

TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

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SUBJECT: Private Equity – Semi-annual Performance  
Report, Period Ending September 30, 2011

ITEM NUMBER: 8

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

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: April 13, 2012 / 45 min

INFORMATION: \_\_\_\_\_

PRESENTER(S): Mike Moy, Pension Consulting Alliance

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### **POLICY**

This item is governed by the CalSTRS Private Equity Investment Policy.

### **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. Additionally, due to the partnership structure of the investments and delays in reporting timelines, this report is lagged one quarter to the total fund report. 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 (Portfolio).
- The Portfolio data in the report is prepared by State Street Bank's PrivateEdge 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.

Investment Committee – Item 8

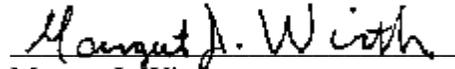
April 13, 2012

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**RECOMMENDATION**

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

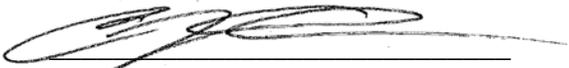
Prepared and recommended by:



Margot J. Wirth

Director of Private Equity

Approved by:



Christopher J. Ailman

Chief Investment Officer



# California State Teachers' Retirement System (CalSTRS) Private Equity Program

## Semiannual Report

(As of September 30, 2011)

**Open Session  
April 2012**

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## 1.0 Executive Summary

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 and vintage year. In addition, this report highlights broad industry trends that may affect performance results going forward.

## 1.1 Performance Overview

From inception in 1988 through September 30, 2011, the Private Equity Program (PEP) has earned a net internal rate of return (IRR) of 13.4% and currently comprises 301 active investments across 117 firms. **The PEP portfolio has outperformed CalSTRS' customized benchmark by 430 basis points since inception** and has also exceeded the customized benchmark returns over all other periods evaluated. This reporting period is the first to reflect the stock market volatility that has occurred since August 2011. The customized benchmark reflects the declines in the public equity markets, as evidenced by the minus 14.7% return for the quarter. This improved the comparison to PEP's results, particularly over the latest one-year and three-year periods. However, the public market declines also contributed to lower absolute returns for the PEP as holdings were marked to market, as demonstrated by the decline of the one-year return from 19.6% as of March 31, 2011.

## Private Equity Program

### Performance Against Benchmarks

As of September 30, 2011

	Quarter	1-year	3-year	5-year	10-Year	Since Inception
CalSTRS PEP	-6.8%	10.0%	5.7%	5.8%	10.1%	13.4%
Custom Benchmark*	-14.7%	4.3%	5.5%	3.1%	7.1%	9.1%
Private Equity Industry Benchmark**	-6.0%	13.4%	7.6%	8.5%	8.8%	11.9%
<b>Excess Returns</b>						
v. Custom Benchmark	7.9%	5.7%	0.2%	2.7%	2.9%	4.3%
v. Private Equity Industry Benchmark	-0.7%	-3.4%	-1.9%	-2.7%	1.3%	1.6%

\* 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.

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

Source: PrivateEdge, PCA analysis

The CalSTRS board has also adopted a second program benchmark, referred to as the Private Equity Industry Benchmark and is based on State Street PrivateEdge data, which includes over 1,900 partnerships. The PEP has outperformed this benchmark by 160 basis points since inception and by 130 basis points over the latest 10-year period, but it has underperformed over all other periods evaluated. Strong since-inception results for the European buyout, venture capital, expansion capital and mezzanine sectors have contributed to longer-term outperformance, while underperformance of the buyout sector and distressed debt has dampened more recent results

Given the long-term nature of the private equity asset class, combined with an effort to incorporate the more current portfolio construction and economic environment, this section emphasizes the most recent five-year performance period. Primary portfolio considerations include:

- **Buyouts represent 70% of the PEP's market value as of September 30, 2011.** The PEP's exposure to U.S. buyouts posted a five-year return of 4.3% and underperformed its private market industry benchmark by 430 basis points, while European buyouts matched its industry benchmark return of 8.2%. Of the \$14.9 billion buyout portfolio, approximately 69% of market value is categorized as U.S. buyouts, with the remaining 31% categorized as international (mostly European). Significant exposure (61% of the PEP buyout market value) to the relatively weak performance of the mega buyout segment (fund sizes of \$5 billion and greater) has detracted from results during the latest five-year period despite stronger absolute returns over the recent year. Improved future performance will be dependent on a relatively strong public equity market along with robust merger and acquisition activity.
- Distressed debt, representing 12% of the PEP's market value, has increased in size due to commitment activity to this sector in 2007, which opportunistically positioned the portfolio. However, the five-year return underperformed its benchmark by 290 basis points as **the majority of the PEP's commitments to the distressed sector were in funding mode early in the period and commenced before the severity of the financial crisis was fully understood.** PCA believes that the continued economic uncertainty, particularly in Europe and the United States, will potentially lead to additional opportunities in the distressed debt space. However, only 13% of PEP's distressed debt commitments remain unfunded. The degree to which the current portfolio would benefit from such market dislocations is uncertain.
- Venture capital and mezzanine each trailed their respective private market industry benchmarks over the latest five-year period by 270 basis points and 610 basis points, respectively, while expansion capital exceeded its sub-asset class benchmark by 100 basis points.
- **Approximately 57% of the PEP's commitments were made during the 2005-to-2008 time period.** As of September 30, 2011, these commitments represent 76% of the PEP's market value. As a result, the investments from this four-year period are currently primary drivers of PEP results, and the ultimate results will not be known for several years. However, all four of these vintage years are performing below median as of September 30, 2011, with all four placing in the third quartile of the State Street PrivateEdge benchmark.

## 1.2 Industry Trends

- After experiencing a year-over-year decline in 2010, **fundraising activity saw an increase in commitments** through the 2011 calendar year. However, the pace of fundraising slowed in the second half of the year as market volatility returned and uncertainty increased. The market may become bifurcated, resulting in the most attractive funds being quickly over-subscribed, with the remainder continuing to struggle in this challenging environment.
- U.S. buyout deal volume exhibited a 14% increase in 2011 over 2010 aggregate deal volume. However, **buyout transaction volume declined in the fourth quarter** due to multiple factors, including the continued uncertainty about the U.S. economic recovery, European economic stability, and availability of leverage.
- **Higher levels of risk appear to be returning to the leveraged buyout market.** Purchase price multiples increased in the fourth quarter of 2011 and debt multiples continued to rise, resulting in less equity required to complete transactions. The gap between purchase price multiples for large leverage buyout (LBO) transactions and middle-market LBO transactions had narrowed in 2010, but widened in 2011.
- The availability and utilization of **leverage in buyout transactions is a balance of risk and return.** Managers will increase leverage (as market factors allow) to maximize returns, while also increasing transaction risk. Sellers commonly benefit from a greater availability of debt as purchasers may be willing to pay a higher price. Prudent use of leverage should be examined on a case by case basis.
- **Venture capital investment activity has increased** year-over-year for the past three years. There are several favorable dynamics in the venture capital industry that suggest potential for attractive long-term results going forward, including: an overall reduction in institutional investor commitments to venture capital, technical enhancements removing barriers to entry thereby enabling entrepreneurs to create new companies at lower costs, and fewer venture capital firms competing for deals.
- **Exit activity for venture capital investments continues to show signs of improvement.** Merger and acquisition (M&A) transactions continued to exhibit consistent exit activity with a light decrease in the fourth quarter of 2011, but the initial public offering (IPO) market rebounded from a slow third quarter with 11 IPOs during the fourth quarter. Many industry participants believe that there is significant imbedded value within existing venture portfolios, and registration for IPOs has increased, but material exits are going to be necessary to reverse the poor venture returns over the last decade.

- The **outlook for distressed debt investment strategies is mixed**. The rebound in debt pricing had minimized the opportunity for trading strategies, but the recent market volatility has resulted in a decline in pricing (according to the Leveraged Loan Index produced by the Loan Syndications and Trading Association). The resurgence of concerns regarding the economic environment may again tighten lending standards, which may in turn improve the opportunity set for debt-for-control transactions.
- At the present time, the **impact of European capital markets volatility on the PEP program is not known**. Staff and PCA continue to actively monitor the situation.

## 2.0 CalSTRS' Private Equity Portfolio Performance

This section contains an overview of the performance of the PEP, with a detailed analysis by vintage year, asset class, investment vehicle and geography, based on data provided by State Street PrivateEdge. CalSTRS' investments are classified into categories by sub-asset class, investment vehicle and geography. For example, an Italian buyout investment will be classified as "buyout" in the asset-class classification, "fund investment" for the investment-vehicle classification and "international" for the geographical classification. In line with the CalSTRS' classification system for investments, this performance analysis will examine the portfolio from several different perspectives: vintage year performance, asset class, investment vehicle, geography, fund investment concentration and industry diversification.

### 2.1 Portfolio Overview

Over the last six-month period, the PEP drew down \$1.5 billion of contributions, returned \$1.9 billion in distributions and had a market value of \$21.3 billion as of September 30, 2011, down from \$22.3 billion six months ago. The total value of the private equity portfolio, which includes the market value plus distributions, was \$45.6 billion as of September 30, 2011, representing a \$0.9 billion increase since March 31, 2011 due primarily to the material distribution activity during the time period.

### Summary of Investments

As of September 30, 2011

\$ Millions

	Number of Investments <sup>1</sup>	Capital Committed <sup>2</sup>	Capital Contributed <sup>3</sup>	Capital Distributed	Market Value	Total Value
<b>Sep. 30, 2011</b>	301	41,527.0	33,016.5	24,335.0	21,264.8	45,599.9
<b>Mar. 31, 2011</b>	291	40,297.1	31,538.5	22,427.6	22,279.1	44,706.7
<b>Six-Month Change</b>	10	1,229.9	1,478.0	1,907.4	-1,014.3	893.2

1. Number of Investments represents only active investments, including 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.

Source: PrivateEdge, PCA analysis

## 2.2 Detailed Performance Analysis

CalSTRS has set long-term targets and percentage ranges based on total exposure (defined as market value plus unfunded commitments) for the PEP for its investments in different sub-asset classes. As of September 30, 2011, **CalSTRS' actual investments were in line with the current ranges** set by the board.

### Actual vs. Target Allocation by Investment Category

As of September 30, 2011

\$ Millions

Investment Category	Market Value*	Percent of PEP Market Value	Unfunded Commitments**	Total Exposure	Percent of PEP Exposure	CalSTRS Target	CalSTRS' Long-Term Target Range
Buyout	14,969	70.4%	5,256	20,225	68.9%	70%	50-85%
Venture Capital	1,384	6.5%	386	1,770	6.0%	5%	5-15%
Expansion Capital	1,761	8.3%	1,598	3,359	11.4%	10%	5-15%
Distressed Debt	2,866	13.5%	524	3,390	11.6%	15%	5-20%
Mezzanine	285	1.3%	316	601	2.0%		

\* Market value is actual as of 9/30/2011 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 68.9% of the PEP, down slightly from 70.4% as of March 31, 2011.
- Given the material exposure to buyouts, future performance improvements may be dependent upon a relatively strong public equity market combined with robust merger and acquisition activity.

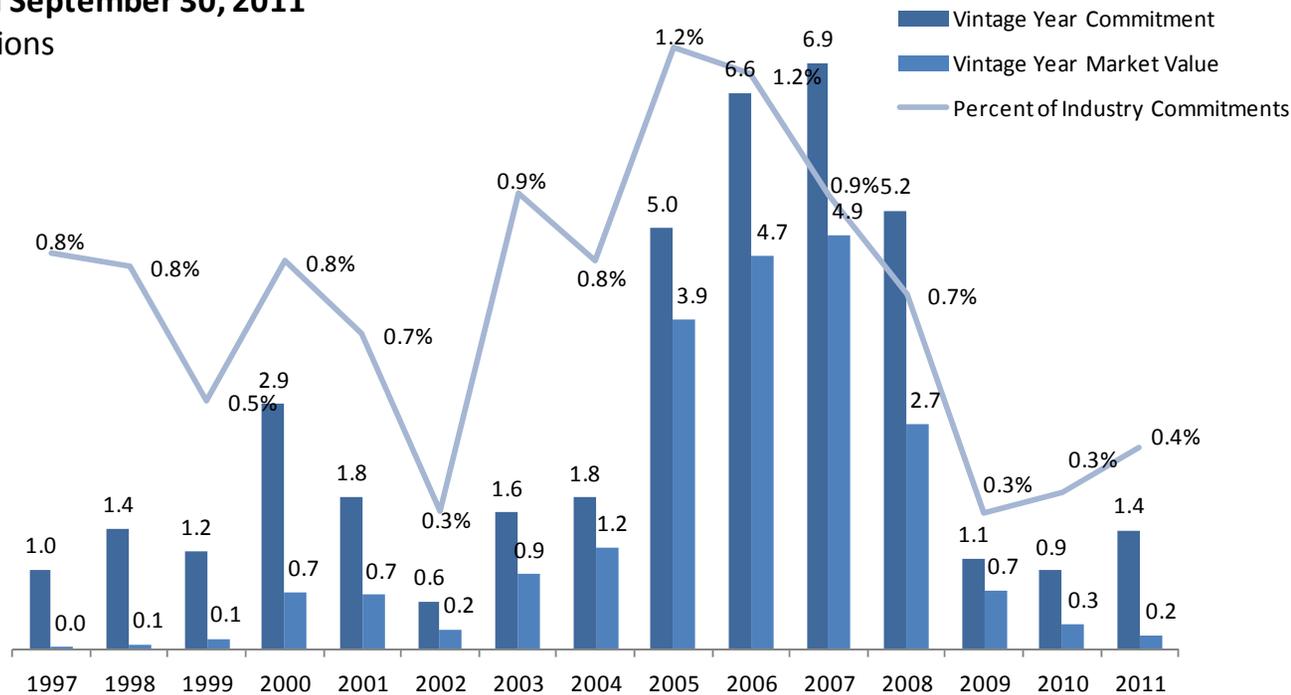
## 2.3 Annual Commitment Activity

Given the self-liquidating nature of the private equity asset class, continued commitment activity is required to reach and maintain target allocation levels. As the CalSTRS' total portfolio grew through the mid-2000s, so did the annual commitment activity for the PEP, reaching a peak of \$6.9 billion in 2007. CalSTRS committed significant amounts of capital from 2005 to 2008, with this time period encompassing approximately 57% of committed capital and 76% of the PEP's market value as of September 30, 2011. The investments from this four-year period are currently primary drivers of PEP results. PEP annual commitment levels have represented approximately 0.7% of industry commitments levels on average, ranging from 0.3% to 1.2%.

### PEP Annual Commitment Activity and Market Value

As of September 30, 2011

\$ Billions



Source: PrivateEdge, Thomson Reuters, PCA Analysis

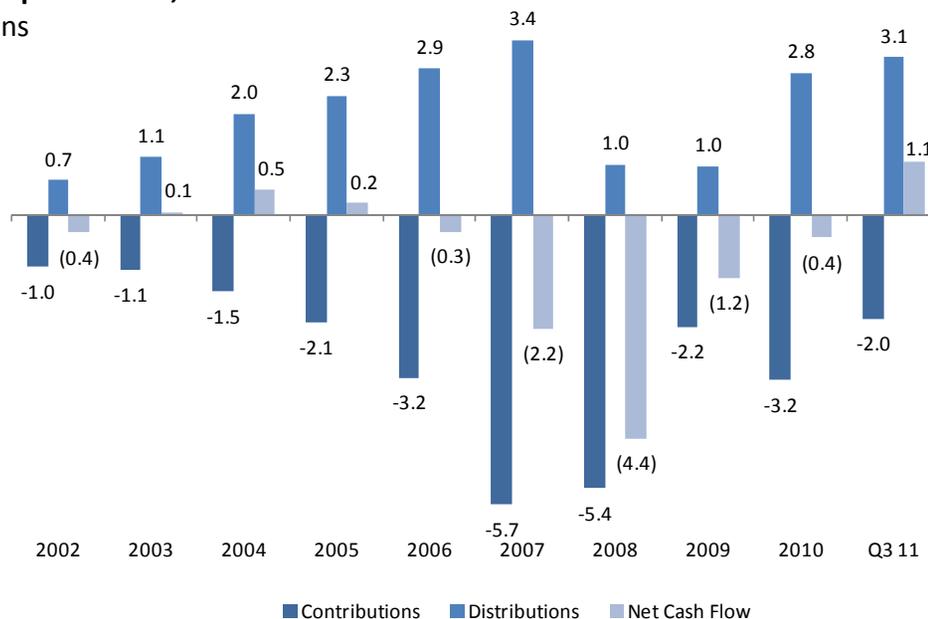
## 2.4 Annual Cash Flows

The PEP's aggregate cash flows have been impacted by broad market dynamics. Contribution and distribution activity was at its highest in 2007, due to significant investment activity, influenced by readily available debt and material liquidity events. However, during 2007 and 2008, the PEP's net cash flow was negative (with capital contributions exceeding distributions received). The significant amounts of capital deployed in this time period may outweigh other vintages going forward. The long-term impact of this capital deployment is uncertain at this time.

### PEP Annual Cash Flows

As of September 30, 2011

\$ Billions



Source: PrivateEdge, PCA Analysis

- Distribution activity increased in 2010 and has continued in the first nine months of 2011.
- The PEP has been cash flow positive over the last twelve months.
- In general, institutional investors have experienced an improvement in net cash flow in their private equity programs with increases in realizations of more mature holdings.

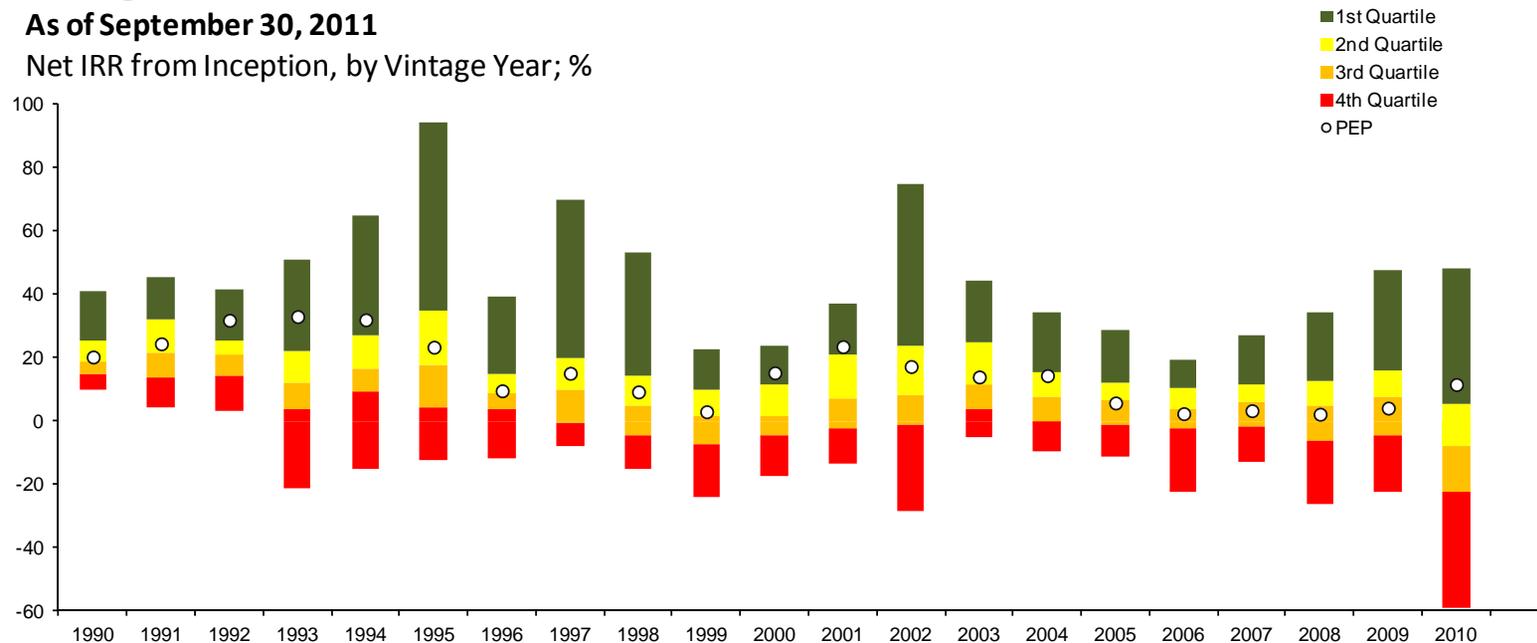
## 2.5 Vintage Year Performance

Investments made by the PEP since 1990 have outperformed the industry median vintage year returns in 16 of 21 years analyzed. Underperformance relative to the median has occurred in the 2005 through 2009 vintage years, which are less-mature vintages that have exhibited volatile performance results. However, these five vintage years represent \$24.8 billion of commitments and \$16.8 billion of market value (approximately 79% of the PEP's aggregate market value) and therefore materially impact portfolio results. In six vintage years (29% of the vintage years), the PEP has placed in the top quartile of the State Street PrivateEdge benchmark.

### Vintage Year Net Returns\*

As of September 30, 2011

Net IRR from Inception, by Vintage Year; %



\* 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

- Given the significant amount of unrealized value in the 2005 to 2009 vintage years, relative performance results may improve as underlying investments are realized.

## 2.6 Sub-Asset Class Performance

CalSTRS' sub-asset classes provided mixed performance results versus their respective private market industry benchmarks (as represented by the State Street Private Equity Indices) as of September 30, 2011. This section of the report focuses on the most recent five-year period to reflect the long-term nature of the private equity asset class while also incorporating the more current portfolio construction and economic environment.

### Sub-Asset Class Performance

As of September 30, 2011

Net IRR; %

Sub-Asset Class		1-year	3-year	5-year	10-Year	Since Inception
U.S Buyout	CalSTRS	9.8%	4.3%	4.3%	9.1%	10.2%
	SSPE Index: U.S. Buyout	14.6%	8.0%	8.6%	10.0%	12.6%
International Buyout	CalSTRS	11.0%	6.7%	8.2%	16.7%	15.3%
	SSPE Index: Europe Buyout	10.8%	2.6%	8.2%	11.4%	13.6%
Venture Capital	CalSTRS	16.9%	4.6%	6.0%	5.7%	17.5%
	SSPE Index: Venture Capital	16.4%	8.2%	8.7%	4.1%	10.2%
Expansion Capital	CalSTRS	16.0%	9.2%	9.7%	9.8%	21.7%
	SSPE: Domestic Private Equity	14.4%	8.7%	8.7%	8.7%	12.0%
Mezzanine	CalSTRS	10.0%	3.3%	5.7%	11.3%	13.2%
	SSPE Index: Mezzanine	11.3%	14.1%	11.8%	8.4%	10.4%
Distressed Debt	CalSTRS	3.3%	8.4%	5.3%	7.5%	7.5%
	SSPE Index: Distressed	9.2%	10.8%	8.2%	8.9%	11.4%

Source: Private Edge

- U.S. buyout (the largest sub-asset class in the program) underperformed its sub-asset benchmark, while international buyout led, or matched, its sub-asset class benchmark over all periods examined.
- Expansion capital outperformed relative to its sub-asset class benchmark, while venture capital and mezzanine posted mixed results relative to their respective sub-asset class benchmarks.
- Distressed debt underperformed its sub-asset class benchmark over all periods evaluated.

Over the latest five-year period, the buyout segment of the PEP portfolio posted a return of 4.3% and trailed its industry benchmark by 430 basis points. Partnership selection and commitment sizing decisions (i.e. larger commitments to partnerships that are currently underperforming) have dampened results. According to the State Street Private Equity Index, the mega buyout sector (encompassing fund sizes in excess of \$5 billion) posted a 5.9% return over the latest five-year period and was the worst relative performing buyout segment over the period. As of September 30, 2011, approximately \$9.1 billion of market value was invested with buyout funds of \$5 billion in size or greater, which represents approximately 61% of CalSTRS' aggregate buyout market value. CalSTRS' significant allocation to this segment of the market has contributed to dampened results relative to the overall buyout market. Given the size of the CalSTRS' portfolio, it is expected that the PEP would be an active participant in the large end of the buyout market to efficiently deploy capital.

Distressed debt, which has been in funding mode since 2007 due to increased opportunistic commitment activity, posted an 8.2% return over the latest five-year period and trailed its private market industry benchmark by 290 basis points. A material amount of the distressed debt commitments were funded prior to the economic crisis, thereby dampening returns for the segment. The smaller exposures to venture capital and mezzanine each trailed their respective industry benchmarks over the latest five-year period by 270 and 610 basis points, respectively, while expansion capital exceeded its benchmark by 100 basis points.

## 2.7 Investment Vehicle Performance

Fund investments, at 94%, make up the bulk of the PEP's market value and have largely driven its returns. At 6%, the proportion of the portfolio in co-investments (direct private equity investments made alongside a general partner in a specific transaction, usually on better economic terms than through the limited partner structure), remains the same as six months ago.

While CalSTRS' funds have achieved a net since-inception IRR of 13.6%, the smaller, younger co-investment portfolio has returned 5.7% since inception (the co-investment program has a different inception point than the partnership program).

### Performance by Investment Vehicle

As of September 30, 2011

Net IRR; %

Investment Vehicle	1-year	3-year	5-year	10-Year	Since Inception*
LP/Fund Investments	10.1%	6.0%	5.9%	10.0%	13.6%
Co-Investments	8.9%	0.9%	2.7%	7.4%	5.7%

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

Source: PrivateEdge

- The co-investment program has also exhibited a greater volatility of returns over the periods presented (i.e. ranging from 0.9% for the three-year period, while improving to 8.9% for the one-year period).

## 2.8 Geographic Performance

CalSTRS' private equity investments are predominantly in U.S.-based funds, with 25% of the portfolio in international (mainly European) funds.

Since inception, the U.S. portfolio has returned 12.8%, outperforming its industry benchmark by 80 basis points. However, CalSTRS' U.S. portfolio has underperformed the State Street PrivateEdge benchmark returns over the latest one-year, three-year, five-year and ten-year periods. As with aggregate results, material exposure to the largest end of the buyout market (i.e. larger commitments to mega buyout funds) is believed to have dampened relative results for the U.S. portfolio. The international portfolio has returned 14.7% since inception, outperforming the industry benchmark by 180 basis points, and outperformed over the latest three-year and ten-year periods.<sup>1</sup> However, the international portfolio trailed the industry benchmark by 20 basis points over the latest one-year and five-year periods.

### Geographic Performance

As of September 30, 2011

Net IRR; %

Investment Vehicle		1-year	3-year	5-year	10-Year	Since Inception
<b>United States</b>	CalSTRS	10.1%	5.4%	5.1%	8.6%	12.8%
	SSPE: Domestic	14.4%	8.7%	8.7%	8.7%	12.0%
<b>International</b>	CalSTRS	9.9%	6.5%	7.7%	15.8%	14.7%
	SSPE: International (Europe)	10.1%	2.6%	7.9%	10.7%	12.9%

Source: PrivateEdge

1. Currency exposure for the non-U.S.-dollar denominated portion of the PEP is managed at the overall portfolio level by the Fixed Income Group at CalSTRS.

## 2.9 Manager Concentration

The PEP's five largest buyout relationships represent 45% of the total exposure to buyouts in the PEP as of September 30, 2011, up slightly from 43% one year ago. These five relationships currently represent 31% of the total PEP exposure, up from the 30% exposure in March 2011.

### Largest Buyout Relationships

As of September 30, 2011

\$ Millions

General Partner	Number of Investments	Market Value	Unfunded	Total Exposure
Blackstone Group*	10	1,820	993	2,813
TPG Capital**	10	1,483	735	2,218
First Reserve	3	1,095	379	1,474
CVC Capital Partners	6	1,086	341	1,427
Permira	3	892	193	1,086

\* Includes investment in GSO Capital Solutions, GSO Capital Opportunities Fund and GSO Capital Opportunities Fund II

\*\* Includes investment in NewBridge Asia IV and TPG Asia V.

Source: PrivateEdge, PCA analysis

CalSTRS' five largest venture capital managers account for 65% of total venture exposure, down from 69% one year ago. The PEP's concentration of venture capital relationships has increased from a low of 48% in 2005, with CalSTRS maintaining larger relationships with select venture capital firms. Overall, the five largest venture capital managers represent 4% of the total PEP exposure.

### Largest Venture Capital Relationships

As of September 30, 2011

\$ Millions

General Partner	Number of Investments	Market Value	Unfunded	Total Exposure
New Enterprise Associates	9	375	62	436
Technology Crossover Ventures	3	175	100	275
VantagePoint Venture Partners	4	162	39	201
JMI Equity	3	82	43	125
Nautic Partners	2	98	8	106

Source: PrivateEdge, PCA analysis

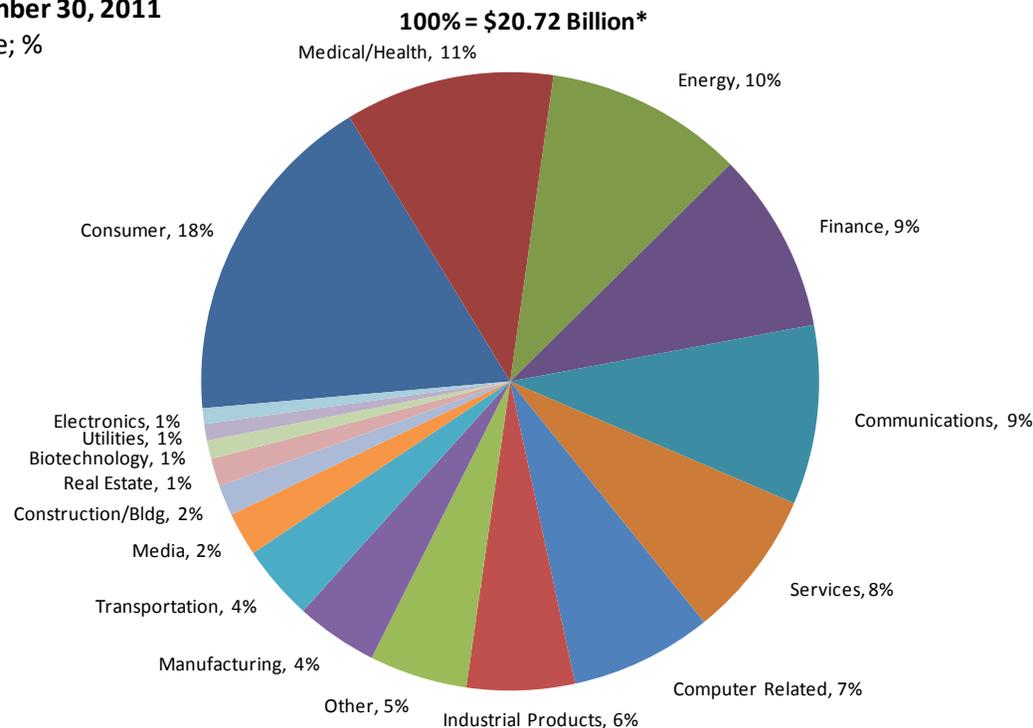
## 2.10 Industry Diversification

It is also important to examine the PEP's exposure to different industries through its underlying portfolio companies. This perspective provides CalSTRS with another tool to assess whether a particular partnership and its investment strategy fits into CalSTRS' private equity portfolio. Based on market value, CalSTRS' portfolio is diversified among a variety of industries, with the largest exposures in the portfolio to the consumer, medical/health, energy, finance and communications industries, each representing approximately 9% to 18% of the portfolio. Together, these five sectors account for approximately 58% of the portfolio. The Russell 3000 Index, with slightly different classifications, has similar exposures, with the five largest sectors including information technology (19%), financial services (15%), healthcare (12%), consumer discretionary (12%), and producer industrials (11%).

### Portfolio Investments by Industry

As of September 30, 2011

Market Value; %



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

Source: PrivateEdge, PCA Analysis

## 2.11 Proactive Portfolio

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. 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) and INVESCO (the New and Next Generation Manager Funds). The investments in the Proactive Portfolio are as follows:

### Proactive Portfolio As of September 30, 2011 \$ Millions

Investment	Vintage Year	Market Segment	Commitment	Unfunded	Market Value	Total Value	IRR
CalSTRS/BAML Capital Access Partners	2003	Equity Expansion	75.0	19.5	41.5	49.3	(3.1)
Nogales Investors Fund I	2003	Equity Expansion	25.0	0.5	4.9	15.5	(17.6)
Yucaipa Corporate Initiative Fund	2003	Buyout	150.0	19.7	95.7	101.9	(3.6)
<b>Total 2003 Generation</b>			<b>250.0</b>	<b>39.8</b>	<b>142.1</b>	<b>166.7</b>	<b>(4.4)</b>
CalSTRS New&Next Generation Manager Fund	2005	Equity Expansion	105.6	39.1	80.7	81.9	6.6
<b>Total 2005 Generation</b>			<b>105.6</b>	<b>39.1</b>	<b>80.7</b>	<b>81.9</b>	<b>6.6</b>
Acon-Bastion Partners II	2006	Buyout	40.0	7.7	41.1	47.6	13.9
CalSTRS/BAML Capital Access Fund III	2006	Equity Expansion	200.0	101.0	90.8	93.5	(2.9)
Craton Equity Investors I	2006	Venture Capital	30.0	3.4	23.1	23.2	(7.4)
ICV Partners II	2006	Equity Expansion	25.0	6.7	21.3	23.1	8.5
Nogales Investors Fund II	2006	Equity Expansion	30.0	19.8	9.7	9.7	(2.1)
Palladium Equity Partners III	2006	Buyout	90.0	30.8	62.9	83.1	12.6
<b>Total 2006 Generation</b>			<b>415.0</b>	<b>169.4</b>	<b>249.0</b>	<b>280.2</b>	<b>5.7</b>
Syndicated Communications Vent. Part. V	2007	Venture Capital	20.0	4.0	11.7	11.8	(13.0)
<b>Total 2007 Generation</b>			<b>20.0</b>	<b>4.0</b>	<b>11.7</b>	<b>11.8</b>	<b>(13.0)</b>
CalSTRS New&Next Gen. Manager Fund II	2008	Equity Expansion	216.9	158.3	54.2	54.2	(5.3)
<b>Total 2008 Generation</b>			<b>216.9</b>	<b>158.3</b>	<b>54.2</b>	<b>54.2</b>	<b>(5.3)</b>
Yucaipa Corporate Initiatives Fund II	2009	Buyout	50.0	24.8	11.0	11.0	(54.0)
<b>Total 2009 Generation</b>			<b>50.0</b>	<b>24.8</b>	<b>11.0</b>	<b>11.0</b>	<b>(54.0)</b>
CalSTRS/BAML Cap Access LLC Fund IV	2010	Buyout	100.0	95.1	2.6	2.6	(71.1)
<b>Total 2010 Generation</b>			<b>100.0</b>	<b>95.1</b>	<b>2.6</b>	<b>2.6</b>	<b>(71.1)</b>
<b>CalSTRS Proactive Total</b>			<b>1,157.6</b>	<b>530.4</b>	<b>551.3</b>	<b>608.4</b>	<b>(1.1)</b>

Source: PrivateEdge

As of September 30, 2011, CalSTRS had committed \$1.2 billion within the Proactive Portfolio across direct, side-by-side investments and funds-of-funds vehicles, with approximately 54% of the commitments having been invested. The net since-inception IRR for the Proactive Portfolio is (1.1%) as of September 30, 2011, down from (0.7%) at March 31, 2011. Over half 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.

During the last six months, the Director of Private Equity has become responsible for overseeing the Proactive Portfolio and the due diligence and authorization of new/renewal commitments to qualified managers. Previously, those responsibilities were discharged by the Chief Investment Officer. Historically, the Proactive Portfolio has been included in these Private Equity Program semiannual reports in the format seen here. The consultant would welcome Investment Committee feedback on modifying future semiannual reports to reflect the new alignment of responsibilities.

## 3.0 Review of New Activity

The PEP has evolved into one of the largest actively managed U.S. private equity programs, with 14 (two vacancies were created by 2012 departures) private equity professionals (not including two professionals dedicated to the Proactive Portfolio) leading investments across many sub-asset classes of private equity. 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.

**Current advisors.** The table below lists the current advisors and their respective roles.

### Role of Advisors

Role	Advisor
Advisor to the Board	PCA
Advisor to staff on U.S., Canada, Asia and Latin America	Cambridge Associates
Advisor to staff on European, Middle East and Africa	Altius Associates
Investment and Performance reporting/Book of Record	PrivateEdge Group
Independent fiduciaries for co-investment and secondary partnerships	Valuation Research Corporation Houlihan Lokey Howard & Zukin
Independent fiduciaries for Proactive Portfolio investments	Bank of America Merrill Lynch Invesco
Legal advisors	Proskauer Rose LLP Nixon Peabody LLP Sheppard, Mullin, Richter & Hampton LLP

Source: CalSTRS

**Policy changes.** There were no revisions to the Private Equity Investment Policy during the period.

## 3.1 Recent Portfolio Commitments

During the second quarter and third quarter of 2011, the CalSTRS private equity staff made 13 new commitments.

### New Commitments

March 31, 2011, to September 30, 2011

Partnership	Commitment	Investment Category	Closing Date
Energy Spectrum Partners VI, L.P.	\$75,000,000	Equity Expansion	4/8/2011
Vestar/Blue Investments I L.P. (Del Monte)	\$39,000,000	Co-Investment	4/13/2011
Centerbridge Capital Partners II, L.P.	\$200,000,000	Buyout	5/6/2011
GGV Capital IV L.P.	\$60,000,000	Venture Capital	5/17/2011
BC Euro Cap Icon Co Inv LP (Gruppo Coin)	€ 30,000,000	Co-Investment	6/21/2011
Sofinnova Venture Partners VIII, L.P.	\$30,000,000	Venture Capital	7/1/2011
BC European Capital IX	€ 211,000,000	Buyout	7/15/2011
GSO Capital Opportunities Fund II, LP	\$230,744,510	Mezzanine	7/15/2011
ONCAP III LP	\$30,000,000	Buyout	8/3/2011
TPG Growth II, LP	\$125,000,000	Equity Expansion	8/3/2011
Shasta Ventures III, L.P.	\$26,500,000	Venture Capital	9/19/2011
Summit Partners Growth Equity VIII-A	\$100,000,000	Equity Expansion	9/21/2011
Summit Partners Venture Capital III-A	\$20,000,000	Equity Expansion	9/21/2011

Source: PrivateEdge

Subsequent to September 30, 2011, CalSTRS made eight new commitments.

## New Commitments

October 1, 2011, to December 31, 2011

<b>Partnership</b>	<b>Commitment</b>	<b>Investment Category</b>	<b>Closing Date</b>
Blackstone Eagle Prin Tran Ptns(Emdeon)	\$36,000,000	Co-Investment	10/27/2011
Wing Holdings I, LLC (Skylark)	\$40,000,000	Co-Investment	11/22/2011
PAG Asia I LP	\$125,000,000	Buyout	12/1/2011
EnCap Energy Capital VIII Co-Investors	\$50,000,000	Equity Expansion	12/2/2011
Hony Capital Fund V, L.P.	\$75,000,000	Equity Expansion	12/12/2011
Oaktree European Principal Fund III L.P.	\$75,000,000	Distressed Debt	12/13/2011
ACON Equity Partners III LP	\$70,000,000	Buyout	12/15/2011
TPG Opportunities Partners II, L.P.	\$35,438,698	Distressed Debt	12/20/2011

Source: PrivateEdge

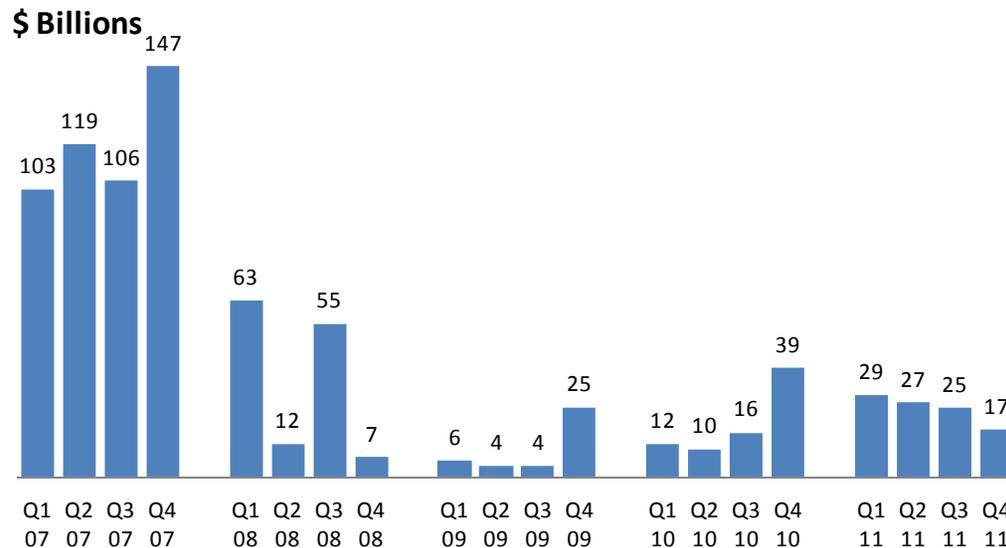
## 4.0 Private Equity Market Environment

This section outlines some of the significant current industry dynamics affecting private equity returns in the U.S., Europe and Asia, including deal flow and fundraising in the buyout and venture capital markets, and reviews major industry developments.

### 4.1 U.S. Buyout Market Trends

**Buyout deals.** U.S. buyout deal volume exhibited an increase in activity in 2011, transacting \$97.3 billion in value, up from \$77 billion in 2010. However, the 2011 calendar year exhibited quarter-over-quarter declines.

#### Disclosed U.S. Quarterly Leveraged Buyout Deal Value\*



\* Total deal size (both equity and debt)

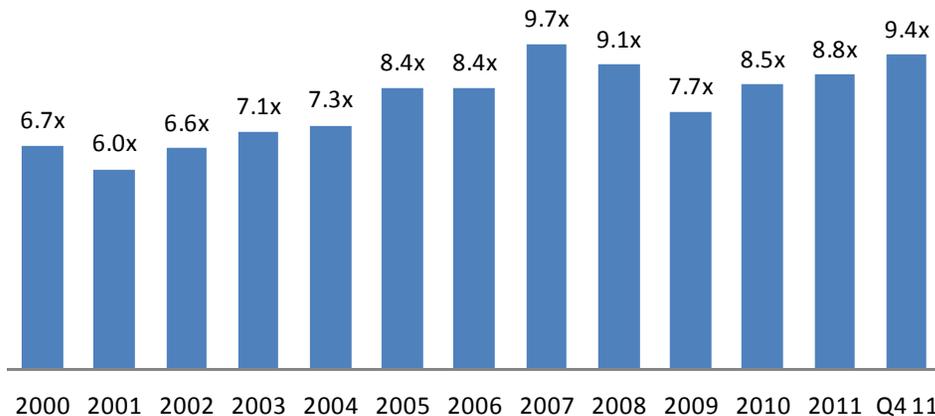
Source: Thomson Reuters Buyouts

- Buyout investment activity declined throughout 2011 due, in large part, to remaining uncertainty about the economic recovery, increased competition from strategic buyers, the potential impact of impending financial regulations and a rebuilding of transaction pipelines.

Purchase price multiples (as represented by total enterprise value divided by earnings before interest, taxes, depreciation and amortization, or EBITDA) continue to increase from the recent low seen in 2009.

## Average U.S. Purchase Price Multiples

Total Enterprise Value/EBITDA



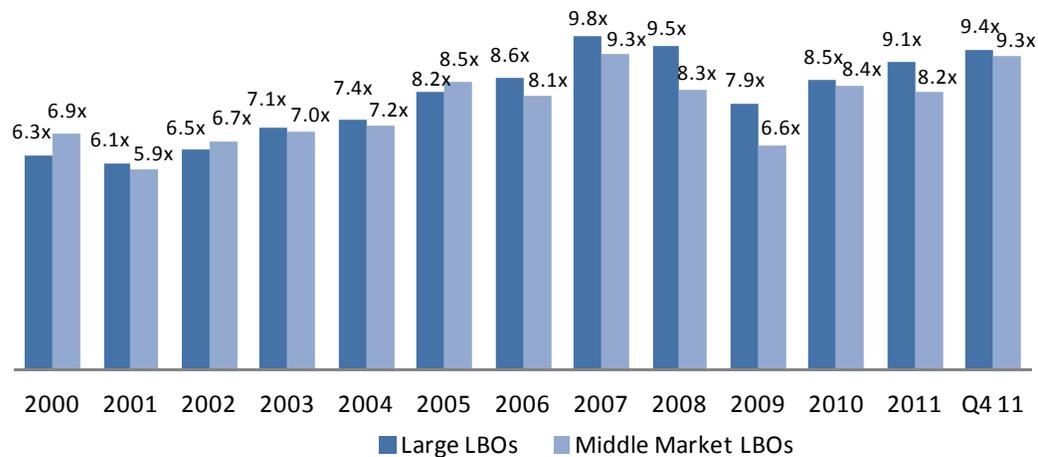
Source: S&P LCD

- The 8.8x purchase price multiple for 2011 is above the 10-year average for the industry (8.0x).
- Many industry participants believe that the significant amount of “dry powder” (i.e., unfunded commitments) remaining in the industry, combined with approaching investment period termination, has resulted in general partners under pressure to deploy capital, impacting the continued increase in purchase price multiples.
- In addition, debt financing improved in the first half of the calendar year, particularly for larger, fast-growing companies, potentially contributing to increased purchase price multiples.
- The influence of industry valuations at purchase on ultimate performance is not absolute but is commonly a material component. Purchases during the 2007/2008 time frame suggest a higher valuation environment for investment transactions.
- The current high purchase price multiples could dampen future returns on transactions completed in this environment.

In general, purchase price multiples for larger transactions (EBITDAs >\$50 million and represented by the dark blue bars below) have historically been higher than the purchase price multiples exhibited in the smaller and middle market (EBITDAs <\$50 million and represented by the light blue bars below). Given the expected focus on commitments to smaller/middle market opportunities over the near term, there could be additional competition for deals going forward that could influence the purchase price multiple in the smaller end of the market.

## Average U.S. Purchase Price Multiples: Large vs. Middle Market

Total Enterprise Value/EBITDA

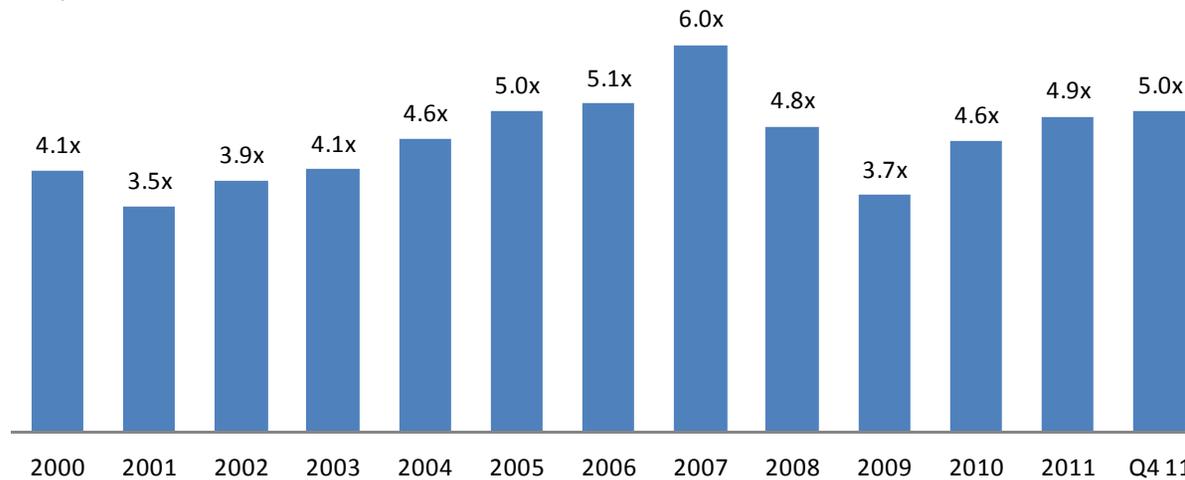


\*"Large" defined as issuers with EBITDA >\$50M, "Middle Market" as issuers with EBITDA <\$50M.  
Source: S&P LCD

The average debt multiple has followed a similar pattern as the purchase price multiple, declining from a peak in 2007 to a recent low in 2009 and rebounding in 2010 and 2011.

## Average U.S. Debt Multiples

Debt/EBITDA



Source: S&P LCD

- The decline in average debt multiple from its peak resulted in an increase in the average equity component of a transaction to 46% in 2009 from 31% in 2007.
- The dynamics of 2008 and 2009 resulted in more conservative capital structures for transactions completed.
- However, according to S&P LCD, the average equity contribution in a transaction declined to 38% for the 2011 calendar year.

The sizes of the top 10 deals in 2011 continue to be dramatically less than those seen from 2006 to 2008. The top 10 deals completed during 2007 represented \$237 billion in value, compared to only \$30 billion in 2010 and \$33.9 billion in 2011. **CalSTRS' PEP has exposure to eight of the ten largest U.S. sponsored buyout deals in 2011.**

## Top 10 U.S. Sponsored Buyout Deals\* in 2011

Closed	Company Name	Industry	Sponsor	Deal Type	Deal Size \$ Millions
Q1 2011	Del Monte Foods	Consumer Staples	Kohlberg Kravis Roberts & Co, Vestar Capital Partners and Centerview Partners	Platform/Take-private	5,311
Q1 2011	CommScope, Inc.	Technology	Carlyle Group	Platform/Take-private	3,696
Q2 2011	Securitas Direct AB	Professional Services	Bain Capital, Hellman & Friedman	Platform/Sponsor-to-Sponsor	3,412
Q4 2011	Pharmaceutical Product Development Inc.	Healthcare	Carlyle Group, Hellman & Friedman	Platform/Take-private	3,387
Q4 2011	Skylark Co. Ltd.	Retail	Bain Capital	Carve-out/Platform	3,381
Q1 2011	Alinta Energy Group-Assets	Energy and Power	TPG Capital	Platform	3,098
Q3 2011	SPIESA	Industrials	Clayton, Dubilier & Rice, Axa Investment Managers Private Equity	Platform	3,033
Q4 2011	Embodean Inc.	Technology	Blackstone Group	Platform/Take-private	3,027
Q2 2011	Emergency Medical Services Corp.	Healthcare	Clayton, Dubilier & Rice	Platform/Take-private/Sponsor-to-Sponsor	2,923
Q1 2011	Syniverse Technologies Inc	Telecommunications	Carlyle Group LLC	Platform/Take-private	2,642

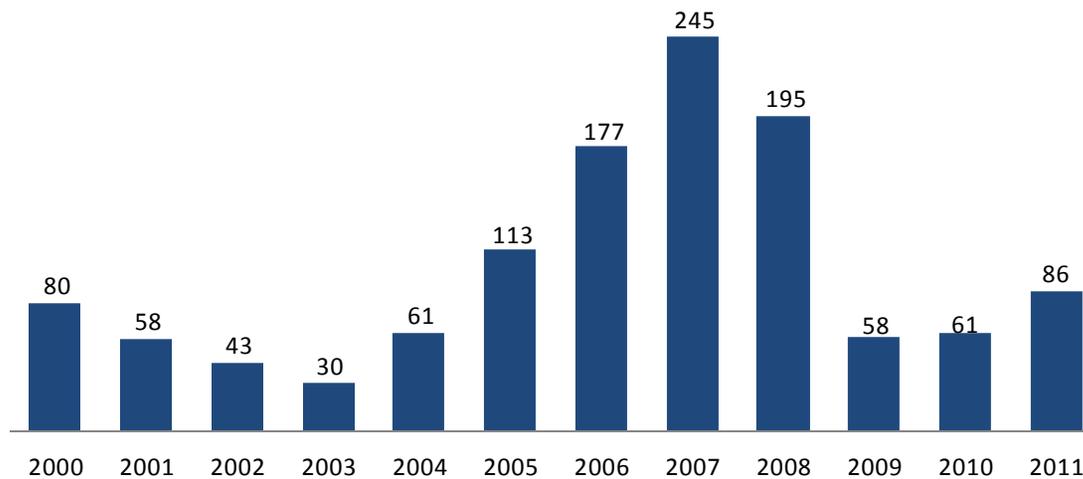
\* Closed deals; deal size includes equity and debt.

Source: *Thompson Reuters Buyouts*

- o Each of the top 10 transactions in 2007 exceeded \$8 billion in disclosed value, the largest valued at \$44.3 billion. In contrast, only one transaction in 2011 exceeded \$5 billion in transaction value.

**Buyout fundraising.** Fundraising activity for 2011 exceeded last year's level, with \$86 billion raised compared to \$61 billion last year. Recent fundraising activity is in stark contrast to the levels raised during the three-year period ending 2007 where the buyout industry set annual records for fundraising.

## U.S. Buyout Fundraising \$ Billions



Source: *Private Equity Analyst*

- Given the challenging fundraising environment over the past several years, those firms that could delay returning to the marketplace did so.
- Target fund sizes, in general, have been at or below prior fund sizes.
- Commitments raised in 2011 similar to that of the 2004 to 2005 time period.

The participation of mega firms (defined as those raising funds of \$6 billion or more) continues to be well below the peak years. Only one firm raising capital in 2011 achieved more than \$6 billion in commitments.

## Largest U.S. Buyout Funds Raising Capital in 2011

\$ Millions

Fund	Firm	Target	Raised*	Raised in 2011
Blackstone Capital Partners VI	Blackstone Group	15,000	14,700	700
Centerbridge Capital Partners II	Centerbridge Partners	3,750	4,400	2,300
EIG Energy Fund XV	EIG Global Energy Partners	2,500	4,120	2,420
KKR North American XI Fund	Kohlberg Kravis Roberts & Co.	8,000	4,000	4,000
Green Equity Partners VI	Leonard Green & Partners	5,000	4,000	4,000
EnCap Energy Capital Fund VIII	EnCap Investments	2,500	3,500	1,800
Golden Gate Capital Opportunity Fund	Golden Gate Capital	N/A	3,500	3,500
Trident V Fund	Stone Point Capital	2,250	3,500	1,500
ArcLight Energy Partners Fund V	ArcLight Capital Partners	2,000	3,300	3,050
GTCR Fund X	GTCR Golder Rauner	3,000	3,250	3,250

\* Represents aggregate commitments raised, which may include prior calendar year

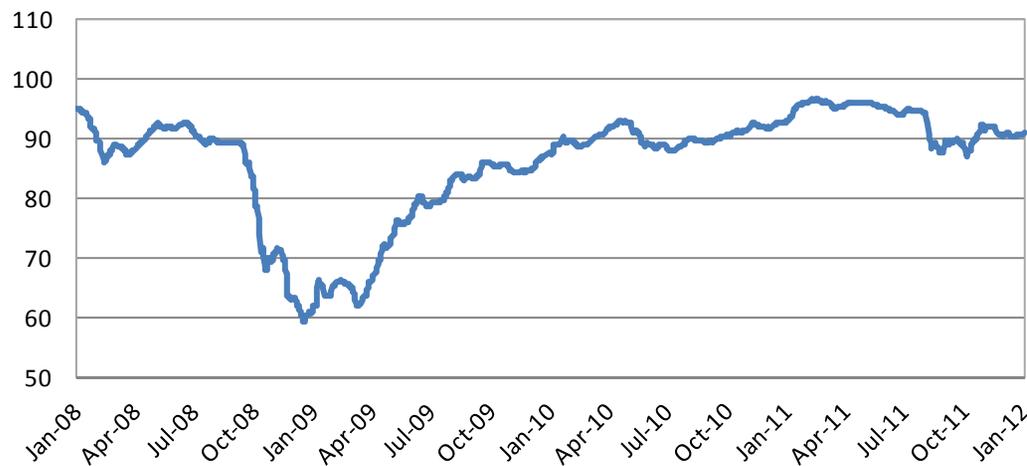
Source: *Private Equity Analyst*

- CalSTRS has interests (representing \$653 million of commitments) in three of the top 10 largest funds raising capital in 2011, highlighted in grey above.
- These exposures include opportunistic strategies that emphasize restructuring, rescue financing, distressed securities, oil and gas/energy, etc.
- Given CalSTRS' significant asset size, it is difficult to commit a meaningful amount of capital to an investment opportunity without representing the vast majority of limited partner capital, unless the potential fund is raising a large amount. PCA believes that CalSTRS expects to continue to participate in larger partnerships.

**Distressed debt.** The outlook for distressed debt investment strategies is mixed. The rebound in debt pricing had minimized the opportunity for trading strategies as renewed interest in the leveraged loan market pushed the price of leveraged loans back to par and near highs in early 2011. However, continued uncertainty and volatility in the second half of 2011 has lowered pricing.

## Leveraged Loan Index

### Index Level



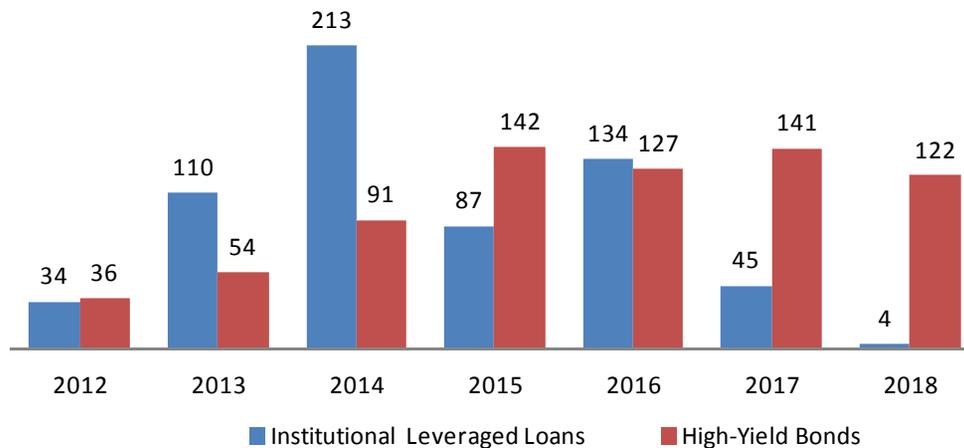
Source: Loan Syndications and Trading Association (LSTA)

- Approximately 64% of CalSTRS commitments to the distressed debt segment have a vintage year of 2007 or 2008. The distressed debt portfolio includes a variety of strategies, and managers invested capital at differing paces, but material investment activity occurred prior to the pricing drop in late 2008/early 2009.

The opportunity set for debt-for-control strategies remains unclear. There appears to be an attractive pending opportunity set, since the magnitude of debt that was “amended and extended” during the crisis resulted in a significant volume of debt issues that are maturing over the next several years. The continued economic uncertainty may increase the opportunity set going forward.

## U.S. High-Yield and Leveraged Loan Maturities

\$ Billions



Source: Credit Suisse, Cerberus

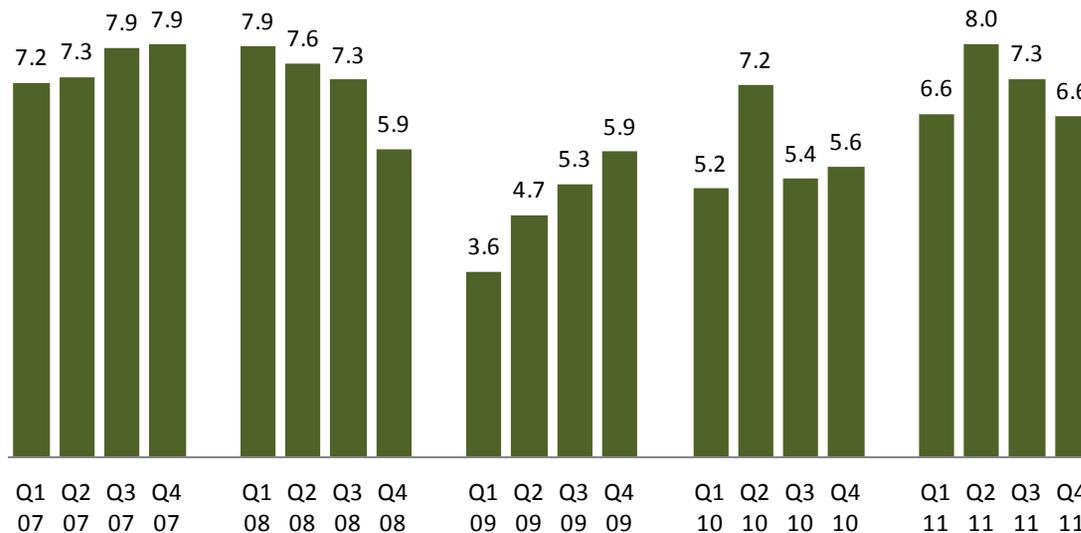
## 4.2 U.S. Venture Capital Trends

Several favorable dynamics in the industry suggest potential for attractive long-term results going forward, including reduced commitment to venture capital; ability for entrepreneurs to create new companies at a lower cost due to ongoing technological enhancements; embedded value within existing venture capital portfolios that have yet to be realized; and an improving exit environment. However, given the smaller transaction and fund sizes, it is difficult for large institutional investors such as CalSTRS to make significant commitments to the venture capital sector.

**Venture capital deals.** Venture capital investment activity increased in 2011, with approximately \$28.4 billion invested across 2,829 transactions. This represents the third highest annual investment total in the past ten years.

### Quarterly U.S. Venture Capital Deal Volume\*

\$ Billions



\* Only includes equity portion of deal value.

Source: Thomson Reuters

- Q4 2011 activity invested \$6.6 billion across 844 deals (average transaction size of \$7.8 million), with seed and early-stage transactions accounting for 53% of the deal volume, while expansion-stage deals represented 26%, followed by later-stage transactions at 21%.

The software industry received the highest level of funding for all industries, with \$6.7 billion invested during 2011, followed by biotechnology at \$4.7 billion and medical devices/equipment at \$2.8 billion. The table below lists the largest venture capital deals during 2011. **CalSTRS' PEP has exposure to seven of the ten largest venture capital deals in 2011.**

## Top 10 U.S. Venture Capital Deals\* in 2011

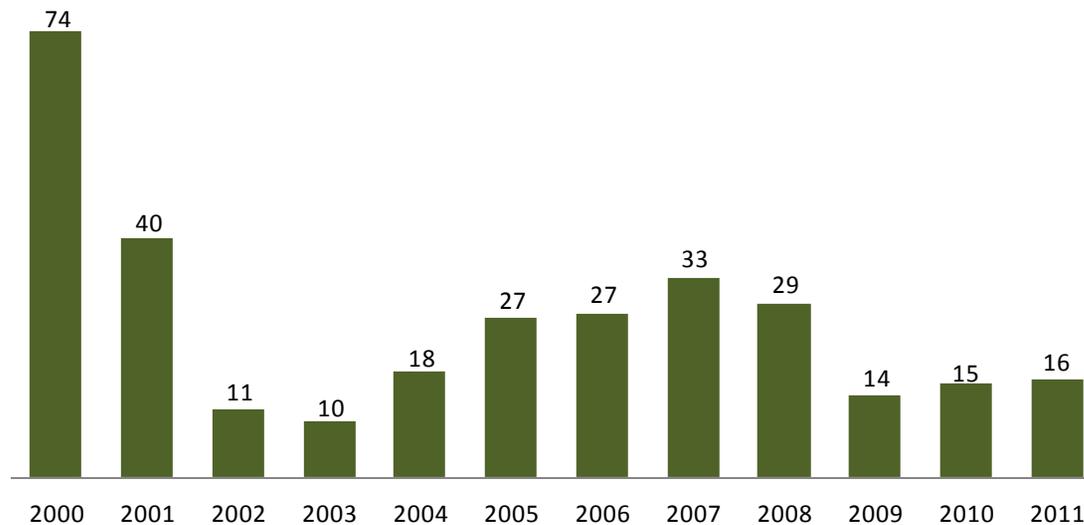
Company Name	Industry	Firm Name(s)	Estimated Round Total \$ Millions
Fisker Automotive, Inc.	Industrial/Energy	Advanced Equities, Inc., Kleiner Perkins Caufield & Byers , New Enterprise Associates 13, L.P., Palo Alto Investors	360
Reata Pharmaceuticals, Inc.	Biotechnology	Undisclosed Investor	300
Dropbox, Inc.	Software	Accel Partners , Benchmark Capital, Goldman, Sachs & Co., Greylock XIII, L.P., Index Ventures, Institutional Venture Partners XIII, L.P., RIT Capital Partners , Sequoia Capital	250
BrightSource Energy, Inc.	Industrial/Energy	Bay Area Equity Fund, L.P., CTTV Investments Power & Energy I, Draper Fisher Jurvetson, VantagePoint Capital Partners	202
Better Place, Inc.	Industrial/Energy	Ofer Hi-Tech, UBS Capital Corporation, VantagePoint Capital Partners	200
Plastic Logic, Ltd.	Electronics/Instrumentation	Oak Investment Partners XII, L.P., Undisclosed Investor	200
WhaleShark Media, Inc.	Consumer Products and Services	Austin Ventures, L.P. , Google Ventures ,Institutional Venture Partners XIII, L.P., J.P. Morgan Asset Management, Norwest Venture Partners	160
Gilt Groupe, Inc.	Consumer Products and Services	Draper Fisher Jurvetson, Eastward Capital Partners LLC, General Atlantic LLC, Goldman, Sachs & Co., Matrix Partners, New Enterprise Associates 13, L.P., Norwest Venture Partners, Pinnacle Ventures , SOFTBANK Corp., TriplePoint Capital, LLC	138
Groupon, Inc.	Consumer Products and Services	Accel Growth Fund, L.P., Andreessen Horowitz, Battery Ventures, DST Global II, LP, Greylock Management, Kleiner Perkins Caufield & Byers, Maverick Capital Equity Partners, Maveron IV Entrepreneurs' Fund, L.P., New Enterprise Associates 12, L.P., Silver Lake Partners, Technology Crossover Ventures	136
Cvent, Inc.	Software	Greenspring Associates ,Insight Venture Partners, New Enterprise Associates 13, L.P.	136

Source: Thomson Reuters

**Venture capital fundraising.** Venture capital fundraising has exhibited declines in annual fundraising since 2007. Investors continue to take a measured approach to the industry in the post-“dot-com” era. Venture capital fundraising activities have exhibited very slight increases since 2009.

## U.S. Venture Capital Fundraising

\$ Billions



Source: *Private Equity Analyst*

- Many industry participants view the continued low level of fundraising as a positive dynamic because less capital is expected to compete for attractive venture deals and fewer “me too” firms will compete for market share.

Venture capital fundraising is being led by a select few firms. The top five funds raising capital in 2011 represented 39% of aggregate venture capital commitments raised. CalSTRS has not made a commitment to any of the top 10 largest venture capital funds raising capital in 2011.

## Largest Venture Capital Funds Raising Capital in 2011

\$ Millions

Fund	Firm	Target	Raised	Raised in 2011
Bessemer Venture Partners VIII	Bessemer Venture Partners	NA	1,600	985
Insight Venture Partners VII	Insight Venture Partners	1,400	1,500	1,500
JP Morgan Digital Growth Fund	J.P. Morgan Chase & Co	NA	1,218	1,218
Khosla Ventures IV	Khosla Ventures	1,050	1,050	1,050
Greylock XIII	Greylock Partners	NA	1,000	425
Accel Growth Fund II	Accel Partners	NA	875	875
The Founders Fund IV	Founders Fund Management	500	625	625
General Catalyst Group VI Early-Stage	General Catalyst Partners	NA	500	500
ABS Capital Partners VII	ABS Capital Partners	400	500	500

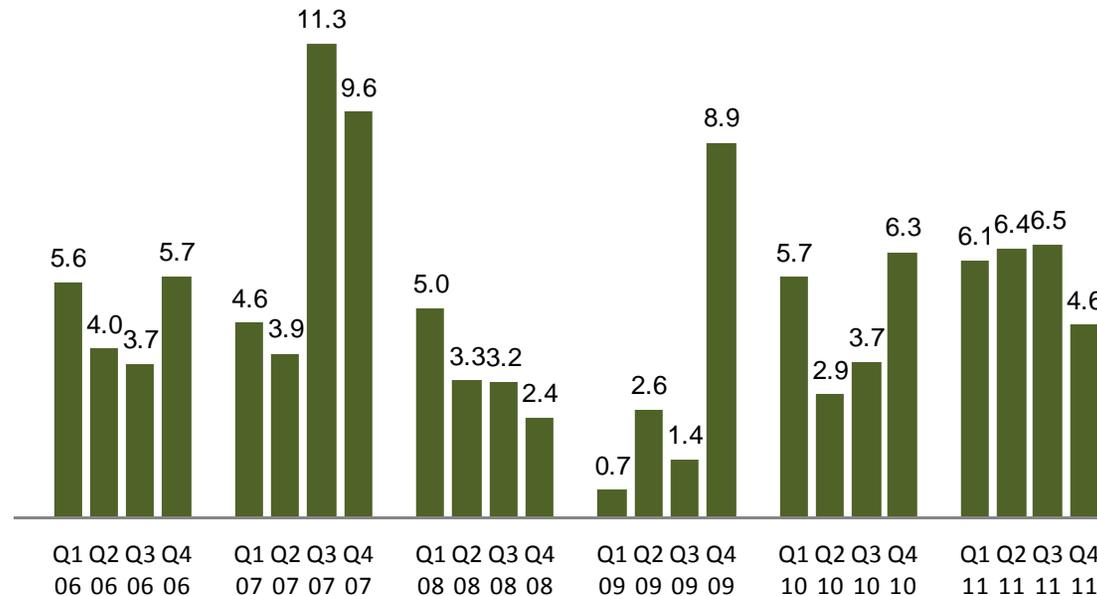
\* Represents aggregate commitments raised, which may include prior calendar year.

Source: *Private Equity Analyst*

According to *Private Equity Analyst*, 83 early-stage funds raised the greatest amount of venture capital commitment in 2011, at \$5.8 billion. An additional 37 multi-stage firms raised \$5.7 billion in capital commitments, while 15 late-stage firms collected \$4.7 billion.

**Exit opportunities.** Exit opportunities for venture-backed companies are showing signs of increased activity.

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



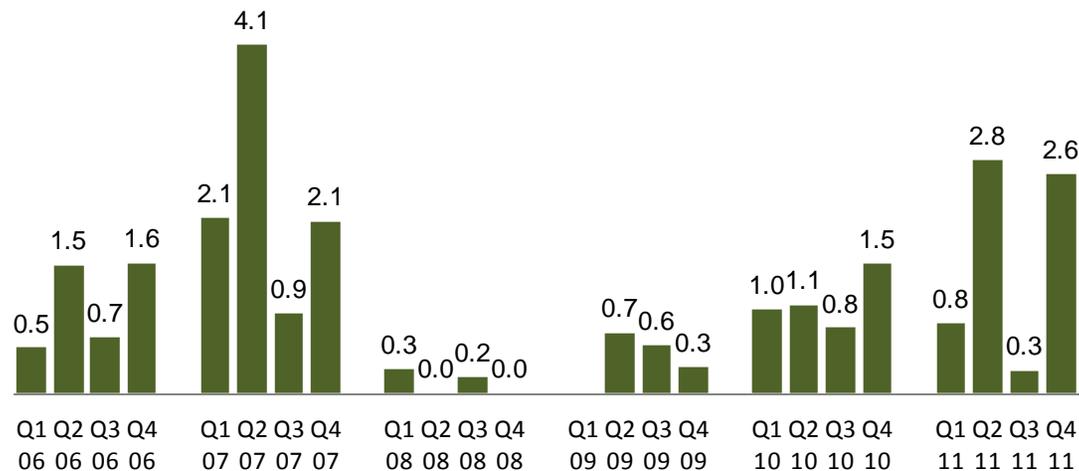
Source: Thomson Reuters

In 2011, 438 venture-backed mergers and acquisitions (M&A) transactions, representing \$23.6 billion in disclosed value (average transaction value of \$141 million for disclosed deals), were completed, well above the \$18.7 billion in disclosed value invested across 441 transactions (average of \$145 million for disclosed transaction values) in 2010. The first three quarters exhibited more stability in aggregate transaction value, at \$6.3 billion per quarter, but still included some volatility in the number of transactions completed, as 129 were conducted in the first quarter and 90 were conducted in the second quarter. In aggregate, M&A activity for venture-backed companies in 2011 posted the largest annual activity level since 2007.

IPO activity increased in 2011 with the first quarter and fourth quarter exhibiting peaks of activity. In aggregate, 39 venture-backed companies went public in 2011, raising \$6.5 billion (average of \$166 million per IPO). This compares favorably to the \$4.4 billion raised in 2010 across 47 venture-backed IPOs (average of \$92 million per IPO).

## U.S. Venture Capital-Backed IPO Activity

\$ Billions



Source: Thomson Reuters

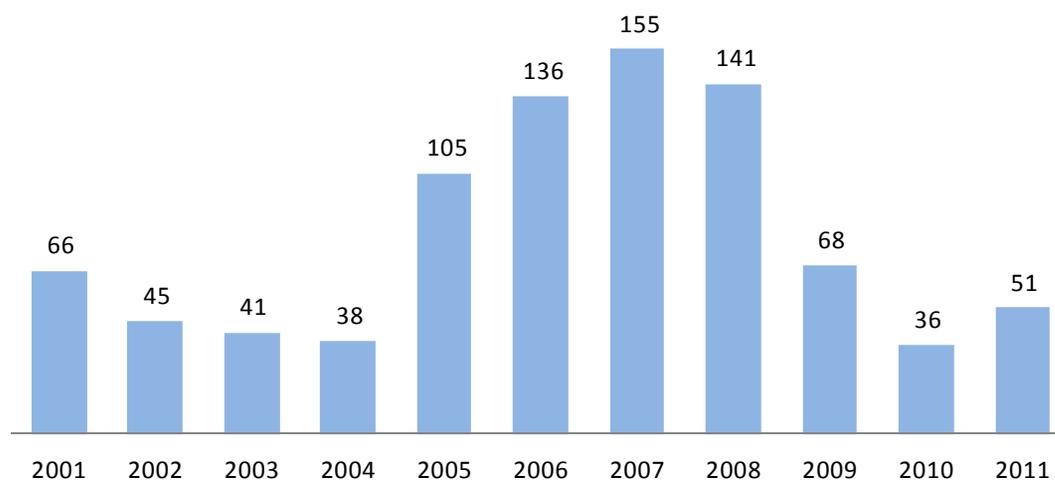
- IPO activity continues to increase since recent lows seen in 2008.
- The second and fourth quarters of 2011 exhibited upticks in activity, with 25 IPOs raising \$5.4 billion (average of \$215 million per IPO) across both quarters.
- Given the delay of venture exits due to the economic environment, many industry participants claim there is significant value embedded in existing venture capital portfolios that are ready for attractive exits.
- The digital media/social networking segment garnered much attention in 2011 with the hot IPOs of LinkedIn, Groupon and Zynga.
- Investors continue to anticipate the IPO of Facebook, possibly to occur in the spring of 2012.

### 4.3 European Private Equity Trends

**Fundraising.** European fundraising in 2011 exceeded 2010 levels, reversing a trend of year-over-year declines since 2007. In 2011 \$51 billion of commitments were raised compared to \$36 billion in 2010. However, these levels continue to be well below the record level of \$155 billion achieved in 2007.

### European Private Equity Fundraising

\$ Billions



Source: Thomson Reuters

CalSTRS invested in one (highlighted in grey below) of the top 10 largest European buyout funds raising capital in 2011.

## Largest European Funds Raising Capital in 2011

\$ Millions

Fund	Firm	Target	Raised	Raised in 2011
BC European Capital IX	BC Partners Ltd.	7,685	7,688	7,688
EQT VI	EQT Partners	5,689	6,809	6,809
Oaktree European Principal Fund III	Oaktree Capital Management	3,282	4,085	3,595
Montagu Private Equity Fund IV	Montagu Private Equity	3,063	3,337	712
Lion Capital Fund III	Lion Capital	2,501	1,794	1,355
HitecVision Private Equity VI	HitecVision Private Equity	1,250	1,500	1,500
Astorg V	Astorg Partners	980	1,446	1,446
Chequers Capital XVI	Chequers Partenaires	1,107	1,247	1,247
Avenue Europe Special Situations Fund II	Avenue Capital Group	2,225	1,085	1,085
Apax France VIII	Apax Partners	N/A	960	284

\* Represents aggregate commitments raised, which may include prior calendar year.

Source: *Private Equity Analyst*

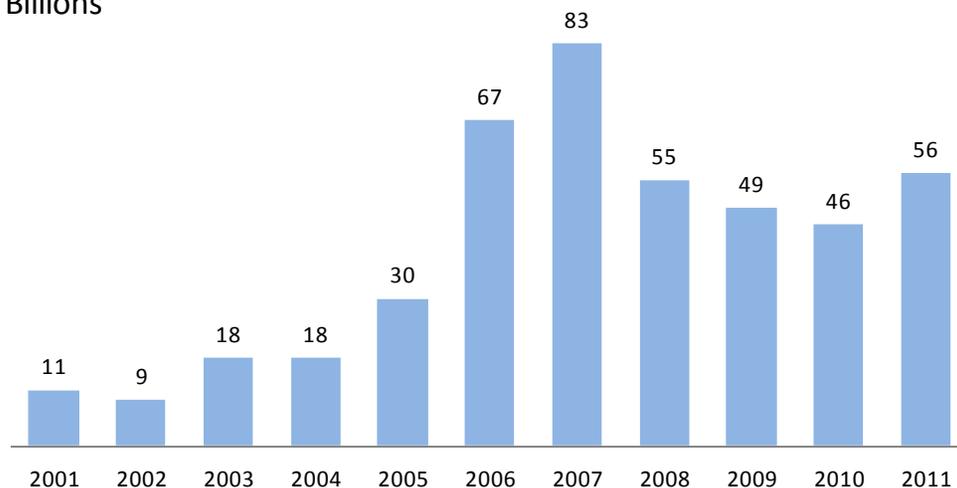
## 4.4 Asian Private Equity Trends

The rapid ascent of private equity in Asia (defined as the Asia-Pacific countries plus India) peaked in 2007, with pacing for fundraising and investment activity declining in 2008 and 2009, in line with global trends. Interest in Asia has since declined from its peak but appears to be increasing, as it is believed to continue to have significant potential for outpaced returns for private equity investors over the longer-term. Projected growth in these economies is driven primarily by large populations and ongoing government liberalization in the Asian markets.

**Deals.** Asian deal flow reversed a trend of annual declines, transacting \$56 billion in 2011 up from \$46 billion in 2010.

### Asia Private Equity Investment

\$ Billions



Source: Asian Venture Capital Journal

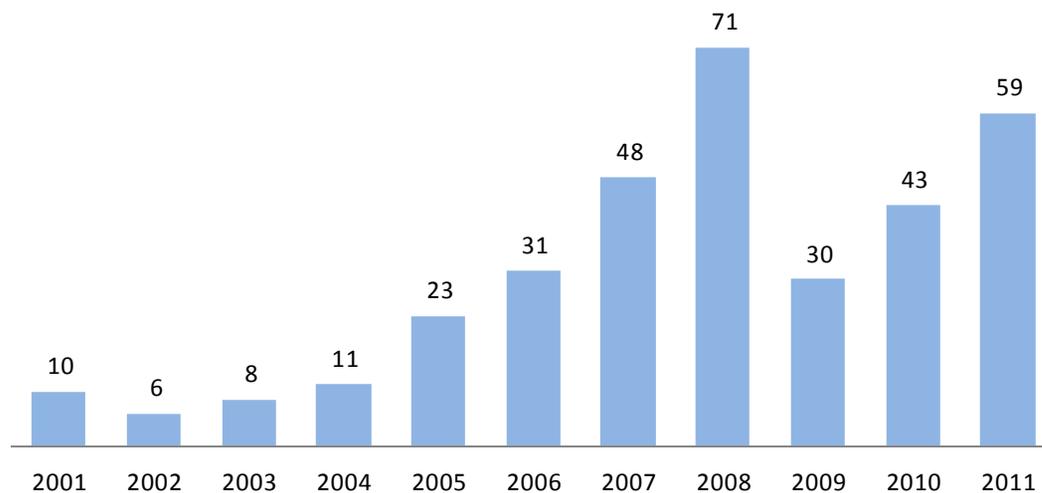
- In 2011, \$56 billion of capital was invested in Asia. China accounted for 44% of the activity (\$24.6 billion across 520 deals with an average of \$47 million), followed by Japan (\$8.3 billion across 275 deals with an average of \$30 million), India (\$7.5 billion across 366 deals with an average of \$21 million) and Australia (\$7.1 billion across 90 deals with an average of \$79 million).<sup>2</sup>

2. Asian Venture Capital Journal (AVCJ).

**Fundraising.** Fundraising activity has increased year-over-year since 2009, raising \$59 billion in 2011. However, this activity remains below the peak of \$71 billion in 2007.

## Asian Private Equity Fundraising

\$ Billions



Source: Thomson Reuters

**California State Teachers' Retirement System**  
**Alternative Investment**  
**IRRs by FOF (Excludes Co-Investments)**  
**September 30, 2011**

3/12/2012

Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
Excludes Co Investments and Private Liquidation					
<i>Limited Partnership by FOF-Weighted Age</i>					
<b>Total</b>	<b>37,607,425,837.95</b>	<b>29,426,091,299.78</b>	<b>19,652,730,575.08</b>	<b>20,077,866,037.86</b>	<b>11.69</b>
<i>Acon-Bastion</i>	40,000,000.00	32,321,884.00	6,541,052.00	41,081,380.00	13.91
<i>Advent CEE</i>	104,063,731.18	49,724,874.07	0.00	32,579,355.53	(29.84)
<i>Advent International</i>	275,638,372.39	162,264,707.55	8,213,800.00	166,001,724.08	4.35
<i>Affinity Equity Partners</i>	150,000,000.00	90,014,089.66	14,188,792.53	102,767,999.00	11.00
<i>Alchemy Plan</i>	258,968,222.27	257,760,836.64	154,661,486.57	107,940,497.41	0.67
<i>Alchemy SO</i>	79,812,093.23	59,646,405.83	23,487,845.31	41,155,339.13	2.81
<i>Alta Communications</i>	85,000,000.00	81,700,000.00	35,544,919.00	27,670,033.00	(4.82)
<i>Alta Partners</i>	20,000,000.00	20,000,000.00	45,540,989.12	239,156.00	24.54
<i>Angelo Gordon &amp; Co</i>	348,167,750.00	344,917,748.00	110,533,616.00	277,655,211.00	6.85
<i>Apax Europe</i>	956,865,332.48	852,346,888.74	513,086,758.29	635,102,460.28	13.48
<i>Apax U.S.</i>	100,000,000.00	98,422,784.00	131,749,983.00	26,283,425.00	11.93
<i>Apollo Management</i>	600,000,000.00	392,652,953.97	55,276,081.64	416,960,496.00	6.27
<i>ARCH Venture Partners</i>	30,000,000.00	28,500,000.01	1,215,258.00	41,228,686.00	10.35
<i>Atria Capital Partners</i>	42,074,189.59	26,512,627.69	0.00	21,350,422.72	(7.18)
<i>Austin Ventures</i>	37,000,000.00	37,000,000.00	39,576,515.77	4,018,733.00	5.85
<i>Avenue Capital Partners</i>	250,000,000.00	250,000,000.00	306,449,029.00	28,168,701.00	11.75
<i>Bain Capital</i>	600,000,000.00	414,750,000.00	61,821,330.00	349,551,667.00	(0.32)
<i>Bain Capital Asia</i>	25,000,000.00	18,500,000.00	2,550,051.00	18,712,854.00	6.70
<i>BC Partners</i>	1,219,416,535.41	910,872,454.52	895,448,267.76	606,213,386.68	18.88
<i>BCI Partners</i>	25,000,000.00	25,000,021.49	15,212,872.61	2,927,649.00	(4.48)
<i>Blackstone Group</i>	2,965,173,000.00	2,336,386,057.62	1,496,394,959.05	1,592,032,038.00	10.76
<i>BlueRun</i>	55,011,236.00	40,701,572.62	9,988,120.76	42,452,558.00	8.51
<i>Boston Ventures</i>	90,000,000.00	86,861,142.39	93,621,709.58	7,534,245.00	2.87
<i>BS Private Equity</i>	42,497,640.16	37,425,413.76	17,821,035.89	25,060,455.67	3.04
<i>CalSTRS Bank of America Capital Access</i>	375,000,000.00	159,330,154.20	10,424,935.62	134,960,970.00	(3.62)

**California State Teachers' Retirement System  
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September 30, 2011**

3/12/2012

Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
<i>Carlyle Europe</i>	525,980,869.38	415,858,110.52	9,336,047.04	367,431,223.78	(5.24)
<i>Carlyle Group</i>	600,000,000.00	385,499,743.00	110,281,392.00	389,466,477.00	9.02
<i>CarVal Investors</i>	196,000,000.00	186,200,000.00	31,469,070.33	174,610,642.00	2.41
<i>Centerbridge Capital</i>	625,000,000.00	401,149,112.13	68,027,998.00	481,979,318.00	17.33
<i>Cerberus</i>	751,410,000.00	592,928,347.61	78,976,451.94	674,811,700.00	7.29
<i>CGW Southeast Partners</i>	40,000,000.00	34,831,657.85	52,536,992.79	1,550,697.00	8.44
<i>Charterhouse UK</i>	137,152,667.20	115,705,430.32	0.00	100,923,348.67	(3.40)
<i>Clayton, Dublier, and Rice</i>	100,000,000.00	91,260,942.00	12,164,627.00	108,507,929.00	6.68
<i>Clearstone Venture Partners</i>	35,000,000.00	32,200,000.00	374,944.67	35,374,496.00	2.38
<i>Cortec Group</i>	148,641,176.00	72,459,264.00	58,026,961.00	55,483,733.00	15.70
<i>Craton Equity Partners</i>	30,000,000.00	26,631,076.00	76,424.00	23,144,152.00	(7.40)
<i>CVC Capital Partners</i>	1,883,160,459.09	1,542,393,539.41	1,519,571,043.64	1,085,887,621.88	20.16
<i>CVC Capital Partners Asia Pacific</i>	300,000,000.00	203,312,224.18	49,962,688.07	126,357,144.00	(4.80)
<i>DCM</i>	15,000,000.00	14,250,000.00	6,820,148.63	13,637,088.00	7.84
<i>ECI</i>	15,780,200.07	5,810,281.18	0.00	4,650,119.72	(33.49)
<i>EnCap Energy Capital</i>	600,000,000.00	337,363,644.68	207,830,627.36	318,191,614.43	24.05
<i>Energy Capital Partners</i>	320,000,000.00	228,332,805.00	88,593,510.00	143,562,705.00	1.02
<i>Energy Spectrum</i>	125,000,000.00	53,141,037.37	59,169,705.92	27,285,070.00	15.52
<i>First Reserve</i>	1,800,000,000.00	1,421,084,678.00	466,065,012.23	1,094,983,000.00	4.13
<i>Fondinvest</i>	29,625,558.44	28,300,547.66	46,102,494.35	9,384,589.71	24.68
<i>Fortress</i>	200,000,000.00	130,518,139.72	94,973.07	148,815,507.00	19.41
<i>FountainVest</i>	50,000,000.00	23,228,771.33	1,041,314.00	27,359,158.00	13.77
<i>Francisco Partners</i>	75,000,000.00	0.00	0.00	0.00	N/A
<i>Frazier Healthcare</i>	47,473,830.00	45,147,612.15	27,767,382.56	30,473,049.00	8.99
<i>Freeman Spogli &amp; Co.</i>	182,500,000.00	163,175,091.00	204,781,463.33	71,747,407.00	12.92
<i>Genstar</i>	70,000,000.00	54,055,626.55	0.00	67,381,313.00	8.68
<i>GGV Capital</i>	33,136,363.64	3,313,636.36	0.00	3,289,184.00	(0.74)
<i>Giza</i>	32,400,000.00	25,420,000.00	2,316,939.00	17,001,847.00	(9.35)
<i>Gores Capital Partners</i>	100,000,000.00	73,368,539.59	48,236,442.90	52,819,933.00	12.67

**California State Teachers' Retirement System**  
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Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
<b>GSO</b>	580,744,510.39	216,121,569.00	35,727,155.00	227,608,123.00	15.31
<b>GTCR</b>	75,000,000.00	75,000,000.00	145,848,760.65	1,097,324.00	17.82
<b>Hellman &amp; Friedman Capital Partners</b>	400,000,000.00	272,292,985.00	164,141,133.00	250,171,591.00	15.87
<b>Hg Renewable</b>	128,698,533.45	66,163,429.89	6,433,168.25	54,687,126.25	(3.56)
<b>Hony Capital</b>	50,000,000.00	39,116,901.80	328,907.99	43,081,397.14	10.33
<b>Huntsman Gay Capital</b>	100,000,000.00	67,665,708.88	16,367,679.38	59,268,315.00	8.13
<b>ICV Capital Partners</b>	25,000,000.00	18,264,115.77	1,714,389.32	21,343,504.00	8.47
<b>Innocal</b>	15,000,000.00	14,600,023.00	4,163,979.00	3,594,775.00	(15.44)
<b>Institutional Venture Partners</b>	50,000,000.00	45,000,000.00	22,915,092.00	91,815,704.00	48.80
<b>Interwest Partners</b>	145,000,000.00	135,000,000.00	136,111,644.34	55,425,386.26	53.79
<b>Invesco</b>	322,593,416.00	125,266,091.00	1,189,625.00	134,904,874.00	3.51
<b>Investitori Associati</b>	34,342,672.75	30,889,119.07	5,606,550.54	15,678,341.47	(10.28)
<b>Irving Place Capital</b>	175,000,000.00	124,884,837.98	0.00	125,235,001.31	0.09
<b>JMI Equity</b>	130,000,000.00	87,085,000.00	36,847,902.00	82,049,163.00	14.41
<b>KKR &amp; Co.</b>	724,963,852.00	656,540,804.00	693,643,087.00	241,468,401.25	10.63
<b>M/C Venture Partners</b>	100,000,000.00	97,722,584.00	123,446,193.00	13,493,783.00	5.25
<b>Madison Dearborn Partners</b>	600,000,000.00	602,705,685.35	802,893,879.72	145,825,767.00	10.06
<b>MatlinPatterson</b>	250,000,000.00	217,499,721.80	20,633,667.01	141,175,411.00	(11.49)
<b>Media Communications</b>	30,000,000.00	28,500,000.00	45,244,892.00	530,606.00	10.09
<b>Mezzanine Lending Associates</b>	50,000,000.00	39,982,987.29	139,410,315.03	849,126.00	16.36
<b>Nautic</b>	229,500,000.00	221,446,685.82	302,447,420.07	98,340,073.93	13.09
<b>Navis Capital Partners</b>	130,000,000.00	120,171,454.24	21,159,046.20	133,283,026.00	7.30
<b>New Enterprise Associates</b>	710,000,000.00	648,350,000.00	729,676,905.86	374,657,622.00	49.88
<b>NGEN</b>	15,000,000.00	13,500,484.59	742,774.74	3,853,331.00	(35.27)
<b>Nogales</b>	55,000,000.00	37,843,615.44	10,567,657.92	14,606,784.00	(12.50)
<b>Oak Investment Partners</b>	75,000,000.00	75,000,000.00	26,711,833.04	46,504,419.97	(0.54)
<b>Oaktree Capital Management</b>	640,640,000.00	520,035,225.59	447,026,108.66	372,427,611.00	16.40
<b>Olympus</b>	75,000,000.00	39,625,627.00	2,362,413.00	48,356,178.00	14.78
<b>OnCap</b>	28,888,118.69	2,009,063.94	0.00	1,796,246.82	(10.79)

**California State Teachers' Retirement System**  
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3/12/2012

Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
<i>Onex Partners</i>	425,000,000.00	306,795,913.00	290,780,793.00	227,466,127.00	22.86
<i>OrbiMed Capital</i>	40,000,000.00	8,460,000.00	249,339.72	7,653,879.00	(9.81)
<i>Palladium</i>	90,000,000.00	59,209,042.37	20,155,608.39	62,916,599.00	12.59
<i>Paul Capital Partners</i>	50,000,000.00	49,096,836.97	36,790,484.76	27,266,316.00	9.62
<i>Permira</i>	1,670,897,033.34	1,477,423,868.02	1,115,608,743.41	892,029,934.67	14.91
<i>Phildrew Ventures</i>	20,221,808.47	20,270,947.58	11,819,892.95	90,123.39	(15.02)
<i>Pond Ventures</i>	10,000,000.00	7,559,776.19	3,187,632.57	4,347,790.00	(0.20)
<i>Prism Venture Partners</i>	25,016,853.00	22,765,337.11	5,867,731.52	11,508,861.00	(8.90)
<i>Providence Equity Partners</i>	1,050,000,000.00	875,675,604.00	137,035,106.00	894,956,102.00	4.47
<i>Quadrangle Capital Partners</i>	100,000,000.00	77,962,345.00	22,979,241.00	77,318,049.00	6.83
<i>Riverstone/Carlyle</i>	350,000,000.00	205,822,959.91	20,621,854.43	189,931,734.00	0.84
<i>Sankaty Advisors</i>	625,000,000.00	575,000,000.00	123,968,416.21	494,711,420.95	2.15
<i>Shasta Ventures</i>	70,000,000.00	32,400,000.00	6,411,629.23	30,173,217.00	4.23
<i>Sofinnova Venture Partners</i>	85,000,000.00	43,950,000.00	15,625,047.68	34,900,481.00	4.08
<i>Spectrum Equity Investors</i>	386,839,889.00	323,849,895.96	300,155,426.94	123,923,144.00	7.15
<i>Stonington Partners</i>	92,241,000.00	85,846,720.96	74,689,686.09	0.00	(1.38)
<i>Summit Partners</i>	574,430,584.50	365,409,936.47	517,565,577.61	202,667,233.09	65.76
<i>Syncom</i>	20,000,000.00	15,957,860.00	147,172.00	11,659,048.00	(12.95)
<i>TA Associates</i>	312,500,000.00	233,236,550.00	183,314,572.98	137,082,631.00	13.33
<i>Technology Crossover Ventures</i>	320,000,000.00	220,163,000.00	99,793,639.47	175,177,907.00	9.56
<i>The Cypress Group</i>	278,125,000.00	261,260,997.00	184,348,246.06	39,724,702.00	(3.26)
<i>The Resolute Fund</i>	450,000,000.00	259,127,123.00	103,181,095.00	247,419,588.00	9.84
<i>THL Equity Advisors</i>	400,000,000.00	417,493,078.00	498,973,906.00	139,532,668.71	12.78
<i>Thoma Cressey Bravo</i>	160,000,000.00	158,139,998.95	188,296,058.73	54,421,525.00	8.92
<i>TPG Asia</i>	330,000,000.00	270,834,163.00	132,957,436.00	286,469,315.00	16.48
<i>TPG Capital</i>	2,756,832,542.00	2,081,132,851.00	1,499,318,329.92	1,196,770,118.00	10.99
<i>Triton</i>	67,827,921.83	59,118,296.61	35,327,850.86	64,631,328.97	17.35
<i>US Renewables Group</i>	60,000,000.00	47,920,075.00	1,175,699.00	49,223,276.00	1.39
<i>VantagePoint Venture Partners</i>	310,211,765.00	271,169,411.62	89,300,270.53	161,956,926.00	(1.55)

**California State Teachers' Retirement System**  
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Description	Capital Committed	Capital Contributed	Capital Distributed	Ending market value	Annualized ROR
<i>Vestar Capital Partners</i>	250,000,000.00	243,303,347.87	160,525,965.58	174,383,401.00	9.72
<i>Warburg, Pincus &amp; Co.</i>	110,000,000.00	110,000,000.00	572,336,102.17	500,068.00	49.15
<i>Welsh, Carson, Anderson &amp; Stowe</i>	1,753,961,111.00	1,565,824,378.00	1,610,834,545.03	646,161,857.00	8.64
<i>Whitney &amp; Co.</i>	375,000,000.00	359,602,777.46	440,785,196.19	95,325,241.00	9.77
<i>Yucaipa</i>	200,000,000.00	155,472,013.90	6,266,036.00	106,676,904.00	(5.43)

# Appendix 2

The ending account balances for the 90 day Treasury bill and Russell 3000 components are added together to determine the model portfolio's terminal value. Using the terminal value of the model portfolio and STRS' actual cash flows, an IRR can be calculated for any period.

Dollar-Weighted Russell 3000 Benchmark Model / STRS Benchmark for the 3 years ended September 30, 2011.

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
Period	STRS actual cash flows and Market Value	Net Cash Flows	Contributions	Distributions (Net Cash Flows minus Contributions)	Russell 3000 Quarterly Return	Russe II Facto rs	Russell 3000 Growth of \$ Invested	Russell 3000 \$ weighted return	90 Day T-bill quarterly return	T-Bill Factors	90 Day T-Bill Growth of \$ Invested	90 Day T-Bill \$ Weighted Returns	Returns
2008 Q3	15,049,506,578	(1,520,902,195)	1,668,274,778	147,372,584	(8.85)	0.919	16,570,408,773						#####
Q4	13,484,863,088	(762,903,870)	980,131,876	217,228,007	(22.93)	0.778	13,658,158,475						(762,903,870)
Q1	13,755,513,363	(194,767,576)	397,947,918	203,180,342	(10.83)	0.899	12,475,616,303						(194,767,576)
Q2	14,843,705,849	(328,215,868)	418,059,236	89,843,368	16.83	1.176	14,996,689,881						(328,215,868)
2009 Q3	16,222,007,439	(322,278,595)	539,347,539	217,068,944	16.36	1.171	17,884,994,644						(322,278,595)
Q4	17,739,122,913	(395,027,650)	845,982,763	450,955,113	5.91	1.067	19,471,838,942						(395,027,650)
Q1	18,698,304,354	(145,319,802)	545,360,697	400,040,895	5.93	1.067	20,917,486,869						(145,319,802)
Q2	18,834,699,207	(338,824,718)	852,654,864	513,830,146	(11.37)	0.894	19,035,460,171						(338,824,718)
2010 Q3	20,353,085,568	(436,165,761)	991,617,609	555,451,848	11.40	1.121	21,783,917,014						(436,165,761)
Q4	22,278,346,671	474,784,400	842,443,074	1,317,227,474	11.68	1.124	24,017,148,195						474,784,400
Q1	22,905,269,164	626,153,929	543,815,012	1,169,968,941	6.31	1.071	25,086,774,964						626,153,929
Q2	23,245,680,073	294,715,018	654,336,441	949,051,459	(0.08)	1.007	24,960,138,829						294,715,018
2011 Q3	21,399,520,712	134,671,671	841,777,161	976,448,832	(15.46)	0.853	21,288,280,262						21,288,280,262
<b>STRS Actual 3-yr Return:</b>												<b>Benchmark Portfolio \$ Weighted 3-yr Return:</b>	
5.71%												5.53%	

If STRS had invested in each of the two options shown, instead of investing in private equity, its portfolio would have a value of \$21,288,280,262 at 09/30/2011. This combined portfolio would have generated a dollar-weighted return of 5.53%. Over this same time period the private equity portfolio generated an actual return of 5.71%.

**KEY:**

- (A) STRS' portfolio cash flows, market value and 3-year IRR.
  - (B) STRS' net cash flows for the last 12 quarters.
  - (C) New contributions for the last 12 quarters.
  - (D) Distributions for the last 12 quarters.
  - (E) Quarterly return for the Russell 3000 (excluding tobacco).
  - (F) Factor is equal to 1 + the quarterly return for the Russell 3000 + 125 basis points (BP) on an annual basis until June 30, 2008. Premium reduced to 75 basis points starting from July 1, 2008.
  - (G) Calculates the growth of the dollars assumed to be invested in the Russell 3000 + 125 bp until June 30, 2008. Premium reduced to 75 basis points starting from July 1, 2008.
  - (H) Calculates the return on the Russell 3000 + 125 bp portfolio. Premium reduced to 75 basis points starting from July 1, 2008.
  - (I) Quarterly return for the 90-Day T-Bill.
  - (J) Factor is equal to 1 + the quarterly return for the 90-Day T-Bill.
  - (K) Calculates the growth of the dollars assumed to be invested in the 90-Day T-Bill.
  - (L) Calculates the return on the 90-Day T-Bill portfolio.
  - (M) Calculates the return on the combined portfolio.
- CalSTRS' custom benchmark is dollar-weighted by quarter and is a blended benchmark comprised of the Russell 3000® Index and Treasury Bill returns (for capital contributions less than three years old). A 500 basis point premium is added to the Russell 3000 benchmark component to account for the lower liquidity and higher risk involved with private equity. Starting July 1, 2008, CalSTRS has revised the methodology to calculate the benchmark. The new methodology is based on the Russell 3000 plus 300 basis points. In this hybrid model, the growth that is calculated base on Russell.

**Disclosure Policy  
For  
CalSTRS Alternative Investment Private Equity Partnerships**

In recognition that the access to information concerning the conduct of the people's business is a fundamental and necessary right of every person in California under Government Code §6250, the California State Teachers' Retirement System (CalSTRS) has adopted a disclosure policy for its alternative investment portfolio with respect to private equity partnerships balancing the public's right to know through the disclosure of public records subject to California's Public Records Act, Government Code §§6250 *et seq.*, with not disclosing when the release clearly would outweigh the public interest served by such disclosure as authorized under Government Code §6255(a).

CalSTRS is mandated under Education Code §22001 to provide a financially sound plan for retirement with respect to teachers in California's public schools and schools supported by the State of California and other persons employed in connection with these schools. Under Education Code §22203, the Teachers' Retirement Board (TRB) is authorized to invest the assets of CalSTRS through the purchase, holding, or sale thereof of any investment, financial instrument, or financial transaction when such action is prudent in the informed opinion of the TRB.

To maintain a financially sound investment portfolio, CalSTRS diversifies its investments among equities, fixed income, and real estate. These types of investments are transparent and ownership is a matter of public record through registries established for such transactions (e.g., stock exchange records and recording of property titles).

CalSTRS also discloses on an annual basis such holdings measured at the end of every fiscal year. Said information is available on CalSTRS' internet website [www.calstrs.com](http://www.calstrs.com).

CalSTRS also maintains alternative investments consisting of private equity partnerships, which are not by their very nature either accessible to the public or transparent. These types of investments usually consist of limited partnerships privately established according to confidential specific investment strategies for a contemplated limited period of time. Partnerships have asserted that such strategies constitute trade secrets and proprietary information (thereby exempt from the Public Records Act under Government Code §62544(k)) and the release of which would damage and harm a partnership's ability to be competitive in venture capital markets. While the partnership's investment assets may be traceable to the specific partnership through regulated transactional activity should investment be made through such vehicles, the partnership itself is private.

CalSTRS recognizes there are interested persons who wish to access information about CalSTRS' private equity partnership holdings. Presently the extent of such disclosure of private equity partnership holdings by public pension plans like CalSTRS is an evolving issue that is being debated among members of the venture capitalist community as well in legal arenas. At this time CalSTRS is attempting to balance the public policy of disclosure with the business needs of confidentiality to ensure that CalSTRS can participate successfully in the private equity marketplace. As a result, CalSTRS annually discloses a limited amount of information with respect to CalSTRS' partnership interests. The extent of that disclosure consists of releasing the name of the partnership investment, CalSTRS' capital commitment to the partnership, capital contributed to the partnership, capital distribution to CalSTRS from the partnership, and the internal rate of return (IRR) calculated by CalSTRS pertaining to its investment in the partnership.

The performance of CalSTRS' private equity partnership holdings is monitored and evaluated by the TRB's Investment Committee. Meetings of that committee are open to the public with the exception of "closed sessions" when dealing with confidential matters as authorized and permitted under California's Bagley-Keene Open Meeting Act, Government Code 11120 *et seq.* The public has access to the committee's agendas as well as to materials distributed in "open session" via CalSTRS' internet website. Among the items disclosed in "open session" are CalSTRS' new investment commitments to private equity partnerships that are made available in periodic reports.

Release of the Investment Committee's internal analysis or scoring of performance with respect to investments in private equity partnerships could impact a particular investment and be detrimental to CalSTRS' holdings. Furthermore, the release of CalSTRS' tiering or ratings of private equity partnership holdings could be very damaging to a partnership attempting to raise another capital fund. Potential investors viewing a CalSTRS rating on a general partner (GP) of a partnership where CalSTRS has invested that resulted in a lower ranking could interpret that rating as an indicator of future performance for the new fund when that ranking is applicable only to the existing CalSTRS investment. Given the possible misinterpretation of CalSTRS' internal rating system, CalSTRS will not release its tiering ratings.

CalSTRS will not release individual partnership agreements or any excerpts thereof. Each private equity partnership agreement contains specific confidential terms of investment participation, which results from the negotiation between the partnership's GP and the limited partners (which includes CalSTRS). If a GP's competitors in the fundraising market obtain documents containing such confidential negotiated terms, then a competing GP would be in an advantaged position in negotiating with potential partners at the expense of the partnership that CalSTRS has committed to. On the other hand, the GP may address concerns of a limited partner, such as CalSTRS, in ways that allow it to be competitive soliciting investment commitments. If such proprietary arrangements are known by competitors, such advantageous positioning may no longer exist. Furthermore, the list of investors in a particular partnership (including names, addresses and phone numbers) is of value to the GP. Such information could prove to be very valuable to a competing partnership seeking investors and /or for other potential limited partners trying to access investment opportunities with highly sought managers that would rival CalSTRS as investors.

CalSTRS will not release portfolio company information and valuation of an individual partnership. Disclosure of portfolio company information may not give a meaningful picture of the performance of a fund's investment. Frequently, an investment in a company will show a loss in value in the immediate time after the investment is made; however, over time the investment should become profitable as the GP implements operational and financial changes to improve the performance of the portfolio company. Hence, disclosing information at a critical time in a portfolio company's history may prove detrimental to the ultimate success of that company. Requirements to disclose portfolio company information could discourage GP's from disclosing such information to limited partners such as CalSTRS, which could result in CalSTRS receiving less information with which to manage CalSTRS' private equity investment activities. Restricting access to information by a GP could severely impair the ability of CalSTRS to properly monitor partnership performance.

The release of portfolio information and valuation of individual partnership interests further could harm the partnership and CalSTRS' own investment. By making valuation and other portfolio information publicly available, the possibility could exist that would allow each portfolio company's existing and prospective customers, suppliers, employees, competitors, and other business interests or rivals to learn about the status and financial health of the portfolio company. Such intimate knowledge could have harmful effects on a portfolio company's performance in the market place. Existing and prospective customers, suppliers, and employees could become anxious about the portfolio company's future and seek to do business with or employment from a competitor. If competitors became aware of such a valuation, they could have an advantage over the portfolio company in obtaining customers, suppliers and employees. That could result in permanent damage to the portfolio company and harm the partnership interest, which in turn would hurt CalSTRS' investment. Conversely, disclosure of a high valuation may attract more competitors to the Portfolio Company's industry thereby increasing competition and market share resulting in a disadvantage to the portfolio company, the partnership's interest and CalSTRS' investment. In addition, disclosing valuation information on a portfolio company could aid potential buyers of such companies. The buyer would have an advantage regarding with the worth of the company and could lower the value of a potential bid for that company.

The private equity marketplace is not accustomed at this time to operate in a totally transparent environment. Many venture capitalists seek to avoid disclosing investment strategies and private equity holdings of their partnerships for the reasons identified above. At this time, CalSTRS' limited disclosure practice for its private equity partnership holdings has not resulted in any significant avoidance with respect to investment opportunities. However, certain members of the private venture capitalist community have expressed displeasure and an unwillingness to enter into investment agreements with public pension funds out of concern over the extent of disclosure that could occur. CalSTRS is concerned that inappropriate disclosure beyond the current practice could lead to the exclusion of investment opportunities in this marketplace. Should that occur, then there could be limited and reduced private equity partnership investment opportunities available creating a smaller universe of potential investments for CalSTRS. Under such a scenario, some of the top prospective companies could seek capital investment from partnerships that are not subject to disclosure because those partnerships have excluded public pension funds as limited partners.

Currently GPs work to maintain the confidentiality of a private equity partnership interest, including those of the partnership's portfolio company's business information when dealing with lenders, investors, accountants, insurers and others in the course of financing the business. Public disclosure would jeopardize these standard business efforts. CalSTRS maintains that its current limited disclosure practice with respect to private equity partnership investments balances public policy demands for disclosure with those business needs so as not to put CalSTRS' investments in a disadvantage. Further disclosure beyond that what is already practiced would seriously harm CalSTRS as discussed herein. Therefore, any release beyond the extent CalSTRS presently discloses would clearly outweigh the public interest that would be served by more disclosure. Thus, CalSTRS will not engage in further disclosure beyond its current practice based upon Government Code §6255(a).

Information that is subject to public disclosure discussed above is posted on CalSTRS' internet website at [www.calstrs.com](http://www.calstrs.com) for the convenience of the public. The information posted is updated periodically when reports are made to the CalSTRS Investment Committee. There is no charge to individuals downloading this information from CalSTRS' website. Separate requests for copies of those public records also can be submitted in accordance with the California Public Records Act to CalSTRS Investment Office. Said act permits CalSTRS to charge for the production of any requested records.

## 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 from 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