

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Alternative Investments
Activity Status Report

ITEM NUMBER: 13

ATTACHMENT(S): 4

ACTION: _____

DATE OF MEETING: April 4, 2001

INFORMATION: X

PRESENTER(S): Réal Desrochers

The table below contains Alternative Investment activity for the month of February 2001 and historical information for selected time periods.

	Month Ended 2/28/01	Fiscal Year To Date	Past One Year	Past Three Years	Past Five Years
<u>Commitments:</u>					
Partnerships	\$ 0	\$ 1,393,000,000	\$ 3,343,500,000	\$ 5,703,125,000	\$ 7,446,663,477
Co-Investments	0	43,632,274	63,632,274	136,132,270	183,132,270
Secondaries	0	0	0	80,067,245	80,067,245
	\$ 0	\$ 1,436,632,274	\$ 3,407,132,274	\$ 5,919,324,515	\$ 7,709,862,992
<u>Contributions:</u>					
Partnerships	\$ 34,993,391	\$ 764,552,989	\$ 1,219,243,521	\$ 3,107,011,437	\$ 3,902,044,535
Co-Investments	0	40,339,474	45,825,070	88,991,755	135,991,755
Secondaries	426,686	3,225,967	5,752,320	73,896,551	73,896,551
Mgmt. Fee (Outside)	0	4,275,713	5,957,475	23,745,619	36,604,497
	\$ 35,420,077	\$ 812,394,143	\$ 1,276,778,386	\$ 3,293,645,362	\$ 4,148,537,338
<u>Distributions:</u>					
Cash	\$ 32,923,816	\$ 200,398,422	\$ 360,613,281	\$ 1,170,667,572	\$ 1,733,467,951
Stock	27,264,816	464,377,770	733,712,049	1,535,936,272	1,749,568,441
	\$ 60,188,632	\$ 664,776,192	\$ 1,094,325,329	\$ 2,706,603,844	\$ 3,483,036,391
Stock Sales	\$ 8,421,425	\$ 503,756,101	\$ 895,106,536	\$ 1,486,676,479	\$ 1,693,822,894

During the month of March 2001, staff made a €100 million commitment to Apax Europe V and a \$200 million commitment to CVC III. The commitments were made in accordance with delegation of authority guidelines. Executive summaries of these investments are provided in Attachments 1 and 2, respectively.

Attachments 3 and 4 provide executive summaries of action taken under delegation of authority for a \$5 million co-investment in Liberman Broadcasting and a \$20 million co-investment in Roller Bearing Holding Company, Inc.

Alternative Investments

EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY
APAX EUROPE V, L.P.

Action: Commit €100 million to Apax Europe V, L.P., which represents approximately 2.5% of the total capitalization of the fund.

Background: Apax Partners is one of the oldest and largest private equity firms operating on an international basis. The firm was formed in Europe by Ronald Cohen and Maurice Tchenio in 1972. In 1977, they joined forces with Alan Patricof in the U.S. Patricof & Co. was an early participant in the U.S. venture capital industry, having been active in that field since 1969. Apax has thirteen offices, eight in Europe, one in Israel, three in the U.S., and one in Japan.

Apax has managed pan-European funds since 1990, and it currently has €7.7 billion under management. Apax has made over 300 investments in Europe since 1981 and has exited or partially exited over 200 of them.

Apax has one of the largest private equity teams in Europe. The firm employs 160 people, 85 whom are investment professionals. Apax has 31 executive directors, 21 assistant directors, and 33 associates and analysts. The directors have, on average, approximately seven years of investing experience with Apax. They bring a mix of line management, strategic, and financial skills gained in a large number of different industries.

Analysis: CalSTRS has not invested in any previous Apax funds. However, in June, 2000, CalSTRS invested \$100 million with Patricof Apax Excelsior VI. Patricof & Co. Ventures, Inc. is the U.S. member of Apax Partners.

Apax V will continue to follow Apax Partners' balanced fund strategy of investing approximately one-third of its investments in early stage companies, up to one-half in leveraged transactions, and the remainder in expansion capital and special situations. Apax V will concentrate its investments in six specialist sectors---information technology, telecoms, media, biotechnology/healthcare, financial services, and specialty retailing, while investing opportunistically in other sectors. Apax V will invest primarily in Western Europe and Israel.

Apax V expects to invest in 100 to 125 companies, with an average investment of €25 to €30 million. The General Partner will make a commitment of not less than €50 million as an investor.

The returns for the individual funds raised since 1990 by Apax, which have all followed a balanced fund strategy, are shown below.

Performance as of June 30, 2000

Fund	UK IV	GER I	ISR I	UK V	GER II	UK VI	ISR II	AE IV
Year Raised	1990	1990	1994	1995	1997	1997	1999	1999
Fund size	£109m	DM 96m	\$40m	£164m	DM 26m	£313m	\$101m	€1.8bn
Net IRR – 6/00	26.2%	29.2%	42.9%	80.1%	114.1%	99.0%	4.0%	29.8%
<i>Venture Economics</i> Upper Quartile IRR for Special Equity Funds – 6/30/00	19.5%	19.5%	33.1%	23.0%	24.2%	24.2%	8.2%	8.2%
Distributed – 6/00	2.9 x	3.0 x	1.0 x	3.6 x	1.3 x	1.5 x	0.0 x	0.0 x
Multiple – 6/00	3.3 x	3.2 x	3.0 x	5.9 x	3.8 x	3.6 x	1.0 x	1.3 x

Investment Thesis: Staff is recommending an investment in Apax Europe V, L.P. for the following reasons:

- The net IRRs for 7 out of the 8 individual funds raised since 1990 by Apax exceed *Venture Economics*' Upper Quartile statistics for Special Equity Funds.
- The Apax investment strategy provides a good fit in the CalSTRS portfolio given the firm's reputation and experience, access to the pan-European buyout market, and successful track record over a significant period of time.
- CalSTRS' Alternative Investments International portfolio remains within the 10% to 20% target range with the inclusion of this proposed investment.
- Staff has received positive comments from all reference checks.
- Staff has received a positive investment recommendation from consultant, Pathway Capital Management.

Policy Compliance: This decision complies with the portfolio's policies and procedures, which were approved by the Investment Committee on June 3, 1998. A positive written recommendation by the Alternative Investment advisor and CalSTRS' staff has been documented. This resulted after an investment analysis and due diligence was conducted in the manner as previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit €100 million to Apax Europe V, L.P. CalSTRS' commitment is subject to the successful negotiation of partnership terms and legal review.

By:

Deanna C. Winter
Investment Officer

Date _____

By:

Seth C. Hall
Investment Officer

Date _____

Recommended By:

Réal Desrochers
Director of Alternative Investments

Date _____

Approved:

Christopher J. Ailman
Chief Investment Officer

Date _____

Alternative Investments

EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY
CVC EUROPEAN EQUITY PARTNERS III L.P.

Action: Commit \$200 million to CVC European Equity Partners III L.P., which represents approximately 5% of the total capitalization of the fund.

Background: CVC Capital Partners (“CVC”) is a privately-owned investment and advisory company established in 1981 as Citicorp Venture Capital Europe, the European venture capital arm of Citicorp. In 1993, eight individuals from Citicorp completed a management buyout of Citicorp Venture Capital Europe and formed CVC Capital. CVC entered into an agreement with Citicorp to be their exclusive investment advisor in Europe for all of their buyout activity, as well as to continue to manage their existing portfolio.

CVC is comprised of 66 individuals, including 46 investment professionals. CVC operates a network of 11 offices in Amsterdam, Brussels, Copenhagen, Frankfurt, Jersey, London, Madrid, Milan, Paris, Stockholm, and Zurich. CVC is recognized as a leading pan-European private equity group. CVC has also recently raised a \$500 million pan-Asian private equity fund and has opened an office in Hong Kong.

CVC has raised three European private equity funds since 1990. Of these, CalSTRS has commitments of \$40 million to CVC I and \$300 million to CVC II.

Analysis: CVC III qualifies as a follow-on fund as identified in the Alternative Investments’ policies. Consistent with the prior funds, CVC III will make investments in European management buyouts, buyins, acquisitions, recapitalizations, and growth equity transactions. This may include transactions with multinational components that extend beyond Europe. CVC III will invest in diverse industries but will target established European companies

CVC will seek to enhance the financial performance and the economic value of portfolio companies over a 3 to 5 year period. The exit strategy for portfolio companies will typically be to take them public, sell to corporate buyers, or effect recapitalizations. CVC III will target about 40 investments with an expected average deal size of \$250 million. The target size for CVC III is \$3.5 billion. This is not significantly greater than the \$3.1 billion size of CVC II.

Summary Performance:

(\$ in millions) as of 12/31/00	Europe Enterprise Fund	CVC Fund I	CVC Fund II	Total
Vintage Year	1992	1996	1998	
Total Cost	\$160	\$587	\$1,662	\$2,409
Realized Value	\$466	\$545	\$277	\$1,288
Total Value	\$482	\$1,426	\$2,291	\$4,199
Multiple	3.0x	2.4x	1.4x	1.7x
Net IRR	N/A ¹	28%	18%	
Ventures Economics Upper Quartile Benchmark	22%	21%	23%	

¹The implied performance of this fund (based on gross IRR) is above the Upper Quartile Benchmark.

Investment Thesis: Staff is recommending an investment in CVC III for the following reasons:

- Staff has identified CVC as a Tier 1 partnership.
- The CVC Funds have consistently generated good investment returns, with two funds exceeding the Venture Economics Upper Quartile Benchmark. The performance of the third fund is in the second quartile. It is still too early for the performance of this fund to be very meaningful.
- The CVC investment strategy provides a good fit in the CalSTRS portfolio given the firm's reputation and experience, access to the pan-European buyout market, and successful track record over a significant period of time.
- CalSTRS' international portfolio remains within the 10% to 20% target range with the inclusion of this proposed investment.
- Staff has received positive comments from all reference checks, including those of underperforming portfolio companies.
- Staff has received a positive investment recommendation from Pathway Capital Management.

Policy Compliance: This decision complies with the portfolio's policies and procedures, which were approved by the Investment Committee on June 3, 1998. A positive written recommendation by the Alternative Investment's advisor and CalSTRS' staff has been documented. This resulted after an investment analysis and due diligence was conducted in the manner as previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit \$200 million to CVC European Equity Partners Fund III. CalSTRS' commitment is subject to the successful negotiation of partnership terms and legal review.

By:

Deanna C. Winter
Investment Officer

Date _____

Seth C. Hall
Investment Officer

Date _____

Recommended By:

Réal Desrochers
Director of Alternative Investments

Date _____

Approved:

Christopher J. Ailman
Chief Investment Officer

Date _____

Summary Performance:

(\$ in millions) as of 12/31/00	Europe Enterprise Fund	CVC Fund I	CVC Fund II	Total
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Net IRR	N/A ¹	28%	18%	
Venture Economics Upper Quartile Benchmark	22%	21%	23%	

¹The implied performance of this fund (based on gross IRR) is above the Upper Quartile Benchmark.

Investment Thesis: Staff is recommending an investment in CVC III for the following reasons:

(\$ in millions) as of 12/31/00	Europe Enterprise Fund	CVC Fund I	CVC Fund II	Total
Vintage Year	1992	1996	1998	
Total Cost	\$160	\$587	\$1,662	\$2,409
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Total Value	\$482	\$1,426	\$2,291	\$4,199
Multiple	3.0x	2.4x	1.4x	1.7x
Net IRR	N/A ¹	28%	18%	
Venture Economics Upper Quartile Benchmark	22%	21%	23%	

Alternative Investments

EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY

Alta Communications VIII

Liberman Broadcasting Inc.

Action: Commitment of \$5 million in a co-investment in Liberman Broadcasting Inc. (LBI) subject to the successful negotiation of legal terms and conditions. The investment will take the form of equity like securities.

Background: Alta Communications VIII, one of the CalSTRS General Partners, has raised \$30 million to invest in Liberman Broadcasting Inc., which is a Hispanic radio and television broadcasting company headquartered in Burbank, California. Lenard Liberman and Jose Liberman are the co-founders of the company and the primary investors. When completed, the new financing group will own 6.8% of LBI. The new funds will provide for expansion of the Spanish speaking broadcasting company into the Houston, Texas market.

The CalSTRS investment of \$5 million and the additional indirect investment of \$1.4 million through Alta Communications VIII will represent 1.45% of LBI.

Investors: Alta Communications, CalSTRS, Abbott Capital, Fleet Bank, GE Capital, and Union Bank.

Investment Thesis: LBI is a Hispanic radio and broadcasting company formed in 1987 and headquartered in Burbank, California. LBI successfully runs a television station and five radio stations in the greater Los Angeles area that operate on a Spanish-speaking format. LBI is expanding into the Houston market and is acquiring a television station and five radio stations and will convert them to a Spanish-speaking format. LBI has demonstrated a successful strategy with a proven track record that has resulted in impressive historical revenue and cash flow growth. LBI's strategy has been to take advantage of the attractive Hispanic demographic and advertising growth, which is growing more than four times the rate of total advertising. LBI is expected to continue this success in the Houston market.

Policy Compliance: This investment complies with the Alternative Investment Policies, which were approved in April 1999. Positive written recommendations by the Independent Fiduciary (Houlihan Lokey) and Staff have been documented. The recommendations resulted after investment analysis and due diligence were conducted in a manner as previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit up to \$5 million to Liberman Broadcasting. CalSTRS' commitment is subject to the successful negotiation of legal terms and conditions.

By:

_____ Date: _____
Deanna C. Winter
Investment Officer

By:

_____ Date: _____
Richard Rose
Principal Investment Officer

Recommended by:

_____ Date: _____
Real Desrochers
Director-Alternative Investments

Approved by:

_____ Date: _____
Christopher J. Ailman
Chief Investment Officer

Alternative Investments

EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY
Whitney V

Roller Bearing Holding Company Inc. (RBC)

Action: Commitment of \$20 million in a co-investment in Roller Bearing Company Inc. (RBC) subject to the successful negotiation of legal terms and conditions. The investment will take the form of \$20 million in common equities.

Background: Whitney V, one of the CalSTRS General Partners, has raised \$70 million to invest in RBC, which is a manufacturer, and distributor of highly engineered precision roller, ball and plain bearings. Whitney V has offered CalSTRS an opportunity to co-invest \$20 million in this investment. The current CEO, Dr. Michael Hartnett, and other private investors currently own the firm. When completed, the new financing group will own 64% of RBC. The new funds will replace existing investors and provide RBC with growth-oriented investors who can provide the required additional capital to aid the firm's continued growth.

The CalSTRS co-investment of \$20 million and the additional indirect investment of \$4 million through Whitney V will represent 21.9% of Roller Bearing Holding Company Inc.

Investors: J.H. Whitney, CalSTRS and the Government of Singapore

INVESTMENT THESIS

RBC is the largest private manufacturer and distributor of roller, ball and non-automotive bearings in the U.S. focused on high margin niche markets. The Company has demonstrated 20% annual top line growth over the last five years with EBITDA margins of approximately 23% and EBITA growth at 25%. The company is a proven consolidator, acquiring and integrating seven companies since 1992. RBC is positioned to continue the organic and external growth rates, along with increased margins to provide investors with a high level of return.

Policy Compliance: This investment complies with the Alternative Investment Policies, which were approved in April 1999. Positive written recommendations by the Independent Fiduciary (KPMG) and Staff have been documented. The recommendations resulted after investment analysis and due diligence were conducted in a manner as previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit up to \$20 million to RBC. CalSTRS' commitment is subject to the successful negotiation of legal terms and conditions.

By:

Richard Rose
Principal Investment Officer

Date:_____

Recommended by:

Real Desrochers
Director-Alternative Investments

Date:_____

Approved by:

Christopher Ailman
Chief Investment Officer

Date:_____