

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: Diversity in the Management of Investments –  
Semi-Annual Report

ITEM NUMBER: 5

CONSENT:    

ATTACHMENT(S): 6

ACTION:    

DATE OF MEETING: June 4, 2008 / 20 mins.

INFORMATION:   X  

PRESENTER(S): Solange F. Brooks

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**POLICY**

The philosophy of diversity in the management of investments is interwoven in all CalSTRS policies, and a need has not arisen to specifically address diversity in a separate policy. It is, however, encompassed in the Board's Values, to wit: *Strength: We ensure the strength of our system by embracing a diversity of ideas and people.*

**BOARD STRATEGIC PLAN GOAL**

<b>Goal 5:</b> Ensure a financially sound retirement system through adequate contributions and optimal investment returns.
<b>Goal 6:</b> Foster Board culture and practices that promote efficient and effective governance
➤ Objective J: Explore ways to increase diversity on the Board and with vendors.

**PURPOSE**

As requested by the Investment Committee, this report on diversity is presented twice a year, generally in June and November.

While maintaining a financially sound retirement system, CalSTRS seeks to honor the philosophy of inclusion long reflected in California educators. Diversity in the management of investments is interwoven in the investment business goals and coexists with the objective of investing to enhance the returns at a prudent level of risk, in accordance with Investment Policies, the California Constitution, and the Education Code.

The intent of this report is to keep the Board apprised of CalSTRS Investments' efforts and leadership in this area.

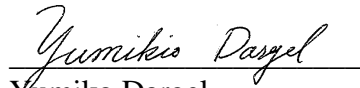
**CONCLUSION**

CalSTRS has a rich history of inclusion. CalSTRS Investments has received strong support from the Board to incorporate diversity into the management of investment by closely linking diversity to our core values and strategic planning. Further, we are proceeding with this semi-annual report which will track our progress in the area, and will also allow Investment leadership to set goals as appropriate.

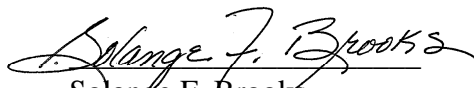
Prepared by:

Prepared by:

Approved by:



Yumiko Dargel  
Investment Officer



Solange F. Brooks  
Investment Officer



Christopher J. Ailman,  
Chief Investment Officer



## Semi-annual Report on Diversity in the Management of Investments

Investments – Investments Executive Unit

### BACKGROUND

The California State Teachers' Retirement System's (CalSTRS) mission is to secure the financial future and sustain the trust of California's educators. While maintaining a financially sound retirement system, CalSTRS seeks to honor the philosophy of inclusion long reflected in California educators. The Investments Branch achieves this goal in the normal course of business. Diversity in the Management of Investments (DMI) is a strategy interwoven in the Investment business goals and coexists with the objective of investing to maximize return at a prudent level of risk in accordance with investment policy, the California Constitution, and the Education Code.

In the first DMI report (November 2007), we provided a historical perspective of CalSTRS Investments' diversity efforts. The intent of this report is to provide you with a glimpse of how our work and attention to this area is impacting the greater community. Thus, four reports are attached for your perusal:

- *Creating Opportunities for Communities and Individuals* (Attachment 2) Banc of America Capital Access Funds 2007 Social Impact Report;
- *Emerging Managers and other Financial Service Providers Database Report Summary* (Attachment 3) Altura Capital's first update of the CalSTRS/CalPERS database;
- *Diversity as an Investment Framework: CalSTRS Targeted Investment Strategy* (Attachment 4) Dr. Tessa Hebb, Harvard Law School, Labor & Worklife Program; and,
- *The Emerging Domestic Market Advisory Group -- Progress Report #1* (Attachment 5) Juan Arambula, Chair, Assembly Committee on Jobs, Economic Development, and the Economy, California State Legislature.

### DISCUSSION

#### **Continued Efforts: Creating Opportunities for Communities and Individuals**

CalSTRS Investments continues its efforts in the underserved space, particularly in California, through the CalSTRS/Banc of America Capital Access Funds totaling a commitment of \$275 million. Please refer to Exhibit 1 for the criteria of funds considered under this mandate. Concomitant to this effort is a research component with

Bank of America

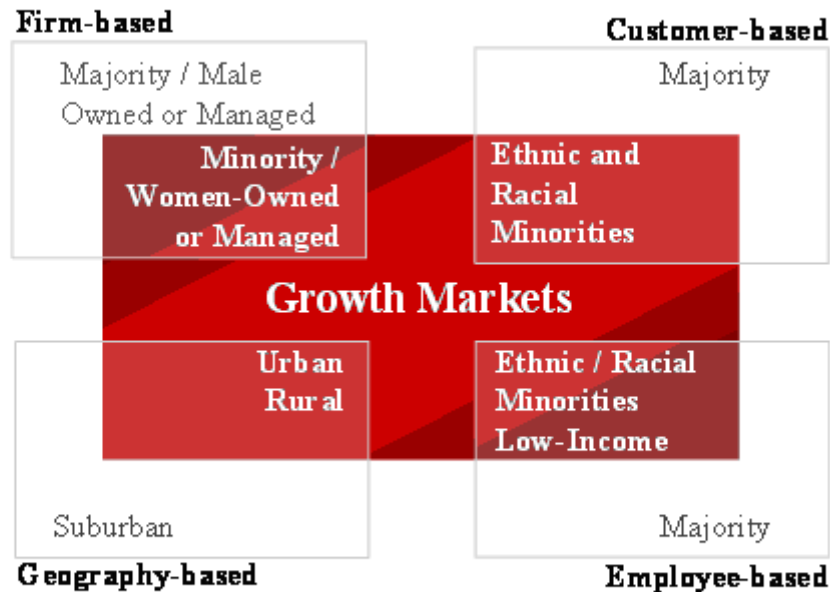
Creating Opportunities for Communities and Individuals

"Through its leadership in the emerging domestic market, CalSTRS has deployed capital that is really making a difference in people and communities that have historically lacked access to capital." - Matt HoganBruen

**EXHIBIT 1**

CalSTRS/Banc of America Capital Access Funds: Total Commitment: \$275 million

**CalSTRS/B of A Capital Access Funds Focus on Underserved Markets . . .**



**. . . In Need of Revitalization With Assets (Available Labor Pool, Underutilized Infrastructure)**

Source: Banc of America Capital Access Fund -- Adapted from *In Your Own Backyard*, Gregory B. Fairchild, Council of Urban Investors Institute

the University of North Carolina, at Chapel Hill. The report found in Attachment 2 was co-written by Janneke Ratcliffe, Associate Director at the University of North Carolina Center for Community Capital and Matt HoganBruen, Managing Director at Banc of America Capital Access Funds. Each year the report presents information that depicts a clear picture of the social impact and opportunities that are being created with CalSTRS and CalPERS funds (CalPERS' total commitment is \$100 million). The report is updated on an annual basis and this is the second report of its kind.

Upon our request, the statistical data was isolated to pinpoint the California educators' funds in this area. The findings are depicted in Exhibit 2. It is important to note that Ratcliffe and HoganBruen used very high standards in determining whether something is underserved. For instance, to be considered ethnic minority owned, 50% or more of the company had to be ethnic minority owned. To be considered women or ethnic minority managed, a company's Chief Executive Officer (CEO) had to be a woman or ethnic minority. The definition of the Low-to-Moderate Income (LMI) was taken from the Census Bureau.

## EXHIBIT 2

### CalSTRS Underserved Statistics:

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- 72% of the underlying companies in the CalSTRS Portfolio funds satisfy at least one definition of underserved<sup>1</sup>
  - 28% of the underlying companies satisfy at least two of our definitions of underserved<sup>1</sup>
  - 22 of the 65 or 34% of the portfolio companies are located in LMI geographies<sup>1</sup>
  - 29 or 45% are ethnic minority owned OR have an ethnic minority CEO; 24 of these companies are actually ethnic minority owned<sup>1</sup>
  - 2 or 3% of the portfolio companies are located in a rural geography<sup>1</sup>
  - 26 or 40% of portfolio companies are located in California; 18 or 28% of these companies satisfy at least one of our definitions of underserved<sup>1</sup>
  - 24 or 36.9% of companies are ethnic minority owned (50% or more ownership) or managed (CEO level)<sup>1</sup>
  - 39 or 60.0% have some (could be any %) ethnic minority ownership<sup>1</sup>
  - 3 or 4.6% of companies are woman owned (50% or more ownership) or managed (CEO level)<sup>1</sup>
  - 27 or 41.5% of companies have some woman ownership<sup>1</sup>
  - 16 or 76.2% of CalSTRS Portfolio funds have an ethnic minority or female GP<sup>2</sup>
  - 11 or 52.4% of CalSTRS Portfolio funds have more than 1 ethnic minority or female GP's<sup>2</sup>
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1. As of December 31, 2006; 65 companies comprise the CalSTRS Portfolio at this time

2. As of September 30, 2007

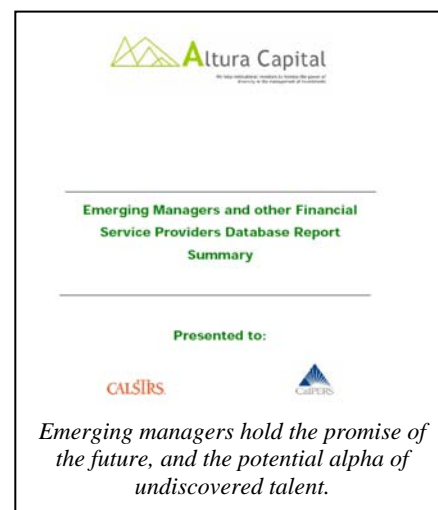
Source: Banc of America Capital Access Fund

### ***Leadership: Emerging Managers and other Financial Service Providers Database Report***

The first update of the Emerging Managers and other Financial Service Providers Database Report (EMFSP Report) has been completed. As reported in April 2007 in the California Report (Period Ending December 31, 2006), CalSTRS in partnership with CalPERS, commissioned Altura Capital to compile a database of emerging managers and other financial service providers as part of an ongoing effort to find untapped talents in the emerging space. The criteria found in Exhibit 3 were the result of a joint effort by CalSTRS and CalPERS investment professionals. Further, the EMFSP database report was shared with industry peers across the country and has become an industry reference guide that promotes information transparency.

Over 400 institutional investors downloaded the 2007 EMFSP Report last year. It gives public and private pension funds and other institutional investors an exposure to a new universe of emerging investment firms in an effort to boost investment returns by building investment portfolios that tap into the changing demographics and talent emerging in California and the nation.

As Altura continues to update and invest significant resources in the development of technology and infrastructure to scout, track and analyze emerging managers, which is one of the core competencies of the firm, these efforts benefit CalSTRS and CalPERS. The EMFSP report has grown to 1,035 firms from 721 reported last year; this is a 44% growth rate. The efforts of



Altura Capital in tapping for new sources of investment talent continue to reach added international interest. This year the Altura site received almost 28,000 visitors from 86 countries, a considerable increase from the 6,000 non-US visitors during the previous year.

The updated EMFSP report shows more than 21% of the participating firms are from California, which makes California the second most popular state for emerging managers after New York at 24%. California is the state with the largest number of reported minority-owned (more than 50% ownership) firms, 35 in total, which is equivalent to 4.7% of the respondents, and the most minority and women-owned firms at 38. In addition, 86 California firms have some minority ownership. California has the largest number of firms of which the majority of the ownership is held by Asian Americans, with a total of 14, and equivalent to 1.9% of the total universe of respondents. It also has more reported firms of which the majority of the ownership is held by Hispanic American than any other State, with 9 firms, or 1.2%. Please refer to Attachment 3 for a more complete statistical summary of findings.

In August 2008, Altura Capital is scheduled to launch the Altura Emerging Manager Information Platform (AEMIP), the first global information, research, data, and networking platform which will be a subscription-based tool to track and research emerging and diverse managers for mid and large, private and public, institutional investors. This platform resolves serious needs for data, research, knowledge and collaborative tools in the developing manager space. CalSTRS is one of the founding subscribers in this platform, which include the City of New York, the State of North Carolina, the Los Angeles City Employees Retirement Systems (LACERS), the Illinois State Board of Investments and CalPERS.

"When we look back over the past few years, we see with excitement that our efforts have allowed us to gather data on more than 1,000 investment products from 44 countries around the globe, a number which is growing day by day, many of which have not been discovered by existing emerging manager program managers. Some of these undiscovered managers outperformed their benchmarks and their larger peers on a regular basis. We are on a quest to get intimately familiar with the emerging managers in our database and to appropriately evaluate them and find a way to incorporate them into an investment strategy. This will provide new alpha generation opportunities for those we serve: the institutional investors. We are also providing opportunity to the next generation of great investment talent around the globe, which is being incubated in small, nimble, young firms. With sophisticated data capturing and screening tools like the ones Altura has developed, we can change the way emerging investment talent gains exposure to institutional investors and the way institutional investors gain exposure to emerging investment talent," said Monika Mantilla, CEO and Founder of Altura Capital.

Christopher J. Ailman, Chief Investment Officer at CalSTRS commented: "Since 2005, when we teamed up with CalPERS to give Altura the mandate to develop a database of emerging managers, we wanted to develop a tool that would be utilized by the institutional market to gain understanding and broad visibility to the emerging manager category. Emerging managers hold the promise of the future and the potential alpha of undiscovered talent. The results of CalSTRS Emerging Manager Program demonstrate the innovation and initiative that's housed in small nimble money managers. Altura itself is an emerging player in the space, bringing to the market innovative tools to better understand and evaluate emerging managers. We are excited to be an AEMIP subscriber."

**EXHIBIT 3**

**EMFSP Database: Participation Criteria**

	<b><u>Emerging Definition</u></b>	<b><u>Minimum Qualifications</u></b>
<b>Money Managers</b>	Firm must have \$6 billion or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption from registration.
<b>Private Equity Funds</b>	Firm must have \$600 million or less in assets under management (AUM) for expansion/buyout funds or \$300 million or less in assets under management for venture capital funds. Firm must be a 1st, 2nd, or 3rd time private equity fund. Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must have a Private Placement Memorandum in place.
<b>Fund of Private Equity Funds</b>	Firm must have \$2 billion or less in assets under management (AUM). In addition to the above, the firm must comply with at least 1 of the following requirements: a) A maximum of 55% non employee-owned ownership, or b) Be a fund that is specifically focused on emerging private equity funds.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must have a Private Placement Memorandum in place or a similar proposal, in the event of a separate account relationship.
<b>Real Estate Partnerships</b>	Firm must have \$1 BN or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must have a Private Placement Memorandum in place, or have similar proposal in the event of a separate account relationship.
<b>REITs</b>	Firm must have \$500 million or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption from registration.
<b>Hedge Funds</b>	Firm must have \$500MM or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number.
<b>Fund of Hedge Funds</b>	Firm must have \$1 billion or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number.
<b>Investment Management Consultant</b>	Firm must have \$10 billion or less in assets under consulting/advisement. Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption from registration.
<b>Investment Research Firms</b>	Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption from registration.
<b>Emerging Manager Program Managers</b>	Firm must have \$8 billion or less in assets under management (AUM) Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption.
<b>Broker-Dealers</b>	Firm must have \$25MM or less in annual commissions. Firm must have \$50MM or less in Net Equity Capital as defined by the NASD. Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate tax Identification number. Firm must be a NASD registered firm.

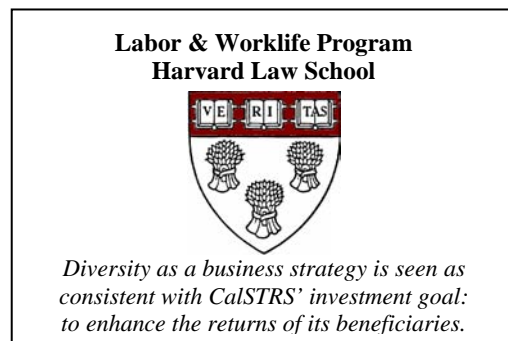
Source: Altura Capital

**Research: Diversity as an Investment Framework - CalSTRS Targeted Investment Strategy**

Dr. Tessa Hebb has been conducting a series of case studies that examine public sector funds' investments and their effect on American urban utilization at Harvard Law School, Labor and Worklife Program. Her research is part of the Pension Funds and Urban Revitalization Initiative (PRURI) that started at Oxford University's School of Geography at the Center for the Environment, where she completed her doctorate and was awarded a Clarendon Scholarship by the University of Oxford and the prestigious William E. Taylor Fellowship (2003) from the Social Sciences and Humanities Research Council, Government of Canada. Funded by the Rockefeller and Ford Foundations, this research seeks to investigate and promote best practice in US urban revitalization by US public sector pension funds. It aims to increase awareness by public sector pension funds, their business partners and consultants, of current best-practices in the field. It also investigates the business case for public sector pension fund investment in urban revitalization projects. Attachment 4 includes Dr. Hebb's report after reviewing CalSTRS Investments' comprehensive approach of diversity in the management of investments for the past two years.

The Labor and Worklife Program (LWP) is Harvard University's forum for research and teaching on the world of work and its implications for society. The LWP brings together scholars and policy experts from a variety of disciplines to analyze critical labor issues in the law, economy, and society. As a multidisciplinary research and policy network, the LWP organizes projects and programs that seek to understand critical changes in labor markets and labor law, and to analyze the role of unions, business, and government as they affect the world of work. By engaging scholars, students, and members of the labor community, the program coordinates legal, educational, and cultural activities designed to improve the quality of work life.

The faculty, staff, and research associates of the Program include some of the nation's premier scholars of labor studies and an array of internationally renowned intellectuals. The executive training program (HTUP) works closely with trade unions around the world to bring excellence in labor education to trade union leadership. The LWP regularly holds forums, conferences, and discussion groups on labor issues of concern to business, unions, and the government.



**Collaborative Efforts: Emerging Domestic Market Advisory Group**



Christopher J. Ailman, Chief Investment Officer, and Solange F. Brooks, Investment Officer for California Investments, are part of Assemblyman Juan Arambula's advisory group on emerging domestic markets. Assemblyman Arambula, in conjunction with the Latino Caucus and in partnership with the California Hispanic Chamber of Commerce, is working in a collaborative effort focused on how to attract more private investment to California's historically underserved capital markets. The purpose of the Advisory Group is to create a more efficient financial ecosystem for emerging domestic markets.

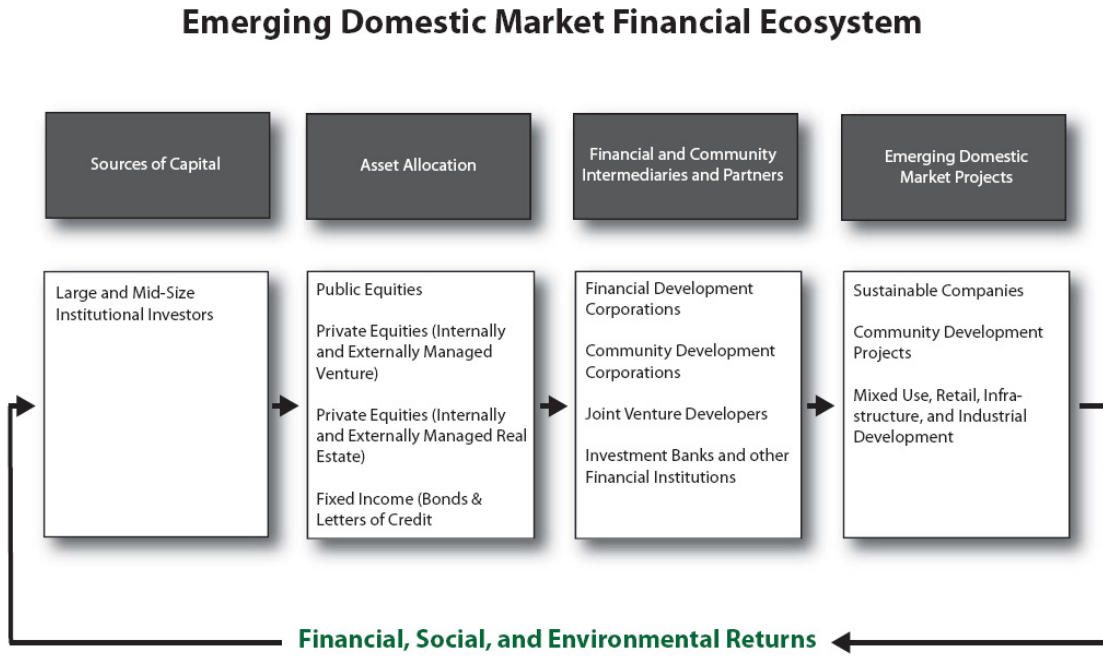
Emerging domestic markets, also known as EDMs, are defined as people, places, or business enterprises with growth potential, that face systemic capital constraints and are driven by significant ethnic and racial shifts in the nation's demographics.

In the last few years, there has been a renewed interest by institutional investors in identifying businesses and real estate opportunities in EDMs. This growth in investor interest is driven, in part, by the recognition that changing demographics in the United States has resulted in a significant increase in minority purchasing power and business development by minority-owned firms. Please refer to Exhibit 4.

**EXHIBIT 4**

**Emerging Domestic Market Financial Ecosystem**

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Source: EDM Advisory Group

While not every low income community in California is ready for private sector investment, it is believed that many communities and small businesses can become investment ready through more effective partnerships between the nonprofit, private, and public sectors. The goal is to enable greater investment in emerging domestic markets by expediting deal flow and increasing access to information. The first progress report of the Advisory Group is found in Attachment 5.

CALSTRS staff recently participated in an Investor Roundtable, at California State University, Fresno's The Lyles Center for Entrepreneurship where a discussion of CalSTRS Board's direction and values with respect to California investments, Investments' DMI strategy and execution and its overall effect on California's EDM was discussed.

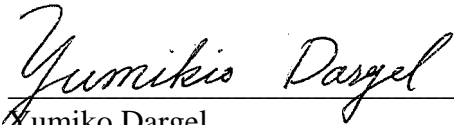
## CONCLUSION

CalSTRS Investments continues to implement its strategy of diversity in the management of investment, keeping in line with the Board's direction to gain strength from a diversity of ideas and people. Consistent with this approach, Investments proceeds with the business of securing a strong retirement fund for the teachers of California while remaining consistent with the Board's values and direction. Thus, the philosophy of inclusion and diversity is interwoven in the business goals. Investment goals are to:

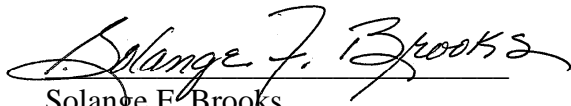
- a) Achieve a rate of return on the total assets of the Fund that, in the long run, exceeds the actuarial discount rate used to value the liabilities of the Retirement Plan for funding purposes, so as to ensure that sufficient assets are available to meet the liabilities on an ongoing basis.
- b) Reduce the contributions required to fund those liabilities by maximizing the long-term investment return on assets at a level of risk that is acceptable to the Board.
- c) Maintain a certain level of stability in pension contributions so as not to adversely impact the long-term viability of the System and its ability to continue to meet its pension obligations.
- d) Manage the investments of the Fund in a prudent manner so as to maintain the confidence of members as well as the general public in the California State Teachers' Retirement System.

We believe that the exchange of ideas and the direction given to us by the CalSTRS Board with regard to issues around diversity of ideas and people are invaluable. We also applaud Legislative interest in our efforts, and the support of CalSTRS leadership to ensure that a wide variety of talent and investment ideas continues to be incorporated in CalSTRS investment strategies, as a smart and responsible way to execute our duties as fiduciaries.

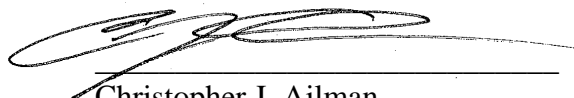
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Approved by:

  
Christopher J. Ailman  
Chief Investment Officer





**CREATING OPPORTUNITIES FOR  
COMMUNITIES AND INDIVIDUALS  
BANC OF AMERICA CAPITAL ACCESS FUNDS --  
2007 SOCIAL IMPACT REPORT**





**EMERGING MANAGERS &  
OTHER FINANCIAL SERVICE PROVIDERS  
DATABASE  
2008 SUMMARY**





We help institutional investors to harness the power of  
diversity in the management of investments

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# Emerging Managers and other Financial Service Providers Database Report Summary

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**Presented to:**

The logo for CALSTRS, the California State Teachers' Retirement System, is written in a red, serif, all-caps font.

**CALSTRS**



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March 2008

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## B. INTRODUCTION

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All of us at Altura are very pleased to present this second edition of the Emerging Managers and other Financial Services Providers Institutional Report, the “**EMFSP Institutional Report**”. It has been one year since we produced the last report, which would not have been possible without the leadership and foresight of two of the largest and most sophisticated institutional investors in the world, the **California State Teachers’ Retirement System (CalSTRS)** and the **California Public Employees’ Retirement System (CalPERS)**. They have a vision of adding value by encouraging and tapping an overlooked resource: **the investment talent that exists in small, nimble, entrepreneurial firms**. Their example and commitment will inspire other institutional investors around the globe to devote time and resources to a valuable and largely untapped pool of talent.

Since the last report, Altura has continued to devote time and resources to building up the database of emerging managers, and this is shown in the changes. In the previous report, we had 721 firms, this year that count has grown to 1035, a healthy 44% growth rate. The growth is also impressive internationally; last year at this time we had 44 firms outside the US providing us with data, this year it has grown to 71 firms from 18 countries.

We also continue to see added interest in the data, with the site receiving visitors from 86 countries, 11 more than last year, and getting almost 28,000 visitors, an increase of 6,000 visitors over the previous year. In terms of the economic impact of these emerging firms, the numbers are impressive. This year’s report covers firms with over 8,300 employees; an increase of 1,300 employees over last year’s report. We have highlighted the changes throughout the report, where they were meaningful and relevant. We have also highlighted instances in which there was consistency, since it shows stability in the statistics that is sometimes at odds with common perception. For instance, we show that the large increase in the number of firms did not change the level of experience from the previous report.

While we are very pleased with the changes from last year, we are just as pleased with what did not change. Our commitment to the emerging space remains constant, as does the criteria we use, and the questionnaires and their thoroughness.

Over the past year **the 2007 report was made available on Altura’s website, and over 400 institutional investors have downloaded it.**

We hope this report becomes a valuable tool for Institutional Investors who are seeking to better understand the emerging space. **Altura’s** mission is to help Institutional Investors to gain a better understanding, which often leads to increase utilization, of new and emerging investment talent. We

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are firm believers in the competitive abilities of undiscovered and underutilized investment talent. We believe this database is a great tool for institutional and non-institutional investors to learn more about this segment of investment managers. We look forward to continuing to build tools, evaluation standards, market intelligence and research that will help to shed more light and provide more opportunities to all market participants.

This process does not end here. **In fact this is just the beginning.** In the third quarter of 2008, with the support of some of the largest institutional investors in the country, Altura will be launching a subscription-based information platform containing queryable data and analytics as well as powerful collaborative tools. We hope that this platform and other tools that we build in the future will be of service to your organization. We welcome and are grateful for your feedback and comments.

Please feel free to send your feedback and comments to me via e-mail at [monika@alturacap.com](mailto:monika@alturacap.com), or please call me at (212) 248 0532.

Very truly yours,



Monika Mantilla  
President and CEO  
**Altura Capital**

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## C. SUMMARY OF FINDINGS

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This section includes:

- Background of the database project and methodology for data capture and analysis
- Key highlights
- General statistics

### *1. Background of the database project and methodology for data capture and analysis*

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#### Background

In 2005, The California State Teachers' Retirement System (**CalSTRS**) and the California Public Employees' Retirement System (**CalPERS**) commissioned Altura Capital to develop a comprehensive database of emerging managers and other financial service providers. The overarching goals of this undertaking were to identify an extensive universe of untapped talent in the investment industry, broaden diversity investment opportunities for public and private pension funds, promote transparency and access to capital, and develop a better understanding of emerging investment firms.

A first edition of this report was released in January 2007, and it was based on data captured by Altura's proprietary data capture system as of October 4, 2006. Altura has continued to capture data from emerging firms on a continuous basis, and this second edition of the report is based on data that was captured as of January 28, 2008. Altura has made every effort to ensure that firms had an opportunity to review and correct their information, and our client service desk has, and continues to, provide any assistance the emerging firms need. Once the firm profiles were assembled, all database participants were given the opportunity to review their firm profiles and decide if they wished to be part of the widely disseminated EMFSP Institutional Report.

#### Methodology

Altura interviewed close to thirty investment professionals at both CalSTRS and CalPERS to determine which categories (asset classes) should be included in the first edition of the report. Our dialogues concluded that the database should include eleven service provider categories. These same categories have been used in this second edition of the report:

- Money Managers (Equity, Fixed Income and Currency)
- Private Equity Funds
- Private Equity Funds of Funds
- Real Estate Partnerships
- REITs

- Hedge Funds
- Funds of Hedge Funds
- Investment Management Consultants
- Investment Research Firms
- Emerging Manager Program Managers
- Broker-Dealers

The process to participate in the database entailed eight steps as illustrated below:

### Participation Process for new firms

1. Visit: [www.alturacap.com](http://www.alturacap.com)
2. Selection of firm's service provider category
3. Review instructions & participation criteria (the participation criteria for each service provider category is described below)
4. Submission of online validation form
5. Mailing to Altura of validation form (the validation process was implemented to certify that firms met the participation criteria)
6. E-mailing of user ID & password to database registrant
7. Questionnaire completion and submission
8. Review of questionnaire in HTML format and content confirmation
9. Review of firm profile for EMFSP Institutional Report

### Participation Process for firms already in database

1. Visit: [www.alturacap.com](http://www.alturacap.com)
2. Review instructions & participation criteria to ensure ongoing qualification (the participation criteria for each service provider category is described below)
3. Login with user ID and password previously provided
4. Questionnaire review and editing where appropriate
5. Review of questionnaire in HTML format and content confirmation
6. Review of firm profile for EMFSP Institutional Report

In the firm listing section, if we were unable to reconfirm information provided in last year's report, that firm was marked by an asterisk (\*).

### Participation Criteria by Service Provider Category

The minimum participation criteria were purposely kept broad to make the database as inclusive as possible. Altura proposed a series of participation criteria and minimum qualifications per asset class which were then evaluated by each relevant investment department at both CalSTRS and CalPERS. Some definitions were easy to arrive upon. Others required research and further analysis.

The criteria for each service provider category is specified in Table 1, and are, for the most part, unchanged from the first edition of the report:

**Table 1. Participation Criteria**

	<b>Emerging Definition</b>	<b>Minimum Qualifications</b>
<b>Money Managers</b>	Firm must have \$6 billion or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption from registration.
<b>Private Equity Funds</b>	Firm must have \$600 million or less in assets under management (AUM) for expansion/buyout funds or \$300 million or less in assets under management for venture capital funds. Firm must be a 1st, 2nd, or 3rd time private equity fund. Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must have a Private Placement Memorandum in place.
<b>Private Equity Fund of Funds</b>	Firm must have \$2 billion or less in assets under management (AUM). In addition to the above, the firm must comply with at least 1 of the following requirements: <b>a)</b> A maximum of 55% non employee-owned ownership, or <b>b)</b> Be a fund that is specifically focused on emerging private equity funds.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must have a Private Placement Memorandum in place or a similar proposal, in the event of a separate account relationship.
<b>Real Estate Partnerships</b>	Firm must have \$1 BN or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must have a Private Placement Memorandum in place, or have similar proposal in the event of a separate account relationship.
<b>REITs</b>	Firm must have \$500 million or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption from registration.
<b>Hedge Funds</b>	Firm must have \$500MM or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number.
<b>Hedge Fund of Funds</b>	Firm must have \$1 billion or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number.
<b>Investment Management Consultant</b>	Firm must have \$10 billion or less in assets under consulting/advisement. Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption from registration.
<b>Investment Research Firms</b>	Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption from registration.
<b>Emerging Manager Program Managers</b>	Firm must have \$8 billion or less in assets under management (AUM). Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate Tax Identification number. Firm must be a Registered Investment Advisor (RIA) or must qualify for exemption.
<b>Broker-Dealers</b>	Firm must have \$25MM or less in annual commissions. Firm must have \$50MM or less in Net Equity Capital as defined by the NASD. Firm must have a maximum of 55% non employee-owned ownership.	Firm must be a legally structured entity with a corporate tax Identification number. Firm must be a NASD registered firm.

Source: Altura Capital

\*That is, employees at the firm must own at least 45% of the equity of the firm. For the purposes of this definition, 45% employee ownership includes either direct or indirect ownership (through a different legal entity owned by the employees.) The word employee includes principals, members, partners or any other individuals who are actively involved in the day-to-day operations of the firm.

## Questionnaire Sections by service provider category

While some of the basic information about firms was kept similar, Altura created customized questionnaires for each service provider as shown in Table 2. These customized questionnaires are unchanged from the first edition of the report:

**Table 2. Sections by Service Provider**

	Money Managers	Private Equity Funds	Private Equity Fund of Funds	Real Estate Partnerships	REITs	Hedge Funds	Hedge Fund of Funds	Investment Management Consultants	Investment Research Firms
<b>Section A</b>	Firm Overview, Contact Information & Corporate Structure	Firm Overview, Contact Information & Fund Structure	Firm Overview, Contact Information & Corporate Structure	Firm Overview, Contact Information & Corporate Structure	Firm Overview, Contact Information & Corporate Structure	Firm Overview, Contact Information & Corporate Structure	Firm Overview, Contact Information & Corporate Structure	Firm Overview, Contact Information & Corporate Structure	Firm Overview, Contact Information & Corporate Structure
<b>Section B</b>	Staff Overview and Firm Strategy	Team Description and Fund Strategy	Team Description and Fund Strategy	Team Description and Firm Strategy	Staff Overview and Firm Strategy	Staff Overview and Firm Strategy	Staff Overview and Firm Strategy	Staff Overview and Firm Strategy	Staff Overview and Firm Strategy
<b>Section C</b>	Assets Under Management (as of 3/31/06)	Funds Sought	Funds Sought	Assets Under Management and Funds Sought	Assets Under Management (as of 3/31/06)	Assets Under Management (as of 3/31/06)	Assets Under Management (as of 3/31/06)	Client Coverage and Assets Under Consulting / Advisement	Analyst Information
<b>Section D</b>	Product & Investment Strategy & Risk Management Tools	Investment Strategy	Investment Strategy	Investment Strategy	Products, Investment Strategy & Risk Controls	Investment Vehicles, Investment Strategy & Risk Controls	Product & Investment Strategy & Risk Management	Services	Communication of Analyst Information
<b>Section E</b>	Fees	Fees	Fees	Fees (in basis points)	Fees	Fund Pricing & Fees	Performance & Benchmarks	The Emerging Firm Experience	Asset Allocation & Economic Analysis
<b>Section F</b>	Performance, Risk & Return	The Emerging Firm Experience	The Emerging Firm Experience	Possible Enclosures	Performance, Risk & Return	Performance & Track Record	Fees	Optional - Socially Responsible Investment & Diversity Policies & Minority Staffing at the Firm	Fees
<b>Section G</b>	Enclosures	Optional - Socially Responsible Investing & Diversity Policies & Minority Staffing at the Firm	Optional - Socially Responsible Investing & Diversity Policies & Minority Staffing at the Firm	The Emerging Firm Experience	Possible Enclosures	The Emerging Firm Experience	The Emerging Firm Experience	Current Business Relationship with CalSTRS & CalPERS	Evaluation of Performance
<b>Section H</b>	The Emerging Firm Experience	Current Business Relationship with CalSTRS & CalPERS	Current Business Relationship with CalSTRS & CalPERS	Optional - Socially Responsible Investment & Diversity Policies & Minority Staffing at the Firm	The Emerging Firm Experience	Optional - Socially Responsible Investing & Diversity Policies & Minority Staffing at the Firm	Optional - Socially Responsible Investing & Diversity Policies & Minority Staffing at the Firm	Additional Information	The Emerging Firm Experience
<b>Section I</b>	Optional - Socially Responsible Investing & Diversity Policies & Minority Staffing at the Firm	Additional Information	Additional Information	Current Business Relationship with CalSTRS & CalPERS	Optional - Socially Responsible Investing & Diversity Policies & Minority Staffing at the Firm	Current Business Relationship with CalPERS	Current Business Relationship with CalPERS		Optional - Socially Responsible Investing & Diversity Policies & Minority Staffing at the Firm
<b>Section J</b>	Current Business Relationship with CalSTRS & CalPERS			Additional Information	Current Business Relationship with CalSTRS & CalPERS	Additional Information	Current Business Relationship with CalSTRS & CalPERS		Current Business Relationship with CalSTRS & CalPERS
<b>Section K</b>	Additional Information				Additional Information				Additional Information

Source: Altura Capital

All the statistics in this report have been sourced from questions that database participants responded to. Some respondents left questions unanswered (a possibility which was provided as an option if the database participant did not wish to share or did not have certain information). For this reason the number of data points or the number of respondents may vary from question to question.

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## 2. Key Highlights

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- *Almost half of the participants came from New York and California (see Table 5), which was also true in the previous report.*
- *Of all participating firms, 67% of them have 10 or fewer employees (see Table 8), vs. 70% of the firms in last year's report.*
- *In terms of years in operation, 13% of the firms have been in operation for less than 2 years, and 34% of the firms have been in business between 2 and 5 years (see Figure 4). About 23% of the firms are in the next two categories (6 to 10 years and 11 to 20 years in business).*
- *Regarding investment experience, 38% of the participants had an investment team with average experience between 10 and 20 years (see Table 10) vs. 41% in last year's report.*
- *The database had inquiries from 86 foreign countries, with 71 firms representing 18 countries actually providing data (see Table 6). This is a big increase of over 60% in the number of international firms, and it may be a sign that the money management business is becoming more entrepreneurial abroad, just as it is in the US. It may also be a sign of the continued spread of assets globally, and the resultant spread of investment talent as it follows the money. The largest increase from the first edition of the report came from Canada and the United Kingdom.*
- *Regarding minority ownership\*, 33% of the respondents consist of women and minority-owned companies (see Table 11). 13% are Women-owned (including minority women) (Table 12) and 25% are minority-owned (Table 13). Thus, 3% of the service providers are both minority and women owned (Figure 8).*
- *Of the total respondents, 11% of them are African American-owned firms (defined as firms at which 50.1% or more of the equity belongs to African Americans) (Table 14). This is slightly down from 12% in last year's report.\**
- *Asian American-owned firms are 13% of the respondents (defined as firms at which 50.1% or more of the equity belongs to Asian Americans) This is up significantly from the data in last year's report. (Table 15).\**
- *Hispanic American-owned firms are 6% of the respondents (defined as firms at which 50.1% or more of the equity belongs to Hispanic Americans) (Table 16), a statistic that is unchanged from last year's report.\**
- *Of the respondents, 1% are Native American-owned firms (using the same 50.1% or more equity ownership parameter) (Table 17), which is essentially unchanged from last year.\**
- *Of the respondents, 0.3% are Disabled Veteran-owned firms (firms at which 50.1% or more of the equity belongs to Disabled Veterans) (Table 18), which is reduced slightly from the 0.7% in last year's report.\**
- *California is the State with the largest number of reported minority-owned firms, 35 in total, which is equivalent to 4.7% of the respondents, and the most minority and women-owned firms at 38. California has the largest number of majority-owned Asian American firms, a total of 14, and equivalent to 1.9% of the total universe of respondents. It also has more reported majority-owned Hispanic American firms than any other State, with 9 firms, or 1.2%.\**
- *New York is the State with the largest number of reported women-owned firms (2.5% of total respondents). It also has the largest number of reported African-American firms with a total of 13 or 1.7% of total respondents. These numbers are very similar to the numbers in last year's report.\**

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\*Voluntary information on minority and women staffing/ownership within the firm was an optional part of the questionnaire. Answers to these question were voluntary and do not affect a firm's participation in the EMFSP Institutional Report or the database.

### 3. General Findings

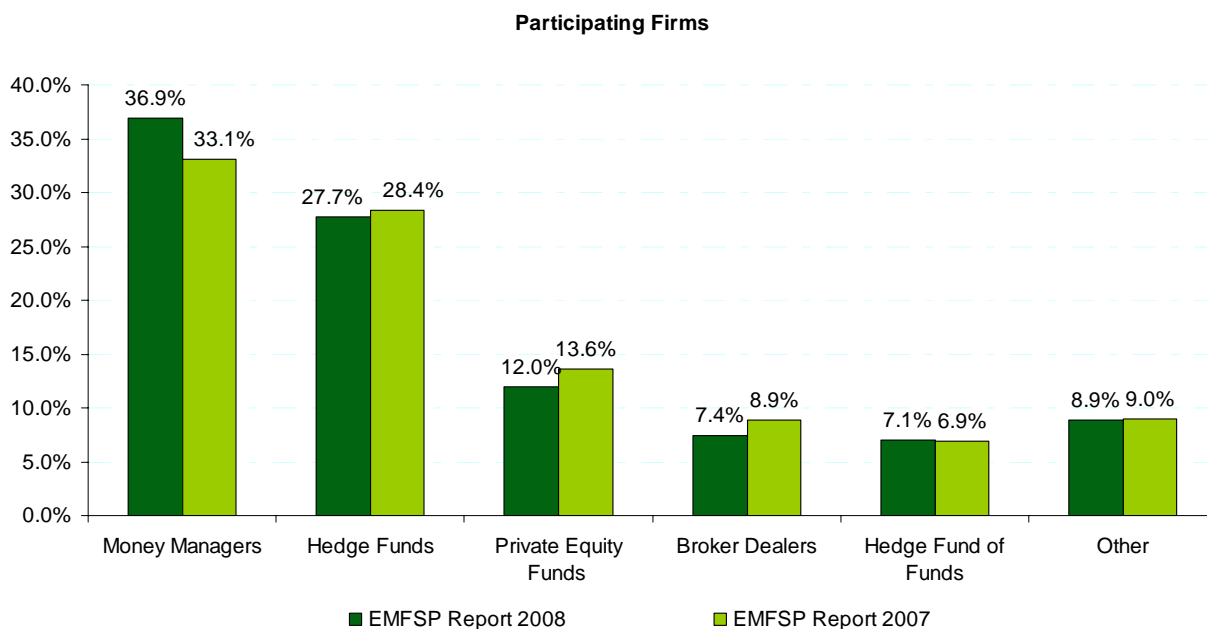
To provide a first look at the data, this chapter provides a simple, summarized overview of descriptive statistics of the participating firms including total number of participants, rate of questionnaire completion, breakdown of participants by state and countries, number of employees, years in operation, years of industry experience and diversity segmentation of the participating firms.

The substantial and comprehensive data collected by Altura, as well as subsequent data updates and periodic performance data collection will allow us to continue to conduct research in the space and to create in-depth sector analysis in the months to come. For now, our goal is to present to the reader a set of basic statistics related to the emerging firms sampled for this project.

#### A. Number and breakdown of participants

The number of participants and the breakdown by service provider category was as shown below in Chart 1. Even though the database has increased substantially in size since the first edition, the broad characteristics of the participants in terms of service provider category have not changed significantly.

**Figure 1. Top five participating service providers**



Source: *Altura Capital*. Other includes Private Equity Funds of Funds, Real Estate Partnerships, Real Estate Investment Trusts, Investment Management Consultants, Investment Research Firms, and Emerging Manager Program Managers.

As in last years report, we continue to be pleased with the number of participating firms and with the wide variety of our sample in terms of strategies, size, number of employees, years in business,

geographic location and diversity. Although we have increased the size the database over the past year, we recognize that the pool of emerging managers and other financial service providers is likely broader. Even though our database efforts were widely disseminated and advertised in a wide variety of financial publications, many emerging money managers and other financial service providers are still not aware of our efforts, or were not able to participate. We continue to invite all of them to post their data by logging on to [www.alturacap.com](http://www.alturacap.com). Our continuing commitment to scout these managers and invite them to participate in the database will yield an even larger and better sample set. Furthermore, the extreme dynamism of these organizations requires us to continue to regularly update their information. Altura captures data seven days a week, 24 hours a day. Any registered manager from any country around the globe can add and edit their data securely. We ask managers to update their data monthly, so that they can participate in opportunities that are generated by investors searching through our database.

**Table 3. Number of participating firms**

Category	Number of Firms		Percentage	
	2007	2008	2007	2008
Money Managers	239	382	33.1%	36.9%
Hedge Funds	205	287	28.4%	27.7%
Private Equity Funds	98	124	13.6%	12.0%
Broker Dealers	64	77	8.1%	7.4%
Hedge Fund of Funds	50	73	6.9%	7.1%
Emerging Manager Program Managers	10	17	1.4%	1.6%
Real Estate Partnerships	19	27	2.6%	2.6%
Investment Management Consultants	20	26	2.8%	2.5%
Private Equity Fund of Funds	8	14	1.1%	1.4%
Investment Research Firms	6	6	0.8%	0.6%
Real Estate Investment Trusts	2	2	0.3%	0.2%
<b>TOTAL</b>	<b>721</b>	<b>1035</b>		

Source: Altura Capital

In terms of participation turnout, the leading segments were money managers and hedge funds, followed by private equity funds, broker dealers and hedge funds of funds. The segments with the lowest turnout were REITS and Investment research firms.

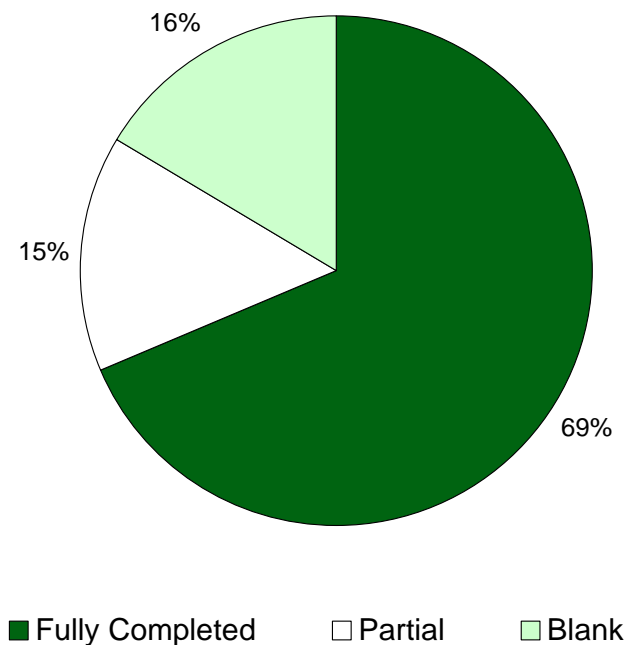
As previously mentioned, database participants were invited to participate by completing a validation form and a comprehensive questionnaire. While, 84% of the participants completed either a part or the entire questionnaire, 16% left their questionnaire blank. Altura has made several attempts to contact all firms with blank questionnaires and continues to invite them and any other new participants to join the database. Several firms completed their data after the final data cut date, and for this reason they could not be included in this report. Altura maintains a service desk to provide guidance and support to all participants, and the majority of participating firms have had two or more

contacts with Altura over the past two years. While Altura is very satisfied and indeed pleased with the high questionnaire response rate, we are going to redouble our efforts to make the process easier for emerging firms, and we are targeting a higher completion rate going forward.

**B. Questionnaire completion rates**

The Breakdown by rate of questionnaire completion was as follows:

**Figure 2. Questionnaire completion rates**



Source: Altura Capital.

With the exception of participation breakdown by state, which was a data item available for all database participants, the statistics outlined here were drawn from a universe of 849 firms, which represents the number of firms for which we had complete or partially complete information by January 29, 2008. This represents an increase of over 30% from the number of firms we had in the first edition of the report. Firms that have completed the validation process but have not yet entered their data were not included in this report, but will be included in future databases and studies. Each statistic provided describes the exact number of respondents as well as the number of answers left blank.

As previously mentioned, all the statistics in this report have been sourced from questions that database participants responded to. Because some respondents left questions unanswered (a possibility which was provided as an option if the participant did not wish to share or did not have

certain information), the number of data points or the number of respondents may vary from question to question.

Section D of this report contains the Firm Profiles of firms with completed or partially completed questionnaires. Empty spaces are left whenever insufficient data was provided by the participating firm.

**Table 4. Questionnaire completion rates**

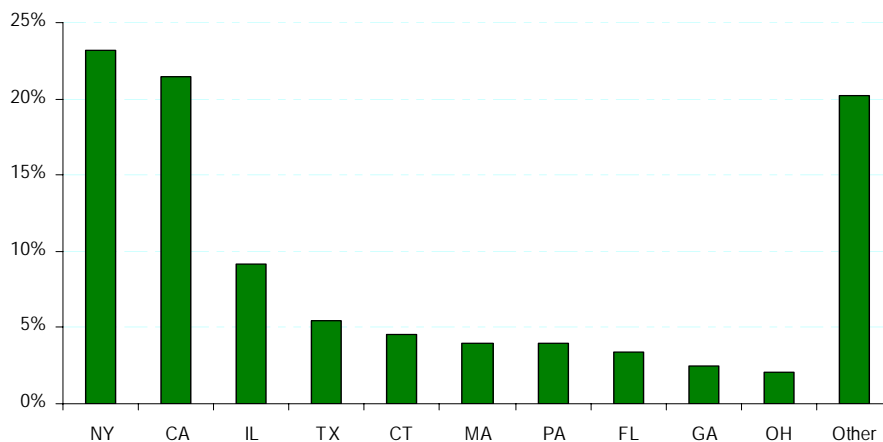
	Completed		Partial		Blank	
	Firms	% of Total	Firms	% of Total	Firms	% of Total
Money Managers	273	71%	60	16%	49	13%
Private Equity Funds	74	60%	15	12%	35	28%
Private Equity Fund of Funds	8	57%	2	14%	4	29%
Real Estate Partnerships	22	81%	1	4%	4	15%
Real Estate Investment Trusts	1	50%	1	50%	0	0%
Hedge Funds	188	66%	49	17%	50	17%
Hedge Fund of Funds	42	58%	18	25%	13	18%
Investment Management Consultants	17	65%	2	8%	7	27%
Investment Research Firms	6	100%	0	0%	0	0%
Emerging Manager Program Managers	17	100%	0	0%	0	0%
Broker Dealers	62	81%	8	10%	7	9%
<b>TOTAL</b>	<b>710</b>	<b>69%</b>	<b>156</b>	<b>15%</b>	<b>169</b>	<b>16%</b>

Source: Altura Capital.

**C. Participating States and Countries**

The top participating States and Countries are as shown below. This information has not changed substantially from the first edition of the report.

**Figure 3. Top 10 states participating in the database**



Source: Altura Capital.

The sample was heavily concentrated toward the larger States, with New York and California representing almost half of the respondents (43.6%). After Illinois, Connecticut and Texas, the participation dropped below 5% per State.

**Table 5. Number of participants per State**

State	Money Managers	Private Equity Funds	Private Equity Fund of Funds	Real Estate Partnerships	Real Estate Investment Trusts	Hedge Funds
Alabama	1	-	-	-	-	-
Alaska	1	-	-	-	-	-
Arizona	1	-	-	-	-	1
Arkansas	-	-	-	-	-	-
California	54	40	3	8	-	51
Colorado	7	2	-	-	-	4
Connecticut	10	3	1	1	-	19
Delaware	-	1	-	-	-	-
District of Columbia	1	1	-	-	-	-
Florida	16	3	-	-	-	10
Georgia	6	4	-	1	-	4
Hawaii	-	-	-	-	-	-
Idaho	1	-	-	-	-	-
Illinois	28	6	4	1	-	9
Indiana	-	-	-	-	-	-
Iowa	-	1	-	-	-	-
Kansas	-	-	-	-	-	-
Kentucky	2	1	-	-	-	-
Louisiana	-	-	-	-	-	-
Maine	-	-	-	-	-	-
Maryland	8	2	1	1	-	3
Massachusetts	8	5	1	2	-	12
Michigan	4	3	-	2	-	-
Minnesota	10	-	-	-	-	1
Mississippi	-	-	-	-	-	-
Missouri	8	1	-	-	-	-
Montana	1	-	-	-	-	-
Nebraska	1	-	-	-	-	1
Nevada	1	1	-	-	-	3
New Hampshire	1	-	-	-	-	-
New Jersey	5	2	-	-	-	8
New Mexico	2	-	-	-	-	-
New York	47	23	-	6	-	97
North Carolina	9	-	-	-	-	4
North Dakota	-	-	-	-	-	1
Ohio	15	-	1	1	-	3
Oklahoma	1	-	-	-	-	1
Oregon	8	1	-	-	-	1
Pennsylvania	19	3	1	-	-	9
Puerto Rico	1	-	-	-	-	-
Rhode Island	-	-	-	-	-	-
South Carolina	3	1	-	-	-	-
South Dakota	-	-	-	-	-	-
Tennessee	5	1	1	-	-	2
Texas	20	6	-	2	-	8
Utah	1	-	-	-	-	-
Vermont	3	-	-	-	-	-
Virgin Islands	-	-	-	-	-	4
Virginia	4	3	-	-	1	2
Washington	8	2	-	-	-	1
West Virginia	-	-	-	-	-	-
Wisconsin	8	-	-	-	-	2
Wyoming	-	-	-	-	-	-
<b>Total US Firms</b>	<b>329</b>	<b>116</b>	<b>13</b>	<b>25</b>	<b>1</b>	<b>261</b>

Source: Altura Capital

**Table 5. Number of participants per State (Cont.)**

State	Hedge Fund of Funds	Investment Management Consultants	Investment Research Firms	Emerging Manager Program Managers	Broker Dealers	# of Firms
Alabama	-	-	-	-	-	1
Alaska	-	-	-	-	-	1
Arizona	-	-	-	-	-	2
Arkansas	-	-	-	-	-	-
California	9	6	-	15	18	204
Colorado	-	1	-	-	-	14
Connecticut	7	1	-	4	3	49
Delaware	-	-	-	1	-	2
District of Columbia	1	-	1	-	2	6
Florida	1	2	-	3	2	37
Georgia	1	-	-	-	3	19
Hawaii	-	-	-	-	-	-
Idaho	-	-	-	-	-	1
Illinois	8	1	1	2	12	72
Indiana	-	1	-	-	-	1
Iowa	-	-	-	-	-	1
Kansas	-	-	-	-	-	-
Kentucky	-	-	-	-	-	3
Louisiana	1	1	-	-	-	2
Maine	-	-	-	-	-	-
Maryland	1	-	-	-	1	17
Massachusetts	3	2	1	3	2	39
Michigan	-	-	-	-	-	9
Minnesota	-	-	-	1	-	12
Mississippi	-	-	-	-	-	-
Missouri	-	1	-	1	-	11
Montana	-	-	-	-	-	1
Nebraska	-	-	-	1	-	3
Nevada	-	-	-	-	-	5
New Hampshire	1	-	-	-	-	2
New Jersey	2	-	-	-	1	18
New Mexico	-	-	-	1	-	3
New York	21	2	1	8	22	227
North Carolina	1	-	-	1	1	16
North Dakota	-	-	-	-	-	1
Ohio	-	-	1	-	-	21
Oklahoma	-	-	-	-	-	2
Oregon	-	-	-	1	-	11
Pennsylvania	1	2	1	1	3	40
Puerto Rico	-	1	-	-	1	3
Rhode Island	-	-	-	-	-	-
South Carolina	-	-	-	-	-	4
South Dakota	-	-	-	-	-	-
Tennessee	3	1	-	-	-	13
Texas	3	2	-	2	6	49
Utah	-	-	-	-	-	1
Vermont	-	-	-	-	-	3
Virgin Islands	-	-	-	-	-	4
Virginia	-	-	-	-	-	10
Washington	-	-	-	2	-	13
West Virginia	-	-	-	-	-	-
Wisconsin	-	-	-	1	-	11
Wyoming	-	-	-	-	-	-
<b>Total US Firms</b>	<b>64</b>	<b>24</b>	<b>6</b>	<b>48</b>	<b>77</b>	<b>964</b>

Source: Altura Capital

**Table 6. Firms based in countries outside the U.S.**

Location	Money Managers	Private Equity Funds	Private Equity Fund of Funds	Real Estate Partnerships	Real Estate Investment Trusts	Hedge Funds
Australia	-	-	-	1	1	2
Bahamas	-	-	-	-	-	1
Brazil	-	1	-	-	-	-
Canada	8	2	-	-	-	2
China	-	-	-	-	-	1
Grand Cayman	-	1	-	-	-	-
India	-	1	-	1	-	-
Italy	-	-	-	-	-	1
Latvia	1	-	-	-	-	-
New Zealand	-	-	-	-	-	1
Singapore	3	1	-	-	-	3
South Africa	-	-	-	-	-	3
South Korea	1	-	-	-	-	-
Spain	-	-	1	-	-	1
Switzerland	-	-	-	-	-	1
Ukraine	-	1	-	-	-	-
United Kingdom	9	1	-	-	-	10
<b>Total Non-US Firms</b>	<b>22</b>	<b>8</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>26</b>

Source: Altura Capital.

Location	Hedge Fund of Funds	Investment Management ConsultantS	Investment Research Firms	Emerging Manager Program Managers	Broker Dealers	# of Firms
Australia	-	-	-	-	-	4
Bahamas	-	-	-	-	-	1
Brazil	-	-	-	-	-	1
Canada	3	-	-	-	-	15
China	-	1	-	-	-	2
Grand Cayman	-	-	-	-	-	1
India	-	-	-	-	-	2
Italy	-	-	-	-	-	1
Latvia	-	1	-	-	-	2
New Zealand	-	-	-	-	-	1
Singapore	1	-	-	-	-	8
South Africa	1	-	-	-	-	4
South Korea	-	-	-	-	-	1
Spain	1	-	-	-	-	3
Switzerland	-	-	-	-	-	1
Ukraine	-	-	-	-	-	1
United Kingdom	3	-	-	-	-	23
<b>Total Non-US Firms</b>	<b>9</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71</b>

Source: Altura Capital.

According to Google analytics, the database site had visitors from 86 countries; 27,976 visitors and 156,459 pages viewed over the past year. This is an increase of 11 countries, and over 6,000 more visitors than during the compilation of the first edition of this report.

## D. Number of employees

In terms of the number of employees (the term is inclusive of management) at the firms participating in the database, the following table describes what percentage of firms in each service provider category have less than two, two to five, six to ten, eleven to twenty, twenty one to fifty, fifty one to one hundred and 100 plus employees.

**Table 7. Number of employees by service provider**

Category	Number of Employees						
	<2	2 to 5	6 to 10	11 to 20	21 to 50	51 to 100	>100
Money Managers	27	82	77	51	32	0	2
Private Equity Funds	5	15	31	14	2	0	0
Private Equity Fund of Funds	0	2	2	1	0	0	0
Real Estate Partnerships	1	4	3	7	4	1	3
Real Estate Investment Trusts	0	1	0	0	0	0	0
Hedge Funds	34	65	62	27	10	0	1
Hedge Fund of Funds	5	10	17	9	4	0	0
Investment Management Consultants	6	2	4	3	1	0	0
Investment Research Firms	2	2	0	0	2	0	0
Emerging Manager Program Managers	4	9	8	1	2	0	0
Broker Dealers	2	14	9	13	12	3	1
<b>Total</b>	<b>86</b>	<b>206</b>	<b>213</b>	<b>126</b>	<b>69</b>	<b>4</b>	<b>7</b>

Source: Altura Capital.

Out of the total firms whose data was collected for number of employees in the firm, 39% have 5 or less employees, 67% had 10 or less employees. This data is almost identical to the results in last years report, even though the number of respondents is larger.

**Table 8. Number of employees by service provider (%)**

Category	Number of Employees						
	<2	2 to 5	6 to 10	11 to 20	21 to 50	51 to 100	>100
Money Managers	10%	30%	28%	19%	12%	0%	1%
Private Equity Funds	7%	22%	46%	21%	3%	0%	0%
Private Equity Fund of Funds	0%	40%	40%	20%	0%	0%	0%
Real Estate Partnerships	4%	17%	13%	30%	17%	4%	13%
Real Estate Investment Trusts	0%	100%	0%	0%	0%	0%	0%
Hedge Funds	17%	33%	31%	14%	5%	0%	1%
Hedge Fund of Funds	11%	22%	38%	20%	9%	0%	0%
Investment Management Consultants	38%	13%	25%	19%	6%	0%	0%
Investment Research Firms	33%	33%	0%	0%	33%	0%	0%
Emerging Manager Program Managers	17%	38%	33%	4%	8%	0%	0%
Broker Dealers	4%	26%	17%	24%	22%	6%	2%
<b>Total</b>	<b>12%</b>	<b>29%</b>	<b>30%</b>	<b>18%</b>	<b>10%</b>	<b>1%</b>	<b>1%</b>

Source: Altura Capital.

The firms sampled have a total of 8,382 employees, an increase of almost 1,300 from last year's report. The average number of employees is 11.7, the median is 7, both unchanged from last year. The category with the greatest number of employees per firm is real estate partnerships with an average of 45 per firm. The service provider categories with the fewest number of employees per firm are investment management consultants with an average of 7 employees per firm.

**E. Years in operations**

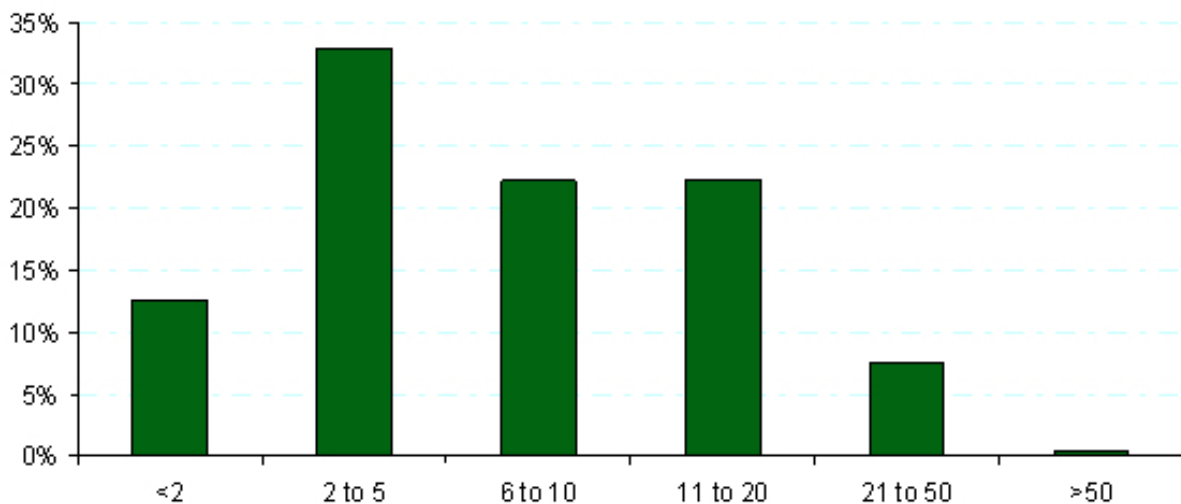
With respect to the number of years the firms have been in operation, 34% of the companies have been active between 2 and 5 years. Between 6 and 20 years the percentage is split fairly evenly. Firms fall off as they age, either because they gather enough in assets to outgrow the emerging space, or due to other corporate activities, like merger. 13% of the firms are very young at 2 or less years in age, reflecting the dynamism of the emerging space.

**Table 9. Number of years in operation**

Category	Years						
	<2	2 to 5	6 to 10	11 to 20	21 to 50	>50	>100
Money Managers	25	57	61	90	42	2	0
Private Equity Funds	31	26	16	2	0	0	0
Private Equity Fund of Funds	4	2	2	0	0	0	0
Real Estate Partnerships	3	8	5	5	1	0	0
Real Estate Investment Trusts	0	0	0	1	0	0	0
Hedge Funds	23	105	43	28	3	0	0
Hedge Fund of Funds	2	20	16	5	0	0	0
Investment Management Consultants	1	7	6	3	1	0	0
Investment Research Firms	0	2	0	2	1	1	0
Emerging Manager Program Managers	4	9	7	5	1	0	0
Broker Dealers	1	10	10	26	7	0	0
<b>Total</b>	<b>94</b>	<b>246</b>	<b>166</b>	<b>167</b>	<b>56</b>	<b>3</b>	<b>0</b>

Source: Altura Capital

**Figure 4. Years in operation**



Source: Altura Capital

On the topic of years of experience, the data shows that there is a robust and yet largely untapped pool of new investment talent that deserves to be further explored. The majority of the firms have investment professionals with average investment experience between 10 and 20 years (38.3%).

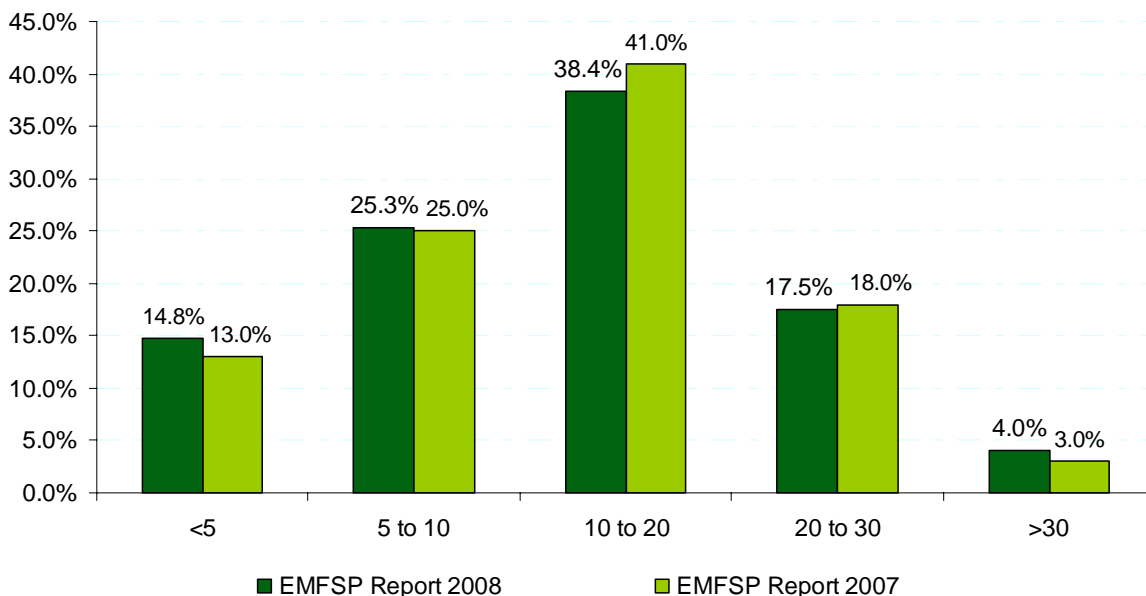
**Table 10. Average years of experience of the investment team (%)**

Category	Average Years of Experience					Total # of Firms*
	<5	5 to 10	10 to 20	20 to 30	>30	
Money Managers	9%	18%	42%	25%	7%	281
Private Equity Funds	19%	37%	40%	4%	0%	78
Private Equity Fund of Funds	0%	50%	38%	13%	0%	8
Real Estate Partnerships	0%	9%	64%	27%	0%	22
Real Estate Investment Trusts	0%	0%	100%	0%	0%	1
Hedge Funds	20%	30%	35%	14%	2%	205
Hedge Fund of Funds	23%	31%	31%	15%	0%	48
Investment Research Firms	0%	17%	50%	17%	17%	6
Emerging Manager Program Managers	35%	31%	15%	12%	8%	26
<b>Total</b>	<b>15%</b>	<b>25%</b>	<b>38%</b>	<b>17%</b>	<b>4%</b>	<b>675</b>

Source: Altura Capital. \*Total number of firms that answered this particular question. As noted in the methodology section, the total number of firms could vary across the survey.

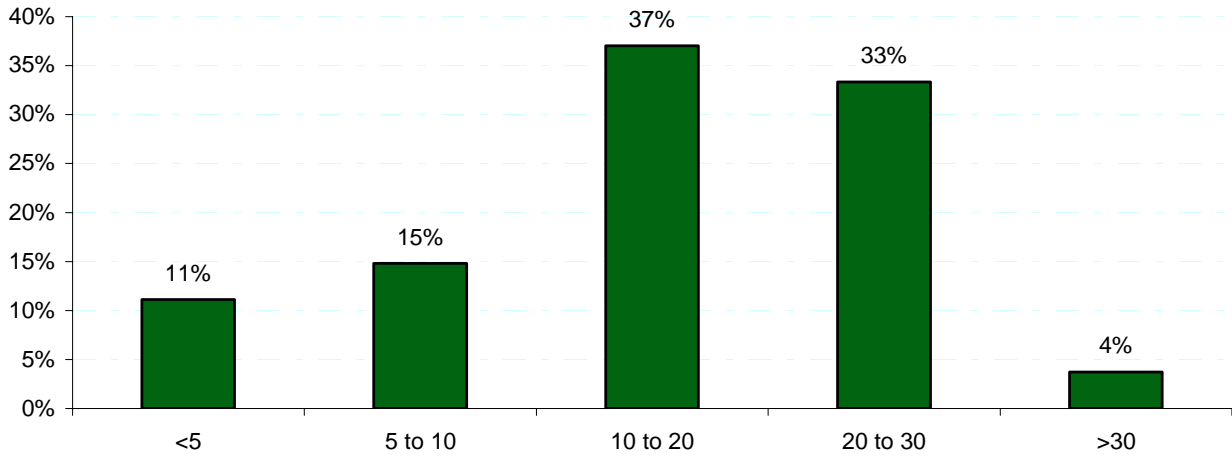
For the investment teams, the average investment experience is 16.5 years. 20% of hedge funds had investment teams with less than 5 years experience while only 7% of the money managers had teams with less than 5 years of investment experience (see Table 10).

**Figure 5. Average years of experience of the universe\***



Source: Altura Capital. \*Excludes Broker Dealers and Investment Management Consultants.

**Figure 6. Average years of experience for broker dealers**



Source: Altura Capital.

Within the Broker Dealers, the majority of their professionals have average years of experience between 10 to 20 years (37%).

**F. Reported Diversity**

One section of the questionnaire referred to minority staffing/ownership within the firm. Answers to these questions are voluntary and will not affect a firm’s participation in the EMFSP database. The results of these findings are summarized in the following tables.

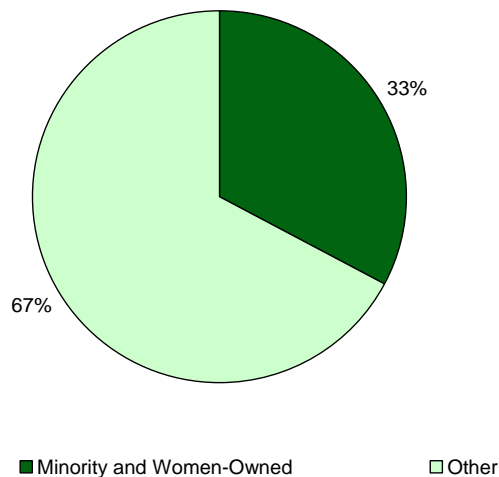
We found that 33% of the responding firms are either women or minority-owned. This is down very slightly from last year’s results, although we had almost 105 more firms responding.

**Table 11. Minority or women ownership by service provider (%)**

Category	% of Ownership controlled by Women and Minorities				Minority and Women Owned <sup>2</sup>	Total # of Firms
	0 to 25	25 to 50	50 to 75 <sup>1</sup>	75 to 100		
Money Managers	58%	7%	13%	22%	35%	245
Private Equity Funds	70%	6%	19%	5%	24%	63
Private Equity Fund of Funds	43%	14%	43%	0%	43%	7
Real Estate Partnerships	74%	0%	0%	26%	26%	19
Real Estate Investment Trusts	0%	100%	0%	0%	0%	1
Hedge Funds	76%	9%	4%	11%	15%	180
Hedge Fund of Funds	50%	10%	10%	30%	40%	40
Investment Management Consultants	44%	13%	0%	44%	44%	16
Investment Research Firms	40%	0%	0%	60%	60%	5
Emerging Manager Program Managers	38%	8%	17%	38%	54%	24
Broker Dealers	17%	0%	26%	57%	83%	46
<b>Total</b>	<b>60%</b>	<b>7%</b>	<b>11%</b>	<b>22%</b>	<b>33%</b>	<b>646</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of woman and/or minority ownership. <sup>2</sup>Minority-owned firms and women-owned are defined as firms with 50.1% or more minority or women ownership.

**Figure 7. Percentage of minority or women-owned companies\***



Source: Altura Capital. \*Minority-owned firms and women-owned are defined as firms with 50.1% or more minority or women ownership.

**Table 12. Percentage of Women-owned service providers**

Women own thirteen percent of the companies, and this percentage is again, almost unchanged from last year, even though we had 130 more respondents. There was very little change in any of the categories with a large number of respondents as well.

Category	% of Ownership controlled by Women				Women Owned <sup>2</sup>	Total # of Firms
	0 to 25	25 to 50	50 to 75 <sup>1</sup>	75 to 100		
Money Managers	78%	6%	8%	8%	16%	251
Private Equity Funds	89%	3%	6%	2%	8%	66
Private Equity Fund of Funds	71%	0%	14%	14%	29%	7
Real Estate Partnerships	96%	0%	0%	4%	4%	23
Real Estate Investment Trusts	100%	0%	0%	0%	0%	1
Hedge Funds	92%	4%	2%	2%	4%	183
Hedge Fund of Funds	75%	5%	5%	15%	20%	40
Investment Management Consultants	67%	7%	0%	27%	27%	15
Investment Research Firms	100%	0%	0%	0%	0%	4
Emerging Manager Program Managers	70%	13%	0%	17%	17%	23
Broker Dealers	68%	2%	8%	22%	30%	50
<b>Total</b>	<b>82%</b>	<b>5%</b>	<b>5%</b>	<b>8%</b>	<b>13%</b>	<b>663</b>

Source: Altura Capital. . <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of woman ownership. <sup>2</sup>Women-owned firms are defined as firms with 50.1% or more women ownership.

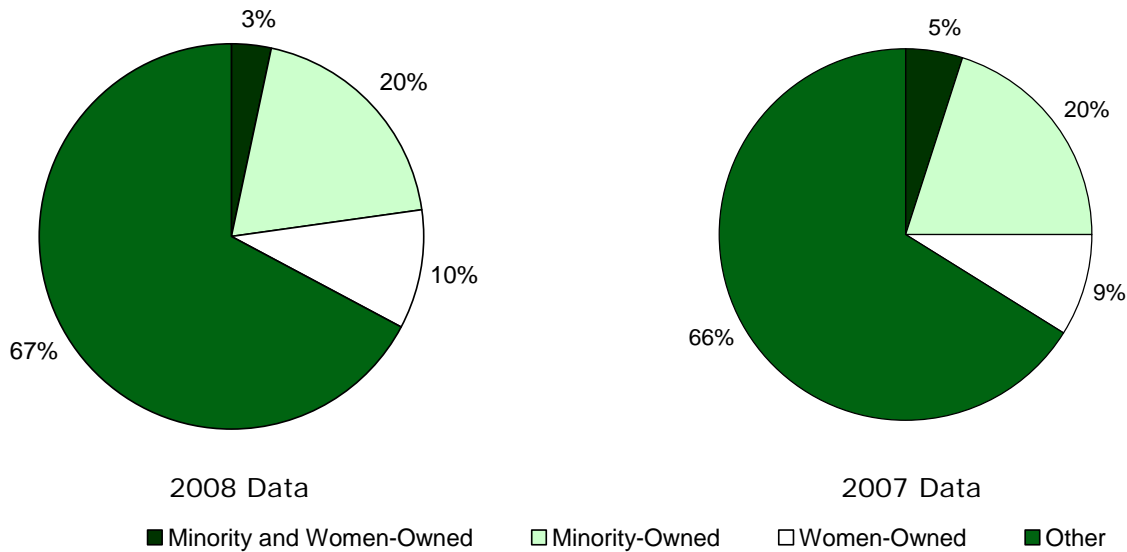
Minority-owned firms excluding non-minority women stand at 23%. 3% of the companies are both minority *and* women-owned.

**Table 13. Percentage of minority-owned service providers, including minority women**

Category	% of Ownership controlled by Minorities				Minority Owned <sup>2</sup>	Total # of Firms
	0 to 25	25 to 50	50 to 75 <sup>1</sup>	75 to 100		
Money Managers	76%	2%	8%	14%	22%	249
Private Equity Funds	85%	4%	9%	2%	11%	54
Private Equity Fund of Funds	57%	14%	29%	0%	29%	7
Real Estate Partnerships	74%	0%	4%	6%	26%	23
Real Estate Investment Trusts	0%	0%	0%	0%	0%	0
Hedge Funds	82%	6%	3%	9%	12%	182
Hedge Fund of Funds	77%	8%	3%	13%	15%	39
Investment Management Consultants	63%	6%	0%	31%	31%	16
Investment Research Firms	50%	0%	0%	50%	50%	24
Emerging Manager Program Manage	54%	0%	17%	29%	46%	4
Broker Dealers	23%	0%	18%	59%	77%	44
<b>Total</b>	<b>73%</b>	<b>4%</b>	<b>7%</b>	<b>16%</b>	<b>23%</b>	<b>642</b>

Source: Altura Capital. . <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of minority ownership. <sup>2</sup>Minority-owned firms defined as firms with 50.1% or more minority ownership, including minority women.

**Figure 8. Percentage of Minority-owned and Women-owned companies**



**1. Minority-owned firms by ethnicity, and Disabled Veterans**

A. **African American:** 11% of the responding firms are majority-owned by African Americans.

**Table 14. African American ownership by service provider**

Category	African American Ownership (%)				African American Owned <sup>2</sup>	Total # of Firms
	0 to 25	25 to 50	50 to 75 <sup>1</sup>	75 to 100		
Money Managers	90%	1%	2%	6%	9%	249
Private Equity Funds	87%	7%	4%	2%	6%	54
Private Equity Fund of Funds	71%	14%	14%	0%	14%	7
Real Estate Partnerships	87%	0%	0%	13%	13%	23
Real Estate Investment Trusts	100%	0%	0%	0%	0%	0
Hedge Funds	95%	1%	1%	4%	4%	182
Hedge Fund of Funds	92%	0%	3%	5%	8%	39
Investment Management Consultants	75%	6%	0%	19%	19%	16
Investment Research Firms	50%	0%	25%	25%	50%	4
Emerging Manager Program Managers	75%	0%	17%	8%	25%	24
Broker Dealers	59%	2%	9%	30%	39%	44
<b>Total</b>	<b>88%</b>	<b>2%</b>	<b>3%</b>	<b>7%</b>	<b>11%</b>	<b>642</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of African American ownership. <sup>2</sup>African American-owned are firms that have more than 50% ownership by an African American group.

B. **Asian American:** 13% of the responding firms are majority owned by Asian Americans.

**Table 15. Asian American Ownership by service provider**

Category	Asian American Ownership (%)				Asian American Owned <sup>2</sup>	Total # of Firms
	0 to 25	25 to 50	50 to 75 <sup>1</sup>	75 to 100		
Money Managers	95%	0%	2%	3%	5%	249
Private Equity Funds	93%	2%	6%	0%	6%	54
Private Equity Fund of Funds	100%	0%	0%	0%	0%	7
Real Estate Partnerships	91%	0%	0%	9%	9%	23
Real Estate Investment Trusts	100%	0%	0%	0%	0%	0
Hedge Funds	93%	3%	1%	3%	4%	182
Hedge Fund of Funds	92%	3%	0%	5%	5%	39
Investment Management Consultants	100%	0%	0%	0%	0%	16
Investment Research Firms	100%	0%	0%	0%	0%	4
Emerging Manager Program Managers	92%	0%	4%	4%	8%	24
Broker Dealers	84%	5%	5%	7%	11%	44
<b>Total</b>	<b>82%</b>	<b>4%</b>	<b>4%</b>	<b>9%</b>	<b>13%</b>	<b>642</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of Asian American ownership. <sup>2</sup>Asian American-owned are firms that have more than 50% ownership by an Asian American group.

C. **Hispanic:** 6% of the responding firms are majority owned by Hispanic Americans.

**Table 16. Hispanic ownership by service provider**

Category	Hispanic American Ownership (%)				Hispanic American Owned <sup>2</sup>	Total # of Firms
	0 to 25	25 to 50	50 to 75 <sup>1</sup>	75 to 100		
Money Managers	93%	1%	2%	4%	6%	249
Private Equity Funds	94%	0%	4%	2%	6%	54
Private Equity Fund of Funds	100%	0%	0%	0%	0%	7
Real Estate Partnerships	96%	0%	4%	0%	4%	23
Real Estate Investment Trusts	100%	0%	0%	0%	0%	0
Hedge Funds	96%	2%	1%	2%	2%	182
Hedge Fund of Funds	95%	5%	0%	0%	0%	39
Investment Management Consultants	88%	0%	0%	13%	13%	16
Investment Research Firms	75%	0%	0%	25%	25%	4
Emerging Manager Program Managers	92%	0%	0%	8%	8%	24
Broker Dealers	75%	0%	9%	16%	25%	44
<b>Total</b>	<b>93%</b>	<b>1%</b>	<b>2%</b>	<b>4%</b>	<b>6%</b>	<b>642</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of Hispanic ownership. <sup>2</sup>Hispanic-owned are firms that have more than 50% ownership by a Hispanic group.

D. ***Native-American***: 1% of the responding firms are majority owned by Native Americans.

**Table 17. Native American ownership by service provider**

Category	Native American Ownership (%)				Native American Owned <sup>2</sup>	Total # of Firms
	0 to 25	25 to 50	50 to 75 <sup>1</sup>	75 to 100		
Money Managers	98%	0%	1%	0%	1%	249
Private Equity Funds	100%	0%	0%	0%	0%	54
Private Equity Fund of Funds	100%	0%	0%	0%	0%	7
Real Estate Partnerships	100%	0%	0%	0%	0%	23
Real Estate Investment Trusts	100%	0%	0%	0%	0%	0
Hedge Funds	99%	1%	1%	0%	1%	182
Hedge Fund of Funds	100%	0%	0%	0%	0%	39
Investment Management Consultants	100%	0%	0%	0%	0%	16
Investment Research Firms	100%	0%	0%	0%	0%	4
Emerging Manager Program Managers	96%	0%	0%	4%	4%	24
Broker Dealers	98%	0%	0%	2%	2%	44
<b>Total</b>	<b>7%</b>	<b>0%</b>	<b>1%</b>	<b>0%</b>	<b>1%</b>	<b>642</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of Native American ownership. <sup>2</sup>Native American-owned are firms that have more than 50% ownership by a Native American group.

E. ***Disabled Veterans***: 0.3% of the responding firms are majority owned by Disabled Veterans. The ownership was only in the broker dealers segment. This is essentially unchanged from the results in the first edition of the report produced last year.

**Table 18. Disabled Veterans ownership by service provider**

Category	Disabled Veteran Ownership (%)				Disabled Veteran Owned <sup>2</sup>	Total # of Firms
	0 to 25	25 to 50	50 to 75 <sup>1</sup>	75 to 100		
Money Managers	100%	0%	0%	0%	0%	249
Private Equity Funds	100%	0%	0%	0%	0%	54
Private Equity Fund of Funds	100%	0%	0%	0%	0%	7
Real Estate Partnerships	100%	0%	0%	0%	0%	23
Real Estate Investment Trusts	100%	0%	0%	0%	0%	0
Hedge Funds	100%	0%	0%	0%	0%	182
Hedge Fund of Funds	100%	0%	0%	0%	0%	39
Investment Management Consultants	100%	0%	0%	0%	0%	16
Investment Research Firms	100%	0%	0%	0%	0%	4
Emerging Manager Program Managers	100%	0%	0%	0%	0%	24
Broker Dealers	93%	2%	5%	0%	5%	44
<b>Total</b>	<b>99.5%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.0%</b>	<b>0.3%</b>	<b>642</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of Disabled Veteran ownership. <sup>2</sup>Disabled Veterans-owned are firms that have more than 50% ownership by a Disabled Veteran group.

## 2. Minority and Women owned firms by State

A. **Women owned:** Largest majority women ownership was in New York at 2.5% with 19 firms. Even though the percentage went down slightly from the last report, the number of firms increased from 16 in the first edition of the report.

**Table 19. Women ownership by State (%)**

State	% of Ownership controlled by Women					Women-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
Alabama	-	1	-	-	-	0.0%	0.0%
Alaska	-	-	-	1	-	100.0%	0.1%
Arizona	-	1	-	-	1	50.0%	0.1%
Arkansas	-	-	-	-	-	0.0%	0.0%
California	83	19	9	5	9	11.2%	1.9%
Colorado	5	3	-	-	1	11.1%	0.1%
Connecticut	20	3	1	1	4	17.2%	0.7%
Delaware	1	-	-	-	-	0.0%	0.0%
District Of Columbia	2	1	-	-	1	25.0%	0.1%
Florida	15	5	1	5	1	22.2%	0.8%
Georgia	6	4	1	-	-	0.0%	0.0%
Hawaii	-	-	-	-	-	0.0%	0.0%
Idaho	-	-	-	-	-	0.0%	0.0%
Illinois	33	6	5	5	5	18.5%	1.3%
Indiana	-	1	-	-	-	0.0%	0.0%
Iowa	-	-	-	-	-	0.0%	0.0%
Kansas	-	-	-	-	-	0.0%	0.0%
Kentucky	1	1	-	-	-	0.0%	0.0%
Louisiana	2	-	-	-	-	0.0%	0.0%
Maine	-	-	-	-	-	0.0%	0.0%
Maryland	9	3	-	-	1	7.7%	0.1%
Massachusetts	14	1	2	3	-	15.0%	0.4%
Michigan	2	3	-	1	-	16.7%	0.1%
Minnesota	5	1	-	-	1	14.3%	0.1%
Mississippi	-	-	-	-	-	0.0%	0.0%
Missouri	5	1	2	-	-	0.0%	0.0%
Montana	1	-	-	-	-	0.0%	0.0%
Nebraska	-	-	-	-	-	0.0%	0.0%
Nevada	2	-	-	-	-	0.0%	0.0%
New Hampshire	-	-	-	1	-	100.0%	0.1%
New Jersey	10	1	-	-	-	0.0%	0.0%
New Mexico	1	1	-	1	-	33.3%	0.1%
New York	95	20	4	5	14	13.8%	2.5%
North Carolina	7	5	-	-	-	0.0%	0.0%

Source: Altura Capital. . <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of woman ownership. <sup>2</sup>Women-owned firms defined as firms with 50.1% or more women ownership

**Table 19. Women ownership by State (%) (Cont.)**

State	% of Ownership controlled by Women					Women-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
North Dakota	1	-	-	-	-	0.0%	0.0%
Ohio	10	3	-	1	-	7.1%	0.1%
Oklahoma	-	2	-	-	-	0.0%	0.0%
Oregon	3	2	-	1	2	37.5%	0.4%
Pennsylvania	15	6	2	1	1	8.0%	0.3%
Puerto Rico	1	-	-	-	2	66.7%	0.3%
Rhode Island	-	-	-	-	-	0.0%	0.0%
South Carolina	3	-	-	-	-	0.0%	0.0%
South Dakota	-	-	-	-	-	0.0%	0.0%
Tennessee	6	1	1	-	-	0.0%	0.0%
Texas	24	10	-	1	3	10.5%	0.5%
Utah	-	1	-	-	-	0.0%	0.0%
Vermont	-	1	1	-	-	0.0%	0.0%
Virgin Islands	5	-	-	-	1	16.7%	0.1%
Virginia	1	1	1	1	1	40.0%	0.3%
Washington	6	1	-	-	1	12.5%	0.1%
West Virginia	-	-	-	-	-	0.0%	0.0%
Wisconsin	3	-	-	-	-	0.0%	0.0%
Wyoming	-	-	-	-	-	0.0%	0.0%
<b>Total US based Firms</b>	<b>397</b>	<b>109</b>	<b>30</b>	<b>33</b>	<b>49</b>	<b>13.3%</b>	<b>11.0%</b>

Source: Altura Capital. . <sup>1</sup> 50% to 75% represents firms that have between 50.1% and 75.0% of woman ownership. <sup>2</sup>Women-owned firms defined as firms with 50.1% or more women ownership

**Table 20. Women ownership outside the United States (%)**

Country	% of Ownership controlled by Women					Women-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
Australia	1	0	0	0	0	0.0%	0.0%
Bahamas	0	0	1	0	0	0.0%	0.0%
Brazil	1	0	0	0	0	0.0%	0.0%
Canada	6	1	0	0	0	0.0%	0.0%
China	2	0	0	0	0	0.0%	0.0%
Grand Cayman	1	0	0	0	0	0.0%	0.0%
India	0	0	0	0	0	0.0%	0.0%
Italy	0	0	0	0	0	0.0%	0.0%
Latvia	0	0	0	0	0	0.0%	0.0%
New Zeland	1	0	0	0	0	0.0%	0.0%
Singapore	5	1	0	0	0	0.0%	0.0%
South Africa	2	0	0	0	0	0.0%	0.0%
South Korea	0	0	0	0	0	0.0%	0.0%
Spain	1	1	0	0	0	0.0%	0.0%
Switzerland	1	0	0	0	0	0.0%	0.0%
Ukraine	0	0	0	1	0	100.0%	0.1%
United Kingdom	8	1	0	0	0	0.0%	0.0%
<b>Total Non-US Firms</b>	<b>29</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>2.9%</b>	<b>0.1%</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup>Women-owned firms defined as firms with 50.1% or more women ownership

**B. *Minority-owned (Including minority Women):*** The State with the largest percentage of reported majority ownership by minorities is California at 4.7% of total, with 35 firms. The percentage went down to the larger number of participants, but the total number of firms increased by 1 from the previous report.

**Table 21. Minority ownership by State (%)**

State	% of Ownership controlled by Minority					Minority-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
Alabama	-	-	-	1	-	100.0%	0.1%
Alaska	1	-	-	-	-	0.0%	0.0%
Arizona	1	-	-	-	1	50.0%	0.1%
Arkansas	-	-	-	-	-	0.0%	0.0%
California	73	10	3	19	16	28.9%	4.7%
Colorado	8	-	-	-	1	11.1%	0.1%
Connecticut	23	3	2	-	1	3.4%	0.1%
Delaware	-	-	1	-	-	0.0%	0.0%
District Of Columbia	1	-	-	1	1	66.7%	0.3%
Florida	20	2	-	1	2	12.0%	0.4%
Georgia	4	3	-	-	3	30.0%	0.4%
Hawaii	-	-	-	-	-	0.0%	0.0%
Idaho	-	-	-	-	-	0.0%	0.0%
Illinois	25	2	1	8	10	39.1%	2.4%
Indiana	1	-	-	-	-	0.0%	0.0%
Iowa	-	-	-	-	-	0.0%	0.0%
Kansas	-	-	-	-	-	0.0%	0.0%
Kentucky	1	-	-	-	-	0.0%	0.0%
Louisiana	2	-	-	-	-	0.0%	0.0%
Maine	-	-	-	-	-	0.0%	0.0%
Maryland	7	-	-	-	7	50.0%	0.9%
Massachusetts	16	-	2	1	2	14.3%	0.4%
Michigan	2	-	1	1	2	50.0%	0.4%
Minnesota	7	-	-	-	-	0.0%	0.0%
Mississippi	-	-	-	-	-	0.0%	0.0%
Missouri	6	1	-	-	1	12.5%	0.1%
Montana	1	-	-	-	-	0.0%	0.0%
Nebraska	-	-	-	-	-	0.0%	0.0%
Nevada	2	-	-	-	-	0.0%	0.0%
New Hampshire	1	-	-	-	-	0.0%	0.0%
New Jersey	9	1	-	-	2	16.7%	0.3%
New Mexico	2	-	-	-	1	33.3%	0.1%
New York	85	7	6	5	25	23.4%	4.0%
North Carolina	11	1	-	-	-	0.0%	0.0%

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup>Minority-owned firms defined as firms with 50.1% or more minority ownership, including minority women.

**Table 21. Minority ownership by State (%) (Cont.)**

State	% of Ownership controlled by Minority					Minority-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
North Dakota	1	-	-	-	-	0.0%	0.0%
Ohio	10	1	-	1	3	26.7%	0.5%
Oklahoma	-	1	-	1	-	50.0%	0.1%
Oregon	6	2	-	-	-	0.0%	0.0%
Pennsylvania	18	2	1	1	4	19.2%	0.7%
Puerto Rico	-	-	-	-	3	100.0%	0.4%
Rhode Island	-	-	-	-	-	0.0%	0.0%
South Carolina	3	-	-	-	-	0.0%	0.0%
South Dakota	-	-	-	-	-	0.0%	0.0%
Tennessee	4	-	-	-	2	33.3%	0.3%
Texas	20	3	3	4	6	27.8%	1.3%
Utah	1	-	-	-	-	0.0%	0.0%
Vermont	2	-	-	-	-	0.0%	0.0%
Virgin Islands	6	-	-	-	-	0.0%	0.0%
Virginia	2	-	1	-	1	25.0%	0.1%
Washington	4	1	-	-	2	28.6%	0.3%
West Virginia	-	-	-	-	-	0.0%	0.0%
Wisconsin	4	-	-	-	-	0.0%	0.0%
Wyoming	-	-	-	-	-	0.0%	0.0%
<b>Total US based Firms</b>	<b>390</b>	<b>40</b>	<b>21</b>	<b>44</b>	<b>96</b>	<b>23.7%</b>	<b>18.7%</b>

Source: Altura Capital. . <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup>Minority-owned firms defined as firms with 50.1% or more minority ownership, including minority women.

C. **Minority-Owned and Women-Owned:** California has the largest concentration of minority and women majority-owned firms with 38 firms in that State or 5.1% of the total.

**Table 22. Minority and women ownership by State (%)**

State	% of Ownership controlled by Women and Minority					Women and Minority-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
Alabama	-	-	-	-	1	100.0%	0.1%
Alaska	1	-	-	-	-	0.0%	0.0%
Arizona	1	-	-	-	1	50.0%	0.1%
Arkansas	-	-	-	-	-	0.0%	0.0%
California	64	13	8	18	20	30.9%	5.1%
Colorado	6	2	-	-	1	11.1%	0.1%
Connecticut	22	3	2	1	1	6.9%	0.3%
Delaware	-	-	1	-	-	0.0%	0.0%
District Of Columbia	1	-	-	1	2	75.0%	0.4%
Florida	21	2	-	1	2	11.5%	0.4%
Georgia	5	3	-	-	2	20.0%	0.3%
Hawaii	-	-	-	-	-	0.0%	0.0%
Idaho	-	-	-	-	-	0.0%	0.0%
Illinois	22	2	4	9	12	42.9%	2.8%
Indiana	-	1	-	-	-	0.0%	0.0%
Iowa	-	-	-	-	-	0.0%	0.0%
Kansas	-	-	-	-	-	0.0%	0.0%
Kentucky	1	1	-	-	-	0.0%	0.0%
Louisiana	1	1	-	-	-	0.0%	0.0%
Maine	-	-	-	-	-	0.0%	0.0%
Maryland	7	-	-	-	6	46.2%	0.8%
Massachusetts	16	-	2	1	2	14.3%	0.4%
Michigan	1	-	1	2	2	66.7%	0.5%
Minnesota	7	-	-	-	-	0.0%	0.0%
Mississippi	-	-	-	-	-	0.0%	0.0%
Missouri	5	2	-	-	1	12.5%	0.1%
Montana	1	-	-	-	-	0.0%	0.0%
Nebraska	-	-	-	-	-	0.0%	0.0%
Nevada	2	-	-	-	-	0.0%	0.0%
New Hampshire	1	-	-	-	-	0.0%	0.0%
New Jersey	9	1	-	-	1	9.1%	0.1%
New Mexico	2	-	-	-	-	0.0%	0.0%
New York	80	5	6	11	26	28.9%	4.9%
North Carolina	11	1	-	-	-	0.0%	0.0%

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup>Minority-owned firms and women-owned defined as firms with 50.1% or more minority or women ownership

**Table 22. Minority and Women ownership by State (%) (Cont.)**

State	% of Ownership controlled by Women and Minority					Women and Minority-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
North Dakota	1	-	-	-	-	0.0%	0.0%
Ohio	10	-	1	1	2	21.4%	0.4%
Oklahoma	-	-	1	1	-	50.0%	0.1%
Oregon	6	2	-	-	-	0.0%	0.0%
Pennsylvania	15	2	3	-	6	23.1%	0.8%
Puerto Rico	-	-	-	-	3	100.0%	0.4%
Rhode Island	-	-	-	-	-	0.0%	0.0%
South Carolina	3	-	-	-	-	0.0%	0.0%
South Dakota	-	-	-	-	-	0.0%	0.0%
Tennessee	4	-	-	-	-	0.0%	0.0%
Texas	21	6	2	3	6	23.7%	1.2%
Utah	1	-	-	-	-	0.0%	0.0%
Vermont	2	-	-	-	-	0.0%	0.0%
Virgin Islands	5	-	-	-	1	0.0%	0.1%
Virginia	-	1	1	1	2	60.0%	0.4%
Washington	4	1	-	-	2	28.6%	0.3%
West Virginia	-	-	-	-	-	0.0%	0.0%
Wisconsin	4	-	-	-	-	0.0%	0.0%
Wyoming	-	-	-	-	-	0.0%	0.0%
<b>Total US based Firms</b>	<b>363</b>	<b>49</b>	<b>32</b>	<b>50</b>	<b>102</b>	<b>25.5%</b>	<b>20.3%</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup>Minority-owned firms and women-owned defined as firms with 50.1% or more minority or women ownership

D. **African-American:** New York has the largest number of reported majority-owned African American firms, with 13 firms or 1.7% of respondents. Again, the percentage dipped slightly even though the number of firms increased from the 9 reported in the 2007 report. Illinois and New York have a significant number of African-American owned firms.

**Table 23. African American ownership by State (%)**

State	% of Ownership controlled by African American					African American-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
Alabama	-	-	-	-	-	0.0%	0.0%
Alaska	1	-	-	-	-	0.0%	0.0%
Arizona	1	-	-	-	-	0.0%	0.0%
Arkansas	-	-	-	-	-	0.0%	0.0%
California	78	2	-	8	2	11.1%	1.3%
Colorado	8	-	-	-	-	0.0%	0.0%
Connecticut	23	1	1	-	1	3.8%	0.1%
Delaware	-	-	1	-	-	0.0%	0.0%
District Of Columbia	1	-	1	-	2	50.0%	0.3%
Florida	21	2	-	-	1	4.2%	0.1%
Georgia	5	-	-	-	3	37.5%	0.4%
Hawaii	-	-	-	-	-	0.0%	0.0%
Idaho	-	-	-	-	-	0.0%	0.0%
Illinois	26	5	1	2	7	22.0%	1.2%
Indiana	1	-	-	-	-	0.0%	0.0%
Iowa	-	-	-	-	-	0.0%	0.0%
Kansas	-	-	-	-	-	0.0%	0.0%
Kentucky	1	-	-	-	-	0.0%	0.0%
Louisiana	2	-	-	-	-	0.0%	0.0%
Maine	-	-	-	-	-	0.0%	0.0%
Maryland	7	-	-	-	7	50.0%	0.9%
Massachusetts	16	-	1	-	1	5.6%	0.1%
Michigan	2	-	1	1	2	50.0%	0.4%
Minnesota	7	-	-	-	-	0.0%	0.0%
Mississippi	-	-	-	-	-	0.0%	0.0%
Missouri	5	1	-	-	1	14.3%	0.1%
Montana	1	-	-	-	-	0.0%	0.0%
Nebraska	-	-	-	-	-	0.0%	0.0%
Nevada	2	-	-	-	-	0.0%	0.0%
New Hampshire	1	-	-	-	-	0.0%	0.0%
New Jersey	9	1	-	-	1	9.1%	0.1%
New Mexico	2	-	-	-	-	0.0%	0.0%
New York	93	3	2	4	9	11.7%	1.7%
North Carolina	12	-	-	-	-	0.0%	0.0%

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup>African American-owned are firms that have more than 50% ownership by an African American group. The percentage is calculated based on actual respondents and thus can differ from total numbers.

**Table 23. African American ownership by State (%) (Cont.)**

State	% of Ownership controlled by African American					African American-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
North Dakota	1	-	-	-	-	0.0%	0.0%
Ohio	10	-	-	1	1	16.7%	0.3%
Oklahoma	-	-	-	-	-	0.0%	0.0%
Oregon	6	-	-	-	-	0.0%	0.0%
Pennsylvania	18	1	1	3	2	20.0%	0.7%
Puerto Rico	-	-	-	-	-	0.0%	0.0%
Rhode Island	-	-	-	-	-	0.0%	0.0%
South Carolina	3	-	-	-	-	0.0%	0.0%
South Dakota	-	-	-	-	-	0.0%	0.0%
Tennessee	4	-	-	-	4	0.0%	0.5%
Texas	23	1	1	1	1	7.4%	0.3%
Utah	1	-	-	-	-	0.0%	0.0%
Vermont	2	-	-	-	-	0.0%	0.0%
Virgin Islands	6	-	-	-	-	0.0%	0.0%
Virginia	2	-	-	-	1	33.3%	0.1%
Washington	4	-	-	-	1	20.0%	0.1%
West Virginia	-	-	-	-	-	0.0%	0.0%
Wisconsin	4	-	-	-	-	0.0%	0.0%
Wyoming	-	-	-	-	-	0.0%	0.0%
<b>Total US based Firms</b>	<b>409</b>	<b>17</b>	<b>10</b>	<b>20</b>	<b>47</b>	<b>13.3%</b>	<b>9.0%</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup> African American-owned are firms that have more than 50% ownership by an African American group.

E. **Asian American:** California has the largest number of reported majority-owned Asian American firms with 1.9% of the respondents or 14 firms.

**Table 24. Asian American ownership by State (%)**

State	% of Ownership controlled by Asian American					Asian American-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
Alabama	-	-	-	-	-	0.0%	0.0%
Alaska	1	-	-	-	-	0.0%	0.0%
Arizona	1	-	-	-	-	0.0%	0.0%
Arkansas	-	-	-	-	-	0.0%	0.0%
California	76	12	2	8	6	13.5%	1.9%
Colorado	8	-	-	-	-	0.0%	0.0%
Connecticut	23	1	-	-	-	0.0%	0.0%
Delaware	-	-	-	-	-	0.0%	0.0%
District Of Columbia	1	-	-	-	-	0.0%	0.0%
Florida	22	-	-	-	-	0.0%	0.0%
Georgia	6	1	-	-	-	0.0%	0.0%
Hawaii	-	-	-	-	-	0.0%	0.0%
Idaho	-	-	-	-	-	0.0%	0.0%
Illinois	27	1	1	2	1	9.4%	0.4%
Indiana	1	-	-	-	-	0.0%	0.0%
Iowa	-	-	-	-	-	0.0%	0.0%
Kansas	-	-	-	-	-	0.0%	0.0%
Kentucky	1	-	-	-	-	0.0%	0.0%
Louisiana	2	-	-	-	-	0.0%	0.0%
Maine	-	-	-	-	-	0.0%	0.0%
Maryland	7	-	-	-	-	0.0%	0.0%
Massachusetts	16	-	1	-	1	5.6%	0.1%
Michigan	5	-	-	-	-	0.0%	0.0%
Minnesota	7	-	-	-	-	0.0%	0.0%
Mississippi	-	-	-	-	-	0.0%	0.0%
Missouri	5	-	-	-	-	0.0%	0.0%
Montana	1	-	-	-	-	0.0%	0.0%
Nebraska	-	-	-	-	-	0.0%	0.0%
Nevada	2	-	-	-	-	0.0%	0.0%
New Hampshire	1	-	-	-	-	0.0%	0.0%
New Jersey	10	-	-	-	1	9.1%	0.1%
New Mexico	2	-	-	-	-	0.0%	0.0%
New York	88	4	5	1	9	9.3%	1.3%
North Carolina	12	-	-	-	-	0.0%	0.0%

Source: *Altura Capital*. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup> Asian American-owned are firms that have more than 50% ownership by an Asian American group.

**Table 24. Asian American ownership by State (%) (Cont.)**

State	% of Ownership controlled by Asian American					Asian American-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
North Dakota	1	-	-	-	-	0.0%	0.0%
Ohio	10	-	-	-	2	16.7%	0.3%
Oklahoma	-	-	-	-	-	0.0%	0.0%
Oregon	6	1	-	-	-	0.0%	0.0%
Pennsylvania	19	4	-	-	-	0.0%	0.0%
Puerto Rico	-	-	-	-	-	0.0%	0.0%
Rhode Island	-	-	-	-	-	0.0%	0.0%
South Carolina	3	-	-	-	-	0.0%	0.0%
South Dakota	-	-	-	-	-	0.0%	0.0%
Tennessee	4	-	-	-	-	0.0%	0.0%
Texas	24	5	-	-	-	0.0%	0.0%
Utah	1	-	-	-	-	0.0%	0.0%
Vermont	2	-	-	-	-	0.0%	0.0%
Virgin Islands	6	-	-	-	-	0.0%	0.0%
Virginia	2	-	1	-	-	0.0%	0.0%
Washington	4	-	-	-	1	20.0%	0.1%
West Virginia	-	-	-	-	-	0.0%	0.0%
Wisconsin	4	-	-	-	-	0.0%	0.0%
Wyoming	-	-	-	-	-	0.0%	0.0%
<b>Total US based Firms</b>	<b>411</b>	<b>29</b>	<b>10</b>	<b>11</b>	<b>21</b>	<b>6.6%</b>	<b>4.3%</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup> Asian American-owned are firms that have more than 50% ownership by an Asian-American group.

F. **Hispanic:** California has the largest number of reported majority-owned Hispanic American firms with 1.2% of the respondents or 9 firms. The number of firms increased by 1 since the last report, but the percentage went down due to the increase in respondents. Texas, New York and Illinois are other states with a significant number of Hispanic owned firms.

**Table 25. Hispanic ownership by State (%)**

State	% of Ownership controlled by Hispanic American					Hispanic American-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
Alabama	-	-	-	1	-	0.0%	0.1%
Alaska	1	-	-	-	-	0.0%	0.0%
Arizona	1	-	-	-	1	0.0%	0.1%
Arkansas	-	-	-	-	-	0.0%	0.0%
California	79	4	-	4	5	9.8%	1.2%
Colorado	8	-	-	-	1	0.0%	0.1%
Connecticut	24	-	1	-	-	0.0%	0.0%
Delaware	-	-	-	-	-	0.0%	0.0%
District Of Columbia	1	1	-	-	-	0.0%	0.0%
Florida	21	2	-	-	1	4.2%	0.1%
Georgia	6	1	-	-	-	0.0%	0.0%
Hawaii	-	-	-	-	-	0.0%	0.0%
Idaho	-	-	-	-	-	0.0%	0.0%
Illinois	29	2	-	2	4	16.2%	0.8%
Indiana	1	-	-	-	-	0.0%	0.0%
Iowa	-	-	-	-	-	0.0%	0.0%
Kansas	-	-	-	-	-	0.0%	0.0%
Kentucky	1	-	-	-	-	0.0%	0.0%
Louisiana	2	-	-	-	-	0.0%	0.0%
Maine	-	-	-	-	-	0.0%	0.0%
Maryland	7	1	-	-	-	0.0%	0.0%
Massachusetts	16	-	2	1	-	5.3%	0.1%
Michigan	5	-	-	-	-	0.0%	0.0%
Minnesota	7	-	-	-	-	0.0%	0.0%
Mississippi	-	-	-	-	-	0.0%	0.0%
Missouri	5	-	-	-	-	0.0%	0.0%
Montana	1	-	-	-	-	0.0%	0.0%
Nebraska	-	-	-	-	-	0.0%	0.0%
Nevada	2	-	-	-	-	0.0%	0.0%
New Hampshire	1	-	-	-	-	0.0%	0.0%
New Jersey	10	-	-	-	-	0.0%	0.0%
New Mexico	2	-	-	-	1	0.0%	0.1%
New York	92	5	2	4	4	7.5%	1.1%
North Carolina	12	-	-	-	-	0.0%	0.0%

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup> Hispanic-owned are firms that have more than 50% ownership by a Hispanic group.

**Table 25. Hispanic ownership by State (%) (Cont.)**

State	% of Ownership controlled by Hispanic American					Hispanic American-Owned as a % of <sup>2</sup>	
	<1	1 to 25	25 to 50	50 to 75 <sup>1</sup>	>75	State	Total
North Dakota	1	-	-	-	-	0.0%	0.0%
Ohio	10	1	-	-	-	0.0%	0.0%
Oklahoma	-	-	-	-	-	0.0%	0.0%
Oregon	6	1	-	-	-	0.0%	0.0%
Pennsylvania	19	-	-	-	-	0.0%	0.0%
Puerto Rico	-	-	-	-	3	0.0%	0.4%
Rhode Island	-	-	-	-	-	0.0%	0.0%
South Carolina	3	-	-	-	-	0.0%	0.0%
South Dakota	-	-	-	-	-	0.0%	0.0%
Tennessee	4	-	-	-	-	0.0%	0.0%
Texas	23	3	1	2	4	18.2%	0.8%
Utah	1	-	-	-	-	0.0%	0.0%
Vermont	2	-	-	-	-	0.0%	0.0%
Virgin Islands	6	-	-	-	-	0.0%	0.0%
Virginia	2	-	1	-	-	0.0%	0.0%
Washington	4	1	-	-	-	0.0%	0.0%
West Virginia	-	-	-	-	-	0.0%	0.0%
Wisconsin	4	-	-	-	-	0.0%	0.0%
Wyoming	-	-	-	-	-	0.0%	0.0%
<b>Total US based Firms</b>	<b>419</b>	<b>22</b>	<b>7</b>	<b>14</b>	<b>24</b>	<b>7.8%</b>	<b>5.1%</b>

Source: Altura Capital. <sup>1</sup> 50% to 75% represents firms that have at least 50.1% of ownership. <sup>2</sup>Hispanic-owned are firms that have more than 50% ownership by a Hispanic group.

G. **Native American**: Only six firms reported majority ownership by Native Americans. One firm was in New York, one in Illinois, one in Oklahoma and three in California.

H. **Disabled/Veteran**: Only 2 firms from California reported a majority Disabled/Veteran ownership.

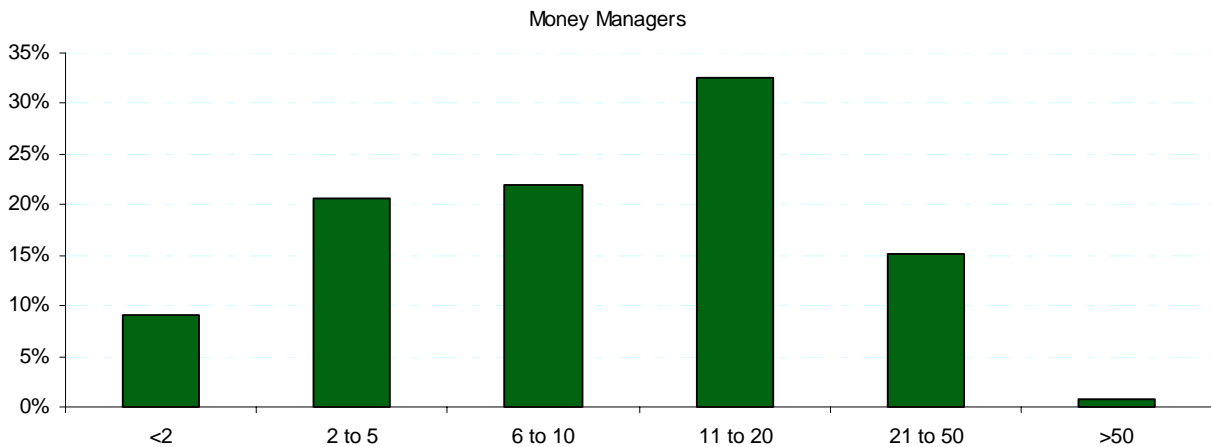
**G. Key Findings within Service Providers**

For this section, we show key statistics within the service provider categories with the largest participation. The categories that had the most respondents in our survey were Money Managers with 333, Hedge Funds with 237, Private Equity Funds with 89 and Broker Dealers with 70. We want to show from a few key variables the differences and similarities between these 4 categories. Following are the results:

**1. Years in Operation**

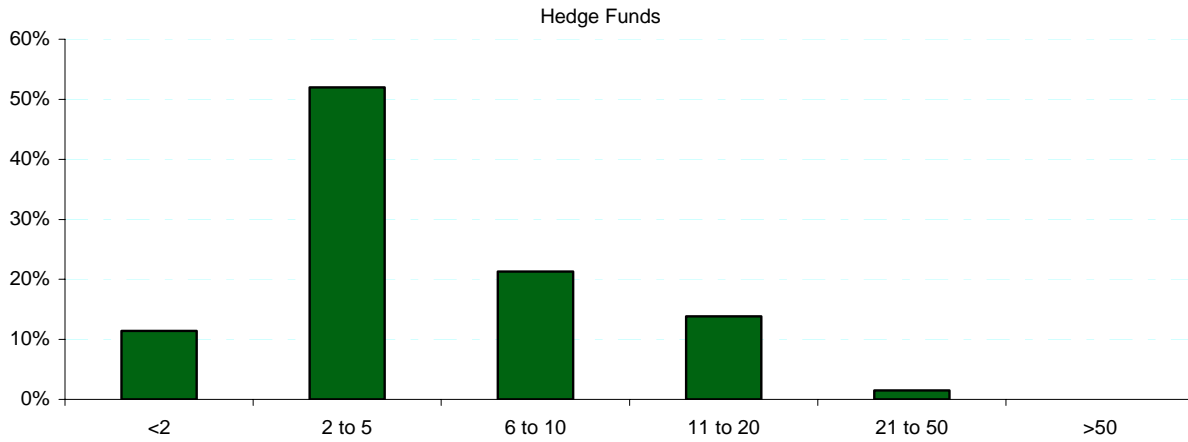
Of the four groups, Broker Dealers and Money Managers have more years of operation than the other two. 32.5% of Money Managers have between 11 and 20 years of operation with an average of 12.3 years. These statistics have not changed much from last year. For Broker dealers, 48% of the firms have between 11 and 20 years of operation with an average of 13.6. In contrast, and both Private Equity funds and Hedge Funds have the majority of their firms having less than 5 years of operation. The average age of Hedge Funds and Private Equity Funds has climbed as the Altura database has attracted a larger number of more seasoned respondents.

**Figure 9. Years in operation for money managers**



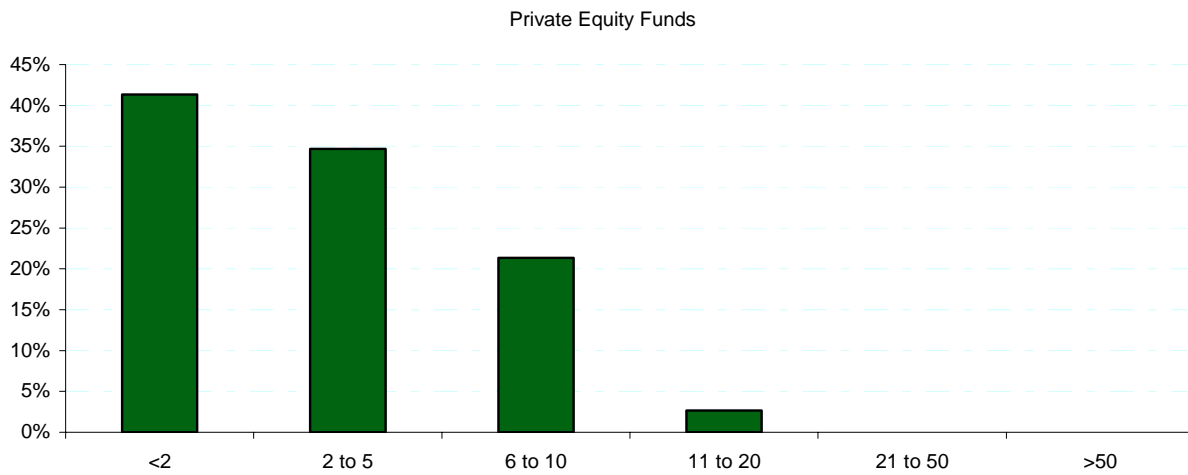
Source: Altura Capital

**Figure 10. Years in operation for hedge funds**



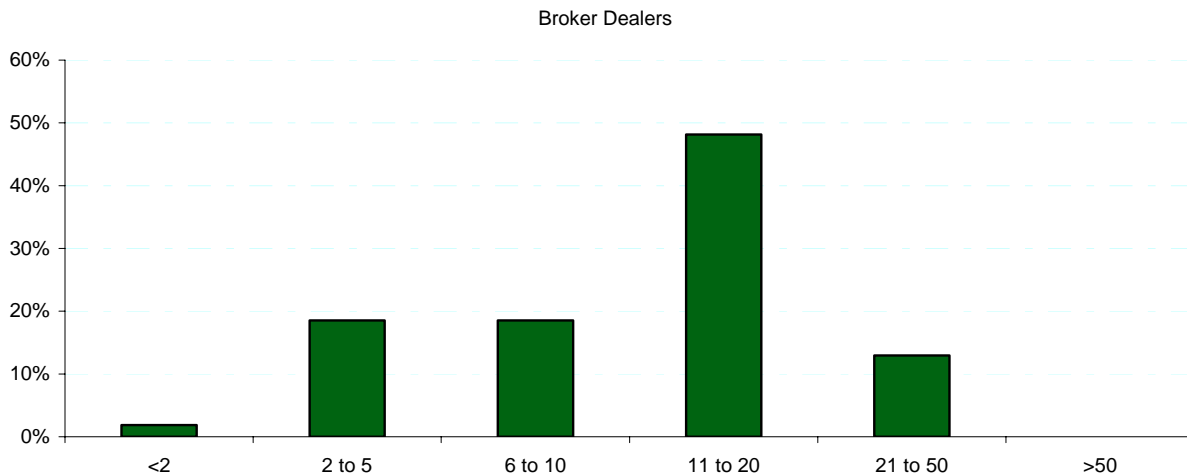
Source: Altura Capital

**Figure 11. Years in operation for private equity funds**



Source: Altura Capital

**Figure 12. Years in operation for broker dealers**



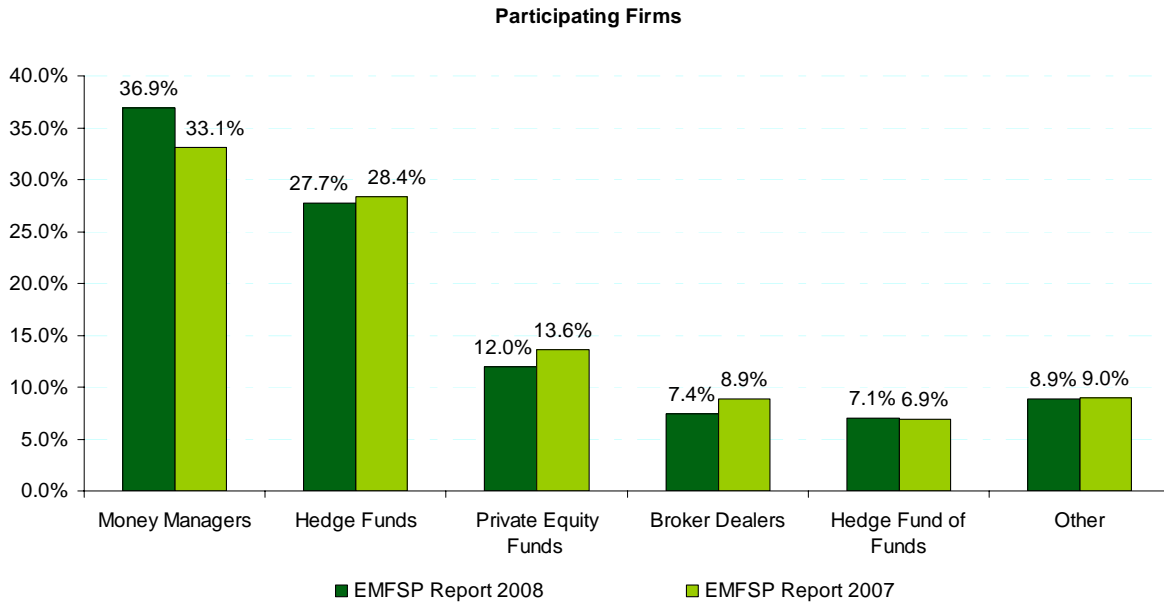
Source: Altura Capital

**Table 26. Years in operation for service providers – Statistical data**

Category	Min	Max	Median	Average
Money Managers	1.0	71.0	10.0	12.3
Private Equity Funds	1.0	12.0	3.0	4.0
Private Equity Fund of Funds	2.0	9.0	2.5	3.9
Real Estate Partnerships	2.0	26.0	5.5	7.9
Real Estate Investment Trusts	11.0	11.0	11.0	11.0
Hedge Funds	1.0	34.0	4.0	6.2
Hedge Fund of Funds	2.0	18.0	5.0	6.4
Investment Management Consultants	2.0	27.0	6.0	8.1
Investment Research Firms	4.0	74.0	15.0	25.0
Emerging Manager Program Managers	2.0	21.0	5.5	7.2
Broker Dealers	2.0	41.0	13.0	13.6

Source: Altura Capital

**Figure 13. Average years of operation by service provider**

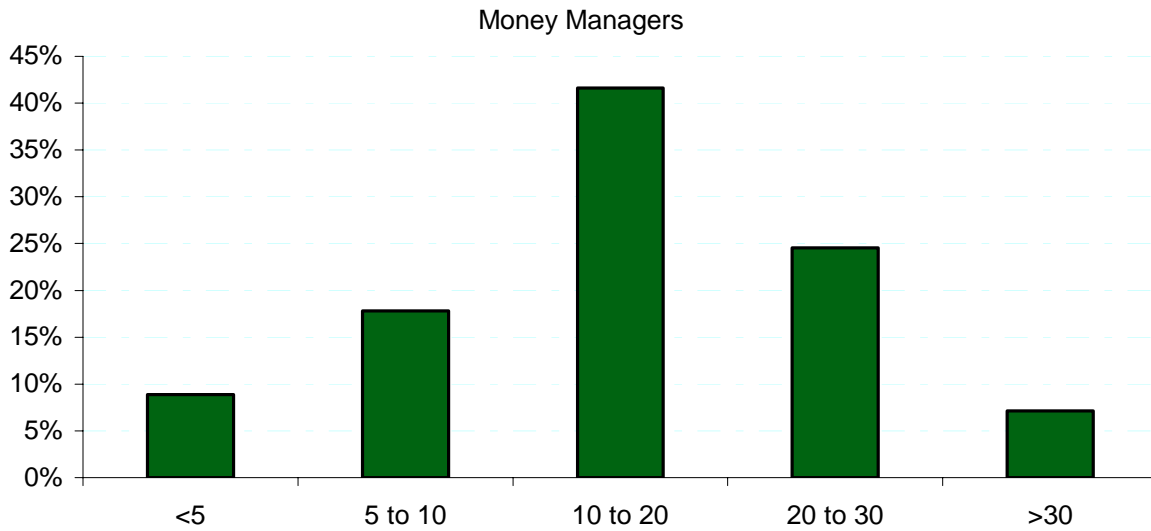


Source: Altura Capital

**2. Years of Experience of the Investment Team**

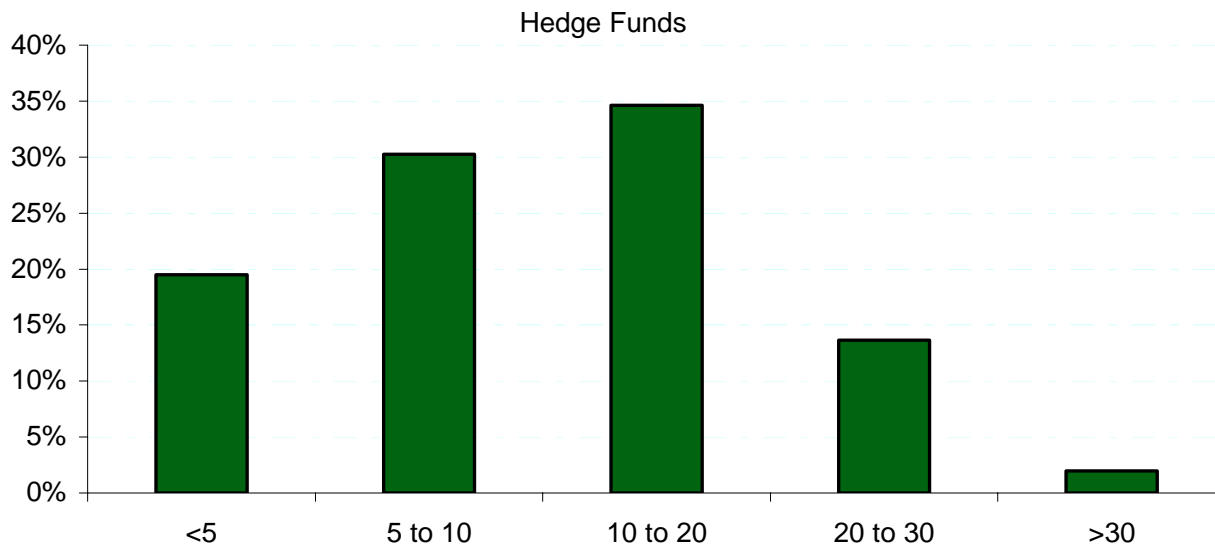
Of the four groups, the three investment categories have average years of experience that are very similar. In all of the groups the majority have average years of experience between 10 and 20 years. Money Managers have an average experience of 16.5 years, Hedge Funds have an average experience of 12.0 years, and Private Equity Funds have an average experience of 9.6 years. These numbers compare to 16.1 for money managers, 10.5 for Hedge Funds and 12.8 for Private Equity Funds in the first edition of this report in 2007.

**Figure 14. Average years of experience for money managers\***



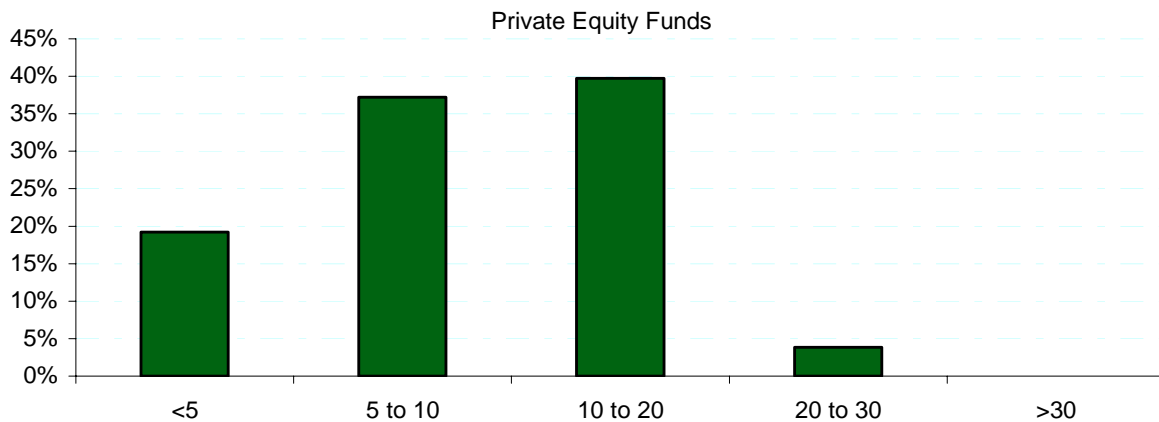
Source: Altura Capital. \*Only for the investment team.

**Figure 15. Average years of experience for hedge funds\***



Source: Altura Capital. \*Only for the investment team.

**Figure 16. Average years of experience for private equity funds\***



Source: Altura Capital. \*Only for the investment team.

**Table 27. Years of investment experience for service providers – Statistical data\***

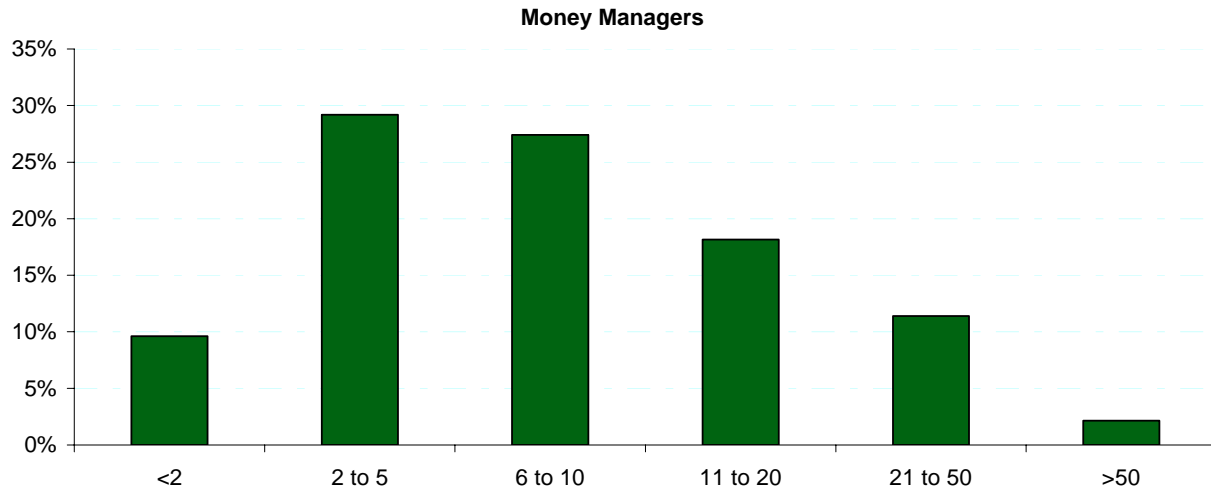
Average Years of Investing Experience Per Team Member				
Service Provider	Min	Max	Median	Average
Money Managers	0.0	60.0	15.0	16.5
Private Equity Funds	0.0	24.0	9.2	9.6
Private Equity Fund of Funds	6.0	23.3	9.7	12.1
Real Estate Partnerships	8.3	27.5	15.7	16.6
Real Estate Investment Trusts	17.0	17.0	17.0	11.0
Hedge Funds	0.0	42.0	10.3	12.0
Hedge Fund of Funds	0.5	28.5	10.0	10.8
Investment Management Consultants	0.0	0.0	0.0	0.0
Investment Research Firms	10.0	42.0	18.0	20.8
Emerging Manager Program Managers	2.0	35.5	8.0	11.2
Broker Dealers	0.0	51.3	16.4	17.0
<b>Entire Universe</b>	<b>0.0</b>	<b>60.0</b>	<b>12.5</b>	<b>14.0</b>

Source: Altura Capital. \*Only for the investment team.

### 3. Number of Employees

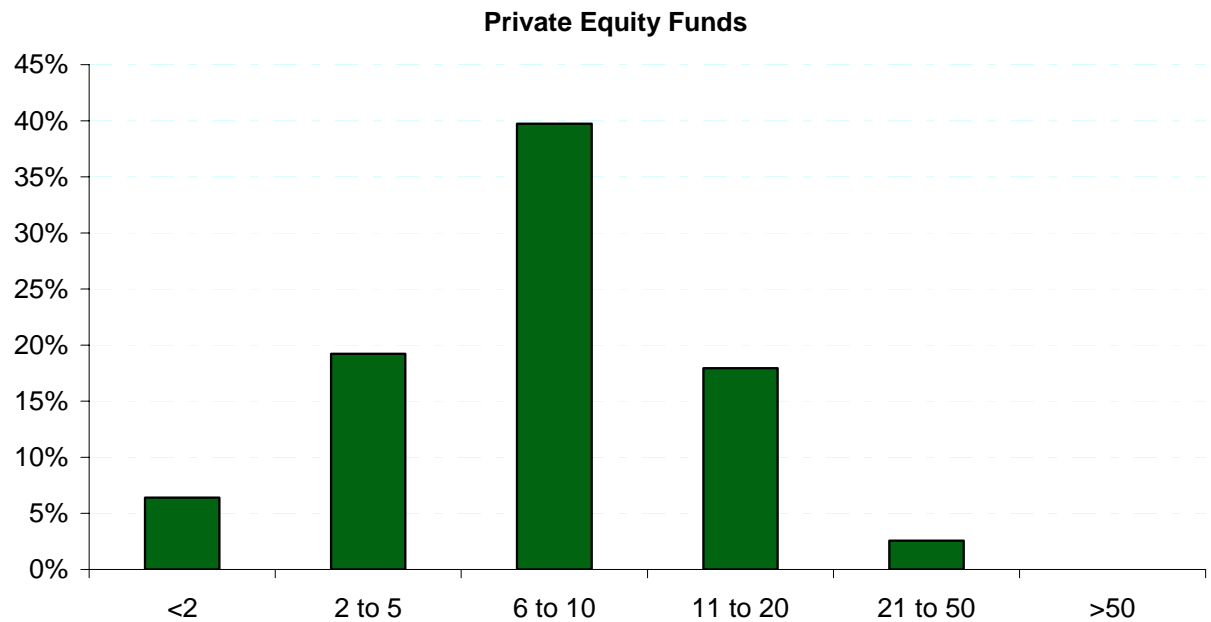
Of the four groups, we found an interesting trend. 39% of the Money Manager firms and 49% of the Hedge Funds had fewer than 5 employees, with average employees of 12 and 8 respectively. 67% of the total sample had fewer than 10 employees. 29% of the money managers and 33% of the hedge funds had 2 to 5 employees. 40% of the Private equity funds had 6 to 10 employees, while the broker dealer segment was more evenly split among the categories. These numbers are very slightly changed from last year.

**Figure 17. Number of employees for money managers**



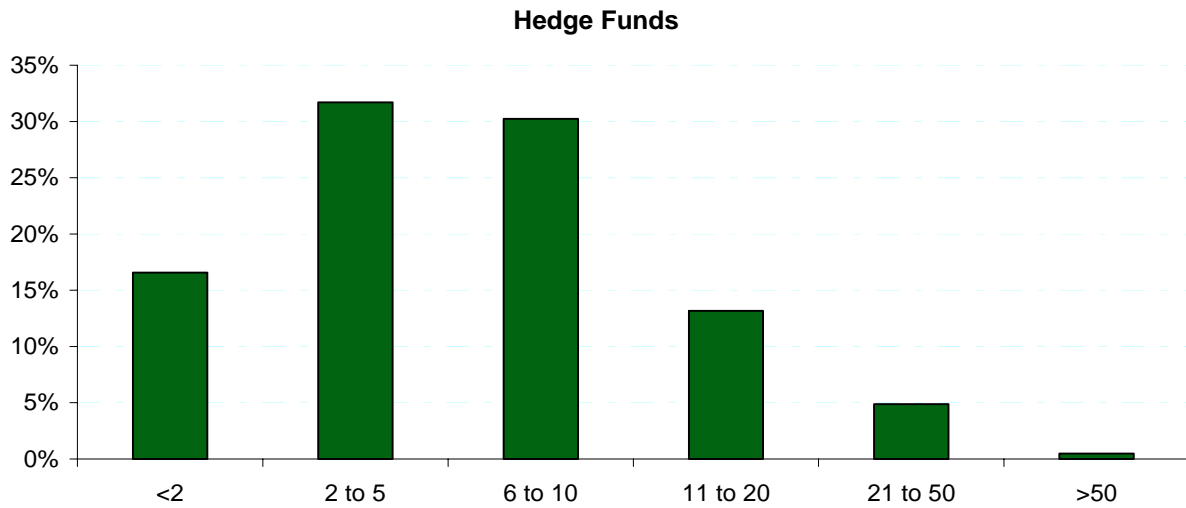
Source: Altura Capital.

**Figure 18. Number of employees for private equity**



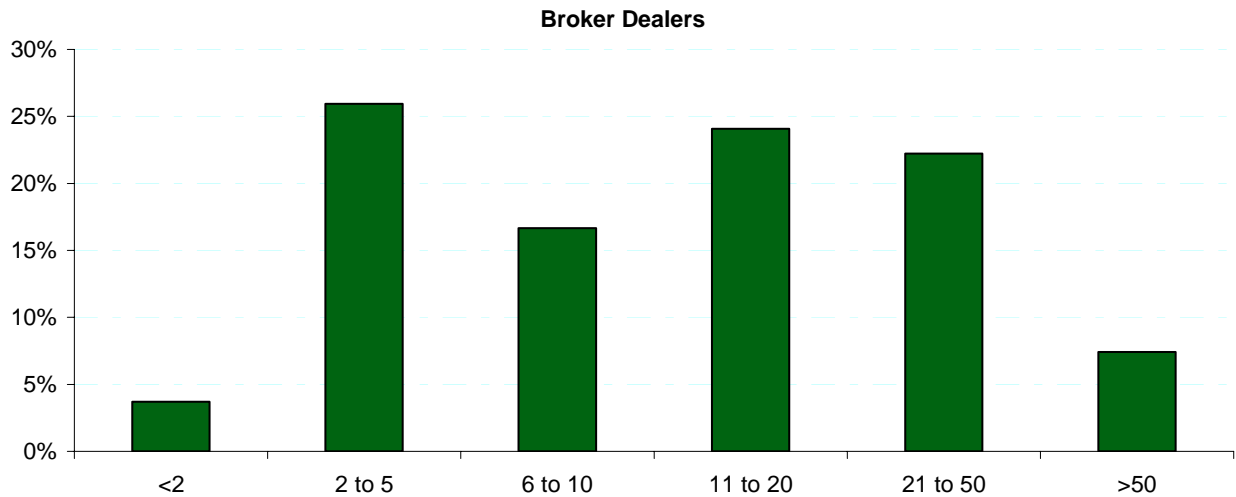
Source: Altura Capital.

**Figure 19. Number of employees for hedge funds**



Source: Altura Capital.

**Figure 20. Number of employees for broker dealers**



Source: Altura Capital.

**Table 28. Number of employees for service providers – Statistical data\***

<b>Service Provider</b>	<b>Min</b>	<b>Max</b>	<b>Median</b>	<b>Average</b>
Money Managers	1.0	200.0	7.0	12.1
Private Equity Funds	2.0	38.0	7.0	8.5
Private Equity Fund of Funds	3.0	17.0	6.0	7.6
Real Estate Partnerships	2.0	280.0	14.0	44.9
Real Estate Investment Trusts	4.0	4.0	4.0	4.0
Hedge Funds	1.0	106.0	6.0	7.9
Hedge Fund of Funds	1.0	38.0	7.0	9.4
Investment Management Consultants	1.0	23.0	4.5	6.9
Investment Research Firms	1.0	35.0	5.0	12.3
Emerging Manager Program Managers	1.0	38.0	5.0	7.8
Broker Dealers	1.0	140.0	12.0	20.4
<b>Entire Universe</b>	<b>1.0</b>	<b>280.0</b>	<b>7.0</b>	<b>11.7</b>

Source: Altura Capital. \*Only for the investment team.



**DIVERSITY AS AN INVESTMENT FRAMEWORK:  
CALSTRS TARGETED INVESTMENT STRATEGY**

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## **Diversity as an Investment Framework: CalSTRS Targeted Investment Strategy**

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**Abstract.** This paper examines the California State Teachers Retirement System's (CalSTRS) core value to "ensure the strength of our system by embracing a diversity of ideas and people." This philosophy is not a program or short-term approach; it is a long-term, comprehensive business strategy across all asset classes. Diversity as a business strategy is seen as consistent with CalSTRS' investment goal: to enhance the returns of its beneficiaries.

CalSTRS believes that diversity in investment opportunities can "yield good investment returns and simultaneously reflect the new face of California." This investment strategy is not limited to a single asset class or program, rather CalSTRS' utilizes two major policy instruments in its drive to reflect the changing face of California. The first investment policy is direct investment in underserved capital markets primarily in California. CalSTRS aims for 2% of its total portfolio to be directed to the underserved capital markets, particularly in California, through real estate, fixed income, credit enhancement, and private equity investments. The second policy is to create opportunities for developing and new managers to access investment from CalSTRS. In some asset classes smaller, newer firms are more diverse than larger, more established money management firms. Some claim that these firms are more nimble in the market and may outperform larger more established managers. This paper examines CalSTRS' comprehensive business strategy of diversity and its impacts.

**Keywords:** urban revitalization, public sector pension funds, underserved capital markets, CalSTRS, diversity, credit enhancement.

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## **Executive Summary**

- CalSTRS is a \$178 billion public sector pension fund serving California's teachers (as of October 5th 2007). It is the second largest public pension fund in the US and the largest teachers' retirement system.
- CalSTRS seeks maximum return at a prudent level of risk through the diversification of plan assets with a particular attention to the changing face of California.
- CalSTRS developed a comprehensive and disciplined approach to diversity. This approach includes policies and procedures reviews, research and data collection and a diversity committee with both internal and external components. This is a long term, strategic effort to position the organization to gain exposure to a wider variety of investment talent.
- This business strategy has a direct impact on urban revitalization in the State. CalSTRS does not silo its diversity business strategy in any one asset class, but looks for investment opportunities across the portfolio.
- CalSTRS invests two percent of its portfolio in California's underserved and emerging capital markets as part of its California Investment Program. This targeted policy currently valued at \$2.36 billion as of June 2007 (1.4% of total assets), draws on several different asset classes portfolio including fixed income, home loans, real estate, credit enhancements and private equity.
- Credit enhancements provide municipalities and state agencies access to CalSTRS' triple A credit rating for a fee. CalSTRS has provided credit enhancements since 1994 and has generated fees of \$34 million for the pension fund. Credit enhancements have enabled municipalities and state agencies across the country to undertake important revitalization initiatives in their communities.
- CalSTRS has also committed \$735 million to private equity in underserved and emerging capital markets in California in its Proactive Portfolio – Private Equity. CalSTRS utilizes a fund-of-funds, the Banc of America Capital Access Funds, to deliver a component of its targeted private equity investments in underserved and emerging capital markets, with a particular focus on California. Another key component of this portfolio is the New and Next Generation Managers Program. Both use a fund-of-funds structure. This structure provides the fund with scale and diversification thus reducing the inherent risk of this type of investment.
- CalSTRS also reflects diversity in its portfolio through its Developing Managers Program in Global Equities. CalSTRS invests in these areas through three manager-of-managers.

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## 1. Introduction

This series of case studies examines US public sector funds' investments that have a positive effect on American urban revitalization. We began this work in 2004 with a map of the fifty-three largest public sector pension funds in the US. (Strauss, 2004) First we identified public sector funds that have targeted investment policies. We found of the fifty-three funds examined, twenty had targeted investment policies. By far the majority of these funds targeted investment to their state with no other investment directive. Of these twenty funds, we found four with policies that explicitly targeted underserved capital markets. These were CalPERS, NYCERS, New York Common, and CalSTRS.

We identified a further six funds who narrowed their in-state targeting with either an economically targeted investment (ETI) program or an economic development focus. We felt that these states were likely adopters of urban revitalization given their focus on ancillary benefits, in addition to geographic targets. These pension funds included Connecticut Retirement System, MassPRIM, Oregon State Public Employees, Washington State Board, LA County and Indiana. Finally, we identified a further ten pension funds whose in-state targeted investing would make them possible candidates for investment in urban revitalization. Our assertion was that potential and possible adopters of pension fund investment in urban revitalization would be attracted to these third generation economically targeted investments first and foremost because of their potential for financial returns and secondarily for their ancillary positive impacts on communities.<sup>1</sup> We felt that the positive experience of the adopters of this investment strategy had the potential to influence these possible adopters.

In the three years we have investigated this topic, we have indeed seen more pension funds specifically target underserved capital markets in their investment portfolios. This includes *potential adopters* MassPRIM, Connecticut, and Los Angeles County who have now made investments in vehicles that offer both strong performance track records and urban revitalization impacts. It also includes *possible adopters* such as Los Angeles City, Los Angeles Fire and Police and San Francisco City and County Retirement Systems. See Appendix 1 for a detailed list of US public sector pension funds with investments specifically targeted to underserved and emerging capital markets.

Our case studies demonstrate that there is no one-size fits all when it comes to public pension fund investment in urban revitalization (Hebb 2005 a and b, Hagerman et al 2005, Hagerman et al 2006, Hagerman et al 2007). CalPERS invests in underserved capital markets primarily through its real estate and private equity portfolios with specific programs and capital committed to investment vehicles that identify underserved capital markets as their target investment (Hebb 2005 a and b). NYCERS and New York Common have both focused on fixed income products to deliver the financial returns and ancillary benefits described in their economically targeted investment program (Hagerman et al. 2005). MassPRIM emphasizes appropriate asset allocation as part of its five criteria for in-state ETIs (Hagerman et al 2006).

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<sup>1</sup> See Daniels and Nixon 2003 for a detailed description of the three generations of economically targeted investment in the US.

In contrast the California State Teachers Retirement System's (CalSTRS) has developed a comprehensive and disciplined business strategy that aims to reflect the diversity of California. CalSTRS' utilizes several policies and investment programs in its drive to reflect changing demographics. This is a proactive approach to adding diversity in the management of investments. "CalSTRS's proactive approach is interwoven in all assets classed within its portfolio whereby a framework is provided for selecting investments in an opportunistic and disciplined manner when these investments are in 1) the emerging space, or 2) to capture innovative strategies (i.e. such as new market opportunities and/or new drivers of value creation due to changing demographics etc.) and/ or 3) investments consistent with the Board's policy on California Investments."(CalSTRS, 2007)

While not specifically targeted to urban revitalization, the Proactive Private Equity Portfolio (CalSTRS, 2006) combines two key CalSTRS' programs that have an impact on both diversity and underserved capital markets. The first is the Urban and Rural Program with its commitment to invest two percent of the total CalSTRS' portfolio in California's underserved and emerging capital markets. The second is the New and Next Generation Managers program. It is anticipated that by close of 2007 the Proactive Private Equity Portfolio will have made investment commitments of \$940 million.

Another major component of this strategy is an emerging managers program that allows for greater opportunity for smaller investment firms to access CalSTRS' investments. In Global Equities, small (under \$2 billion of assets under management) financial firms with shorter track records tend to also be more diverse in their ownership and management. While emerging private equity firms tend to look for investment opportunities in emerging rather than established markets.

This approach is part of a disciplined and comprehensive business strategy to unlock value from such opportunities that lead to superior performance in these asset classes. External consultants Altura Capital describe the fundamental shift in thinking that is key to implementing Diversity Investment Management across all aspects of CalSTRS' portfolio.

## Innovative Ways to Think about Diversity Investment Opportunities

The Old – What’s out	The New – What’s in
1. Outreach	1. Search for talent
2. The “right” thing	2. The “smart” thing
3. “Large is good”	3. Got talent?
4. “Tactical/Reactionary” Approach: Give money to a few hoping the problem “goes away”	4. “Strategic/Proactive” Approach: Design a sustainable and measurable strategy that creates new alpha generation opportunities
5. “It’s risky”	5. New sources of risk require new risk management tools
6. Diversity is viewed as a “challenge” to overcome	6. Diversity is viewed as a competitive advantage to harness
7. Diversity implies racial/ethnic differences, and sometimes encompassing distinctions of gender	7. Fully embracing the true definition of the word; in business, to imply diversification, multiplicity of strategies carried out by multiplicity of talent, with various worldviews, in a variety of markets and geographic locations

Source: Innovations on Approaching Diversity, Altura Capital, 2006

CalSTRS’ decision to focus on diversity opportunities is driven in part by the demographic changes in California’s population. Such sensitivity is seen as a positive attribute for CalSTRS both in terms of financial returns and as a way to reflect the changing needs of the State of California. By 2004, the majority of California’s population was non-white or Hispanic. California’s Hispanic and Latino population made up thirty-five percent of the total (see Table 1). In contrast the State’s 1990 demographic make up was twenty-six percent Hispanic or Latino and ten percent Asian. Such changes in demographics are reflected in the California student and teacher population. Classrooms are changing and California teachers are now a more ethnically diverse group than 1990 with twenty-seven percent either Hispanic or other non-white ethnicity (see Table 2).<sup>2</sup>

<sup>2</sup> Hispanic or Latino origin can be any race.

**Table 1 Population of California by Ethnicity (2004)**

American Indian and Alaska Native persons	1.20%
Asian persons	12.10%
Black persons	6.80%
Persons of Hispanic or Latino origin	34.70%
White persons, not Hispanic	44.50%

Source: US Census Bureau 2004

**Table 2 California Teachers by Ethnicity in the State of California 2005-6**

	Number of Teachers	Percent of Total
<b>American Indian</b>	1,826	0.60%
<b>Asian</b>	14,740	4.80%
<b>Pacific Islander</b>	719	0.20%
<b>Filipino</b>	3,960	1.30%
<b>Hispanic</b>	46,830	15.20%
<b>African American</b>	14,000	4.50%
<b>White</b>	221,822	72.10%
<b>Multiple/No Response</b>	3,967	1.30%
<b>Total</b>	<b>307,864</b>	<b>100%</b>

Source: Education Data Partnership Dec. 2006

The California State Teachers' Retirement System was established in 1913 to provide for the retirement needs of California's teachers. Its vision statement reads: "Commitment to Lifetime Service and Security for California's Teachers". CalTRS is the second largest public pension plan and the largest teachers' retirement fund in the United States. CalSTRS has a total membership of close to 800,000 beneficiaries and assets of \$170 billion (as of June 2007). Active and inactive members make up three-quarters of CalSTRS membership, while retirees and benefit recipients make up the other quarter.

The fund has performed well over the last few years, though like most US pension funds, the market downturn in 2001 to 2003 took its toll. CalSTRS currently has a funding ratio of eighty-six percent assets to liabilities with a \$20 billion unfunded actuarial obligation.

CalSTRS believes that diversity in investment opportunities can "yield good investment returns and simultaneously reflect the new face of California." CalSTRS' diversity business strategy is not restricted to a specific asset class within their portfolio. This prevents the program from being silo-ed within the organization. As CIO Chris Ailman explains, CalSTRS provides both horizontal and vertical access to capital. Its programs

target geographic areas, business lines, and diverse money management that is often found in smaller firms.<sup>3</sup> The team assigned to work on the diversity program is integral to CalSTRS' investment office. Rather than work within one or two asset classes as we find in CalPERS and NYCERS, the CalSTRS team looks for diversity opportunities across the whole portfolio.

“The change in California demographics sets a new standard on how matters of diversity are addressed by well-run organizations. The majority of Californians are members of an ethnic minority and young – we know this because our teachers’ classrooms have been reflecting this for some time,” said Jack Ehnes, chief executive officer of CalSTRS. “The trend of rapidly growing ethnic communities continues, not only in California, but across the U.S. It’s what makes us vibrant and strong. This trend, identified by many and harnessed by few, creates an enormous opportunity that can translate into valuable and attractive products for the investment community. We want to channel California’s vitality, richness and strength for the benefit of our teachers.” (CalSTRS, 2005 c).

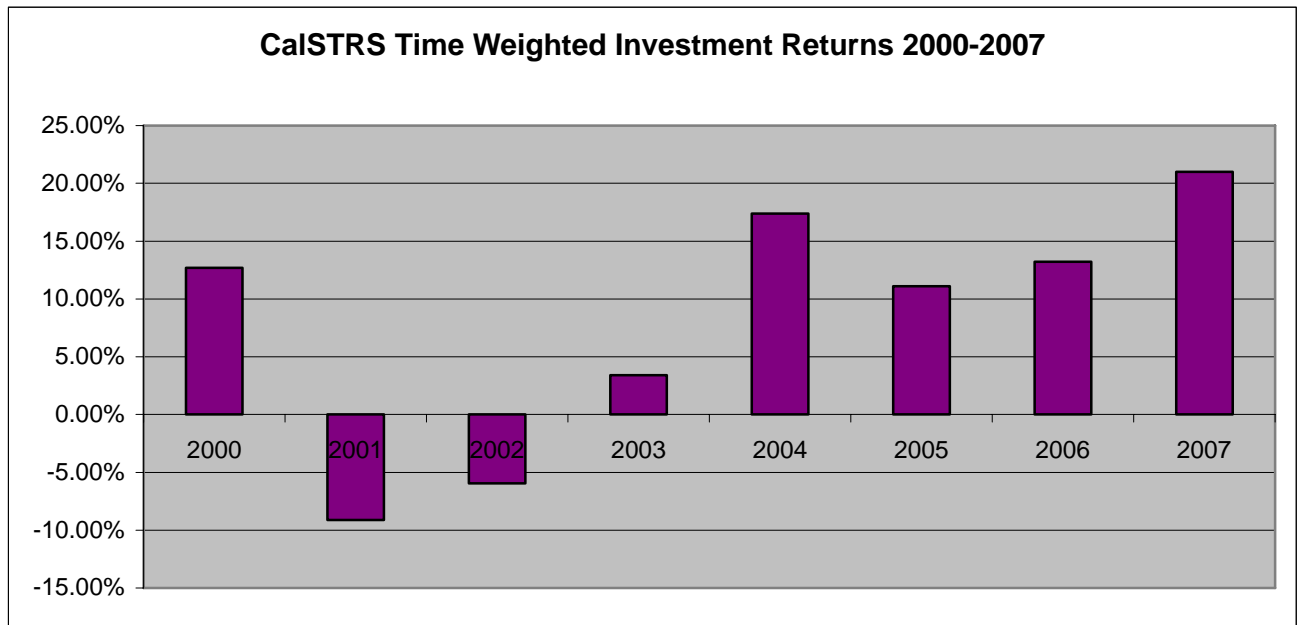
CalSTRS’ board commissioned several studies in order to have a deep understanding of both its targeted California investment policy and its commitment to diversity through its developing managers program. The former was undertaken by the Milken Institute in 2001, the latter, in 2003, was undertaken by consultant PCA’s principal Allan Emkin. Only after careful study were these programs developed.

Investment opportunities afforded through diversity is one of the mega trends CalSTRS factors into their investment decision making. Other trends include environmental sustainability, with increasing pressure on existing non-renewable resources such as oil and the new resources and products that brings to the market. Factoring in these trends equips the pension fund for long-term ‘alpha’ generation. While these are relatively new ideas in North America, institutional investors in Europe and Asia are already factoring these trends into their long-term fund performance (Ailman 2007).

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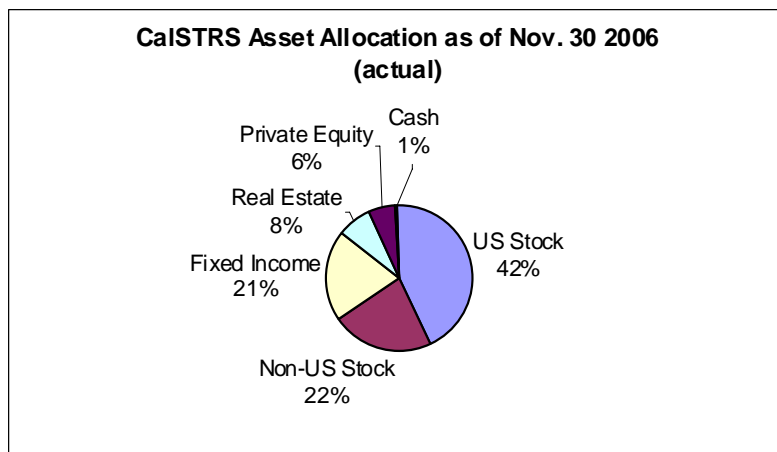
<sup>3</sup> CalSTRS’ CIO Chris Ailman is a recognized champion of the opportunities that diversity can provide in investment portfolios. In 2006 he was awarded the New America Alliance Distinguished Service Award for Advancing Latinos in American Business. “Mr. Ailman was recognized for his innovative approach in uncovering untapped talent in the investment arena and encouraging other institutional investors to seek out and hire emerging managers. (CalSTRS 2006 h)

**Figure 1 CalSTRS Time Weighted Returns 2000 -2007 (June 30<sup>th</sup>)**



Source: CalSTRS Fast Facts August 2007

**Figure 2 CalSTRS Asset Allocation**



Source: CalSTRS Current Investment Portfolio Dec 31 2006 [www.calstrs.com/investments](http://www.calstrs.com/investments)

Integral to CalSTRS' business strategy is their California Investments policy that not only invests in California's markets broadly, but has a key component to invest in rural and urban underserved and emerging markets in the State. Once developed the policies draw on several asset classes as well as credit enhancements to meet this goal. These investments include fixed income (including mortgage backed securities and home loans), real estate, credit enhancement, alternative investments (private equity).

Much of CalSTRS' fixed income proactive portfolio has developed out of CalSTRS' normal business lines rather than through a specialized targeted approach. Looking at the chart below, it is evident that between 2003 and 2004 CalSTRS significantly increased its fixed income transactions with emerging firms owned by minority, women and disabled veterans. One firm, LM Capital (a Latino-owned firm) was funded \$350 million of CalSTRS' \$5.4 billion allocation to active Core Plus fixed income strategy. Another, EH Williams (an African-American-owned firm) was funded \$300 million of CalSTRS' \$2.4 billion allocation to active High Yield strategy. Each of these managers was hired through CalSTRS' regular RFP process rather than through its targeted programs.

CalSTRS has also created a developing manager program within Fixed Income, building on the success that a similar program in Global Equity (examined in more detail in section 7). CalSTRS recently issued an RFP to hire fund-of-fund managers in both Fixed Income and Global Equity. Hiring fund of funds managers is consistent with the view that the fund-of-funds structure allows a large investor to make a single large investment while the fund of funds finds the smaller firms that can outperform their peers. In these areas selection of small firms is key to performance (Ailman 2007).

**Fixed Income: Transactions**

(\$millions)	FY2002	FY2003	FY2004	FY2005	FY2006
<b>Emerging Firms</b>					
Number of firms	6	4	9	15	18
Value of transactions processed	\$176	\$169	\$2,334	\$4,373	\$4,588
Percentage to the total value of transactions	0.1%	0.1%	1.3%	2.4%	3.5%
<b>Firms owned by Latino, Black, Asian, Pacific Islander, and Native Americans</b>					
Number of firms	4	2	6	11	9
Value of transactions processed	\$36	\$7	\$262	\$1,515	\$1,548
Percentage to the total value of transactions	0.0%	0.0%	0.1%	0.8%	1.2%
<b>Firms owned by Minority, Women and/or disabled veterans</b>					
Number of firms	6	4	9	15	18
Value of transactions processed	\$176	\$169	\$2,334	\$4,373	\$4,588
Percentage to the total value of transactions	0.1%	0.1%	1.3%	2.4%	3.5%
<b>Total Market Value of Transactions</b>	<b>\$145,733</b>	<b>\$121,203</b>	<b>\$178,544</b>	<b>\$184,345</b>	<b>\$130,287</b>

Note: Above years are fiscal years ending in June. The numbers of total authorized brokers are greater.

Source: CalSTRS Diversity in the Management of Investments Report November 1 2007

CalSTRS' Credit Enhancement Program is an important element in its California Investments. CalSTRS was one of the earliest pension funds to provide credit enhancements to local and state governments seeking capital at reduced cost. This program generates fees for CalSTRS and directly contributes to local and state government's ability to engage in urban revitalization. CalSTRS' credit enhancement program is covered in more detail below.

Private equity investments, through the proactive portfolio, are also central to CalSTRS' commitment to underserved and emerging capital markets of California. Initially, CalSTRS partnered with CalPERS in the Banc of America Capital Access Fund, a fund-of-funds dedicated to finding private equity opportunities in underserved and emerging

capital markets with a focus on California. Subsequently, CalSTRS has continued with a \$200 million commitment to Bank of America Capital Access Fund III.

The other instrument CalSTRS uses to further its commitment to diversity within its portfolio is an emerging managers program. Developed in 2003, CalSTRS launched its New and Next Generation Managers Program. CalSTRS realized that by 2003 with a total portfolio of close to \$100 billion of assets, its commitment to diversity included providing opportunities for new investment managers and broker dealers to build and grow their businesses. This program has been successful and it is anticipated that another commitment will be made soon.

Each of these policy instruments and their financial and ancillary benefits, particularly their impact on urban revitalization, will be examined in this paper.

## **2. CalSTRS' California Investments Program**

In 2000, CalSTRS' Board asked staff for an external expert study of the investment opportunities in California's underserved rural and urban markets. The pension fund commissioned the Milken Institute under the leadership of Betsy Zeidman, to produce the study. In September of 2001 the report concluded that "Given the scant availability of significant and reliable data, and the time frame of this study, many of the detailed questions posed by staff could not be answered in depth. Should CalSTRS decide to pursue an investment strategy, we recommend a more comprehensive analysis of a broader and deeper range of data." (CalSTRS, 2002)

After extensive review by staff, it was decided that CalSTRS' sister fund the California Public Employees Retirement System (CalPERS) already had considerable knowledge in investing in underserved capital markets in California including a year-long expert study by McKinsey & Co. as part of the CalPERS' private equity 'California Initiative' (see Hebb, 2005a for more detailed information on CalPERS' California Initiative also designed to invest in California's underserved capital markets).

Staff recommended that CalSTRS leverage the work already undertaken in this area by CalPERS.<sup>4</sup> In 2001, CalSTRS developed a policy to target two percent of the fund in California's underserved and emerging capital markets. The CalSTRS' policy document defines California's underserved and emerging capital markets as follows:

"California emerging markets investments shall focus on investment opportunities in traditionally underserved markets primarily located in California. For example underserved markets would include urban and rural communities undergoing, or in need of, revitalization where there are assets (e.g. an available labor pool, underutilized infrastructure) conducive to business development." (CalSTRS, 2004)

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<sup>4</sup> CalPERS asked consultants at McKinsey to produce an external report that assisted with the development of their targeted investment programs. McKinsey also produced a similar study for MassPRIM.

CalSTRS draws on several programs and asset classes to meet this goal. These include fixed income, individual home loans, real estate, credit enhancement, and private equity investment. These last two programs will be examined in more detail below.

**Table 3 CalSTRS Investments in Underserved Capital Markets [updated June 2007]**

<b>Investments in California Underserved/Emerging Markets as of June 30 2007</b>	
<b>Estimated Exposure to Underserved California \$2,361 million</b>	
<b>% of CalSTRS portfolio 1.4%</b>	
<b>Asset Class Market Value</b>	
<b>(In Millions)</b>	
Fixed Income MBS	\$ 359
Individual Home Loans	\$ 4
Real Estate	\$1,290
Private Equity	\$ 75
Credit Enhancement	\$ 634

Source: CalSTRS Investment Committee California Investment Policy Report, June, 2007

### **3. Credit Enhancement Policy**

CalSTRS began its credit enhancement program in 1991. Originally CalSTRS had been looking to generate fee income by assisting in construction finance for California schools. It was determined that restrictions on the fund prohibited such action, but that CalSTRS could play an active role as a credit enhancer of public and private activity bonds in the state of California and could earn fees from this activity.

Credit enhancement allows CalSTRS to lend its credit rating to municipalities, other local government entities, service districts, non-profit organizations, and state agencies. The program is implemented through a letter of credit, line of credit or liquidity enhancement. This allows an issuer of municipal debt to substitute their lower credit rating for CalSTRS higher credit rating, thus granting access to capital markets and lowering the cost of capital for urban or rural revitalization.

“Credit enhancements are an excellent way for communities to obtain lower cost financing, easing the strain on local budgets while developing their communities, and CalSTRS benefits by generating fee revenue for our investment portfolio,” Christopher J. Ailman, CalSTRS CIO (CalSTRS, 2003 a). CalSTRS credit rating is AAA with both Moody’s and Fitch and AA+ from Standard and Poor’s. In return the issuer pays CalSTRS a fee for this service. To date the Credit Enhancement Program (CEP) has never experienced a default in this program.

CalSTRS first investment in credit enhancement was made in 1994 with a credit enhancement of \$25 million to the Port of Long Beach CA. By 1999, CalSTRS Credit Enhancement Program had \$700 million in outstanding commitments, generating fees of \$2 million per year for CalSTRS.

With the impact on communities of accessing capital at reduced cost and the use of municipal bonds for community revitalization it is not surprising that CalSTRS drew on

its Credit Enhancement Policy as a key component of its commitment to invest 2% of its portfolio in underserved capital markets of California. Credit Enhancements to the Port of Long Beach (\$75 m.) and California Housing Finance Agency (\$215 m.) were considered integral to meeting CalSTRS' commitment to underserved capital markets in California. By 2003, examples of meeting the needs for revitalization through credit enhancement included City of Compton, the City of Vallejo, Kern High School (\$10 m.), The San Francisco Conservatory of Music (\$10 m.), the City of Adelanto (\$44 million) and the City of Sanger (\$17 million).

CalSTRS extended its credit enhancement program first to its neighbors in Oregon and Nevada and then nationally by mid-2005. By December 2004 of the \$1.825 billion invested in emerging and underserved California markets (roughly 1.5% of the CalSTRS portfolio at the time), \$900 million was in credit enhancements in CA, roughly half the portfolio.

**Table 4 CalSTRS' Credit Enhancement Program as of September 30, 2006**

(in millions)				
Total Commitment	Fiscal 2006-07 Fee Income	Fee Income since inception	Portfolio Quality	Average Weighted Maturity
\$2,028	\$1.3	\$34.4	AA-/Aa3	3.32

Source: CalSTRS Investment Committee Quarterly Activity Report Credit Enhancement September 2006

**Table 5 CalSTRS Credit Enhancement by State as of September 2006**

(in millions \$)		
State	Commitment	Percentage
California	1,517	75%
New York	177	9%
Wisconsin	151	7%
Tennessee	80	4%
Oregon	58	3%
Nevada	45	2%
Total	2,028	100%

Source: CalSTRS Investment Committee Quarterly Activity Report Credit Enhancement September 2006

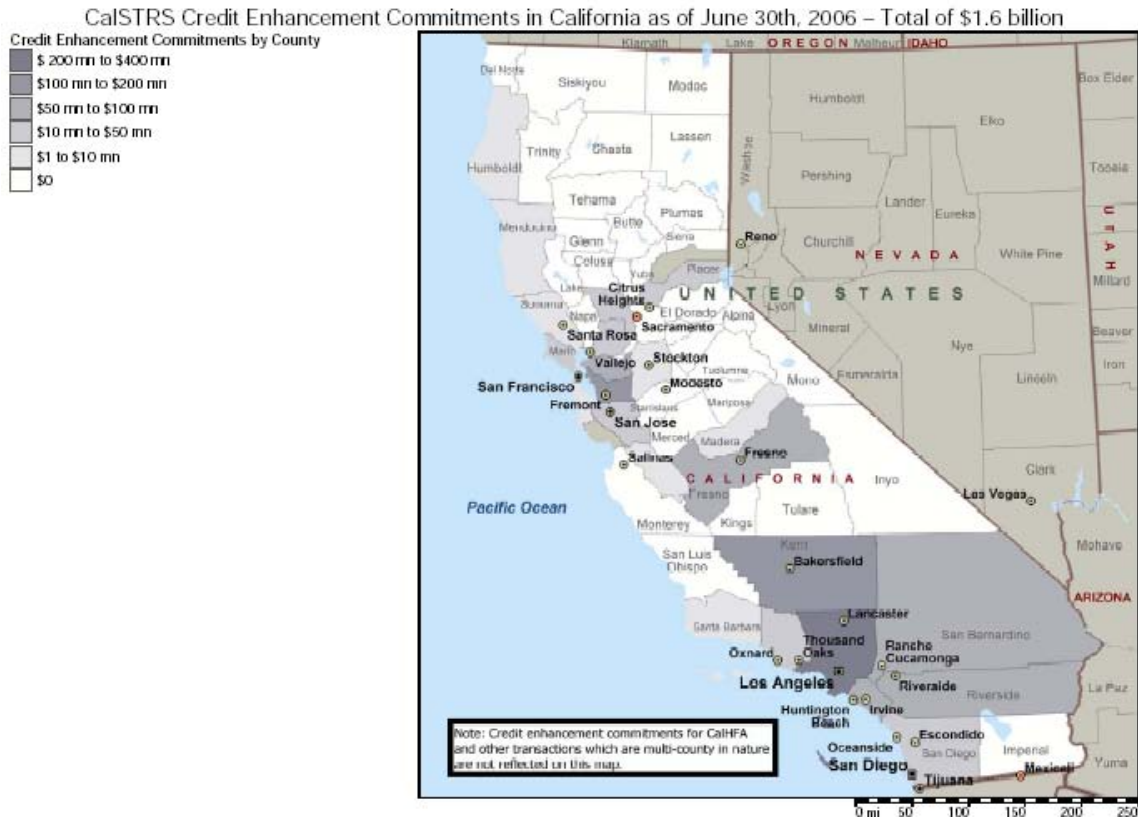
**Table 6 CalSTRS Credit Enhancement by Sector as of September 30, 2006**

(in millions)	
<b>Sector</b>	<b>Commitment</b>
Municipal	\$606
Water	\$239
Education	\$219
Healthcare and Medical	\$188
Electric Utility	\$177
Redevelopment	\$172
Affordable Housing	\$107
Pollution Control	\$97
Port Authority	\$88
IDB	\$47
Transportation	\$45
Not for Profit	\$43
<b>Total</b>	<b>\$2,028</b>

Source: CalSTRS Investment Committee Quarterly Activity Report Credit Enhancement September 2006

By June 30<sup>th</sup> 2006 CalSTRS had invested \$1.6 billion in credit enhancements in the State of California, of these roughly half, \$777 million, were in California's underserved or emerging capital markets. See Figure 3 for a detailed map of CalSTRS' California Credit Enhancements. In total by September 2006, CalSTRS had invested over \$2 billion in credit enhancements across the US and generated fees of \$34 million since inception.

**Figure 3 CalSTRS California Credit Enhancement Program**



Source: CalSTRS California Investments Semi-Annual Investment Committee Report, September 2006

**Cherokee Meadowlands Project**

Credit enhancements have also been used in CalSTRS’ real estate portfolio. The Cherokee Meadowlands Project provides a good example of the impact credit enhancement can have on urban revitalization. The State of New Jersey had been working for nearly three decades to redevelop the Meadowlands landfills. The area, close to New York City, had experienced severe blight and pollution that affected the region’s waterways and wetlands. The New Jersey Meadowlands Commission through a selection process chose the remediation developer Cherokee as the master developer for the project.

In 2000, Cherokee purchased the development rights to the Meadowlands landfills. They took responsibility for closing and remediating the landfills and planned a phased closure of six landfills on the site. In total seven hundred and eighty acres of contaminated land were to be remediated and brought back to productive and sustainable use by Cherokee Partners. This redevelopment was based on “smart growth’ concepts such as the use of integrated mass transit in the project (Cherokee, 2005).

By early 2004, EnCap (a subsidiary of Cherokee Partners) had negotiated a Development Agreement, a remediation plan, environmental insurance, and favorable financing

through a bond issued by the State of New Jersey Economic Development Authority and the New Jersey Environmental Infrastructure Trust. This was the first time these agencies' bonds had been used for a private sector remediation. This fact created some controversy with local environmental groups, particularly using the New Jersey Environmental Infrastructure Trust to issue bonds for a private sector developer. These bonds required a guarantee and no bank or other traditional source was willing to provide such a guarantee. Working with consultants, CalSTRS' provided an \$80 million guarantee for the bonds and the issue was able to be secured. Beyond enabling the Meadowlands Project to proceed resulting in a clean up and redevelopment of almost a thousand acres of land, the financial structure and CalSTRS guarantee created a precedent for other private sector remediation projects (Bard Consulting, 2005).

While the credit enhancement generated fees for CalSTRS, but it also demonstrated the pension fund's commitment to ancillary benefits of environmental sustainability in their investment portfolio.

### **Meadowlands Landfill Site**



Source: Cherokee, 2005

## Meadowlands Golf and Development Project



Source: Cherokee, 2005

### 4. California Investments: Real Estate

The real estate portfolio is divided into two segments, core and tactical. As of September 30<sup>th</sup>, 2007, the core portfolio was valued at \$5.5 billion, representing 32% of the total real estate portfolio while the tactical portfolio is valued at \$11.6 billion or 68% of the portfolio. The core portfolio is further diversified as to property type and geographic location.

#### *The changing face of California*

CalSTRS has 67 domestic and international real estate partners that vary by investment strategy. More than 20% of total real estate investment is in California, and a full 8% is located in California's urban and rural underserved capital markets. These real estate investments reflect the changing face of California while preserving the rich history of the state. CalSTRS is the lead investor with four major partners CIM, McFarlane and Partners, Canyon Johnson, and Pacific Coast Capital Partners, all of whom have undertaken significant urban revitalization projects in inner cities throughout California.

CalSTRS has also committed \$75 million to RLJ Urban Lodging Fund who have a sector-based investment strategy, and invest nationally in limited-service urban hotels. CalSTRS also committed \$75 million to the Hispanic Retail Group (HRG) to develop retail centers in communities with a predominant Hispanic demographic, primarily in California. Based on this success of this initial investment CalSTRS has raised its allocation to HRG by another \$150 million.

#### *Real Estate – Preserving California's history*

CalSTRS is justly proud of their ability to both generate market rates of return and deliver positive ancillary benefits such as the revitalization of several historic San Francisco piers. CalSTRS formed a joint venture with San Francisco Waterfront Partners LLC and Pacific Waterfront Partners to redevelop The Piers.

“The Piers were originally constructed in 1918 and were built in the Beaux-Arts style of architecture as part of the original City Beautiful movement. They originally housed a variety of freight shipping companies. Pier 1½ served as a passenger waiting room for the Delta King and Delta Queen, steam driven paddle wheel boats that traveled between San Francisco and Sacramento from 1927 to 1940. In the 1970s, The Piers fell into disuse and disrepair and were eventually converted into offices for firms in the fields of law, financial services and design. The Piers were in dilapidated condition and had been condemned by the Port’s building department.

SFWP entered into a 66-year lease and development agreement with the Port and oversaw the rehabilitation, restoration and adaptive re-use of The Piers. Construction commenced in April 2004 and was completed in November 2006. After a complete repair and seismic upgrade of the substructure, The Piers mixed-use project now comprise office spaces, restaurant, café and retail space, an acre of public access stretching along the entire waterfront perimeter of the project, recreational boating and fishing, and transportation services (Semi-annual Report on California Investment Policy September, 2007).

**Pier 1 ½ before revitalization**



**Pier 1 ½ after revitalization**



***CalSTRS’ commitment to environmental sustainability***

CalSTRS sees that risk adjusted rates of return are enhanced by incorporating concepts of conservation and sustainability in their real estate portfolio. Beginning in 2003, CalSTRS incorporates these concepts into its planning cycle. By 2005 CalSTRS had implemented an Energy Audit and Tracking System, tracking energy use in its 18 million sq. foot office building portfolio using the Energy Star Portfolio Management Tool. Following its own

example, CalSTRS new headquarters in Sacramento will target a LEED Gold designation for new construction.

***Treasurer Island – a model of sustainable revitalization***

In 2006, CalSTRS made a \$200 million investment in a fund for mixed-use development projects in major population areas. One of the California projects is the redevelopment of Treasure Island in the San Francisco bay. The island, currently owned by the US Navy is a 490 acre site which will be developed with an emphasis on ‘green’ living. It will be transit oriented, and include 6,000 housing units, 1,800 of which will be priced at below market prices.

**Treasure Island 2006, California**



***Workforce Housing***

CalSTRS is committed to investments in workforce housing. This is defined as housing that is offered at 80 to 120% of median housing prices. CalSTRS has partnered with Fairfield Residential LLC in providing workforce housing in geographically diverse, barrier-to-entry growth markets for multi-family investment opportunities. They use tax credit equity in conjunction with tax-exempt bond financing to acquire, renovate and position apartment communities for long-term investment.

Since 1985 Fairfield has built or redeveloped 13,000 apartment homes with an affordable housing component.

**5. Proactive Portfolio: Private Equity - Banc of America Capital Access Fund**

In 2002, when it came time to implement CalSTRS’ commitment to invest two percent of its portfolio in California’s urban and rural underserved capital markets, CalSTRS

extended their already existing real estate, home loan and fixed income portfolios into these areas. However in private equity, the pension fund looked to the expertise already gained by CalPERS in this type of investment. Given the amount of due diligence involved and the small size of investment in individual funds, it was decided to structure the investment through a fund-of-funds.<sup>5</sup>

CalSTRS initially committed \$75 million for investment in Banc of America Capital Access Fund (BACAF). This fund-of-funds targets firms that in turn invest in companies that provide goods and services to underserved markets, employ ethnic minorities and women, or have management of ownership by ethnic minorities and women. CalSTRS invests in this fund with CalPERS who have \$100 million committed to the fund as part of their California Initiative. In June of 2006 the Urban and Rural Underserved Capital Markets program was combined with the New and Emerging Managers program (discussed in more detail below) to form the Proactive Portfolio - Private Equity. As part of this portfolio CalSTRS's also invests directly in a number of private equity funds. In December of 2006, CalSTRS committed a further \$200 million to Bank of America Capital Access Fund III, for a total commitment of \$275 million, while the total Proactive Private Equity Portfolio stood at \$685 million by December of 2006.

Targeted private equity investing in underserved urban and rural capital markets remains critical to ensure these markets have access to private equity capital. In the period 2000 to 2005, \$120 billion was invested in venture capital in California, roughly a fifth of the total global investments made in venture capital in that period. However, sixty percent of that capital was invested in only thirty-five zip codes in California. Many inner cities, small cities, and rural areas in California remain underserved with limited access to venture capital or private equity (Douglas et al, 2006).

With the initial \$75 million from CalSTRS and \$100 million from CalPERS, the Banc of America Capital Access Fund has closed investments on \$155 million in fourteen funds (as of September 2006). These funds range across venture capital, growth capital, buyout funds, and mezzanine funds.

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<sup>5</sup> Allan Emkin, pension fund consultant and Managing Director for PCA has suggested that fund-of-funds is a preferred structure for this type of investment (Emkin, 2006).

**Table 7 Banc of America Capital Access Fund Investments**

Venture	Growth Capital	Buyout	Mezzanine
Altos Ventures III, LP	Fulcrum Capital Partners, LP	Acon-Bastion Partners II, LP	Praesidian Capital Investors, LP
Ascend Ventures II, LP	Nogales Investors II, LP	Belvedere Capital Fund II, LP	
	Rustic Canyon/Fontis Partners, LP	Encore Consumer Capital, LP	
	Syncom V, LP	ICV Capital Partners II, LP	
		Marwit Capital Partners II, LP	
		Palladium Equity Partners III, LP	
		Williams Capital Partners, LP	

Source: <http://www.bacapitalaccessfunds.com/portfolio/index.asp>

These fourteen funds are expected to raise \$2.5 billion over time and benefit from Banc of America's presence as an early investor in the firms. Currently the Banc of America Capital Access Fund is at the low point in the J-curve with investments made and no deals yet exited. This point in the J-curve is reflected in their IRR. CalSTRS posts the Banc of America Capital Access Fund as 14.1% as of September 30<sup>th</sup> 2007.<sup>6</sup>

One of the unique features with the Banc of America Capital Access Fund is their ability to track both the financial and ancillary impacts of their investment in these funds. As a condition of investment, these firms and the companies they invest in are required to release data to Banc of America's partner, the Center for Community Capitalism at the University of North Carolina at Chapel Hill under the direction of Janneke Ratcliffe.

With a strict confidentiality agreement, the data provides an ongoing study of both the investment firms themselves and the companies in which they invest. These firms are tracked for such key indicators as access to capital for low and moderate income communities, and diversity in management and employees, increased employment opportunities including health care provisions, as well as standard financial rates of return.

Data gathered on the funds to the end of 2006 found that ten of the funds focus on ethnic minority opportunities. Ten funds also look for investment in low to moderate income geographies. This is particularly important as we continue to see a high concentration of venture capital investment in a few traditional areas across the United States. Banc of America looks for funds with women and/or ethnic minority ownership and/or managers. Eleven of the fourteen funds have at least one ethnic minority partner and three funds have at least one female partner. Across these fourteen funds, Banc of America finds the average gross IRR of the general partners is over 20% as of September 2006.

<sup>6</sup> See Hebb, 2005 a for a more detailed explanation of the J Curve in private equity investing.

By June 30, 2006, these fourteen funds had invested in forty-four companies. Over three-quarters of these investments satisfied at least one of Banc of America’s Capital Access Fund’s definition of underserved markets. Seventeen of these companies are located in low and moderate income areas. Nineteen of the companies are in areas traditionally underserved by venture capital. Eight of the companies serve ethnically diverse minority markets. Seven of the investee companies are located in rural areas, these areas have experienced a severe lack of venture capital in the past.

In several cases CalSTRS has chosen to invest directly and in some cases along side Bank of America Capital Access Fund as a part of its proactive portfolio.

**CalSTRS Proactive Portfolio: Direct Private Equity Investments:**

Yucaipa Corporate Initiatives Fund I	\$150M	(February 2003)
Nogales Investors Fund I	\$25M	(February 2004)
Palladium Equity Partners Fund III	\$40M	(January 2006)
ICV Partners II, L.P.	\$25M	(July 2006)
Acon-Bastion Partners II, L.P.	\$40M	(August 2006)
Craton Equity Investors I, L.P.	\$30M	(December 2006)
Nogales Investors Fund II, L.P.	\$30M	(April 2007)
Syncom V	\$20	(June 2007)

As with all private equity there will be a time lag between initial investment and exiting deals. Until deals are exited we will not have a realistic picture of financial performance of these funds. However the ancillary benefits of providing capital to underserved markets, providing employment opportunities and services to low and moderate income earners and seeking greater diversity in both investment managers and investments are already beginning to accrue. Figure 4 provides a detailed map of CalSTRS’ alternative (private equity) investments in California.

**Figure 4 CalSTRS Alternative Investments in California**



Source: CalSTRS California Investments Semi-Annual Investment Committee Report, April 2008

**6. Proactive Portfolio: Private Equity - New and Next Generation Managers Program**

CalSTRS utilizes both core relationships where they co-invest with trusted and known fund managers in a select group, and a fund-of-funds approach. Because the risk associated with such co-investments, CalSTRS’ selection process for core relationships screens over six hundred firms a year. Only a few of these firms are accepted into the core relationship program.

CalSTRS launched its New and Next Generation Managers Program in 2003 as an integral component of its comprehensive and disciplined approach to diversity within its portfolio. CalSTRS had already launched its Emerging and Underserved Capital Markets investments as part of its California Investment strategy now known as its Proactive Portfolio.

New and Next Generation Managers are defined as “existing experienced private equity professionals splitting off from their current partnerships or organizations, young partnerships seeking their second institutional fund and experienced private funds and investors seeking institutional funding for the first time.” (CalSTRS, 2003 b). CalSTRS left the type of fund open and defined the program as “diversified over time, geography and the private equity sub-asset class to include buyouts, equity expansion and venture capital....expected to reflect the diversity of experienced professionals that have entered the private equity profession recent years.” (ibid).

The pool could be drawn from a broad range of settings including private equity, insurance companies, pension funds and investment banking. An RFP was issued for a fund-of-funds manager with a commitment of \$100 million. INVESCO Private Capital was selected the following year to manage the program. As with the CalSTRS private equity investment in Banc of America Capital Access Fund, the INVESCO fund is at the lowest point in the J-curve (see Hebb 2005a for a detailed explanation of the J-curve in non-liquid private equity investments). CalSTRS' private equity returns for March 31<sup>st</sup> 2006 show INVESCO having deployed only \$4 million of the \$100 million commitment in the New and Next Generation Managers Program with a return of -55 that reflects fees paid with no exits or distributions from the investment. As of August 31, 2007, the program is 99% committed but still in the low point of the J-curve with an IRR of -13.7%.

While CalSTRS selects its fund-of-funds manager, this approach insulates the pension fund from the selection of individual investment vehicles where there is the possibility of political interference. The fund-of-funds approach also provides better scale for the pension fund with the due diligence required handled by the fund-of-funds manager rather than the pension fund itself. Finally this approach allows for greater diversification across asset classes, geography and investment vehicles in an otherwise potentially risky portfolio.

By close of 2007 CalSTRS expects to have committed close to \$1 billion in its Proactive Portfolio in Private Equity.

## **7. Developing Managers Program - Global Equities**

In 2003, CalSTRS realized that as managers of close to \$100 billion of assets, their commitment to diversity included providing opportunities for new investment managers and broker dealers to build and grow their businesses. This approach is part of a disciplined and comprehensive business strategy to unlock value from such opportunities that lead to superior performance in these asset classes.

In Global Equities, the Developing Managers Program targets managers with under \$2 billion of assets under management. Though no explicit diversity targets are identified in CalSTRS' Developing Managers Program, the pension fund accurately identified that owner/managers of small firms would reflect a "greater diversity than those of large established investment houses". To mitigate the risk associated with investment in these small vehicles, CalSTRS has utilized the manager-of-managers approach.

The manager-of manager concept was also driven from a resource perspective; CalSTRS simply does not have adequate staff to personally manage more than 62 external managers in this asset class. This program ensures that CalSTRS is able to consider the entire universe of investment managers, regardless of the size of assets under management.

In December of 2003, CalSTRS selected three external manger-of-managers with expertise in the area. CalSTRS committed \$600 million to the Developing Managers Initiative. The three fund-of-funds charged with implementing the program were FIS Funds Management, Northern Trust, and the Russell Investment Group.

Developing managers are defined as having under \$2 billion of assets under management and a shorter track record usually required for pension fund investment. It is important to provide opportunities to these firms as otherwise most would be ineligible for pension fund investment where generally no less than \$50 million is invested in a vehicle, with the stipulation that the pension fund be no more than ten percent of the assets under management. Such guidelines mean that only firms with at least half a billion dollars under management would be eligible for most pension fund investment.

In 2005, an additional \$225 million was added to the Developing Managers Program bringing CalSTRS' commitment to this program is \$825 million. The expectation is that this investment will achieve returns of equivalent to the Russell 3000 Index plus 150 basis points (Okada, 2006).<sup>7</sup>

By 2006, the three fund-of-funds picked by CalSTRS to manage this portfolio had invested in thirty-two developing manager firms, of which nineteen were women or minority lead.

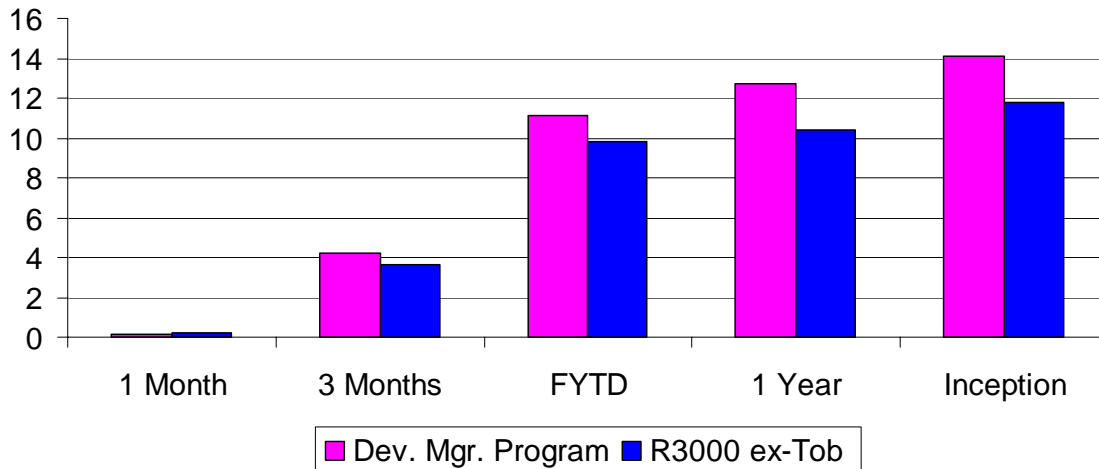
**Table 8 Performance of CalSTRS Developing Manager Program 2004 to 2006**

	<b>1 Month 02/28/06</b>	<b>3 Months 02/28/06</b>	<b>FYTD 02/28/06</b>	<b>1 Year 02/28/06</b>	<b>Inception to 02/28/06</b>
Developing Manager Program	0.13	4.19	11.11	12.71	14.14
Russell 3000 ex-Tobacco Index	0.19	3.66	9.82	10.39	11.76

Source: Okada, 2006

<sup>7</sup> The Russell 3000 is made up of a listing of the largest 3000 US corporate stocks and represents 98% of total US equity market capitalization.

**CalSTRS' Developing Manager Program  
Performance as of February 28, 2006**



**Performance Studies**

Key to investment in targeted initiatives such as the Developing Managers Program is the belief that such investment can not only deliver ancillary benefits, but can also deliver out-performance for the pension fund. By targeting these smaller funds CalSTRS hopes both to promote diversity but also to gain significant returns on investment. Such firms are sometimes seen to be more nimble and therefore can take advantage of investment opportunities that large firms often miss. This is sometimes called “the water-cooler effect’ where individuals in smaller firms have an information advantage from shared interactions about investment opportunities. Several studies have investigated whether small funds (under \$2 billion of assets under management) outperform larger private equity funds.

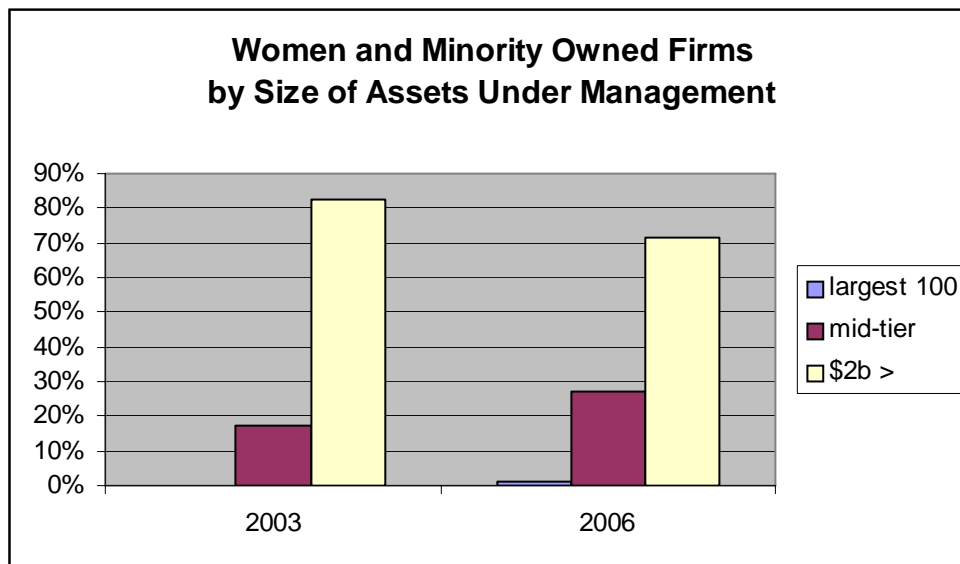
Pension Consulting Alliance’s (PCA) 2003 study indicates that of 753 money management firms managing \$13 trillion of world wide institutional assets, the largest 100 (13%) controlled fully eighty-five percent of the world’s international assets. Of the remaining firms, 256 (34%) had assets between \$2 billion and \$25 billion, while 397 (53%) had assets of less than \$2 billion. Seventy-four firms were identified as having women and/or minority owners, roughly ten percent of all money management firms in the survey. Beyond the fact that this is a heavily consolidated industry, from the perspective of diversity, thirteen firms with assets between \$2 billion and \$25 billion had women or minority ownership (18% of minority and women owned firms). Sixty-one of the small firms with assets less than \$2 billion had women or minority owners (82% of women and minority owned firms). Smaller firms have a greater percentage of women and minority owners than larger firms.

Using data from Pensions and Investments Survey of Largest Money Managers (2006), we update PCA’s 2003 study of assets under management by women and minority-

owned firms. We find that 778 money management firms are now managing \$21 trillion of world wide institutional assets, up from \$13 trillion in 2003. The largest 100 (still 13%) continued to control eighty five percent of these assets, an amount unchanged from 2003. While world wide assets had grown by a third in the intervening three years, concentration in the industry had remained more or less the same. Of the remaining firms, 330 had assets between \$2 billion and \$33 billion (42%), while 348 (45%) had assets of less than \$2 billion. With an increase in total assets we find an increase in the percentage of firms controlling \$2 to \$33 billion of assets.

The question is whether we see a corresponding shift for women and minority owned firms. In 2006, eighty-one firms were women and/or minority-owned up from seventy-four in 2003. We find one firm ranked in the top 100 with assets under management of \$56 billion. This is the fixed income money manager Payden and Rygel; a woman-owned financial institution with founder, president and CEO Joan Payden. Twenty-two women and minority-owned firms had assets under management between \$2 and \$33 billion (27% of the women and minority-owned firms, up from 18% in the 2003 study). Fifty-eight firms had assets under management of less than \$2 billion (73% of all women and minority-owned firms down from 82% in 2003). Similarly to all firms, more women and minority-owned firms moved into the mid-tier group of assets under management with the increased amount of capital in the industry. (See Appendix 2 for a listing of these firms and their assets under management.)

**Figure 5 Assets under Management for Women and Minority-Owned Money Managers**



Source: PCA, 2003 and Pensions and Investments Largest Money Managers Survey 2006

However what is more indicative of the small size for most women and minority-owned money managers is the fact that of the smallest 100 firms in the survey with assets under management of less than \$250 million, 21 firms were women and minority-owned.

Despite previous empirical studies that suggest out performance for small firms, PCA's study found insignificant differences between mainline firms and small firms with small cap mandates. Where PCA did find a performance differential was between mainline firms and developing firms with large core and large growth mandates.<sup>8</sup> In the period 1998-2002 both of these groups outperformed their mainline counterparts with lower risk (PCA, 2003).

Updating this study in 2006, PCA found some out-performance when measured against benchmark for emerging manager funds-of-funds. See Table 9.

**Table 9 Performance of Developing Managers Program Fund of Funds as of 3/31/2005 (periods > 1 yr are annualized)**

		<b>1st Qtr</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
<b>Fund of Funds A</b>	Composite	-1.6	9.1	4.7	-1.7
<b>Fund of Funds B</b>	Composite	-1.9	8.3	5.5	1.0
<b>Fund of Funds C</b>	Representative Account	-2.0	na	na	na
<b>Fund of Funds D</b>	Representative Account	-1.6	7.0	4.9	0.9
<b>Russell 3000</b>	<i>Benchmark</i>	-2.2	7.1	3.7	-2.5
	<b>Outperformance</b>	4 of 4	2 of 3	3 of 3	3 of 3

Fund of Funds groups represented: FIS, Northern Trust, Progress, Russell Investment Group  
 Source: Allan Emkin, PCA, presentation to Diversity Conference, April 24<sup>th</sup> 2006

Similar studies have been undertaken by both Northern Trust Co. and Leading Edge Investment Advisors. Leading Edge's 2005 study of emerging managers found that in the five years ending June 30<sup>th</sup> 2005, money management firms with under \$2 billion of assets significantly outperformed money management firms with \$10 billion or more of assets under management (Jue, 2005). In fact firms with \$1 to \$2 billion of assets under management (115 firms, roughly 10% of the total sample) had excess returns over the S&P 500 of 8.67%. In contrast large firms (196 in the survey managing 94.8% of assets) made 4.68% excess returns in the same period with similar risk characteristics.

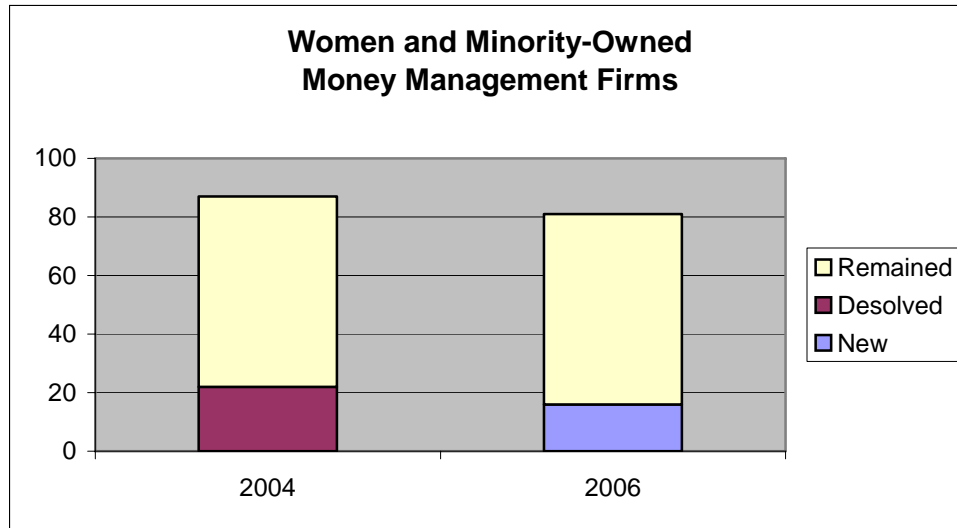
Northern Trust Co. (Fong, 2005) also examined the performance of emerging management firms over the similar five years, ending September 30<sup>th</sup> 2005. They examined two hundred and eighty-seven firms, with a third of the sample firms under \$2 billion in assets under management. They found that twenty percent of the top quartile managers were firms with under \$2 b. in assets, while managing only 1% of all the assets. Again during the down-market periods these smaller firms were able to outperform their larger colleagues. It is assumed that such out-performance with similar risk characteristics is based on their nimbleness in the market and the owner-manager driven models of many of these firms.

As with the 2003 PCA study, it is important to note that these conclusions do not reflect survivor bias in the survey. Year over year changes with women and minority-owned

<sup>8</sup> It should be noted that the PCA sample did not account for survivorship bias in its sample.

firms indicate considerable turnover. Using Pensions and Investments Annual Survey of Largest Money Managers 2004-2006, we find 87 women and minority-owned money managers listed in 2004. In 2006, we find 81 women and minority-owned firms. It could be concluded that six firms did not survive in the two years between these surveys. However a closer examination shows that 22 firms that existed in 2004, fully twenty-five percent, did not exist in 2006, while 16 new women and minority-owned firms had joined the list by 2006.

**Figure 6 Women and Minority-Owned Money Management Firms 2004-2006**



Source: Pensions and Investments Largest Money Management Survey 2004 and 2006

Despite the out-performance possibilities for emerging managed firms the problems faced by many small emerging firms are numerous. The scope of these issues was well articulated by Christianna Wood, Senior Investment Officer for CalPERS in her presentation to the CalPERS/CalSTRS' Expanding Investment Opportunities Through Diversity Conference in 2006. She identified the top ten problems faced by emerging firms as follows:

1. Business model does not scale.
  2. Not self-funding for at least three years.
  3. Too focused on one-person: No depth of personnel.
  4. Not enough sharing of equity and incentives.
  5. Structure is too vertical or horizontal.
  6. Not market-oriented in product design.
  7. Failure to cultivate an environment of continuous improvement.
  8. Investment people spending too much time marketing (or vice versa).
  9. Lack of product focus.
  10. Lack of understanding of sources of risk.
- The "environment" is to blame for all bad performance.

Source: Wood, 2006

### **Leading Edge Survey – Attitudes Survey**

CalSTRS wanted to investigate attitudes and opinions on diversity within the investment industry itself. In 2005, the pension fund put diversity in investment opportunity into the spotlight by co-sponsoring a survey with Leading Edge Investment Advisors and Anira Advisory Group on the topic (CalSTRS, 2006 g). Launched in the summer of 2005, the survey is part of a five-year annual effort to provide a rolling year-over-year comparison of attitudes to diversity in the investment community.

The survey consists of thirty-one multiple-choice questions answered by a sample of 200 drawn from the investment community, and administered over the Internet. Survey participants self-selected by visiting the web site after receiving information on the survey. Many of the respondents were women (46%) and/or minorities (44%). Nearly half the respondent worked for pension plans, foundations and endowments; while the other half worked for investment managers. Half worked for organizations with assets under management of \$5 billion and less.

The survey showed that biases continue to exist in the investment management field. Two-thirds of women and minority respondents felt that fact had hurt their careers. This attitude transcended organization type and age of the respondents. In July 2006 the second round of the survey was completed.

### **Database Development**

In the summer of 2005, CalSTRS joined forces with their sister fund CalPERS to develop a database of emerging financial service providers with a focus on diversity. CalPERS and CalSTRS asked Altura Capital to develop the database as part of their systematic approach to research in this area. It was hoped that the initiative would “identify competitive abilities of undiscovered, underutilized or undercapitalized investment talent, markets, communities and service providers.” (CalSTRS, 2005 c).

The database was launched in April of 2006 at a national conference, hosted by CalSTRS and CalPERS on Expanding Investment Opportunities Through Diversity. With over six hundred attending the conference and key note speakers from major public sector pension funds, consultants, and the financial industry, the conference was indicative of the growing momentum under this investment strategy.

As stated on the Altura web site the goal of the database is:

- “To identify a broad base of emerging financial service firms. To help develop a better understanding of the characteristics, trends, capabilities and untapped potential of these emerging firms.
- To promote information transparency in the emerging marketplace, and thus broaden the opportunities for emerging firms to conduct business and add value to the portfolios of institutional investors.
- To provide a greater degree of diversity opportunities within the investment strategies of public and private pension funds.

- To provide institutional investors with exposure to a fresh, largely untapped investment talent pool.
- To create a comprehensive industry reference guide. A summary of this important resource is available to other plan sponsors, corporations, endowments and institutional investors across the nation.” (Altura, 2007)

To populate the database, Altura Capital launched an Internet-based survey. Emerging financial service firms were invited to participate in the on-line survey that would then be used to gather data for the database. In January 2007 the results of the database were made public (Altura, 2007). The survey was completed by 645 firms, of these firms 34% were women and minority-owned. The database revealed that 12% of these firms were majority-owned by African Americans, 6% were majority-owned by Asian Americans, and 6% owned by Hispanic Americans. Native American owned firms comprised only 0.8% of the database.

The vast majority of firms were small with 70% consisting of 10 or less employees. Many were also new firms with 35% of the sample having been in operation for less than two years. This is reflective of the survival rate for small women and minority-owned firms highlighted earlier in this case study. While a large number of hedge funds and private equity funds had been in existence less than two years, the professionals working in these two areas had considerable experience, with the majority of respondents had ten to twenty years experience in their fields.

Not surprisingly given the financial centers across the US, firms based in California and New York accounted for 45% of the survey. California reported the largest number of minority-owned firms with the greatest number of Hispanic American owned and Asian American owned firms. New York reported the largest number of women owned and African-American owned firms.

The database profiles the six hundred plus firms who participated in the survey identified by type of firm. Money managers and hedge funds had the largest participation followed by private equity firms. The database is accessible to institutional investors and other interested parties who wish to access information on emerging managers and women and minority-owned managers of a variety of investment firms.

## **6. Conclusion**

CalSTRS chose an innovative method to target their portfolio in a manner that reflected the changing face of California. In a state where six of the top ten surnames of California home buyers are Garcia, Martinez, Lopez, Rodriguez, Gonzales, and Hernandez it is not surprising that demographic shifts would be of concern (Cisneros, 2006). The pension fund designed a set of policies and programs with a core value of (or philosophy?) recognizing diversity within the investment portfolio. Diversity as a business strategy is seen as consistent with CalSTRS’ investment goal: to enhance the returns of its beneficiaries. CalSTRS has developed a comprehensive and disciplined approach to

diversity in the management of investments or DMI (Altura, 2006). CalSTRS developed a comprehensive and disciplined approach to diversity. This approach includes policies and procedures reviews, research and data collection and a diversity committee with both internal and external components. This is a long term, strategic effort to position the organization to gain exposure to a wider variety of investment talent.

Investment opportunities through diversity are linked to urban revitalization in key ways. First through CalSTRS' policy to invest two percent of its \$170 billion fund in California's underserved and emerging capital markets as part of its California Investment Program. This policy draws on several different asset classes within the portfolio including fixed income, home loans, real estate, credit enhancements and private equity and is currently valued at \$2.3 billion or 1.4% of assets. Roughly half this portfolio is in real estate and slightly more than a third is in credit enhancements.

Credit enhancements provide municipalities and state agencies with access to CalSTRS AAA credit rating for a fee. CalSTRS has provided over \$2 billion in credit enhancements since the program began in 1994 and has never experienced a default in this program. Credit enhancements have generated fees of \$34 million for the pension fund. Importantly credit enhancements have enabled municipalities and state agencies across the country to undertake important revitalization initiatives in their communities.

By close of 2007 CalSTRS will have committed \$1 billion to its Proactive Private Equity in underserved and emerging capital markets. CalSTRS has placed significant resources in a fund-of-funds investment in the Banc of America Capital Access Fund (BACAF). By utilizing a fund-of-funds structure CalSTRS insulates itself from individual investment decisions in underserved and emerging capital markets where investment decisions can take on greater political leveraging. It also makes a single \$275 million investment which provides the appropriate scale for the pension fund. The due diligence required for smaller investments in firms operating in these markets is then handled by BACAF who already has considerable expertise in these markets developed out of Bank of America's prior experience gained through their CRA (Community Reinvestment Act) mandate. Finally, by investing in a fund-of-funds CalSTRS gains significant diversification thus reducing the risk inherent in this type of private equity investment. The Capital Access Fund provides style diversification with investments in smaller firms that range from early stage venture capital to later stage buyout and mezzanine funds. The fund-of-fund structure also allows for geographic diversification across the state. A second key component of the Proactive Private Equity Portfolio is the New and Next Generation Managers Program with \$100 million committed capital in the fund-funds manager INVESCO.

CalSTRS also reflects diversity in its portfolio through its Developing Managers Program. Examining the statistics of women and minority-owned money management firms point to the fact that these diverse firms tend to have less than \$2 billion of assets under management and often have track records much shorter than those normally demanded by pension fund investors and their consultants. Without access to developing manager programs these firms would not be able to attract investment from large pension funds such as CalSTRS.

As with CalSTRS private equity investment in underserved and emerging markets, the pension fund uses manager-of-managers structures in its Developing Managers Program. Again this structure lowers the risk in this investment, while providing the pension fund with increased scale as well as style and geographic diversification. The fund-of-fund managers handle the due diligence required in the investment selection rather than the pension fund itself.

Several studies indicate that smaller firms are more nimble and able to take advantage of new and emerging investment opportunities in a way that larger firms cannot. These investment opportunities include underserved and emerging capital markets that lead to urban revitalization.

CalSTRS uses these programs to provide access to the opportunities afforded by a \$170 billion pool of capital. CalSTRS knows its responsibility is to its plan beneficiaries but it acknowledges that the investment of these assets in California and indeed across the US has tremendous ancillary impacts in addition to financial rate of return. CalSTRS has chosen to target some of its investments to opportunities that come from diversity. Their aim is to make significant financial returns and to reflect the changing face of California. Like California itself, CalSTRS is able to demonstrate that both goals are possible.

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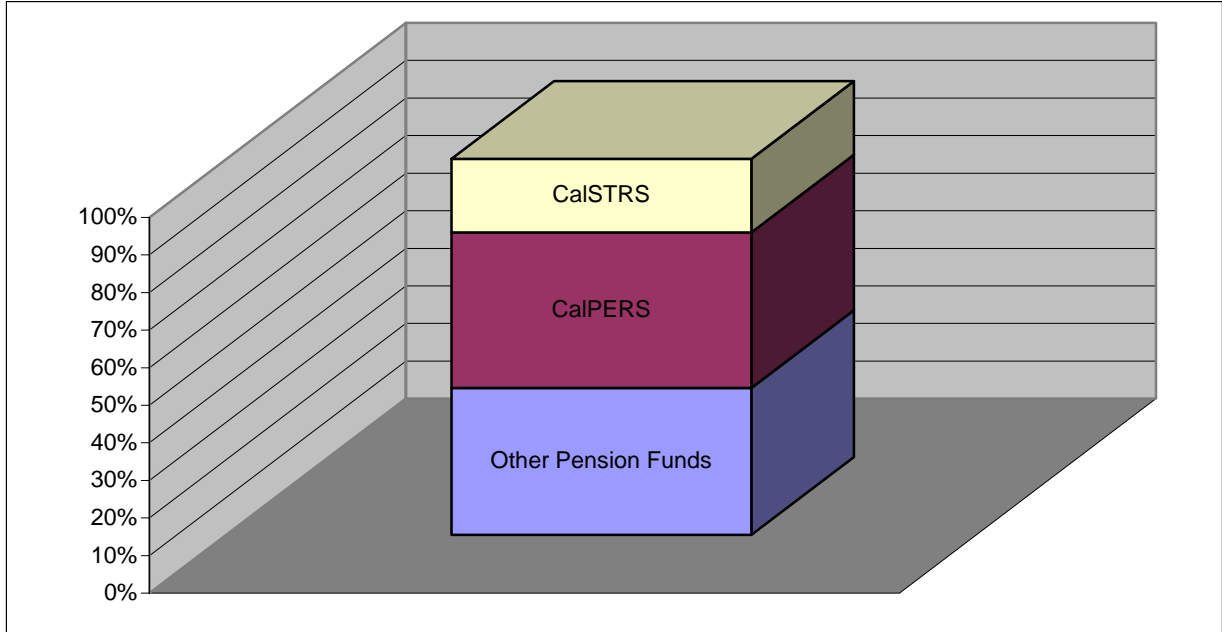
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## Appendix 1

### Public Sector Pension Fund Investment in Underserved Capital Markets (as of June 2006)



Pension Fund & Asset Class	Jun-05	Jun-06
	\$ Millions Committed	\$ Millions Committed
CalPERS		
Fixed Income: AFL-CIO (HIT), CA Community Mortgage Fund, Commercial (Whole Loans/MBS), Member Home Loan Program, Ullico, AFL-CIO(BIT), Senior Housing	268.2	869.7
Equity Real Estate: Pacific City Homes, BUILD (Bridge), Buchanan Urban Investors, CalSMART, Capri Urban Capital, CIM, CUIP (MacFarlane), Meruelo, Institutional Housing Partners IV, Kennedy Associates, Klein Financial Corporation JV, Legacy Partners, R Street Residential	3004	3004

Private Equity: Investment managers cross all sectors: Biotech/BioPharma, Communications, Computer/Electronics Related, Consumer-Related, Energy, Financial Services, Industrial Products/Manufacturing, Media, Medical/Health-Related, Real Estate, Services, Transportation. For a complete list of active managers see: <a href="http://www.calpers.ca.gov/index.jsp?bc=/investments/assets/equities/aim/mgrs/home.xml">http://www.calpers.ca.gov/index.jsp?bc=/investments/assets/equities/aim/mgrs/home.xml</a>	500	1000
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Subtotal CalPERS	3772.2	4873.7
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CalSTRS

Fixed Income(MBS & Home loans)	250.8	434
Individual Home Loans	12.5	5
Real Estate in underserved markets	622.2	1001
Private Equity	53.2	89
Credit Enhancements	859.1	777
Subtotal CalSTRS	1797.8	2306

City of Hartford

Equity Real Estate (USA Fund a New Boston Real Estate Fund)

Subtotal City of Hartford

Connecticut - State (CRPTF)

Equity Real Estate: USA Fund a New Boston Real Estate Fund	0	50
Subtotal Connecticut-State (CRPTF)	0	50

Contra Costa County Retirement System

Fixed Income: AFL-CIO HIT

Private Equity: JP Morgan Bay Area Equity Fund, Nofales Investors Fund I (\$15),	25	25
Subtotal Contra Costa County	25	25

Los Angeles County(LACERA), Los Angeles City (LACERS), Los Angeles Fire & Police (LAFPP)

Equity Real Estate: Genesis LA Workforce Housing Fund II	0	65
Subtotal LACERA,LACERS, LAFPP	0	65

New York State and Local Retirement System (NYSLRS)

Fixed Income:

New York State Mortgage Pass-Through Program: to date (March 2006) the Fund has invested \$7.3 billion in NY State only loans	260	472.3
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Affordable Housing Permanent Loan Program	606	635
Small Business Loan Program - since program began in 1987 invested \$185.2 M in loans to small business	12.2	10.2

Private Equity:

Financing Emerging Businesses in New York State: NewsMarket in New York City, Concentrix in Pittsford, Reichert in Buffalo, Autotask in Rensselaer, Innovative Stone in Hauppauge, Applied Nanoworks in Watervliet, QRNA in New York City, GlobalSpec in Troy, and Acorda Therapeutics in Hawthorne	438	526
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New York State Private Equity Investment Program (2000): Summer Street Capital Partners- Buffalo; FA Technology Ventures- Albany; Ascend Ventures-New York City;Wheatley Partners-New York City and Long Island; DeltaPoint Capital-Rochester; The Hamilton Lane New York Co-investment Fund- New York; The CSFB New York Co-investment Fund- New York State; High Peaks Ventures- Troy and Saratoga; Founders Equity, a New York City Easton Hunt Capital Partners -New York City Paladin Homeland Security Fund (NY), Trillium Lakefront Partners NY, a Rochester SoftBank Capital, a New York City and Buffalo, Ascent Biomedical Ventures NY, a New York City based venture capital fund focusing on life sciences; Greenhill SAVP New York, a New York City	333	425
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Equity Real Estate

<b>Subtotal NYSLRS</b>	<b>1649.2</b>	<b>2068.5</b>
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**New York City Retirement Systems - 5 Systems**

**New York City Employees Retirement System (NYCERS)**

Fixed Income: AFL-CIO HIT Note: December (not June) 2006 figures	56.1	100.1
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<u>Fixed Income:</u> Access Capital Strategies/Voyageur Asset Management	0	0
<u>Fixed Income:</u> Forward Commitment Program- PPAR	527.5	603
<u>Private Equity:</u> Erasmus Fund (confirm date)	0	40
<b>New York City Police Pension Fund (POLICE)</b>		
<u>Fixed Income:</u> AFL-CIO HIT Note: December (not June) 2006 figures	22.4	48.7
<u>Fixed Income:</u> Access Capital Strategies/Voyageur Asset Management	0	0
<u>Fixed Income:</u> Forward Commitment Program- PPAR	220	226
<b>New York City Fire Department Pension Fund (FIRE)</b>		
<u>Fixed Income:</u> AFL-CIO HIT Note: December (not June) 2006 figures	16.8	22.6
<u>Fixed Income:</u> Access Capital Strategies/Voyageur Asset Management	0	0
<u>Fixed Income:</u> Forward Commitment Program- PPAR	0	11.4
<b>Teachers Retirement System of the City of New York (TRS)</b>		
<u>Fixed Income:</u> AFL-CIO HIT Note: December (not June) 2006 figures	56.1	89
<u>Fixed Income:</u> Access Capital Strategies/Voyageur Asset Management	0	0
<u>Fixed Income:</u> Forward Commitment Program- PPAR	245	302
<u>Private Equity:</u> Erasmus Fund (confirm date)	0	30
<b>New York City Board of Education Retirement System (BERS)</b>		
<u>Fixed Income:</u> AFL-CIO HIT Note: December (not June) 2006 figures	0	5
<u>Fixed Income:</u> Access Capital Strategies/Voyageur Asset Management	0	0
<u>Fixed Income:</u> Forward Commitment Program- PPAR	0	3.8
<b>Subtotal (across all asset classes) 5 New York City Retirement Systems</b>	<b>1143.9</b>	<b>1481.6</b>

**Massachusetts State (MassPRIM)**

Fixed Income: Access Capital (\$75), CRA Fund Advisors (\$25) 50 100

Equity Real Estate: Canyon Johnson Urban Fund II (\$20M), Intercontinental Real Estate (\$10M), New Boston USA Fund (\$10M) 40 40

Private Equity: Flagship Ventures (\$10) Castile Ventures (\$10) 10 20

**Subtotal MassPRIM 100 160**

**Vermont State - Vermont Pension Investment Committee (VPIC) 0**

**TIAA - CREF**

Pro-active portfolio 183

Fixed Income: CD with Shorebank for community development 0 22

Affordable/workforce housing, microfinance and domestic CDFI deposits 550

**Subtotal TIAA-CREF 755**

**TOTALS 8,488.10 11,784.80**

Hagerman and Hebb 2007 Source: Pension Fund Executive Directors & CIOs, Annual Reports, Internal Memorandum

Appendix 2

**Women and Minority-Owned Money Management Firms**

(Highlighted firms also part of Altura databases of emerging managers)

<b>Women &amp; Minority-Owned Firms</b>	<b>World Wide Institutional Assets</b>
<b>as of May 2006</b>	<b>in millions</b>
Payden & Rygel	53,805
EARNEST Partners	22,772
Ariel Capital	14,027
RhumbLine Advisers	12,070
Strategic Investment Group	10,759
MacFarlane Partners	9,659
Taplin, Canida & Habacht	6,457
Eagle Capital	6,445
Sit Investment	5,629
Progress Investment	5,285
New Amsterdam Partners	5,091
Bradford & Marzec	4,102
Adelante Capital	3,500
Holland Capital	3,052
Chandler Asset Mgmt.	2,782
Capri Capital Advisors	2,678
GlobeFlex Capital	2627
<b>NCM Capital</b>	<b>2,418</b>
<b>Smith Graham</b>	<b>2,240</b>
LM Capital Group	2,146
Brown Capital	2,084
Oak Associates	2,022
Utendahl Capital	1,949
Edgar Lomax	1,780
<b>Swarthmore Group</b>	<b>1,733</b>
William D. Witter	1,380
<b>Cardinal Capital</b>	<b>1,268</b>
PENN Capital	1,099
<b>Hughes Capital</b>	<b>1,082</b>
FIS Group	1074
<b>Paradigm Asset</b>	<b>1,063</b>
Salus Capital	1,030
<b>Pugh Capital</b>	<b>1,016</b>
Daruma Asset Mgmt.	952
MDL Capital Mgmt.	949
Ryan ALM	905
<b>Philippe Investment</b>	<b>891</b>
Campbell Newman Asset	882
Paradigm Capital	863

Holt-Smith & Yates	810	
Piedmont Investment	805	median
Profit Investment	768	
Denali Advisors	759	
Wagner Investment	666	
High Pointe Capital	643	
Cypress Asset Mgmt. (Calif.)	587	
Avanti Investment Advisors	575	
GW Capital	558	
Argus Investors' Counsel	525	
Capital Mgmt. Assoc. (Fla.)	492	
Piedra Capital	458	
Atlanta Life Investment	453	
Int'l Investment (NYC)	436	
Molpus Woodlands Group	413	
NorthShore Advisors	406	
Apex Capital	350	
Alpha Partners	273	
MayfieldGentry Realty	250	
Palisades Investment	224	
AmeriCap Advisers	215	
RASARA Strategies	201	
Affinity Investment Advisors	179	
John Hsu Capital	178	
Capital Prospects	162	
Hanseatic	149	
Beacon Investment	148	
First Fiduciary Investment	123	
Biscayne Advisors	116	
Fortaleza Asset Mgmt.	111	
Rutland Dickson	110	
Venus Capital	68	
Spectrum Asset (Calif.)	60	
Howland & Associates	41	
Hahn Capital	29	
Robinson & Wilkes	23	
Needelman Asset Mgmt.	16	
Carr & Associates	7	
Pengra Capital	4	
Tsai Capital	2	
Weatherly Asset Mgmt.	2	
Lara Group	1	
<b>Total</b>	<b>\$213,962</b>	
	In millions	

Source: Pensions and Investments Annual Survey of The Largest Money Managers  
May 29, 2006.





**THE EMERGING DOMESTIC MARKET  
ADVISORY GROUP  
PROGRESS REPORT #1  
JUAN ARAMBULA, CHAIR  
ASSEMBLY COMMITTEE ON  
JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY  
FEBRUARY 2008**



Assembly Committee on  
Jobs, Economic Development, and the Economy



**The Emerging Domestic Market Advisory  
Group  
Progress Report #1**

Juan Arambula, Chair  
Assembly Committee on  
Jobs, Economic Development, and the Economy

Report Prepared by: Assembly Committee on Jobs, Economic Development, and the Economy  
February 2008

**Assembly Committee on  
Jobs, Economic Development, and the Economy**

Juan Arambula, Chair  
Jim Silva, Vice Chair  
Anna M. Caballero  
Felipe Fuentes  
Bonnie Garcia  
Curren D. Price, Jr.  
Mary Salas

**Committee Staff:**

Toni Symonds, Chief Consultant  
Jone McCarthy, Committee Secretary

**Assembly Republican Caucus, Office of Policy:**

Julia King, Senior Consultant

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# **Emerging Domestic Market Advisory Group Progress Report #1**

The Assembly Jobs, Economic Development, and the Economy Committee (JEDE) is the policy committee within the California State Assembly responsible for examining issues related to capital formation, among other economic development policies, programs, and services.

## **Section I – Introduction**

In October of 2007, the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) convened an advisory group of investors and other economic professionals to examine how to attract private sector investment to California's lower income communities.

This report lays out a summary of the Advisory Group's first four months of activities, including objectives, projects, and recommendations for future actions. A list of the members of the Advisory Group has been included in the Appendix of the report.

Additional information on meetings and analytical work of the Advisory Group is available on the JEDE website at:

<http://www.assembly.ca.gov/acs/newcomframeset.asp?committee=131>

The JEDE Committee formally thanks its partners and collaborators on this project, the California Latino Legislative Caucus and the California Hispanic Chambers of Commerce.

### Emerging Domestic Markets in California

Driven by significant demographic changes and their related impacts on markets, institutional investors had begun to target small portions of their portfolios to underserved communities and businesses that historically lacked access to capital, also known as emerging domestic markets.

The term "emerging domestic markets" refers to people, places, or businesses with growth potential, which have historically faced systemic capital constraints. The demographics of emerging domestic markets include ethnic- and women-owned firms, urban and rural communities, companies which serve low- to moderate-income populations, and other small- and medium-sized businesses.

To better understand the dynamics of the new and growing investment area, the JEDE Committee decided to directly engage the investment community in an extended

conversation about what impediments they encounter in trying to invest in emerging domestic markets.

While not every-low income community in California is ready for private sector investment, many communities and small businesses could become investment ready through more effective partnerships between the nonprofit, private, and public sectors.

Although institutional investor activity in emerging domestic markets is small by their standards, these "small" investments represent significant new economic and community development funding for California communities.

Already, both California Public Employees Retirement System (CalPERS) and the California State Teachers Retirement System (CalSTRS) have adopted an EDM investment goal of 2% of their entire portfolio. CalSTRS' exposure in California's underserved and emerging markets was \$2.3 billion as of December 31, 2006, representing a \$364 million increase from the previous year. California has no other similar program that can outpace the volume of investments large institutional investors could make in our lower income communities and minority- and women-owned businesses.

## **Section II – Primary Object and Projects of the Advisory Group**

This section provides information on the primary objective and projects of the Advisory Group.

### Primary Objective

The Advisory Group set a long-term objective to have investments in emerging domestic markets be considered as a sub-asset class for investments by institutional investors. In reaching this objective, the Advisory Group chose three issues to address:

1. Enhance the financial literacy of entrepreneurs seeking debt and equity capital;
2. Develop one or more models for deploying private equity funding in early-stage companies, including blending public and private resources to meet risk-adjusted return requirements; and,
3. Establish common definitions and criteria for use by investors in emerging domestic markets.

### Projects of the Advisory Group

The Advisory Group worked on several projects, each designed to improve the ability of private investors to take actions in emerging domestic markets, including providing the framework for a web-based directory of capital, supporting the update of a community

development dictionary, and hosting one or more regional investment roundtables. Each of these projects is described in greater detail below.

1. Web-based Directory of Capital: The Directory of Capital will assist entrepreneurs to identify and access capital most appropriate to their business and interests. Upon entering the site, the entrepreneur will be asked to complete a short survey, which will result in an individualized list of finance and investment sources of capital being generated, including web-links for more information. Too often, entrepreneurs waste time and energy during their search for capital. This site will build on existing finance and investment websites through collaborative relationships with trade groups, government offices and other nonprofits.

*Status Report:* The framework for the Directory of Capital has been developed and the private equity portions have been detailed. We are in the preliminary stages of acquiring partners to build out the debt portions of the site. A prototype of a small business page for all legislators has been developed and could be used to host the directory, as well as other resources for small businesses. The initial launching strategy includes a number of regional events held in conjunction with local business journals.

2. Dictionary of Community Development Terms: Establishing public/private partnerships can be challenging, especially in new investment areas. Having a common language can help. In 1995, the California Community Economic Development Association (CCEDA) prepared its first dictionary and resource guide for community development practitioners and funders. It was then updated in 2002 to reflect new approaches to revitalizing historically underserved neighborhoods and businesses, including new concepts related to "individual asset building" and "smart growth."

*Status Report:* CCEDA is again in the process of updating its directory, including the incorporation of new finance and investment terms and concepts. The Advisory Group will be serving as an advisor to this update to ensure that investment concepts relating to emerging domestic markets and the important roles of community and financial intermediaries are appropriately included.

3. Regional Investor Workshops: As discussed earlier, several public pension funds have already adopted emerging domestic market and emerging manager investment policies and programs. A top priority for the Advisory Group has been to increase capital to small, emerging, and fund-to-fund investment strategies. This focus should lead to greater diversity of asset managers and ultimately to greater diversity of business owners. A conservative estimate is that over \$11 billion has been targeted nationally for investments in emerging domestic markets, at least \$3 billion of which is still available to appropriate investment opportunities in California. Of the moneys that have been invested, there are still partnership and collaboration opportunities which could be developed to enhance private investment in the state's more diverse communities and business enterprises.

*Status Report:* Planning is underway for the first of several investor roundtables where smaller EDM investment firms and emerging managers can meet with the four larger EDM funds that have been hired to deploy CalPERS, CalSTRS, LACERS, and LACERA moneys. The initial roundtable is scheduled for the early summer and will be hosted by the Dean of the Business School at California State University, Fresno.

### **Section III - Recommendations for Further Actions**

This section includes a list of actions that can be undertaken by the state to enhance the development of California's emerging domestic markets.

1. Increase Focus on Emerging Domestic Markets: The significant demographic shifts in California's population pose important economic challenges and opportunities for the state. There is a need for a sustained and coordinated effort by the Legislature to study issues related to California's emerging domestic markets, including the development of an effective path forward and the network of stakeholders ready to accomplish the task.

*Proposal:* Sponsor a resolution calling for the establishment of a Joint Legislative Blue Ribbon Commission on Emerging Domestic Markets. Among other items, the Commission should explore how private investment can best be leveraged through the strategic realignment of public programs, effective models for engaging California's public and private institutions of higher education in supporting entrepreneurs, and how a state debt and equity fund could advance private equity investment in historically underserved areas. *Status:* Resolution establishing the Commission has been drafted and awaits introduction.

2. Increase Scale in Public Debt Markets: New financial products need to be developed to address the capital needs of emerging businesses. As a first step, the state should examine how it could help aggregate state guaranteed loans into salable securities for the purpose of establishing a viable secondary market.

*Proposal:* Require the California Small Business Board to examine new financial products that could be derived through the innovative use of existing state resources. The examination should include, but not be limited to, the aggregation and sale of loan guarantees under the state Small Business Loan Guarantee Program. The Board should engage the foundation, nonprofit, finance, and investment communities in its review to enhance market acceptance of subsequent financial products. *Status:* AB 2416 (Fuentes) has been introduced.

3. Track Existing CRA Capital: The federal Community Reinvestment Act requires banks to annually report and demonstrate progress toward serving people in lower income communities. Large bank mergers and acquisitions may be approved in conjunction with specific community reinvestment commitments. Identifying and tracking these commitments can be challenging. The state should facilitate the

dissemination of this information and, thereby, allow the free market to help implement these commitments in the most efficient manner.

*Proposal:* Require the Business, Transportation, and Housing Agency, or one of its departments, to track significant commitments made by federal and state chartered banks related to community reinvestment. The information could be shared through the existing agency website and outreach to local and regional economic developers and financial institutions. *Status:* AB 1418 (Arambula) will be amended to include these provisions.

4. Build Core EDM Databases: A thorough quantitative analysis of emerging domestic markets is inhibited by a lack of good data. In addition, community leaders are interested in knowing more about the effects of these types of investments on community development but lack a common set of metrics to set baselines and measure impacts. Although major initiatives have been launched by community development organizations and foundations to help bring together a national database, data bases remain fragmented and often insufficient in size, scope, and/or format. The state could facilitate the maturing of this investment space by helping to establish a public/private consortium to host a nonproprietary database.

*Proposal:* Establish an EDM Data Consortium for the primary purpose of collecting and making data available to further the development of emerging domestic markets, including, but not limited to, information related to emerging domestic market firms and industry sectors, financing data on debt and equity, and metrics used in measuring non-financial performance. The consortium would be responsible for establishing appropriate protocols to monitor accuracy, set standard definitions and terms, and establish formats for data submittal. The consortium should also be responsible for ensuring privacy rules and best practices are enforced at all times. *Status:* AB 2636 (Arambula) has been introduced.

5. Maximize Existing Entrepreneurial Opportunities: The state and federal governments offer a variety of programs and services to assist businesses, with a special emphasis on early-stage and small business development. The state could more effectively deploy these programs by identifying programs and services in a manner that more appropriately matches private investment activities, i.e. early-stage capital, resources to enhance management literacy, and funding for employee training. As a first step, JEDE prepared a special catalog of state economic and workforce development programs. This catalog is available at [www.assembly.ca.gov](http://www.assembly.ca.gov) under JEDE Committee Website. This catalog, currently organized by agency, could be redrafted to present state and federal programs and services as parts to a comprehensive entrepreneurial technical assistance and capital support strategy.

*Proposal:* Develop an Entrepreneurs' Catalog of public programs, including, but not limited to, sections on programs and resources available to assist business owners to develop their initial business plan, obtain financial or technical assistance in training employees, and finding seed and early-stage debt and equity capital. *Status:* The JEDE Catalog of State Programs will be redrafted.

6. Improve Access to Existing Entrepreneurial Funds: The state has no coordinated method for announcing the availability of economic, business, and workforce development program moneys. While the state advertising and outreach methods may seem sufficient by other public sector stakeholders, many businesses find our government websites confusing and poorly organized. Making existing opportunities more readily understood would benefit the state, as well as local businesses.

*Proposal*: Establish a one-stop web location where entrepreneurs can find a comprehensive listing of funding opportunities related to state procurement, economic development, and workforce investment. The site should include a clear description of the programs and services, including links for eligibility and application procedures. *Status*: AB 2854 (Mendoza) has been introduced.

## **Section IV - Future Work on Emerging Domestic Markets**

This report has provided information on the first four months of the Advisory Group. While the Advisory Group has made good progress, many issues remain to be addressed in order for our goal of a fully functioning sub-asset class of private equity to be realized.

This first round of Advisory Group meetings focused on how to increase an individual business's access to capital, especially private equity capital. In our next round of meetings, we will begin to examine real estate and infrastructure investment practices, as well as investigate ways to strengthen the capacity of local finance and community intermediaries to be an effective link between institutional capital and local businesses and communities.

Ultimately, investment strategies must target both the individual business and the community in which it is located. Failing to achieve both will result in businesses leaving the area, either because they can no longer afford the rents or because they are too successful to remain in the "poor area of town." By combining community development and business development investment strategies, true neighborhood transformation can be achieved. A key role in this transformation can be played by the financial and community intermediaries.

## **Appendix**

### **Members of the Advisory Group**

The Advisory Group was convened in conjunction with the California Legislature's Latino Caucus and in cooperation with the California Hispanic Chambers of Commerce. The Advisory Group Executives represent leaders in the financial and economic development community.

Our facilitators included, Toni Symonds, Chief Consultant to JEDE, and Paul Garza, independent business consultant and member of the Access to Business Capital Committee of the California Hispanic Chambers of Commerce. Technical assistance and guidance was also provided by CalPERS and CalSTRS, who continually demonstrated their commitment to find new financially viable methods to get institutional capital into emerging domestic markets.

#### *Advisory Group Executives*

**Mr. Mujahid Abdullah**  
Sustainable Capital  
Investment Banker

**Mr. Chris Ailman**  
California State Teachers Retirement  
System  
Institutional Investor

**Ms. Ruthe Ashley**  
California Public Employee Retirement  
System  
Institutional Investor

**Mr. Jesus Arguelles**  
California Public Employee Retirement  
System  
Institutional Investor

**Ms. Pilar Avila**  
Palladium Equity Partners  
Private Equity Fund Manager

**Mr. Rupert Ayton**  
Center for the Development of Social  
Finance  
SRI Professional

**Mr. Robert F. Barragan**  
California Community Economic  
Development Association / Valle  
Economic Development Center  
Community Developer

**Mr. Guillermo Borda**  
Banc of America Capital Access Funds  
Private Equity Fund Manager

**Ms. Solange Brooks**  
California State Teachers Retirement  
System  
Institutional Investor

**Mr. Jim Casparie**  
The Venture Alliance  
Private Equity Fund Manager

**Ms. Maria Contreras-Sweet**  
ProAmerica Bank  
Investment Banker

**Ms. Penelope Douglas**  
Pacific Community Ventures  
Private Equity Fund Manager

**Mr. Moctesuma Esparza**  
New America Alliance, The Marathon  
Club  
Institutional Investor

**Mr. William Gonzalez**  
Goldman Sachs - Urban Investment  
Group  
Private Equity Fund Manager

**Mr. Jaime Guzmán - Fournier**  
Stepstone Group  
Private Equity Fund Manager

**Dr. Douglas A. Hensler**  
Craig School of Business, California  
State University, Fresno  
Academic

**Mr. Carlton Jenkins**  
Yucaipa Corporate Initiatives Fund  
Private Equity Fund Manager

**Mr. David Lizárraga**  
TELACU Industries, Inc.  
Community Developer

**Mr. Sid Mohasseb**  
Venture Farms and the Tech Coast  
Angels  
Private Equity Fund Manager

**Ms. Martha Montoya**  
California Hispanic Chambers of  
Commerce  
Host

**Mr. Pete November**  
Pacific Community Ventures  
Private Equity Fund Manager

**Mr. Chip Parker**  
Keiretsu Forum  
Private Equity Fund Manager

**Mr. Cedric Penix**  
Fulcrum Ventures  
Private Equity Fund Manager

**Ms. Isabel Perlinski**  
Perlinski & Associates  
Investment Banker

**Mr. Edward Powers**  
Banc of America Capital Access Funds  
Private Equity Fund Manager

**Ms. Mari Riddle**  
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California Public Employee Retirement  
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**Mr. Paul Saldaña**  
California Association for Local  
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Economic Development Corporation  
Community Developer

**Mr. Tom Soto**  
Craton Equity Partners  
Private Equity Fund Manager

**Ms. Anita Stephens Graham**  
Opportunity Capital Partners  
Private Equity Fund Manager

**Mr. David Takata**  
Engage Capital  
Private Equity Fund Manager

**Mr. Fidel Vargas**  
Centinela Capital  
Private Equity Fund Manager

**Mr. Daniel Vasquez**  
Hamilton Lane  
Private Equity Fund Manager

**Mr. Danny Villanueva, Jr.**  
New America Alliance, RCFontis  
Private Equity Fund Manager

**Mr. Paul Yett**  
Hamilton Lane  
Private Equity Manager



**FAST FACTS ON EMERGING DOMESTIC MARKETS** |

# Fast Facts on Emerging Domestic Markets

## Definition of Emerging Domestic Market

- Emerging domestic markets refer to people, places, or business enterprises with growth potential that face capital constraints due to systemic undervaluation as a result of imperfect market information. These markets include ethnic- and women-owned firms, urban and rural communities, companies that serve low-to-moderate-income populations, and other small- and medium-sized businesses.<sup>1</sup>

## Market Drivers

- In the last 10 years, there has been a renewed interest by institutional investors in identifying businesses and real estate opportunities in emerging domestic markets. This growth in investor interest is driven, in part, by the recognition that changing demographics in the United States has resulted in a significant increase in minority purchasing power and business development by minority owned firms.<sup>2</sup>
- Over the next 40 years, 85% of the U.S. population growth will come from non-white ethnic groups.<sup>3</sup>
- The current size of the United States Hispanic and African-American consumer market is larger than the GDP of all but nine countries in the world.<sup>4</sup>
- The Internal Revenue Service predicts that Latinos will soon own 1-in-10 businesses. Overall growth rates in the number of minority-owned businesses are 3-to-4 times higher than for white-owned businesses.<sup>5</sup>
- Minority firms' sales are growing 34% per year—more than twice the rate of all other firms.<sup>6</sup>
- Small businesses provide approximately 75% of net new jobs in the nation.<sup>7</sup> In California, small businesses comprise over 98% of all businesses and businesses with less than five employees make up over 88% of all businesses in the state.<sup>8</sup>
- Woman-owned firms, particularly among ethnic women, increased at a rate 5 times greater than all firms. The rate of African-American women owned firms increased by 12% annually, as compared to 2% for all firms and just under 4% for all woman-owned firms.<sup>9</sup>

## Capital Market Limitations

- Despite their growth, EDMs' ability to grow is constrained by their access to capital. Even after accounting for a variety of factors (education, experience, industry, and location) EDM firms receive less capital and on less advantageous terms.<sup>10</sup> Latinos and African Americans are turned down for business loans at 3 times the rate of whites with equivalent credit characteristics.<sup>11</sup>
- Minority-owned firms tend to start their businesses with lower levels of personal wealth and face barriers when tapping traditional financing sources, contributing to lower rates of overall success and growth.<sup>12</sup>

- In 2006, \$130 billion was raised by private equity venture funds; approximately \$25.5 billion was invested in 3,416 deals.<sup>13</sup> The composition of EDM venture portfolios differ from mainstream portfolios. EDM venture portfolios are typically comprised of retailers, financial and business service entities, makers and distributors of consumer products, and computer software companies. These types of companies comprise only 10% of mainstream venture capital investments.<sup>14</sup>
- Although women own approximately 40 percent of all businesses in the US, they receive less than five percent of all venture capital.<sup>15</sup>
- Minority owners comprise 8% of all owner firms, with Hispanics owning close to 4%. However, minority-owned firms receive less than 2% of venture capital.<sup>16</sup>
- Rural entrepreneurs account for 10% of all businesses but receive less than 2% of all venture capital.<sup>17</sup>

### **The EDM Marketplace Today**

- Most providers of equity capital do not target mid-sized, traditional enterprises. Exceptions include minority-focused venture funds, Community Development Venture Capital funds, triple-bottom line funds, and increasingly, environmental funds. However, these models face constraints due to a lack of scale capital in the market at the particular risk/return/social impact offering.<sup>18</sup>
- A public pension fund's decision to invest in EDMs is driven first and foremost by its fiduciary duty and overarching mission to serve its members. Targeted investments in EDMs can play a part in the fund's overall strategy to identify investment opportunities where traditional sources of capital may have been overlooked, and to target investments in geographic areas that also benefit the economic climate where their beneficiaries live and work.<sup>19</sup>
- It is estimated that there is approximately \$11 billion of public-sector pension fund commitments across all asset categories targeted at EDM and economic development related investments<sup>20</sup>
- Despite the clearly identified opportunities, EDM businesses are projected to remain underserved by mainstream institutional investors due to a lack of relationships, the poor fit between EDM business types and mainstream venture capital preferences, and discrimination.<sup>21</sup>
- Although the Initiative for a Competitive Inner City has demonstrated through its "Inner City 100" program that appropriate risk adjusted returns can be achieved, strong mechanisms do not exist to connect the larger universe of inner-city companies to potential investors.<sup>22</sup>
- Research continually concludes that the current system for capturing and sharing market data about lower income populations is too immature to be reliable.<sup>23</sup>
- Reaching underserved markets is a specialized process that requires an in-depth understanding of the market and having the ability to break through barriers like high information and transaction costs.<sup>24</sup>
- The undercapitalization and lack of scale within the EDM market starves both individual businesses and their surrounding neighborhoods. Without scale, private investment may be insufficient to transform neighborhoods and companies and thus achieve the targeted returns.<sup>25</sup>

- 
- <sup>1</sup> Glenn Yago, Arron Pankratz, "The Minority Business Challenge" Milken Institute and the United States Department of Commerce (2000)
- <sup>2</sup> Toni Symonds, Leslie Spahn. California's Economic Development Programs: Meeting the Challenges of Today's Economy, Assembly Committee on Jobs, Economic Development, and the Economy, March 2007.
- <sup>3</sup> U.S. Department of Commerce Minority Business Development Agency. September 1999. "Minority Population Growth: 1995 to 2050." and Glenn Yago, Betsy Zeidman, Alethea Abuyma. Milken Institute, "A History of Emerging Domestic Markets"
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