as of June 30, 2007, seven (9%) 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.†* Two (3%) of the 82 companies are located in rural areas of the United States as defined by the U.S. Department of Agriculture.*

EMPLOYING WORKERS LIVING IN ECONOMICALLY DISADVANTAGED AREAS

Of the companies in BACCVF funds' portfolios as of June 30, 2007, 23 (28%) of the companies are located in a low-to-moderate income area. Thirteen (16%) are located in census tracts where 20% or more of the population lives in households with income below the federal poverty level.* Eighteen (22%) of the companies are located in census tracts where the median income is at or below 80% 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.

SUPPORTING WOMEN AND MINORITY ENTREPRENEURS AND MANAGERS

Seven of the 13 funds receiving investment through BACCVF focus on ethnic minority opportunities. Eight of the funds have at least one ethnic minority partner; seven of the funds have two or more ethnic minority partners. Four of the funds have at least one female partner.

Of the companies in BACCVF funds' portfolios as of March 31, 2007, 22 (31%) are majority owned or managed§ by minorities. Twenty-eight (39%) of the companies are located in census tracts where more than half the population is an ethnic minority. Thirty-seven (51%) had some minority ownership. Twenty-six (36%) 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 60 companies that BACCVF funds had invested in as of year end 2006.* At 21 of these companies (35%), the CEO is a minority, including nine companies where the CEO is African American, six companies where the CEO is Hispanic, and five companies where the CEO is Asian. Three companies had female CEOs. These 60 companies employed a total of 20,246 employees; 6,827 (34%) of these employees were ethnic minorities and 11,318 (56%) were women.*

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

† Inner Cities are defined as core urban areas that currently have higher unemployment and poverty rates and lower media income levels than surrounding Metropolitan Statistical Areas (MSA). Inner Cities have a 20% poverty rate or higher, or meet two of the following three criteria: poverty rate 1.5x or more than that of MSA's; median household income of 80% or less than that of their MSA's; unemployment rate of 1.5x times or more than that of their MSA's.

* Includes companies held by BACAF portfolio funds that were subsequently exited; one company held by 2 funds.

CALPERS CALIFORNIA INITIATIVE INVESTMENT PARTNERS

PARTNER	INVESTMENT FOCUS
American River Ventures www.arventures.com	Venture capital in North Bay, Sacramento and Central California
DFJ Frontier www.dfjfrontier.com	Venture capital in the Central Coast, Central Valley, Sacramento and other underserved areas of California
Nogales Investors www.nogalesinvestors.com	Growth/expansion investment opportunities
Garage Technology Ventures www.garage.com	Seed capital to start-ups
Leonard Green & Partners www.leonardgreen.com	Buyout/expansion opportunities in consumer services
Opportunity Capital Partners www.ocpcapital.com	Expansion/buyout opportunities in middle markets
Pacific Community Ventures www.pcvfund.com	Equity investments in companies bringing economic gains to low-to-moderate income communities in California
Provender Capital www.provender-capital.com	Urban-oriented, under-sponsored opportunities
Yucaipa Companies	Corporate partnerships to relocate or expand operations in underserved areas
Banc of America Capital Access Funds www.bacapitalaccessfunds.com	Fund-of-funds targeting funds focused on underserved markets

GOLDEN STATE INVESTMENT FUND WWW.GSIF.COM

PARTNER	INVESTMENT FOCUS
Hamilton Lane www.hamiltonlane.com	Manages the Golden State Investment Fund, a \$550 million pool of capital dedicated to investing in compelling private equity opportunities focused in California. As part of CalPERS' California Initiative, the Golden State Investment Fund seeks to generate superior returns while generating ancillary benefits in California.
DFJ Frontier www.dfjfrontier.com	Invests in seed- and early-stage companies in California outside of Silicon Valley.
Levine Leichtman Capital www.llcp.com	Focuses on executing growth investments in companies based exclusively in California and will supply debt financing to companies in California's underserved markets.
Pacific Community Ventures www.pcvfund.com	Equity investments in companies bringing economic gains to low-to-moderate income communities in California.
RLH Investors www.rlhequity.com	Seeks to make control investments in high-growth middle-market companies and will focus on transactions based in California.

