American Latinos in Financial Services – Phase I
White Paper

New America Alliance
An American Latino Business Initiative

An assessment of the state of American Latinos in:

- ★ Investment Management Consulting
- ★ Asset Management
- ★ Private Equity
- ★ Brokerage

AMERICAN LATINOS IN FINANCIAL SERVICES – PHASE I WHITE PAPER

OCTOBER 2003

Established in 1999, New America Alliance (NAA) is a 501(c)6 organization of American Latino business leaders united to promote the economic advancement of the American Latino community, with a focus on economic and political empowerment, and public advocacy to improve the quality of life in the United States.

NAA's mission for economic advancement is led by its Economic Capital Committee. The focus of this Committee includes increasing access to markets and capital for Latino businesses, promoting the participation and influence of American Latinos on our nation's corporate boards, expanding participation and influence of American Latinos in federal and state financial institutions, and investing in the higher education of American Latinos in the fields of business and finance.

The Capital, Private Equity and Entrepreneurship Sub-Committee of the Economic Capital Committee is the NAA vehicle used to increase the size of Latino financial services firms (including firms in investment management consulting, asset management, private equity, brokerage, and other financial sectors), promote Latino entrepreneurship, and increase the number of American Latino professionals in financial services.

For further information contact New America Alliance at (202) 772-4158 or visit www.naaonline.org.

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Foreword

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PART I – WHITE PAPER

Foreword:

At the behest of Rep. Charles A. Gonzalez, the New America Alliance (NAA) visited Capitol Hill in March of this year to discuss representation of Latinos in the top ranks of corporate America and access to private capital for Latino entrepreneurs. The NAA briefed Chairman Michael G. Oxley, Ranking Member Barney Frank, and other Members of the House Financial Services Committee on the strides made, and the challenges faced, by American Latinos in their efforts to enter the financial services sector.

The March meeting was the first in what has become an ongoing dialogue between the NAA and Congress. Last month, we hosted a meeting that brought together the NAA and several of the largest financial services trade associations, who share our common goal of increasing diversity in corporate America. Partly as an outgrowth of these meetings, and with the input from financial industry professionals, the NAA embarked on a process of compiling information to provide a better picture of the state of American Latinos in the financial services industry.

This White Paper represents the culmination of the NAA's important efforts. The report highlights the challenges faced by American Latinos in specific segments of the financial services industry, and identifies key constituents who can contribute to address the challenges.

All of us recognize the value of diversity in corporate America and, in particular, the important role of the private and public sectors in fostering diversity. We applaud the New America Alliance for its ongoing efforts and look forward to continuing our work in this area.

Michael G. Oxley
Chairman

Barney Frank
Ranking Member

Charles A. Gonzalez
Member of Congress

Luis Gutierrez
Member of Congress

Nydia Velázquez
Member of Congress

Rubén Hinojosa
Member of Congress

Joe Baca
Member of Congress

Ginny Brown-Waite
Member of Congress

Preface: A New Ethos

New America Alliance (NAA) is committed to promoting the economic advancement of the American Latino community. The Alliance is organized on the principle that American Latino business leaders have the responsibility to lead the process of building the forms of capital most crucial to Latino progress – economic capital, political capital, human capital and the practice of philanthropy.

In recognizing that economic prosperity is at the center of our agenda, this report marks the commencement of a *New Ethos* for American Latinos: the commitment to work together towards achieving greater participation in the financial services industry. But, before we set out to ask organizations to support our agenda, we need to ask *what we as a group can do for each other.* We have an opportunity – to lead by example and leave to our children an unheralded legacy of cooperation and support among Latino-owned firms.

We would like to take this opportunity to ask each NAA member to commit to this *New Ethos* — *an ethos* whereby every Latino will strive to open opportunities for Latino owned firms. This *ethos* sets the foundation for wealth-building in the American Latino community, and ensures that Latinos participate in building the economic vitality of our nation.

Moctesuma Esparza
NAA Chair of the Board

Jorge Castro
NAA Chair of Economic Capital

Maria del Pilar Avila
NAA Executive Director

Introduction

The engines of economic advancement run on free access to capital and financial markets. While increased visibility and involvement of Latinos in the social, economic and political arena is evident, participation in the financial services industry continues to lag.

This White Paper is part of an ongoing series of reports that New America Alliance will publish about the trends and issues affecting American Latinos in financial services. By studying the current realities and anticipating future conditions, these reports will seek to provide the strategic planning and the tactical decision-making elements to:

- Increase the participation of American Latino financial services firms in the management of investments at public pension funds, corporate America and the institutional investor community
- Increase access for all Latino financial services providers and
- Participate in developing future American Latino financial executives

The intent of this White Paper is to:

- Highlight challenges faced by American Latinos in the investment management consulting, asset management, private equity, and brokerage financial sectors
- Identify key constituents and agents of change who can help resolve these challenges
- Raise awareness on these issues among key agents of change and
- Support American Latino financial firms in the development and implementation of action plans that will provide them increased participation in the market.

Today, American Latinos[1] represent almost 14% of the U.S. population with 38 million individuals, representing the largest minority in the country. According to the U.S. Census Bureau, one in four Americans will be of Latino descent by the year 2050.

Of the more than 9,000 banks and thrifts in this country, only a handful is majority-owned or managed by American Latinos. There is only one investment management consulting firm, and no more than 30 asset management firms, 5 private equity funds, and 15 brokerage firms that are Latino owned. Furthermore, Latino majority-owned institutions continue to struggle to find adequate access to public and private pension funds, and minority procurement programs at major corporations have typically not included financial services. Many public pension funds have not established or have not enforced emerging financial services provider programs. These are issues that NAA is addressing.

Our challenge is to demonstrate that we can compete effectively and provide the highest quality of services. There are numerous examples of markets throughout Latin America and Puerto Rico that attest to how Latinos can successfully compete in the financial sector.

The action plans proposed in this White Paper are the collective conclusions of all the participants. The collaborative development of this White Paper demonstrates unprecedented teamwork in the Latino financial services arena. Our goal is to continue to strengthen and promote collaborative efforts, information sharing and network building.

The challenges ahead are many. Our next steps will be to develop a detailed strategic plan to implement the action plans and policies of the NAA based on Phase I findings,

and to complete Phase II of this White Paper. To that effect, we have been meeting monthly with the NAA members and together we are building consensus and working together as a team.

I wish to recognize the great expert contribution and diligence of my fellow colleagues, the Task Force Leaders of Phase I - Myrna M. Rivera Cardona, Margarita Perez, Hilda Ochoa-Brillembourg, Marcos A. Rodriguez, Victor L. Maruri, Martin Cabrera, Jr., and Robert G. Rodriguez. They studied the surveys submitted in their financial sectors, lent their expertise, analyzed the information and developed their sections by capturing the most significant challenges, constituents and proposed action plans that emerged from the Phase I surveys.

I especially wish to thank the NAA Board, NAA Chair of the Board Moctesuma Esparza, Executive Director Pilar Avila, and NAA Chair of Economic Capital Jorge Castro, for their great leadership, their continued support and their valuable contributions to this project.

The creation of this report demonstrates that by working in unison we can achieve what none of us would be able to accomplish on our own.

It has been an honor and a great pleasure to lead this team effort, and I hope that the hard work of all those who participated in this process will translate into greater access and participation of American Latinos in the financial services industry today and moreover, in helping shape the financial services industry of the future.

Monika Mantilla Garcia
Project Director, White Paper: American Latinos in Financial Services
NAA Co-Chair, Capital and Private Equity Sub-Committee

[1]The term "American Latino" refers to individuals of Latino descent residing in the United States and it is used interchangeably with the term "Latino."

White Paper Structure and Methodology

Phase I presented in this document covers the following financial services areas:

- Investment management consulting
- Asset management
- Private equity funds
- Brokerage

The process included a data collection phase where an extensive survey was conducted (see appendix B) of the New America Alliance membership in financial services including 35 firms, one association and two non-profit organizations. Following the collection of surveys, Task Force leaders were appointed to each financial service sector. Task Force leaders developed an industry description, analyzed the surveys from their financial services fields and consolidated them into a written format that serves as the foundation of this White Paper.

As of today, and under the leadership of Project Director and Capital Committee Co-Chair Monika Mantilla Garcia, 62 individuals (including financial services and non-profit leaders, other professionals and MBA students) and 40 organizations have come together to unite their minds, to share experiences and major challenges, to identify key constituents, and to propose action plans to achieve increased market participation.

Phase II will entail completion of the data collection and analysis for the remaining six financial services fields:

- Accounting
- Commercial banking
- Investment bank and securities distribution
- Real estate investments
- Retail financial services
- Think tank, Latino economic mobility

Section I: Investment Management Consulting

Task Force Leader: Myrna M. Rivera Cardona, Consultiva Internacional, Inc.

Sector Description

An investment management consultant is a firm or individual specialized in facilitating decision making on a variety of issues pertaining to the investment of a pool of assets, such as:

- Determining a portfolio's appropriate growth requirements
- Identifying the risks inherent in pursuing such growth and the methods by which such risk should be managed

The client is typically a board of trustees or an individual with the fiduciary responsibility to conduct such decision making in the best interest of beneficiaries, while defraying costs, and with the care, skill, prudence and diligence of an expert. Such clients include public and corporate pension funds, endowments, foundations, insurance companies, unions and individuals.

According to Nelson[2], there are 185 investment management consulting firms providing traditional services to pension funds in the United States and 1,491 plan sponsors with assets of $100 million or more. Nearly 500 sponsors are public funds, of which nearly 80 percent employ the services of investment consultants. Investment management consulting is approximately a billion dollar business, with over $150 million in revenues derived solely from public funds.

Often referred to as the "gatekeepers" and lead advisors to a board, investment management consultants are the "architects" in the financial services space, relating to portfolio managers, broker/dealer firms and custodians in much the same way that skilled architects relate to contractors, craftsmen, suppliers and manufacturers.

Boards and private investors will hire investment management consultants because they provide cost-effective access to expertise not available within their organization. Such expertise may include:

- Experience
- Technology
- Research
- Access to information and best practices
- Continuity and institutional memory

Typical procedures facilitated by investment management consultants include:

- Determining investment objectives
- Setting asset allocation
- Designing investment policies and guidelines
- Evaluating and selecting investment managers and custodians
- Facilitating manager transitions
- Continually monitoring performance against objectives, market benchmarks and established polices and guidelines

Investment management consultants can be hired either as a "full-service" or on a project basis.

Challenges

Challenge #1: Minimal Participation of Latinos in the Industry

As the perceived gatekeepers in fund management, consultants are the front-line of communication between the board and other investment professionals - custodians, investment managers, broker/dealers and investment bankers. As such, credibility and integrity are essential. For this reason, it is imperative to consolidate and support Latino owned investment management consultants with the appropriate credentials and capabilities. Once Latino investment management consultants are in place, they can become the bridge between institutional investors and Latino asset managers and broker/dealers.

American Latino presence in the consulting industry has been minimal in the continental United States. Only one firm is known to be Latino-owned, Consultiva Internacional, Inc., which emerged from the spin-off of a self-funded practice inside a broker-affiliated consulting division of a major U.S. firm.

Challenge #2: Access

Consulting is a business based on relationships. While technology and process are key components, a successful consulting relationship hinges on the person. Consultants must be able to establish credibility and trust at the management and board decision-making levels.

The principal challenge for any Latino consulting firm is ACCESS. This challenge impacts Latino firms in three ways:

[2] Nelson Information's 2001 Pension Fund Consultant Survey.

Perception is Reality:

a. American Latinos are not viewed as value-added providers of investment services, largely because Latino talent in this field is not clearly evident.

Investment management consulting is not part of the diversity initiatives:

a. Few Latinos are hired inside the investment department.
b. Few Latinos are appointed to boards of trustees, even when constituency merits presence.
c. Few concrete mandates and hiring standards are in place for hiring minority advisors.
d. Few "special" and "emerging managers" programs exist at large public pension funds. These special programs are vehicles used by public pension funds to ensure that new and/or minority managers have a chance to prove their capabilities and to introduce diversity in the management of funds. This is an area where Latino consultants can add much value because they have the dedication and the willingness to conduct due diligence, monitor and nurture emerging firms, a task that many times a large consultant is not willing to do.

Overcoming embedded relationships:

a. Traditionally in the hands of a closed inner circle of large firms, these embedded relationships underscore the slow inroads American Latinos are making to impact the old and embedded relationships that dominate pension boards and executive management.

Key Constituents/Agents of Change

Public Funds

The key agents of change are the governing bodies: elected officials, appointed officials, and appointed trustees. The key participant in the dialogue for hiring consultants is the board of trustees. In the case of public funds, trustees often serve by official appointment. Often the hiring of consultants goes through a confirmation process through the state legislature. Where there is a union involved, the board composition might include management and labor representation.

Corporations

Depending on the governance structure, the decision makers in corporations are the CEO, the CFO, the CIO and perhaps, the board.

Action Plan

1. Public, quasi-public and corporate pension funds should use Latino investment management consultants to establish or increase policies and special programs for minority and emerging managers. By creating these programs, many of the access challenges that Latino asset managers and broker dealers face can be resolved.
2. Public, quasi-public and corporate pension funds should consider creating special staff positions to promote emerging minority/Latino participation in the investment department.
3. Legislators need to determine **where** the assets of the Latino community are, **how** they are managed, and **what** the governance is around those decisions. Once they gather this information, in each one of the States, they will have the instruments to introduce or enforce diversity initiatives. Latino investment management consultants can become a key source of education, training and preparation for new Latino fiduciaries and legislators. To collect this information, we suggest that state legislators, especially those in states with the largest Latino populations, conduct a study or a series of hearings at the state level. Specific suggested questions are:

Demographics

- How many public funds are there in the state, county, city retirement systems and public welfare funds?
- How many participants are Latinos?
- How many Latinos are in the district?
- How much of the tax base of the district is derived from Latino families and individuals?

Governance

- Does a governing body exist at the state level that regulates or is there a fiscal agent for all public funds in your state?
- What size assets do these funds have?
- How many trustees are there? How were they appointed?
- Who chairs?
- Who is the CIO? How was he/she appointed or elected?
- What is the governance surrounding tenure?

Asset/Liability Management Structure

- Does the fund have a consultant? Who is the consultant?
- Who are the investment managers?
- Who is the custodian?
- Is there a commission recapture program in place?
- Can they provide a copy of the investment policy?
- Can they provide a recent actuarial report?

Diversity Initiatives

- What diversity, minority, and Latino initiatives or mandates are presently in place?
- How are they implemented? Who advises on implementation and monitoring?
- Who monitors the process? How do you measure success?

Section II: Asset Management

Task Force Leaders:
Margarita Perez, Fortaleza Asset Management, Inc.
Hilda Ochoa-Brillembourg, Strategic Investment Group

Sector Description

Asset management is the process of managing money with the objective of producing a desired return over a given time horizon. Worldwide, the asset management industry represents approximately $20.4 trillion of which $13.2 trillion, or 65 percent, represents institutional assets. The U.S. portion of tax-exempt institutional assets represents $7.2 trillion[3]. Growth in assets is driven by two variables: 1) total return from investing the assets, and 2) new contributions. For most of the decade of the '90s, growth came from investment returns. This growth afforded investors rich and often over-funded plans. In the current decade, the markets have not been as friendly and institutional plan sponsors have had to resume making contributions to their pension plans.

Unfortunately, this coincides with an economic environment that already is under duress and revenue-challenged. As a result, much attention is being redirected back to the oversight and management of these asset pools, heightening the importance of prudent fiduciary governance and expertise.

This overview will focus on the institutional assets, i.e., those sponsored by government, public organizations, corporations, unions, and others. In particular, the emphasis will be on pension assets. The sponsoring entities are often referred to as "plan sponsors" and their pools of assets called "plans."

Usually, the asset management process begins with an asset/liability study to assess the plan's specific situation. Many factors are considered in such a study including risk tolerance, the demographics of beneficiaries, the plan's assets and liabilities, regulatory constraints and tax issues. The study will provide an expected total return on assets that is deemed necessary in order to meet the pension liabilities. Next, an investment policy statement that delineates the plan's return objectives and risk tolerance is created. Further, an asset allocation appropriate to meet the plan's return requirements is devised. A typical asset allocation mix will include stocks, bonds, real estate, and alternative investments such as hedge funds and venture capital. Not only will the asset classes be outlined, but also tolerated ranges of exposure and benchmarks for evaluation. A study of the largest U.S. pension funds reveals an average asset mix which generally favors stocks over bonds and bonds over alternative investments.

Once the investment policy statement is completed and the asset allocation mix defined, the next step is to determine the strategies to implement the allocation and select the managers to execute it. The number of strategies available is vast, but for simplicity they include considerations such as:

- Active vs. passive
- Value vs. growth
- Large capitalization vs. small capitalization
- U.S. vs. international
- Government bonds vs. corporate bonds
- Developed markets vs. emerging markets

An active management approach should be based on informed and independent judgment. It is generally more focused on specific niches in the market where there are perceived inefficiencies, such as small capitalization stocks, high yield bonds, international equity and various forms of alternative investments. Passive management is often employed where there is deemed less opportunity to add value, or where the asset pools are so large there is concern regarding capacity in active management.

Investment managers are selected based upon their expertise in the respective strategies. Selection is based upon both qualitative and quantitative criteria, either of which can drive success or failure – so both are important.

There is a large number of investment management firms, some quote as many as 5,000. Thus, the manager selection process is data and labor intensive, and it is as much an art as it is a science. Active investment managers charge higher fees than passive investment managers. Theoretically, this higher fee is in exchange for higher returns. Similar to the trade-off between risk and return—greater risk should yield higher returns; there also exists a trade-off between total expected returns and management fees.

Lastly, another dimension for the plan sponsor to consider is whether the assets should be managed internally or outsourced to external investment managers. Generally, only the larger plans can afford to have in-house investment professionals to manage the plan's assets. Large plans with a meaningful allocation to passive investing may actually find it less costly to manage their assets in-house.

These decisions are generally the result of a consen-

[3]Pensions & Investments Largest U. S. Money Managers, 26 May 2003.

sus of the governing board and/or a fiduciary. In the case of public funds, the board generally consists of five to ten trustees. A high-ranking public official such as a governor, mayor, or county president appoints a certain number of these trustees. In corporations, there is an investment committee that is headed by a member of the corporate board of directors, such as the chief financial officer or treasurer. This investment committee or board of trustees is the ultimate fiduciary or "prudent expert" entrusted with the plan assets. These experts ensure that the assets are managed prudently for the benefit of the plan beneficiaries.

These groups of fiduciaries may or may not utilize the services of a pension consultant. Consultants may be retained to assist in all matters, or they may be retained solely for projects. Used by approximately 60-70 percent of the institutional plan sponsors in the U.S., consultants play an important role in supporting the boards of trustees and investment committees. Consultants offer helpful advice; however, they are not fiduciaries and therefore are not accountable to the plan participants. Consequently, fiduciaries must take great care in assuming personal responsibility for understanding proper governance and the asset management industry. Investment management consultants can play a key educational role in helping fiduciaries understand their roles and responsibilities.

Challenges

The surveys of American Latinos in the asset management industry provide an interesting picture of the challenges faced by Latino money managers across the U.S. The individuals interviewed for the survey, some employed by large institutions but most of them entrepreneurs, represent a wide spectrum of asset management firms. All in all, they provided interesting insights into the challenges they face and offered their opinions regarding how to break down some barriers.

Challenge #1: Size

Among the various challenges cited, size is the most critical issue. For a manager to be considered a viable player in the $7.2 trillion institutional (tax-exempt) fund arena, size- in terms of assets under management- is crucial. What constitutes a viable player? The consensus is a minimum base of assets under management of $250 million to $300 million. However, such an asset base may not satisfy the biggest pension plans such as California Public Employees' Retirement System (CalPERS) and New York State Common. Such large plan sponsors prefer to have a "manageable" number of investment managers and place large amounts of monies with their chosen managers.

A smaller asset manager presents the question of how big the allocation should be, particularly when most plan sponsors prefer not to represent more than 20-25 percent of a firm's assets under management. Regardless of whether or not the minority or women-owned firms achieve critical mass, size will continue to be an issue when competing against mega-size peers that have assets ranging from $10 billion to over $500 billion. In fact, the top 100 U.S. money managers control about 83 percent of the $7.2 trillion in U.S. institutional tax-exempt assets, with the top 20 firms alone controlling 48 percent. These mega-size firms are formidable competitors with deep financial resources, large marketing departments, multiple product offerings and, quite often, significant political clout.

In addition, within the minority and women-owned asset management firms, there are a handful of firms that have achieved the mega-size status making them more "palatable" to the larger plan sponsors. These mega-size firms have an edge and, consequently, will continue to grow larger in size.

Challenge #2: Consultants

Consultants, who play a critical role in the asset management industry, are the second most cited barrier to entry into the institutional pension fund arena. Sixty to seventy percent of institutional pension funds use consultants in various roles, such as educator, advisor (in relation to asset mix), and manager of the selection process of asset management firms. Consulting firms have also become large institutions themselves. Therefore, size again becomes an issue for the smaller asset managers with limited marketing budgets.

Even for asset management firms that have broken the size barrier, the fact that consultants tend to give an unfair advantage to firms they have worked with in the past presents a challenge. In addition, consultants tend to focus on the firms that have a longer track record (more than five years), and as a result new entrants into the asset management industry face this additional challenge. Moreover, some survey participants felt that there seems to be a level of prejudice against minority managers in the consultant community. This means that unless instructed to do so, consultants will not willingly meet with minority managers.

Challenge #3: Access to Key Decision Makers

The third most often cited challenge is access to key decision makers, whether it is a corporate or public

fund. In the corporate arena, there seems to be less sensitivity for diversity among providers of financial services, even within firms that have a publicly stated diversity policy. Public funds have a better track record of working with minorities. It is of the utmost importance that consultants understand and share their clients' interest in working with emerging managers.

Key Constituents/Agents of Change

Corporations
In corporate America, more often than not, there is an investment committee structure with at least one member who is a senior corporate officer, such as the chief financial officer or treasurer.

Public State, County and City Funds
Almost all the public funds are governed by a board of trustees and have an executive director who reports to the board. The make-up of that board is often controlled by a high-ranking government official, by labor, management, or all of the above. The way public pension funds are governed has an impact on investment strategies and how assets are invested.

Foundations, Endowments and Union Funds
These funds also represent a large pool of assets and have been difficult for minority and women-owned firms to penetrate.

Among all these constituents, there is one common element – the consultant. As stated earlier, 60-70 percent of institutions use them and, often times, as the first line of defense or gatekeeper.

Action Plan

1. Increase awareness

There is a need for American Latino representation in the management of pension fund assets. Fewer than twenty Latino asset managers were identified during this survey. The aggregate assets under management for these firms amount to approximately $28.8 billion, which is less than a half percent of the $7.2 trillion in U.S. institutional tax-exempt assets. Furthermore, only one Latino firm was identified in the top 100 U.S. asset managers. State and local legislators throughout the country must be made aware of this deficiency, particularly those states with a large American Latino population.

Legislators can influence favorable policies not only within their respective public funds but also in the private sector. The reach of the legislator goes beyond the public fund level since many corporations seek favorable legislation and/or business within the states they reside. This presents an opportunity for legislators to encourage corporations to apply the same best practices they currently use for procurement to the asset management of their pension plan.

2. Suggestions for legislators with regard to hearings

Hearings were the most cited action plan for legislators. Executive directors, trustees, and consultants should be invited to hearings.

Questions to ask:

- What is the level of participation of minority and women-owned firms in their respective fund? How many are Latino?
- How much does each of these firms manage and what percent of the total pension fund does it represent? What is the percentage managed by Latino firms?
- What is the total amount of fees being paid for asset management? Is the fee structure used to pay minority and women-owned firms the same as the fee structure used to pay the larger and established firms? What percent of fees goes to minority and women-owned firms?
- Who are the trustees or members of the investment committee? Is there Latino representation?
- Who is the consultant? What has been the consultant's track record relative to inclusion of minority and women-owned firms?

Once the hearings are conducted, public funds should be given specific guidelines that should facilitate the inclusion of Latino firms in the asset management teams. In recent years, pension funds, such as CalPERS and the Ohio Bureau of Workmen's Compensation (BWC), have established programs focused on doing more business with minority and women-owned firms as well as with other small or developing asset management firms. These programs have been successful and, in the case of Ohio BWC, a study has been published which attests to the success of the program with no compromise in investment results. Other states need to become aware of these efforts and implement more of these programs as well.

3. Appoint More American Latino Trustees

There is a need to increase Latino representation on the boards of trustees of the various public pension funds. The same is true at the executive director level. Legislators do have control over some of the appointments and should exercise that control.

4. Conduct Annual Reviews

Public funds, as well as corporations, should be held accountable for how they invest pension assets for their employees. At a minimum, funds should report on an annual basis the progress they have made to include Latino asset managers as part of their diversity efforts.

In closing this chapter, let us state that the asset management industry provides both opportunities and challenges for existing participants and new entrants. The size of the industry is large—over $20 trillion worldwide and $7 trillion in U.S. tax-exempt institutional assets— but the monies are concentrated in the hands of a few firms. From the fewer than twenty Latino asset managers identified during this survey, only one Latino-owned firm has penetrated the Top 100 List of U.S. Asset Managers. This highlights the need for more Latino representation in the asset management industry and most importantly, the need for existing Latino firms to achieve critical mass. State and local legislators can serve as key agents of change, conducting hearings among the constituents, including consultants, and developing action plans.

New America Alliance can also serve as a key agent for change. In addition to working with state and local legislators to raise awareness of these issues, it can play a major role in educating pension boards and making them aware of Latino firms. New America Alliance can also serve as a conduit for asset managers to the corporate CEOs who have great impact on the diversity of their pension plans.

Section III: Private Equity

Task Force Leaders:
Marcos A. Rodríguez, Palladium Equity Partners, LLC
Victor L. Maruri, Hispania Capital Partners, LLC

Sector Description

Private equity describes a broad range of venture capital investment activities undertaken by institutional and private investors. It may involve the provision of venture capital to start-up companies or businesses as well as buyouts.

The private equity market has experienced unprecedented growth during the past decade. At the beginning of 1991, private equity firms raised just $8 billion from individual and institutional investors. By 2000, private equity firms succeeded in raising more than twenty times that amount, $180 billion, on the strength of double-digit investment returns through much of the decade. However, the recent decline in the overall economy and lower transaction volume has made capital difficult to deploy. The private equity industry overall has suffered over the last five years as the public equity markets retrenched. Many large pension funds have decreased their allocation to private equity and/or the number of managers they work with. This dynamic has negatively impacted fundraising as evidenced by the development of new funds in 2001 of only $82 billion and 2002 new funds of only $31 billion.

The companies that private equity firms finance span the spectrum of technologies from cutting-edge medical and Internet start-ups to established old-line manufacturing companies. They include service companies such as retail stores, health care management companies, money management firms and similar businesses. The common denominators are sophisticated financial investors, highly motivated owner-managers, and the opportunity for both to earn exceptional investment returns.

Types of Private Equity Investments

Leveraged Buyouts

Leveraged buyout (LBO) firms specialize in helping entrepreneurs finance the purchase of established companies. The approach of such firms is to provide a management team with enough equity to make a small down payment on the purchase of a business, and then to pay the rest of the purchase price with a loan. The assets of the company are used as collateral for the loan, and the cash flow of the company is used to make interest payments and pay off the debt. Today, to earn an attractive return on their investment LBO firms must build value in the companies they acquire. Typically, they do this by improving the acquired company's profitability, growing the acquired company's sales, purchasing related businesses and combining the pieces to make a bigger company, or some combination of these techniques.

Venture Capital

Risk capital for starting, expanding and acquiring companies is critical for any economy to grow. During most of the history of the United States, the market for arranging such financing was fairly informal, relying primarily on the resources of wealthy families. After World War II, the system started to change. Specialized investment management firms were formed with the specific purpose of financing start-up companies launched by entrepreneurs. Today, an estimated 900 venture capital firms in the United States raise outside capital from individual and institutional investors to finance their activities. Most are quite specialized, often investing in a single field, such as telecommunications or health care, and often only in one part of the country, such as the San Francisco Bay area. Venture capital firms also tend to specialize by stage of investing.

The advent of the Internet as a new medium for personal use, business communications and commerce created an avalanche of opportunities for venture capitalists in the mid- and late-1990s. As a result, the industry has experienced extraordinary growth in the past few years, both in the number of firms and in the amount of capital they have raised. In 2000, for example, 636 venture firms raised $106.2 billion for new investments, a 73 percent increase from the $61 billion raised the year before. Given the unfortunate experience with Internet investing, the number of firms and the amount of venture capital raised has significantly declined. In 2002, only 145 firms managed to raise $8 billion in new capital— less than 10% of new funds raised in 2000.

Mezzanine Debt

Mezzanine debt provides a middle level of financing in leveraged buyouts — below any loans obtained from commercial banks and above the equity investor. A typical mezzanine investment includes a loan to the borrower, in addition to the borrower's issuance of equity in the form of warrants, common stock, preferred stock, or some other equity instrument. Mezzanine investments have been used extensively to help fund the purchase and recapitalization of private, middle-market companies.

Fund-of-Funds

For many reasons, investing directly in private equity funds can be difficult — particularly for individual investors and small institutional investors. Information about the performance of private equity managers is hard to obtain. Gaining access to what are perceived to be the top-performing venture capital and LBO funds is problematic, since the fund managers often have more demand for their funds than they can accommodate. Finally, the relatively high investment minimums that fund managers generally require – $20 million is not uncommon for a large LBO fund — make it challenging for a small institutional or high-net-worth investor to gain sufficient diversification.

For these reasons, private equity fund-of-funds have grown rapidly in popularity during the past few years. The fund-of-funds manager aggregates the investments of many small investors into a single pool, and then uses it to assemble a portfolio of private equity funds.

Latino Presence in Private Equity

New America Alliance conducted a survey of five Latino-owned equity firms of which three are actively investing. All six manage LBO firms based in the U.S. We estimate that Latino-owned private equity firms have aggregate available capital for investments of less than $500 million, thereby controlling less than 0.5% of the funds available for investments in the buyout industry and less than 0.2% of the funds available for investments across private equity overall (see chart below). We could not identify any Latino-owned private equity firms managing a fund larger than $250 million. Based on this information, as a group, Latino-owned firms are grossly underrepresented in private equity sector and appear to be significantly underfunded.

Funds Size	Overall # of Funds	Latino-Owner/Run Number	%
> $1bn	70	0	0
$500-1bn	49	0	0
$100-$500mm	105	<5	<5%
Total - # of funds	224	<5	<2.5%
Total - Capital Available	$122bn	<$500mm	<0.5%

Source: SDC Private Equity Study and NAA Private Equity Survey

Challenges

Challenge #1: Raising Capital

The biggest challenge for Latinos in private equity remains raising capital. Institutional investors and their advisors demand a series of criteria/requirements of fund managers, some of which represent significant barriers for Latinos.

Such criteria include a proven track record. To have a proven track record, a manager must have invested and realized a return on fund investments with top quartile performance when compared to peers. This is generally a 5-10 year process that involves:

- A cohesive team that has a demonstrated history of working and investing together
- A significant contribution of capital (1-5%) by the fund managers. For example, a 5% capital contribution to a $200 million fund represents $10 million of personal investments by the fund managers.
- A valid, defensible investment thesis and the ability to source investment deals. This factor can influence Latino managers to define/limit their strategy or fund size resulting in small and/or regionally focused funds.

Few Latino private equity managers meet all the requirements established by institutional fund managers and their advisors. In addition, the role and influence that gatekeepers have as advisors to pension funds has increased, making it even more difficult for Latinos to break through. Most pension fund consultants and other advisors to the private equity industry are privately owned partnerships with negligible Latino participation.

To raise capital in private equity and build firms with sufficient scale Latinos will need explicit help from the state and other public pension funds. This assistance should come in the form of dedicated programs such as the ones developed by California Public Employees' Retirement System (CalPERS) or California State Teachers Retirement System (CalSTERS) that attempt to compensate for emerging managers' relative lack of relationships among sources of capital in the industry such as banks, insurance companies, endowments, private pension funds, and others which provide more than 50% of the total capital in private equity. Other than Community Reinvestment Act programs run by banks, most non-public pension funds currently have little incentive to promote Latinos in private equity.

Challenge #2: Performance/Perception

The second challenge for Latinos in private equity is that the market does not generally perceive of them as capable of investing their funds wisely, generating attractive returns and being value-added investors.

A possible reason for this unfavorable perception about minority performance may be the relatively less successful performance of the early (pre-1990) Small Business Administration (SBA) programs. The historical performance has made it more difficult for minority firms to raise funds, compete for deals and attract talented management teams. While there is no data available specifically on the performance of Latino-run private equity funds, there is a perception in the market that investing in minority-run funds is only a social responsibility endeavor.

However, according to a recent study by the Kaufmann Foundation, minority-run venture capital firms have generated 24% annual average return versus 20% for the comparable benchmark of the overall market. Clearly, minority-run firms offer more than a socially responsible outlet for investing.

Challenge #3: Training and Promoting the Next Generation

Perhaps the most striking issue facing Latinos in private equity is not the current lack of Latino-owned funds and managers, but the lack of representation by Latinos as principals in other funds or as investment professionals overall. There is a thin pipeline in place to produce the new generation of Latino private equity fund managers. Eighty-two percent of the fund managers across the industry are privately owned, relatively small partnerships which are generally tightly controlled by the founding partners/team and may not have interest in promoting Latinos. Private equity is one of the few remaining bastions of the "private club" mentality in the United States. Latino private equity managers need to work together to ensure that the current and future generation of private equity managers succeed.

Key Constituents/Agents of Change

Investment Community: Pension Funds

Of paramount importance, is to outreach to the investment community that understands the value added of collaborating with Latino-owned firms, given the growing significance of the American Latino market.
While the private equity sector depends on public and quasi-public pension funds for over 50 percent of its capital, the industry answers to no one regarding equal representation, equal opportunities and the promotion of women or minorities of any type, including Latinos. We believe that public pension funds have a role in changing this lack of accountability.

Action Plan

1. Access to Capital

- Public and quasi-public pension funds need to increase allocations to emerging fund managers by creating special programs to fund them. Pension fund managers should not rely exclusively on consultants to identify Latino managers. Emerging managers should get a full and appropriate hearing. Pension funds should consider creating staff positions to provide more opportunities for underrepresented groups to advance.
- When funding, contribute appropriate amounts (existing Latino-run firms appear to be generally small and under funded).
- Increase general awareness of the lack of Latino managers/funds as compared to demographics by working with New America Alliance, legislators and media.

2. Performance/Perception

- Improve perception of Latino managers by highlighting successes, publicizing Kaufmann study and funding other studies. Create an industry group of Latino fund managers. Increase visibility of larger Latino private equity funds.
- Latino private equity managers should work together to ensure success and pave the way for future generations.

3. Training/Education

- Promote Latino participation in all ranks in the private equity industry. Pension funds and advisors should make it a checklist question for private equity managers. Also, generate better data on young Latinos in the industry (vs. general population) to highlight the gap.
- Promote the education and integration of Latinos into the private equity industry through education and mentoring networks such as The Robert Toigo Foundation, Sponsors for Educational Opportunity and others.

Section IV: Brokerage

Task Force Leaders:
Martin Cabrera, Jr., Cabrera Capital Markets, Inc.
Robert G. Rodriguez, Southwestern Capital Markets

Sector Description

Many securities firms serve as both brokers and dealers in the market. A broker is an agent who buys and sells securities–stocks and bonds–on behalf of a client for a commission or fee. A dealer is a principal firm that buys and sells from its own account with the intention of making a profit.

Firms that serve as broker/dealers typically have a headquarters office supported by numerous branch offices. The branch offices sell and market the company's services, while the main office handles administrative activities, research, and product development. Depending on the type and extent of services offered beyond brokerage and dealing activities, securities firms fall into one of several categories:

- Investment banking firms, such as Goldman Sachs, have divisions within their companies that primarily act as broker/dealers to provide institutional customers with services related to underwriting new securities issues as well as mergers and acquisitions. These firms help customers structure and market their respective securities issues.
- Full-service trading firms, such as Salomon Smith Barney, have divisions within their companies that primarily act as broker-dealers to provide institutional and retail customers with services related to the buying and selling of securities. These firms typically offer customers specialized focus in trading particular securities and research regarding securities or sectors in the economy.
- Discount trading firms act as broker/dealers to allow institutional and retail customers to buy and sell securities for less than they would have to pay to full-service trading firms. Because discount trading firms usually do not offer investment advice, have sales staffs, or act as marketers for financial products, they are able to charge lower commissions.
- Full-service firms act as broker/dealers to offer both investment banking and trading services to retail and institutional clients.
- National full-service firms, such as Merrill Lynch and UBS Financial Services, provide a range of financial services for both retail and institutional customers nationwide.
- Regional full-service firms provide a range of financial services for both retail and institutional customers within a particular geographic area (i.e., Robert W. Baird, Wachovia First Securities, and Alex Brown).

All these firms compete in the public pension fund arena in top markets including California, Texas, Illinois, New York, Florida and New Mexico which represent $1 trillion in funds. Firms compete for a share of the estimated $5 billion in annual fees generated each year. Of this total, brokerage fees are roughly $1.5 billion.

The following chart explains the make up of a public pension fund in which broker/dealer solicit business:

Broker/dealers have three major functions when working with pension funds:

1. Pricing stocks, bonds, and other securities on different exchanges to assure best execution
2. Providing liquidity in the markets, which allows brokers and dealers to buy and sell securities for investors as efficiently as possible
3. Providing advice about market activity as well as conducting research

Challenges

Challenge #1: Access to the Capital Markets

The level of capitalization of broker/dealer firms is one of the most profound requirements that pension funds and asset managers consider. There is no standard process for initial approval from a pension fund. The

long approval cycle can take anywhere from six months to four years. Once a firm is approved, then it is provided a list of asset managers to call on and market the brokerage firm's capabilities. Once a brokerage firm communicates with an asset management firm, it has to go through the same, if not more stringent, application process with each asset management firm. This process can take up to three years.

Most asset managers will include Latino broker/dealers only when directed to do so by their client, the pension fund. There is inconsistency in providing opportunity to Latino firms given that there is:

1. No set process for approval
2. Repetitive application process
3. Lack of support from some pension fund staff
4. Absence of a follow-up due diligence process once broker/dealers are indeed approved

Challenge #2: Artificial barriers to entry

There are several artificial barriers to entry, but the participants in the study felt that the barriers mentioned below are the most relevant. There are current minority participation policies in place for various pension funds across the country. Unfortunately, there is little enforcement and oversight of the policies.

Latino participation in the public pension fund arena has been at a .005% level at best. Minority programs may be considered successful even though they may not reflect Latino participation.

Many plan sponsors, pension fund staff, and consultants may use fiduciary responsibility as a reason to exclude minority firms and avoid enforcing minority participation goals. Yet, there have been studies by different plan sponsors and universities that clearly state that pension plan returns and performance are not compromised by including minority firms.

Another false perception held by asset managers is that minority firms cannot provide best execution. There is a need to identify and use existing analysis reports that ensure that brokerage firms are providing the best execution for their clients. Some of the measurement tools are: Volume Weighted Average Price (VWAP), Open Value for the Benchmark Date, and Sell Bid/Buy Ask Benchmark.

Challenge #3: Other Barriers – Infrastructure Requests

Finally, brokerage firms are sometimes asked to adopt costly new trading equipment to suit individual asset manager needs, without ensuring corresponding order flow to the brokerage firms. Some asset management firms seek value-added research capability or trading platforms that certain broker/dealers do not have. Hence, once again, order flow does not occur even if a company does not provide research capabilities.

Key Constituents/Agents of Change

Gaining access to key decision makers is one of the major challenges for minority firms. There are four different levels of decision makers in the pension fund process:

- Executive directors, chief investment officers, and staff
- Board of trustees
- Consultants
- Asset managers

Executive directors, chief investment officers, and staff must give consultants and asset managers more direction and guidance regarding minority policies.

Boards of trustees need to be more proactive in directing the consultants in locating Latino asset managers and broker/dealers. Executive directors, CIO's, staff and trustees must be encouraged to keep an open door policy toward minority firms. Trustees should gather feedback on the fund's policies from broker/dealer and asset management firms. Broker dealers are on the front lines everyday and can provide valuable information. Asset managers would be more effective in following minority policies if there was clear direction from the pension fund staff and if legislation was enforced. Active executive directors, staff and trustees should keep these issues at the forefront of their agendas.

Action Plan

The issue of Latino participation in public and private pension funds is being debated across the country. State public pension funds encompass wealth and power, and Latinos have been locked out of the process. The Latino broker/dealer industry is faced with many challenges, but none that cannot be overcome with a united effort and support from legislators, pension fund executives, trustees, and consultants.

American Latino broker/dealers seek the opportunity to participate and demonstrate their capabilities in the market place. Once given the opportunity to perform, it will be clearly demonstrated that our capability for execution does not jeopardize, but actually can increase, the overall fund performance. The following action plan details the different approaches to addressing and overcoming barriers faced by the broker dealer sector.

1. Legislators can conduct hearings on pension funds to review all goals and participation procedures with executive directors, staff, trustees, consultants and asset managers

2. Legislators can study and pass legislation to encourage pension funds to increase minority participation

3. New America Alliance should continue to increase awareness about the dismal Latino participation levels; the most effective solution might be legislation with enforcement in each state. Legislators represent hundreds of thousands of beneficiaries for each of the pension funds in their districts. For example, the Illinois Teachers Retirement Fund has 159,000 active employees and 172,000 retired employees, a total of 331,000 beneficiaries which are the legislators constituents

4. Enforce goals and legislation with consequences of termination for non-compliance (in many states there are laws on the books, but no enforcement of policies)

5. Encourage the appointment of American Latinos to board positions

6. Latino legislators should write letters and place phone calls to pension fund decision makers

7. Identifying Latino consultants who are familiar with asset managers, broker/dealers, and private equity firms

Conclusion

New America Alliance recognizes that the lack of participation by American Latinos in the financial services industry presents a crisis because the finance industry functions as a significant capital distributor in society. Therefore, this industry plays a key role in the generation of wealth opportunities for American Latinos.

The process that led to the creation of this White Paper has occurred simultaneously with the growing presence and advancement of American Latinos in the economic and political mainstream of this nation. This document is a step toward the development and implementation of action plans intended to develop a constructive dialogue with key stakeholders in the financial services industry, and set in place the necessary mechanisms for a global financial services industry that provides access to opportunity for all.

This White Paper is meant to be a "living document' that can only improve through the involvement of both financial services users and providers. We also hope that it serves as a concrete example of the New America Alliance ethos of information sharing and collaboration towards the achievement of common goals.

This document represents a major step in communicating the current state of American Latinos in the financial services industry but, more importantly, it provides the initial elements to eliminate barriers faced by Latinos in the financial services field and ensure that the best and brightest Latino entrepreneurs will have the resources and the opportunities to enhance the intellectual, social and economic capital of our nation.

In this White Paper we have addressed some of the most significant challenges and constituents of Latino-owned firms in the financial services arena. Clear understanding of challenges facing the American Latino community in the financial services industry allows us to develop a concrete action plan. This action plan is segmented by the following constituency groups: 1) elected and appointed officials, 2) governance of pension funds and corporations.

Elected and Appointed Officials

Legislators play a key role in developing standards for accountability to ensure adequate Latino participation. The four financial service sectors studied in Phase I of this project shared a common conclusion: the importance of conducting hearings at the local, state and congressional levels. We believe that hearings with the participation of executive directors, trustees, and consultants should facilitate the inclusion of Latino firms as a mechanism to:

- enhance information sharing,
- promote familiarity with the roles and functions of key players in the financial services sector and
- increase accountability of elected and appointed officials responsible for overseeing public funds.

Further, we suggest that each legislator conduct a study at the state level with the primary objectives to determine where the assets of the Latino community are, how they are managed and what the governance is around those decisions.

Legislators can study and pass legislation to encourage pension funds to increase minority participation. Legislators can influence favorable policies not only within their respective public funds but also in the private sector. The reach of legislators goes beyond the public fund level since many corporations seek favorable legislation and/or business within the states they reside. This presents an opportunity for legislators to encourage corporations to apply the same best practices of diversity they currently use in procurement in the financial services sector.

Pension Funds and Corporations

There is a clear need to increase American Latino representation at the board level of the various public pension funds. The same is true at the executive director level. Legislators have control over some of the appointments and should exercise that control.

Public funds, as well as corporations, should be held accountable for how they invest pension assets for their employees. At a minimum, funds should report on an annual basis on the progress they have made to include Latino asset managers as part of their diversity efforts.

Public, quasi-public pension and corporate funds should be encouraged to create or enforce special programs to include Latinos as their investment management consultants, asset managers, private equity funds and broker/dealers. They should consider creating staff positions within public pension funds to provide for underrepresented groups to advance.

In recent years, pension funds, such as, California Public Employees' Retirement System (CalPERS) and the Ohio Bureau of Workmen's Compensation (BWC) have established programs focused on doing more business with minority and women-owned firms as well as with other small or developing asset management firms. These programs have been successful, and in the case of Ohio BWC, a study has been published which attests to the success of the program with no compromise in investment results. Other states need to become

aware of these efforts and implement more of these programs as well.

As indicated in the sections of this paper addressing the asset management, private equity and brokerage, the primary gatekeepers of this industry are consultants and pension fund managers. Latinos in financial services need to work closely with consultants who are committed to the diversity agenda and who want to work with Latino asset managers and broker/dealers to create programs that will promote the participation of Latino service providers. This could include the formalization of a peer-to-peer technical assistance network within the NAA network of financial services professionals.

Training and education are paramount. Latinos must be promoted in all ranks. Pension funds and advisors should make diversity inclusion a checklist question for financial services providers, including investment management consultants, asset managers, private equity professionals and broker/dealers. It is also necessary to generate better data on young Latinos in the industry (vs. general population) to highlight the gap. It is imperative to promote the education and integration of Latinos into the financial services industry through education and mentorship networks.

A P P E N D I C E S

APPENDIX A

Acknowledgements

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Project Director

Monika Mantilla Garcia, Consultiva Internacional, Inc.
NAA Co Chair, Capital Sub-Committee

NAA White Paper Task Force Leaders

Investment Management Consulting
Myrna M. Rivera Cardona, Consultiva Internacional, Inc.

Asset Management
Margarita Perez, Fortaleza Asset Management, Inc.
Hilda Ochoa-Brillembourg, Strategic Investment Group

Private Equity
Marcos A. Rodríguez, Palladium Equity Partners, LLC
Victor L. Maruri, Hispania Capital Partners, LLC

Brokerage
Martin Cabrera, Jr., Cabrera Capital Markets, Inc
Robert G. Rodriguez, Southwestern Capital Markets

NAA White Paper Task Force Coordinators

Roberto Carmona, NAA Director of Programs
Enrique Cortez, NAA Membership & Marketing Coordinator
Ariel Oxman, NAA 2003 Summer Intern
Jessie Mosqueda, NAA Economic and Political Capital Fellow
Robert Enriquez, Independent Management Contractor
Guillermo Morales, NAA 2003 Summer Intern
Ivelisse Rodriguez, MBA Student, Harvard Business School

Proof Readers: Gabriela Alvarado, Pedro Carmona, Anna Duran, Evelyn Montalvo, Marcha Rocha

Editorial Review: Rosa M. Grillo

White Paper Interviewers

Alex Alvarez, MBA Student, Harvard Business School
Cindy Helen Brea, MBA Student, Harvard Business School
Pedro Carmona, MBA Graduate, Columbia Business School
Antonio Casal, MBA Student, Harvard Business School
Derek Lopez, MBA Student, Kellogg Business School
Mina Pacheco Nazemi, MBA Student, Harvard Business School
Ivelisse Rodriguez, MBA Student, Harvard Business School

New America Alliance General Members (American Latinos) in financial services who responded to the survey as of August 19, 2003:

Investment Management Consultants

Myrna M. Rivera Cardona
President & CEO
Consultiva Internacional, Inc

Monika Mantilla Garcia
Principal, North America
Consultiva Internacional, Inc.

Asset Management

Tere Alvarez-Canida
President
Taplin, Canida & Habacht

Jorge Castro
Vice Chairman, Chief Operating Officer
Valenzuela Capital Partners, LLC

Margarita Perez
President
Fortaleza Asset Management, Inc.

Hilda Ochoa-Brillembourg
President & CEO
Strategic Investment Group

Michael Torres
President
Lend Lease Rosen Real Estate

Thomas M. Valenzuela
President
Valenzuela Capital Partners, LLC

David C. Villa
Executive Director
UBS Global Asset Management

Private Equity

Mario L. Baeza
Chairman & CEO
Baeza & Co.

Guillermo Bron
Managing Partner
Bastion Capital

Jesse Casso, Jr.
Managing Director
VCP Equity Partners

Victor L. Maruri
Partner
Hispania Capital Partners, LLC

Marcos A. Rodriguez
Managing Member
Palladium Equity Partners, LLC

Fidel Vargas
Vice President
Reliant Equity Investors

Daniel D. Villanueva
Managing Partner
Bastion Capital Corporation

Brokerage

Martin Cabrera, Jr.
President
Cabrera Capital Markets, Inc.

Edward T. Espinoza
Vice President
E M Ventures, Inc.

Charles Patrick Garcia
Chairman & CEO
Sterling Financial Investment Group

Samuel A. Ramirez
President
Samuel A. Ramirez & Co., Inc.

Luis F. Restrepo
Chief Executive Officer
MultiTrade Securities

Robert G. Rodriguez
President & CEO
Southwestern Capital Markets

New America Alliance Associate Members (non-American Latinos) in financial services who as of August 19, 2003 responded to the survey:

Asset Management

Leslie F. Bond, Jr.
Senior Managing Director
Attucks Asset Management, LLP

Rick Roberts
Partner
First Quadrant

Private Equity

Tarrus L. Richardson
Managing Director
ICV Capital Partners, LLC

Herb Wilkins, Sr.
Managing General Partner
SYNCOM

NAA General Members and Legal Advisors:

Carlos E. Loumiet
Partner
Hunton & Williams

Manny Sanchez
Managing Partner
Sánchez & Daniels
NAA General Counsel

APPENDIX B

Survey Sample, Phase I

A. How would you describe the key challenges for your industry and your company regarding:

- Capital
- Access to markets
- Artificial barriers to competition
- Red-tape obstacles
- Other challenges

B. Who are the key constituents – institutions or persons – who can help resolve these challenges, raise awareness, and support American Latino financial services firms? Please provide their contact information.

C. What specific action plan within the following areas would you suggest will allow us to establish meaningful dialogues with all key constituents?

- Advocacy
- Legislative changes
- Non-legislative political support
- Other

D. Are you aware of specific efforts that are taking place currently at the State or Federal level with certain key constituents? Are you involved in any of them? Can NAA become an active part of those efforts? How?

E. Are you aware of any other American Latino firms, outside NAA affiliated firms, in your financial sector?

APPENDIX C

New America Alliance
Affiliated Financial Services Firms Directory

Investment Management Consulting, Asset Management, Private Equity, and Brokerage Sectors

As of October 12, 2003

Investment Management Consulting

Consultiva Internacional, Inc.

Asset Management

Attucks Asset Management, LLP
First Quadrant
Fortaleza Asset Management, Inc.
LM Capital Group
Samuel A. Ramirez & Co., Inc.
Sterling Financial Investment Group
Strategic Investment Group
Taplin, Canida & Habacht
UBS Global Asset Management
Valenzuela Capital Partners, LLC

Private Equity

Baeza & Co.
Bastion Capital Corporation
Goldman, Sachs & Co.
Hispania Capital Partners, LLC
ICV Capital Partners, LLC
Palladium Equity Partners, LLC
Reliant Equity Investors
Solera Capital
SYNCOM
VCP Equity Partners

Brokerage

Cabrera Capital Markets, Inc
Gardner Rich & Company
Greenwich Capital Markets
Goldman, Sachs & Co.
MultiTrade Securities
Samuel A. Ramirez & Co., Inc.
Southwestern Capital Markets
Sterling Financial Investment Group

APPENDIX C

New America Alliance
Affiliated Financial Services Firms Directory

All Financial Services Sectors

As of October 12, 2003

Attucks Asset Management, LLP
Leslie F. Bond, Jr.
Senior Managing Director
200 West Madison, Suite 1940
Chicago, IL 60606
Phone: 312 422-9900
lesbond@columbiacapital.com

Baeza & Co.
Mario L. Baeza
Chairman & CEO
200 Park Avenue, Suite 2100
New York, NY 10166-0228
Phone: 212 771-4147
Fax: 212 771-4155
mario.baeza@tcw.com

Banco Popular de Puerto Rico
Jorge Junquera
Senior Executive VP & CFO
PO Box 362708
San Juan, PR 009636
Phone: 787 765-9800
Fax: 787 759-8900
jjunquera@bppr.com

Bastion Capital Corporation
Daniel D. Villanueva
Managing Partner
1901 Avenue of the Stars, Suite 400
Los Angeles, CA 90067
Phone: 310 788-5712
Fax: 310 277-7582
dv@bastioncapital.com

Bloomberg L.P.
Lex Fenwick
Chief Executive Officer
499 Park Avenue
New York, NY 10022

Cabrera Capital Markets, Inc
Martin Cabrera, Jr.
President
208 S. Lasalle Street, Suite 1230
Chicago, IL 60604
Phone: 312 236-8888
Fax: 312 236-8936
mc@cabreracapital.com

California State Teachers' Retirement System
Christopher J. Ailman
Chief Investment Officer
7667 Folsom Blvd., MS – 04
Sacramento, CA 95826
Phone: 916 229-3740
Fax: 916 229-0502
bmayorga@calstrs.com

Citibank, N.A.
Louis E. Delgado
Director of Public Policy & Strategic Initiatives
1101 Pennsylvania Avenue, NW
Washington, DC 20004
Phone: 202 508-4501
Fax: 202 879-6888
louis.e.delgado@citigroup.com

Concrete Stories
Diego Recalde & Marjorie Torres
Co-Chief Executive Officers
350 Fifth Avenue
New York, NY 10118
Phone: 212 994-6300 ext. 304
Fax: 212 994-6342 ext. 325
diego.recalde@concretestories.com
marjorie.torres@concretestories.com

Consultiva Internacional, Inc.
Myrna M. Rivera Cardona
President & CEO
IBM Building, Suite 704
Ave. Muñoz Rivera 654
San Juan, PR 00918
Phone: 787 763-5868
Fax: 787 763-5397
mrivera@consultiva.com

Consultiva Internacional, Inc.
Monika Mantilla Garcia
Principal, North America
630 Fifth Avenue, Suite 2000
New York, NY 10111
Phone: 212 332-5080
Fax: 914 725-1842
mmantilla@consultivapr.com

De Luna Partners
John de Luna
President & CEO
Asset Growth Initiatives
25 Orinda Way, Suite 305
Orinda, CA 94563
Phone: 925 253-1600
jdl@delunapartners.com

E.J. De La Rosa & Co., Inc.
Edward De La Rosa
President
90 New Montgomery Street, Suite 414
San Francisco, CA 94105
Phone: 415 495-8863
Fax 415 495-8864
edelarosa@ejdelarosa.com

Elite Capital Partners LLC
Dominic Alvarez
Managing Partner
4695 MacArthur Court, Suite 1100
Newport Beach, CA 92660
Phone: 949 798-6128
Fax: 949 798-5501
daagfg@aol.com

Empresas Fonalledas
Jaime Fonalledas
President
PO Box 71450
San Juan, PR 00936
Phone: 787 725-4755
Fax: 787 620-2350
msantos@efonalledas.com

E M Ventures, Inc.
Edward T. Espinoza
Vice President
3885 S Decatur Blvd., Suite 2010
Las Vegas, NV 89103
Phone: 702 871-8535
Fax: 702 871-8427
eteassociates@aol.com

Falcon Ridge Development, LLC
Fred M. Montaño
Managing Partner
12512 Modesto Avenue, NE
Albuquerque, NM 87122
Phone: 505 856-6043
Fax: 505 856-6043
fred@falconridgedev.com

First Quadrant
Rick Roberts
Partner
800 E Colorado Boulevard, Suite 900
Pasadena, CA 91101
Phone: 626 683-4227
Fax: 626 396-3227
rroberts@firstquadrant.com

Fortaleza Asset Management, Inc.
Margarita Perez
President
200 W Adams Street, Suite 2000
Chicago, IL 60606
Phone: 312 621-6111
Fax: 312 621-6112
mp@fortalezaasset.com

Gardner Rich & Company
Salvador Guerrero
Marketing Associate
401 South Financial Place
Chicago, IL 60605
Phone: 312 922-3333
Fax: 312 922-2144
sguerrero@gardnerrich.com

Greenwich Capital Markets
Glen Capelo
600 Steamboat Rd.
Greenwich, CT 06830
Phone: 203 625-2818
glen.capelo@gcm.com

Goldman, Sachs & Co.
Kevin Jordan
Vice President & COO, Urban Investment Group
85 Broad Street
New York, NY 10004
Phone: 212-902-0095
Fax: 212-357-5505
kevin.jordan@gs.com

Hispania Capital Partners, LLC
Victor L. Maruri
Partner
311 S Wacker Drive, Suite 4200
Chicago, IL 60606
Phone: 312 697-4590
Fax: 312 697-0114
vmaruri@duffllc.com

ICV Capital Partners, LLC
Tarrus L. Richardson
Managing Director
The Chrysler Center
666 Third Avenue, 29th Floor
New York, NY 10017
Phone: 212 455-9641
Fax: 212 455 9603
trichardson@icvcapitalpartners.com

ING
Ricardo Lopez Valencia
Vice-President, Head of Hispanic Markets
1500 M Street, NW
Suite 430
Washington, DC 20005
Phone: 202 463-4050
Fax: 202 293-4004
valenciar@ing-afs.com

K-Group Holdings
Joseph Kavana
Chairman & CEO
16241 NW 48th Avenue
Miami, FL 33014
Phone: 305 620-1851, ext. 233
Fax: 305 931-4991
jkavana@hotmail.com

Lend Lease Rosen Real Estate
Michael Torres
President
1250 Bay Street
Alameda, CA 94501
Phone: 510 549-5242
mtorres@lendleaserosen.com

LM Capital Group
Luis Maizel
Senior Managing Director
401 3 Street, Suite 920
San Diego, CA 92101
Phone: 619 814-1400
Fax: 619 814-0555
lmaizel@lmcapital.com

MMS & Assoc.
Marilou Martínez Stevens, CPA
President
1200 Summit Avenue, Suite 410
Fort Worth, TX 76102
Phone: 817 315-1448
Fax: 817 315-1648
marilou@mmscpa.net

MultiTrade Securities
Luis F. Restrepo
Chief Executive Officer
100 Park Avenue, Suite 1600
New York, NY 10017
Phone: 212 880-2692
Fax: 212 880-2699
lfrestrepo@multitrade.net

National Association of Hispanic Real Estate Professionals/ SDF Realty, Inc.
Gary E. Acosta
CEO/Chairman
1650 Hotel Circle North, #215
San Diego, CA 92108
Phone: 619 209-4777, ext. 102
Fax: 619 209-4773
gacosta@realestateespanol.com

National Council of La Raza
Raul Yzaguirre
President & CEO
1111 19th Street NW, Suite 1000
Washington, DC 20036
Phone: 202 785-1670
Fax: 202 776-1790
ryzaguirre@nclr.org

Palladium Equity Partners, LLC
Marcos A. Rodriguez
Founder & Managing Member
1270 Avenue of the Americas, Suite 2200
New York, NY 10020
Phone: 212 218-5151
Fax: 212 218-5155
mrodriguez@palladiumequity.com

Palladium Equity Partners, LLC
David Perez
Managing Director
1270 Avenue of the Americas, Suite 2200
New York, NY 10020
Phone: 212 218-5176
Fax: 212 218-5155
dperez@palladiumequity.com

Plaza Investments, LLC
Tony Quintero
President & CEO
772 North First Street
San Jose, CA 95112
Phone: 408 287-0133
Fax: 408 287-3477
tqproperties@sbcglobal.net

Reliant Equity Investors
Fidel Vargas
Vice President
515 S Flower
Suite 440
Los Angeles, CA 90071
Phone: 213 244-9644
Fax: 213 244-9677
fvargas@reliantequity.com

Samuel A. Ramirez & Co., Inc.
Samuel A. Ramirez
President
61 Broadway 29th Floor
New York, NY 10006
Phone: 212 248-0510
Fax: 212 248-0528
sam.ramirez@ramirezco.com

Solera Capital
Molly Ashby
Chairman & Chief Executive Officer
625 Madison Avenue, 3rd Floor
New York, NY 10022
Phone: 212 833-1457
Fax: 212 833-1460
ashby@soleracapital.com

Sterling Financial Investment Group
Charles Patrick Garcia
Chairman & CEO
225 NE Mizner Blvd., 4th Floor
Boca Raton, FL 33432
Phone: 561 886-2201
Fax: 561 886-2330
cpg@mysterling.com

Strategic Investment Group
Hilda Ochoa-Brillembourg
President & CEO
1001 Nineteenth Street North, 16th Floor
Arlington, VA 22209
Phone: 703 243-4433
Fax: 703 243-1235
hochoa@2strategic.com

Southwestern Capital Markets
Robert G. Rodriguez
President & CEO
140 E Houston, Suite 201
San Antonio, TX 78205
Phone: 210 344-9101
Fax: 210 344 6527
rgr@scminc.info

SYNCOM
Herb Wilkins, Sr.
Managing General Partner
8401 Colesvile Road, Suite 300
Silver Spring, MD 20910
Phone: 301 608-3203
Fax: 301 608 3307
hwilkinssr@syncomfunds.com

Taplin, Canida & Habacht
Tere Alvarez Canida, CFA
President
1001 Brickell Bay Drive
Suite 2100
Miami, FL 33131
Phone: 305 379-2100
Fax: 305 379-4452
tac@tchinc.com

TELACU/Millennium
David Lizarraga
President & CEO
5400 East Olympic Blvd, Suite 300
Los Angeles, CA 90022
Phone: 323 721-1655
Fax: 323 724-3372
dcl@telacu.com

UBS Global Asset Management
David C. Villa
Executive Director
One North Wacker Drive
Chicago, IL 60606
Phone: 312 525-7281
Fax: 312 525-7297
davidvilla03@aol.com

United Pan Am Financial
Guillermo Bron
Chairman
1901 Avenue of the Stars, Suite 400
Los Angeles, CA 90067
Phone: 310 788-5712
Fax: 310 277-7582
bron@bastioncapital.com

Valenzuela Capital Partners, LLC
Thomas M. Valenzuela
President
1270 Avenue of the Americas,
Suite 508
New York, NY 10020
Phone: 212 332-8590
Fax: 212 332-5897
tvalenzuela@valpartners.com

Valenzuela Capital Partners, LLC
Jorge Castro
Vice Chairman, Chief Operating Officer
633 W Fifth Street, Street 1180
Los Angeles, CA 90071
Phone: 213 629-0451
Fax: 213 629-0901
jgcastro@pacbell.net

VCP Equity Partners
Jesse Casso, Jr.
Managing Director
633 W Fifth Street, Street 1180
Los Angeles, CA 90071
Phone: 213 629-0451
Fax: 213 629-0901
jcassojr@aol.com

Washington Mutual
Peter Villegas
First VP of Corporate Affairs
& Government Relations
350 South Grand Avenue, Suite 3400
Los Angeles, CA 90071
Phone: 213 217-4016
Fax: 213 217-4162
peter.villegas@wamu.net

APPENDIX D

New America Alliance Membership Directory

Gary E. Acosta
CEO/Chairman
National Association of Hispanic Real Estate Professionals/ SDF Realty, Inc.
1650 Hotel Circle North, #215
San Diego, CA 92108
Phone: 619 209-4777, ext. 102
Fax: 619 209-4773
gacosta@realestateespanol.com

Carlos Alcantara
Chairman, CEO
The Chalaco Corporation
2000 Ponce de Leon, 6th Floor
Coral Gables, FL 33134
Phone: 786-388-9300
Fax: 786-513-8296
carlosalcantara@chalaco.com

Dominic Alvarez
Managing Partner
Elite Capital Partners LLC
4695 MacArthur Court, Suite 1100
Newport Beach, CA 92660
Phone: 949 798-6128
Fax: 949 798-5501
daagfg@aol.com

Tere Alvarez Canida, CFA
President
Taplin, Canida & Habacht
1001 Brickell Bay Drive
Suite 2100
Miami, FL 33131
Phone: 305 379-2100
Fax: 305 379-4452
tac@tchinc.com

Carlos Arce
Chairman
EquiSystem, Inc.
3006 Bee Caves Road, Suite A-300
Austin, TX 78746
Phone: 512 306-9065
Fax: 512 306-9077
carce@nustats.com

Mario L. Baeza
Chairman & CEO
Baeza & Co.
200 Park Avenue, Suite 2100
New York, NY 10166-0228
Phone: 212 771-4147
Fax: 212 771-4155
mario.baeza@tcw.com

Joaquín Blaya
Chairman & CEO
Radio Unica
8400 NW 52th Street, Suite 101
Miami, FL 33166
Phone: 305 463-5050
Fax: 305 463-5052
jblaya@radiounica.com

Guillermo Bron
Chairman
United Pan Am Financial
1901 Avenue of the Stars, Suite 400
Los Angeles, CA 90067
Phone: 310 788-5712
Fax: 310 277-7582
bron@bastioncapital.com

Martin Cabrera, Jr.
President
Cabrera Capital Markets, Inc
208 S. Lasalle Street, Suite 1230
Chicago, IL 60604
Phone: 312 236-8888
Fax: 312 236-8936
mc@cabreracapital.com

Glen Capelo
Greenwich Capital Markets
600 Steamboat Rd.
Greenwich, CT 06830
Phone: 203 625-2818
glen.capelo@gcm.com

Jesse Casso, Jr.
VCP Equity Partners
Managing Director
633 W Fifth Street, Street 1180
Los Angeles, CA 90071
Phone: 213 629-0451
Fax: 213 629-0901
jcassojr@aol.com

Jorge Castro
Vice Chairman, Chief Operating Officer
Valenzuela Capital Partners, LLC
633 W Fifth Street, Street 1180
Los Angeles, CA 90071
Phone: 213 629-0451
Fax: 213 629-0901
jgcastro@pacbell.net

Tom Castro
President
Border Media Partners LLC
9426 Old Katy Road, Building 10
Houston, TX 77055
Phone: 713 968-4400
Fax: 713 968-4518
dbarajas@eldoradocorp.com

Gery J. Chico
Arnstein & Lehr LLP
120 S. Riverside
Suite 1200
Chicago, IL 60606
Phone: 312-876-6695
Fax: 312-803-1568
gjchico@arnstein.com

Henry Cisneros
Chairman & CEO
American CityVista
454 Soledad Street
San Antonio, TX 78205
Phone: 210 228-9574
Fax: 210 228-9906
hcisneros@acityvista.com

William De La Pena, M.D.
President
De La Pena Eye Clinic
2446 W. Whittier Blvd.
Montebello, CA 90640
Phone: 323 728-5500
Fax: 323 728-4408
wdlpeye@aol.com

Edward De La Rosa
President
E.J. De La Rosa & Co., Inc.
90 New Montgomery Street, Suite 414
San Francisco, CA 94105
Phone: 415 495-8863
Fax 415 495-8864
edelarosa@ejdelarosa.com

John de Luna
President & CEO
De Luna Partners
Asset Growth Initiatives
25 Orinda Way, Suite 305
Orinda, CA 94563
Phone: 925 253-1600
jdl@delunapartners.com

Jose Antonio Diaz
President & CEO
Ocean Garden Products, Inc.
3585 Corporate Court
San Diego, CA 92186-5527
Phone: 858 571-5002
Fax: 858 565-4674
adiaz@oceangarden.com

Patricia Diaz-Dennis
Senior Vice President, General Counsel & Secretary
SBC Pacific Bell/SBC Nevada Bell
2600 Camino Ramon, Room 4CS100
San Ramon, CA 94583
Phone: 925 824-9500
Fax: 925 355 1423
pdennis@corp.sbc.com

Dorene Dominguez
Vice President, Business Development & Marketing
Vanir Construction Management, Inc
3435 Wilshire Blvd, Suite 2050
Los Angeles, CA 90010
Phone: 213 487-1145
Fax: 213 487-1051
dorene.dominguez@vanir.com

H. Frank Dominguez
President
Vanir Group of Companies, Inc.
980 9th Street, Suite 900
Sacramento, CA 95814
Phone: 916 444-5934
Fax: 916 444-2856
frank.dominguez@vanir.com

Moctesuma Esparza
Executive Producer
Esparza/Katz Productions
1043 N Seward Avenue
Hollywood, CA 90038
Phone: 310 281-3770
Fax: 310 281-3777
moctesuma@sbcglobal.net

Edward T. Espinoza
Vice President
E M Ventures, Inc.
3885 S Decatur Blvd., Suite 2010
Las Vegas, NV 89103
Phone: 702 871-8535
Fax: 702 871-8427
eteassociates@aol.com

Sylvia Esquivel, Esq.
101 N. Highland Avenue
Los Angeles, CA 90036
Phone: 323 933-4115
Fax: 323 933-4542
sylviaesquivel@earthlink.net

Daisy Exposito-Ulla
President & CCO
The Bravo Group
20 Cooper Square
New York, NY 10003
Phone: 212 780-5804
Fax: 212 598-5454
daisy_exposito@nyc.bravoyr.com

Ana María Fernandez-Haar
Chairman
The IAC Group, Inc.
2725 SW 3rd Avenue,
Miami, FL 33129
Phone: 305 856-7474
Fax: 305 856-2687
iac@iacadgroup.com

Raul and Jorge Ferraez
President and CEO/Publisher
Latino Leaders Magazine
520 Central Parkway East
Plano, TX 75074
Phone: 972 633-9991
Fax: 972 633-9950
rferraez@latinoleaders.com
jferraez@latinoleaders.com

Jaime Fonalledas
Empresas Fonalledas
PO Box 71450
San Juan, PR 00936
Phone: 787 725-4755
Fax: 787 620-2350
msantos@efonalledas.com

Nely Galan
President & CEO
Galan Entertainment
523 Victoria Ave.
Venice, CA 90291
Phone: 310 823-2822
Fax: 310 823-7361
ngalan@galanent.com

Charles Patrick Garcia
Chairman & CEO
Sterling Financial Investment Group
225 NE Mizner Blvd., 4th Floor
Boca Raton, FL 33432
Phone: 561 886-2201
Fax: 561 886-2330
cpg@mysterling.com

Isidro Garza, Jr., P. E.
President
Isidro Garza, Jr. P. E., LLC
1161 3rd St
Eagle Pass, Texas 78852
Phone: 830-758-7920
Fax: 832-492-4967
bacisidro@aol.com

David Gomez
Chairman & CEO
David Gomez & Associates, Inc.
20 North Clark Street, Suite 2900
Chicago, IL 60602
Phone: 312 346-5525
Fax: 312 346-1438
dgomez@dgai.com

Salvador Guerrero
Marketing Associate
Gardner Rich & Company
401 South Financial Place
Chicago, IL 60605
Phone: 312 922-3333
Fax: 312 922-2144
sguerrero@gardnerrich.com

Christy Haubegger
Creative Artists Agency
9830 Wilshire Blvd.
Beverly Hills, CA 90212
Phone: 310 288-4545
Fax: 240 597-6647
chaubegger@caa.com

Frank Herrera, Jr., Esq.
Attorney
Law Offices of Frank Herrera
111 Soledad, Suite 1900
Riverview Towers
San Antonio, TX 78205
Phone: 210 224-1054
Fax: 210 228-0887
fherrera@herreralaw.com

Jorge Junquera
Senior Executive VP & CFO
Banco Popular de Puerto Rico
PO Box 362708
San Juan, PR 009636
Phone: 787 765-9800
Fax: 787 759-8900
jjunquera@bppr.com

Joseph Kavana
Chairman & CEO
K-Group Holdings
16241 NW 48th Avenue
Miami, FL 33014
Phone: 305 620-1851, ext. 233
Fax: 305 931-4991
jkavana@hotmail.com

Miguel D. Lausell, Esq.
Attorney And Counselor at Law
Velasquez Magaña Lausell
1509 Lopez Landron St.
American Airlines Building PH
San Juan, PR 00901
Phone: 787 721-6010
Fax: 787 721-3972
mdlausell@aol.com

David Lizarraga
President & CEO
TELACU/Millennium
5400 East Olympic Blvd, Suite 300
Los Angeles, CA 90022
Phone: 323 721-1655
Fax: 323 724-3372
dcl@telacu.com

Carlos E. Loumiet, Esq.
Partner
Hunton & Williams
1111 Brickell Avenue, Suite 2500
Miami, FL 33131
Phone: 305 810-2575
Fax: 305 810-2460
cloumiet@hunton.com

Luis Maizel
Senior Managing Director
LM Capital Group
401 3 Street, Suite 920
San Diego, CA 92101
Phone: 619 814-1400
Fax: 619 814-0555
lmaizel@lmcapital.com

Monika Mantilla Garcia
Principal, North America
Consultiva Internacional, Inc.
630 Fifth Avenue, Suite 2000
New York, NY 10111
Phone: 212 332-5080
Fax: 914 725-1842
mmantilla@consultivapr.com

Dario O. Marquez, Jr.
President & CEO
MVM Inc.
1593 Springhill Road
Vienna, VA 22182
Phone: 703 790-3138
marquezd@mvminc.com

Marilou Martínez Stevens, CPA
President
MMS & Assoc.
1200 Summit Avenue, Suite 410
Fort Worth, TX 76102
Phone: 817 315-1448
Fax: 817 315-1648
marilou@mmscpa.net

Victor L. Maruri
Partner
Hispania Capital Partners, LLC
311 S Wacker Drive, Suite 4200
Chicago, IL 60606
Phone: 312 697-4590
Fax: 312 697-0114
vmaruri@duffllc.com

Teresa McBride
Chief Executive Officer
McBride & Associates
1875 Campus Commons Drive,
Suite 301
Reston, VA 20191
Phone: 703 755-7010
Fax: 703 755-7211
tmcbride@mcbride.com

J. Mario Molina, M.D.
Chairman
Molina Healthcare Inc.
One Golden Shore Drive
Long Beach, CA 90802
Phone: 562 435-3666
Fax: 562 437-1335
jmmolina@molinahealthcare.com

Fred M. Montaño
Managing Partner
Falcon Ridge Development, LLC
12512 Modesto Avenue, NE
Albuquerque, NM 87122
Phone: 505 856-6043
Fax: 505 856-6043
fred@falconridgedev.com

Rodrigo Ocampo
Leadership Capital LLC – Boyden Global Executive Search
240 Crandon Blvd., Suite 2460
Key Biscayne, FL 33149
Phone: 305 423-4334
Fax: 305 361-0377
rocampo@boyden.com

Hilda Ochoa-Brillembourg
President & CEO
Strategic Investment Group
1001 Nineteenth Street North, 16th Floor
Arlington, VA 22209
Phone: 703 243-4433
Fax: 703 243-1235
hochoa@2strategic.com

Héctor Orcí
Co-Chairman
La Agencia de Orcí & Asociados
11620 Wilshire Blvd, Suite 600
Los Angeles, CA 90025
Phone: 310 444-7300
Fax: 310 478-3587
horci@laagencia.com

Norma Orcí
Co-Chairman & Chief Creative Officer
La Agencia de Orcí & Asociados
11620 Wilshire Blvd, Suite 600
Los Angeles, CA 90025
Phone: 310 444-7300
Fax: 310 478-3587
norci@laagencia.com

Rose D. Ors
President
The Paladar Consulting Group
269 S. Beverly Drive, Suite 1010
Beverly Hills, CA 90212
Phone: 818489-5878
roseors@earthlink.net

Honorio Padron
Chairman
The Padron Group
950 N Michigan, Suite 4802
Chicago, IL 60611
Phone: 312-399-1025
honoriopadron@msn.com

Jeff Penichet
President
Bilingual Educational Services
2514 S. Grand Avenue
Los Angeles, CA 90007
Phone: 213 749-6213
Fax: 213 749-1820
filmdoer@aol.com

Daniel F. Perez
Partner
Bickel & Brewer
1717 Main Street, Suite 4800
Dallas, TX 75201
Phone: 214 653-4000
Fax: 214 653-1015
dperez@bickelbrewer.com

David Perez
Managing Director
Palladium Equity Partners, LLC
1270 Avenue of the Americas, Suite 2200
New York, NY 10020
Phone: 212 218-5176
Fax: 212 218-5155
dperez@palladiumequity.com

Gilberto Perez
President US Operations
CEMEX Inc
1200 Smith Street, Suite 2400
Houston, TX 77025
Phone: 713 653-8096
Fax: 713 653-6828
gilberto.perez@cemex.com

Margarita Perez
President
Fortaleza Asset Management, Inc.
200 W Adams Street, Suite 2000
Chicago, IL 60606
Phone: 312 621-6111
Fax: 312 621-6112
mp@fortalezaasset.com

Claudia Puig
GM & Vice President
Hispanic Broadcasting Company - Miami
800 Douglas Road, Annex Bldg. 111
Coral Gables, FL 33134
Phone: 305 442-7501
Fax: 305 442-9399
cpuig@hispanicbroadcasting.com

Tony Quintero
President & CEO
Plaza Investments, LLC
772 North First Street
San Jose, CA 95112
Phone: 408 287-0133
Fax: 408 287-3477
tqproperties@sbcglobal.net

Samuel A. Ramirez
President
Samuel A. Ramirez & Co., Inc.
61 Broadway 29th Floor
New York, NY 10006
Phone: 212 248-0510
Fax: 212 248-0528
sam.ramirez@ramirezco.com

Diego Recalde & Marjorie Torres
Co-Chief Executive Officers
Concrete Stories
350 Fifth Avenue
New York, NY 10118
Phone: 212 994-6300 ext. 304
Fax: 212 994-6342 ext. 325
diego.recalde@concretestories.com
marjorie.torres@concretestories.com

Luis F. Restrepo
Chief Executive Officer
MultiTrade Securities
100 Park Avenue, Suite 1600
New York, NY 10017
Phone: 212 880-2692
Fax: 212 880-2699
lfrestrepo@multitrade.net

Ingrid Rivera
Director, External Relations and Corporate Marketing, Puerto Rico,
US Hispanic & Caribbean Markets
The Procter & Gamble Company
City View Plaza, 6th floor
Guaynabo, PR 00968
Phone: 787 620-7277
Fax: 787 620-7076
rivera.ii@pg.com

Myrna M. Rivera Cardona
President & CEO
Consultiva Internacional, Inc.
IBM Building, Suite 704
Ave. Muñoz Rivera 654
San Juan, PR 00918
Phone: 787 763-5868
Fax: 787 763-5397
mrivera@consultiva.com

Marcos A. Rodriguez
Founder & Managing Member
Palladium Equity Partners, LLC
1270 Avenue of the Americas, Suite 2200
New York, NY 10020
Phone: 212 218-5151
Fax: 212 218-5155
mrodriguez@palladiumequity.com

Robert G. Rodriguez
President & CEO
Southwestern Capital Markets
140 E Houston, Suite 201
San Antonio, TX 78205
Phone: 210 344-9101
Fax: 210 344 6527
rgr@scminc.info

A.R. "Tony" Sánchez
Chairman & CEO
Sanchez Oil & Gas Corp
1920 Sandman Street
Laredo, TX 78041
Phone: 956 722-8092
Fax: 956 722-1017
spompa@sanchezog.com

Frank Sanchez
Chairman & CEO
Sanchez Family Corporation
5234 Via de San Delarro, Unit 1
Los Angeles, CA 90022
Phone: 323 727-0859
Fax: 323 721-0646
fajsanchez@aol.com

Manuel "Manny" Sánchez, Esq.
Managing Partner
Sánchez & Daniels
333 West Wacker Drive, Suite 500
Chicago, IL 60606
Phone: 312 641-1555
Fax: 312 641-3004
msanchez@sanchezdaniels.com

Alejandro Silva
President
Evans Food Products Inc.
4118 S. Holsted Street
Chicago, IL 60609
Phone: 773 254-7400
Fax: 773 254-7791
alejandro@ameritech.net

Jose Sosa
Director, Government & External Affairs
Johnson & Johnson
PO Box 519
Mt. Holly NJ 08060
Phone: 609 702 9092
Fax: 609 702 9624
jsosa@corus.jnj.com

Lionel Sosa
Consultant
LKSosa Consultation and Design
215 Rhode Lane
Floresville, TX 78114
Phone: 210 288-8101
lionel@sosafarm.net

Michael Torres
President
Lend Lease Rosen Real Estate
1250 Bay Street
Alameda, CA 94501
Phone: 510 549-5242
mtorres@lendleaserosen.com

Walter Ulloa
Chairman & CEO
Entravision Communications
2425 Olympic Blvd, Suite 6000 W
Santa Monica, CA 90404
Phone: 310 447-3870
Fax: 310 447-3899
wulloa@entravision.com

Andy Unanue
Chief Operating Officer
Goya Foods, Inc.
100 Seaview Drive
Secaucus, NJ 07096
Phone: 201 348-4900
Fax: 201 348-4261
andy.unanue@goya.com

Thomas M. Valenzuela
President
Valenzuela Capital Partners, LLC
1270 Avenue of the Americas,
Suite 508
New York, NY 10020
Phone: 212 332-8590
Fax: 212 332-5897
tvalenzuela@valpartners.com

Fidel Vargas
Vice President
Reliant Equity Investors
515 S Flower
Suite 440
Los Angeles, CA 90071
Phone: 213 244-9644
Fax: 213 244-9677
fvargas@reliantequity.com

David C. Villa
Executive Director
UBS Global Asset Management
One North Wacker Drive
Chicago, IL 60606
Phone: 312 525-7281
Fax: 312 525-7297
Davidvilla03@aol.com

Daniel D. Villanueva
Managing Partner
Bastion Capital Corporation
1901 Avenue of the Stars, Suite 400
Los Angeles, CA 90067
Phone: 310 788-5712
Fax: 310 277-7582
dv@bastioncapital.com

Raul Yzaguirre
President & CEO
National Council of La Raza
1111 19th Street NW, Suite 1000
Washington, DC 20036
Phone: 202 785-1670
Fax: 202 776-1790
ryzaguirre@nclr.org

Teresa Zubizarreta
President & CEO
Zubi Advertising
355 Alhambra Circle, 10th Floor
Coral Gables, FL 33134
Phone: 305 448-9824
Fax: 305 460-6859
tzubi@zubiad.com

American Latino Corporate Members

Marcos A. Rodriguez
Founder & Managing Member
David Perez
Managing Director
Palladium Equity Partners, LLC
1270 Avenue of the Americas, Suite 2200
New York, NY 10020
Phone: 212 218-5150
Fax: 212 218-5155

H. Frank Dominguez
President
Dorene Dominguez
Vice President, Business Development & Marketing
Vanir Group of Companies, Inc.
980 9th Street, Suite 900
Sacramento, CA 95814
Phone: 916 444-5934
Fax: 916 444-2856

Associate Members

Christopher J. Ailman
Chief Investment Officer
California State Teachers' Retirement System
7667 Folsom Blvd., MS – 04
Sacramento, CA 95826
Phone: 916 229-3740
Fax: 916 229-0502
bmayorga@calstrs.com

Molly Ashby
Chairman & Chief Executive Officer
Solera Capital
625 Madison Avenue, 3rd Floor
New York, NY 10022
Phone: 212 833-1457
Fax: 212 833-1460
ashby@soleracapital.com

Leslie F. Bond, Jr.
Senior Managing Director
Attucks Asset Management, LLP
200 West Madison, Suite 1940
Chicago, IL 60606
Phone: 312 422-9900
lesbond@columbiacapital.com

Kevin Jordan
Vice President & COO
Urban Investment Group, Goldman Sachs & Co.
85 Broad Street
New York, NY 10004
Phone: 212-902-0095
Fax: 212-357-5505
kevin.jordan@gs.com

Tarrus L. Richardson
Managing Director
ICV Capital Partners, LLC
The Chrysler Center
666 Third Avenue, 29th Floor
New York, NY 10017
Phone: 212 455-9641
Fax: 212 455 9603
trichardson@icvcapitalpartners.com

Rick Roberts
Partner
First Quadrant
800 E Colorado Boulevard, Suite 900
Pasadena, CA 91101
Phone: 626 683-4227
Fax: 626 396-3227
rroberts@firstquadrant.com

Herb Wilkins, Sr.
Managing General Partner
SYNCOM
8401 Colesvile Road, Suite 300
Silver Spring, MD 20910
Phone: 301 608-3203
Fax: 301 608 3307
hwilkinssr@syncomfunds.com

Corporate Alliance Partners

Lex Fenwick
Chief Executive Officer
Bloomberg LP
499 Park Avenue
New York, NY 10022

Louis E. Delgado
Director of Public Policy & Strategic Initiatives
Citibank, N.A.
1101 Pennsylvania Avenue, NW
Washington, DC 20004
Phone: 202 508-4501
Fax: 202 879-6888
louis.e.delgado@citigroup.com

Ricardo Lopez Valencia
Vice-President, Head of Hispanic Markets
ING
1500 M Street, NW
Suite 430
Washington, DC 20005
Phone: 202 463-4050
Fax: 202 293-4004
ValenciaR@ing-afs.com

Alan J. Lacy
Chairman and CEO
Sears, Roebuck & Co.
3333 Beverly Rd, BC-109 B
Hoffman Estates, IL 60179

Rudy Beserra
Vice President, Latin Affairs
The Coca-Cola Company
One Coca Cola Plaza
Atlanta, GA 30301
Phone: 404 676-6924
Fax: 404 676-2097
rbeserra@na.ko.com

Peter Villegas
First VP of Corporate Affairs
& Government Relations
Washington Mutual
350 South Grand Avenue, Suite 3400
Los Angeles, CA 90071
Phone: 213 217-4016
Fax: 213 217-4162
peter.villegas@wamu.net

APPENDIX E
Letters of Endorsement

Congress of the United States
House of Representatives
Washington, DC 20515

October 16, 2003

Mr. Moctesuma Esparza
Chair of the Board
New America Alliance
1050 Connecticut Avenue, NW
10th Floor
Washington, DC 20036

Dear Mr. Esparza:

On behalf of the Congressional Hispanic Caucus, we write in strong support of the New America Alliance's "White Paper: American Latinos in Financial Services." Hispanics are faced with a unique opportunity for economic advancement, as well as tough challenges, in this new century. Our community must have free access to capital and financial markets that are the building blocks of economic advancement. This report highlights the challenges faced by Hispanics in the industry, identifies key constituents who can help resolve these challenges, and provides a platform to address these issues. The Congressional Hispanic Caucus supports the New America Alliance's efforts to meet these challenges and ensure that the face of the financial services industry and corporate America reflects the face of America.

The Hispanic community is the largest minority group and the fastest-growing consumer segment in the nation. At 42.6 million people, Hispanics represent 14 percent of the population in the United States, including Puerto Rico, and have an estimated annual purchasing power of over $600 billion. Yet only 1.7 percent of all board seats in Fortune 1,000 companies are held by Hispanics. Only a handful of the more than 9,000 banks and thrifts in this country are majority-owned or managed by Hispanics. Many Hispanic majority-owned institutions also continue to struggle to find adequate access to public and private pension funds, and many minority procurement programs at major corporations have typically not included financial services.

The Congressional Hispanic Caucus recognizes the value of diversity in the financial services industry and in particular the role of the private and public sectors, specifically corporate America and the public pension funds, in addressing this issue. We are collaborating with New America Alliance and key financial stakeholders to create processes, oversight, and enforcement of regulations that pertain to enhancing access to capital and wealth building opportunities in the financial services system.

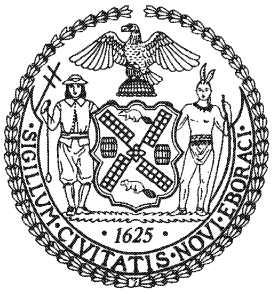
It is the responsibility of influential Hispanic leaders in government and business to build on the gains made by Hispanics in the financial services industry and corporate America. The facts, ideas and action steps outlined in this White Paper provide a guide to improve our nation's financial services system. We applaud New America Alliance for its efforts and we look forward to our continued collaboration.

Sincerely,

Congressman Ciro Rodriguez
Chair, Congressional Hispanic Caucus

Congressman Joe Baca
Chair, CHC Corporate America Task Force

NEWS



from New York City Comptroller
William C. Thompson, Jr.

1 Centre Street, New York, NY 10007
(212) 669-3747
press@comptroller.nyc.gov
www.comptroller.nyc.gov

October 14, 2003

STATEMENT OF SUPPORT
William C. Thompson, Jr.
Comptroller of the City of New York

RE: New America Alliance White Paper: American Latinos in Financial Services

I applaud the efforts of the New America Alliance, in its report on American Latinos in Financial Services, to delineate the challenges faced by the Latino community in its efforts to broaden its representation in the consulting, asset management, private equity, and brokerage sectors of the financial services industry. This diligent, thorough and invaluable study should serve as the basis for a constructive and serious dialogue among institutional investors, public figures and business leaders as we seek out ways in which we can provide greater opportunities for Latinos in the financial services sector.

As New York City Comptroller, I am committed to breaking new ground in this area, and my office has taken several concrete steps toward doing just that. Most recently, on behalf of the New York City Retirement Systems, my office issued a request for qualifications targeting discretionary managers to invest up to $175 million in emerging private equity funds. In unveiling this innovative program, we hope to take advantage of the market opportunity presented by small, first-time funds – particularly those owned by women or members of minority groups. This represents a crucial step forward in our ongoing efforts to give women and minority-owned firms every opportunity to demonstrate their potential. By partnering with the next generation of the best and the brightest private equity managers, the City of New York also stands to benefit.

I look forward to working with the New America Alliance to seek out more ways in which we can advance the cause of Latinos within the financial services sector.

MILKEN INSTITUTE

October 16, 2003

Mr. Moctesuma Esparza
Chair of the Board

Mr. Jorge Castro
Chair of Economic Capital

Ms. Maria del Pilar Avila
Executive Director

Dear Friends:

With great interest and concern, I've completed reading your important perspective developed in "American Latinos in Financial Services." This work makes an important contribution to our understanding of the barriers that exist in financial services and capital markets that must be overcome to insure economic growth and job creation. Emerging domestic markets which represent the greatest promise for economic growth and profitability are widely underserved. Latino businesses are a significant and important part of those markets. To realize the potential of Latino businesses as an engine for growth, the capital gap in funding them must be overcome. Your paper addresses many of the issues that must be addressed to overcome barriers to growth and broader economic participation to insure U. S. competitiveness in the decades ahead.

Sincerely,

Glenn Yago, Ph.D.
Director, Capital Studies

MILKEN INSTITUTE • 1250 FOURTH STREET • SANTA MONICA, CA 90401-1353 • 310.570.4600 • FAX: 310.570.4601
info@milkeninstitute.org • www.milkeninstitute.org

1050 Connecticut Avenue, NW
10th Floor
Washington, DC 20036
Tel: 202 772-4158
Fax: 202 772-3374
www.naaonline.org