

Assembly Committee on Jobs, Economic Development, and the Economy

DATE: October 26, 2016

TO: Interested Parties

FROM: The Assembly Committee on Jobs, Economic Development, and the Economy

RE: Briefing on "*Venture Capital, Diversity, and Economic Development*"

On Wednesday, October 26, 2016, the Assembly Committee on Jobs, Economic Development and the Economy (JEDE) will be convening a roundtable on current efforts within California's venture capital industry to promote diversity in hiring practices, and in investments extended to portfolio company founders, and executive teams (the VC Roundtable).

The VC Roundtable will provide an opportunity for senior staff within the California Legislature to engage with and to learn more about the steps that California's venture capital industry leaders have undertaken to promote diversity. Information gained through this event will be used by the JEDE Committee to develop and analyze legislation and regulations, as well as contributing to the JEDE Committee's broader investigation into diversity within the high technology industry sectors (*refer to the side bar on page 4 for more information*).

During the course of the discussion, participants will be briefed on the current market conditions in which the venture capital industry operates, trends affecting future growth, and actions being taken by industry leader to increase diversity and prepare for demographic changes in the global marketplace.

This memorandum provides general information on the state economy, the structure of the roundtable discussion, background on participants, key policy issues, and potential recommendations for additional follow-up actions.

The California Economy

California is home to over 39 million people, providing the state with one of the most diverse populations in the world, often comprising the single largest concentration of nationals outside their native country. In 2015, this diverse group of business owners and workers produced \$2.4 trillion in goods and services; \$165 billion of which were exported to over 220 countries around the world.

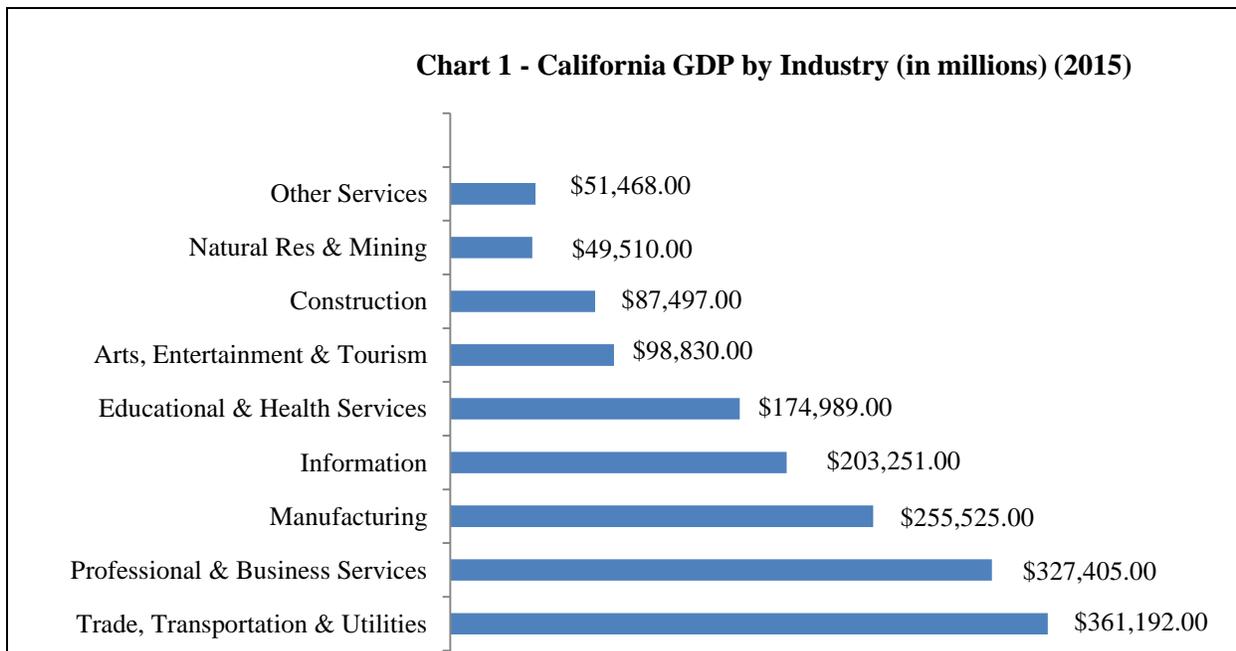
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Many policy makers and economists describe California as having not a single economy, but having a highly integrated network of a dozen or so regional economies. While biotech has a comparative advantage in some regions, information technology drives growth in others. If California were a country, its 2015 GDP would place it 6th in the world – larger than France, Canada, Mexico, Russia, and India. Compared to most other states, California's economy has consistently demonstrated that it has the depth and breadth of workers and businesses to drive markets, especially in the area of technology.

Historically, the state's significance in the global marketplace resulted from a variety of factors, including its strategic west coast location, its economically diverse regional economies, its skilled workforce, and its culture of innovation and entrepreneurship, particularly in the area of technology. California's 29 million working age individuals comprise the single largest workforce in the nation, are comparatively younger, and have an educational achievement level above the national average. As an example, over 30% of the working age population in California holds at least a bachelor's degree.

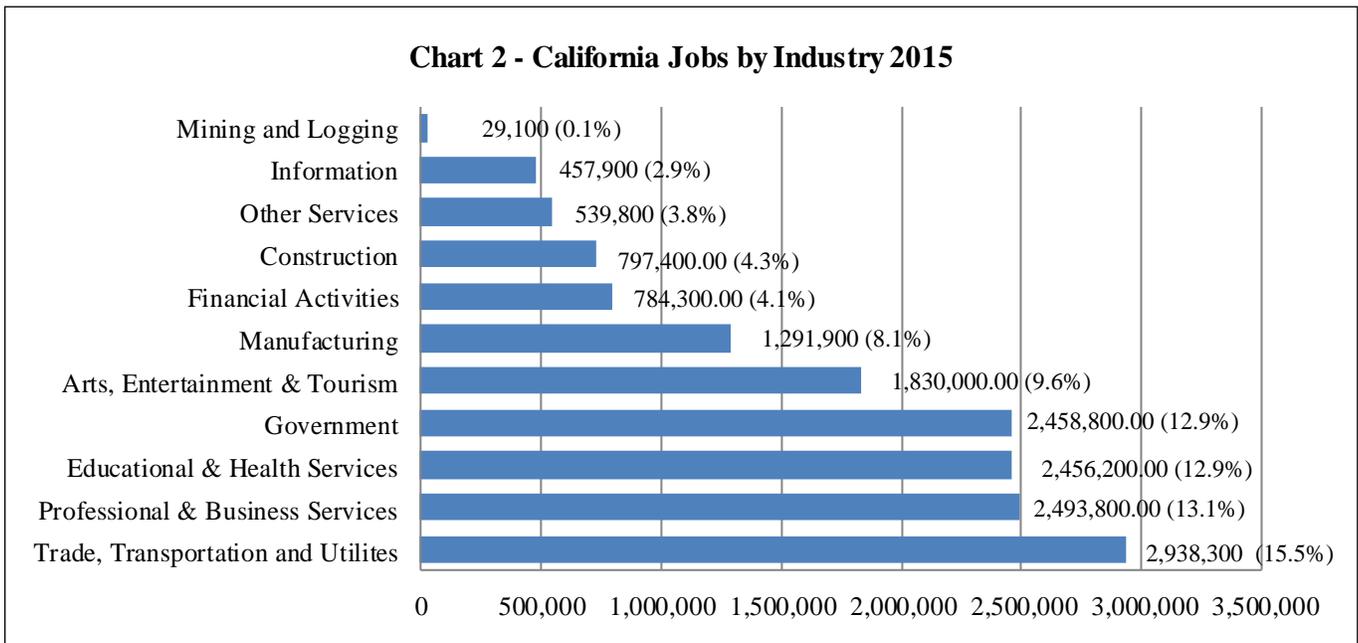
California's well diversified small business base also provides an economic advantage by meeting the niche needs of the state's dominant and emerging innovation-based industry sectors. **Chart 1** displays information on California's private industry sectors. In 2015, the finance and insurance sector provided the largest economic contribution to the state's overall GDP, \$525,264 billion of \$2.4 trillion. Firms in this industry sector include entities that raise funds, pool risk, and facilitate financial transactions including real estate.



California's next four largest industry sectors, include the trade, transportation, and utility sector (\$361 billion); professional and business services sector (\$327 billion); the manufacturing sector, which includes manufacturing of computers; and biomedical devices (\$255 billion).

Changes in the value of GDP per industry sector are also measured and reported quarterly and annually. Between 2014 and 2015, 70% of California's industry sectors outpaced that of the U.S. and five sectors had growth rates below that of the nation overall including: financial activities (+1.2% v. +1.6%); transportation/ warehousing/ utilities (-1.6% v. +0.8%); construction (-1.0% v. -0.7%); agriculture (-7.3% v. -7.2%); and mining and logging (-11.0% v. +7.2%).

Chart 2, developed using data provided by the California Employment Development Department, shows California's largest industry sectors based on employment. Based on total employment, the trade, transportation, and utilities sector is largest, employing 2.9 million (15.5% of California jobs). Jobs in this sector also support employment in other industry sectors including Manufacturing (8.1%), Professional Services (13.1%), and Financial Activities (4.1%).



Demographic Shifts Impacting Growth

The U.S. Census Bureau projects that by 2044 a majority of the U.S. population will be comprised of people of color. In 2014, people of color were already the majority in California, Hawaii, New Mexico, and Texas, with another nine states close to 50%. This new demographic has and will continue to have profound social and economic impacts on the nation.

Compounding these demographic impacts is the significant generational shift represented by the predominantly white baby boomers rapidly aging-out of workplace. In the wake of what is considered to be the nation's most highly educated and most diverse workforce (in terms of male and female participation) comes a significantly smaller, slightly less educated and more ethnically diverse group of workers and entrepreneurs.

The California Budget Project estimates that by 2020, nearly 60% of the working age population in California will be comprised of Latinos, African-Americans, and Asian-Americans. As these populations constitute an increasingly larger portion of the population, so has their consumer

purchasing power. Neilson refers to these multicultural consumers as "Super Consumers," the top 10% of which are capable of driving 30% of sales, 40% of growth, and 50% of profits. In its report, *"The Multicultural Edge: Rising Super Consumers"*, Nielsen reports that 31% of top U.S. markets are currently comprised of multicultural residents (64% on average) and will increase at a rate 1.7 times that of the national norm.

The competition to capture this new consumer base is also driving businesses need for a more diverse workplace. The challenge remains, however, on how to leverage these significant demographic shifts into long term profitability.

One of the significant economic trends is actually moving in the opposite direction. While many American companies are seen to be thriving and U.S. global competitiveness is increasing, those in the lower income brackets are experiencing flat and even depreciated income gains.

Income inequality based on geography, race/ethnicity, and education/training is threatening California's long term competitiveness. According to the World Top Income Data Base, pretax income among the highest 1% of Californians comprised 9.82% of total income in 1980 and 25.31% in 2013. In stark comparison, the most recent U.S. Census Bureau figures place California at the top of the list for having among the highest poverty rates in the U.S. and the lowest percentage of working age people with at least a high school diploma or equivalency certificate.

This consolidation of income among fewer and fewer individuals impacts the ability of California's young, more diverse population to start businesses, attend top universities,

The JEDE Request for Information

The Assembly Committee on Jobs, Economic Development and the Economy is investigating the issue of diversity within workforce and business ownership structure of high technology industries in California.

In undertaking this work, the Committee has issued a Request for Information (RFI) to provide an opportunity for the public, organizations, and businesses to identify public and private actions that have the potential to facilitate greater participation of underrepresented populations on corporate boards, within entry level, advanced, and senior management positions, as vendors, and within related financial subsections.

Information gained through the RFI and related work will be used to inform public policy and legislative engagement with the business sectors.

Information is being requested on the following:

1. The composition of the workforce in high technology-based industries, with a focus on regions where these firms play a dominant economic roll. Relevant information includes the race, ethnicity, age, and gender. Information can be displayed at either a per-firm basis, or at the aggregate level by size of business, NAISC, and/or other distinguishing features.
2. Workforce requirements for entry level positions in high technology firms, including educational and skill-level requirements.
3. Workforce development programs established by firms to address the lack of diversity within the workforce, including numbers of participants, outreach, and outcomes.
4. Partnerships with local workforce development boards, community colleges, and other entities to establish specific career pathways for employment and business development opportunities in high technology firms in California and other areas of the United States.
5. The composition of firms within the technology supply chain, with a focus on small businesses. Relevant information includes the race, ethnicity, age, and gender of managers and owners.
6. The composition of executive management and corporate boards in high technology firms headquartered in California and other areas of the United States. Relevant information includes the race, ethnicity, age, and gender of management and board membership.
7. Recommendations on the types of public policy actions that would facilitate greater participation of underrepresented populations on corporate boards, within entry level, advanced, and senior management positions, as vendors, and within the finance sector serving high-technology firms.

and begin professional careers in key industry sectors, including finance.

Further, there is an increasing body of research that shows that income and social inequality are quantifiable drags on an overall economy. This suggests that one of the single most important steps the state can take for its long-term economic growth is to encourage private sector actions and adopt policies that support social mobility and inclusion. The JEDE Committee has been examining the conditions related to historically underserved areas of the state, emerging demographic shifts, and income inequality for the past decade. A summary of a 2007 advisory group on these issues is summarized in *Appendix B*.

Impact of Venture Capital Firms on California’s Economy

The venture capital industry is comprised of private companies that are not heavily regulated data from the National Venture Capital Association 2016 Annual Yearbook is relied upon herein.

Venture capital funding has a real impact on California’s innovation economy. During 2015, venture capital firms from all states invested in 1,498 California companies, totaling \$33.9 billion in investments. California based venture capital firms made investments across 37 states, yet 72% of their capital was invested within California. Entrepreneurs in California received 57% of all venture capital dollars placed within the U.. during 2015.

Venture capital investing seeks to use capital investments in exchange for equity in a company that creates a potential for high growth, and therefore a high rate of return on the investment. The nature of this high-risk, high-reward investing profile leads to many investments in industries such as software, internet technologies, and bio-technology. Venture capital firms typically make an investment early in a company’s lifespan in exchange for an equity interest, often where traditional bank capital sources are not available. Thus, early access to venture capital can have a dramatic impact on the likelihood for a capital intensive business to succeed. In 2015, California venture capital firms launched 102 funds, with new capital commitments of \$13.9 billion, down from \$19.3 billion in 2014. The majority of funding rounds (51%) from available venture capital in the U.S. went to seed and early stage companies, indicating how critical venture capital is for California’s entrepreneurs as a funding source to access capital early in a business lifecycle.

The firms recoup their investment when the company’s equity is converted to currency, either through an initial public offer of the equity to public stock markets, or through an acquisition. With California based venture capital firms managing 55% of the total \$165 billion in capital under management across the US during 2015, Californians are in a great position to be rewarded as their firms’ investments mature.

Details on Geography - Investments within California

Venture capital firms in California make the large majority of investments in a few geographical areas. The chart below illustrates dominance in San Francisco, San Jose, Los Angeles, and San Diego, indicating that venture capital investments in California stay primarily in existing high-income, low unemployment markets, and do not extend to the struggling areas of the state.

Venture Capital Investment by Metro Area				
Rank	Metro Area	Number of Investments	Number of Companies	Amount Invested

1	San Francisco-Oakland-Fremont	942	797	\$21.04B
4	San Jose-Sunnyvale-Santa Clara	379	321	\$6.24B
5	Los Angeles-Long Beach-Santa Ana	293	240	\$4.48B
9	San Diego-Carlsbad-San Marcos	100	83	\$1.17B
33	Santa Barbara-Santa Maria-Goleta	20	17	\$440M
46	Sacramento-Arden Arcade-Roseville	12	8	\$43M
53	Santa Rosa-Petaluma	6	5	\$16M
66	Santa Cruz-Watsonville	4	3	\$48M
66	San Luis Obispo-Paso Robles	5	3	\$13M
77	Riverside-San Bernardino-Ontario	2	2	\$60M
93	Bakersfield	1	1	\$50M
93	Visalia-Porterville	1	1	\$16M
93	Salinas	1	1	\$3M
93	Napa	1	1	\$0.27M

Source: 2016 Annual Report of the National Venture Capital Association

Of the top 100 national markets for venture capital funding, three markets (Bakersfield, Visalia, Salinas) in the bottom ten metro areas are in California regions that also have higher unemployment than the state average.

Details on Venture Capital and Diversity

Multiple studies, such as McKinsey & Co. *Diversity Matters* (2015), point to a lack of diversity within the technology industry. A 2014 article from the tech website GigaOM states that only 2% of employees at California based companies Google, Facebook, Pinterest, LinkedIn, and Yahoo are African-American. Richard Kerby, a partner at Venrock Capital created his own database and determined that the number of African-Americans who are on investment teams at venture capital firms is even lower – projected at just 1.5%. Mr. Kerby found that for large funds of greater than \$100 million in managed capital, only 1% of the investment team includes an African-American, with only one black woman. A 2015 Techcrunch report found that venture capital backed companies in the San Francisco-San Jose corridor with a female founder totaled just 12-16%, trailing the national average of 18% and far behind New York’s 21%.

The venture capital industry has taken notice of these race, ethnicity and gender disparities. In 2015, the National Venture Capital Association published a report entitled, “Building a More Inclusive Entrepreneurial Ecosystem.” This report provides information on the steps that venture capital firms have undertaken in response to an industry initiated “Diversity Pledge,” which seeks to create pathways for women and underserved minority groups to access venture capital. The venture capital industry, however, is still at the early stages of addressing the lack of access to capital faced by women and minority entrepreneurs, resulting from an inability to access the established networks that make capital investment decisions.

Key Public Policy Considerations

Some firms in California’s venture capital industry are participating in the NVCA’s Diversity Pledge. There are even new California based funds (Intel’s \$175 million Intel Capital Diversity Fund) that have a primary goal to place investments in portfolio companies that promote diversity within California’s venture capital ecosystem, by featuring women and underrepresented minorities in founder and executive teams.

As stated previously, CalPERS and CalSTRS are some of the earliest institutional investors that have undertaken efforts to diversify internal staffing (including but not limited to fund managers), and encourage diversity on the corporate boards of their portfolio companies. Public policy may represent an additional method to increase inclusiveness for women and underrepresented minorities in California. Below are possible recommendations to help focus the discussion and inspire creative, yet practical next steps. These ideas are not intended to be adopted in total, but rather to offer suggestions about how these issues may be addressed.

Access to Networks - Women and underserved minority entrepreneurs need access to the personal and professional networks that make up the venture capital industry. Entrepreneurs in geographically underserved communities need access to the industry, too. Hiring practices at venture capital firms should reflect diversity goals. With so few women and underserved minorities in analyst, associate, and partner roles at venture capital firms, it is reasonable even though unintended, that women and minority groups have had difficulty accessing venture capital. Creating career paths for women and underrepresented minority groups to venture capital investment and management should enhance parallel efforts to promote science, technology, engineering, arts and mathematics (STEAM) career pathways for those groups, too.

Institutional Investor Influence - With CalPERS and CalSTRS encouraging the use of emerging fund managers, California's large institutional investors influence venture capital firms to pursue more diversity and inclusiveness across their investment portfolios. The University of California, Stanford University, and the Betty and Gordon Moore Endowment are examples of other institutional investors that could place diversity requirements downstream on venture capital firms before funding new rounds, or partnering in the launch of university spun out companies.

Entrepreneurial Education & Employment - Nascent programs to directly connect women and underserved minorities with work opportunities in venture capital funded companies exist in California. Examples include the Hackbright Academy, Code2040, and the Kapor Center for Social Impact. These types of programs can play a vital in expanding the number of women and minority entrepreneurs that create great new ideas, and seek venture capital funding to launch great new businesses. The Governor's Office of Business Development (GO-Biz) has created iHubs across California, in an effort to connect entrepreneurs to capital and other resources. iHubs could also serve as a launching place to expand programs like Code2040 into more communities throughout California, pushing venture capital initiated industry efforts into the network of local and regional workforce development centers, or federally identified Promise Zones.

Possible Follow-Up Actions

During the 2016-2017 legislative session, the JEDE Committee will be producing its report on "Diversity in California's Technology Industries." To complete gathering information for the final report, the JEDE Committee may hold hearings on the topics discussed herein.

The JEDE Committee may also consider advancing legislation that would expedite the adoption of policies and programs to support the venture capital industry's efforts to hire more diversely and to make investments with founders that reflect diversity and inclusiveness. Ideas range from tax credits for investments in companies located within certain areas of the state that do not see substantial venture capital activities, to state-backed investment funds, where the state partners with venture capital firms to match investment dollars in companies that have diverse founding and

leadership teams, to new workforce training and internships that create employment paths into the venture capital industry from underrepresented communities.

Reports

Appendix A contains summaries from reports on the issue of diversity and inclusiveness in venture capital and the innovation economy. This list is always growing, and the JEDE Committee encourages the sharing of additional reports to expand the summary.

Contact Information

JEDE is the policy committee in the California State Legislature responsible for overseeing issues related to business and capital formation, foreign trade and investment, industrial innovation and research, and state and local economic development activities.

The JEDE Committee office is located in the Legislative Office Building at 1020 N Street, Room 359. The office phone number is 916.319.2090. Visit the JEDE Committee website at <http://ajed.assembly.ca.gov> for more information about its areas of responsibility, including fact sheets, reports, and legislative summaries.

For security reasons, mail is not directly delivered to the committee office. Mail should be addressed to: Assembly Committee for Jobs, Economic Development, and the Economy; State Capitol; Sacramento, California, 95814.

JEDE staff engaged in the round table process include:

- Toni Symonds, Chief Consultant, JEDE Committee – toni.symonds@asm.ca.gov
- Peter Ansel, Entrepreneur in Residence, JEDE Committee – peter.ansel@asm.ca.gov
- Matthew Hurley, Secretary, JEDE Committee – matthew.hurley@asm.ca.gov

APPENDIX A

List of Reports for Venture Capital Roundtable Discussion

Below is a list of reports utilized in preparation for the Venture Capital Roundtable Discussion. The list does not represent all potential reports on the topic of Venture Capital and diversity, but is a great resource for anyone delving into the subject matter. If you have additional reports to share with the JEDE Committee, please do so using the Contact Information set forth previously.

American Made 2.0: How Immigrant Entrepreneurs Continue to Contribute to the US Economy (National Venture Capital Association, 2016)

The report uses data to illustrate the nativity of publically traded companies that IPO'd from 2006-2012 that were launched from venture funds. The report also surveyed private venture firms on the issue of immigration policy and the impact to start-up venture investments. The report reveals that 33% of venture funded companies that had an IPO during 2006-2012 also has an immigrant founder. These companies have a market capitalization of over \$167 billion today, and include companies such as ZipCar, Tesla Motors, and Facebook. India is the most common country of origin, with 20% of the companies having an Indian founder, followed by the United Kingdom, Canada, France, Israel and Germany. Of private enterprises with immigrant founders and venture capital funding, software companies account for 41% of the businesses, following by biotechnology, IT services, business services, consumer goods, media/entertainment and energy/clean energy. California is the preferred destination of privately funded companies with immigrant founders, with 36% of the businesses, followed by Massachusetts, New York, and Pennsylvania. The report suggests addressing four areas of immigration policy: (1) How can foreign national entrepreneurs reliably remain in the US; (2) Talent retention is challenging due to long waiting time for green card (employment) approvals; (3) An insufficient number of available H-1B temporary visas; and (4) The process for sponsoring skilled foreign nationals is time consuming and full of red-tape. <http://nvca.org/research/stats-studies/>

Building a More Inclusive Entrepreneurial Ecosystem (National Venture Capital Association 2016)

This report provides synopses of various organizations that have taken steps to help advance inclusion. The majority of organizations covered in the report are venture capital firms that took action during the course of 2015-16 to increase the number of women and underrepresented minorities within their firms (hiring) and amongst their portfolio companies (investments). These firms are participating in the National Venture Capital Association Diversity Task Force, a leadership effort in the venture capital industry to promote inclusiveness and diversity. The report addresses other organizations in the ecosystem, such as the Hackbright Academy, BUILDUP and MergeLane. The firms that took the Diversity Pledge to participate in the Diversity Task Force seek to: (1) Change internal HR policies to promote diverse work environments; (2) Fund and participate in programs that promote venture capital and entrepreneurship as a career path to women and underrepresented minorities; and (3) Share best practices to promote diversity and inclusiveness with others in the venture capital eco-system and firm portfolio companies.

<http://nvca.org/ecosystem/diversity/>

Commitment to Diversity & Inclusion Report Fiscal Year 2015-16 (CalPERS 2016)

This report from CalPERS details their Diversity & Inclusion (D&I) program, which seeks to impact CalPERS' workforce, workplace, and marketplace. The report states that 50% of CalPERS' staff is women. Nearly half are Gen Xers (commonly defined as born between 1965 to 1980). Nearly two-thirds of its staff is white (62%), followed by Asians (19%), Hispanics (16%), Pacific Islanders (1.5%), and African-American (1.4%). CalPERS' D&I program impacts its workforce through talent development with programs such as an informal mentoring program, employee career services, and an organizational health index (which represents employee attitudes). CalPERS operates a Diversity Outreach Program to implement D&I initiatives throughout all operations. Over 1,300 employees participated in diversity workshops and outreach events. D&I resources are promoted on CalPERS website, and Cultural Investments is a featured monthly electronic newsletter that helps managers and their teams create inclusive environments. An employee resource group, the CalPERS Diversity & Inclusion Group, holds monthly meetings and occasional networking events to help promote openness and exploration of varying ideas and cultures. In May 2015, CalPERS' Investment Office created a D&I Steering Committee, which approved the Investment Office Diversity and Inclusion 2020 Plan. This plan sets forth CalPERS' strategy to grow diversity and inclusion in corporate boards, external managers, and talent acquisition and retention. <https://www.calpers.ca.gov/docs/forms-publications/diversity-report-2016.pdf>

Diversity and Inclusion: Evidence of Corporate Performance (The Barthwell Group and Credit Suisse 2016)

This report provides the print versions of PowerPoint slides from a presentation given to CalPERS's Diversity Forum in September 2015. The slides detail corporate benefits from diversity and inclusion, focusing on enhanced business performance. Corporate diversity and inclusion benefits are identified as: attracting and retaining the best talent; increasing innovation; enhancing financial performance; competing more effectively globally; enhancing US market share. The report states that because US companies increasingly must look at global markets for growth, a multi-cultural competency is required. Diversity of thought through workplace diversity provides a risk reduction to the negative impact of groupthink. The report notes that workforce diversity and inclusiveness should start at the top of leadership. Diversity on corporate boards leads to improved competitiveness, better talent management, greater access to capital, more stable revenue streams, and better relationships with equity stakeholders. In terms of a direct relationship to financial performance, the report states that boards with a woman delivered a return on equity of 14.1% compared to 11.2% for all male boards since 2005. Profitability is higher at those companies in all sectors except for energy (underperformed by just 1%). <https://www.calpers.ca.gov/docs/board-agendas/201604/invest/item10a-01.pdf>

Diversity in the Management of Investments 2016 Annual Report (CALSTRS 2016)

This is a mandatory report produced by CALSTRS to present CALSTRS' progress toward achieving diversity goals which are set forth in a 5 year plan to increase emerging investment manager participation (SB 294, Chapter 701, Statutes of 2011) and diversity within CALSTRS employment. The report provides detail on CALSTRS staff of diverse investment managers, whether gender or ethnic based. It also notes staff efforts to provide diversity in investment management by working with portfolio companies and speaking at conferences and events on the topic. The staff in 2015 totaled nearly 130 people with a myriad of cultural, ethnic, worldview and

investment perspectives. The report illustrates CALSTRS activities to meet goals in the following areas: Diversity in its own internal investment staff; increase the awareness of investments as a career path to California high school and community college students; increase diversity of external real estate fund managers; increase diversity across corporate boards of portfolio companies; create a direct bridge for developing managers to be hired into the core portfolio; increase diversity amongst brokerage firms that provide CALSTRS with financial services. The report reviews actions taken by CALSTRS as part of its 5 year strategic plan to improve diversity and inclusiveness within its own employees by: (1) developing a recruitment strategy to attract a diversified workforce; (2) develop training for all asset class managers, and create a system to hire from California universities; (3) Increase retention of employees that reflect diversity by creating new training and career development programs; and (4) launch a local university internship program. In terms of promoting diversity within all asset class fund managers, CALSTRS launched the Developing Manager Program in 2004. As of 2016, CALSTRS works with six manager-of-manager firms, five of which are women or minority owned. In turn, those managers work with 48 developing fund managers, of which 25% are minority owned and 21% are women owned.

http://www.calstrs.com/sites/main/files/file-attachments/diversity_in_the_management_of_investments_2016_progress_report.pdf

Diversity Matters (McKinsey & Company 2015)

This report looks at the relationship between diversity (the number of women and minorities) within leadership positions at large companies, and the financial performance of these companies from 2010-2013. The report found statistically relevant relationships between companies with financial performance above the median for their respective industries and companies that fell in the top 25% of identified diverse workforces. While the relationship is correlative, the report states that the link in the US between diversity and performance is direct and linear – meaning competitive and financial advantages are realized with more diversity. The report notes that diversity helps companies with: talent recruitment, improved customer orientation, higher employee satisfaction, and improved decision making and innovation. It states that successful diversity programs have five similar traits: (1) determine the value proposition; (2) define existing set of facts and data; (3) build diversity target goal to meet different groups' facts; (4) manage the governance model; (5) create an environment for inclusiveness within management's mindset. <http://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>

Intel Diversity and Inclusion Report (Intel 2016)

This report captures actions taken by Intel to promote diversity within its business units, vendors and the technology industry at large. In 2015, Intel committed \$300M company-wide to increase diversity and inclusiveness amongst women and underrepresented minorities. The report details Intel's efforts during the first full year of the company's efforts to reach specific company goals, based on actual Intel hiring and retention data. Specific to venture capital funding, in 2015, Intel launched its Intel Capital Diversity Fund, which invests in women or minority owned technology companies. Over five years, Intel is investing over \$125 million in companies where at least three members of the senior management team are women and or underrepresented minorities. In 2015 Intel placed \$19 million in investments across five businesses. Intel has met with over 200 companies and expects to make up to six investments throughout 2016. A recent addition to Intel Capital Diversity Fund's portfolio is LISNR, a start-up based in Cincinnati. Rodney Williams, LISNR's African-American CEO said, "One of the advantages of the Diversity Fund is that it looks

for talent and opportunities beyond the usual locations and networks.”

<http://www.intel.com/content/dam/www/public/us/en/documents/corporate-information/diversity-annual-report-2015-final.pdf>

The Multicultural Edge: Rising Super Consumers (Nielsen 2015)

This report provides an analysis of the marked increase in shopping (buying) power from Hispanic, African American, and Asian American consumers in the US. There are over 120 million multi-cultural consumers. Growth is driven primarily by Hispanics accounting for over half of all population growth by 2020 and 85% by 2050. By 2030, the non-Hispanic white population in the US will be in an annual decline, and multiculturals will fuel all domestic population growth. Due to this population growth and the influence that increased buying power has across all markets, multicultural consumers are at the forefront of converging social and demographic. These new market forces impact how advertisers and marketers reach their intended audiences, and to a large extent, whom makes up that intended audience. Multi-cultural consumer are market drivers, with the top 10% of households accounting for over 30% of sales, 40% in sales growth and 50 % of revenues. The impact from multi-cultural consumers extends to non-multiculturals: (1) Geographically, where the two populations share product and brand affinities due to “Super-Geos” that form due to geographic population densities; and (2) Demographically, where multi-cultural consumers are younger, market trendsetters across a range of categories. With young multi-cultural consumers maturing and starting families, brands have an opportunity to create long-term, generational connections to these consumers.

<http://www.nielsen.com/us/en/insights/reports/2015/the-multicultural-edge-rising-super-consumers.html>

The Value of Ethnic and Gender Diversity in Private Equity and Venture Capital (Fairview Capital Partners, 2016)

This report, prepared by Fairview Capital Partners (a private equity fund of funds), provides an overview of woman and minority owned private equity firms in the US. The report contains some duplicative information from the Fairview report titled “Woman and Minority-Owned Private Equity Firms”, but also culls out new facts specific to venture capital. Of the top 71 venture capital firms that have over \$160 billion in assets under management in 2015, more than 92% of executive investment professionals were men, and 78% of them white. Asians comprised 20% and African-American and Hispanic or other minorities combined total just 2%. The report notes many identified benefits from diversity within a business including intangibles such as talent recruitment, employee satisfaction, better decision making and innovation. On financial performance, the report cites a 2015 McKinsey & Co. report titled “Why Diversity Matters” where it was found that for every 10% increase in racial and ethnic diversity in an executive team, earnings rise 0.8%.

http://fairviewcapital.com/downloads/Fairview_Capital_The_Value_of_Ethnic_and%20Gender_Diversity_in_Private_Equity_and_Venture_Capital.pdf

Woman and Minority-Owned Private Equity Firms (Fairview Capital Partners 2016)

This report, prepared by Fairview Capital Partners (a private equity fund of funds), provides a market overview of majority owned (>50 %) woman and minority-owned private equity firms in 2015 that actively raised capital and are located in and invest primarily within the US. Fairview Capital maintains a proprietary database that includes over 150 active woman and minority owned private equity firms. The report states that during 2015, 42% of these firms were in market for

venture capital investments, making for a 50% year over year increase, and continuing a trend that Fairview notes comports with a trend in venture capital – new firms being formed by diverse managers, often as spin-outs from already established venture capital firms. These new VC firms aim to be “millennial friendly”, reflecting the entrepreneurs and the markets where they will invest venture capital dollars.

http://fairviewcapital.com/downloads/Fairview%20Capital%20Woman_and_Minority_Owned%20Firms_2015_Market_Review.pdf

APPENDIX B

Emerging Domestic Market Advisory Group

In 2007, the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) established an advisory group on how to attract private investment in California's historically underserved markets that demonstrated qualities suggesting readiness for private sector investments, often referred to as emerging domestic markets.

The work was led by Assembly Member Juan Arambula, who was serving as chair of JEDE, in conjunction with the California Legislative Latino Caucus and in partnership with the California Hispanic Chambers of Commerce. The work was also supported by the California Public Employees Retirement System (CalPERS) and the California State Teachers Retirement System (CalSTRS), who were both undertaking their own activities related to emerging managers and emerging domestic market investment strategies.

As the work progressed, it became clear that increasing private sector investments in lower income communities would require specific expertise in the economic structure of these communities, which would most likely require a uniquely skilled financial/community intermediary, as well as a more diverse set of asset managers, business owners, and economic development professionals. Ultimately, the Advisory Committee focused on a range of activities designed to create a more efficient financial ecosystem that was inclusive of the opportunities available in emerging domestic markets.

Among other activities, the Advisory Group:

- Surveyed the range of investment models being used by financial intermediaries to reach emerging domestic markets, including activities being undertaken by the New York City Retirement System, the State of Ohio, Good Capital, and Criterion Ventures, among others.
- Supported the deployment of the \$3 billion in unencumbered CalPERS and CalSTRS funds targeted for emerging domestic markets in California.
- Developed a foundational summary of the institutional investors' investment policies has been developed in emerging domestic markets.
- Held regional investment summits which provided an opportunity for smaller funds to meet and potentially forge partnership with existing recipients of California institutional funds. By establishing and helping the strengthen these relationships, asset managers of institutional capital were provided an opportunity to increase diversity in their management team while maintaining performance standards.

The Advisory Group also made the following legislative recommendations:

- Establish a Joint Legislative Commission to further examine emerging domestic markets and the need to support emerging managers.

- Support activities which increase scale in public debt markets.
- Improve tracking of existing community reinvestment capital.
- Build core non-proprietary databases on emerging managers and investments in emerging domestic markets.
- Improve access to existing entrepreneurial funds and services.
- Establish a state venture fund that supports investment in emerging domestic markets by emerging managers.

The Advisory Group was facilitated by **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. Advisory Group Executives:

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The crisis on Wall Street and the resulting recession, required the JEDE Committee to discontinue the work of the Advisory Committee and focus more on public finance of economic development activities. Additional information on the Advisory Group is available through the JEDE website: <http://ajed.assembly.ca.gov/emergingdomesticmarkets>