

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

Item Number: 14

SUBJECT: Private Equity – Semi-annual Performance  
Report, Period Ending September 30, 2014

CONSENT: \_\_\_\_\_

ATTACHMENT(S): 1

ACTION: \_\_\_\_\_

DATE OF MEETING: April 3, 2015 / 30 mins.

INFORMATION: X

PRESENTER(S): Mike Moy, Pension Consulting Alliance

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**POLICY**

This item is governed by the [CalSTRS Private Equity Investment Policy](#), (Teachers' Retirement Board Policy Manual, Section 1000, Pg. I-1). Due to the delay in receiving partnership data, the Private Equity report is lagged by one quarter.

**HISTORY OF THE ITEM**

On a semi-annual basis, in September and April, the Private Equity consultant reviews the performance report of the Private Equity portfolio. This report is critical to the monitoring and oversight responsibility of the Investment Committee.

**PURPOSE**

Due to the specialized nature of the private equity asset class, the Investment Committee has retained a specialty consultant and receives a specialized performance report on the asset class. While the report includes one-year returns, as a long-term investor coupled with the long-term nature of the asset class, the Investment Committee is encouraged to focus on the three-, five- and ten-year results because they are less volatile and more indicative of the long-term performance trend of the underlying portfolio. One-year results are less meaningful in an asset class where the typical holding period for a portfolio company is four to five years.

- Mike Moy of Pension Consulting Alliance, the Investment Committee's private equity consultant, will present an oral report highlighting key issues across the CalSTRS Private Equity Portfolio.
- The portfolio data in the report is prepared by State Street Bank's Private Edge Group with input from Pension Consulting Alliance; it is fully customizable to meet Investment Committee needs.
- Mr. Moy will use this opportunity to alert the Committee of any areas of concern, needed policy revisions, or issues that warrant further review.

**RECOMMENDATION**

Staff recommends that, upon the oral report from Mr. Mike Moy, the Investment Committee receive the report for the record.

3Q 2014

CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM (CaSTRS)  
SEMIANNUAL PRIVATE EQUITY PROGRAM REPORT: Open Session



## INTRODUCTION

Private equity is a long-term asset class with performance results influenced by various factors. This report concentrates on several key exposures that contribute to performance results, including sector, geography, structure and vintage year. In addition, the broad industry trends highlighted herein may affect future performance results.

## -- EXECUTIVE SUMMARY --

### PORTFOLIO HIGHLIGHTS

- The **PEP portfolio has outperformed CalSTRS' customized benchmark and the Private Equity Industry Benchmark by 60 and 70 basis points, respectively, since inception**, but has underperformed each of the other reporting periods.
- **Over all periods evaluated, the PEP has performed in line with or slightly above the 12.0% return expectation** for the private equity asset class.
- Effective July 1, 2014, **CalSTRS replaced the Russell 3000 index plus 300 basis points with the State Street Private Equity Industry Benchmark for time periods less than ten years.**
- **Buyouts represent 70% of the PEP's market value** as of September 30, 2014.
  - Sub-asset class exposures are in line with targets.
- **Distribution activity through the first nine months of 2014 is on pace to exceed 2013 levels**, which achieved a high of \$5.6 billion.
- **The PEP has outperformed the industry median vintage year returns in 20 of 24 years** analyzed and has placed in the top quartile in five vintage years.
- **Sub-asset classes provided mixed performance** results versus their respective private market industry benchmarks as of September 30, 2014.
  - U.S. Buyout has underperformed its respective benchmark over all periods evaluated.
- **Approximately 50% of the PEP's total commitments were made during the 2005-to-2008 time period.**
- Fund investments, at 93% with co-investments comprising the other 7%, make up the bulk of the PEP's market value and have largely driven its returns.
- Over the 2014 calendar year, **CalSTRS' private equity staff made 33 new commitments aggregating \$2.8 billion.**

## INDUSTRY TRENDS

- **Fundraising activity continued to increase globally** in 2014.
- Announced **U.S. buyout deal volume exhibited an increase in 2014** to \$207 billion, up from \$167 billion in 2013.
- **Risk metrics in the leveraged buyout market increased** during 2014 as both purchase price multiples and debt multiples increased.
- **Venture capital investment activity continued to rise** in 2014.
- **Exit activity for venture capital investments continued to show strength** in 2014.
- The **outlook for distressed debt investment strategies continues to be mixed**.
- **Covenant light debt instruments continue to be prevalent**.
- It was revealed that **SEC exams have found inaccurate handling of private equity fees and expenses over half the time**. The impact on the industry going forward is uncertain at this time.

CalSTRS' PRIVATE EQUITY PORTFOLIO PERFORMANCE

Private Equity Program  
Performance Against Benchmarks  
As of September 30, 2014

	1-year	3-year	5-year	10-Year	Since Inception
CalSTRS PEP	14.1%	14.8%	14.3%	11.6%	13.7%
Private Equity Industry Benchmark* (for periods less than 10 years)	16.9%	15.7%	15.4%	13.6%	13.0%
Custom Benchmark* (for periods 10 years and longer)	21.9%	27.3%	19.0%	12.6%	13.1%
<b>Excess Returns</b>					
v. Private Equity Industry Benchmark	(2.8%)	(0.8%)	(1.2%)	(1.9%)	0.7%
v. Custom Benchmark	(7.8%)	(12.4%)	(4.8%)	(1.0%)	0.6%

\* Utilizing State Street Private Equity Industry Index (Total)

\*\* CalSTRS custom benchmark, maintained by PrivateEdge, is the return of the Russell 3000 Index + 300 basis points (from and since July 1, 2008); previous periods for the PEP index consists of the 90-day Treasury Bill rate for contributions less than three years old and the Russell 3000 Index + 500 basis points.

Source: PrivateEdge, PCA analysis

PORTFOLIO OVERVIEW

Summary of Changes in Investments

As of September 30, 2014

\$ Millions

	Number of Investments <sup>1</sup>	Capital Committed <sup>2</sup>	Capital Contributed <sup>3</sup>	Capital Distributed	Market Value	Total Value <sup>4</sup>
Sep. 30, 2014	347	\$48,676.4	\$39,608.7	\$40,044.5	\$21,612.2	\$61,656.7
Mar. 31, 2014	335	\$47,061.0	\$38,390.0	\$36,936.4	\$22,606.0	\$59,542.4
Six-Month Change	12	\$1,615.4	\$1,218.7	\$3,108.1	(\$993.8)	\$2,114.3

1. Number of Investments represents only active investments (both partnerships and co-investments).
2. Includes the impact of exchange rates for international partnerships.
3. Includes capital contributed for management fees called outside of CalSTRS' capital commitment.
4. Includes capital distributed plus market value.

Source: PrivateEdge, PCA analysis

**Actual vs. Target Allocation by Investment Category**

As of September 30, 2014

\$ Millions

Investment Category	Market Value*	Percent of PEP Market Value	Unfunded Commitments**	Total Exposure	Percent of PEP Exposure	CalSTRS Target	Long-Term Target Range
Buyout	15,054	69.7%	4,879	19,933	66.5%	70%	50-85%
Venture Capital	1,282	5.9%	478	1,760	5.9%	5%	5-15%
Expansion Capital	2,618	12.1%	1,602	4,220	14.1%	10%	5-15%
Distressed Debt	2,393	11.1%	1,220	3,613	12.0%	15%	5-20%
Mezzanine	265	1.2%	196	461	1.5%		

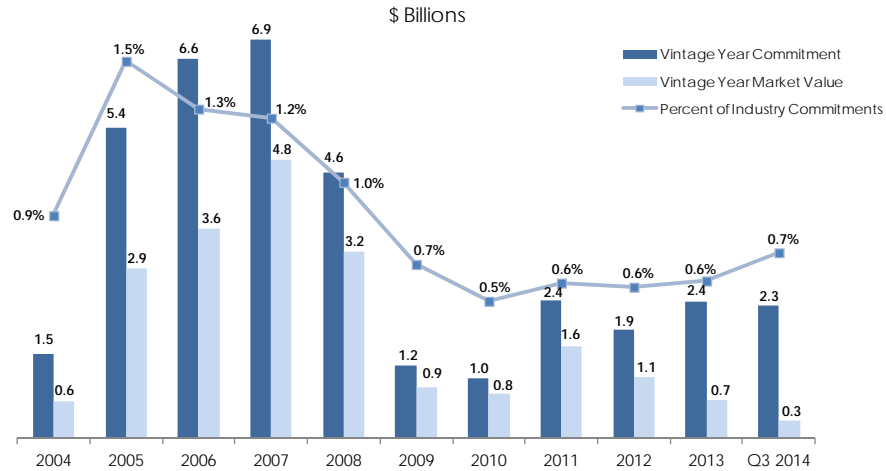
\* Market value is actual as of September 30, 2014 and is based upon the actual strategy of the partnership; secondaries and international are included in buyouts; co-investments are based on company investment strategy.

\*\* The table includes all commitments made through the end of the reporting month.

Source: PrivateEdge, PCA

- **Buyouts continue to represent the greatest total exposure at 66.5% of the PEP**, down slightly from 68.1% as of March 31, 2014.
- Given the material exposure to buyouts, future performance improvements may be dependent upon relatively robust merger and acquisition activity and potential exits via the public markets.
- Allocation to venture capital is nearing the low end of the target range.
- As of September 30, 2014, **CalSTRS' actual investments were in line with the current ranges** set by the Investment Committee.

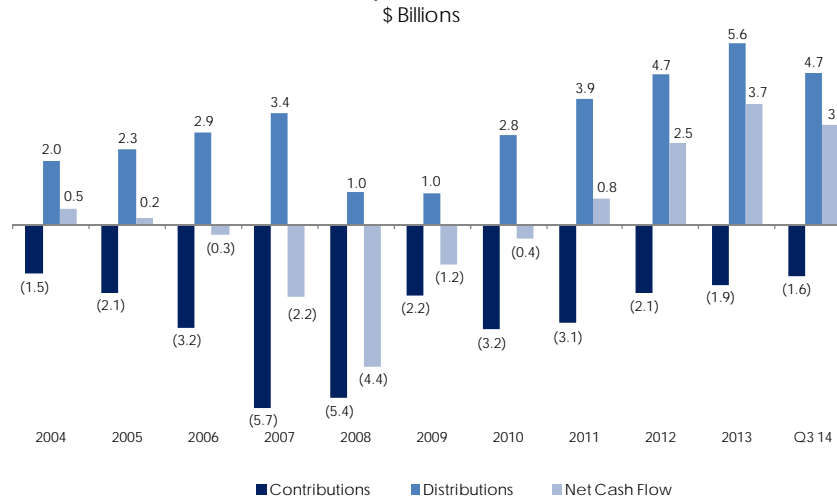
**PEP Annual Commitment Activity and Market Value  
As of September 30, 2014**



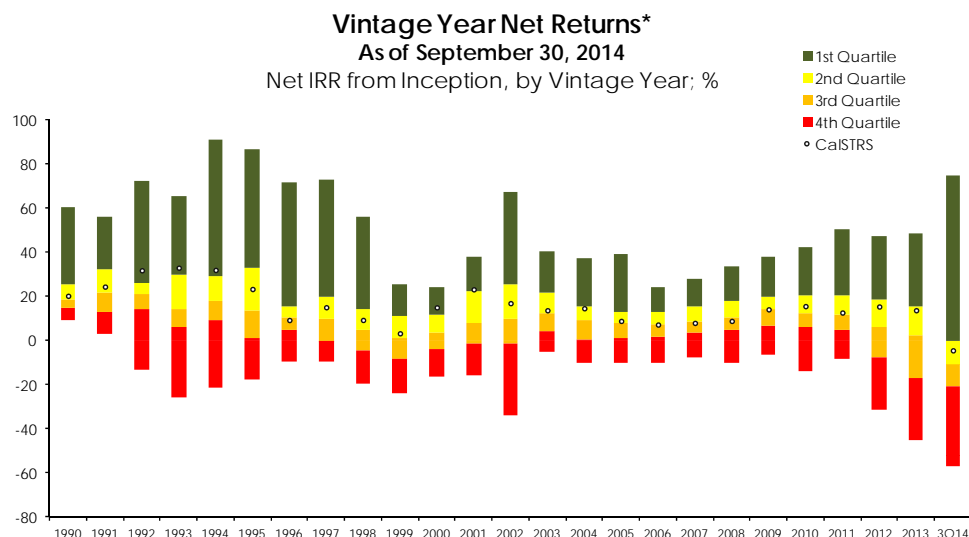
Source: PrivateEdge, Thomson Reuters, PCA Analysis

- The vintage year concentration involving 2007/2008 is being mitigated by the recent contribution and distribution activity.

**PEP Annual Cash Flows  
As of September 30, 2014**



Source: PrivateEdge, PCA Analysis



\* Benchmark quartile rankings provided by State Street PrivateEdge. Vintage year funds are defined as the return of all funds with the same year of inception.  
Source: PrivateEdge

- Investments made by the PEP since 1990 have outperformed the industry median vintage year returns in 20 of 24 years analyzed.

### Sub-Asset Class Performance As of September 30, 2014

Net IRR; %

Sub-Asset Class		1-year	3-year	5-year	10-Year	Since Inception
U.S. Buyout	CalSTRS	15.2%	15.8%	14.4%	11.1%	11.4%
	SSPEI: U.S. Buyout	18.9%	17.4%	17.0%	15.1%	13.3%
International Buyout	CalSTRS	12.1%	13.3%	14.8%	13.7%	14.8%
	SSPEI: Europe Buyout	10.4%	12.6%	13.4%	15.4%	13.8%
Venture Capital	CalSTRS	13.4%	10.8%	11.7%	8.2%	16.7%
	SSPEI: Venture Capital	24.3%	16.3%	15.7%	10.9%	14.0%
Expansion Capital	CalSTRS	17.7%	16.5%	17.1%	15.0%	21.5%
	SSPEI: Domestic Private Equity	18.5%	16.9%	16.2%	13.8%	13.4%
Mezzanine	CalSTRS	17.4%	14.8%	10.6%	11.2%	13.4%
	SSPEI: Mezzanine	13.2%	11.6%	12.6%	10.2%	10.8%
Distressed Debt	CalSTRS	11.5%	15.5%	13.1%	9.5%	10.3%
	SSPEI: Distressed	11.9%	15.6%	13.5%	12.4%	12.2%

Source: Private Edge

- U.S. buyout (the largest sub-asset class in the program) underperformed its sub-asset benchmark over all periods examined, while international buyout led its sub-asset class benchmark over the one-year, three-year, five-year, and since inception time periods.
- Expansion capital outperformed relative to its sub-asset class benchmark over all periods except the latest one-year and three-year periods, while venture capital only outperformed its respective sub-asset class benchmarks in the since inception time period.
- Distressed debt underperformed its sub-asset class benchmark over all periods evaluated.



### Performance by Investment Vehicle

As of September 30, 2014

Net IRR; %

Investment Vehicle	1-year	3-year	5-year	10-Year	Since Inception*
LP/Fund Investments	14.3%	15.0%	14.5%	11.7%	13.9%
Co-Investments	15.3%	14.7%	12.3%	9.1%	8.0%

\* LP/Fund Investment Program year of inception is 1988; Co-Investment Program year of inception is 1996.

Source: PrivateEdge

### Geographic Performance

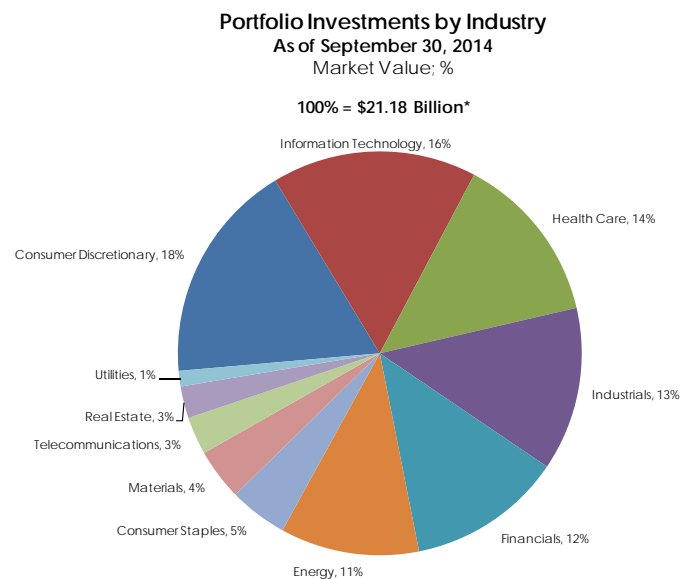
As of September 30, 2014

Net IRR; %

Investment Vehicle	1-year	3-year	5-year	10-Year	Since Inception	
United States	CalSTRS	15.3%	15.5%	14.3%	11.1%	13.3%
	SSPEI: Domestic	18.5%	16.9%	16.2%	13.8%	13.4%
International	CalSTRS	11.6%	13.4%	14.2%	13.2%	14.3%
	SSPEI: International (Europe)	10.9%	12.7%	13.0%	14.2%	13.0%

Source: PrivateEdge

- Fund investments, at 93%, make up the bulk of the PEP's market value. At 7%, the proportion of the portfolio in co-investments is up from 6% six months ago.
- CalSTRS' private equity investments are predominantly in U.S.-based funds, with 24% of the portfolio in international (mainly European) funds.



\*Includes only market value of portfolio holdings, and does not include cash, other assets, expense or liability; includes co-investments.  
Source: PrivateEdge, PCA Analysis

**Largest Buyout Relationships**  
As of September 30, 2014  
\$ Millions

General Partner	Number of Investments	Market Value	Unfunded	Total Exposure
Blackstone Group*	8	\$1,950	\$742	\$2,692
TPG Capital**	11	1,718	559	2,276
First Reserve	4	1,121	246	1,371
Permira	4	816	215	1,031
CVC Capital Partners	6	630	242	871

\* Includes investments in four GSO partnerships

\*\* Includes investment in NewBridge Asia IV, TPG Asia V, TPG Growth and TPG Opportunities II and III (A).

Source: PrivateEdge, PCA analysis

**Largest Venture Capital Relationships**  
As of September 30, 2014  
\$ Millions

General Partner	Number of Investments	Market Value	Unfunded	Total Exposure
New Enterprise Associates	10	\$409	\$81	\$490
Technology Crossover Venture	3	255	7	262
JMI Equity	4	76	112	188
GGV Capital	2	78	53	131
Sofinnova Venture Partners	4	51	64	115

Source: PrivateEdge, PCA analysis

The Proactive Portfolio is a framework for selecting private equity investments in an opportunistic and disciplined manner. The program includes: the Urban and Rural Program, the New and Next Generation Manager Program, other innovative strategies, emerging spaces, underserved markets, and California investments.

**Proactive Portfolio**  
**As of September 30, 2014**  
 \$ Millions

Investment Generation	Commitment	Unfunded	Market Value	Total Value	IRR
2003	250.0	13.8	112.6	178.3	-2.7
2005	105.6	32.3	80.3	109.2	7.5
2006	415.0	75.4	284.3	501.5	10.4
2007	20.0	0.6	8.2	8.3	-17.6
2008	216.9	93.8	162.4	171.3	10.7
2009	50.0	1.6	29.6	37.5	-5.8
2010	200.0	120.0	88.3	90.4	8.1
2011	70.0	35.3	36.8	37.5	5.7
2012	374.8	307.2	55.4	57.0	-15.4
2013	40.0	24.9	13.4	13.6	-15.4
2014 - Q3	200.0	188.1	9.8	9.9	-18.8
<b>CalSTRS Proactive Total</b>	<b>1,942.4</b>	<b>893.1</b>	<b>881.1</b>	<b>1,214.6</b>	<b>3.9%</b>

- The program's investment policy has laid a framework for direct, side-by-side investments with funds that have already been approved through the funds of funds managed by Bank of America Merrill Lynch (CalSTRS/BAML Funds), INVESCO (the New and Next Generation Manager Funds), and Muller & Monroe (M<sup>2</sup> Private Equity Funds).
- The net since-inception IRR for the Proactive Portfolio is 3.9% as of September 31, 2014, up from 3.1% at March 31, 2014.
- Almost two thirds of the Proactive Portfolio is committed to funds of funds whose structural J-curve is more elongated than a direct fund. This, combined with market volatility, a lack of investment exits and manager specific issues, contributes to the Proactive Portfolio's underperformance.
- Staff has advised PCA that they are working closely with all of the general partners in the Proactive Portfolio.

The PEP has evolved into one of the largest actively managed U.S. private equity programs, with thirteen (one current vacancy) private equity professionals. CalSTRS is further supported by investment advisors and independent fiduciaries for selected areas of the portfolio. This section examines current advisors, policy changes and recent portfolio activity.

## Role of Advisors

Role / Advisor
<b>Advisor to the Board</b>
PCA
<b>Advisor to staff on U.S., Canada, Asia and Latin America</b>
Cambridge Associates
<b>Advisor to staff on European, Middle East and Africa</b>
Altius Associates
<b>Investment and Performance reporting/Book of Record</b>
PrivateEdge Group
<b>Independent fiduciaries for co-investment and secondary partnerships</b>
Valuation Research Corporation
LP Capital Advisors
Meketa Investment Group
<b>Independent fiduciaries for Proactive Portfolio investments</b>
Bank of America Merrill Lynch
Invesco
Muller & Monroe
<b>Legal advisors</b>
Proskauer Rose LLP
Hanson Bridgett LLP
Sheppard, Mullin, Richter & Hampton LLP
Morgan, Lewis & Bockius LLP

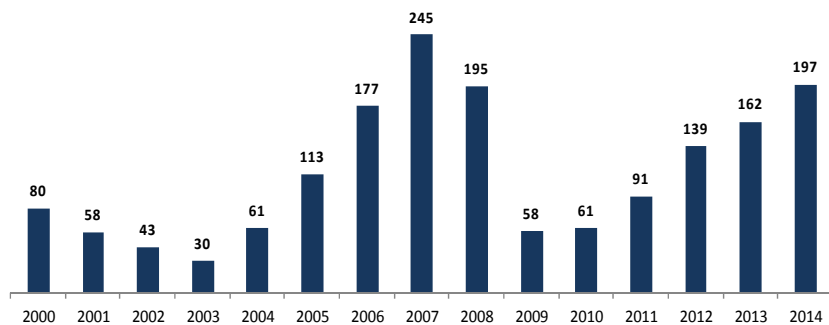
Source: CalSTRS

## New Commitments Year ended December 31, 2014

Partnership	Commitment (millions)	Investment Category	Closing Date
TPG Opportunities Partnes III (A) LP	\$125	Distressed Debt	1/2/2014
Spectrum ER Investor LLC	\$15	Co-Investment	2/5/2014
Clayton, Dubilier & Rice Fund IX LP	\$200	Buyout	2/24/2014
Castlelake III, L.P.	\$100	Distressed Debt	2/28/2014
M2 Private Equity Fund-of-Funds II, L.P.	\$100	Equity Expansion	3/3/2014
Alchemy Special Opportunities Fund III	£40	Distressed Debt	3/28/2014
ECP III Co-Invest, LP	\$45	Co-Investment	4/7/2014
Capital Partners III, L.P.	\$23	Venture Capital	4/10/2014
CalSTRS Capital Access Fund V, L.P. - Series A	\$100	Buyout	4/11/2014
GGV Capital V L.P.	\$50	Venture Capital	4/18/2014
Thoma Bravo Fund XI, L.P.	\$75	Buyout	4/25/2014
The Resolute Fund III, L.P.	\$100	Buyout	4/30/2014
PEP Fluid Co-Invest L.P.	\$30	Co-Investment	5/13/2014
SSG Capital Partners III, L.P.	\$75	Distressed Debt	5/15/2014
EnCap Flatrock Midstream Fund III, L.P.	\$60	Equity Expansion	5/15/2014
Butler Group Holdings, Inc.	\$38	Co-Investment	5/16/2014
Blue Run Ventures V, L.P.	\$14	Venture Capital	5/30/2014
HgCapital Gabriel Co-Invest L.P.	£27	Co-Investment	6/2/2014
Shasta Ventures IV, L.P.	\$25	Venture Capital	6/18/2014
Spectrum Equity VII, L.P.	\$105	Equity Expansion	6/18/2014
Littlejohn Fund V, L.P.	\$75	Buyout	7/3/2014
Summit Partners Credit Fund B-2, L.P.	\$120	Distressed Debt	7/11/2014
Sofinnova Venture Partners IX	\$50	Venture Capital	7/15/2014
Blackstone GTS Co-Invest L.P.	\$37	Co-Investments	7/15/2014
JMI Equity Fund VIII, L.P.	\$100	Equity Expansion	7/18/2014
ECI 10 A, L.P.	£30	Buyout	9/2/2014
Hellman & Friedman Capital Partners VIII	\$200	Buyout	9/24/2014
First Reserve Fund XIII, L.P.	\$200	Buyout	9/29/2014
Strategic Investors Fund VII-A, L.P.	\$47	Venture Capital	9/30/2014
Blackstone Energy Partners II L.P.	\$100	Buyout	10/17/2014
Centerbridge Capital Partners III, L.P.	\$250	Buyout	10/24/2014
Energy Spectrum Partners VII L.P.	\$75	Equity Expansion	11/3/2014
Francisco Partners IV, L.P.	\$130	Buyout	11/12/2014

Source: PrivateEdge

**U.S. Buyout Fundraising  
\$ Billions**



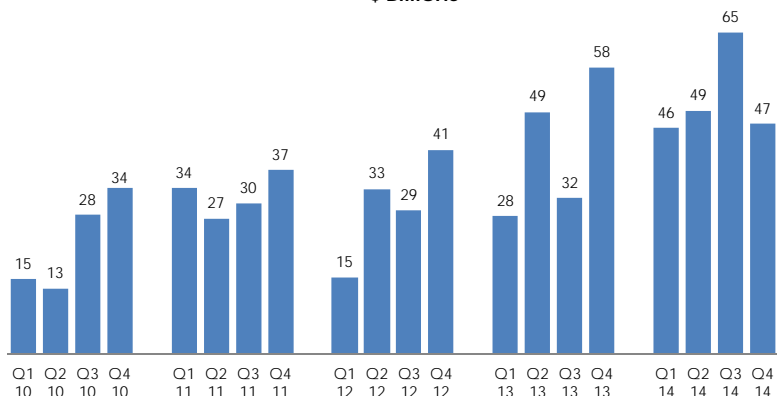
Source: Private Equity Analyst

**Largest U.S. Buyout Funds of 2014  
\$ Millions**

Fund	Firm	Target	Raised*	Raised 2014
Hellman & Friedman Capital Partners VIII	Hellman & Friedman	\$ 8,900	\$ 10,900	\$ 10,900
Lone Star Fund IX	Lone Star Funds	7,000	7,400	7,400
Apollo Investment Fund VIII	Apollo Global Management	N/A	18,400	6,400
Centerbridge Capital Partners III	Centerbridge Partners	5,750	6,000	6,000
Vista Equity Partners Fund V	Vista Equity Partners	3,500	5,775	5,775
Energy Capital Partners III	Energy Capital Partners	3,500	5,040	5,040
Trident VI	Stone Point Capital	4,500	4,500	4,500
New Mountain Capital IV	New Mountain Capital	4,000	4,130	4,130
Warburg Pincus Energy Fund	Warburg Pincus	3,000	4,000	4,000
Thoma Bravo XI	Thoma Bravo	2,500	3,650	3,650

\* Represents aggregate commitments raised, which may include prior calendar year  
Source: *Private Equity Analyst*, grey highlight represents CalSTRS commitment

**Announced U.S. Quarterly Leveraged Buyout Deal Value\*  
\$ Billions**



\* Total deal size (both equity and debt)  
Source: *Thomson Reuters Buyouts*

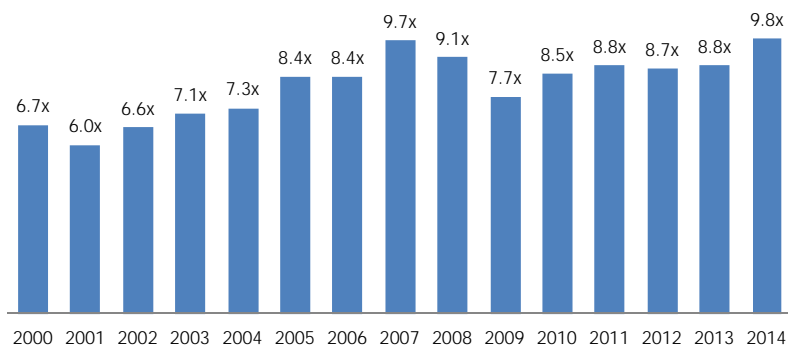
**Top 10 U.S. Sponsored Buyout Deals\* in 2014**

Company Name	Industry	Sponsor	Deal Type	Deal Size \$ Millions
KKR Financial Holdings LLC	Investments	KKR & Co.	Take Private	7,669
Gates Corporation	Industrials	Blackstone Group	Standalone Buyout	5,400
Bally Technologies	Prepackaged Software	MacAndrews & Forbes Hldg Inc	Take Private	5,165
TIBCO Software, Inc.	Prepackaged Software	Vista Equity Partners	Take Private	4,055
Illinois Tool Works Inc	Machinery	The Carlyle Group LP	Carve-out	3,200
Sedgwick Claims Management Services	Financials	KKR & Co.	Standalone Buyout	2,400
The Jones Group Inc	Textile and Apparel	Sycamore Partners LLC	Take Private	2,199
Tyco Fire & Security Services	Business Services	The Carlyle Group LP	Carve-out	1,930
Valassis Communications Inc	Media and Entertainment	MacAndrews & Forbes Hldg Inc	Take Private	1,872
EnCana Oil & Gas (USA) Inc	Oil and Gas	TPG Capital LP	Standalone Buyout	1,800

\* Closed deals; deal size includes equity and debt.

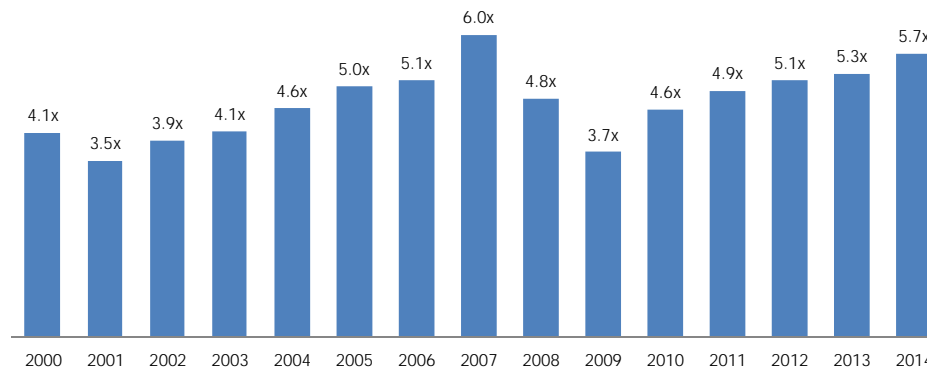
Source: *Thomson Reuters Buyouts*

**Average U.S. Purchase Price Multiples**  
Total Enterprise Value/EBITDA



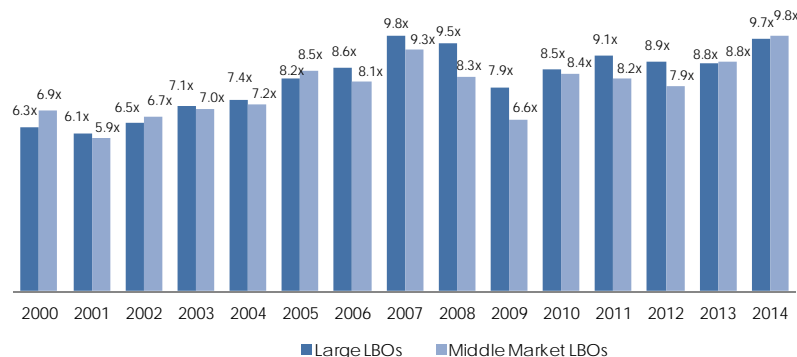
Source: S&P Capital IQ

**Average U.S. Debt Multiples**  
Debt/EBITDA



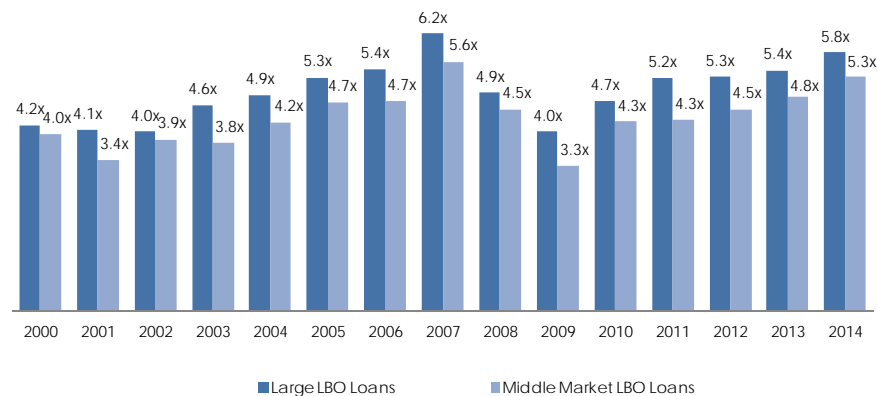
Source: S&P Capital IQ

**Average U.S. Purchase Price Multiples: Large vs. Middle Market**  
Total Enterprise Value/EBITDA



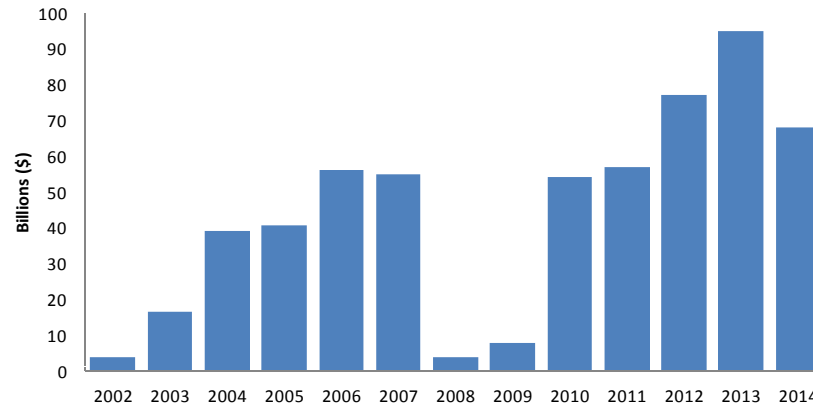
\*"Large" defined as issuers with EBITDA >\$50M, "Middle Market" as issuers with EBITDA <\$50M.  
Source: S&P Capital IQ

**Average Debt Multiples: Large vs Middle Market\***  
Total Enterprise Value/EBITDA



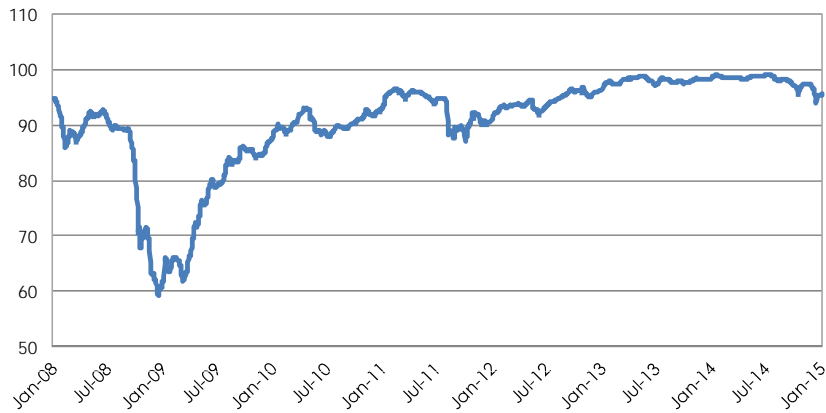
\*Large defined as issues with EBITDA >\$50M, Middle Market issuers with EBITDA <\$50M  
Source: S&P Capital IQ

### Dividend/Stock Repurchase Loan Volume



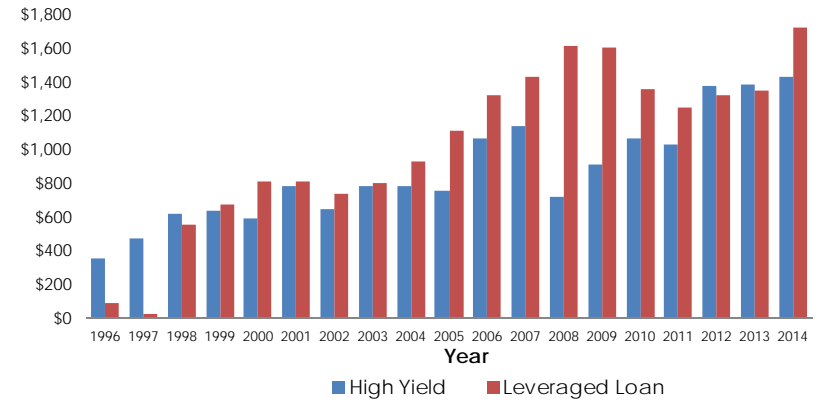
Source: S&PLCD, Bank of America Merrill Lynch

### Leveraged Loan Index Index Level



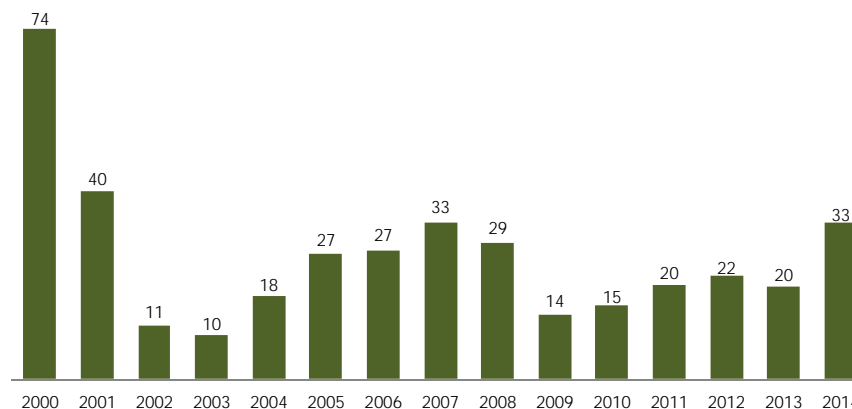
Source: Loan Syndications and Trading Association (LSTA)

### U.S. High-Yield and Leveraged Loan Market Size \$Billions



Source: Thomson Reuters, Credit Suisse Leveraged Finance Market Update

### U.S. Venture Capital Fundraising \$ Billions



Source: *Private Equity Analyst*

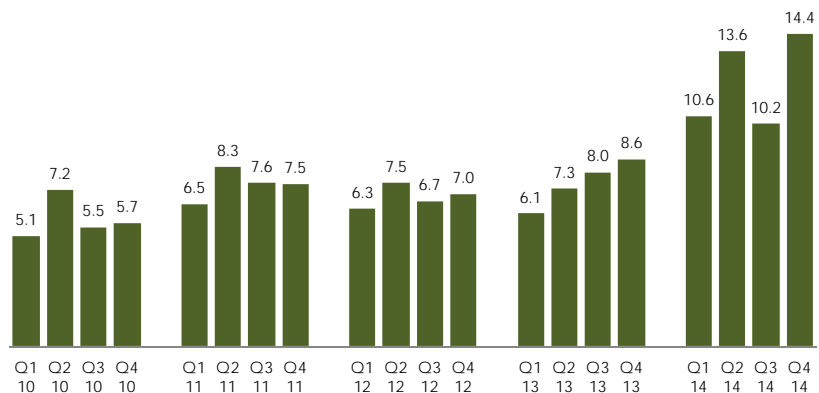
### Largest Venture Capital Funds Raising Capital in 2014 \$ Millions

Fund	Firm	Target	Raised*	Raised in 2014
Tiger Global Private Investment Partners IX	Tiger Global Management LLC	\$ 2,500	\$ 2,500	\$ 2,500
Technology Crossover Ventures VIII	TCMI Inc.	2,500	2,230	2,230
Andreessen Horowitz Fund IV	Andreessen Horowitz	1,500	1,500	1,500
Lightspeed Venture Partners X	Benchmark Capital	1,050	1,050	1,050
JP Morgan Digital Growth Fund II	J.P. Morgan Chase & Co	NA	1,049	1,049
Founders Fund V	Founders Fund Management LLC	750	1,015	1,015
Accel Growth Fund III	Accel Partners	1,000	1,000	1,000
Canaan X	Canaan Partners	600	675	675
Bain Capital Venture Capital Fund 2014	Bain Capital Ventures	625	650	650
GGV Capital V	GGV Capital	500	622	622

\* Represents aggregate commitments raised, which may include prior calendar year.  
Source: *Private Equity Analyst*, grey highlight represents CalSTRS commitment

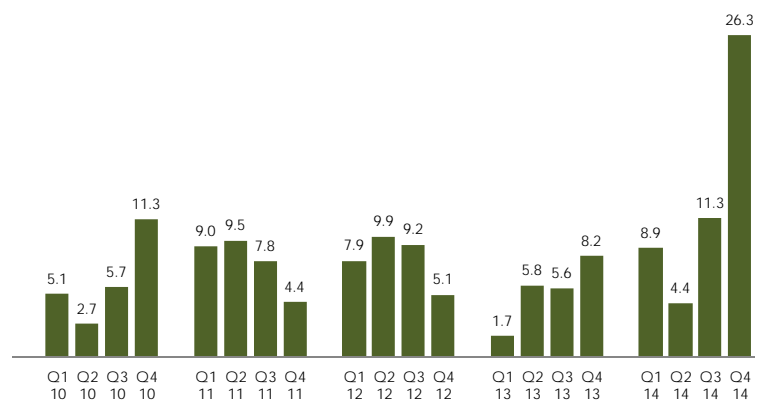


**Quarterly U.S. Venture Capital Deal Volume\***  
\$ Billions



\* Only includes equity portion of deal value.  
Source: Thomson Reuters

**U.S. Venture Capital-Backed M&A Activity**  
\$ Billions



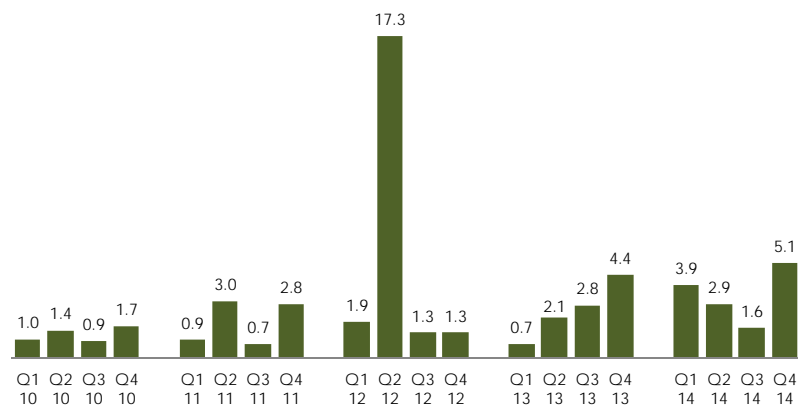
Source: Thomson Reuters

**Top 10 U.S. Venture Capital Deals in 2014**

Company Name	Industry	Firm Name(s)	Estimated Round Total \$ Millions
Uber Technologies Inc	Transportation Software	Benchmark, Blackrock, Fidelity, Google Ventures, Kleiner Perkins Caufield & Byers, Summit Partners, Wellington Management, undisclosed firm	1,200
Cloudera Inc	Database & File Management	Google Ventures, Intel Capital, MSD Capital, T. Rowe Price Threshold Partnerships, undisclosed firm	900
Vice Media, Inc	Media	Technology Crossover Ventures, undisclosed firm	500
Wework Companies	Internet Publishing	Benchmark, Goldman Sachs, JPMorgan, T. Rowe Price, Wellington Management, undisclosed firm	355
LYFT Inc	Transportation Software	Alibaba Capital Partners, Andreessen Horowitz, Founders Fund, Mayfield, two undisclosed firms	248
Pure Storage Inc	Internet Specific	Greylock Partners, Index Ventures, Redpoint Ventures, Sutter Hill Ventures, T. Rowe Price Threshold Properties, Tiger Global Management, Wellington Management	225
Pinterest Inc	Internet Publishing	Andreessen Horowitz, Bessemer Venture Partners, Fidelity Investment Funds, FirstMark Capital, SV Angel II, undisclosed firm	160
Box Inc	Database & File Management	TPG Growth, undisclosed firm	158
Lookout Inc	Internet Security	Accel Partners, Andreessen Horowitz, Bezos Expeditions, Goldman Sachs, Index Ventures, Khosla Ventures, Mithril Capital Management, T. Rowe Price, two undisclosed firms	150
Square Inc	Internet Transaction Services	GIC Special Investments, Goldman Sachs, Rizvi Traverse Management, Sapphire Ventures	150

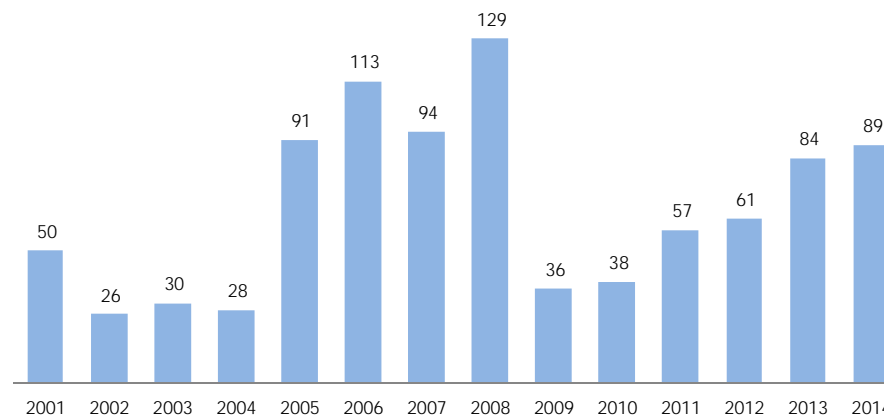
Source: Thomson Reuters

**U.S. Venture Capital-Backed IPO Activity**  
\$ Billions



Source: Thomson Reuters

### European Private Equity Fundraising \$ Billions



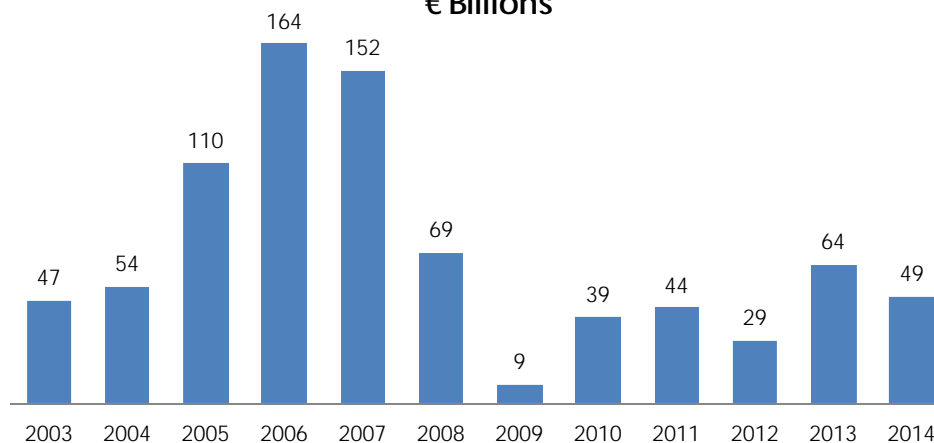
Source: Thomson Reuters

### Largest European Funds Raising Capital YTD in 2014 \$ Millions

Fund	Firm	Target	Raised *	Raised in 2014
Permira V	Permira	\$ 5,710	\$ 7,016	\$ 4,186
Bain Capital Europe Fund IV	Bain Capital LLC	3,408	4,632	4,632
Pamplona Capital Partners IV	Pamplona Capital Partners IV	NA	4,089	4,089
Hayfin Direct Lending Fund	Hayfin Capital Management LLP	NA	3,142	3,142
Altor Equity Fund IV	Altor Equity Partners AS	2,635	2,736	2,736
TDR Capital III	TDR Capital LLP	2,598	2,692	1,516
Bridgeport Europe V	Bridgepoint Advisers Group	4,788	2,525	2,525
Partners Group Direct Investments 2012	Partners Group AG	NA	2,021	1,936
PAI Europe VI	PAI Partners SAS	3,906	1,901	550
Carlyle Europe Partners	Carlyle Group	3,896	1,898	1,898

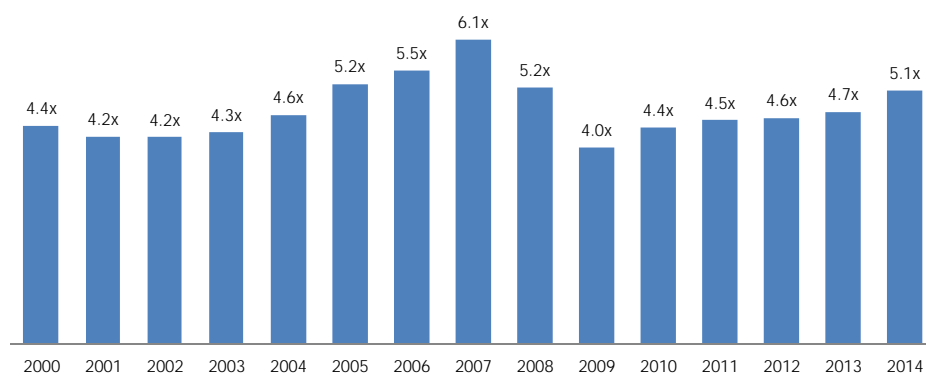
Source: *Private Equity Analyst*, grey highlight represents CalSTRS commitment

### European LBO Transaction Volume € Billions



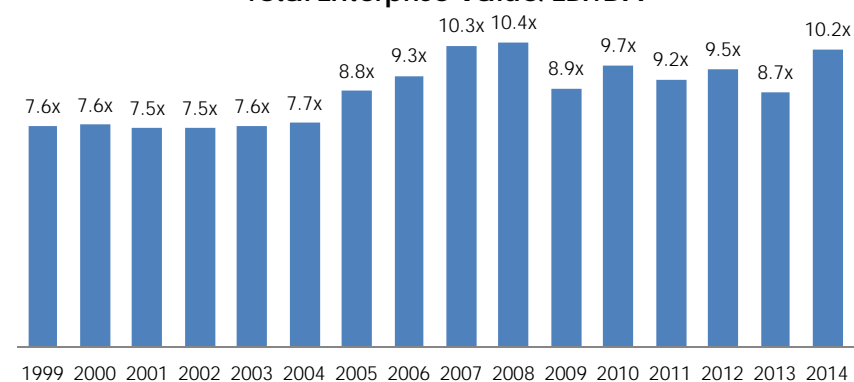
Source: S&P Capital IQ

### Average European Debt Multiples Debt/EBITDA



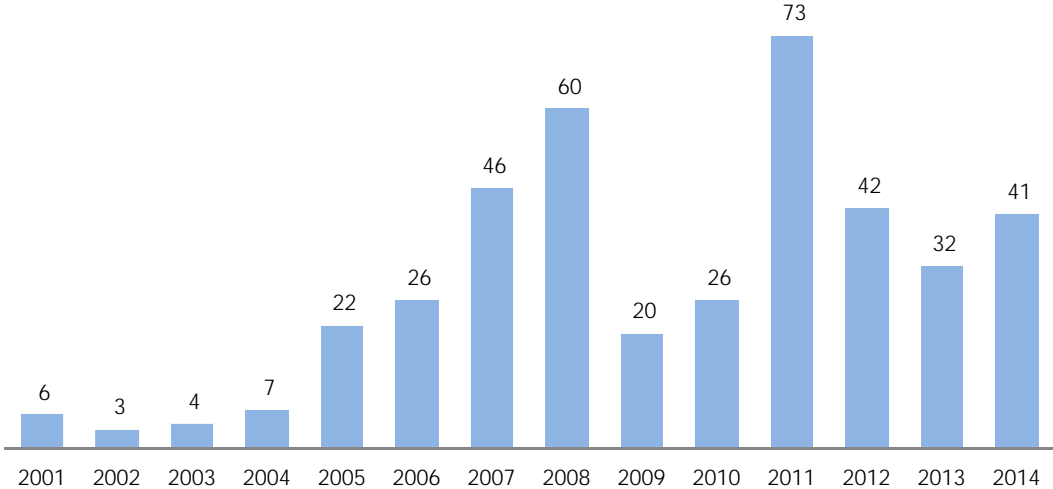
Source: S&P Capital IQ

### European Purchase Price Multiples\* Total Enterprise Value/EBITDA



\* Transaction size of €500M or more  
Source: S&P Capital IQ

### Asian Private Equity Fundraising \$ Billions



Source: Thomson Reuters

For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
Excludes Co Investments and Private Liquidation					
<b>Limited Partnership by FOF-Weighted Age</b>					
<b>Total</b>	<b>40,563,497,470</b>	<b>32,421,773,757</b>	<b>27,672,358,852</b>	<b>21,156,251,084</b>	<b>11.5</b>
<i>Acela Express GP, LLC</i>	100,000,000	0	0	0	N/A
<i>Acon-Bastion</i>	110,000,000	72,746,917	42,886,186	53,577,902	10.8
<i>Advent CEE</i>	104,181,103	77,201,869	1,398,096	60,272,222	(7.4)
<i>Advent International</i>	273,454,678	259,431,725	137,267,477	303,966,630	18.5
<i>Affinity Equity Partners</i>	150,000,000	133,742,903	38,971,617	172,232,920	13.5
<i>Alchemy Plan</i>	259,556,619	259,366,039	200,431,655	79,081,017	2.0
<i>Alchemy SO</i>	147,913,636	59,646,406	87,206,551	238,331	9.6
<i>Alta Communications</i>	85,000,000	82,100,000	45,388,924	15,855,530	(4.7)
<i>Alta Partners</i>	20,000,000	20,000,000	45,540,989	230,315	24.5
<i>Angelo Gordon &amp; Co</i>	348,167,750	344,917,748	309,909,526	179,369,451	10.9
<i>Apax Europe</i>	957,192,627	945,977,817	654,632,471	838,311,956	13.7
<i>Apax U.S.</i>	100,000,000	98,422,784	159,771,832	2,804,269	11.8
<i>Apollo Management</i>	600,000,000	510,546,893	559,751,618	421,837,519	16.6
<i>ARCH Venture Partners</i>	30,000,000	30,000,000	6,120,144	28,901,358	2.6
<i>Ares</i>	150,000,000	35,213,242	0	33,566,063	(7.5)
<i>Ares Europe</i>	103,186,236	42,383,797	257,567	44,786,627	10.1
<i>AtriA Capital Partners</i>	42,498,104	26,512,628	3,330,473	15,613,115	(6.2)
<i>Austin Ventures</i>	37,000,000	37,000,000	40,871,429	1,934,229	5.2
<i>Avenue Capital Partners</i>	250,000,000	250,000,000	330,060,553	3,495,517	11.2
<i>Bain Capital</i>	564,000,000	544,250,000	222,921,595	484,664,382	6.8
<i>Bain Capital Asia</i>	100,000,000	49,687,500	10,347,845	50,447,024	9.0
<i>BC Partners</i>	1,221,242,302	1,035,196,507	1,225,929,708	477,037,355	17.1
<i>BCI Partners</i>	25,000,000	25,000,021	15,212,873	60,844	(8.1)
<i>Blackstone Group</i>	2,550,100,000	2,107,323,216	1,539,529,599	1,753,575,844	10.3
<i>BlueRun</i>	55,011,236	49,428,539	34,931,410	50,646,199	13.0
<i>Boston Ventures</i>	90,000,000	86,872,281	98,012,673	1,767,185	2.6

For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
<i>BS Private Equity</i>	42,628,756	38,005,235	26,503,839	4,404,516	(4.5)
<i>CalSTRS Bank of America Capital Access</i>	475,000,000	282,380,722	61,092,590	256,299,813	3.6
<i>Carlyle Europe</i>	527,016,774	502,571,055	202,264,848	489,461,978	9.2
<i>Carlyle Group</i>	850,000,000	551,460,003	379,920,801	522,021,737	13.6
<i>CarVal Investors</i>	196,000,000	186,200,000	177,988,215	91,414,171	6.7
<i>Castlelake Partners</i>	150,000,000	62,083,261	0	77,906,522	32.4
<i>Centerbridge Capital</i>	875,000,000	633,653,899	394,205,499	603,603,076	17.0
<i>Cerberus</i>	751,410,000	650,264,431	404,637,617	582,634,876	8.8
<i>CGW Southeast Partners</i>	40,000,000	34,831,658	52,536,993	1,066,729	8.3
<i>Charterhouse UK</i>	137,458,760	120,165,641	64,317,690	54,496,767	(0.2)
<i>Clayton, Dublier, and Rice</i>	300,000,000	91,739,097	92,700,359	71,087,061	10.4
<i>Clearstone Venture Partners</i>	35,000,000	32,200,000	374,945	50,725,100	6.8
<i>Coller International Partners</i>	100,000,000	34,316,943	4,244,377	44,976,055	34.4
<i>Cortec Group</i>	148,641,176	114,723,591	108,684,481	70,841,392	15.9
<i>Craton Equity Partners</i>	45,200,000	38,466,478	155,382	23,300,007	(15.4)
<i>CVC Capital Partners</i>	1,890,369,640	1,598,990,842	2,254,031,573	760,576,706	19.7
<i>CVC Capital Partners Asia Pacific</i>	425,000,000	252,978,650	117,782,362	191,748,697	4.8
<i>DCM</i>	15,000,000	15,000,000	9,445,149	10,591,449	5.0
<i>ECI</i>	16,273,555	11,098,071	0	18,809,620	26.6
<i>EnCap Energy Capital</i>	800,000,000	560,133,752	523,566,257	310,304,517	20.6
<i>Energy Capital Partners</i>	520,000,000	274,603,359	84,685,051	229,042,975	4.4
<i>Energy Spectrum</i>	125,000,000	83,712,319	86,100,390	33,537,372	13.8
<i>Equistone Partners</i>	67,478,106	38,421,312	589,541	49,987,734	25.6
<i>First Reserve</i>	1,800,000,000	1,714,368,259	930,941,797	1,120,188,159	5.2
<i>Fondinvest</i>	29,661,653	28,300,548	50,754,698	5,151,568	23.7
<i>Fortress</i>	400,000,000	176,115,273	39,866,861	251,282,687	20.5
<i>FountainVest</i>	95,000,000	46,883,591	0	56,769,042	7.5
<i>Francisco Partners</i>	75,000,000	50,062,500	929,876	62,711,736	18.1
<i>Frazier Healthcare</i>	47,473,830	46,880,407	54,008,923	16,499,325	10.8
<i>Freeman Spogli &amp; Co.</i>	182,500,000	163,531,811	282,644,530	30,346,968	13.9

For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
<i>Genstar</i>	70,000,000	69,487,364	44,804,990	62,236,191	11.2
<i>GGV Capital</i>	60,000,000	42,000,000	290,885	46,846,333	9.7
<i>Giza</i>	32,400,000	31,008,000	15,425,268	17,328,101	1.2
<i>Gores Capital Partners</i>	130,000,000	100,546,624	71,154,309	70,404,806	11.0
<i>GSO</i>	725,000,000	349,573,631	234,808,180	323,336,923	18.5
<i>GTCR</i>	35,000,000	35,000,000	73,863,155	202,225	25.0
<i>Hellman &amp; Friedman Capital Partners</i>	400,000,000	339,033,275	404,025,248	222,078,981	18.4
<i>Hg Capital</i>	83,162,307	11,323,091	0	10,782,872	(7.0)
<i>Hg Renewable</i>	129,076,478	89,952,726	40,757,516	29,501,304	(8.0)
<i>Hony Capital</i>	125,000,000	69,527,335	4,426,172	74,195,615	5.0
<i>Huntsman Gay Capital</i>	100,000,000	90,269,510	82,672,985	66,353,275	19.8
<i>ICV Capital Partners</i>	65,000,000	33,617,950	11,818,522	31,896,996	9.2
<i>Innocal</i>	15,000,000	15,000,001	4,163,979	2,480,065	(16.3)
<i>Institutional Venture Partners</i>	50,000,000	50,000,000	72,197,947	68,414,089	31.9
<i>Interwest Partners</i>	115,000,000	111,000,000	56,410,142	55,365,576	0.1
<i>Invesco</i>	592,135,994	219,787,864	26,437,151	245,870,212	6.5
<i>Investitori Associati</i>	34,295,243	33,160,030	12,869,339	7,907,988	(9.4)
<i>Irving Place Capital</i>	175,000,000	128,498,704	11,593,415	147,705,357	4.0
<i>JMI Equity</i>	130,000,000	112,900,000	160,203,114	86,230,242	25.1
<i>KKR &amp; Co.</i>	502,000,000	360,426,727	177,845,366	299,280,025	7.0
<i>M/C Venture Partners</i>	75,000,000	74,597,584	115,575,612	4,954,180	8.3
<i>Madison Dearborn Partners</i>	300,000,000	301,958,775	526,928,370	48,745,945	14.4
<i>MatlinPatterson</i>	250,000,000	217,344,085	111,463,925	184,066,243	7.5
<i>Nautic</i>	229,500,000	221,529,811	399,462,390	34,844,390	13.6
<i>Navis Capital Partners</i>	130,000,000	128,582,728	69,390,441	136,074,709	9.4
<i>New Enterprise Associates</i>	870,000,000	758,550,000	968,553,877	392,864,929	49.6
<i>NGEN</i>	15,000,000	14,431,626	838,326	275,849	(58.8)
<i>Nogales</i>	55,000,000	38,281,755	12,164,114	14,870,534	(7.0)
<i>Oak Investment Partners</i>	75,000,000	75,000,000	29,255,344	37,099,423	(2.1)
<i>Oaktree Capital Management</i>	715,640,000	549,285,226	819,910,056	139,557,284	16.8

For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
<i>Olympus</i>	325,000,000	73,470,636	21,570,575	87,157,142	16.1
<i>OnCap</i>	28,090,818	10,570,881	270,533	11,924,266	7.5
<i>Onex Partners</i>	625,000,000	383,822,842	427,488,918	305,722,766	22.7
<i>OrbiMed Capital</i>	80,000,000	27,020,000	6,921,252	71,522,746	68.0
<i>PAG Capital Asia</i>	125,000,000	55,795,474	4,737,465	64,058,509	12.9
<i>Palladium</i>	180,000,000	85,097,902	65,461,586	108,210,318	19.8
<i>Paul Capital Partners</i>	50,000,000	49,246,837	48,375,738	19,535,221	9.1
<i>Peak Rock Capital</i>	50,000,000	6,069,643	0	4,897,333	(31.6)
<i>Permira</i>	1,977,194,921	1,672,768,964	1,677,858,319	967,396,666	16.0
<i>Phildrew Ventures</i>	20,221,808	20,270,948	11,819,893	86,750	(14.7)
<i>Pond Ventures</i>	10,000,000	8,913,323	3,629,542	5,300,336	(0.0)
<i>Prism Venture Partners</i>	25,016,853	25,016,853	9,611,452	9,834,995	(5.7)
<i>Providence Equity Partners</i>	1,050,000,000	943,612,359	520,736,560	684,364,025	4.7
<i>Quadrangle Capital Partners</i>	100,000,000	82,563,242	56,470,584	58,958,762	6.7
<i>Riverstone/Carlyle</i>	350,000,000	288,765,995	79,198,276	232,034,384	2.1
<i>Sankaty Advisors</i>	625,000,000	612,500,000	526,259,173	230,352,914	4.6
<i>Shasta Ventures</i>	70,000,000	57,150,000	23,511,629	68,091,083	13.3
<i>Sofinnova Venture Partners</i>	85,000,000	63,400,000	34,195,670	51,438,364	7.9
<i>Spectrum Equity Investors</i>	386,839,889	355,874,896	430,514,215	115,307,247	9.7
<i>Strategic Investors</i>	88,711,765	20,284,866	22,974	22,076,327	8.2
<i>Summit Partners</i>	549,559,021	426,282,890	584,241,119	241,832,849	82.5
<i>Syncom</i>	20,000,000	18,992,163	147,172	8,731,163	(17.3)
<i>TA Associates</i>	302,500,000	257,136,550	238,175,209	148,456,426	12.7
<i>Technology Crossover Ventures</i>	320,000,000	309,111,000	272,772,360	234,320,002	15.4
<i>The Cypress Group</i>	278,125,000	261,571,696	218,407,248	30,509,508	(0.9)
<i>The Resolute Fund</i>	450,000,000	402,514,398	257,191,700	387,233,464	13.3
<i>THL Equity Advisors</i>	422,156,647	418,624,001	645,092,087	60,205,148	13.8
<i>Thoma Cressey Bravo</i>	291,400,000	211,813,618	270,708,158	89,563,843	11.0
<i>TPG Asia</i>	330,000,000	306,737,579	248,609,406	255,651,206	13.1
<i>TPG Capital</i>	2,439,036,536	2,063,209,563	2,055,919,789	1,316,415,798	14.0



For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
<i>TPG Growth</i>	125,000,000	54,130,547	332,829	61,950,048	16.0
<i>TPG Opportunities</i>	160,438,698	25,251,968	83,088	31,480,161	19.8
<i>Triton</i>	136,206,075	73,666,063	101,766,523	42,402,997	19.1
<i>US Renewables Group</i>	60,000,000	57,469,559	8,943,605	37,393,281	(5.0)
<i>VantagePoint Venture Partners</i>	310,211,765	299,146,941	139,015,209	110,749,624	(3.2)
<i>Vestar Capital Partners</i>	250,000,000	246,273,636	204,648,949	145,771,415	8.4
<i>Welsh, Carson, Anderson &amp; Stowe</i>	1,573,961,111	1,523,630,352	1,612,779,891	629,231,360	7.6
<i>Whitney &amp; Co.</i>	175,000,000	159,920,232	62,000,952	72,205,875	(2.3)
<i>Yucaipa</i>	200,000,000	175,289,382	27,901,614	106,043,943	(3.7)

## Glossary of Terms

**Acquisitions** - See Leveraged Buyouts.

**Acquisitions - Add on** - Add-on acquisitions, or platform investing, are a growth strategy, which involves the acquisition of a company that will be the base (or platform) from which future acquisitions will be made. This strategy invests in consolidating industries by teaming with key industry management to build companies through acquisition and internal growth. Initially, an industry with an unrecognized market niche, high growth potential and no clear market leader is identified. If a suitable company can not be identified, the investment manager may recruit a management team to run the new business. The company's management and the investment manager, acting as a team, will identify and negotiate to buy additional companies within the target industry. A "critical mass" is achieved when the investment manager consolidates formerly entrepreneurial-managed, fragmented operating units into a single portfolio company with standard operating procedures. As a result, the larger company becomes visible and attractive to a wider group of potential buyers. Other companies in the market typically are willing to pay a higher price earnings multiple to buy the portfolio company than paid by the investment manager for its component parts.

**Advisory Board** - Advisory Boards play a role in the governance issues relating to the fundamental aspects of the fund, such as decisions on valuations and management conflicts of interests. Generally, a majority of the composition of the Advisory Board is comprised of the largest limited partners in the limited partnership.

**Aggregation of profits and losses** - Aggregation of profit and losses ensures a fairer profit sharing between the general partner and the limited partners. This calculation is based on the entire performance of the portfolio rather than on a deal by deal basis.

**Buyouts** - See Leveraged Buyouts.

**CAGR** – Compound annual growth rate

**Capital commitment** - A partner's obligation to provide a certain amount of capital to a private equity fund for investments

**Capital contribution** – The total capital that a partner actually contributes to the partnership

**Capital distribution** – The total proceeds that are distributed back to partners by GPs as they exit their investments

**Carried Interest** - The mechanism by which general partners are compensated for their performance. 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 has become the industry norm.

**Cash in** - The total capital contributed to a private equity fund by a limited partner for making investments and paying for the fund's expenses and management fees

**Cash out** - The total proceeds distributed by the fund to the limited partner. Proceeds may include both return of capital and gain distributions

**Clawback/lookback provision** – Guarantees that the stated profit allocation is met at the end of a partnership's term with respect to the limited partners

**Co-investments** - Privately negotiated purchase of equity or quasi-equity from private or publicly traded entities. Such investments involve the purchase of non-registered securities, which by their private, illiquid nature command a premium over comparable publicly traded securities. These will not be stand-alone investments and will always be made alongside a partnership investment or pari-passu, or better terms, than the partnership is making its direct investment.

**Convertible Preferred Stock** - A class of stock having different rights than Common Stock, including a liquidation preference over Common Stock; and allowing the Preferred Shareholder to convert Preferred shares into Common shares at some specified conversion ratio. Conversion typically occurs in conjunction with an initial public offering, providing a means of liquidation for the Preferred Shareholder.

**Cost multiple** – Value of the investment (proceeds plus value of unrealized investment) divided over the cost of the investment (original capital commitment). It measures how many times the money multiplied regardless of how long it took to achieve the multiple

**Debt Related Investment Strategies** - Debt related investments include subordinated debt and distressed debt investment strategies. Subordinated debt is often used to help finance leveraged buyouts or other similar transactions. Subordinated debt typically takes the form of mezzanine securities, junk bonds, convertible preferred stock, and other high yielding debt oriented securities. Although considered debt-oriented, securities at the subordinated debt or mezzanine level typically possess equity conversion features, rights, and warrants. Investors at the subordinated debt level are junior to the senior debt holders in a leveraged buyout transaction, meaning they receive interest payments after the senior debt has been satisfied and they share in a liquidation after the senior paper holders have made their claims. However, subordinated debt suppliers are senior to the common equity holders of the company. Distressed debt investments are a form of recovery investing that focus on the debt of a distressed company. Distressed debt investing is defined as the investment in debt securities (generally senior-secured debt) of troubled or bankrupt companies. Also see Restructuring/Recovery investments.

**Direct investment** – Direct investments are similar to co-investments in that the investment is made outside of a limited partnership structure, and made directly into the target company. However, direct investments differ from co-investments in that they are not made alongside an existing partnership. Direct investments require a greater amount of time to pursue on due diligence, and they also involve a greater level of risk in comparison to co-investments

**Distressed debt** – Investments in debt securities (generally senior-secured debt) of troubled or bankrupt companies. Investments may be made based on non-control arbitrage strategies (short term) or control style turnaround opportunities (long term)

**Distributions** – Cash and/or securities paid out to the limited partners from the limited partnership

**Equity expansion** – Similar to late stage venture capital, except that equity expansion investments are generally larger, and are typically less technology orientated. These small- and medium-sized companies have grown from the start-up stage to profitability and are poised for continued rapid growth

**Exposure** – Total market value of all investments plus any unfunded commitments

**General partner** – Managing partners of a limited partnership responsible for performing the day-to-day administrative operations of the limited partnership and acting as investment advisor to the partnership. The general partner typically invests 1% of the capital and retains 20 percent of the profits

**Hedge funds** – Unregulated funds that use a wide range of securities in a variety of skill-based investment strategies

**Hurdle rate** – A rate of return that must be met before the General Partner can share in the carried interest

**Initial public offering (IPO)** – The sale or distribution of a stock or 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, with the discount rate equal to the IRR

**International Buyout** - An international buyout fund is a limited partnership that generally focuses on acquisition, equity expansion, or later stage investment strategies, however, the fund's primary geographic focus is outside of the United States.

**J-curve** – The J-curve phenomenon is the effect of the cash flow behavior of a partnership. It can be summarized as the first year's investment expenses of investing in a fund that has yet to harvest its capital gains in the future. This normally translates into a negative IRR in the early years of the fund. The plot of the partnership value versus time generally resembles a "J"

**Key man provision** - Limited partners are demanding the right to suspend the funding of the partnership if some of the key people were to leave the firm. This provision is designed to assure the continuity of the firm, and to assure that success (if related to various individuals) stays within the firm.

**Leveraged Buyouts (Acquisitions)** - Acquisitions involve the purchase of all or part of the stock or assets of a company utilizing a significant amount of borrowed capital and a relatively small portion of equity capital. Borrowed capital typically consists of some combination of senior and subordinated debt. The company may be privately or publicly owned, or a subsidiary or division of a privately or publicly owned company. Acquisitions generally include companies with stable cash flows, high market share, and high profit margins, selling low or non-technology products in industries not subject to wide profitability swings.

The general goal behind an acquisition investment is to acquire a company, division or subsidiary that is currently undervalued, and whose assets may be underutilized, and restructure and revitalize it. Ideally, the revitalized company can then be sold, recapitalized, or taken public at a substantial premium to its pre-buyout value.

**Limited partner** – The investors in a limited partnership, generally providing 99 percent of the capital and receiving 80 percent of the profits. Limited partners are not involved in the day-to-day management of the partnership and generally cannot lose more than their capital contribution

**Limited Partnership** – The majority of private equity funds are legally structured as limited partnerships. They are typically fixed-life investment vehicles (with an average term being 10 years). Limited partnerships have General Partners and Limited Partners. The General Partners manage the day-to-day operations and receive a management fee and a percentage of the profits. The Limited Partners invest in the fund and receive income, capital gains, and tax benefits.

**Market value** – The current value of a limited partner's outstanding investments

**Management fees** – The management fee is designed to compensate the General Partner. This fee is used to provide the partnership with such resources as investment and clerical personnel, office space, and administrative services required by the partnership. Generally, the fee ranges from 1.0 percent to 2.5 percent of capital commitments

**Mezzanine** – Investments in unsecured or junior obligations that typically earn a coupon or dividend payment and have warrants on common stock or conversion features to enhance returns

**Multiple of Money** - Multiple of money is often used to measure performance. This is a cumulative return, identifying the return on an investment over the term of the partnership. A multiple that is greater than one indicates that the partnership's total value exceeds the amount of capital contributed to date, whereas, a multiple less than one indicates that the partnership's total value is less than the amount of capital contributed. In summary, achieving a high annualized rate of return over a long period of time is more impressive than achieving a high annualized rate of return over a shorter period of time.

**Natural Resources** - These investments utilize investment strategies that derive their return from the management of and the independent price movements in a particular resource. These investments are more specialized with a corresponding increase in risk. Sub-categories of this group include Oil and Gas (provides funding for the purchase or development of energy producing properties or companies operating within that sector), and Timberland or Farmland (provides funding for the purchase, development and/or lease of land for both growth and income-oriented strategies).

**Overhang** – Overhang is defined as the amount of capital committed to general partners that has yet to be invested and is calculated as the 5-year rolling difference between LP commitments and investments

**Partnership Expenses** - Expenses borne by the partnership including costs associated with the organization of the partnership, the purchase, holding or sale of securities, and legal and auditing expenses.

**Partnership Term** - The term of the partnership is normally ten years, with the general partner reserving the right to terminate the partnership early or extend the term for a set period of time. This is generally subject to the approval by the limited partners.

**Pooled returns** – Composite return measuring all private equity cash flows and valuation changes over a specific period of time

**Portfolio companies** – Any of the companies in which the private equity partnerships have an investment

**Restructuring/Recovery** - Recovery investments involve the investment of capital in companies experiencing anywhere from relatively minor, to extreme difficulties, to companies involved in bankruptcy proceedings. Recovery investing takes advantage of discounted securities of unhealthy, bankrupt (or near), under-performing, and/or under-capitalized companies and either ride or steer them back to recovery. To accomplish this goal, the various funds available use a variety of strategies. The strategies vary by the activity level and/or degree of control required by the acquirers, types of securities utilized, and the relative health of the target companies sought (from bankrupt to nearly healthy). Also, like LBO and venture capital managers, managers of ailing company funds each have a particular target company size preference, and some have industry or sector preferences.

Distressed debt investments are a form of recovery investing that focus on the debt of a distressed company. Distressed debt investing is defined as the investment in debt securities (generally senior-secured debt) of troubled or bankrupt companies.

**Secondary limited partnership** – Privately negotiated purchase of limited partnership interests or investment company interest. Such investments involve the purchase of a pro-rata ownership of non-registered securities, which are currently in, or will be a future purchase of, the partnership portfolio

**Special Equity** - See all non-venture capital related investment strategies, such as Leveraged Buyouts, Acquisitions, Special Situations, Mezzanine Investments, Subordinated Debt, Hedge Funds and Natural Resources.

**Special Situations** - Special Situation funds represents a “catchall” for non-traditional investments that do not fit in traditional groupings. These will include minority, but often control positions in public companies, “white knight” efforts to support managements, turnarounds and bankruptcy reorganizations, and other special situation profit opportunities. It is not the intention to invest in “unfriendly” business take-overs.

**Top quartile returns** – Average return earned by the highest performing 25 percent of capital in the private equity industry

**Total value** – A limited partner’s total market value plus any capital distributions received

**Unfunded commitments** – Money that has been committed to an investment but not yet transferred to the General Partner

**Venture capital** – Investments in young, emerging growth companies in different stages of development. The stages of venture capital investing include seed stage (entrepreneur seeking capital to conduct research or finish a business plan), early stage (company developing products and seeking capital to commence manufacturing), and late stage (profitable or near-profitable high-growth company seeking further expansion capital)

**Venture Economics** – Venture Economics is a leading compiler and publisher of private equity investment data

**Vintage year** – The year of fund formation and its first takedown of capital. By placing a fund into a particular vintage year, the limited partner can compare the performance of a given fund with all other similar types of funds formed in that particular year