

January 11, 2008 - Progress Report on EDM Advisory Group

Three Top Issues

After an extended conversation on the key issues affecting private investment in emerging domestic markets at the October 11, 2007, meeting, the EDM Advisory Group chose three specific issues to address:

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.

Primary Objective

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

Two Projects to Address the Top Issues

During the October 30, 2007, teleconference, two projects were approved and outlined:

1. A web-based directory of capital to assist entrepreneurs in identifying and accessing capital appropriate to their business and interests.
2. A hybrid investment model to help early stage EDM funds access large- and mid-size institutional investor funds.

Update on Web-Based Directory

During the November 11, 2007, teleconference, the framework for the directory was refined. Currently, the project stands as:

- Developed the framework for the directory and expanded on the private equity portions.
- Acquired access to a previously proprietary internet tool for establishing a credit score for small businesses.
- Been offered an opportunity to coordinate the announcement of the development website with Forbes Magazine.
- In preliminary stages of obtaining partners to develop the non-private equity portions of the site.

Update on Hybrid Investment Model

During the November 11, 2007, teleconference, five investment strategies, which were currently being funded, were presented to the EDM Advisory Group. The next step was to outline the

existing institutional investor strategies and then produce a hybrid model for the Advisory Group to discuss.

- The Facilitators began to outline the existing investment policies of CalPERS and CalSTRS and became aware that over \$3 billion through four separate funds was currently available in the market waiting to be deployed in appropriate smaller EDM funds.
- In reviewing the two investment policies, it appeared that the Advisory Group may have been premature in their assessment that existing CalPERS and CalSTRS partners would not invest in smaller EDM funds and that smaller EDM funds would need to modify their investment strategies in order meet the larger funds' investment mandate from CalPERS and CalSTRS.
- The Facilitators have forged four questions to help the Advisory Group discuss this issue:
 1. After reviewing the institutional strategies outlined (CalPERS, CalSTRS), is there anything that surprises you or which would be difficult to meet?
 2. For those of you who have received CalPERS/CalSTRS funding, would knowing the information provided in the attachment have helped you to obtain that funding?
 3. Is there anything inherently difficult in the standards for these investment funds that makes it difficult to develop a successful investment strategy that targets firms seeking capital between \$500K and \$5 M?
 4. Do you have creative ideas or suggestions about ways of demonstrating competency of early-stage investment strategies and/or mitigating risk through a partnership or other mechanism?
- The Facilitators have also proposed two additional recommendations to enhance the ability of smaller EDM funds to access institutional investor moneys.
 1. Host three regional events for smaller EDM investment firms that are interested in California institutional funds. At these events, firms will have an opportunity to learn more about the investment strategies of CalPERS and CalSTRS and their fund managers. These sessions will enhance the ability of the smaller EDM investment firms to make a successful 'pitch' and explore potential partnerships. The smaller funds would also have an opportunity to acquaint themselves with key public resources that can mitigate their risk and assist them to be more successful.
 2. Host a single investment summit for current recipients of California institutional funds. At this event, these funds will be introduced to key public resources that can enhance their portfolio and improve the likelihood of meeting investment benchmarks.

Additionally, the investment summit would offer an opportunity for smaller funds to meet and potentially forge partnership with existing recipients of California institutional funds. These partnerships could enable already established funds to increase diversity in their management team and the businesses in which they invest while maintaining performance standards.