MILKEN INSTITUTE
Global Conference

In conjunction with Forbes

March 31, April 1 & 2, 2003

Los Angeles • California
What are Emerging Domestic Markets?

• People, places or enterprises that have been undervalued and/or undercapitalized in unexplored and/or underdeveloped ethnic, regional and national markets.
The Double Bottom Line

- A double bottom line approach to investing seeks both risk adjusted market-rate financial returns and collateral benefits.
Emerging Domestic Markets

• Between 1995 and 2050, the Minority population will account for 90% of U.S. population growth
The Emerging Marketplace in America

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>50%</td>
</tr>
<tr>
<td>Minority</td>
<td>169%</td>
</tr>
<tr>
<td>Non-Minority</td>
<td>7%</td>
</tr>
<tr>
<td>Afr. Amer.</td>
<td>83%</td>
</tr>
<tr>
<td>Amer. Indian</td>
<td>95%</td>
</tr>
<tr>
<td>Asian</td>
<td>267%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>258%</td>
</tr>
</tbody>
</table>
An Increasingly Diverse U.S. Population

Percent Change

0 - 19
20 - 34
35 - 54
55 - 64
65+

All
White
Afrian American
Hispanic
Native American
Asian

An Increasingly Diverse U.S. Population
“Multiple Melting Pots” Typology of US States

Melting Pot States
White-Black Gainers
Mostly White Gainers
Slow Growth/Declining
Immigrant Magnet States
African Americans
Largest 1990s Gains

5 Largest Gains
10 Next Largest Gains
Hispanics
Largest 1990s Gains

5 Largest Gains
10 Next Largest Gains

 MILKEN INSTITUTE
Asians
Largest 1990s Gains

5 Largest Gains
10 Next Largest Gains
Black Concentration
2000

Key
- Below 12.6%
- 12.6% - 25.0%
- Above 25.0%
Asian Concentration
2000

Key
- Below 4.3%
- 4.3% - 10.0%
- Above 10.0%
White Concentration
2000

Key
- Below 69.1%
- 69.1% - 85.0%
- Above 85.0%
Role of Minorities in the Labor Market

- Labor Supply Constraint
  - U. S. workforce growth rate has declined. From 2.7% in the 1970s, to 1.6% in the 1980s, to between 1.0-1.5% today. Projections over the next decade predict continued low rates of increase.
  
  - By 2020, 70% of the workforce growth will occur among minorities. Unless this workforce can be tapped, the lack of labor will act as a brake on economic growth.
Minorities are Increasingly Educated
MBAs Awarded to Minorities as % of Total

% of Total MBA Degrees Awarded

Asians
African Americans
Hispanics

{graph showing increasing percentages of MBA degrees awarded to minorities from 1989 to 2000 for Asians, African Americans, and Hispanics}
Minorities are Increasingly Educated
Masters Degrees Awarded to Minorities as % of Total

% of Total Masters Degrees Awarded

- African Americans
- Asians
- Hispanics

Timeline: 89 to 00
## The Inner City Opportunity

<table>
<thead>
<tr>
<th></th>
<th>Pacific Palisades</th>
<th>Central Los Angeles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Square Miles</td>
<td>Same</td>
<td>Same</td>
</tr>
<tr>
<td>Population</td>
<td>22,826</td>
<td>184,060</td>
</tr>
<tr>
<td>Number of Households</td>
<td>9,128</td>
<td>49,892</td>
</tr>
<tr>
<td>Median House Income</td>
<td>$122,942</td>
<td>$23,500</td>
</tr>
<tr>
<td>Purchasing Power</td>
<td>$1.1 Billion</td>
<td>$1.1 Billion</td>
</tr>
</tbody>
</table>
## Low-Income Market Opportunity

<table>
<thead>
<tr>
<th>Income</th>
<th>Consumer Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $30,000</td>
<td>$849 Billion</td>
</tr>
<tr>
<td>$30,000 - $50,000</td>
<td>$625 Billion</td>
</tr>
<tr>
<td>$50,000 - $70,000</td>
<td>$533 Billion</td>
</tr>
</tbody>
</table>
Geographic Distribution of Minority Owned Businesses

- 20% of Total Firms
- 10%-19.9% of Total Firms
- 5%-9.9% of Total Firms
Emerging Domestic Markets - An International Comparison

US Ethnic Population - $1.3 trillion

USA | Japan | Germany | UK | US Ethnic | France | China | Italy | Canada | Brazil
# Domestic vs. International Emerging Markets

<table>
<thead>
<tr>
<th>Risk</th>
<th>Emerging Domestic Markets</th>
<th>Emerging International Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Risks</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>- Expropriation</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>- Regime Volatility</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>- Legal Contract</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Currency Risk</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Population vs. Market Share

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Firms with Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minority</td>
<td>28%</td>
<td>12%</td>
</tr>
<tr>
<td>Asian</td>
<td>4%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>African American</td>
<td>13%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Venture Capital Backed Firms Put America to Work

Millions of Jobs Created 1970-2001

- Venture Backed: + 7.6 million jobs
- Fortune 500: - 4 million jobs
EDM Firms Grow Faster than U.S. Average

Annualized Sales Growth (1992-1997)

- Asian: 27.9%
- All Minority: 24.3%
- Hispanic: 20.7%
- Black: 17.2%
- All U.S.: 9.8%
Emerging Domestic Markets and International Emerging Markets

The U.S. inner-city retail market is $85 billion, larger than Mexico’s entire consumer market.
Capital Gaps Persist

• According to the most recent SMOBE report, minorities comprise 28.2% of the population. Minority-owned businesses with employees represent about 12% of all businesses with employees.

• African-American and Latino credit needs exceed those of white-owned firms by 25%-77%; African-Americans are 4 times as likely as whites to be denied credit, and Asian-Americans 2 times as likely.

• Minority-owned businesses received just 4% of SBIC dollars, and minority focused private equity firms received just 3.1% of all private equity under management.
EDM Investment Opportunities
At All Stages of Growth

Seed/Angel

Middle Market

Growth Expansion

Mergers & Acquisitions/ IPO/ Secondary Market
Opportunities for Active EDM Investing
Across Asset Classes

- Public Equities
- Fixed Income
- Alternative Investments
  - Real Estate
  - Private Equity
- Cash
Multiple Strategies for Active EDM Investing

• Screening – Positive and negative
• Shareholder Activism
• Targeted Investing
• Responsible Contractor Policies
• New and Emerging Managers
• Principles and Standards
Screening

• Screening portfolios and individual investments
• Absolute vs. best-in-class approach
• Positive and/or negative screens
• Active management vs. index investing
• Wide spectrum of criteria
Public Equities: Performance of the Domini Social Index of Screened Stocks

<table>
<thead>
<tr>
<th>Total Return for:</th>
<th>DSI 400</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>YTD</td>
<td>-2.74%</td>
<td>-2.64%</td>
</tr>
<tr>
<td>One Year</td>
<td>-22.01%</td>
<td>-23.02%</td>
</tr>
<tr>
<td>Five Year</td>
<td>-0.80%</td>
<td>-1.30%</td>
</tr>
<tr>
<td>Ten Year</td>
<td>9.53%</td>
<td>8.97%</td>
</tr>
</tbody>
</table>

As of January 31, 2003
EDM Screening

- Non-discrimination policies
- Diverse workforce, management and Board
- Minority suppliers
- Investments in minority-owned businesses
- Use of minority fund managers
Shareholder Activism

• Corporate Governance: Long advocated by Council of Institutional Investors and practiced by major pension funds

• Social & Environmental Advocacy: Identifies unaccounted-for costs of environmental, labor and reputational risks
Shareholder Activism

Tools for Advocacy

– **Proxy contests**
  - Simplest tool
  - Voting is legally required

– **Dialogue**
  - Conversations with management regarding specific issues, policies or requests for action

– **Shareholder Resolutions**
  - Request for specific actions by Board or management
  - Filed after dialogue on issue has failed to reach consensus
  - May be filed to raise attention, leading to productive dialogue and withdrawal of resolution
Shareholder Advocacy

Tools for Advocacy

– Relational investing
  • Negotiated form – long-term investor; usually have board seat
  • Non-negotiated form – unsolicited; buy shares of underperforming companies to effect change; pension funds may invest in relational firms

– Divestment
  • Withdrawal of ownership in company

– Litigation
  • Last resort of institutional investor
Shareholder Activism

- South Africa divestment campaign
- EMC shareholder resolution on women and minority board representation
- Citigroup shareholder resolution on predatory lending
Fixed Income

• Community Reinvestment Act Qualified Mutual fund
  – Allows investors to direct their money to specific communities and diversify across fund
  – Direct impact investing
  – One year return (as of 9/30/02): 8.79%

• Domini Social Bond Fund
  – Invests in combination of socially screened fixed income securities and debt instruments promoting community economic development
  – One year return (as of 9/30/02): 7.4%
Alternative Investment
Community Investing

• Targeting investments to improving quality of community

• Range of types of investments, such as:
  – Purchase of mortgages for affordable housing rental and ownership (NY City Funds)
  – Forward-rate commitments with reasonable terms to facilitate construction lending in low-to-moderate income areas (NY City Funds)
  – Credit enhancements and loan guarantees to support economic development (CalSTRS)
  – Includes full range of returns, depending on asset class – e.g., CalPERS/CalSTRS goal of 2% of all assets to deploy in California’s underserved communities
Alternative Investment
Targeted Private Equity

- Risk-adjusted market rate of returns
- Direct investments to businesses located in or meeting needs (e.g. jobs, products and services) of geographic areas or underserved communities
- Strategy pursued by CalPERS (California Initiative targets $475 million to underserved markets), CalSTRS ($350 million), NY Common Retirement Fund, NYCERS, Oklahoma Capital Investment Board, City of Philadelphia Board of Pensions, Ohio Public Employees, AOL/Time-Warner
- Investing is long-term – matches long-term investment focus of institutional investors
1990 Alternative Investments in Targeted Private Equity
$550 Million goes to Private Equity Firms that invest in EDM
2000: Alternative Investments in Targeted Private Equity

$3.4 Billion goes to Private Equity Firms that invest in EDM

Federal Government: 19.0%
Corporations: 19.8%
Other: 11.6%
Banks: 17.7%
Public Pensions: 31.9%
<table>
<thead>
<tr>
<th>Venture Capital Investment in EDM</th>
<th>Median Amount of Capital Committed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public pension funds</td>
<td>$55 million</td>
</tr>
<tr>
<td>Fund of funds</td>
<td>$15 million</td>
</tr>
<tr>
<td>Financial service firms</td>
<td>$14 million</td>
</tr>
<tr>
<td>Corporate pension funds</td>
<td>$11 million</td>
</tr>
<tr>
<td>State or local government</td>
<td>$5 million</td>
</tr>
<tr>
<td>Federal government</td>
<td>$4 million</td>
</tr>
</tbody>
</table>
## Funders of EDM Venture Capital Firms

<table>
<thead>
<tr>
<th></th>
<th>Number of Funds</th>
<th>Capital Commitment to Each Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public pension funds</td>
<td>6</td>
<td>$20 - $400 million</td>
</tr>
<tr>
<td>Fund of funds</td>
<td>7</td>
<td>$8 - $25 million</td>
</tr>
<tr>
<td>Financial service firms</td>
<td>14</td>
<td>$1 - $50 million</td>
</tr>
<tr>
<td>Corporate pension funds</td>
<td>6</td>
<td>$4 - $25 million</td>
</tr>
<tr>
<td>State or local government</td>
<td>5</td>
<td>$1 - $20 million</td>
</tr>
<tr>
<td>Federal government</td>
<td>5</td>
<td>$3 - $9 million</td>
</tr>
</tbody>
</table>

*Note: The figures represent the capital commitment per fund.*
Performance of EDM Venture Capital
1989-1995

• Payback
  – % of VC with positive payback: 54.7%

• Internal Rate of Return
  – Mean IRR: 23.9%
  – Median IRR: 19.5%
Characteristics of Successful EDM Venture Capital Firms

- **Capital Commitment**
  - Making investments of $1 million or more

- **Federal Funding**
  - Not accepting SBA funding

- **Level of Involvement with Portfolio Firms**
  - Highly active role in affairs of portfolio companies

- **Size**
  - Smaller sized ($20 million)
Alternative Investment:
Private Equity Blending Institutional and Foundation Investments

- **Bay Area Equity Fund**
  - Invests in profitable growing businesses capable of generating jobs and wealth in 46 target low- and moderate-income neighborhoods in the Bay Area
  - 90% of investments in emerging growth companies, expected to earn market financial returns
  - 10% of fund in patient capital investments in neighborhood-oriented businesses offering measurable social return, expected to earn slightly less than market financial returns
Alternative Investment: Real Estate

- Investments in real estate located in underdeveloped areas, e.g., urban cores and rural regions
- Includes housing, commercial and industrial construction investments
- Examples: CalPERS, CalSTRS, Detroit City Funds, Contra Costa County Employee Retirement Associations
Cash

- Deposits in community development banks or credit unions, or minority-owned banks
Responsible Contractor Policies

• Establishes preference for contractors who provide workers with fair wages and benefits

• Examples: CalPERS, New York State Common, San Diego County ERA, Colorado PERA, New York City funds
New and Emerging Manager Programs

• Attempt to diversify manager base among emerging, including women and minority, managers

• May contract directly with emerging managers, or through manager of managers, e.g. Progress Investment Management Company

• Increasing availability of quality emerging managers: pension funds provide 70% of assets managed by private equity firms targeting minority markets (up from no involvement in 1990)

• Examples: CalPERS Manager Development Program, CalSTRS New and Emerging Managers program, Raytheon’s 5% allocation to emerging managers
Minority, Emerging Money Managers Outperform Peers

Top performers in eight of the 10 stock and bond categories for $14.8 billion Ohio Bureau of Workers Compensation fund

<table>
<thead>
<tr>
<th>Manager</th>
<th>Three Year Return Ending March 31, 2002</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ariel Capital Mgmt.</td>
<td>18.9%</td>
<td>18.8%</td>
</tr>
<tr>
<td>Conning Asset Mgmt.</td>
<td>10.2%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Edgar Lomax Co.</td>
<td>6.7%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>
What are the Challenges to Active EDM Investing?

• Achieving adequate diversification given geographic or demographic limits

• Achieving efficiencies of scale without overexposure

• Identifying proven managers
What are the Misconceptions Active EDM Investing?

- It violates fiduciary responsibility
- It is too time-consuming
- It is too costly
- Lack of competent managers
- Politics always get in the way
- There are no appropriate benchmarks by which to measure performance
10 Steps to Prudent Active EDM Investing

1. Target areas with maximum emerging investment opportunities and collateral benefits
2. Leverage other sources of capital, e.g., foundations, tax credits, government funding
3. Maintain risk-adjusted rates return over targeted time horizon
4. Prudently delegate investment duties
5. Prudently select and monitor managers and advisors
6. Diversify investments and managers
7. Conduct thorough due diligence on investments and identified collateral benefits
8. Compile a thorough paper trail and periodically review to ensure the trustees are acting in accordance with plan documents.
9. Avoid conflicts of interest
10. Maintain active role regarding governance of public and private investments.
What are the Risks of Avoiding Active EDM Investing?

• Investors face declining returns in public equity investments
• Investors face losses in technology investments
• Missed opportunities in undervalued, growing markets
• Missed collateral benefits, which states will have to cover
• Lost opportunities for diversification
• Lost opportunities in long-term investments, which match institutional investors’ time horizon
Why Don’t EDM Businesses Have Access to Capital?

- **Discrimination**
  - Minorities are more often denied credit and pay higher rates for loans, leading many to stop applying for loans for fear of denial.

- **Lack of Information & Communication**
  - Info between and about capital providers and MOB.

- **Lack of Social and Business Networks**
  - Investment into these businesses fosters higher employment and involvement of minorities leading to more networks and more businesses, revenues, capital, buying power, etc.
Why Don’t EDM Businesses Have Access to Capital?

- Lack of standardized products leads to higher transaction costs and small size of deals.
- Lack of allocation of “value-chain” activities leads to inefficiency by small firms and non-participation by large firms. Break up the value chain. Increase specialization among institutions, private equity firms, and related service providers.
- Perception of High Risk
  - Credit Risk
  - Interest Rate Risk
  - Exit Risk
How to Bridge the Capital Gap

- Risk Mitigation
- Partnerships
- Information
- Scalability
- Networks
- Community Banks
- Insurance Companies
- Secondary Loan Products
- Minority Focused Funds
- Financial Innovation
Center for Emerging Domestic Markets

• Milken Institute venture
• Initial funding provided by MBDA
• Develops market-based public policies to increase capital for EDM businesses.
The Haves and the Have-Nots
Asset Ownership

% Share of All Assets

Stocks/Funds
Fin. Secs.
Trusts
Bus. Eq.
Non-Res. Real Est.

Top 1%  Next 9%  Bottom 90%
Rising Wealth, Rising Inequality

1996 US$ Billions

UNITED STATES GDP - L
GINI - R

Rising Wealth, Rising Inequality
90% of Americans Have Just 30% of U.S. Net Worth
CRARFund Advisors, Inc.

• Economically Targeted Investments: Market-rate investments designed to provide exceptional social benefit by meeting the capital needs of underserved groups

• Geographically Targeted Investments: Targeted to meet the capital needs of a specific city, county, state, or region
# Benchmark Comparison

<table>
<thead>
<tr>
<th>Lehman Brothers Aggregate Bond Index</th>
<th>CRA Qualified Investment Fund *</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 1 year: 10.25%</td>
<td>• 1 year: 10.60%</td>
</tr>
<tr>
<td>• 3 year: 10.13%</td>
<td>• 3 year: 9.11%</td>
</tr>
<tr>
<td>• Since Inception: 9.36%</td>
<td>• Since Inception: 8.10%</td>
</tr>
</tbody>
</table>

*Inception Date: 8/30/99, Returns as of 12/31/02
*CRA Qualified Investment Fund returns are net of expenses.
CRADFUND ADVISORS’ INVESTMENT SELECTION PROCESS

Guidelines Of The **Community Reinvestment Act** of 1977: Those investments with community development as the primary purpose, such as community or tribal-based child care; educational, health, social services, or affordable housing targeted to low- or moderate-income persons; or those activities that revitalize or stabilize low- or moderate-income areas.
CRAFund Advisors’ Investment Options

• Taxable Municipal Bonds

• Multi-Family Mortgage Backed Securities

• Single-Family Mortgage Backed Securities

• Asset Backed Securities
Appropriate Investors

- Banks
- Insurance companies
- Private & community foundations
- Pension funds
- Faith-based organizations
- Colleges & universities
- Public funds
- Individual investors
CRA Qualified Investment Fund:

- Symbol: CRAIX
- Daily liquidity/no load
- Average credit quality: AAA
- Dividends paid monthly
- Minimum investment: $250,000
- Geographic targeting

Separate Accounts:

- Minimum investment: $25 million
- Geographic & mission-based targeting
CRA Qualified Investment Fund: Impact & Performance In Domestic Emerging Fixed Income Markets

- 623 affordable health care beds
- 24,560 rental units for low- and moderate-income families
- 1,182 homes for low- and moderate-income families
- More than $41 million in economic development
- 10.60% 1-year total
- 9.11% 3-year annualized
- 8.10% since inception
- Top 8% of Morningstar-ranked intermediate term bond funds
- Top 2% of Lipper investment class
Targeted Taxable Municipal Bonds

Texas State Department of Housing and Community Affairs

- **Coupon:** 7.01%
- **Maturity:** 9/1/26
- **Cusip:** 88275FFA2
- **Credit Rating:** Aa2/A+ (Moody's/S&P)
- **Social Impact:** Mortgage loans and downpayment assistance for very low-income, first-time homebuyers located in rural and border regions of Texas
- **Geographic Impact:** Texas
Targeted Multi-Family Mortgage Backed Securities

GNMA Construction Loan #592443,

- **Coupon:** 6.64%
- **Maturity:** 3/1/44
- **Cusip:** 36201TEY9
- **Credit Rating:** AAA (Implied)

- **Social Impact:** 303 unit low-income, multi-family housing renovation and refurbishment including on-site computer learning centers and “smart building” features where residents can learn computer skills

- **Geographic Impact:** Chicago, IL
Targeted Single-Family Mortgage Backed Securities

Freddie Mac Pool C76858

- **Coupon:** 6.00%
- **Expected Average Life:** 2.6 years
- **Cusip:** 31288FTP9
- **Credit Rating:** AAA (Implied)
- **Social Impact:** 100% of loans for low- to moderate-income families. Average borrower income $31,831
- **Geographic Impact:** Michigan
Targeted Asset Backed Securities

Habitat For Humanity 2001-1 Senior Notes

• Coupon: 5.00%

• Expected Average Life: 4 years

• Cusip: None (Private Placement)

• Credit Rating: Unrated

• Credit Enhancement: GOs of HFH local affiliates (over-collateralized with mortgages) + collateral substitution requirements + debt service reserve funds

• Social Impact: New construction of safe, affordable homes for low-income families

• Geographic Impact: National
Emerging Domestic Markets: The State of African American Business
Crain’s lists the top 169 public companies in Chicago.

None are African American.

Crain’s lists the top 315 private companies in Chicago.

Five are African American. That’s 1.6%.
## Crain’s 2003 Book of Lists

<table>
<thead>
<tr>
<th>Category</th>
<th># of Companies Ranked</th>
<th># of African American Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment bankers</td>
<td>41</td>
<td>1</td>
</tr>
<tr>
<td>Banks</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Venture Capitalists</td>
<td>84</td>
<td>3</td>
</tr>
<tr>
<td>Money Managers</td>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td>Law Firms</td>
<td>33</td>
<td>0</td>
</tr>
<tr>
<td>IT Consultants</td>
<td>35</td>
<td>1</td>
</tr>
<tr>
<td>Accounting Firms</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Ad Agencies</td>
<td>25</td>
<td>1</td>
</tr>
<tr>
<td>Public Relations</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Staffing Firms</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>Construction Contractors</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Insurance Brokers</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Property Managers</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Executive Recruiters</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>Homebuilders</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>449</strong></td>
<td><strong>7</strong></td>
</tr>
</tbody>
</table>
Investment Continuum

Equity → Subord. Loans → Senior Unsecrd Loans → Cash → Guarantees → Cash → Fixed Income → Private Equity → Public Equity

Below-Market Investments

Market-Rate Investments
Bay Area Equity Fund

- JPMorgan H&Q, Fund Manager, part of Bay Area Council’s Family of Funds initiative
- Market-rate venture capital returns while driving social and environmental improvement in the Bay Area’s low and moderate-income neighborhoods
- First close on $45 million in January 2003
- Key strategic approach:
  - Act as bridge between the traditional venture capital community and the community development community
  - Share resources, expand business networks, connect the dots, drive the returns
- In so doing, scale the amount of capital available to entrepreneurs in lower-income neighborhoods and eliminate stereotypes associated with these efforts
CIM Group

- Full service real estate investment and development
  - Acquire, develop and operate multiple mixed use properties in Great Urban Districts
  - Facilitate comparable development by others through equity investment in joint venture structures
CIM Group

- Investors are CalPERS, CalSTERS and CIM
- Discretionary
  - Facilitates timely decision making
  - Public Private
  - Acquisition
  - Joint Venture
Opportunity

• Market acceptance of product
  - Renters and Buyers
  - Meets lifestyle choice and requirements across most economic demographic and race/ethnic profiles.
  - Investors and Lenders.
Opportunity

• **Availability**
  - Transit oriented development
  - Urban commercial strips
  - Recycled Shopping Centers
  - Parking Lots
  - Vacant/Under-utilized office buildings

• **Neighborhood Formation and renewal**

• **Housing Shortages: Demand Stability**
Constraints

- Land cost
- Building cost
- Parking cost
- Archaic standards and procedures
- Industry structure
- Mid market feasibility
Creative Infill Transactions

Downtown Brea
Urban Housing / Community Retail
Birch Street - Brea
Deal Makers

- Transactional flexibility: Why is desired development so often treated as the exception?
- Timely land use administration
- CEQA
- Litigation
- District site based requirements for services/facilities are better provided within a district,
  I.e. parking, open space, community centers…. 
Deal Makers

- Public Private Incentives:
  - Public land disposition
  - Public facility and enterprise land development
  - Redevelopment & Transit facility land assembly
  - Redevelopment financing
  - Community facility district financing
  - Sales, Utility, TOT, Parking district tax increment financing
  - Air rights/long term ground leases
What Can Public-Private Partnerships Facilitate

• Extra ordinary singular project opportunities and concepts
• Increase supply of land for infill/redevelopment
• Close feasibility gap to attract private debt & equity
• Absorb pre-development land carrying costs
• Alignment of interests