

WELCOME

Leveraging Economic Power for Good: A Forum for Public Sector Leaders

POWERED BY



Registration & Networking Breakfast

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WHY THIS EVENT MATTERS

Karim Webb, Webb Investments



Welcome & Opening Remarks

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PROVIDING A BACKDROP AND CREATING A SHARED UNDERSTANDING

Stephen Cheung,
Los Angeles County Economic Development Corporation (LAEDC)

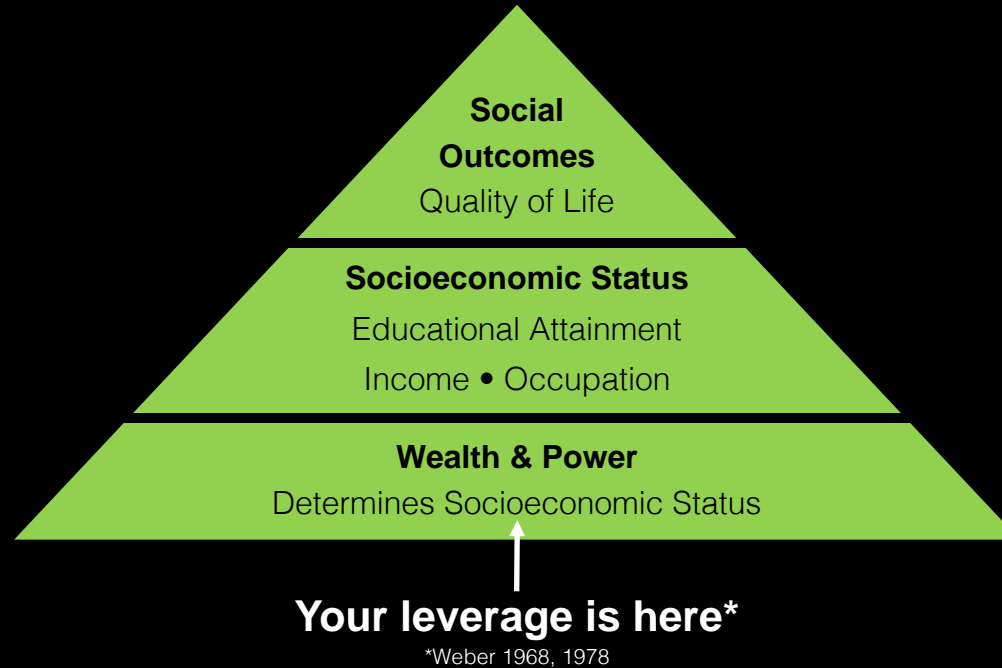


UNDERSTANDING WEALTH CREATION: A MACRO PERSPECTIVE AS A FOUNDATION

Kyle Webb, Webb Investments



SOCIAL OUTCOMES RISE WHEN OPPORTUNITY EXPANDS AND OPPORTUNITY EXPANDS WHEN SYSTEMS ALIGN



- Almost every determinant of socioeconomic status is shaped by decisions made by institutions represented in this room.
- Social outcomes shift when the systems that create opportunity move intentionally towards opportunity.

THE CAPITAL FLOWS YOU CONTROL
DETERMINE WHO THRIVES AND WHERE

\$200 - 300B

ANNUAL REGIONAL INVESTMENT

~50%

Public Sector

\$100-150B

~30%

Anchor Institutions

\$60-100B

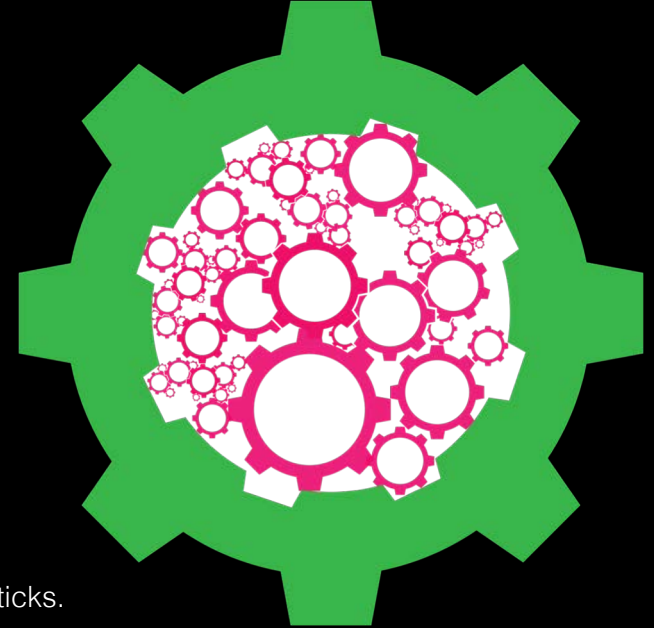
~20%

Private Sector

\$40-60B

- This room influences more capital than any single industry in Southern California.
- Capital is destiny: it decides who works, who builds, and who benefits.
- **When capital isn't aligned, opportunity fragments. When it is aligned, socioeconomic status rises.**

PROSPERITY EMERGES WHEN THE WEALTH CYCLE AND VALUE CYCLE TURN TOGETHER



If Wealth spins without Value, nothing sticks.
If Value spins without Wealth, nothing scales.

Alignment is everything.

ALIGNMENT KEEPS VALUE HOME / MISALIGNMENT CREATES LEAKAGE

Geographic leakage

— value leaves the
region



Intra-regional leakage

— value skips parts of
the region



Participation leakage

— people never enter
the system



ACTION LAB - IMPACT SUCCESS STORIES

Facilitator: Daniel Hewett, Ocular Agency



COFFEE BREAK



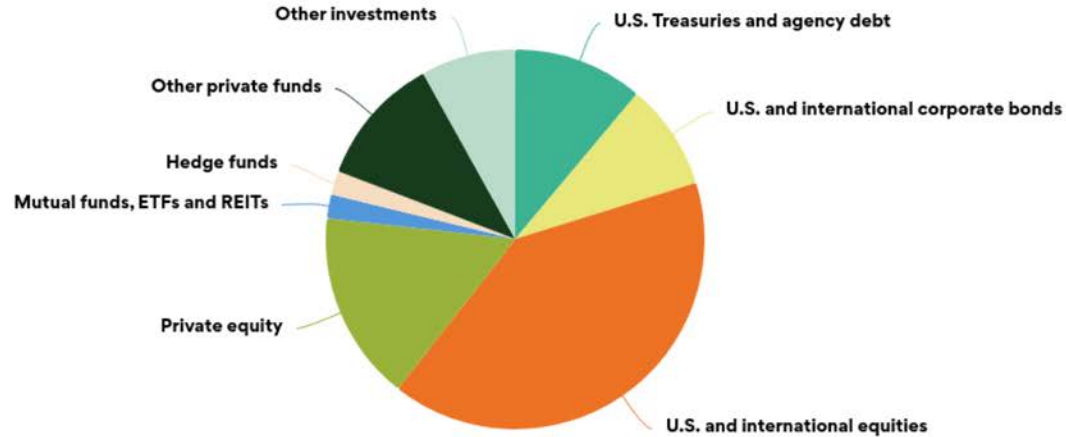
EXPLAINING PRIVATE EQUITY

Kara Hollis, Private Equity Executive



PENSION FUND. WHAT THEY INVEST IN

Large state and local government pension plan asset allocation



Based on the 100 largest public pension plans. Allocation is based on assets, excluding cash and short-term investments, that totaled \$5.47 trillion, as of June 30. Other investments includes directly held real property, directly held mortgages and miscellaneous investments. Doesn't sum to 100% due to rounding.

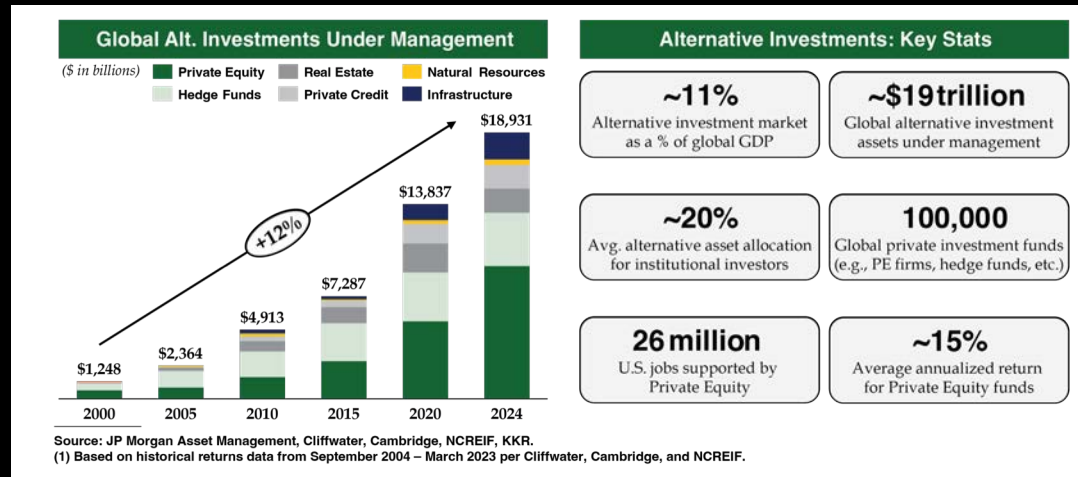
U.S. Census Bureau

WHAT ARE ALTERNATIVE INVESTMENTS?

- Alternative Investments (“AIs”) are assets outside of traditional public equities, bonds, and cash

Types of alternative investments include **private equity, private credit, hedge funds, infrastructure, real estate, and other non-traditional asset classes**

- Alternative investments have expanded from a niche allocation for large institutions to a mainstream pillar of global capital markets



WHAT IS PRIVATE EQUITY?

- Private Equity (“PE”) is a class of equity investments in private companies (i.e., not publicly traded on a stock exchange)
- Private equity fund managers (“General Partners” or “GPs”) will acquire ownership interests in private companies to build a diversified portfolio, hold these portfolio companies for several years, and seek to exit their stakes and return capital to investors via a sale or IPO

PRIVATE EQUITY FUND STRUCTURE

- **Private equity firms are structured into different funds, which are legal entities that hold the portfolio companies**

Raise funds from a variety of investors (“Limited Partners” or “LPs”), including pension funds, insurance companies, family offices, endowments, and funds of funds

Fundraising often takes up to 1-2 years to complete

Investors’ capital is called on a deal-by-deal basis

- **Funds typically last for ~10 years, while each individual portfolio company is generally held for 5 – 7 years**

- **Fund performance is evaluated using multiple different metrics:**

Multiple on Invested Capital (“MOIC”): $\text{Total Value of a Fund} / \text{Total Amount Invested}$

Internal Rate of Return (“IRR”): Compounded annual rate of return on an investment

Distributions to Paid-In Capital (“DPI”): $\text{Capital Returned to Investors} / \text{Capital Called}$

PRIVATE EQUITY – WHAT IS A LEVERAGED BUYOUT?

What is a Leveraged Buyout (“LBO”)?

- An LBO is when a private equity firm purchases a company using a mix of debt financing and equity from investors
- The amount of debt raised depends on market conditions, investor interest, and the company's expected cash flow

What are the Pros and Cons of Using Debt Financing (Leverage)?

PROS:

Amplified Returns: Leverage allows private equity firms to magnify returns by using borrowed capital to acquire companies, reducing the amount of equity needed

Tax Shield: Interest paid on debt is often tax-deductible, lowering the company's tax burden and allowing more of the cash flow to be retained for reinvestment or debt paydown

CONS:

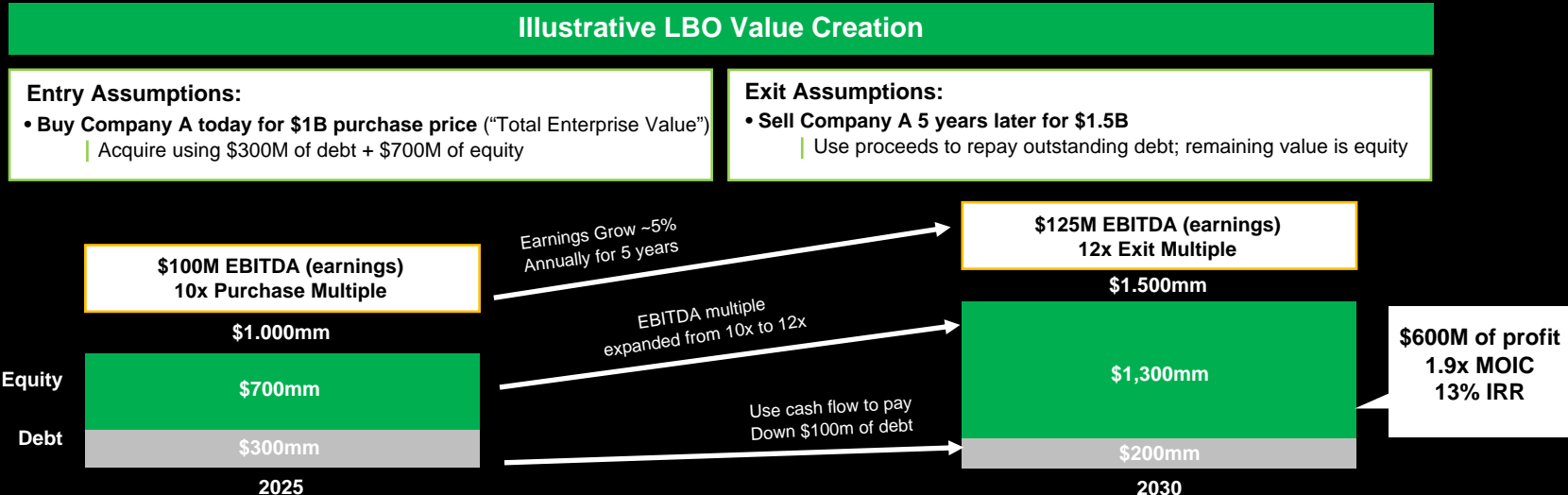
Financial Strain: If a company's performance does not meet expectations, it may struggle to service the debt, which could lead to financial distress or bankruptcy

Reduced Flexibility: Interest payments may limit the company's ability to reinvest in growth initiatives, pursue strategic opportunities, or weather economic downturns

PRIVATE EQUITY – LBO VALUE CREATION

How Are Returns Generated?

- Debt Paydown: The Company uses its cash flows to pay down debt, which subsequently increases the equity value in the business (akin to paying down a mortgage on a house)
- Margin Expansion: Improve profit margins by reducing unnecessary costs
- Multiple Expansion: The company is sold at the end of the investment period at a higher multiple than the private equity firm initially paid
- Earnings Growth: The faster a company grows over the hold period, the larger and more valuable it becomes

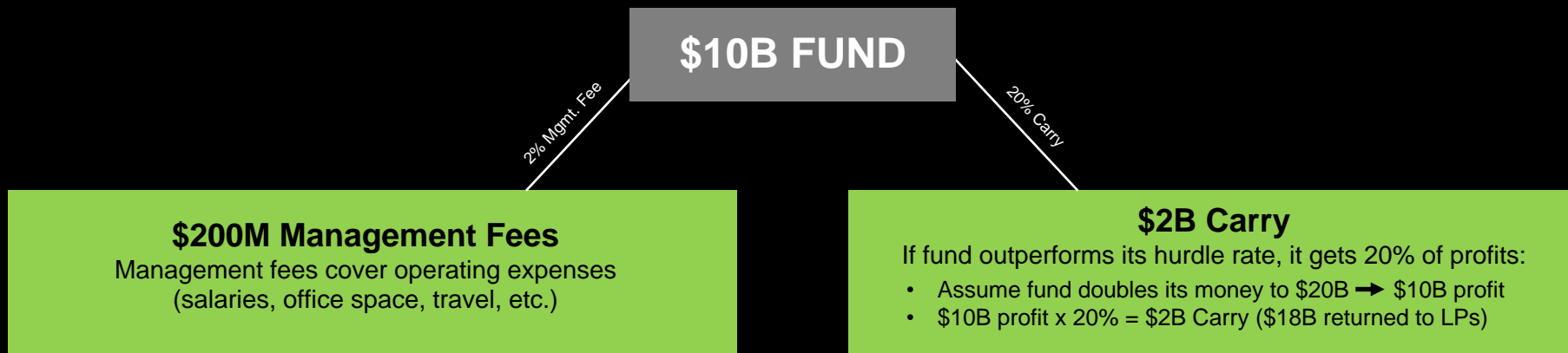


PRIVATE EQUITY – FUND COMPENSATION / FEES

Private equity firms typically receive compensation in a “2 and 20” structure

- **Management Fee:** 2% of Assets Under Management
- **Performance Fee (“Carry”):** 20% of fund profits if a certain return threshold (“Hurdle Rate”) is met (typically ~8% hurdle rate)
 - If the fund does not return the hurdle rate, the PE firm will not receive any carry
 - Carry helps align incentives between the General Partner and the Limited Partners, ensuring GPs focus on generating strong returns for their investors

Illustrative Private Equity Fees



PRIVATE EQUITY – PORTFOLIO MANAGEMENT

- **There are multiple different private equity investment styles, such as:**

- Growth-Oriented: Help businesses with high growth potential continue to scale

- Value-Oriented: Invest in companies that are viewed as undervalued and make operational changes to optimize the business

- **PE firms provide strategic direction to the management teams of their portfolio companies, overseeing long-term objectives, identifying growth opportunities, and making operational improvements**

- In majority buyouts (>50% ownership), the PE firm has board-level control to implement changes to optimize the business (e.g., streamline processes, improve cost efficiency, replace management, etc.)

- When a PE firm has a minority stake in a company, they may take a more passive role

- **Key Characteristics of A Good Private Equity Investment:**

- Talented and experienced management team

- Strong market position and sustainable competitive advantages

- Stable, recurring cash flows to service debt obligations

- Favorable industry trends

- Multiple avenues of future growth (e.g., entering new markets, M&A, etc.)

PRIVATE EQUITY – MANAGEMENT INCENTIVE PLANS

- Portfolio company management teams are given **incentive plans (stock options or performance shares)** that typically represent **~10% - 15% ownership** of the company if certain financial thresholds are met, **incentivizing alignment with shareholders**

Example: Company B is sold for \$4.0B. After paying down \$1.5B of outstanding debt balance, there is \$2.5B of distributable equity value to shareholders

Assume Company B was originally purchased with \$1B of equity & profit of \$1.5B

Assume management has 10% ownership through its incentive plan. The management team would receive \$1.5B profit x 10% = \$150M of proceeds

- In this example, ~350 employees were granted equity through the incentive plan (\$430k average payout per employee)
 - 70 employees earned more than \$1M from the sale, and 300 employees earned more than \$100K
- Management incentive plans can be concentrated amongst C-Suite executives (e.g., CEO, CFO, etc.) or broad-based (provide equity ownership to multiple layers of employees – front office, back office, etc.)
 - Ownership Works is a nonprofit organization that partners with companies and investors to provide all employees the opportunity for wealth creation through broad-based employee ownership



PENSION INVESTMENT LOCAL IMPACT OPPORTUNITIES

Facilitator: Saron Tesfalul, Dragoneer Investment Group

Patrick Jones, Los Angeles County Employees Retirement Association (LACERA),
Malcolm Johnson, Langdon Park Capital



ACTION LAB – GETTING TO YES

Facilitator: Daniel Hewett



Working Lunch

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INTENTIONAL INVESTMENT: UNLOCKING INSTITUTIONAL CAPITAL FOR EQUITABLE GROWTH

Facilitator: Qiana Patterson, Project Wellspring

Ted Chandler, American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), and Ken Simril, Turmont Capital



ACTION LAB – “SAY IT”

Facilitator: Daniel Hewett



GROUP REFLECTION: WHAT'S ON YOUR MIND?

Facilitator: Daniel Hewett



CALL TO ACTION: CALIBRATE + COMMIT

Facilitator: Miguel Santana, California Community Foundation

Martin Muoto, SoLa Impact and Jeff Garcia, Capital Group



Group Reflection

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THANK YOU TO OUR SPONSORS AND SPEAKERS



DANIEL HEWETT | KARA HOLLIS | KEN SIMRIL | KYLE WEBB | MALCOLM JOHNSON
MARTIN MUOTO | MIGUEL SANTANA | PATRICK JONES | QIANA PATTERSON
SARON TESFALUL | STEPHEN CHEUNG | TED CHANDLER

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