

Progress Report on EDM Advisory Group

- January 22, 2008 -

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:

1. The framework for the directory has been developed and the private equity portions have been enhanced.
2. A previously proprietary internet tool for establishing credit scores for early-stage businesses has been offered to the project by Jim Casparie, The Venture Alliance.
3. There is an opportunity to coordinate the launch and/or development of the website with Forbes Magazine.
4. We are in the preliminary stages of obtaining partners to develop the non-private equity portions of the site.

Update on Hybrid Investment Model

During the January 11, 2008, teleconference, the direction of this project shifted from developing a new hybrid investment model to helping deploy the \$3 billion in unencumbered EDM funds already available in the California market. Currently the project stands as:

1. Over \$3 billion has been targeted by CalPERS and CalSTRS for EDM and emerging managers.
2. A basic summary of the institutional investors' investment policies has been developed.
3. Key public resources have been identified to help mitigate some of the risks EDM funds face in deploying capital.
4. Over a half dozen EDM investment models that use financial and community intermediaries as a successful means for deploying institutional investor capital have been identified.
5. Planning is beginning in three regional investor roundtables where smaller EDM investment firms can meet with the four larger funds that have been hired to deploy CalPERS and CalSTRS moneys.
6. Planning is beginning on an investment summit to strengthen the current network of small and large EDM funds and related professionals. The summit will offer an opportunity for smaller funds to meet and potentially forge partnership with existing recipients of California institutional funds. These partnerships would enable already established funds to increase diversity in their management team and the businesses in which they invest while maintaining performance standards.

Update on recommendations to the Legislature

During the November 7, 2007, and the January 11, 2008, teleconferences, a list of recommendations for state action was developed and refined:

1. Establish a Joint Legislative Commission of EDMs.
2. Increase scale in public debt markets.
3. Improve tracking of existing community reinvestment capital.
4. Build core non-proprietary EDM databases.
5. Improve access to existing entrepreneurial funds and services.
6. Establish a state EDM venture fund.