

CALSTRS

**CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM**

**PRIVATE EQUITY
INVESTMENT
POLICY**

**INVESTMENT BRANCH
JANUARY 2022**

H. Private Equity Investment Policy

EXECUTIVE SUMMARY

In accordance with the CalSTRS Investment Policy and Management Plan (“IPMP”) the California State Teachers’ Retirement System Board (“Board”) has established an allocation for Private Equity. CalSTRS’ Private Equity assets are to be invested, administered, and managed in a prudent manner for the sole benefit of its participants and beneficiaries, in accordance with the California Constitution, the Teachers’ Retirement Law, and other applicable statutes. No investment instrument or activity prohibited by the IPMP shall be authorized for the Private Equity portfolio.

The document is intended to summarize the fundamental objectives and considerations used in the investment, administration, and management of the Private Equity portfolio. These policies are designed to set boundaries that will ensure prudence and care in the management of the Private Equity assets while allowing sufficient flexibility to capture investment opportunities.

CalSTRS believes that environmental, social, and governance (“ESG”) issues can affect the performance of our investments. As a result, CalSTRS’ Investment Policy for Mitigating Environmental, Social, and Governance Risks has been developed as a tool that both internal and external investment managers are expected to use to assess the impact of ESG risks when making an investment on behalf of CalSTRS.

Detailed procedures and guidelines for the Private Equity portfolio are maintained separately. As with all other plan assets, these policies cannot be altered without explicit direction from the Board. Investment restrictions included in the IPMP are hereby incorporated by reference. Words and terms that may be unfamiliar to the reader are referenced in the glossary.

PROGRAM OBJECTIVES

The Private Equity program seeks to capture attractive risk-adjusted long-term investment returns by investing in private assets and securities. Relative to publicly traded investment securities, attractive investment opportunities are presented as a result of inefficient markets, longer investment horizons, and advantageous corporate governance structures. This program invests in both equity-based and debt-based opportunities.

In some cases, the mandate for this program overlaps with other CalSTRS asset classes including Real Estate, Inflation Sensitive, Sustainable Investment and Stewardship Strategies (“SISS”), and Innovative Strategies. In such cases, Private Equity will consult with the other asset classes and the Chief Investment Officer to determine where a particular investment opportunity should reside within the overall CalSTRS investment portfolio.

PERFORMANCE OBJECTIVES

The Private Equity program seeks to provide superior risk-adjusted long-term investment returns relative to those available from investing in publicly traded investment securities with similar underlying market characteristics.

The Private Equity program is expected to deliver relatively high long-term investment returns for the overall CalSTRS portfolio. These higher investment returns are accompanied by relatively high levels of investment risk.

PROGRAM BENCHMARKS

Private Equity is a long-term asset class which means, all other factors being equal, longer time periods should be used to measure private equity performance. Although longer measurement periods are preferred, Private Equity is benchmarked over a full spectrum of time periods, consistent with the other asset classes in the CalSTRS portfolio.

The longer-term Private Equity benchmark is based on a public market index plus a spread. Because private equity investments are generally less liquid and more expensive to manage relative to publicly-traded investments, a premium rate-of-return is expected. The shorter-term benchmark is peer-based.

The two program benchmarks for Private Equity are as follows:

- A. For periods of ten years and beyond:** The performance benchmark is the MSCI ACWI IMI plus one and a half percent.
- B. For periods of less than ten years:** The performance benchmark is a dynamically weighted blend of the benchmarks for the Traditional and Non-Traditional sub-asset groups. As discussed in the next section (and shown below in Figure 1), the Traditional sub-asset group includes the Buyout, Venture Capital, and Debt-Related sub-asset classes; the Non-Traditional sub-asset group includes the Longer-Term Strategies, Multi-Strategy, and Private Equity Special Mandates sub-asset classes.

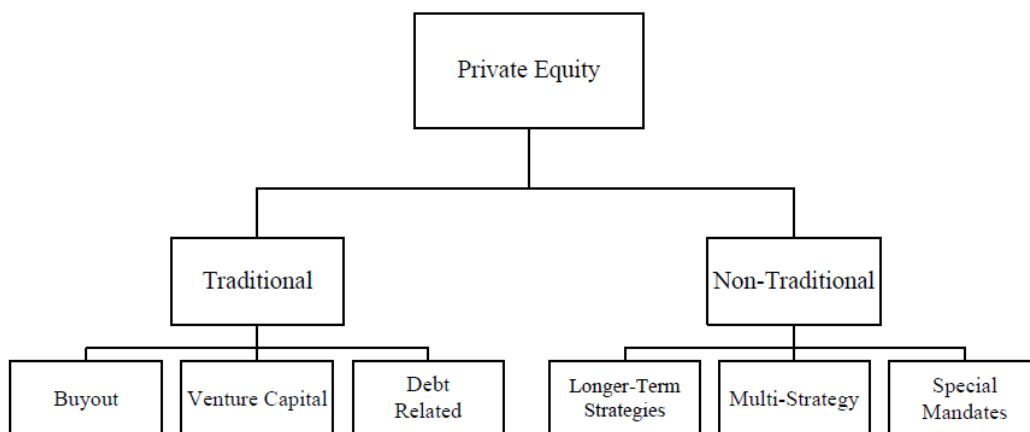


Figure 1: Private Equity Portfolio and Benchmark Structure

B.1 Traditional sub-asset group: The benchmark for this group shall be a weighted blend of these underlying sub-asset benchmarks:

- Buyout: The Buyout portion of the State Street GXPEI customized to reflect the pacing of CalSTRS' Buyout commitments.
- Venture Capital: The Venture Capital portion of the State Street GXPEI customized to reflect the pacing of CalSTRS' Venture Capital commitments.
- Debt Related: The Debt Related portion of the State Street GXPEI customized to reflect the pacing of the CalSTRS' Debt-Related commitments.

The sub-asset components of the Traditional benchmarks shall be weighted according to the interim sub-asset allocation targets. The vintage year customization shall be weighted according to the actual vintage year deployments. Customization will employ a “scaled cash flow” methodology consistent with industry best practices.

B.2 Non-Traditional sub-asset group: The benchmark for this group shall be a weighted blend of these underlying sub-asset benchmarks:

- Longer-Term Strategies: The Buyout portion of the State Street GXPEI multiplied by 90%.
- Multi-Strategy: CalSTRS Custom Tactical Index: –A 60%/40% blend of the Debt Related and Buyout portions respectively of the State Street GXPEI.
- Private Equity Special Mandates Portfolio: The Buyout portion of the State Street GXPEI minus 200 basis points.

The sub-asset components of the Non-Traditional benchmarks shall be weighted according to the interim sub-asset allocation targets.

PROGRAM STRUCTURE

Portfolio Structure, Sub-asset Groups and Sub-asset Classes

The Private Equity portfolio shall be organized and monitored based on the structure shown in Figure 1 (see above). The portfolio is divided into the Traditional and the Non-Traditional sub-asset groups. As discussed previously, the Traditional sub-asset group includes the Buyout, Venture Capital, and Debt-Related sub-asset classes; the Non-Traditional sub-asset group includes the Longer-Term Strategies, Multi-Strategy, and the Private Equity Special Mandates sub-asset classes.

The Traditional sub-asset group is comprised of private equity investment types that are well established and common in the industry and for which reasonable and reliable peer benchmarks currently exist. These investments can be more readily peer-benchmarked due

to the broader availability of comparable investable opportunities and a reasonably long observation period.

The Non-Traditional sub-asset group is comprised of private equity investment types that are not as well established or common in the industry and for which reasonable and reliable peer benchmarks are not as readily available. The benchmarks for these sub-asset classes will tend to be based on proxy metrics rather than peer-based metrics. As a means of measuring the performance of these types of investments, benchmarks are more difficult to devise, involve more subjectivity and when used to measure program performance, may be more prone to misleading or random results. On the other hand, opportunistic investments themselves may in many cases involve the ability to make above average risk-adjusted returns due to first mover advantages, less competition or various miscellaneous arbitrage characteristics.

Permissible Investment Types

The Private Equity program invests in: (1) Commingled Limited Partnerships (and other limited liability vehicles); (2) Separately Managed Accounts; (3) Co-investments; (4) Secondary Market Transactions; and, (5) Direct Investments in General Partner management companies. The Private Equity program can purchase and sell these investments. The subject investments are generally in private vehicles, primarily holding illiquid, private securities, but such vehicles may also hold some publicly-traded securities.

Restrictions Pertaining to Investments Done Under Delegation Authority

The following restrictions apply to investments executed by staff under delegation of authority (as further discussed later in this policy):

Commingled Limited Partnership: A Commingled Limited Partnership is a legal entity (either a partnership, LLC, or other vehicle providing limited liability for investors) controlled by a general partner (or other similar entity) who manages the operations for a group of limited partners. Limited partners invest capital but have limited liability, are not involved in the day-to-day management of a partnership, and generally cannot lose more than their capital commitment.

Applicable to new Commingled Limited Partnerships sponsored by general partners not already included in CalSTRS' Private Equity portfolio (i.e. applicable to "First Time Limited Partnerships"): The maximum commitment amount shall be the lessor of 2% of PE NAV or 25% of the total amount of the partnership capitalization.

Applicable to Commingled Limited Partnerships sponsored by general partners(s) that are already in the CalSTRS' Private Equity portfolio (i.e. applicable to "Follow-on-Commingled Limited Partnership"): The maximum commitment amount shall be the lessor of 4% of PE NAV or 25% of the total amount of the partnership capitalization.

Separately Managed Account: A Separately Managed Account is an investment vehicle managed for one investor rather than many. The vehicle may have a specialized mandate or may invest alongside a Commingled Limited Partnership.

A Separately Managed Account vehicle must be a Limited Partnership, or limited liability corporation, or other vehicle that provides CalSTRS protection from general partner liability.

The maximum commitment amount shall not exceed 4% of PE NAV for a “Follow-on Separately Managed Account” vehicle or 2% of PE NAV for a “First Time Separately Managed Account” vehicle.

Co-investment: A Co-investment is made alongside general partners or other institutional investors in underlying assets and securities, usually with lower management fees and carried interest. Co-investments may be structured as securities held directly by CalSTRS or as an interest in a vehicle managed by the General Partner that invests in such securities.

The maximum Co-investment commitment to a single company (or set of related companies), either at one time or over a period of time shall not exceed 2% of PE NAV. Also, CalSTRS shall not be more than 50% of a financing round.

CalSTRS may incur due diligence costs, expenses, and break-up fees on potential Co-investments. The budget for these items shall be approved by the Chief Investment Officer, Deputy Chief Investment Officer, or Director of Private Equity, with such approval being made in advance of any potential commitment to the co-investment.

Secondary Market Transactions: For the purpose herein, Secondary Market Transactions are purchases or sales of private equity related interests in which one or more of the original investors divests. Such private equity interests may involve a single interest or pools of interests. Pools may be diversified (four or more interests in a single transaction) or non-diversified (three or less interests in a single transaction).

Private Equity related interests can take the form of: 1) Commingled Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Portfolio Companies, or; 6) a combination of the above.

The maximum commitment amount shall not exceed:

Asset Type	Diversified Pools	Single Interests and Non-Diversified Pools
Commingled Limited Partnership Interests and Separately Managed Accounts	4% PE NAV	2% PE NAV
Co-investments, General Partner Interests, and Portfolio Companies	4% PE NAV	2% PE NAV

A diversified investment shall not include any single interests greater than that allowed under non-diversified investments.

Diversified and non-diversified investment are not defined by the structure of the investment (e.g., Commingled Limited Partnership, Separately Managed Account, Co-investment), but rather by the underlying assets.

Direct Investments in General Partner management companies: In addition to investing as a limited partner, the Private Equity program may acquire (and sell) minority interests in General Partner management companies.

The maximum commitment amount shall not exceed 2% PE NAV.

Ownership percentage of a Direct Investment in any one general partnership (or series of general partnerships organized by a particular manager) shall not exceed 25% economic interest.

Private Equity Special Mandates: The term “Special Mandate” is defined as a discrete investment strategy, other than divestments, suggested by CalSTRS’ Board members that include, but are not limited to: environmental, social, governance, in-state investments; or other factors that are expected to have a positive or neutral impact on the economic performance of the fund over the long term.

Authorized Private Equity Special Mandates are listed below. Additional Special Mandate strategies may be added to the portfolio at the direction of the Investment Committee.

- **Proactive Portfolio:** The Proactive Portfolio includes the Underserved Urban and Rural Mandate (“UUR”) and the New and Next Generation Manager Mandate (“NNG”): The UUR mandate invests with Private Equity managers specializing in underserved urban and rural markets. The NNG mandate invest with Private Equity managers that are of a “new and next generation” nature (generally, but not exclusively, first-, second-, or third-time institutional funds).

The Proactive Portfolio may be invested in whole or in part through Commingled Limited Partnerships, Separately Managed Accounts, Co-investments, GP Interests, or Fund-of-Fund vehicles. The maximum commitment amount of a Fund-of-Fund vehicle that is new to CalSTRS in the Proactive Portfolio, or with a new strategy, shall not exceed \$100 million. Follow-on investments of this type shall not exceed \$250 million. Investments in the Proactive Portfolio are limited to investing primarily in the United States, Canada, and Mexico.

Side-by-Side (“SBS”) investments are commitments made to an underlying fund in one of the UUR or NNG Fund-of-Fund vehicles with a positive recommendation from the applicable manager or the Program Advisor. The maximum commitment amount for new and follow-on SBS investments shall be the lessor of \$100 million or 30% of the total amount of the partnership capitalization.

Co-investments with GPs in underlying Special Mandate portfolios are permitted under the same restrictions as the Co-investment portion of this policy, but limited to \$100 million per financing round

- Clean Energy and Technology Special Mandate (“Clean-Tech”): The Clean Energy and Technology Special Mandate is a diversified portfolio of Venture Capital and Buyout investments across the clean technology and clean energy universe. The program is global in scope and includes both Limited Partnership investments and Co-investments.

RISK MANAGEMENT

Delegation of Authority

The investment, administration, and management of the Private Equity assets and strategies are delegated to staff within the boundaries established by these policies and the processes described within the relevant investment guidelines.

All Private Equity investments require a positive written recommendation by CalSTRS’ staff and either a Program Advisor, an Independent Fiduciary, or Co-investment Advisor.

Diversification

Diversification within the Private Equity portfolio is critical to control risk and maximize returns. Investments shall be diversified to control unintended biases. Diversification will be reviewed on a NAV basis over time, and across the following parameters:

Market Segments (sub-asset classes): The market segments are defined as Buyout, Venture Capital, Debt-Related, Longer-Term Strategies, Multi-Strategy,

and Private Equity Special Mandates. The following ranges and targets are to be reviewed and updated periodically to the Investment Committee:

	<u>Approved Ranges</u>	<u>Interim Targets</u>	<u>Approved Long-Term Targets</u>
Buyout	60 – 85%	75%	75%
Venture Capital	0 – 15%	10%	7%
Debt-Related	5 – 20%	6%	8%
Longer-Term Strategies	0 – 10%	2%	4%
Multi-Strategy	0 – 5%	3%	2%
Private Equity Special Mandates	0 – 8%	4%	4%

Interim targets represent goals that are generally expected to be achieved in the next 12 to 36 months. Long-term targets represent goals that are generally expected to be achieved over periods exceeding three years.

Geography: Geographic regions are defined by the principal focus of the investment mandate or, for a particular investment vehicle, the domicile of the underlying portfolio companies. The geographic breakdown shall be segregated by North America and Non-North America Markets. The following ranges and targets are to be reviewed and updated periodically to the Investment Committee:

	<u>Approved Ranges</u>	<u>Approved Targets</u>
North America	65 – 85%	75%
Non –North America	15 – 35%	25%

Vintage Year: Vintage Year is defined by the date of first cash flow of the Limited Partnership. Investments within market segments (sub-asset classes) shall be stratified by vintage year to mitigate the impact of fund flow trends within each segment. The vintage year pacing should be done in accordance with long-term allocation plans as periodically discussed and reviewed by the Investment Committee as well as other internal and external parties.

Economic Sector: Economic sectors are described by the Global Industry Classification Standard (GICS). Economic sector diversification is to be monitored and taken into consideration in making investment decisions.

MONITORING AND REPORTING

Management and Monitoring: The Private Equity program will be managed according to an annual business plan whose main business components will encompass an analysis of the investment environment, a review of the investment strategy, a review of the diversification targets, and a resource allocation budget.

Performance Measurement: In general, when reporting solely on Private Equity performance internal rate of return (IRR) methodology is to be preferred in keeping with the CFA Institute's Global Investment Performance Standards. When reporting in conjunction with other asset classes, for the sake of consistency, portfolio and benchmark data is linked on a quarterly basis to produce time-weighted returns (TWR).

Reporting: Staff will periodically report to the investment committee its current vision, strategy, and progress. The Private Equity Board Consultant will report on the PE program's performance as well as industry trends. Specific reports will include:

- i. Semi-Annual Reports: The Private Equity Board Consultant will prepare and present portfolio management reports on a semi-annual basis focused on performance and industry trends. The management report will provide information on, among other items, portfolio diversification, largest holdings, investment performance, co-investment holdings, and committed and funded status.
- ii. Business Plan: Staff provides
- iii. Pacing Plan: Staff provides
- iv. Investment Manager Ratings Report: Staff provides

VERSION CONTROL

Adopted June 1998
Revised July 1998
Revised April 1999
Revised to flexibility regarding secondary transactions on April 2001
Revised March 2002
Revised for clarification of returns calculations using dollar-weighted IRR on June 2003
Revised to expand eligible regions to rest of world on June 2004
Revised to change level of delegated authority on July 2005
Revised to increase co-investment limits and layout proactive portfolio process on June 2006
Revised to adjust Benchmark on May 2007

Revised for co-investment ROW, sale policy and direct GP Investment on July 13, 2007
Revised for daily trading authority limits, and sector targets and ranges on November 1, 2007
Revision of financial benchmark July 10, 2008
Revision for separately managed accounts on July 12, 2012
Revised to add ESG Risks Policy reference on September 10, 2013
Revised to clarify the benchmark for different time periods July 11, 2014
Revised to define APM and DCIO trading limits on April 5, 2017
Revised to customize GXPEI benchmark and establish new Sub-assets on June 7, 2017
Revised to update and reflect increased limits, investment types, and structures November 1, 2017
Policy revised to reflect new format, new structure, interim targets, and benchmarks May 8, 2019
Policy revised to reflect new benchmark for periods of ten years and beyond July 11, 2019
Revised to reflect increased limits, interim targets, co-investment scope, and clean-up on
January 27, 2022

GLOSSARY

BUYOUT – Buyout investments involve the purchase of all or part of the stock or assets of a company utilizing a significant amount of borrowed capital as well as equity capital. Borrowed capital typically consists of some combination of senior and subordinate debt. The company may be privately or publicly owned, or a subsidiary or division of a privately or publicly owned company.

CARRIED INTEREST –The general partner’s carried interest is its share of the partnership’s profits, and generally ranges from 10% to 30% of the total. A 20% carried interest is the industry norm for private equity.

CLEAN ENERGY AND TECHNOLOGY SPECIAL MANDATE – The Clean Energy and Technology Special Mandate (“Clean-Tech”) is a diversified portfolio of venture capital and buyout investments across the clean technology and clean energy universe. The program is global in scope and includes both fund investments and co-investments. Please see the definition for Private Equity Special Mandates. New commitments discontinued as of September 2018.

CO-INVESTMENT – Co-investments are investments made alongside general partners in underlying assets and securities, usually with lower management fees and carried interest.

CO-INVESTMENT ADVISOR – A co-investment advisor is an investment manager who manages a Separately Managed Account of co-investments on behalf of CalSTRS. Such an advisor may act as an Independent Fiduciary for co-investments that are outside of the Separately Managed Account if at least \$25 million is invested in such transaction through the Separately Managed Account that is being managed on behalf of CalSTRS by such Co-investment Advisor.

CO-INVESTMENT TRANSACTION – A financing or series of financings that have an initial close on a given date and a final close no later than 365 days thereafter. Subsequent to the initial close, financings must have essentially the same terms or better to be considered a single transaction.

COMMINGLED LIMITED PARTNERSHIP – Legal Entity made up of a General Partner, who manages the operations, and limited partners, who invest capital but have limited liability. Limited partners are not involved in the day-to-day management of the partnership and generally cannot lose more than their capital commitment.

DEBT-RELATED INVESTMENT STRATEGIES – Debt-related investments (as applied to the Private Equity asset class) involve the purchase and ownership of private securities that are debt-oriented (rather than equity-oriented). There are many different types of debt-related investment strategies including but not limited to mezzanine debt, distressed debt, direct lending, and convertible debt.

DEVELOPED MARKETS – Countries with advanced economies and capital markets as designated by Dow Jones or Standard & Poor’s.

DIRECT INVESTMENTS – Direct Investments are those made outside of a limited partnership structure. While a co-investment is made alongside of a limited partnership investment, a direct investment is not. Direct investments need a greater level of due diligence and involve a greater level of risk in comparison to a co-investment. Direct Investments are limited to General Partner Interests.

DISTRIBUTIONS – Cash and/or securities paid out to the limited partners from the limited partnership.

FIRST TIME LIMITED PARTNERSHIPS – A fund from a management team that has not previously been directly held in CalSTRS' Private Equity Portfolio.

FIRST TIME SEPARATELY MANAGED ACCOUNT – An investment in a vehicle managed for one investor rather than many with a management team that has not previously been directly held in CalSTRS' Private Equity Portfolio.

FOLLOW-ON LIMITED PARTNERSHIPS – The second and all subsequent funds raised by a management team that are directly held in CalSTRS' Private Equity Portfolio.

FOLLOW-ON SEPARATELY MANAGED ACCOUNT – The second and all subsequent separately managed accounts directly held by CalSTRS and managed by a particular general partner.

FUND-OF-FUND (FOF) – An investment strategy of holding a portfolio of other investment funds rather than investing directly in stocks, bonds, or other securities.

GENERAL PARTNER – Managing partner of a limited partnership responsible for performing the day-to-day administrative operations of the partnership and acting as investment advisor to the partnership.

GLOBAL INDUSTRY CLASSIFICATION STANDARD (GICS) – Industry taxonomy developed in 1999 by MSCI and Standard & Poor's (S&P) for use by the global financial community.

GXPEI (OR THE STATE STREET GX PRIVATE EQUITY INDEX) – A peer-based private equity index developed, owned and managed by State Street. The data for this index is derived from the cash flow data of State Street's limited partner clients.

INDEPENDENT FIDUCIARY – A third party organization that provides non-discretionary specialized advisory services to Staff and acts as a fiduciary to CalSTRS and who by law must act in the best interests of CalSTRS and put the interests of CalSTRS above their own.

INITIAL PUBLIC OFFERING (IPO) – The sale or distribution of a stock or a portfolio company to the public for the first time.

INTERNAL RATE OF RETURN (IRR) – The discount rate at which the present value of future cash flows of an investment equals the cost of the investment. It is determined when the net present

value of the cash outflows (the cost of the investment) and the cash inflows (returns on the investment) equal zero, the rate of discount being used is the IRR.

LIMITED PARTNER – The investors in a Commingled partnership or Separately Managed Account. Limited partners do not participate in the management of the partnership’s activities. However, they normally have the right to vote to approve or disapprove amendments made to the limited partnership agreement.

LONGER-TERM STRATEGIES – Private equity investments that are expected to have lower risk and reward profiles than traditional private equity investments. Such investments will likely be held for longer periods of time than traditional private equity investments. Management fees and carried interest will generally be lower than for traditional private equity investments.

MULTI-STRATEGY – The Multi-Strategy sub-asset class invests in private equity investments along with other private investments with fixed income, real estate, and hedge fund characteristics.

NEW AND NEXT GENERATION MANAGER MANDATE (NNG) – The New and Next Generation Manager Mandate was established by the Investment Committee in 2003. It involves partnerships that are raising their first-, second-, and third-time institutional funds or partnerships formed by junior or senior level partners that have left a prior partnership to form a new general partner. Please see the definition for Private Equity Special Mandates.

NON-DEVELOPED MARKETS – Countries with developing economies and capital markets as designated by Dow Jones or Standard & Poor’s.

PORTFOLIO COMPANIES – Portfolio companies are the companies in which the Commingled Limited Partnership, Separate Managed Account, Secondary Limited Partnership, or other similar structure has an investment.

PREFERRED RETURN – A rate of return that must be met before the General Partner can earn carried interest.

PRIVATE EQUITY BOARD CONSULTANT – A Private Equity Board Consultant acts as an independent fiduciary advisor to the Investment Committee and provides expertise and advice related to the overall investment strategy, policies, and practices of the Private Equity Program.

SPECIAL MANDATES – Discrete private equity investment strategies (other than divestments which are covered by a separate policy) suggested by the CalSTRS Investment Committee that include, but are not limited to environmental, social, governance (ESG) matters in-State investments, or other factors that are expected to have a positive or neutral impact on the economic performance of the fund over the long term. See Special Mandate Policy.

PROACTIVE PORTFOLIO – The Proactive Portfolio currently encompasses two Special Mandates: (1) the Underserved Urban and Rural Mandate investing with private equity managers specializing in underserved urban and rural markets and (2) the New and Next Generation Manager

Mandate investing in private equity managers that are of a “new and next generation” nature. Please see the definition for Special Mandates.

PROGRAM ADVISOR –A Program Advisor provides expertise, advice and recommendations to support staff in the management and monitoring of an asset class or classes including, but not limited to, screening the universe of general investment opportunities and identifying those meeting CalSTRS’ selection criteria, assisting staff in performing due diligence on prospective investment opportunities, issuing investment recommendations, and maintaining a deal log of investment opportunities. A Program Advisor is also an Independent Fiduciary.

SECONDARY LIMITED PARTNERSHIP INTERESTS – Limited Partnership interests that have been transferred from the original limited partner who made the original capital commitment to a limited partnership fund.

SEPARATELY MANAGED ACCOUNT – An investment vehicle managed for one investor rather than many. The vehicle may have a specialized mandate or may invest alongside a Limited Partnership.

SECONDARY MARKET TRANSACTIONS – Secondary Market Transactions are purchases or sales of private equity related interests in which one or more of the original parties divests (or has divested). Such private equity interests may involve a single interest or pools of interests. Pools may be diversified (greater than three interests in a single transaction) or non-diversified (three or less interests in a single transaction).

SIDE-BY-SIDE INVESTMENT (SBS) - A commitment to an underlying fund in one of the Special Mandate fund-of-fund vehicles with a positive recommendation from the applicable manager or the Program Advisor.

UNDERSERVED URBAN AND RURAL MANDATE (UUR) – The Underserved Urban and Rural Mandate was established by the Investment Committee in 2001 to seek private equity investment in the inner city and underserved portions of California and the U.S. Please see the definition for Special Mandates.

VENTURE CAPITAL – Venture capital refers to investments in young, emerging growth companies in different stages of development. The stages of venture capital investing include the following:

SEED STAGE - An entrepreneur seeking capital to conduct research or finish a business plan;

EARLY STAGE – A company developing products and seeking capital to commence manufacturing;

LATE STAGE – A profitable or near-profitable high growth company seeking further expansion capital. The common theme underlying all venture capital investments is the high-growth nature of the industries in which the investee companies operate and the active

role played by the investor to identify additional management expertise and provide general business advice.

VINTAGE YEAR – Vintage Year shall be defined in two ways: 1) For the purpose of investment pacing, a vintage year is the calendar year for which a fund commitment is closed; and 2) For the purpose of benchmarking, a vintage year is the calendar year an investment vehicle first draws capital or draws on its credit line. By placing an investment into a particular vintage year, the investor can compare the performance of a given investment with other similar investments that have first drawn capital (or its credit line) during that calendar year.