MEMORANDUM

DATE: October 19, 2007

RE: Summary of the October 11, 2007 Meeting of the Emerging Domestic Market Advisory Group

The first meeting of the Emerging Domestic Market Advisory Group (Advisory Group) was convened by Assemblyman Juan Arambula on October 11, 2007, in San Diego, California. Over 30 investment and community development professionals were in attendance. General information on the work of the Advisory Group, including a list of members, can be found on the website for the Assembly Committee on Jobs, Economic Development and the Economy at www.assembly.ca.gov

Below is a summary of the Advisory Group's three priority areas, a schedule of next steps, and a summary of discussion points from the meeting.

Top Issues

After an extended conversation on the key issues affecting private investment in emerging domestic markets, the Advisory Group chose three specific issues to address. The selected issues include:

1. Enhance the financial literacy of and technical assistance available to 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.

Next Steps

The Advisory Committee must select one or two specific products that can address the issues described above, and refine a list of broader recommendations for consideration by the Legislature in 2008.

The next meeting of the Advisory Committee is by teleconference at 5:30 P.M. on October 30, 2007. An agenda will be available, including timelines, by October 24, 2007.

Summary of Discussion Points

Key discussion points examined during the meeting included the following:

- There is a gap between an entrepreneur's idea and the actual ability to get started – for women this leap can be the hardest.

- There is insufficient early stage capital available.

- Small growth companies do not understand how to access venture capital.

- No system is in place to determine who is ready for funding. The current system of sending business plans is very inefficient.

- There is a need to incubate businesses, to examine their business models, and to determine whether they can become bankable. Entrepreneurs need help determining if their business model is viable.

- Resources are needed for ‘post-incubator’ companies that are still not ready for private equity funding. Fund managers and businesses need to know what types of funding are available, e.g. Industrial Development Bonds, Free Trade Zones, tax credits within Enterprise Zones, etc. The current process for accessing information on available resources is imperfect.

- A FICO-like system for equity finance would enhance the ability of investors to identify risk and enable fund managers to more quickly sift through the opportunities and find the gold.

- Only a small number of businesses will get equity capital. Education is still needed, especially products and opportunities to increase financial literacy.

- There is no single document available to teach entrepreneurs about the different types of capital. An on-line resource would be a good step for both entrepreneurs and fund managers.

- To help increase access to private capital, non-profits are needed. They can be the "first touch" that can create a pipeline for investors. How can we invest in these financial and community intermediaries to create this pipeline?

- Efforts have to be sufficiently flexible and nimble to respect the different regional and sub-regional economies in the state. Each community may need a different approach and only locally-based entities know how to do this.

- Approaches to emerging domestic market investments must include common performance metrics and training opportunities to enhance and monitor sustainability outcomes.

- State reserve funds need to be identified and aggregated as a potential source of credit enhancements.

- One challenge faced by minority-owned businesses is the lack of diversity within the financial and investment community. With limited social interaction with financial and investment professionals, even successful minority-owned businesses have a harder time in obtaining capital.

- In general, early stage private equity managers are not interested in working with brick and mortar businesses, which are 90% of emerging domestic market businesses.

- Mezzanine financing is more available to businesses, but it is expensive and interferes with value. It often pushes a venture capital fund away.

- The California State University System is schizophrenic in its approach to community development. As a model, land grant colleges are already obligated to reach out and engage in local economic development activities.

- The Group's long term objective is to have emerging domestic markets be considered as a sub-asset class for investments by institutional investors.

Based on the discussion above, a list of 17 potential focus areas were developed by the Advisory Group and three were selected for further action.