

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

Item Number: 11

SUBJECT: Receive Private Equity – Semi-annual Performance
Report, Period Ending March 31, 2014

CONSENT: _____

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: September 5, 2014 / 45 mins.

INFORMATION: X

PRESENTER(S): Mike Moy, Pension Consulting Alliance

POLICY

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

HISTORY OF THE ITEM

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

PURPOSE

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

- Mike Moy of Pension Consulting Alliance, the Investment Committee's private equity consultant, will present an oral report highlighting key issues across the CalSTRS Private Equity Portfolio.
- The portfolio data in the report is prepared by State Street Bank's 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.

RECOMMENDATION

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

1Q

2014

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



INTRODUCTION

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

-- EXECUTIVE SUMMARY --

PORTFOLIO HIGHLIGHTS

- The PEP portfolio has outperformed CalSTRS' customized benchmark and the Private Equity Industry Benchmark by 80 and 70 basis points, respectively, since inception, but has underperformed each of the other reporting periods.
- Over the longer ten-year and since inception periods, the PEP has performed in line with or slightly above the 12.0% return expectation for the private equity asset class.
- Effective July 1, 2014, CalSTRS has replaced the Russell 3000 index plus 300 basis points with the State Street Private Equity Industry Benchmark.
- Buyouts represent 71% of the PEP's market value as of March 31, 2014.
 - Sub-asset class exposures are in line with targets.
- Distribution activity achieved a high of \$5.6 billion in 2013 and is on pace to exceed 2013 levels through the first three months of 2014.
- The PEP has outperformed the industry median vintage year returns in 21 of 24 years analyzed and has placed in the top quartile in six vintage years.
- Sub-asset classes provided mixed performance results versus their respective private market industry benchmarks as of March 31, 2014.
 - U.S. Buyout has underperformed its respective benchmark over all periods evaluated.
- Approximately 50% of the PEP's total commitments were made during the 2005-to-2008 time period.
- Fund investments, at 94% with co-investments comprising the other 6%, make up the bulk of the PEP's market value and have largely driven its returns.
- Over the latest six month period ending March 31, 2014, CalSTRS' private equity staff made 14 new commitments aggregating \$1.5 billion.

INDUSTRY TRENDS

- **Fundraising activity globally increased modestly** in the first half of 2014.
- Announced **U.S. buyout deal volume exhibited an increase** in Q2 2014 from the prior quarter and is on pace to exceed 2013 levels.
- **Risk metrics in the leveraged buyout market increased** during the second quarter of 2014 as both purchase price multiples and debt multiples increased.
- **Venture capital investment activity continued to increase** in the first half of 2014.
- **Exit activity for venture capital investments continued to show strength** in the first half of 2014.
- The **outlook for distressed debt investment strategies continues to be mixed**.
- The **reemergence of covenant light debt instruments continues** to gain in prevalence.

CalSTRS' PRIVATE EQUITY PORTFOLIO PERFORMANCE

Private Equity Program
Performance Against Benchmarks
As of March 31, 2014

	1-year	3-year	5-year	10-Year	Since Inception
CalSTRS PEP	18.3%	11.7%	16.2%	11.9%	13.9%
Custom Benchmark*	26.4%	17.2%	25.2%	12.3%	13.1%
Private Equity Industry Benchmark**	19.8%	12.4%	17.1%	13.0%	13.2%
<i>Excess Returns</i>					
<i>v. Custom Benchmark</i>	<i>(8.1%)</i>	<i>(5.5%)</i>	<i>(9.0%)</i>	<i>(0.4%)</i>	<i>0.8%</i>
<i>v. Private Equity Industry Benchmark</i>	<i>(1.5%)</i>	<i>(0.7%)</i>	<i>(0.9%)</i>	<i>(1.1%)</i>	<i>0.7%</i>

* 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 Industry Index (Total)

Source: PrivateEdge, PCA analysis

PORTFOLIO OVERVIEW

Summary of Changes in Investments
As of March 31, 2014
\$ Millions

	Number of Investments ¹	Capital Committed ²	Capital Contributed ³	Capital Distributed	Market Value	Total Value ⁴
Mar. 31, 2014	335	\$47,061.0	\$38,390.0	\$36,936.4	\$22,606.0	\$59,542.4
Sep. 30, 2013	323	45,379.8	37,333.7	33,655.7	22,754.9	56,410.7
Six-Month Change	12	1,681.2	1,056.3	3,280.7	(148.9)	3,131.7

1. Number of Investments represents only active investments (both partnerships and co-investments).

2. Includes the impact of exchange rates for international partnerships.

3. Includes capital contributed for management fees called outside of CalSTRS' capital commitment.

4. Includes capital distributed plus market value.

Source: PrivateEdge, PCA analysis

Actual vs. Target Allocation by Investment Category

As of March 31, 2014

\$ Millions

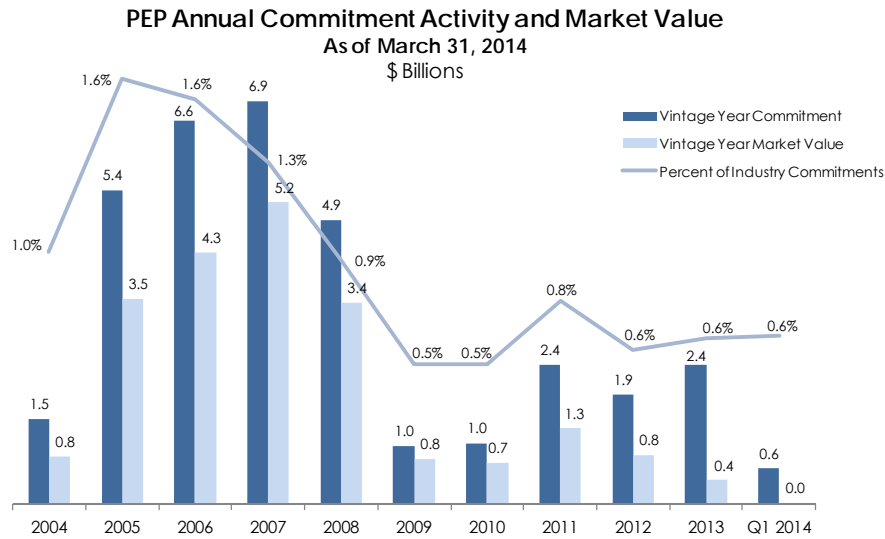
Investment Category	Market Value*	Percent of PEP Market Value	Unfunded Commitments**	Total Exposure	Percent of PEP Exposure	CalSTRS Target	Long-Term Target Range
Buyout	16,150	71.4%	4,717	20,867	68.1%	70%	50-85%
Venture Capital	1,274	5.6%	367	1,641	5.4%	5%	5-15%
Expansion Capital	2,404	10.6%	1,530	3,934	12.8%	10%	5-15%
Distressed Debt	2,520	11.1%	1,200	3,721	12.1%	15%	5-20%
Mezzanine	258	1.1%	229	487	1.6%		

* Market value is actual as of March 31, 2014 and is based upon the actual strategy of the partnership; secondaries and international are included in buyouts; co-investments are based on company investment strategy.

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

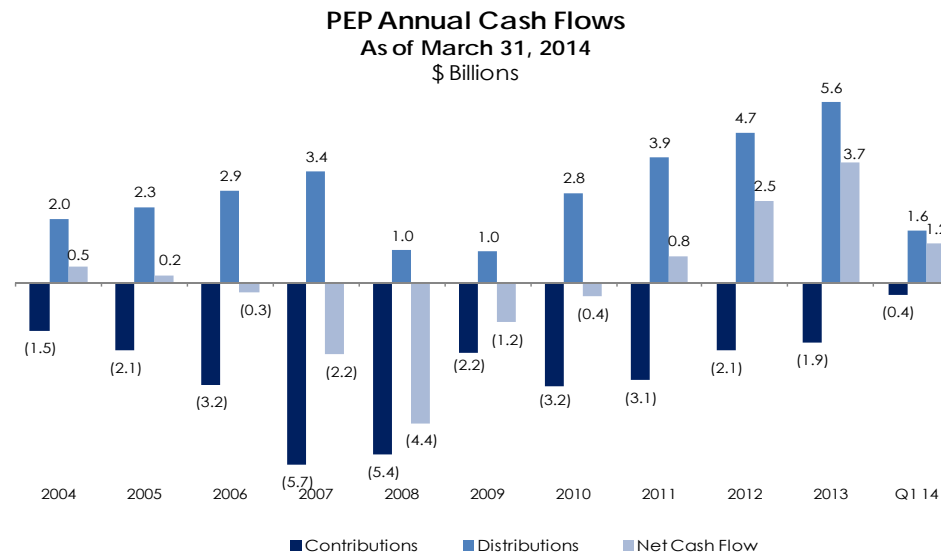
Source: PrivateEdge, PCA

- **Buyouts continue to represent the greatest total exposure at 68.1% of the PEP**, down slightly from 68.2% as of September 30, 2013.
- 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.
- Allocation to venture capital is nearing the low end of the target range.
- As of March 31, 2014, **CalSTRS' actual investments were in line with the current ranges** set by the Investment Committee.

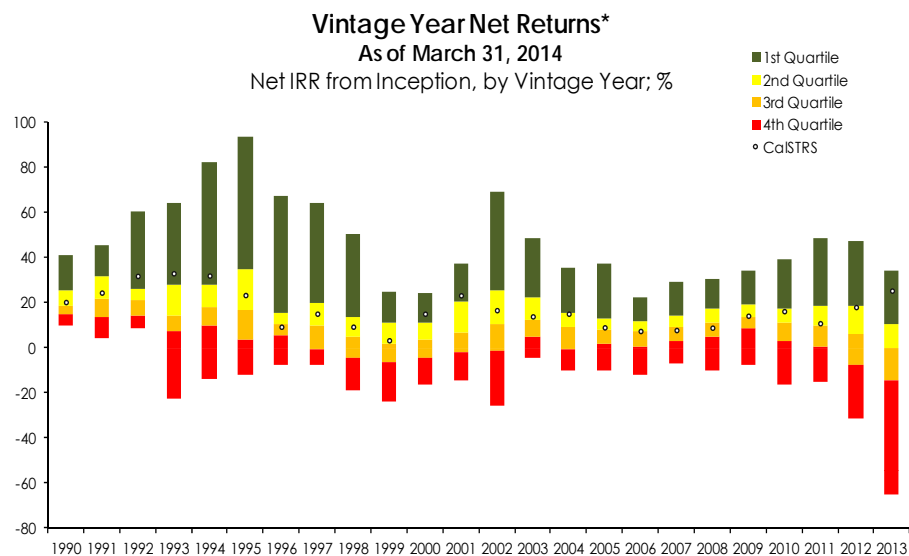


Source: PrivateEdge, Thomson Reuters, PCA Analysis

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



Source: PrivateEdge, PCA Analysis



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

Sub-Asset Class Performance

As of March 31, 2014

Net IRR; %

Sub-Asset Class		1-year	3-year	5-year	10-Year	Since Inception
U.S. Buyout	CalSTRS	18.3%	12.3%	15.4%	11.2%	12.3%
	SSPEI: U.S. Buyout	19.3%	13.0%	17.8%	14.2%	13.5%
International Buyout	CalSTRS	20.6%	10.8%	18.8%	15.2%	15.3%
	SSPEI: Europe Buyout	21.2%	10.6%	16.4%	15.5%	14.2%
Venture Capital	CalSTRS	25.8%	11.0%	10.8%	8.2%	17.0%
	SSPEI: Venture Capital	25.9%	13.9%	14.7%	10.3%	13.9%
Expansion Capital	CalSTRS	18.2%	14.4%	16.3%	14.8%	21.6%
	SSPEI: Domestic Private Equity	19.6%	12.9%	17.6%	13.1%	13.6%
Mezzanine	CalSTRS	12.8%	13.1%	9.6%	10.5%	13.3%
	SSPEI: Mezzanine	12.0%	8.4%	15.1%	9.3%	11.2%
Distressed Debt	CalSTRS	13.8%	10.0%	18.8%	9.5%	10.4%
	SSPEI: Distressed	15.0%	9.3%	20.0%	11.8%	12.4%

Source: Private Edge

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

Performance by Investment Vehicle

As of March 31, 2014

Net IRR; %

Investment Vehicle	1-year	3-year	5-year	10-Year	Since Inception*
LP/Fund Investments	18.8%	12.0%	16.4%	11.9%	14.1%
Co-Investments	14.6%	8.5%	12.8%	9.5%	7.8%

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

Source: PrivateEdge

Geographic Performance

As of March 31, 2014

Net IRR; %

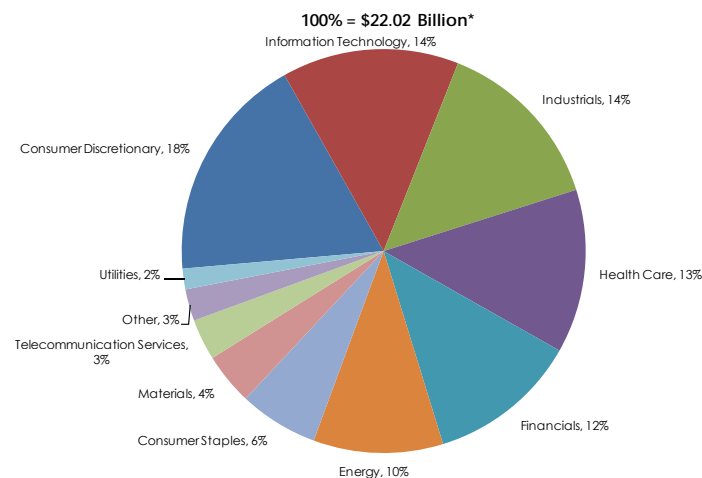
Investment Vehicle	1-year	3-year	5-year	10-Year	Since Inception	
United States	CalSTRS	18.5%	12.1%	15.6%	11.0%	13.4%
	SSPEI: Domestic	19.6%	12.9%	17.6%	13.1%	13.6%
International	CalSTRS	18.9%	10.9%	18.0%	14.5%	14.8%
	SSPEI: International (Europe)	20.8%	10.4%	15.9%	14.4%	13.5%

Source: PrivateEdge

- Fund investments, at 94%, make up the bulk of the PEP's market value. At 6%, the proportion of the portfolio in co-investments remains the same as six months ago.

- CalSTRS' private equity investments are predominantly in U.S.-based funds, with 26% of the portfolio in international (mainly European) funds.

Portfolio Investments by Industry
As of March 31, 2014
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

Largest Buyout Relationships
As of March 31, 2014
\$ Millions

General Partner	Number of Investments	Market Value	Unfunded	Total Exposure
Blackstone Group*	8	\$2,077	\$818	\$2,895
TPG Capital**	11	1,665	534	2,200
Permira	4	967	304	1,272
First Reserve	3	1,120	85	1,206
CVC Capital Partners	6	761	291	1,052

* Includes investments in four GSO partnerships

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

Source: PrivateEdge, PCA analysis

Largest Venture Capital Relationships
As of March 31, 2014
\$ Millions

General Partner	Number of Investments	Market Value	Unfunded	Total Exposure
New Enterprise Associates	10	\$393	\$111	\$204
Technology Crossover Ventures	3	234	11	245
VantagePoint Venture Partners	4	111	11	122
JMI Equity	3	86	17	103
Shasta Ventures	3	68	13	81

Source: PrivateEdge, PCA analysis

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

Proactive Portfolio
As of March 31, 2014
 \$ Millions

Investment Generation	Commitment	Unfunded	Market Value	Total Value	IRR
2003	250.0	14.7	120.3	179.0	-2.7%
2005	105.6	32.4	83.2	104.7	7.2%
2006	415.0	84.9	308.7	463.1	9.6%
2007	20.0	1.0	8.7	8.9	-17.3%
2008	216.9	97.1	140.6	145.5	7.2%
2009	50.0	1.7	31.3	36.5	-7.5%
2010	200.0	132.8	72.2	73.8	7.3%
2011	70.0	33.9	36.2	36.8	2.3%
2012	374.7	330.3	38.3	39.2	-11.8%
2013	40.0	29.0	9.3	9.4	-20.6%
2014	100.0	100.0	0.0	0.0	N/A
CalSTRS Proactive Total	1,842.2	857.8	848.8	1,096.9	3.1%

- The program's investment policy has laid a framework for direct, side-by-side investments with funds that have already been approved through the funds of funds managed by Bank of America Merrill Lynch (CalSTRS/BAML Funds), INVESCO (the New and Next Generation Manager Funds), and Muller & Monroe (M² Private Equity Funds).
- The net since-inception IRR for the Proactive Portfolio is 3.1% as of March 31, 2014, up from 1.9% at September 30, 2013.
- Almost two thirds of the Proactive Portfolio is committed to funds of funds whose structural J-curve is more elongated than a direct fund. This, combined with market volatility, a lack of investment exits and manager specific issues, contributes to the Proactive Portfolio's underperformance.
- Staff has advised PCA that they are working closely with all of the general partners in the Proactive Portfolio.

The PEP has evolved into one of the largest actively managed U.S. private equity programs, with twelve (one current vacancy) private equity professionals (not including two professionals dedicated to the Proactive Portfolio), ten of who lead investments in 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.

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

LP Capital Advisors

Meketa Investment Group

Independent fiduciaries for Proactive Portfolio investments

Bank of America Merrill Lynch

Invesco

Muller & Monroe

Legal advisors

Proskauer Rose LLP

Hanson Bridgett LLP

Sheppard, Mullin, Richter & Hampton LLP

Morgan, Lewis & Bockius LLP

Source: CalSTRS

**New Commitments
October 1, 2013, to March 31, 2014**

Partnership	Commitment (millions)	Investment Category	Closing Date
OrbiMed Private Investments V, LP	\$40	Venture Capital	10/7/2013
Carlyle Partners VI, L.P.	\$250	Buyout	11/19/2013
Onex Partners IV, L.P.	\$200	Buyout	11/22/2013
BC Euro Cap - Hercules ColInv LP	€ 25	Co-Investment	12/12/2013
CVC Capital Partners Asia Pacific IV LP	\$125	Buyout	12/17/2013
KKR BRICKMAN CO-INVEST L.P.	\$40	Co-Investment	12/18/2013
EIC Group	\$55	Co-Investment	12/20/2013
Energy Capital Partners III-A, LP	\$200	Buyout	12/30/2013
TPG Opportunities Partnes III (A) LP	\$125	Distressed Debt	1/2/2014
Spectrum ER Investor LLC	\$15	Co-Investment	2/5/2014
Clayton, Dubilier & Rice Fund IX LP	\$200	Buyout	2/24/2014
Castlelake III, L.P.	\$100	Distressed Debt	2/28/2014
M2 Private Equity Fund-of-Funds II, L.P.	\$100	Equity Expansion	3/3/2014
Alchemy Special Opportunities Fund III	£40	Distressed Debt	3/28/2014

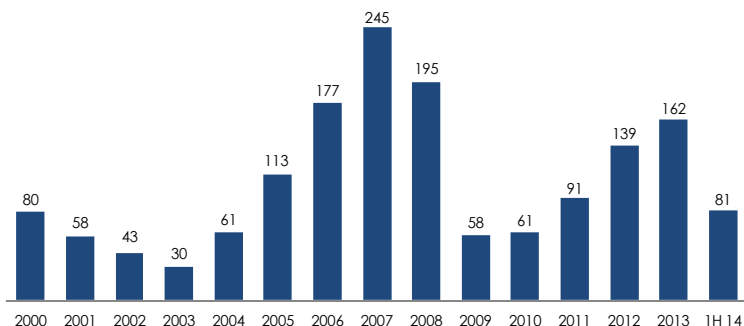
Source: PrivateEdge

**New Commitments
April 1, 2014, to June 30, 2014**

Partnership	Commitment (millions)	Investment Category	Closing Date
ECP III Co-Invest, LP	\$45	Co-Investment	4/7/2014
Capital Partners III, L.P.	\$23	Venture Capital	4/10/2014
CalSTRS Capital Access Fund V, L.P. - Series A	\$100	Buyout	4/11/2014
GGV Capital V L.P.	\$50	Venture Capital	4/18/2014
Thoma Bravo Fund XI, L.P.	\$75	Buyout	4/25/2014
The Resolute Fund III, L.P.	\$100	Buyout	4/30/2014
PEP Fluid Co-Invest L.P.	\$30	Co-Investment	5/13/2014
SSG Capital Partners III, L.P.	\$75	Distressed Debt	5/15/2014
EnCap Flatrock Midstream Fund III, L.P.	\$60	Equity Expansion	5/15/2014
Butler Group Holdings, Inc.	\$38	Co-Investment	5/16/2014
Blue Run Ventures V, L.P.	\$14	Venture Capital	5/30/2014
HgCapital Gabriel Co-Invest L.P.	£27	Co-Investment	6/2/2014
Shasta Ventures IV, L.P.	\$25	Venture Capital	6/18/2014
Spectrum Equity VII, L.P.	\$105	Equity Expansion	6/18/2014

Source: PrivateEdge

U.S. Buyout Fundraising
\$ Billions



Source: PrivateEquityAnalyst

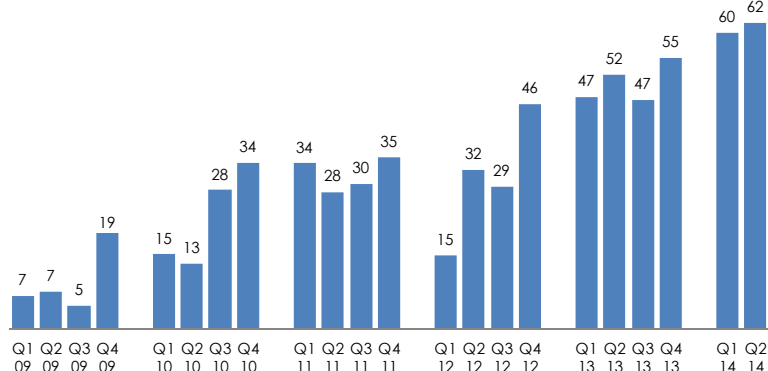
Largest U.S. Buyout Funds Raising Capital YTD in 2014
\$ Millions

Fund	Firm	Target	Raised	Raised YTD 2014
Apollo Investment Fund VIII	Apollo Global Management	\$ 17,500	\$ 18,880	\$ 1,380
Bain Capital Fund XI	Bain Capital LLC	6,000	7,300	4,300
Clayton Dubilier & Rice Fund IX	Clayton Dubilier & Rice LLC	5,000	6,250	3,330
Lone Star Fund IX	Lone Star Funds	7,000	5,700	5,700
Energy Capital Partners III	Energy Capital Partners	3,500	5,043	5,043
GTCR Fund XI	GTCR LLC	3,250	3,850	610
Vista Equity Partners Fund V	Vista Equity Partners	3,500	3,800	3,800
Thoma Bravo Fund XI	Thoma Bravo LLC	2,500	3,650	3,650
Resolute Fund III	Jordan Co.	3,000	3,200	2,120
The EnCap Flatrock Midstream Fund III	EnCap Flatrock Midstream	2,250	3,000	3,000

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

Source: Private Equity Analyst, grey highlight represents CalSTRS commitment

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



* Total deal size (both equity and debt)

Source: Thomson Reuters Buyouts

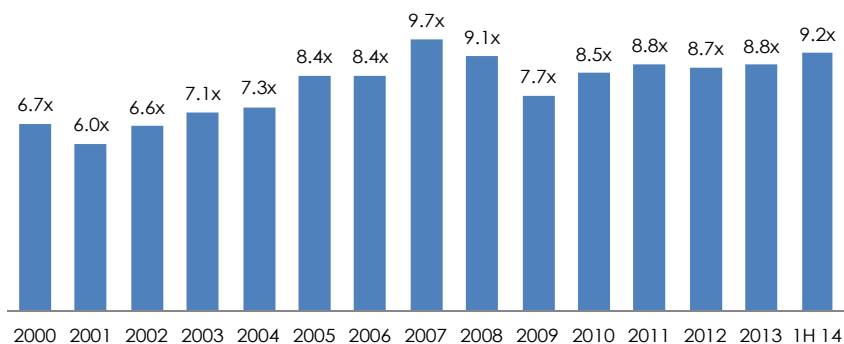
Top 10 U.S. Sponsored Buyout Deals* YTD in 2014

Company Name	Industry	Sponsor	Deal Type	Deal Size \$ Millions
KKR Financial Holdings LLC	Investments	KKR & Co.	Take Private	7,669
Illinois Tool Works Inc	Machinery	The Carlyle Group LP	Carve-out	3,200
Sedgwick Claims Management Services	Financials	KKR & Co.	Standalone Buyout	2,400
The Jones Group Inc	Textile and Apparel Products	Sycamore Partners LLC	Take Private	2,199
Tyco Fire & Security Services	Business Services	The Carlyle Group LP	Carve-out	1,930
Valassis Communications Inc	Media and Entertainment	MacAndrews & Forbes Hldg Inc	Take Private	1,872
CEC Entertainment Inc	Retail	Apollo Global Management LLC	Take Private	1,297
SandRidge Energy Inc	Energy and Power	Riverstone Holdings LLC	Carve-out	1,120
Volvo Construction Equipment Rents LLC	Industrials	Platinum Equity LLC	Standalone Buyout	1,100
EnCana Oil & Gas (USA) Inc	Oil and Gas	TPG Capital LP	Standalone Buyout	1,800

* Closed deals; deal size includes equity and debt.

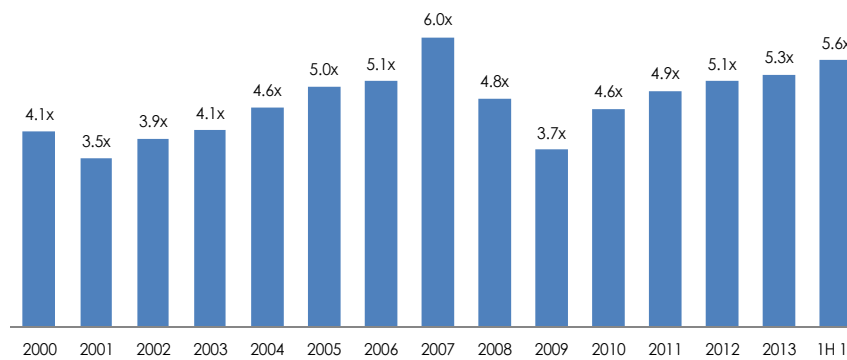
Source: Thomson Reuters Buyouts

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



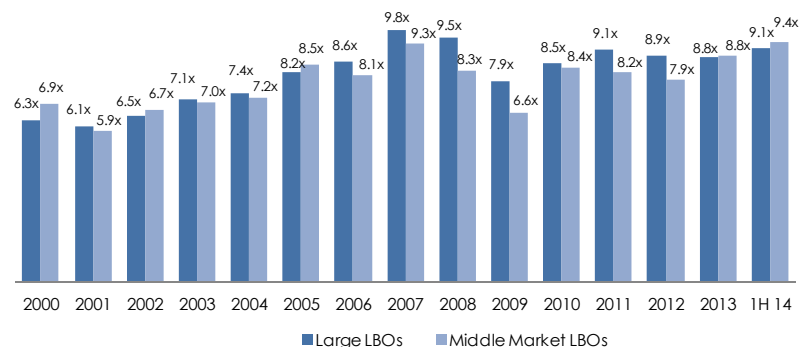
Source: S&P Capital IQ

Average U.S. Debt Multiples
Debt/EBITDA



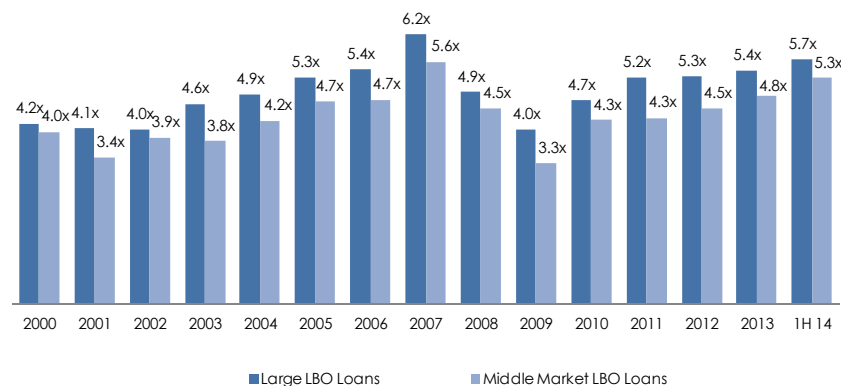
Source: S&P Capital IQ

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



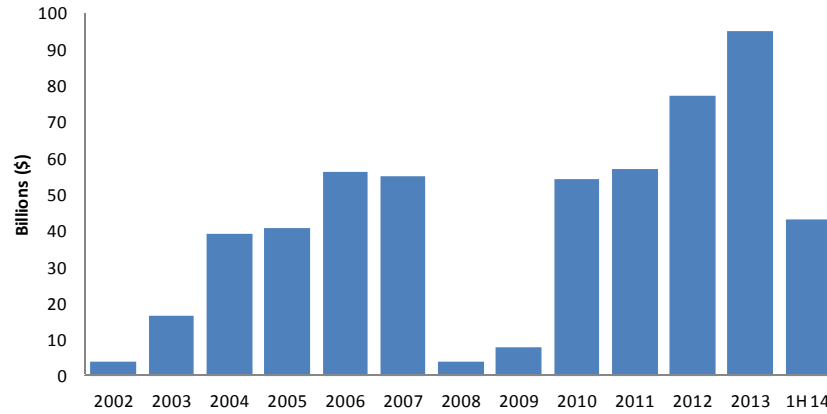
***"Large" defined as issuers with EBITDA > \$50M, "Middle Market" as issuers with EBITDA < \$50M.
Source: S&P Capital IQ

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



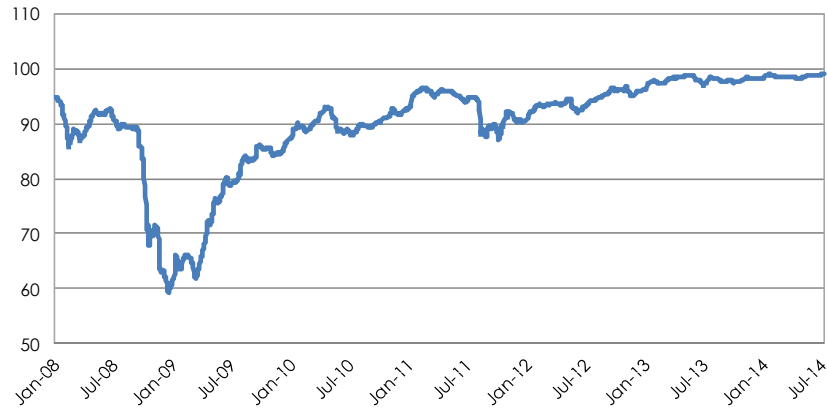
*Large defined as issues with EBITDA > \$50M, Middle Market issuers with EBITDA < \$50M
Source: S&P Capital IQ

Dividend/Stock Repurchase Loan Volume



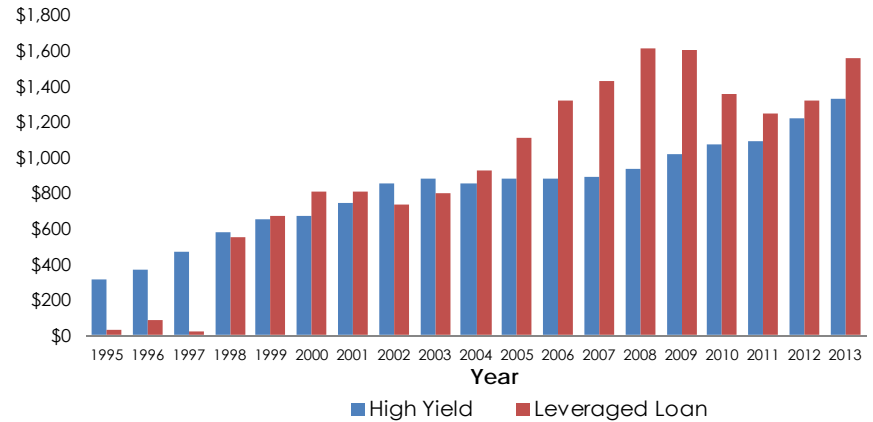
Source: S&P LCD, Bank of America Merrill Lynch

Leveraged Loan Index Index Level



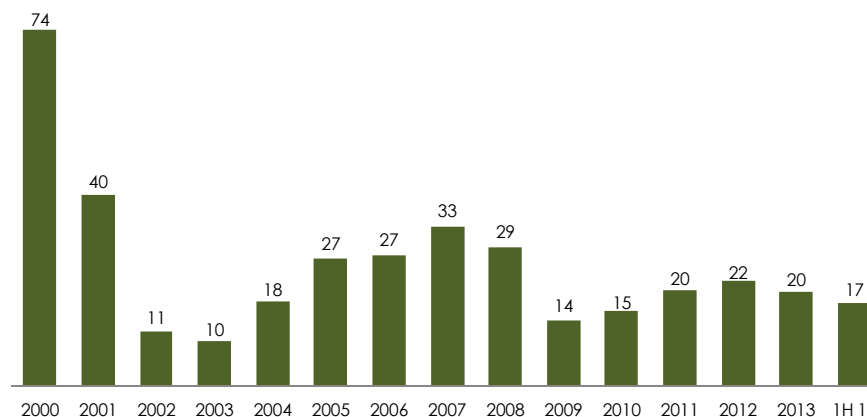
Source: Loan Syndications and Trading Association (LSTA)

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



Source: Credit Suisse Leveraged Finance Market Update

U.S. Venture Capital Fundraising \$ Billions



Source: *Private Equity Analyst*

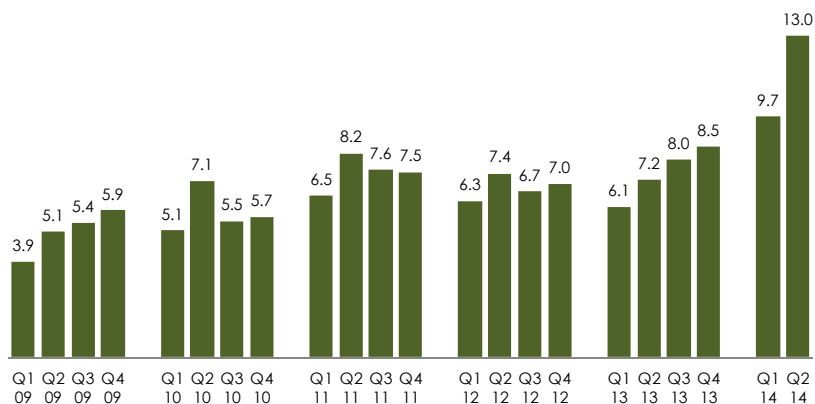
Largest Venture Capital Funds Raising Capital YTD in 2014 \$ Millions

Fund	Firm	Target	Raised*	Raised YTD in 2014
Technology Crossover Ventures VIII	TCMI Inc.	\$2,500	\$2,230	\$2,230
Tiger Global Private Investment Partners VIII	Tiger Global Management LLC	1,500	1,500	1,500
Andreessen Horowitz Fund IV	Andreessen Horowitz	1,500	1,500	1,500
Founders Fund V	Founders Fund Management LLC	750	1,015	1,015
Accel Growth Fund III	Accel Partners	1,000	1,000	1,000
Lightspeed Venture Partners X	Benchmark Capital	NA	950	950
Bain Capital Venture Capital Fund 2014	Bain Capital Ventures	625	625	625
GGV Capital V	GGV Capital	500	622	622
Accel XII	Accel Partners	NA	475	475
Draper Fisher Jurvetson Growth Fund 2013	Draper Fisher Jurvetson	350	470	470

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

Source: *Private Equity Analyst*

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



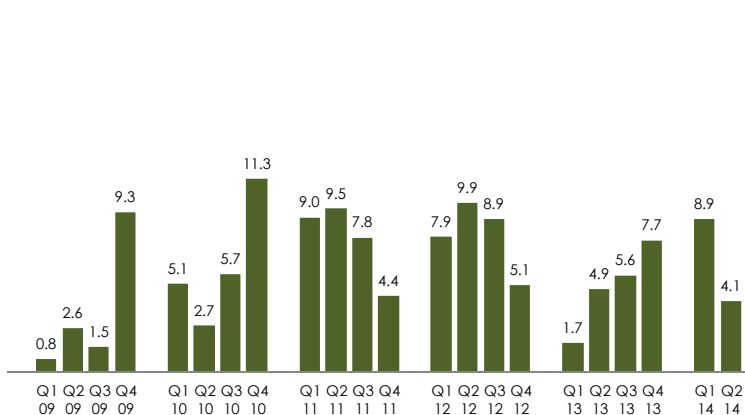
* Only includes equity portion of deal value.
Source: Thomson Reuters

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

Company Name	Industry	Firm Name(s)	Estimated Round Total \$ Millions
Uber Technologies Inc	Transportation Software	Kleinger Perkins Caufield & Byers, Summit Partners, Undisclosed firm	1,200
Dropbox Inc	Data Warehousing	Sequoia Capital	325
LYFT Inc	Transportation Software	Alibaba Capital Partners, Andreessen Horowitz, Founders Fund, Mayfield, two undisclosed firms	248
Pure Storage Inc	Internet Specific	Greylock Partners, Index Ventures, Redpoint Ventures, Sutter Hill Ventures, T. Rowe Price Threshold Properties, Tiger Global Management, Wellington Management	225
AirBnB Inc	Consumer Services	Andreessen Horowitz, Sequoia Capital	200
Intarcia Therapeutics Inc	Biotechnology	Farallon Capital Management, Franklin Templeton Services, New Leaf Venture Partners, Quilvest USA, RA Capital Management, Foresite Capital Management, two undisclosed firms	200
TANGOME INC	Communications	Access BridgeGap Ventures, Draper Fisher Jurvetson International, two undisclosed firms	200
Cloudera Inc	Database & File Management	Google Ventures, MSD Capital, T. Rowe Price Threshold Partnerships, two undisclosed firms	160
Pinterest Inc	Internet Publishing	Andreessen Horowitz, Bessemer Venture Partners, Fidelity Investment Funds, FirstMark Capital, SV Angel II, undisclosed firm	160
Wayfair LLC	Retailing Products	T. Rowe Price Threshold Partnerships, two undisclosed firms	157

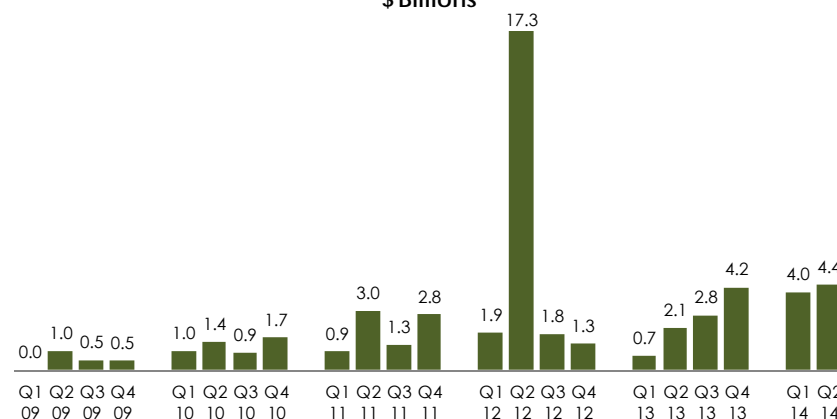
Source: Thomson Reuters

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



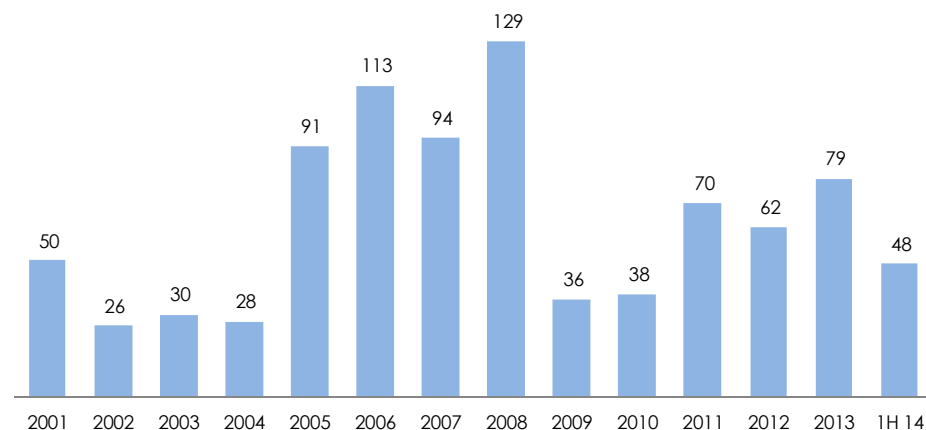
Source: Thomson Reuters

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



Source: Thomson Reuters

European Private Equity Fundraising \$ Billions



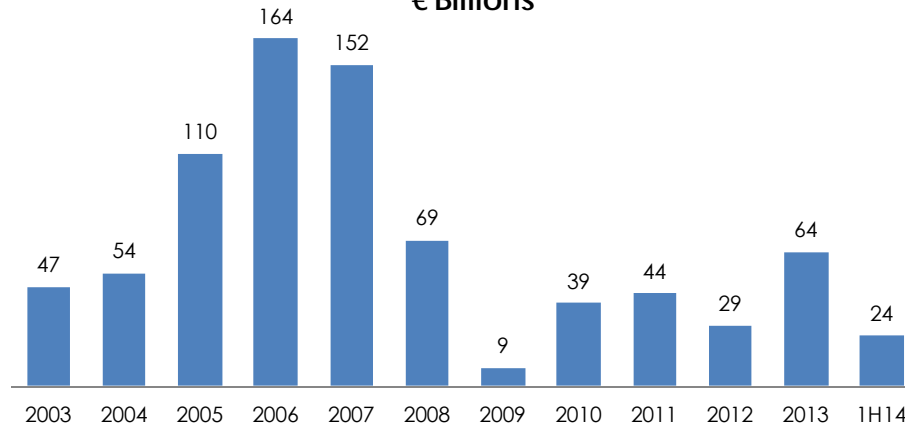
Source: Thomson Reuters

Largest European Funds Raising Capital YTD in 2014 \$ Millions

Fund	Firm	Target	Raised *	Raised YTD 2014
Permira V	Permira	\$ 5,710	\$ 7,016	\$ 4,186
Pamplona Capital Partners IV	Pamplona Capital Partners IV	NA	4,089	4,089
Hayfin Direct Lending Fund	Hayfin Capital Management LLP	NA	3,142	3,142
TDR Capital III	TDR Capital LLP	2,598	2,692	1,516
Partners Group Direct Investments 2012	Partners Group AG	NA	2,021	1,936
PAI Europe VI	PAI Partners SAS	3,906	1,901	550
EQT Mid Market Fund	EQT Partners	1,364	1,445	275
Proventus Capital Partners III	Proventus Capital Partners	NA	1,354	1,354
SwanCap Opportunities Fund SCS-SIF	SwanCap Partners GmbH	NA	1,200	1,200
Capvis Equity IV	Capvis Equity Partners AG	797	974	578

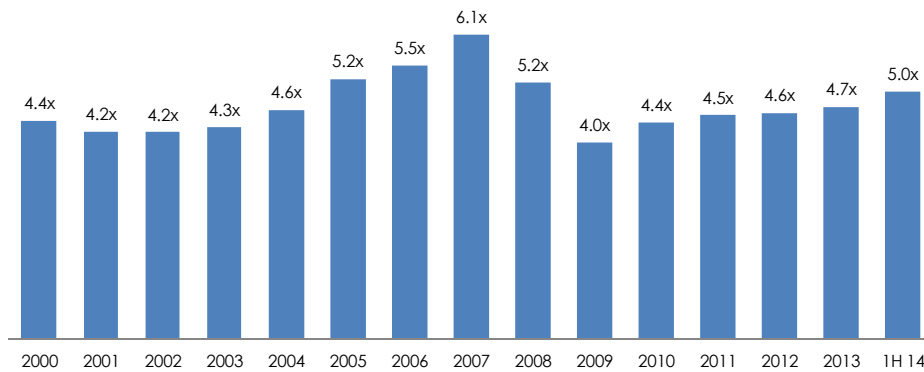
Source: *Private Equity Analyst*, grey highlight represents CalSTRS commitment

European LBO Transaction Volume € Billions



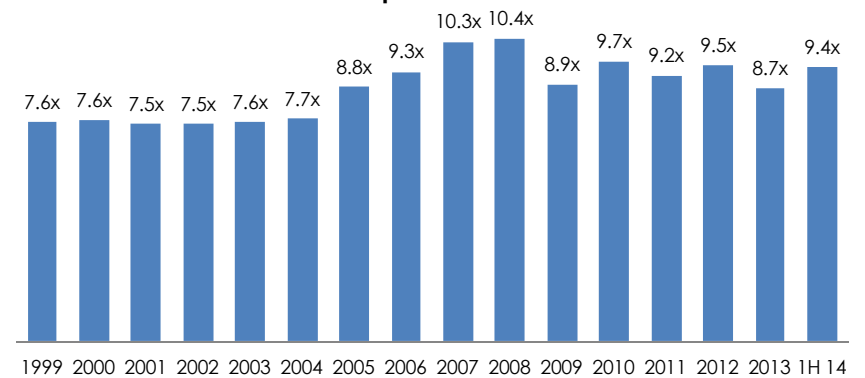
Source: S&P Capital IQ

Average European Debt Multiples Debt/EBITDA



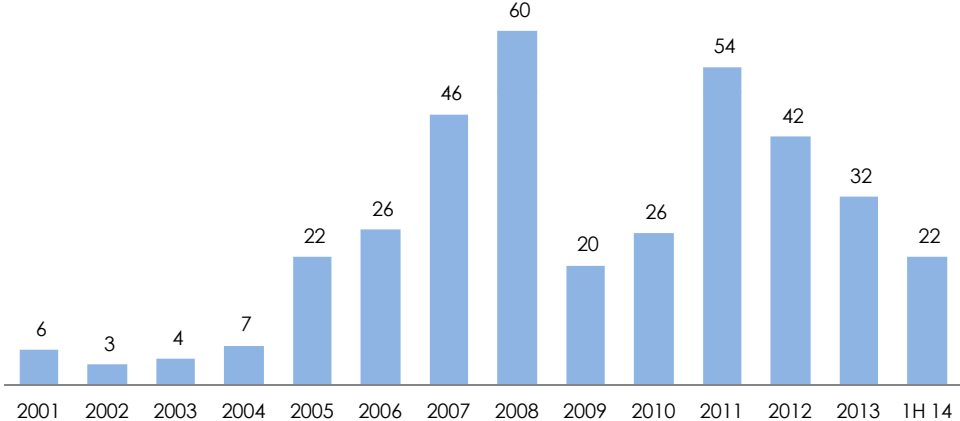
Source: S&P Capital IQ

European Purchase Price Multiples* Total Enterprise Value/EBITDA



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

Asian Private Equity Fundraising \$ Billions



Source: Thomson Reuters

For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
Excludes Co Investments and Private Liquidation					
Limited Partnership by FOF-Weighted Age					
Total	40,563,497,469.78	32,421,773,757.01	27,672,358,852.28	21,156,251,084.46	11.54
<i>Acela Express GP, LLC</i>	100,000,000.00	0.00	0.00	0.00	N/A
<i>Acon-Bastion</i>	110,000,000.00	72,746,917.00	42,886,186.00	53,577,902.00	10.84
<i>Advent CEE</i>	104,181,103.15	77,201,869.24	1,398,096.00	60,272,222.21	(7.36)
<i>Advent International</i>	273,454,678.14	259,431,724.78	137,267,476.50	303,966,629.82	18.53
<i>Affinity Equity Partners</i>	150,000,000.00	133,742,903.25	38,971,616.79	172,232,920.00	13.52
<i>Alchemy Plan</i>	259,556,618.97	259,366,038.73	200,431,654.91	79,081,016.83	1.96
<i>Alchemy SO</i>	147,913,636.45	59,646,405.83	87,206,551.23	238,330.78	9.59
<i>Alta Communications</i>	85,000,000.00	82,100,000.00	45,388,924.00	15,855,530.00	(4.73)
<i>Alta Partners</i>	20,000,000.00	20,000,000.00	45,540,989.12	230,315.00	24.53
<i>Angelo Gordon & Co</i>	348,167,750.00	344,917,748.00	309,909,526.00	179,369,451.00	10.92
<i>Apax Europe</i>	957,192,626.79	945,977,816.62	654,632,471.35	838,311,955.76	13.67
<i>Apax U.S.</i>	100,000,000.00	98,422,784.00	159,771,832.00	2,804,269.00	11.85
<i>Apollo Management</i>	600,000,000.00	510,546,892.95	559,751,617.80	421,837,519.00	16.60
<i>ARCH Venture Partners</i>	30,000,000.00	30,000,000.01	6,120,143.96	28,901,358.00	2.62
<i>Ares</i>	150,000,000.00	35,213,241.95	0.00	33,566,063.00	(7.50)
<i>Ares Europe</i>	103,186,235.53	42,383,796.78	257,567.00	44,786,626.93	10.06
<i>AtriA Capital Partners</i>	42,498,103.70	26,512,627.69	3,330,473.20	15,613,114.86	(6.19)
<i>Austin Ventures</i>	37,000,000.00	37,000,000.00	40,871,428.76	1,934,229.00	5.24
<i>Avenue Capital Partners</i>	250,000,000.00	250,000,000.00	330,060,553.00	3,495,517.00	11.20
<i>Bain Capital</i>	564,000,000.00	544,250,000.00	222,921,595.00	484,664,382.00	6.83
<i>Bain Capital Asia</i>	100,000,000.00	49,687,500.00	10,347,845.00	50,447,024.00	8.99
<i>BC Partners</i>	1,221,242,301.93	1,035,196,506.84	1,225,929,708.30	477,037,354.70	17.14
<i>BCI Partners</i>	25,000,000.00	25,000,021.49	15,212,872.61	60,844.00	(8.07)
<i>Blackstone Group</i>	2,550,100,000.00	2,107,323,216.17	1,539,529,598.63	1,753,575,844.00	10.26

For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
<i>BlueRun</i>	55,011,236.00	49,428,538.89	34,931,409.50	50,646,199.00	12.98
<i>Boston Ventures</i>	90,000,000.00	86,872,281.01	98,012,672.58	1,767,185.00	2.60
<i>BS Private Equity</i>	42,628,756.24	38,005,235.06	26,503,838.55	4,404,516.25	(4.54)
<i>CalSTRS Bank of America Capital Access</i>	475,000,000.00	282,380,721.68	61,092,590.38	256,299,813.00	3.62
<i>Carlyle Europe</i>	527,016,774.18	502,571,055.15	202,264,848.16	489,461,978.23	9.22
<i>Carlyle Group</i>	850,000,000.00	551,460,003.00	379,920,801.00	522,021,737.00	13.62
<i>CarVal Investors</i>	196,000,000.00	186,200,000.00	177,988,214.96	91,414,171.00	6.68
<i>Castlelake Partners</i>	150,000,000.00	62,083,261.00	0.00	77,906,522.00	32.39
<i>Centerbridge Capital</i>	875,000,000.00	633,653,899.13	394,205,499.00	603,603,076.00	16.97
<i>Cerberus</i>	751,410,000.00	650,264,430.75	404,637,616.96	582,634,876.00	8.81
<i>CGW Southeast Partners</i>	40,000,000.00	34,831,657.85	52,536,992.79	1,066,729.00	8.26
<i>Charterhouse UK</i>	137,458,759.99	120,165,640.61	64,317,689.57	54,496,766.63	(0.20)
<i>Clayton, Dublier, and Rice</i>	300,000,000.00	91,739,097.00	92,700,359.00	71,087,061.00	10.41
<i>Clearstone Venture Partners</i>	35,000,000.00	32,200,000.00	374,944.67	50,725,100.00	6.84
<i>Coller International Partners</i>	100,000,000.00	34,316,942.64	4,244,377.12	44,976,055.00	34.45
<i>Cortec Group</i>	148,641,176.00	114,723,591.00	108,684,481.00	70,841,392.00	15.90
<i>Craton Equity Partners</i>	45,200,000.00	38,466,478.00	155,382.00	23,300,007.10	(15.36)
<i>CVC Capital Partners</i>	1,890,369,640.48	1,598,990,841.89	2,254,031,573.04	760,576,706.18	19.75
<i>CVC Capital Partners Asia Pacific</i>	425,000,000.00	252,978,650.07	117,782,361.97	191,748,697.00	4.85
<i>DCM</i>	15,000,000.00	15,000,000.00	9,445,148.63	10,591,449.00	5.01
<i>ECI</i>	16,273,555.01	11,098,070.78	0.00	18,809,619.79	26.59
<i>EnCap Energy Capital</i>	800,000,000.00	560,133,752.28	523,566,257.15	310,304,516.66	20.63
<i>Energy Capital Partners</i>	520,000,000.00	274,603,359.00	84,685,051.00	229,042,975.00	4.37
<i>Energy Spectrum</i>	125,000,000.00	83,712,318.94	86,100,390.00	33,537,372.00	13.80
<i>Equistone Partners</i>	67,478,105.87	38,421,312.29	589,541.01	49,987,733.58	25.55
<i>First Reserve</i>	1,800,000,000.00	1,714,368,259.00	930,941,797.23	1,120,188,159.00	5.18
<i>Fondinvest</i>	29,661,653.19	28,300,547.66	50,754,698.22	5,151,567.81	23.67
<i>Fortress</i>	400,000,000.00	176,115,272.92	39,866,860.68	251,282,687.00	20.52

For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
<i>FountainVest</i>	95,000,000.00	46,883,591.33	0.00	56,769,042.00	7.49
<i>Francisco Partners</i>	75,000,000.00	50,062,500.00	929,876.00	62,711,736.00	18.09
<i>Frazier Healthcare</i>	47,473,830.00	46,880,406.96	54,008,922.74	16,499,325.00	10.83
<i>Freeman Spogli & Co.</i>	182,500,000.00	163,531,811.00	282,644,530.33	30,346,968.00	13.90
<i>Genstar</i>	70,000,000.00	69,487,364.09	44,804,989.95	62,236,191.00	11.19
<i>GGV Capital</i>	60,000,000.00	41,999,999.99	290,885.33	46,846,333.00	9.68
<i>Giza</i>	32,400,000.00	31,008,000.00	15,425,268.00	17,328,101.00	1.24
<i>Gores Capital Partners</i>	130,000,000.00	100,546,623.59	71,154,308.90	70,404,806.00	11.00
<i>GSO</i>	725,000,000.00	349,573,631.00	234,808,180.00	323,336,923.00	18.48
<i>GTCR</i>	35,000,000.00	35,000,000.00	73,863,155.00	202,225.00	24.95
<i>Hellman & Friedman Capital Partners</i>	400,000,000.00	339,033,275.00	404,025,248.44	222,078,981.00	18.43
<i>Hg Capital</i>	83,162,306.96	11,323,090.89	0.00	10,782,872.03	(6.98)
<i>Hg Renewable</i>	129,076,477.73	89,952,725.52	40,757,516.24	29,501,303.82	(8.04)
<i>Hony Capital</i>	125,000,000.00	69,527,334.65	4,426,171.64	74,195,614.77	4.99
<i>Huntsman Gay Capital</i>	100,000,000.00	90,269,510.11	82,672,985.07	66,353,275.00	19.83
<i>ICV Capital Partners</i>	65,000,000.00	33,617,950.13	11,818,521.59	31,896,996.00	9.19
<i>Innocal</i>	15,000,000.00	15,000,001.00	4,163,979.00	2,480,065.00	(16.29)
<i>Institutional Venture Partners</i>	50,000,000.00	50,000,000.00	72,197,947.19	68,414,089.00	31.92
<i>Interwest Partners</i>	115,000,000.00	111,000,000.00	56,410,142.32	55,365,575.88	0.10
<i>Invesco</i>	592,135,993.50	219,787,863.86	26,437,151.00	245,870,212.00	6.54
<i>Investitori Associati</i>	34,295,243.18	33,160,030.32	12,869,339.41	7,907,988.06	(9.36)
<i>Irving Place Capital</i>	175,000,000.00	128,498,704.38	11,593,415.00	147,705,357.34	4.04
<i>JMI Equity</i>	130,000,000.00	112,900,000.00	160,203,114.41	86,230,242.00	25.12
<i>KKR & Co.</i>	502,000,000.00	360,426,727.00	177,845,366.00	299,280,025.00	6.96
<i>M/C Venture Partners</i>	75,000,000.00	74,597,584.00	115,575,612.00	4,954,180.00	8.32
<i>Madison Dearborn Partners</i>	300,000,000.00	301,958,774.96	526,928,370.47	48,745,945.00	14.38
<i>MatlinPatterson</i>	250,000,000.00	217,344,085.41	111,463,925.20	184,066,243.00	7.46
<i>Nautic</i>	229,500,000.00	221,529,810.88	399,462,389.56	34,844,389.82	13.61

For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
<i>Navis Capital Partners</i>	130,000,000.00	128,582,727.61	69,390,441.30	136,074,709.00	9.42
<i>New Enterprise Associates</i>	870,000,000.00	758,550,000.00	968,553,876.79	392,864,929.00	49.63
<i>NGEN</i>	15,000,000.00	14,431,625.59	838,325.74	275,849.00	(58.85)
<i>Nogales</i>	55,000,000.00	38,281,754.56	12,164,114.32	14,870,534.00	(7.05)
<i>Oak Investment Partners</i>	75,000,000.00	75,000,000.00	29,255,344.04	37,099,423.38	(2.07)
<i>Oaktree Capital Management</i>	715,640,000.00	549,285,225.59	819,910,055.66	139,557,284.00	16.82
<i>Olympus</i>	325,000,000.00	73,470,636.00	21,570,575.00	87,157,142.00	16.06
<i>OnCap</i>	28,090,818.12	10,570,880.63	270,532.74	11,924,266.36	7.54
<i>Onex Partners</i>	625,000,000.00	383,822,842.00	427,488,918.00	305,722,766.00	22.65
<i>OrbiMed Capital</i>	80,000,000.00	27,020,000.00	6,921,251.69	71,522,746.00	68.03
<i>PAG Capital Asia</i>	125,000,000.00	55,795,474.39	4,737,464.90	64,058,509.00	12.87
<i>Palladium</i>	180,000,000.00	85,097,901.83	65,461,586.10	108,210,318.00	19.78
<i>Paul Capital Partners</i>	50,000,000.00	49,246,836.97	48,375,737.89	19,535,221.00	9.06
<i>Peak Rock Capital</i>	50,000,000.00	6,069,643.00	0.00	4,897,333.00	(31.62)
<i>Permira</i>	1,977,194,920.65	1,672,768,964.09	1,677,858,319.07	967,396,665.74	16.01
<i>Phildrew Ventures</i>	20,221,808.47	20,270,947.58	11,819,892.95	86,750.16	(14.68)
<i>Pond Ventures</i>	10,000,000.00	8,913,322.72	3,629,541.73	5,300,336.00	(0.03)
<i>Prism Venture Partners</i>	25,016,853.00	25,016,853.00	9,611,452.15	9,834,995.00	(5.69)
<i>Providence Equity Partners</i>	1,050,000,000.00	943,612,359.00	520,736,560.00	684,364,025.00	4.73
<i>Quadrangle Capital Partners</i>	100,000,000.00	82,563,242.00	56,470,584.00	58,958,762.00	6.73
<i>Riverstone/Carlyle</i>	350,000,000.00	288,765,994.91	79,198,276.43	232,034,384.00	2.06
<i>Sankaty Advisors</i>	625,000,000.00	612,500,000.00	526,259,173.28	230,352,914.22	4.59
<i>Shasta Ventures</i>	70,000,000.00	57,150,000.00	23,511,629.23	68,091,083.00	13.33
<i>Sofinnova Venture Partners</i>	85,000,000.00	63,400,000.00	34,195,670.02	51,438,364.00	7.94
<i>Spectrum Equity Investors</i>	386,839,889.00	355,874,895.96	430,514,215.07	115,307,247.00	9.72
<i>Strategic Investors</i>	88,711,764.72	20,284,866.34	22,973.76	22,076,327.00	8.20
<i>Summit Partners</i>	549,559,020.92	426,282,889.84	584,241,118.60	241,832,848.78	82.52
<i>Syncom</i>	20,000,000.00	18,992,163.00	147,172.00	8,731,163.00	(17.28)

For Period 01 Jan 1900 To 31 Mar 2014

Description	Capital Committed	Capital Contributed	Capital Distributed	Fair Market Value	Annualized ROR
<i>TA Associates</i>	302,500,000.00	257,136,550.00	238,175,208.95	148,456,426.00	12.74
<i>Technology Crossover Ventures</i>	320,000,000.00	309,111,000.00	272,772,359.79	234,320,002.00	15.37
<i>The Cypress Group</i>	278,125,000.00	261,571,695.99	218,407,248.28	30,509,508.00	(0.89)
<i>The Resolute Fund</i>	450,000,000.00	402,514,398.00	257,191,700.00	387,233,464.00	13.33
<i>THL Equity Advisors</i>	422,156,647.00	418,624,001.00	645,092,087.00	60,205,148.00	13.79
<i>Thoma Cressey Bravo</i>	291,400,000.00	211,813,617.95	270,708,157.54	89,563,843.00	10.98
<i>TPG Asia</i>	330,000,000.00	306,737,579.00	248,609,406.00	255,651,206.00	13.05
<i>TPG Capital</i>	2,439,036,536.00	2,063,209,563.00	2,055,919,789.19	1,316,415,798.00	14.04
<i>TPG Growth</i>	125,000,000.00	54,130,547.00	332,829.00	61,950,048.00	16.03
<i>TPG Opportunities</i>	160,438,698.00	25,251,968.00	83,088.00	31,480,161.00	19.79
<i>Triton</i>	136,206,074.90	73,666,063.29	101,766,523.17	42,402,996.98	19.14
<i>US Renewables Group</i>	60,000,000.00	57,469,559.00	8,943,605.00	37,393,281.00	(5.00)
<i>VantagePoint Venture Partners</i>	310,211,765.00	299,146,941.02	139,015,208.54	110,749,624.00	(3.17)
<i>Vestar Capital Partners</i>	250,000,000.00	246,273,635.78	204,648,948.61	145,771,415.00	8.40
<i>Welsh, Carson, Anderson & Stowe</i>	1,573,961,111.00	1,523,630,352.00	1,612,779,890.64	629,231,360.00	7.58
<i>Whitney & Co.</i>	175,000,000.00	159,920,232.46	62,000,952.00	72,205,875.00	(2.28)
<i>Yucaipa</i>	200,000,000.00	175,289,381.90	27,901,614.00	106,043,943.00	(3.67)

Appendix

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 March 31, 2014.

	(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
2011 Q1	22,905,269,164	626,153,929	543,815,012	1,169,968,941	6.31	1.071	22,279,115,235						#####
Q2	23,245,680,073	294,715,018	654,336,441	949,051,459	(0.08)	1.007	22,133,668,061						294,715,018
Q3	21,399,520,712	134,671,671	841,777,161	976,448,832	(15.46)	0.853	18,742,936,829						134,671,671
Q4	22,008,033,737	(233,997,409)	1,013,175,023	779,177,614	12.00	1.127	21,366,246,339						(233,997,409)
2012 Q1	23,665,816,560	275,698,543	506,856,399	782,554,941	12.90	1.136	24,006,869,491						275,698,543
Q2	23,136,399,630	617,887,576	456,185,713	1,074,073,289	(3.26)	0.975	22,785,910,148						617,887,576
Q3	23,347,799,092	631,152,071	432,488,232	1,063,640,303	6.32	1.071	23,765,872,312						631,152,071
Q4	23,589,020,373	1,004,666,644	727,192,108	1,731,858,752	0.34	1.011	23,019,246,004						1,004,666,644
2013 Q1	23,632,971,145	908,009,196	288,452,125	1,196,461,321	11.07	1.118	24,833,212,005						908,009,196
Q2	23,363,443,268	1,038,669,938	333,901,814	1,372,571,753	2.75	1.035	24,663,704,487						1,038,669,938
Q3	23,504,770,413	759,619,053	558,084,906	1,317,703,960	6.42	1.072	25,673,563,181						759,619,053
Q4	24,044,648,044	1,029,491,919	682,968,007	1,712,459,927	10.16	1.109	27,444,225,181						1,029,491,919
2014 Q1	23,800,608,927	1,194,630,501	397,841,473	1,592,471,975	2.02	1.028	28,205,102,602						28,205,102,602
STRS Actual 3-yr Return:												Benchmark Portfolio \$ Weighted 3-yr Return:	
11.73%												17.21%	

If STRS had invested in each of the two options shown, instead of investing in private equity, its portfolio would have a value of \$28,205,102,602 at 3/31/2014. This combined portfolio would have generated a dollar-weighted return of 17.21%. Over this same time period the private equity portfolio generated an actual return of 11.73%.

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 and firearms).
 - (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.

Glossary of Terms

Acquisitions - See Leveraged Buyouts.

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

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

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

Buyouts - See Leveraged Buyouts.

CAGR – Compound annual growth rate

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

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

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

Carried Interest - The mechanism by which general partners are compensated for their performance. The general partner's carried interest is its share of the partnership's profits, and generally ranges from 10% to 30% of the total. A 20% carried interest has become the industry norm.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Initial public offering (IPO) – The sale or distribution of a stock or portfolio company to the public for the first time

Internal rate of return (IRR) – The discount rate at which the present value of future cash flows of an investment equals the cost of the investment. It is determined when the net present value of the cash outflows (the cost of the investment) and the cash inflows (returns on the investment) equal zero, with the discount rate equal to the IRR

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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