San Jose Federated City Employees' Retirement System

PUBLIC VERSION

December 31, 2012

Please note: All portfolio holdings and some other information have been removed from this report in order to allow its public release.

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Private Equity Program

Introduction
As of December 31, 2012

The purpose of this document is to offer a comprehensive review of the Retirement System's private equity investments. It is divided into four sections: Market and Industry Analysis, Executive Summary, Aggregate Private Equity Portfolio, and Individual Partnership Analyses. The Market and Industry analysis is a broad overview of the private equity industry through year-end. The final three sections are a review of the San Jose Federated City Employees' Retirement System's private equity partnership investments on both an aggregate and individual basis.

As of December 31, 2012, the San Jose Federated City Employees' Retirement System had committed $155.6 million to six partnerships (two fund of funds, three secondary funds, and one buyout fund). The reported fair value of the aggregate Private Equity Program was $96.0 million at December 31, 2012.

Aggregate Private Equity Program[1]	
Number of Partnerships	6
Committed Capital[2]	$155.6 million
Capital Called	$117.1 million
Distributions	$44.0 million
Reported Value[3]	$96.0 million
Total Value Multiple	1.2x
Net IRR[4]	5.1%

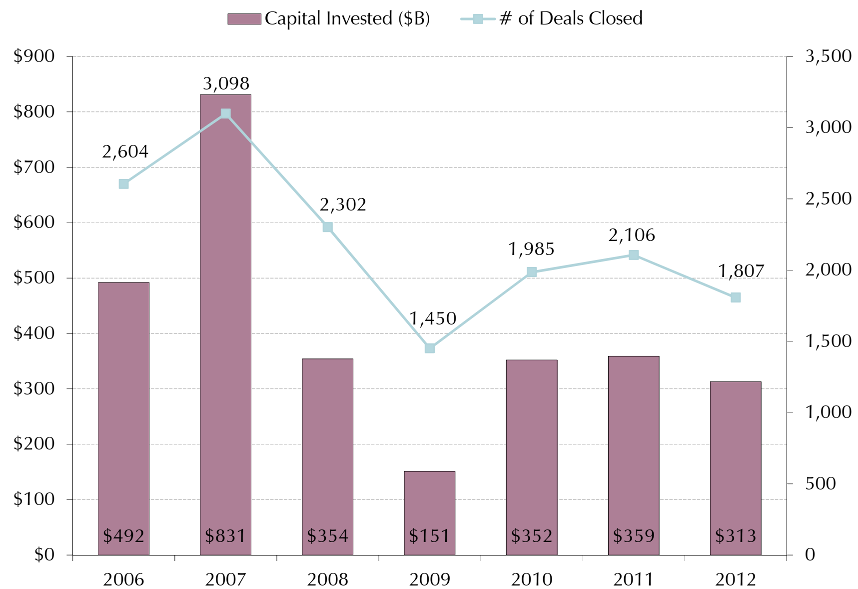
1 Throughout this report, numbers may not sum due to rounding.
2 One of the partnership commitments is made in a foreign currency. This total reflects committed capital in dollars, adjusted for foreign currency exchange rates, as of the report date.
3 Includes estimated manager reported fair market value for Pathway Private Equity Fund VIII as of December 31, 2012.
4 Net IRR is net of fees, expenses, and carried interest for each partnership but gross of Meketa Investment Group fees.

Market and Industry Analysis
As of December 31, 2012

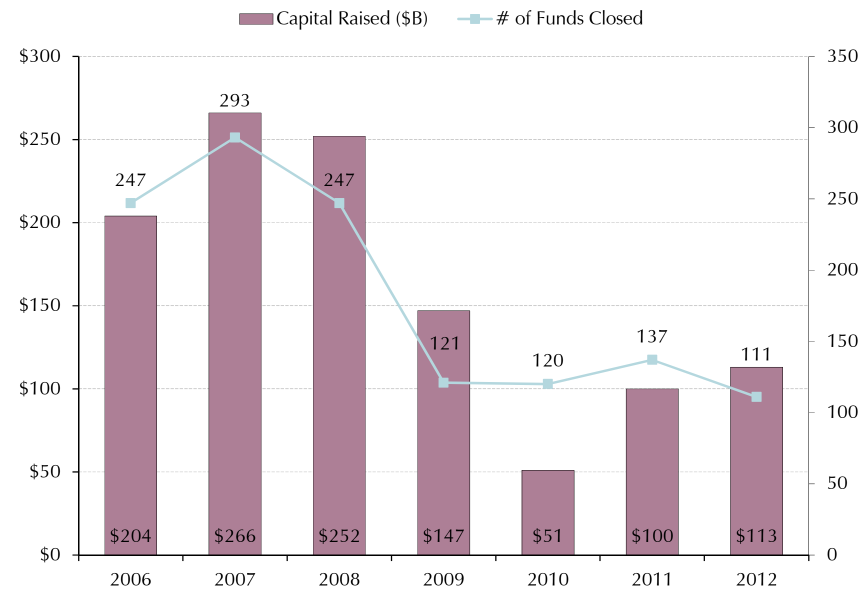
Private Equity in 2012

North American buyout activity in 2012 was at its lowest level since 2009 and was supported by a major increase in closed transactions during the fourth quarter fueled by fear of increased taxation in 2013. One of the major reasons for the slow deployment of capital in the industry is the lack of large size deals, which were dominant in the 2005 to 2007 timeframe. Four-fifths of deal activity in 2012 was in transaction sizes below $1 billion[1]. This is in spite of record low interest rates and increased debt availability, which tends to propel large leveraged buyout transactions. Part of the decline of large market investments was the weak economic environment globally, supported by the uncertain political outlook in the U.S. due to the Presidential election and the continued unresolved high government debt level. On the fundraising front, 2012 saw a total of $113 billion of new capital raised. However, the number of funds raised in 2012 declined to its lowest level in a decade. This further supports the ongoing shakeout of private equity fund managers that started in 2009. Investment activity in Europe and emerging markets slowed as Europe continued to fight a recession. Emerging Markets, by contrast, had a slower growth profile, driven by tightening monetary policies.

US Buyout Activity[2]



Fundraising [2]



[1] Source: PitchBook
[2] Source: Preqin

Buyout

Buyout activity globally was slower than expected in 2012 due to economic uncertainty led by the European debt crisis and political changes in the U.S. and China. Due to the uncertainty, fund managers were cautious about capital deployment. One steady source of deal flow continued to be secondary buyouts (i.e.; one private equity funds selling a company to another private equity fund). Secondary buyout activity rose to 17% of all announced buyouts in 2012 compared to 11% in 2011. Within the buyout segment, investors increased activity in the IT and business services industries. On the exit front, 2012 was the best year on record in terms of number of realizations and the 4th quarter of 2012 was the most active quarter in the past five years for dollars realized. This was driven by the active secondary buyout market, supportive capital market valuations, and fears of increased taxation.

Private Debt

U.S. credit markets enjoyed a very strong year in 2012, with a largely uninterrupted rally that led to record low yields and high prices by the end of the year. The U.S. high yield spread to Treasuries finished the year at 511 basis points, down from the December 2011 spread of 700 basis points and the lowest level since May 2011. The average price of U.S. high yield debt finished the year above $104, an increase of almost 7% over the prior year and the highest ever recorded price for the Barclay's High Yield Index. These gains fully erased the sharp losses that the U.S. credit market experienced in the third quarter of 2011 in the wake of the U.S. debt downgrade and the worst period of the European sovereign credit crisis.

Europe continued to face issues in 2012, particularly in the first half of the year when Spain required a €100 billion bailout in June, after its fourth largest bank was nationalized. That bailout failed to immediately quell investor fears and Spanish bond yields increased into July to a peak of 7.6%, until ECB President Mario Draghi pledged that the ECB would do "whatever it takes to preserve the Euro". Spanish yields fell 80 basis points by the following week and finished the third quarter below 6%, as investors were sufficiently assured that Spain would not further destabilize the already fragile Eurozone. Europe finally enjoyed a relatively quiet fourth quarter of 2012, although broader system-wide issues remained far from completely solved. In November, Greece received approval for its next tranche of aid from the EU, ECB, and IMF, totaling $44 billion, which included better terms and was notable for its relaxed austerity conditions.

Venture Capital

Venture Capital (VC) investing activity, as well public markets support for VC companies as an exit option dropped significantly since the IPO of Facebook in May of 2012. The lofty valuation of the Facebook IPO and subsequent drop in its stock price reminded investors of the unpleasant experience of dot.com era in the late 1999/2000 timeframe. This sentiment did not affect fundraising as much and 2012 fundraising for VC funds topped 2011 numbers. With the exception of the 25 largest fund managers, most VC managers tended to raise smaller or similar sized funds compared to their predecessor funds. The slowdown in investment activity, as well as drying up of the IPO market led to a decrease in valuation for the overall market.

The Global Economy

Overall, 2012 continued to be volatile for the global economy due to the continued European sovereign debt crisis, slower growth across major economies, and political uncertainty surrounding China's political system as well as a stalled political system in the U.S. ahead of the 2012 Presidential election. In order to calm markets, the European Central Bank (ECB) took several steps, including providing low-interest, long-term financing for European banks, financial aid to troubled economies, and purchasing sovereign bonds to drive down yields. At the same time, there was a significant shift in the political climate in Europe, with changes of government both in Greece and France. However, amidst all this activity, there was no consensus on a permanent fix for the current crisis. As a result, the Euro area countries in aggregate suffered through recession in 2012 and registered an overall GDP decline of 0.6%.[1]

The U.S. economy grew at a better rate than the Eurozone, registering 2.2% GDP growth in 2012, which was somewhat dampened by near zero GDP growth in Q4 2012[2]. The economy was more resilient due to an improvement in housing and gains in the manufacturing/export sectors. The growth, however, was not fast enough to make a major impact on the unemployment rate which remained above 7.5% for all of 2012. The Federal Reserve maintained its zero interest rate policy to stimulate the economy and, in third quarter of 2012, announced additional, indefinite rounds of quantitative easing, dubbed QE3 or QE infinity.

In emerging markets, major economies cooled meaningfully, raising questions about their ability to sustain growth independent of developed economies. China, the biggest of the emerging economies, continued to slow down throughout 2012 as it had significant exposure to the Eurozone – its largest trading partner. Despite cuts in reserve ratios and interest rates in China, the economy remained on a slower growth trajectory. Part of the problem was a political crisis surrounding a high profile leader during a political leadership transition, causing a high level of uncertainty during challenging economic times.

1 Source: IMF
2 Source: Bureau of Economic Analysis

Private Equity Program
As of December 31, 2012

Executive Summary
As of December 31, 2012

The Retirement System did not make any new commitments during the fourth quarter of 2012.

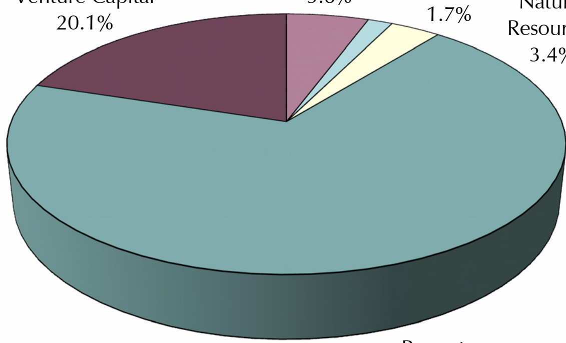
In aggregate, $5.9 million of capital was called from the Retirement System during the fourth quarter of 2012 by the underlying partnerships.

- Partners Group Secondary 2011 called $2.4 million to fund five new secondary investments.
- Pantheon USA Fund VII called $1.8 million to fund existing underlying partnership investments.
- Pantheon Global Secondary Fund III 'B' called $0.8 million to fund follow-on investments in existing underlying investments.
- Pathway Private Equity Fund VIII called $0.5 million to fund existing underlying partnership investments.
- Great Hill Equity Partners IV called $0.4 million to fund one new investment.

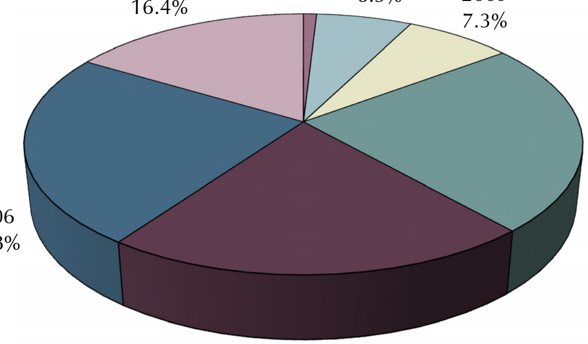
Distributions received by the Retirement System from underlying partnerships during the fourth quarter totaled $8.4 million.

- Pantheon Global Secondary Fund III 'B' distributed $2.6 million from underlying partnerships.
- Great Hill Equity Partners IV distributed $1.8 million primarily from the sale of one investment.
- Pathway Private Equity Fund VIII distributed $1.8 million of proceeds in aggregate from underlying partnerships.
- Pantheon USA Fund VII distributed $1.6 million of proceeds in aggregate from underlying partnerships.
- Partners Group Secondary 2008 distributed $0.6 million of proceeds from several of its underlying partnerships.

Diversification by Investment Strategy[1]

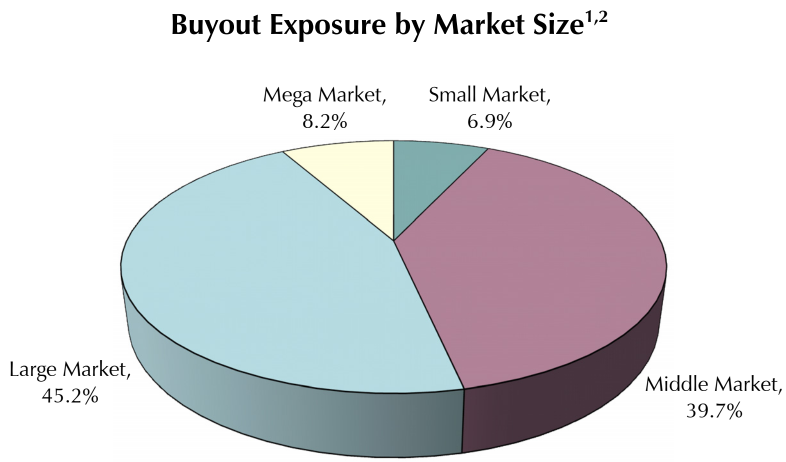


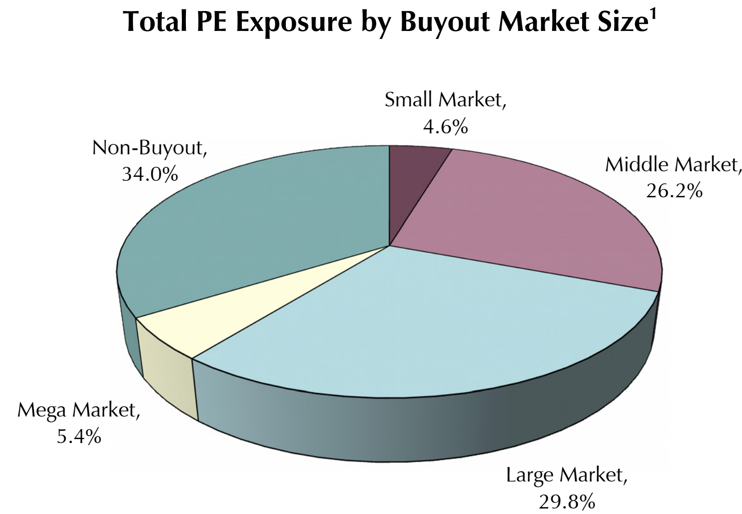
Diversification by Vintage Year[1]



[1] These charts were created using the fair value of the Program as of December 31, 2012. The data includes the strategy and vintage year of underlying investments made by Secondary Funds and Fund of Funds.

Breakdown of Buyout Positions as of 12/31/12





[1] These charts were created using the fair value of the Program as of December 31, 2012.
[2] Categories are defined as follows: Small-Market: Less than $200 million, Middle-Market: $200 million to $1 billion, Large-Market: $1 billion to $10 billion, Mega-Market: $10 billion or greater.

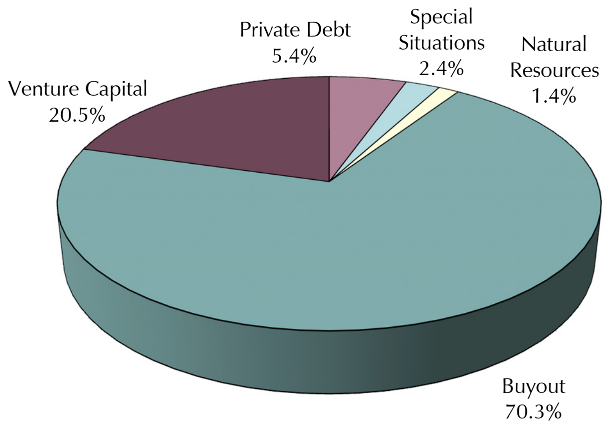
Buyouts	Secondaries & Fund of Funds
Great Hill IV **$5 mm** 2008	**Pathway VIII** **$40 mm** 2004
	Pantheon Global III B **$40 mm** 2006
	Pantheon USA VII **$10 mm** 2006
	Partners Group 2008 **€7.9 mm** 2008
	Partners Group 2011 **$20 mm** 2011

- The chart above shows current commitments made to partnerships by the Retirement System.

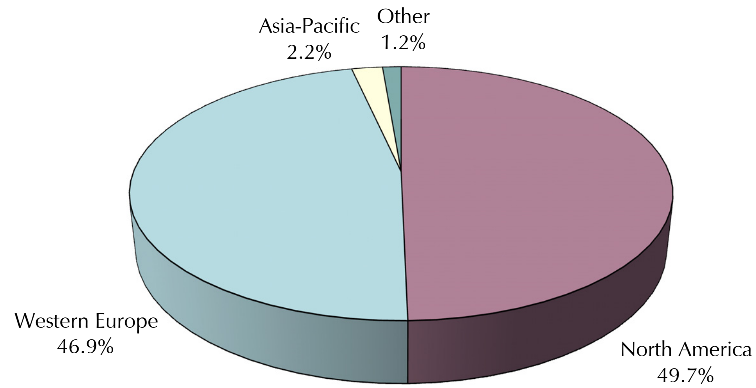
Aggregate Private Equity Portfolio
As of December 31, 2012

Aggregate Program
Portfolio Diversification as of 12/31/12

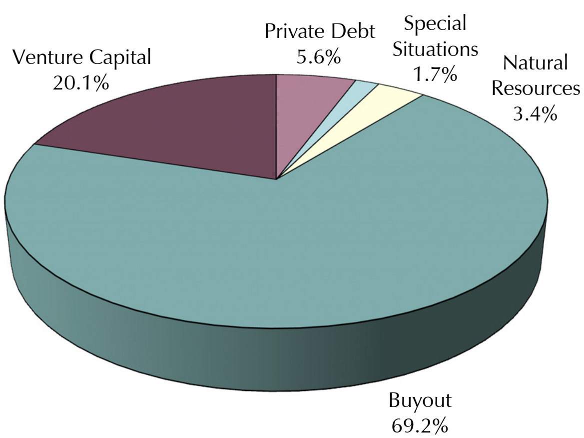
Commitment



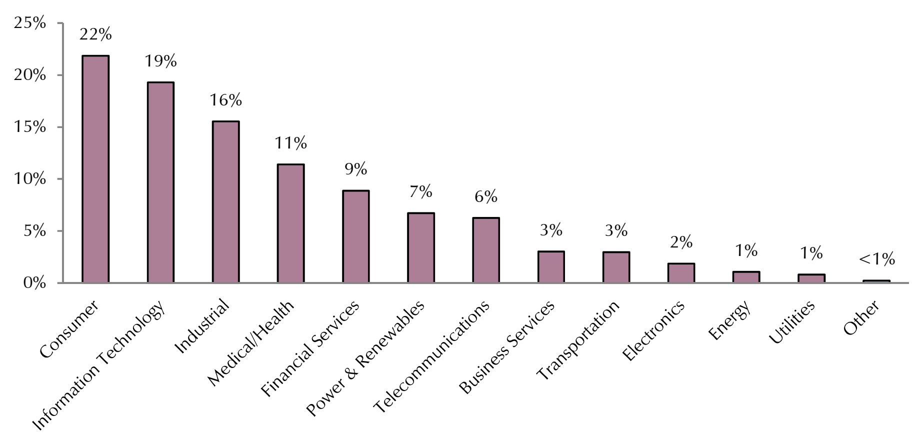
Geography[1]



Reported Fair Value[1]



Industry[1,2]



[1] These charts were created using the fair value of the Program as of December 31, 2012.
[2] Industry diversification data does not include Pantheon Global Secondary Fund III B, as 12/31/12 industry data for this fund is not available.

San Jose Federated City Employees' Retirement System
Private Equity Program

Aggregate Program
Performance Summary as of 12/31/12

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date ($ mm)	Unfunded Commitment ($ mm)[1]	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions ($ mm)	Net IRR[2] (%)	Inv. Multiple[3] (x)
Total Program		**155.6**	**117.1**	**38.9**	**44.0**	**96.0**	**140.0**	**5.1**	**1.2**
Vintage Year 2004		**40.0**	**37.8**	**2.2**	**21.1**	**26.6**	**47.7**	**5.4**	**1.3**
Pathway Private Equity Fund VIII	Fund of Funds	40.0	37.8	2.2	21.1	26.6	47.7	5.4	1.3
Vintage Year 2006		**80.0**	**64.0**	**16.0**	**17.8**	**54.1**	**71.9**	**3.4**	**1.1**
Pantheon Global Secondary Fund III 'B'	Secondary	40.0	35.4	4.6	14.4	23.1	37.5	1.5	1.1
Pantheon USA Fund VII	Fund of Funds	40.0	28.6	11.4	3.4	31.1	34.5	6.2	1.2
Vintage Year 2008		**15.6**	**13.0**	**3.0**	**5.0**	**11.9**	**16.9**	**13.4**	**1.3**
Great Hill Equity Partners IV	Buyout	5.0	3.8	1.2	2.9	2.2	5.1	20.2	1.4
Partners Group Secondary 2008[4]	Secondary	10.6	9.2	1.8	2.2	9.6	11.8	11.5	1.3
Vintage Year 2011		**20.0**	**2.4**	**17.7**	**<0.1**	**3.4**	**3.4**	**NM**	**1.5**
Partners Group Secondary 2011, L.P.	Secondary	20.0	2.4	17.7	<0.1	3.4	3.4	NM	1.5

1 Unfunded Commitment amounts are an approximation due to the inclusion of recallable distributions. Pathway's FX adjustment will increase the unfunded commitment, but was not available at the time of this report.
2 The Net IRR calculations were performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year IRRs are net of fees, expenses, and carried interest for each partnership but gross of Meketa Investment Group fees.
3 The Inv. Multiple calculations were performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year Inv. Multiples are net of partnership fees but gross of Meketa Investment Group fees.
4 The Retirement System committed €7.9 million to the Partnership. The $10.6 million commitment is an estimated amount based on the contributed capital and unfunded commitment as of December 31, 2012.

The IRR (internal rate of return) and investment multiple are the most meaningful measures of performance for a private equity fund. IRR measures how assets are performing in relation to time. Investment multiple shows the cash on cash return generated on the invested capital by the underlying assets.

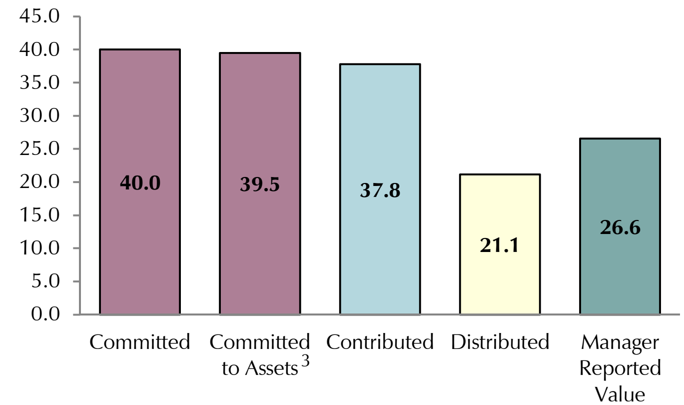
The Total Program net IRR increased by 100 basis points during the year, from 4.1% to 5.1%. During the year, the total reported fair value of the Private Equity Program increased by $8.7 million, or 9.5%, after adjusting for capital calls and distributions that occurred during the period. Performance was primarily driven by increases in net valuations of Pantheon USA Fund VII, Pathway Private Equity Fund VIII, and Partners Group Secondary 2011.

Individual Partnership Analyses
As of December 31, 2012

Pathway Private Equity Fund VIII as of 12/31/12

General Partner	Pathway Capital Management, LLC
Location	Irvine, CA
Auditor	KPMG
Strategy	Fund of Funds
Vintage Year	2004
Fund Size	$40.0 million
Fund Duration	15 Years
Fee Schedule	0.8% of commitments

Commitment	$40.0 million
Number of Investments	17
Capital Contributions	$37.8 million
Realized Proceeds	$21.1 million
Manager Reported Value	$26.6 million
Total Value	$47.7 million
% of Program[1]	27.7%
Net IRR	5.4%
ThomsonOne Median IRR[2]	4.7%



Investment Strategy

Pathway Capital Management is 100% employee owned and operated and focuses exclusively on direct fund investments. As a pure fund of funds, Pathway's investment philosophy centers entirely on manager selection, diversification across both industry and geography, and an opportunistic approach to prevailing markets.

Portfolio Review

The Partnership called $2.7 million to fund existing investments during 2012.

During the same period, the Partnership received $10.3 million in distributions from various underlying partnerships.

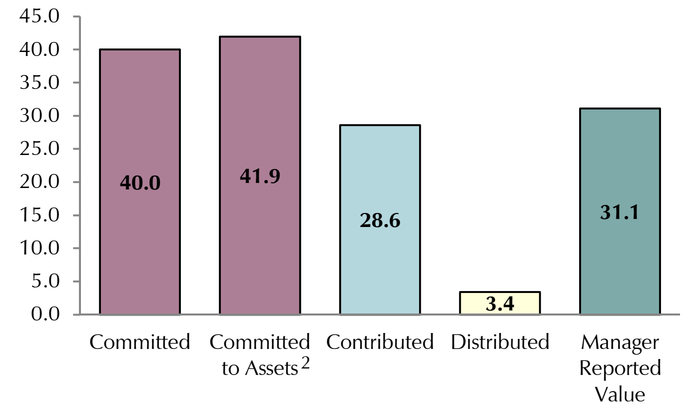
Portfolio Performance

During the year ended December 31, 2012, the Partnership's net IRR increased to 5.4%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 11.1%.

1 The percentage of the Retirement System's total portfolio represented by this fund, based on reported fair value as of December 31, 2012. Throughout this report, manager reported value is used for the "% of Program" calculation.
2 The Benchmark is the ThomsonOne U.S. All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2012.
3 Represents the Partnership's commitment to underlying funds.

Pantheon USA Fund VII
as of 12/31/12

General Partner	Pantheon Ventures, Inc.	**Commitment**	$40.0 million
Location	San Francisco, CA	**Number of Investments**	66
Auditor	PriceWaterhouseCoopers LLC	**Capital Contributions**	$28.6 million
Strategy	Fund of Funds	**Realized Proceeds**	$3.4 million
Vintage Year	2006	**Manager Reported Value**	$31.1 million
Fund Size	$2,254.8 million	**Total Value**	$34.5 million
Fund Duration	13 years	**% of Program**	32.4%
Fee Schedule	0.8% of commitments 10.0% preferred return 5.0% carried interest	**Net IRR**	6.2%
		ThomsonOne Median IRR[1]	4.3%



Investment Strategy

Pantheon is a global private equity primary and secondary fund-of-funds manager. Pantheon USA Fund VII will invest mainly in new private equity funds within the U.S. Up to 20% of the Partnership may be invested in secondary transactions; however such transactions will be undertaken on an opportunistic basis only and will likely comprise a small minority of the total portfolio.

Portfolio Review

During 2012, the Partnership contributed $303.6 million to its underlying partnership investments.

During the year, the Partnership received $299.3 million of distributions.

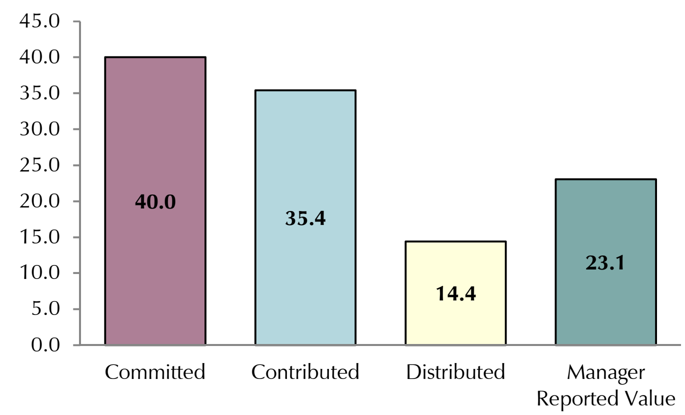
Portfolio Performance

During the year ended December 31, 2012, the Partnership's net IRR increased to 6.2%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 10.6%.

1 The Benchmark is the ThomsonOne U.S. All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2012.
2 Represents the Partnership's commitment to underlying funds.

Pantheon Global Secondary Fund III 'B' as of 12/31/12

General Partner	Pantheon Ventures, Inc.	**Commitment**	$40.0 million
Location	San Francisco, CA	**Number of Investments**	44
Auditor	KPMG London	**Capital Contributions**	$35.4 million
Strategy	Secondary	**Realized Proceeds**	$14.4 million
Vintage Year	2006	**Manager Reported Value**	$23.1 million
Fund Size	$589.9 million[1]	**Total Value**	$37.5 million
Fund Duration	13 years	**% of Program**	24.0%
Fee Schedule	1.0% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	1.5%
		ThomsonOne Median IRR[2]	3.3%



Investment Strategy

Pantheon is a global private equity primary and secondary fund-of-funds manager. Pantheon Global Secondary Fund III 'B' targets a range of secondary transactions including single fund interests, large portfolios of fund interests and, to a lesser extent, portfolios of direct company interests in addition to complex and structured global deals with hybrid portfolios (funds and directs).

Portfolio Review

The Partnership called $23.6 million to fund existing investments during 2012.

During the same period, the Partnership received $94.4 million in distributions from various underlying partnerships.

Portfolio Performance

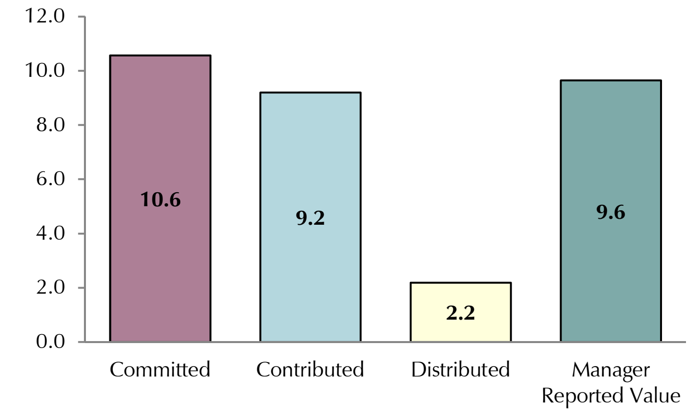
During the year ended December 31, 2012, the Partnership's net IRR increased to 1.5%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 1.9%.

[1] Pantheon Global Secondary Fund is comprised of two vehicles, labeled as "A" and "B." The Retirement System is committed entirely to the "B" vehicle, which contains $589.9 million in commitments. The "A" vehicle has an additional $1.4 billion in commitments, making the total amount committed to Pantheon Global Secondary Fund III equal to $2.0 billion.

[2] The Benchmark is the ThomsonOne All Regions All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2012.

Partners Group Secondary 2008
as of 12/31/12

General Partner	Partners Group	**Commitment**[1]	$10.6 million
Location	Switzerland	**Number of Investments**	162
Auditor	PricewaterhouseCoopers	**Capital Contributions**	$9.2 million
Strategy	Secondary	**Realized Proceeds**	$2.2 million
Vintage Year	2008	**Manager Reported Value**	$9.6 million
Fund Size	€2,500.0 million	**Total Value**	$11.8 million
Fund Duration	12 years	**% of Program**	10.0%
Fee Schedule	1.3% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	11.5%
		ThomsonOne Median IRR[2]	2.3%



Investment Strategy

Partners Group Secondary 2008 was formed to develop a global opportunistic portfolio comprised primarily of secondary interests in private equity partnerships. The General Partner classifies secondary transactions as either "manager secondaries" or "financial secondaries". Manager secondaries represent secondary purchases of direct LP fund interests where the transaction is driven primarily by the perceived quality of the manager as well as discounts to intrinsic value. Financial secondaries also represent purchases of LP interests and the transaction is driven primarily by a perceived discount to intrinsic value. Historically, Partners Group has invested 28% of partnership capital in transactions deemed "financial secondaries" and 72% in transactions deemed "manager secondaries". This mix has led to a portfolio of secondary investments where the LP fund interests are approximately 60% funded, on average, at the time of acquisition.

Portfolio Review

During 2012, the Partnership called an aggregate of $0.6 million from the Retirement System to fund follow-on investments in existing underlying portfolios.

The Partnership distributed $0.9 million to the Retirement System during the same period.

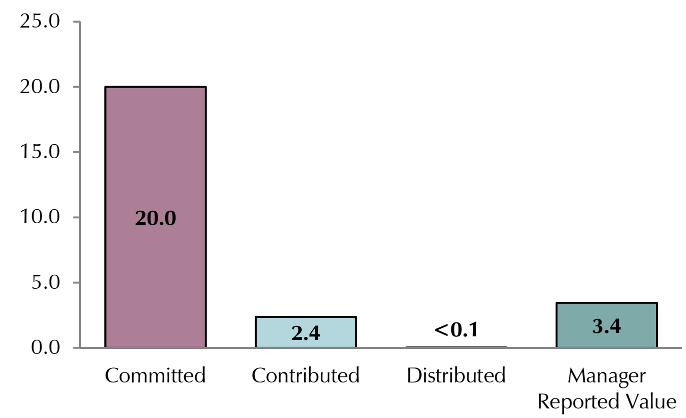
Portfolio Performance

During the year ended December 31, 2012, the Partnership's net IRR decreased to 11.5%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 9.6%.

[1] The Retirement System committed €7.9 million to the Partnership. The $10.6 million commitment is an estimated amount based on the contributed capital and unfunded commitment as of December 31, 2012.
[2] The Benchmark is the ThomsonOne All Regions All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2012.

Partners Group Secondary 2011, L.P. as of 12/31/12

General Partner	Partners Group	**Commitment**	$20.0 million
Location	Switzerland	**Number of Investments**	15
Auditor	PricewaterhouseCoopers	**Capital Contributions**	$2.4 million
Strategy	Secondary	**Realized Proceeds**	<$0.1 million
Vintage Year	2011	**Manager Reported Value**	$3.4 million
Fund Size	$1,800.0 million	**Total Value**	$3.4 million
Fund Duration	12 years	**% of Program**	3.6%
Fee Schedule	1.3% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	NM



Investment Strategy

Partners Group Secondary 2011 was formed to develop a global opportunistic portfolio comprised primarily of secondary interests in private equity partnerships. The General Partner classifies secondary transactions as either "manager secondaries" or "financial secondaries". Manager secondaries represent secondary purchases of direct LP fund interests where the transaction is driven primarily by the perceived quality of the manager as well as discounts to intrinsic value. Financial secondaries also represent purchases of LP interests and the transaction is driven primarily by a perceived discount to intrinsic value. Historically, Partners Group has invested 28% of partnership capital in transactions deemed "financial secondaries" and 72% in transactions deemed "manager secondaries". This mix has led to a portfolio of secondary investments where the LP fund interests are approximately 60% funded, on average, at the time of acquisition.

Portfolio Review

Partners Group Secondary 2011 held its final closing on December 4, 2012 at its hard cap of $1.8 billion. There was no investment activity during the third quarter of 2012, however, during the fourth quarter, the Partnership closed on five new secondary purchases for a total of $43.5 million.

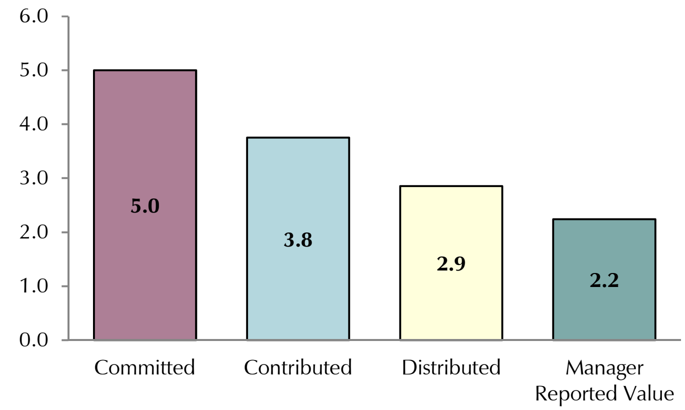
From inception to December 31, 2012, the Partnership had received distributions of $16.6 million, 26% of which ($4.3 million) was realized during the fourth quarter of 2012.

Portfolio Performance

Partners Group Secondary 2011, L.P. is at an early stage in its life and, therefore, performance calculation is not yet meaningful.

Great Hill Equity Partners IV
as of 12/31/12

General Partner	Great Hill Partners LLC	**Commitment**	$5.0 million
Location	Boston, MA	**Number of Investments**	14
Auditor	Ernst & Young LLP	**Capital Contributions**	$3.8 million
Strategy	Buyout	**Realized Proceeds**	$2.9 million
Vintage Year	2008	**Manager Reported Value**	$2.2 million
Fund Size	$1,100.0 million	**Total Value**	$5.1 million
Fund Duration	10 Years	**% of Program**	2.3%
Fee Schedule	2.25% of commitments 8.0% preferred return 20.0% carried interest	**Net IRR**	20.2%
		ThomsonOne Median IRR[1]	10.3%



Investment Strategy

Great Hill Equity Partners IV ("Great Hill IV") will make equity investments ranging in size from $50.0 million to $150.0 million, to finance the acquisition and expansion of middle market companies. The Partnership is the fourth generation of private equity funds managed by the Great Hill Partners team and represents a continuation of the strategic approach employed by the team in previous Great Hill funds. Great Hill IV focuses on middle market growth companies operating in a variety of sectors within the Business Services and Consumer Services segments of the economy.

Portfolio Review

During 2012, the Partnership invested a total of $204 million in three new investments. The Partnership also invested $57.0 million in various follow-on investments.

During the same period, the Partnership realized $410.0 million of proceeds from the portfolio.

Portfolio Performance

During the year ended December 31, 2012, the Partnership's net IRR decreased to 20.2%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 16.0%.

[1] The Benchmark is the ThomsonOne U.S. All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2012.

Private Real Estate Program

Introduction
As of December 31, 2012

The purpose of this document is to offer a comprehensive review of the Retirement System's private real estate investments. It is divided into four sections: Industry Analysis, Executive Summary, Aggregate Private Real Estate Portfolio, and Individual Partnership Analyses. The real estate industry analysis is a broad overview of the economy and the real estate industry through quarter-end. The final three sections are a review of the San Jose Federated City Employees' Retirement System's private real estate partnership investments on both an aggregated and individualized basis.

As of December 31, 2012, the Private Real Estate Program had invested in seven real estate funds (two core funds and five value-added funds). The reported fair value of the aggregate Program was $105.4 million at December 31, 2012.

Aggregate Real Estate Program[1]	
Number of Partnerships	7
Committed Capital[2]	$90.0 million
Capital Called[3]	$133.4 million
Distributions	$28.5 million
Reported Value	$105.4 million
Total Value Multiple	1.0x
Net IRR	0.1%

[1] Throughout this report, numbers may not sum due to rounding.
[2] Committed Capital excludes investments in PRISA I and American Core Realty Fund, both of which are open-ended vehicles with no definitive commitment.
[3] Includes $49.6 million of capital contributions and reinvested dividends in PRISA I and American Core Realty Fund.

Market and Industry Analysis
As of December 31, 2012

2012 was another year of above average returns for real estate as investors' interest in commercial real estate remained high.

- In the fourth quarter of 2012, commercial real estate continued to experience positive returns off a bottom established in late 2009 and early-2010. While property fundamentals continued to strengthen in most markets with additional improvement in top-tier markets, the pace of recovery continued to be moderate.
- These trends were reflected in the NCREIF Property Index's (NPI), NFI-ODCE Equal Weight's (net), and NAREIT Equity's 2012 total returns of 10.5%, 9.9%, and 18.1%, respectively. Notably, from 3Q10 through 2011, capital appreciation return dominated income return as the property sectors began to recover from the substantial write-downs of 2008 and 2009.
- The NPI's total return for 2012 of 10.5% marked the third consecutive year of double-digit returns for the index, although down from the 12%-plus returns of 2011 and 2010. The income return was 5.8%, while the appreciation return was 4.5%. Looking ahead, returns are likely to decelerate from double-digit levels, held back by slowing NOI growth and a rising interest rate environment. Interest rates are projected to remain largely unchanged in 2013 and then start to increase in late 2014/early 2015; however, the timing will be largely determined by the speed of the economic recovery and Fed policy. The impact on cap rates is not expected to be dramatic, in the 50 to 75 basis point range by the end of 2016.

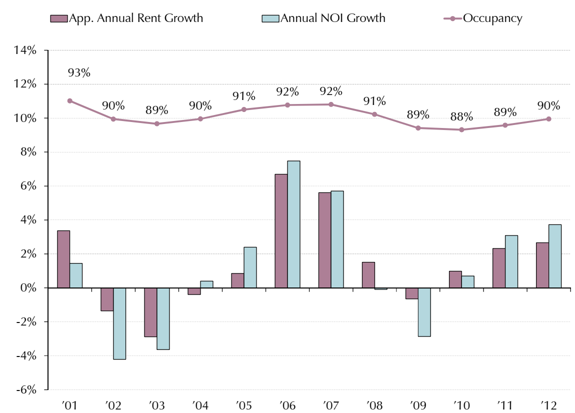
Fourth quarter real estate market summary

- The U.S. economy moderated once again as real GDP slowed to 0.4% during 4Q12 from 3.1% in the prior quarter and the unemployment rate remained flat at 7.8%. To date, the ongoing uncertainty with regard to the broader macro economy is weighing on property market fundamentals. During the quarter, property fundamentals improved marginally with underlying real estate performance slowly catching the recovering capital markets. During 4Q12, the NPI's equal-weighted capitalization rate (appraisal based) declined 16 basis points to 5.9% from 4Q11. Same store net operating income in 2012 increased 3.7% over the prior year, after rising 3.1% in 2011, as the economy remains in a recovery mode. Additionally, vacancy rates have improved for all property sectors; however, the improvements are underwhelming considering the four major property type's 4Q12 vacancy rate stood at 10.1%. This is 241 basis points higher than in 3Q07, but an improvement of just 204 basis points from 1Q11. Office and retail vacancy rates barely budged from their 3Q10 cyclical highs, dropping only 120 and 160 basis points in 4Q12, which were still approximately 400 basis points higher than in 2007. Industrial vacancy rates fell by 400 basis points from a 3Q10 cyclical high and were 230 basis points higher than in 2007, while the multifamily sector recorded the strongest improvement as vacancy rates dropped 250 basis points to 5.0% in 4Q12 from their 4Q08 highs and ended the year tighter than in 2007. Until the economy shifts into a full expansion mode, property demand fundamentals will likely not reach their full potential.
- Real estate capital market activity strengthened in 4Q12, with transaction volume exceeding the recent 2Q11 peak of $63 billion, primarily driven by sellers that were motivated to close deals before the rise in tax rates at year-end. Real Capital Analytics (RCA) reported U.S. volumes for core properties of $95 billion during 4Q12, exceeding 4Q11 volume by 58% and the prior quarter's volume by 52%. The deals that were completed during the quarter were generally in-line with the prior quarter, as the average capitalization rate remained unchanged at 6.8% in 4Q12 from the prior quarter. Office and industrial property sectors recorded moderate capitalization rate compression of 18 basis points and 5 basis points, respectively, from the prior quarter.

- Real estate debt markets continued showing some improvement as U.S. CMBS issuance during 4Q12 of $17.5 billion represented a 40% increase over the prior quarter's $12.5 billion, reflecting the highest issuance since 4Q07, albeit far below the peak quarterly issuance of $74 billion in 2007. Looking ahead, improvements in both the cost and availability of commercial mortgage capital are expected to drive a further rise in transaction volumes in 2013, as the primary sources of debt capital (i.e. commercial banks, CMBS, life insurance companies, Fannie Mae, and Freddie Mac) have all indicated they will increase their allocations to real estate.
- The FTSE EPRA/NAREIT Developed Global REIT Index returned 5.8% during 4Q12. During the quarter, European listed REITs posted the strongest returns at 10.0%, while Asia Pacific returned 9.3% and North America returned 2.3%. As of 4Q12, the North America region's dividend yield stood at 3.8%, as compared to 4.3%, 3.1%, 2.3% and 1.7% for Europe, Asia Pacific, the S&P 500, and the ten-year U.S. Treasury yield, respectively. Additionally, 33 U.S. REITs continued to attract fresh capital as they raised nearly $9.3 billion of equity during 4Q12, reflecting a 142% increase over 4Q11 but a 41% decline over the prior quarter.

4Q12 Real Estate Industry Analysis

Property Fundamentals[1]

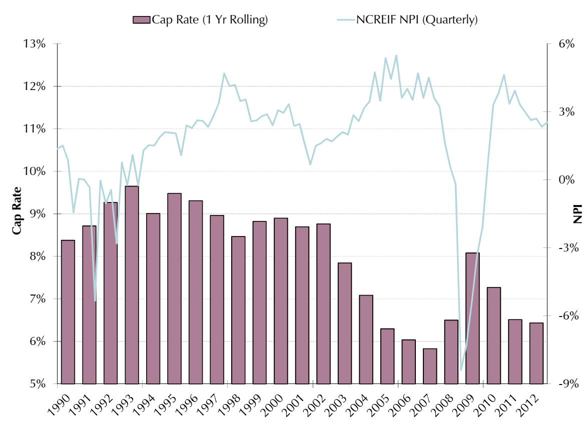


Operating fundamentals continued to improve throughout 2012 as vacancy rates across the U.S. declined in three of the four major property types.

For the full year, vacancy declines ranged from 25 bps in the office sector to 179 bps in the industrial sectors. While apartment vacancy rates ticked up 19 bps in 2012, the vacancy rate remained 89 bps below its 10-year average.

Year-over-year NOI growth for 2012 ranged from 2.2% in the industrial sector to 6.1% in the apartment sector, as the apartment sector recorded the strongest rent growth.

Cap Rates vs. Returns[2]

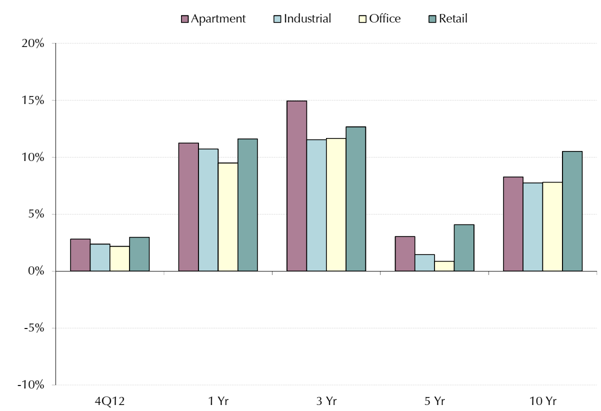


Over the long run, real estate relies more on steady income and less on value gains to drive total return. In 2012, income return outpaced appreciation, except in the apartment sector, suggesting that performance is approaching a period of relative sustainability.

Transaction volume for all commercial real estate is 15% above the 10-year annual average of $230 billion, according to Real Capital Analytics.

The NPI total return increased for the tenth consecutive quarter, reflecting a trailing one-year return of 11%. Average transactional cap rates, as measured by NCREIF, also continued to compress.

Property Type Returns[1]



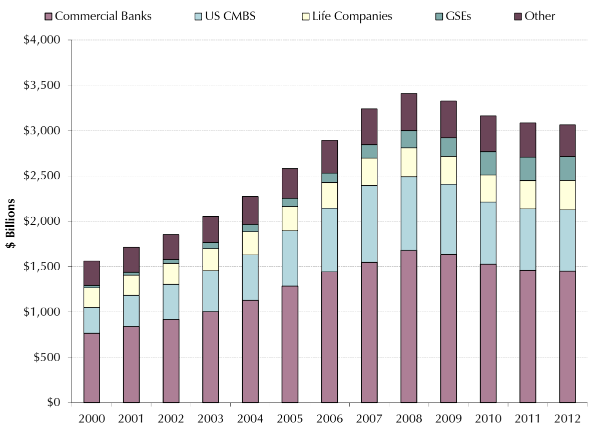
While property appreciation has driven the strong 1- and 3-year trailing returns, appreciation has begun to moderate.

Operating fundamentals, on the other hand, will likely continue to improve at varying degrees as new supply is limited to only apartments. These improvements will translate into greater income growth as income is now accounting for a larger portion of total return in commercial real estate. Despite a disappointing 4Q12 GDP report, slow economic and employment growth should still support downward pressure on vacancy and upward pressure on rent in coming quarters, which would allow income to continue to rise.

[1] Source: NCREIF Property Index. Annual Rent Growth is an approximation as these figures also capture changes in expenses.
[2] Source: NCREIF Property Index.

4Q12 Real Estate Industry Analysis

Debt Capital Outstanding[1]



Bank lending for traditional commercial and multifamily real estate fell by approximately $347 billion from the peak in 2008 through 4Q12, as total traditional mortgages outstanding stood at $3.1 trillion.

The large decrease was mostly the result of tightening underwriting standards from commercial banks and a CMBS market that had dried up. However, through 4Q12, traditional lending activity declines have nearly flattened as increased lending activity from life insurance companies and Fannie and Freddie in 2012 of $17 billion offset moderate declines in the other three lending sources.

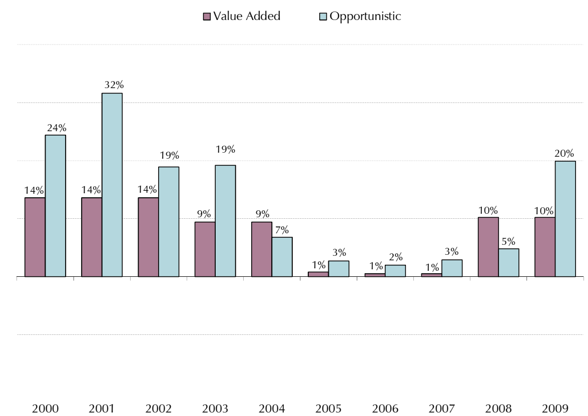
Trailing Period Returns[2]

As of September 30, 2012	1 Year	5 Years	10 Years
Core	**11.8%**	**-1.5%**	**6.3%**
Value-Added	**17.5**	**-2.1**	**8.7**
Opportunistic	**9.8**	**-3.2**	**10.3**
Domestic REITs	***32.6***	***2.1***	***11.4***
S&P 500 Index	***30.2***	***1.1***	***8.0***

Public real estate outperformed the S&P and private real estate over the last twelve months as 4Q11 REIT returns were especially strong. Private real estate underperformed both domestic REITs and the S&P over the five-year period. Private and public real estate have generally performed in line with each other, although domestic REITs have experienced volatility in line with the broader equity markets.

Within private real estate strategies, core performance has moderated as value-added and opportunistic strategies have benefitted from their more aggressive posture.

Vintage Year IRRs[3]



Closed-end real estate partnerships generally require five to seven years to "mature". Until that time, fees tend to suppress the underlying return generated by these funds.

Funds that were raised in the beginning of the decade experienced significant performance gains, benefitting from inexpensive debt, increasing economic activity, and property dispositions in high valuation markets.

More recent funds had been impacted by the GFC, but recent appreciation for real estate has moderated unrealized losses in recent quarters.

1 Source: Federal Reserve Flow of Funds.
2 Source: NCREIF and The Townsend Group Equal-weighted returns are on a time weighted basis and are gross of fees. Core is reflected by the NFI-ODCE, and Value-added and Opportunistic are reflected by the NCREIF/Townsend All Fund Indices; NAREIT Equity Index; and S&P 500 Index.
3 Opportunistic vintage years are portrayed individually. However, value-added vintage years are grouped together during some periods by the NCREIF-Townsend Index.

Private Real Estate Program
As of December 31, 2012

Executive Summary
As of December 31, 2012

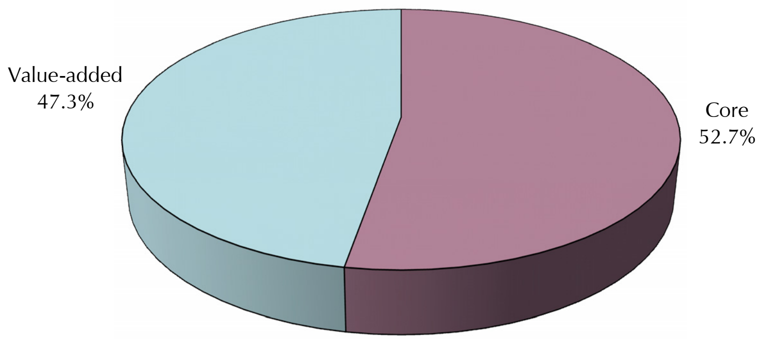
In aggregate, $7.9 million of capital was called from the Retirement System during the fourth quarter of 2012 by the underlying partnerships.

- American Core Realty Fund called $5.5 million during the fourth quarter
- DRA Growth & Income Fund VII called $1.9 million from the Retirement System as the partnership used $125.0 million for the initial funding of five new acquisitions and to pay down a portion of the partnership's credit facility.
- DRA Growth & Income Fund VI called $0.3 million.

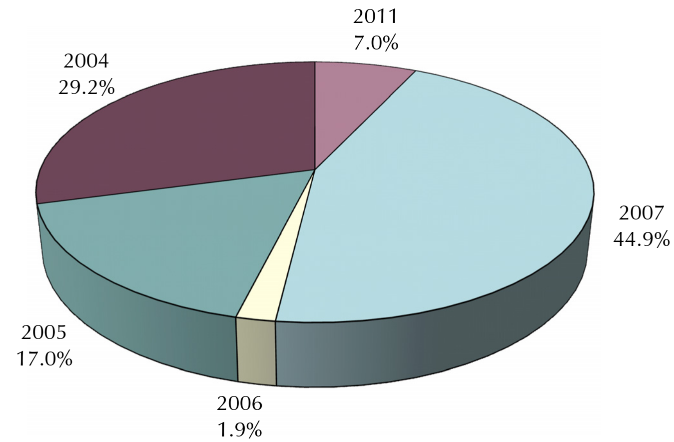
In aggregate, $2.8 million of capital was distributed to the Retirement System by the underlying partnerships during the fourth quarter of 2012.

- GEAM Value Add Realty Partners distributed $1.3 million relating to the partnership's sale of Cortland Village Apartments during the quarter, which generated net sales proceeds of $24.8 million and a realized gain of $3.1 million.
- Fidelity Real Estate Growth Fund III distributed $0.9 million as the partnership distributed a total of $41.5 million to investors.
- American Core Realty Fund distributed $0.3 million from portfolio income, which was reinvested through their Dividend Reinvestment Program.
- DRA Growth & Income Fund V, VI & VII each distributed $0.1 million from portfolio income.

Diversification by Investment Strategy[1]

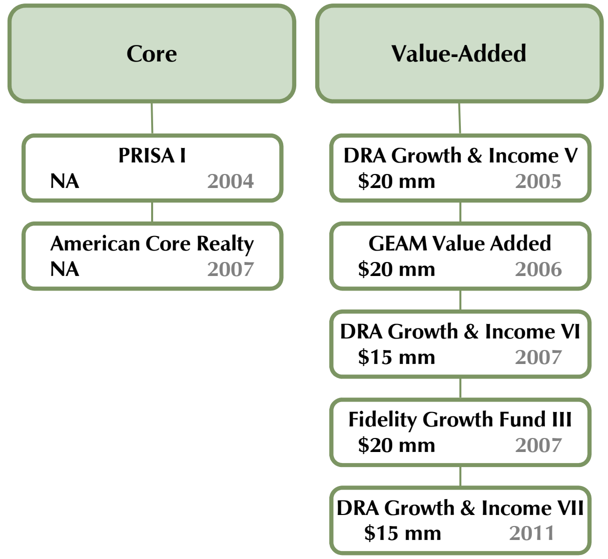


Diversification by Vintage Year[1, 2]



[1] These charts are created using the fair value of the Program as of December 31, 2012.

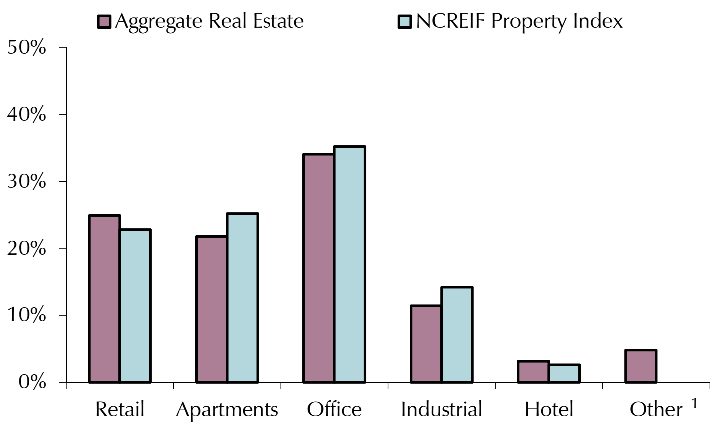
[2] The Private Real Estate Program includes investments in two open-ended vehicles: PRISA I and American Core Realty Fund. The inception date for PRISA I is July 31, 1970 but the Program did not make its first contribution until June 30, 2004. Therefore, PRISA I is classified as a 2004 Vintage Year Fund for the purposes of this report. The inception date for American Core Realty Fund is November 21, 2003 but the Program did not make its first contribution until January 2, 2007. Therefore, American Core Realty Fund is classified as a 2007 Vintage Year Fund for the purposes of this report.



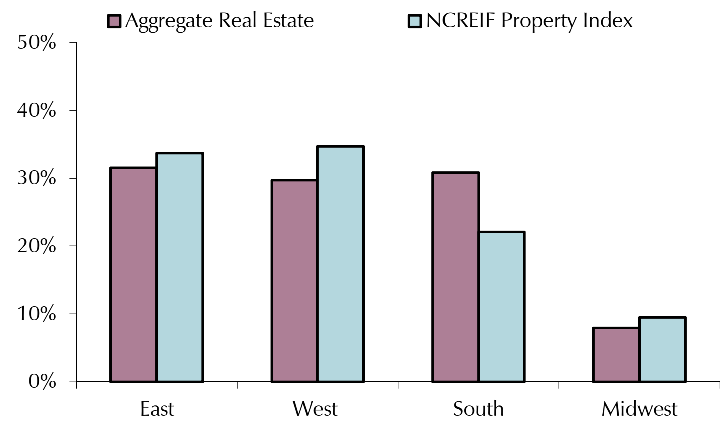
- The chart above shows current commitments and investments made to partnerships and strategies by the Retirement System.

Aggregate Private Real Estate Portfolio
As of December 31, 2012

Geographic Diversification by Reported Fair Value



Property Type Diversification by Reported Fair Value



[1] Other includes senior housing, self-storage, land, for-sale condominiums, and other non-core sectors.

Aggregate Program Performance as of 12/31/12

	4Q12 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date	Since Inception (%)
Real Estate[1]							
PRISA I	1.9	9.7	15.6	-2.4	NA	7/1/04	5.6
NFI – ODCE Equal Weight	*2.3*	*11.0*	*14.3*	*-1.5*	*6.3*		*5.7*
American Core Realty Fund, LLC	2.5	11.3	12.5	-1.2	NA	1/1/07	1.7
NFI – ODCE Equal Weight	*2.3*	*11.0*	*14.3*	*-1.5*	*6.3*		*1.3*

[1] Time weighted returns are only presented for core open-ended funds and are reported gross of fees.

San Jose Federated City Employees' Retirement System Private Real Estate Program

Aggregate Program Performance Summary as of 12/31/12

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date[1] ($ mm)	Unfunded Commitment[2] ($ mm)	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions ($ mm)	Net IRR[3] (%)	Inv. Multiple[4] (x)
Total Program[5]		**90.0**	**83.8**	**11.0**	**25.7**	**49.8**	**75.5**	**-3.2**	**0.9**
Vintage Year 2005		**20.0**	**30.5**	**0.0**	**13.8**	**17.9**	**31.7**	**1.0**	**1.0**
DRA Growth & Income Fund V	Value-added	20.0	30.5	0.0	13.8	17.9	31.7	1.0	1.0
Vintage Year 2006		**20.0**	**18.2**	**1.8**	**4.9**	**2.1**	**7.0**	**-17.7**	**0.4**
GEAM Value Add Realty Partners, L.P.	Value-added	20.0	18.2	1.8	4.9	2.1	7.0	-17.7	0.4
Vintage Year 2007		**35.0**	**28.0**	**1.3**	**6.9**	**22.5**	**29.4**	**1.8**	**1.0**
DRA Growth & Income Fund VI	Value-added	15.0	10.2	1.3	2.7	9.2	11.9	5.2	1.2
Fidelity Real Estate Growth Fund III	Value-added	20.0	17.9	0.0	4.1	13.3	17.4	-1.0	1.0
Vintage Year 2011		**15.0**	**7.1**	**7.9**	**0.2**	**7.4**	**7.5**	**NM**	**1.1**
DRA Growth and Income Fund VII, LLC	Value-added	15.0	7.1	7.9	0.2	7.4	7.5	NM	1.1

1 In certain instances, total contributions may exceed the commitment, as a Partnership may reserve the right to recycle capital and/or recall distributions depending upon the terms of its Limited Partner Agreement.
2 Partnerships may have a recycling provision allowing them to recall distributions. As such, the contributed capital plus unfunded commitments may be higher than the commitment amount.
3 The Net IRR calculations were performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year IRRs are net of fees, expenses, and carried interest for each partnership but gross of Meketa Investment Group fees.
4 The Inv. Multiple calculations were performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year Inv. Multiples are net of partnership fees but gross of Meketa Investment Group fees.
5 Total Program includes all closed-ended funds in the real estate program.

The IRR (internal rate of return) and investment multiple are the most meaningful measures of performance for private closed-ended real estate funds. The IRR measures how assets are performing in relation to time. The investment multiple shows the cash on cash return generated on the invested capital by the underlying assets.

The Total Program[1] net IRR increased by 70 basis points during the fourth quarter, from -3.9% to -3.2%. The improved performance was driven primarily by increases in the valuations of Fidelity Real Estate Growth Fund III (3.3%), GEAM Value Add Realty Partners (15.5%), and DRA Growth & Income Fund V (1.2%). During the fourth quarter, the total reported fair value of the Aggregate Private Real Estate Program increased by $1.2 million, or 2.4%, after adjusting for capital calls and distributions that occurred during the quarter.

[1] Total Program includes all closed-ended funds in the real estate program.

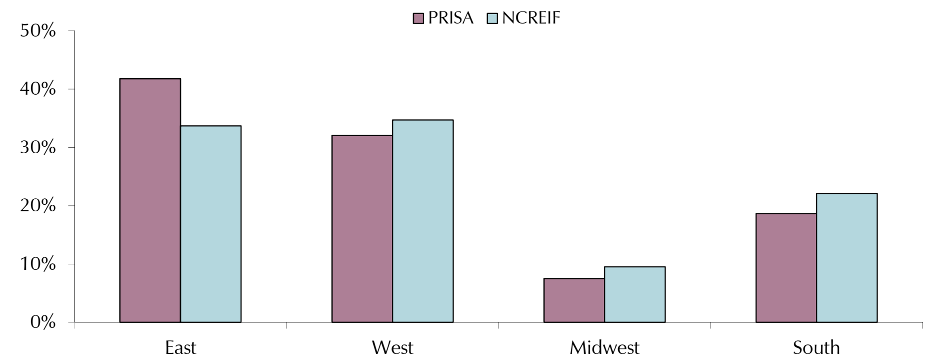
Individual Partnership Analyses
As of December 31, 2012

PRISA I
Portfolio Detail as of 12/31/12

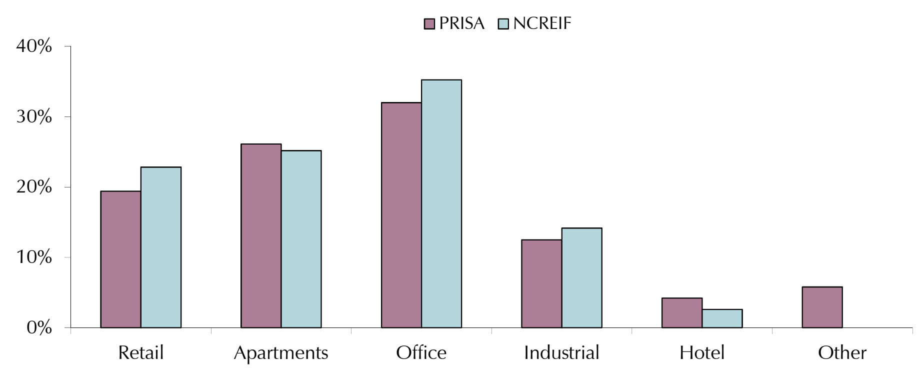
Strategy:	Real Estate Private Market Diversified Core
Market Value:	$30.8 million
Senior Professionals:	Kevin R. Smith
Location:	San Francisco, CA
Inception Date:	6/30/04
Account Type:	Separately Managed
# of Investments:	240
Liquidity Constraints:	Quarterly (with 30 days advance notice)
Fee Schedule:	1.20% on first $25 mm; 1.15% on next $25 mm; 1.10% on next $50 mm; 1.05% on next $100 mm; 1.00% thereafter

Performance (%):	4Q12	Fiscal YTD	1 YR	3 YR	5 YR	Since 7/1/04
PRISA I, Gross of Fees	**1.9**	**3.7**	**9.7**	**15.6**	**-2.4**	**5.6**
NCREIF ODCE Equal Weighted, Gross of Fees	2.3	5.2	11.0	14.3	-1.5	5.7

Geographic Region:



Property Type:

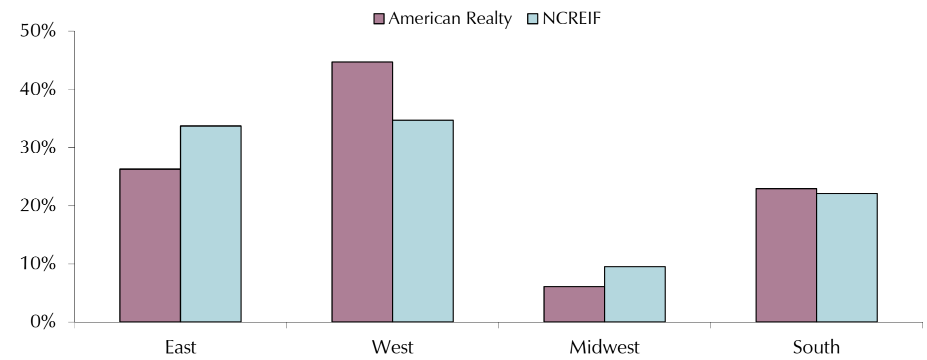


Investment Strategy: PRISA invests primarily in existing, income-producing properties with strong cash flow that is expected to increase over time and thereby provide the potential for capital appreciation. The Account makes investments primarily in office, retail, industrial, apartment, and hotel properties. Investments may be made through direct property ownership, or indirectly through such vehicles as joint ventures, general or limited partnerships, limited liability companies, mortgage loans and other loan types, including mezzanine debt, and debt secured by an interest in the borrowing entity or interests in companies or entities that directly or indirectly hold real estate or real estate interests.

American Core Realty Fund, LLC
Portfolio Detail as of 12/31/12

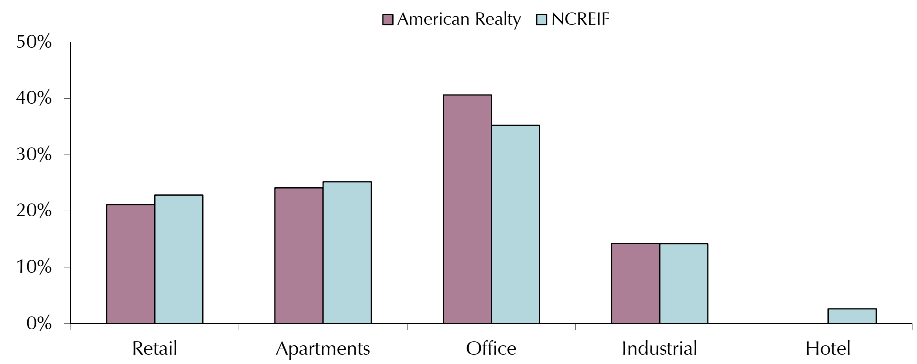
Strategy:	Real Estate Private Market Diversified Core
Market Value:	$24.8 million
Senior Professionals:	Greg Blomstrand
Location:	Glendale, CA
Inception Date:	1/1/2007
Account Type:	Commingled Fund
# of Investments:	76
Liquidity Constraints:	Quarterly, payments usually delivered within 30 days
Fee Schedule:	1.10% on first $25 mm; 0.95% on next $50 mm; 0.85% thereafter

Geographic Region:



Performance (%):	4Q12	Fiscal YTD	1 YR	3 YR	5 YR	Since 1/1/07
American Core Realty Fund, LLC, Gross of Fees	**2.5**	**5.1**	**11.3**	**12.5**	**-1.2**	**1.7**
NFI-ODCE Equal Weighted, Gross of Fees	2.3	5.2	11.0	14.3	-1.5	1.3

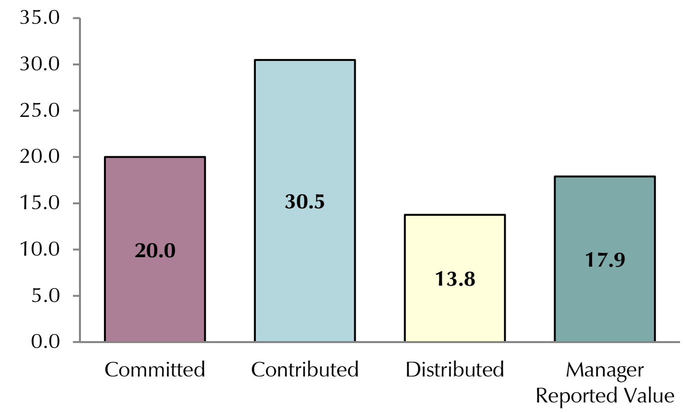
Property Type:



Investment Strategy: American Realty targets institutional-quality office, industrial, retail, and multifamily properties in the United States. American Realty will seek properties in the $5 million to $50 million range. Target properties will be 80% to 100% occupied, less than ten years old, and will be diversified by tenant base.

DRA Growth & Income Fund V
as of 12/31/12

General Partner	DRA Advisors LLC	**Commitment**	$20.0 million
Location	New York, NY	**Number of Investments**	17
Auditor	WeiserMazars LLP	**Capital Contributions**	$30.5 million
Strategy	Value-added	**Realized Proceeds**	$13.8 million
Vintage Year	2005	**Manager Reported Value**	$17.9 million
Fund Size	$1,000.0 million	**Total Value**	$31.7 million
Fund Duration	10 years	**% of Program**	17.0%
Fee Schedule	0.9% of gross invested capital 7.0% + CPI preferred return 15.0% carried interest	**Net IRR**	1.0%
		N/T Median IRR[1]	0.8%



Investment Strategy

DRA Growth and Income Fund V ("DRA V") will make direct investments in institutional level properties located in the United States that are in need of pre-leased development, lease-up, or rehabilitation. The Partnership will consider office, retail, multifamily, and industrial properties with a minimum value of $20.0 million, using up to 70% leverage. Potential investments may be structured as portfolios or single-assets and may consist of property or partnership recapitalizations, outright acquisitions, REIT privatizations, or joint ventures.

Portfolio Review

During 2012, the Partnership's sold a portfolio for $39.5 million and the remaining assets in a different investment for $156.6 million, achieving aggregate gross IRRs of 7.8% and 9.5%, respectively.

Portfolio Performance

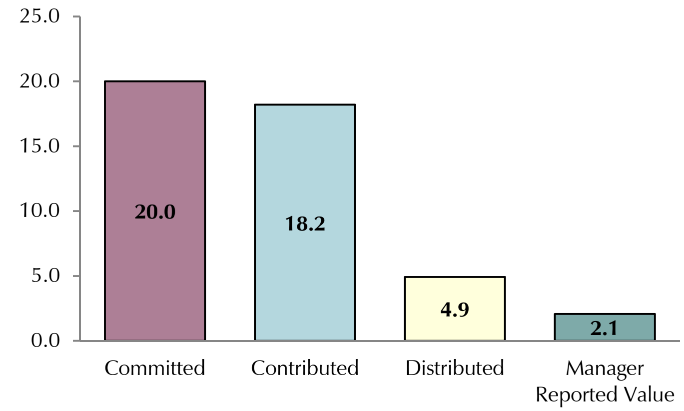
During the year ended December 31, 2012, the Partnership's net IRR increased to 1.0%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 4.2%.

[1] The referenced benchmark is the NCREIF Townsend 2005 vintage, closed-ended, value-added median net IRR as of December 31, 2012.

San Jose Federated City Employees' Retirement System
Private Real Estate Program

GEAM Value Add Realty Partners, L.P.
as of 12/31/12

General Partner	GE Asset Management Incorporated	**Commitment**	$20.0 million
Location	Stamford, CT	**Number of Investments**	15
Auditor	KPMG	**Capital Contributions**	$18.2 million
Strategy	Value-added	**Realized Proceeds**	$4.9 million
Vintage Year	2006	**Manager Reported Value**	$2.1 million
Fund Size	$380.8 million	**Total Value**	$7.0 million
Fund Duration	8 Years	**% of Program**	1.9%
Fee Schedule	1.0% of commitments 10.0% preferred return 20.0% carried interest	**Net IRR**	-17.7%
		N/T Median IRR[1]	0.1%



Investment Strategy

GEAM Value Add Realty Partners ("GEAM Value") will make direct investments in U.S.-based commercial and multifamily properties in need of development, financial restructuring, or repositioning, and attempt to add value by turning these sub-prime properties into Class A properties that can be sold to core buyers or REITs.

Portfolio Review

During 2012, the Partnership invested $23.5 million in a joint venture.

During the same period, the Partnership closed on the sale of four assets for net sales proceeds of $49.6 million and a realized loss of $13.5 million.

Portfolio Performance

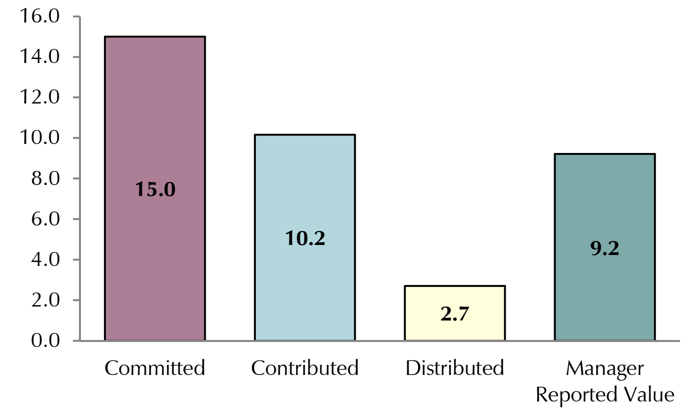
During the year ended December 31, 2012, the Partnership's net IRR increased to -17.7%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 8.6%.

[1] The referenced benchmark is the NCREIF Townsend 2006 vintage, closed-ended, value-added median net IRR as of December 31, 2012.

DRA Growth & Income Fund VI as of 12/31/12

General Partner	DRA Advisors LLC
Location	New York, NY
Auditor	WeiserMazars LLP
Strategy	Value-added
Vintage Year	2007
Fund Size	$1,250.0 million
Fund Duration	10 years
Fee Schedule	0.9% of gross invested capital 8.0% preferred return 15.0% carried interest

Commitment	$15.0 million
Number of Investments	12
Capital Contributions	$10.2 million
Realized Proceeds	$2.7 million
Manager Reported Value	$9.2 million
Total Value	$11.9 million
% of Program	8.7%
Net IRR	5.2%
N/T Median IRR[1]	0.1%



Investment Strategy

DRA Growth and Income Fund VI ("DRA VI"), is a continuation of the DRA Growth and Income Fund V value-added investment strategy. As such, the Partnership will make direct investments in institutional level properties located in the United States that are in need of pre-leased development, lease-up, or rehabilitation. The Partnership will consider office, retail, multifamily and industrial properties with a minimum value of $20.0 million, using up to 70% leverage. Potential investments may be structured as portfolios or single-assets and may consist of property or partnership recapitalizations, outright acquisitions, REIT privatizations, or joint ventures.

Portfolio Review

There was no investment or realization activity within the portfolio during 2012.

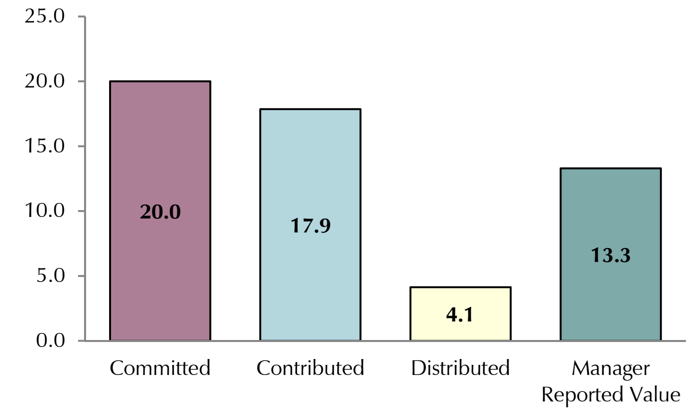
Portfolio Performance

During the year ended December 31, 2012, the Partnership's net IRR decreased to 5.2%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 2.1%.

[1] The referenced benchmark is the NCREIF Townsend 2007 vintage, closed-ended, value-added median net IRR as of December 31, 2012.

Fidelity Real Estate Growth Fund III
as of 12/31/12

General Partner	Long Wharf Real Estate Partners, LLC	**Commitment**	$20.0 million
Location	Boston, MA	**Number of Investments**	33
Auditor	PricewaterhouseCoopers	**Capital Contributions**	$17.9 million
Strategy	Value-added	**Realized Proceeds**	$4.1 million
Vintage Year	2007	**Manager Reported Value**	$13.3 million
Fund Size	$875.0 million	**Total Value**	$17.4 million
Fund Duration	8 Years	**% of Program**	12.6%
Fee Schedule	1.0% of commitments 10.0% preferred return 17.5% carried interest	**Net IRR**	-1.0%
		N/T Median IRR[1]	0.1%



Investment Strategy

Fidelity Real Estate Growth Fund III ("Fidelity III") will make direct investments in properties located in the United States in need of development, lease-up, refinancing, or rehabilitation. The Partnership will consider commercial and multifamily properties with investments in the range of $10.0 million to $50.0 million and leverage in the range of 50% to 75%. Potential investments can be structured as joint ventures, preferred equity, fixed-rate mezzanine debt, participating mezzanine debt, or discounted senior debt. Investments will have an expected holding period of three to five years.

Portfolio Review

During 2012, the Partnership invested $35.7 million in three properties.

During 2012, the Partnership realized $64.2 million from 18 companies.

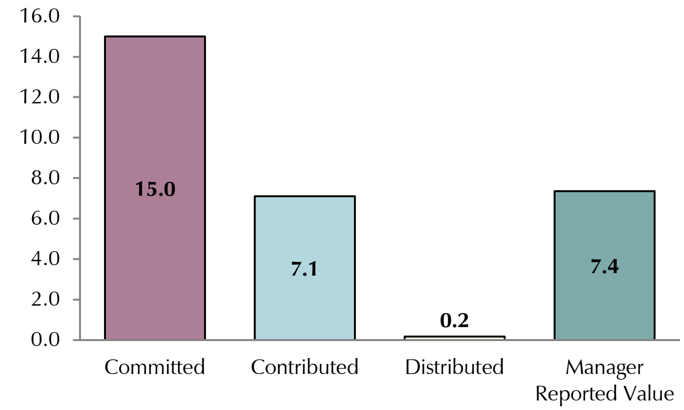
Portfolio Performance

During the year ended December 31, 2012, the Partnership's net IRR increased to -1.0%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 10.8%.

[1] The referenced benchmark is the NCREIF Townsend 2007 vintage, closed-ended, value-added median net IRR as of December 31, 2012.

DRA Growth and Income Fund VII, LLC as of 12/31/12

General Partner	DRA Advisors LLC	**Commitment**	$15.0 million
Location	New York, NY	**Number of Investments**	20
Auditor	WeiserMazars LLC	**Capital Contributions**	$7.1 million
Strategy	Value-added	**Realized Proceeds**	$0.2 million
Vintage Year	2011	**Manager Reported Value**	$7.4 million
Fund Size	$1,000.0 million	**Total Value**	$7.5 million
Fund Duration	10 years	**% of Program**	7.0%
Fee Schedule	0.9% of commitments 8.0% preferred return 15.0% carried interest	**Net IRR**	NM
		N/T Median IRR	NA



Investment Strategy

DRA Growth and Income Fund VII ("DRA VII") is a continuation of DRA Advisors' series of private, close-ended funds focused on making value-added real estate investments. As such, the Partnership will make direct investments in institutional level properties located in the United States that are in need of pre-leased development, lease-up, or rehabilitation. The Partnership will consider office, retail, multifamily, and industrial properties with a minimum value of $20.0 million, using up to 70% leverage. Potential investments may be structured as portfolios or single-assets and may consist of property or partnership recapitalizations, outright acquisitions, REIT privatizations, or joint ventures.

Portfolio Review

During 2012, the Partnership invested a total of $486.4 million in 13 new investments.

There was no realization activity within the portfolio during 2012.

Portfolio Performance

The Partnership is at an early stage in its life and, therefore, a performance calculation is not yet meaningful.

Private & Opportunistic Debt Program

Introduction
As of December 31, 2012

The purpose of this document is to offer a comprehensive review of the Retirement System's private & opportunistic debt investments. It is divided into four sections: Industry Analysis, Executive Summary, Aggregate Private & Opportunistic Debt Portfolio, and Individual Partnership Analyses. The private debt industry analysis is a broad overview of the private debt industry. The final three sections are a review of the San Jose Federated City Employees' Retirement System's private & opportunistic debt partnership investments on both an aggregated and individualized basis.

As of December 31, 2012, the San Jose Federated City Employees' Retirement System had committed $150.0 million to three opportunistic debt partnerships. The reported fair value of the aggregate Private & Opportunistic Debt Program was $166.6 million at December 31, 2012.

Aggregate Private & Opportunistic Debt Program[1]	
Number of Partnerships	3
Committed Capital	$150.0 million
Capital Called	$127.2 million
Distributions	$22.8 million
Reported Value	$116.6 million
Total Value Multiple	1.1x
Net IRR	10.0%

[1] Throughout this report, numbers may not sum due to rounding.

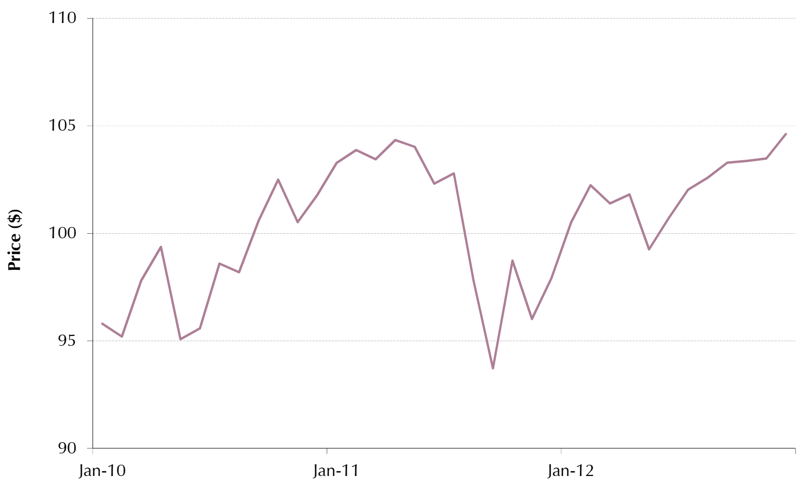
Market and Industry Analysis
As of December 31, 2012

Debt Markets in 2012

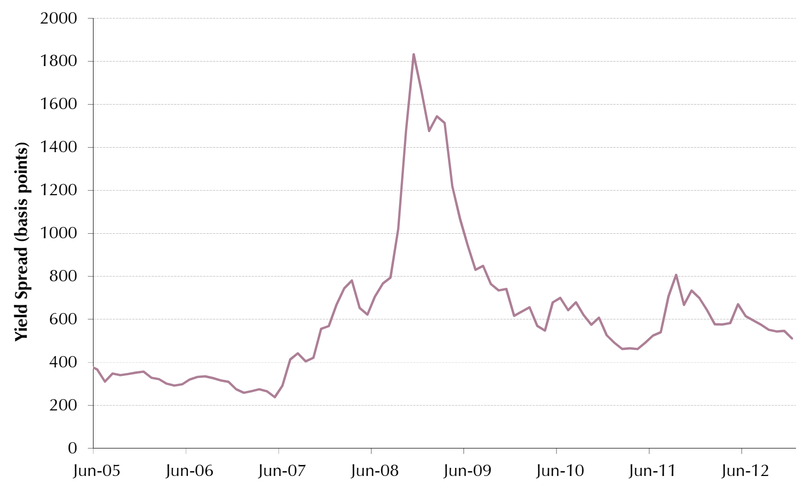
U.S. credit markets enjoyed a very strong year in 2012, with a largely uninterrupted rally that led to record low yields and high prices by the end of the year. The U.S. high yield spread to Treasuries finished the year at 511 basis points, down from the December 2011 spread of 700 basis points and to the lowest level since May 2011. The average price of U.S. high yield debt finished the year above $104, an increase of almost 7% over the prior year and the highest ever recorded price for the Barclay's high yield index. These gains have now fully erased the sharp losses that the U.S. credit market experienced in the third quarter of 2011 in the wake of the U.S. debt downgrade and the worst period of the European sovereign credit crisis.

Europe continued to face issues in 2012, particularly in the first half of the year when Spain required a €100 billion bailout in June, after its fourth largest bank was nationalized. That bailout failed to immediately quell investor fears and Spanish bond yields increased into July to a peak of 7.6%, until ECB President Mario Draghi pledged that the ECB would do "whatever it takes to preserve the Euro." Spanish yields fell 80 basis points by the following week and finished the third quarter below 6%, as investors were sufficiently assured that Spain would not be allowed to further destabilize the already fragile Eurozone. Europe finally enjoyed a relatively quiet fourth quarter of 2012, although broader system-wide issues remained far from completely solved. In November, Greece received approval for its next tranche of aid from the EU, ECB, and IMF, totaling $44 billion, which included better terms and was notable for its relaxed austerity conditions.

U.S. Corporate High Yield Price[1]



U.S. Corporate High Yield Spread[1]



[1] Source: Barclays Capital

Distressed & Opportunistic Debt

Distressed debt trading opportunities remained muted during 2012, with continued high prices on most debt securities leading to relatively few attractive entry points for all but the most troubled companies or likely complex restructurings. On a more targeted basis, distressed debt managers have continued to find opportunities to invest in control-oriented transactions, often on a privately negotiated basis and more frequently among middle market issuers. Other pockets of opportunity have been seen in loan pools, asset special situations (including aviation, shipping, and energy), and real estate related debt. Europe continued to present selective investment opportunities as the bank and corporate de-leveraging process continued to unfold during 2012, although at the same slower-than-expected pace that has frustrated investors for the past few years. Nevertheless, the European distressed debt opportunity has continued to attract capital (estimated at $100 billion of private fund commitments) leading to potential pressure on returns if asset supply does not pick up in the near to medium term.

Within opportunistic debt, 2012 saw significant new fundraising activity by managers seeking to make directly-originated middle market loans, mostly on a senior secured basis. This strategy seeks to supplement bank lending activity for borrowers who are too small to access public capital markets and has seen strong demand from investors seeking yield in the current low interest rate environment. Although returns, currently in the 9% to 11% range (net, unlevered), are likely to come down somewhat as competition increases and traditional lending activity rebounds, these strategies potentially represent an attractive multi-year opportunity for investors with the flexibility to accept illiquidity and middle market lending risk within their fixed income portfolios.

Mezzanine Debt

Mezzanine debt activity was relatively stable in 2012 overall, with deal activity increasing to more normal levels after a relatively slow first quarter. In the middle market, managers saw a slight increase in competition during the year from other traditional mezzanine providers as well as 2nd lien/unitranche debt providers and BDCs. This competition has resulted in slight downward pricing pressure. Still, though total coupons remained in the 12% to 14% range, albeit at slightly higher total leverage multiples and with less generous ancillary deal terms, including up front fees and call protection. At the larger end of the market, mezzanine providers saw many deals lost to the high yield market in another record year for new issuance. Mezzanine fundraising continued at a healthy pace during the year as established managers saw strong demand, although some smaller and newer entrants to the market continued to face longer fundraising cycles.

Economic Update

Overall, 2012 continued to be volatile for the global economy due to the continued European sovereign debt crisis, slower growth across major economies, and political uncertainty surrounding China's political system as well as a stalled political system in the U.S. ahead of the 2012 Presidential election. In order to calm markets, the European Central Bank (ECB) took several steps, including providing low-interest, long-term financing for European banks, financial aid to troubled economies, and purchasing sovereign bonds to drive down yields. At the same time, there was a significant shift in the political climate in Europe, with changes of government both in Greece and France. However, amidst all this activity, there was no consensus on a permanent fix for the current crisis. As a result, the Euro area countries in aggregate suffered through recession in 2012 and registered an overall GDP decline of 0.6%.[1]

[1] Source: IMF

The U.S. economy grew at a better rate than the Eurozone, registering 2.2% GDP growth in 2012, which was somewhat dampened by near zero GDP growth in Q4 2012[1]. The economy was more resilient due to an improvement in housing and gains in the manufacturing/export sectors. The growth, however, was not fast enough to make a major impact on the unemployment rate which remained above 7.5% for all of 2012. The Federal Reserve maintained its zero interest rate policy to stimulate the economy and, in third quarter of 2012, announced additional indefinite rounds of quantitative easing, dubbed QE3 or QE infinity.

[1] Source: Bureau of Economic Analysis

Private & Opportunistic Debt Program
As of December 31, 2012

Executive Summary
As of December 31, 2012

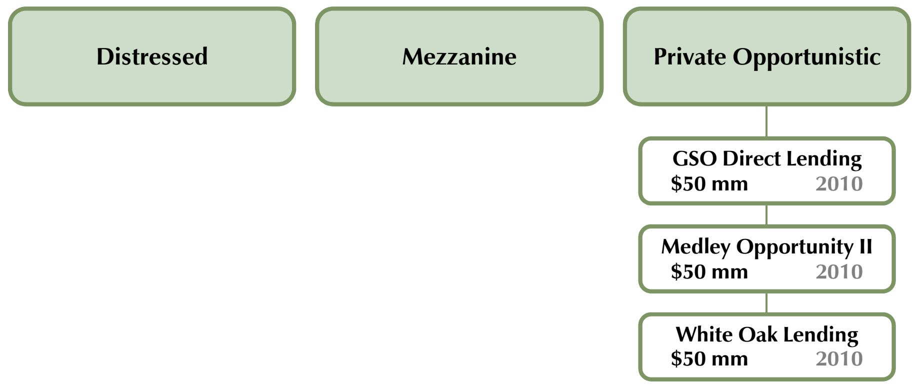
In aggregate, $13.5 million of net capital was called from the Retirement System during the fourth quarter of 2012 by the underlying partnerships.

- White Oak Direct Lending called a total of $16.2 million during the quarter to fund several new investments.
- GSO Direct Lending called $0.1 million to fund a follow-on investment.
- Medley Opportunity Fund II returned $2.8 million of prior capital contributions during the quarter, which was the result of a "true up" for fifth and sixth close investors.

The Retirement System received an aggregate of $10.7 million in distributions during the fourth quarter of 2012 from its underlying partnerships.

- White Oak Direct Lending distributed $8.9 million during the quarter, which was comprised of current income received from numerous portfolio companies as well as full principal repayment from two investments and partial principal repayment from one investment.
- GSO Direct Lending distributed $1.5 million during the quarter, which was primarily comprised of current income and realized proceeds from existing investments.
- Medley Opportunity Fund II distributed $0.3 million during the quarter, which was comprised of interest income and return of principal from multiple investments.

Executive Summary
Investment Roadmap as of 5/15/13

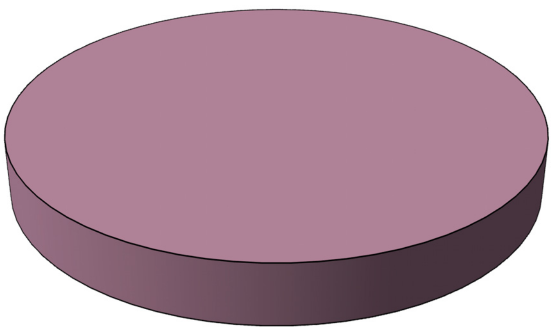


- The chart above shows current commitments made to partnerships by the Retirement System.

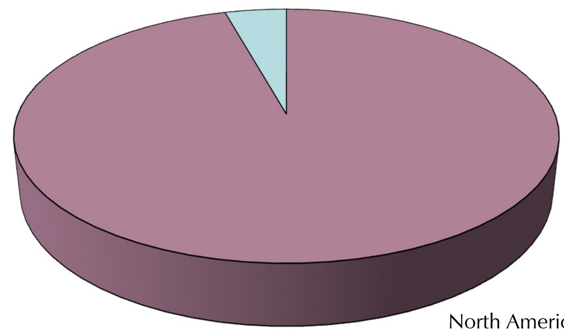
Aggregate Private & Opportunistic Debt Portfolio
As of December 31, 2012

Aggregate Program
Portfolio Diversification as of 12/31/12

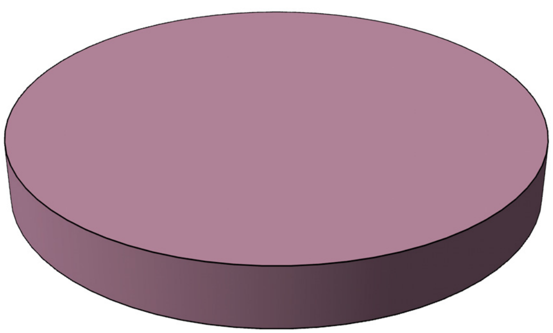
Commitment



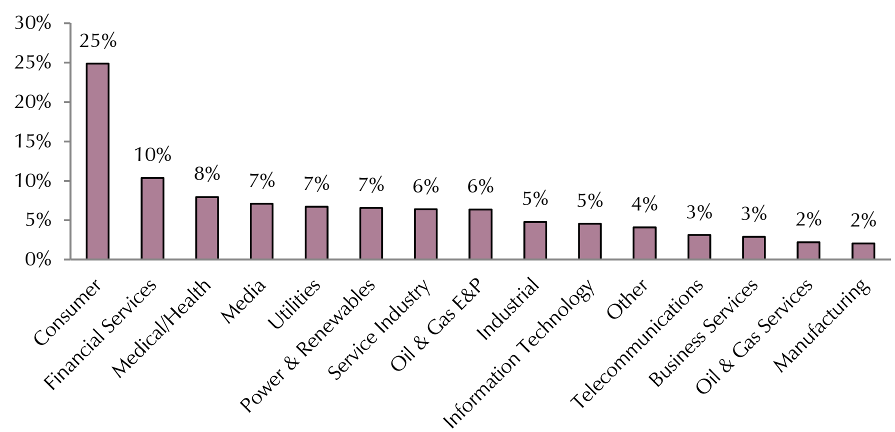
Geography[1]



Reported Fair Value[1]



Industry



[1] These charts were created using the fair value of the Retirement System's private & opportunistic debt investments as of December 31, 2012.

San Jose Federated City Employees' Retirement System
Private & Opportunistic Debt Program

Aggregate Program
Performance Summary as of 12/31/12

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date[1, 2] ($ mm)	Unfunded Commitment[3] ($ mm)	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions[4] ($ mm)	Net IRR[5] (%)	Inv. Multiple[6] (x)
Total Program		**150.0**	**127.2**	**37.8**	**22.8**	**116.6**	**139.4**	**10.0**	**1.1**
Vintage Year 2010		**150.0**	**127.2**	**37.8**	**22.8**	**116.6**	**139.4**	**10.0**	**1.1**
GSO Direct Lending	Opportunistic Debt	50.0	33.2	18.1	3.7	35.8	39.5	18.6	1.2
Medley Opportunity Fund II, L.P.	Opportunistic Debt	50.0	38.3	11.9	1.9	40.4	42.3	8.3	1.1
White Oak Direct Lending	Opportunistic Debt	50.0	55.7	7.7	17.1	40.4	57.6	4.7	1.0

1 In certain instances, total contributions may exceed the commitment, as a Partnership may reserve the right to recycle capital and/or recall distributions depending upon the terms of its Limited Partner Agreement.
2 Total contributions include management fees paid outside of capital committed.
3 Unfunded commitment amounts are an approximation due to the inclusion of recallable distributions.
4 Distributions may include capital that was recycled back into the Partnership.
5 The Net IRR calculation was performed by Meketa Investment Group. Total Program IRR is net of fees, expenses, and carried interest for each partnership. Partnership and Vintage Year IRRs are net of partnership fees.
6 The Inv. Multiple calculation was performed by Meketa Investment Group. Total Program Inv. Multiple is net of fees, expenses, and carried interest for each partnership. Partnership and Vintage Year Inv. Multiples are net of partnership fees.

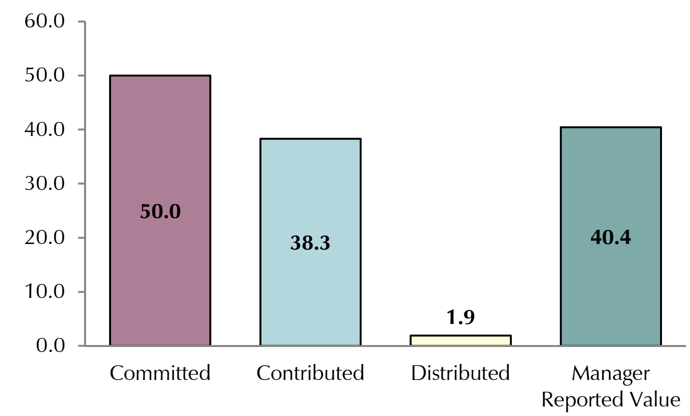
The IRR (internal rate of return) and investment multiple are the most meaningful measures of performance for private real estate funds. The IRR measures how assets are performing in relation to time. The investment multiple shows the cash on cash return generated on the invested capital by the underlying assets.

The total program net IRR decreased by 70 basis points during the fourth quarter, to 10.0% from 10.7%. The fair market value of the total program increased by $2.1 million, or 1.8%, after adjusting for capital calls and distributions that occurred during the fourth quarter.

Individual Partnership Analyses
As of December 31, 2012

Medley Opportunity Fund II, L.P.
as of 12/31/12

General Partner	Medley Capital	**Commitment**	$50.0 million
Location	New York, NY	**Number of Investments**	20
Auditor	Deloitte & Touche LLP	**Capital Contributions**	$38.3 million
Strategy	Opportunistic Debt	**Realized Proceeds**	$1.9 million
Vintage Year	2010	**Manager Reported Value**	$40.4 million
Fund Size	$452.5 million	**Total Value**	$42.3 million
Fund Duration	7 years	**% of Program**	34.7%
Fee Schedule	2.0% of commitments 8.0% preferred return 20.0% carried interest	**Net IRR**	8.3%



Investment Strategy

Medley Opportunity Fund II, L.P. ("Medley II") will invest in stable or growing businesses that often cannot access more traditional senior bank loans due to balance sheet issues and/or other complexities. The Partnership may purchase securities associated with special situations, including bankruptcies and restructurings. These situations may include companies in out-of-favor sectors, companies undergoing reorganizations under bankruptcy law, companies initiating a debt restructuring, reorganization, or liquidation outside of bankruptcy, and companies facing a broad range of liquidity issues.

Portfolio Review

During 2012, Medley II invested $151.4 million in nine portfolio companies.

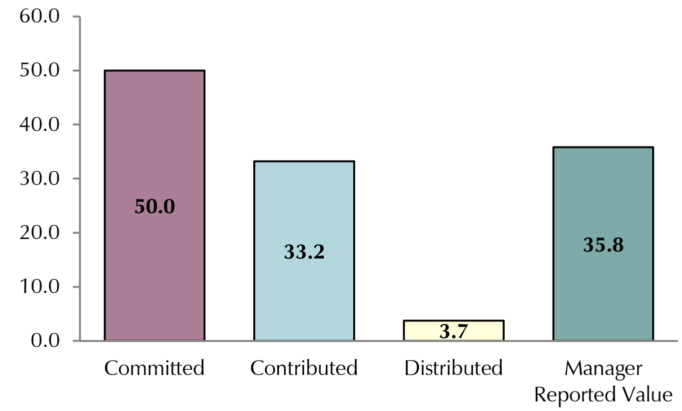
During the same period, the Partnership received $19.3 million from the principal repayment and sale of warrants from one investment. Proceeds were recycled into the Partnership. The Partnership also received $5.7 million from another investment.

Portfolio Performance

During the year ended December 31, 2012, the Partnership's net IRR increased to 8.3%. During the same period, the value of the Pension Fund's interest in the Partnership increased 10.5%.

GSO Direct Lending as of 12/31/12

General Partner	GSO Capital Partners	**Commitment**	$50.0 million
Location	New York, NY	**Number of Investments**	12
Auditor	Deloitte & Touche LLP	**Capital Contributions**[1]	$33.2 million
Strategy	Opportunistic Debt	**Realized Proceeds**	$3.7 million
Vintage Year	2010	**Manager Reported Value**	$35.8 million
Fund Size	$100.0 million	**Total Value**	$39.5 million
Fund Duration	7 years	**% of Program**	30.7%
Fee Schedule	1.5% of commitments 8.0% preferred return 20.0% carried interest	**Net IRR**	18.6%



Investment Strategy

GSO Direct Lending will provide originated direct loans, with a focus on senior secured loans, to middle and upper-middle market companies. The Partnership will seek to create a diversified portfolio with average position sizes of 5% to 7%, with a limit of 10% per position.

Portfolio Review

During 2012, the Partnership invested $40.0 million in several new investments.

The Partnership distributed $0.7 million of interest income from existing investments during the year.

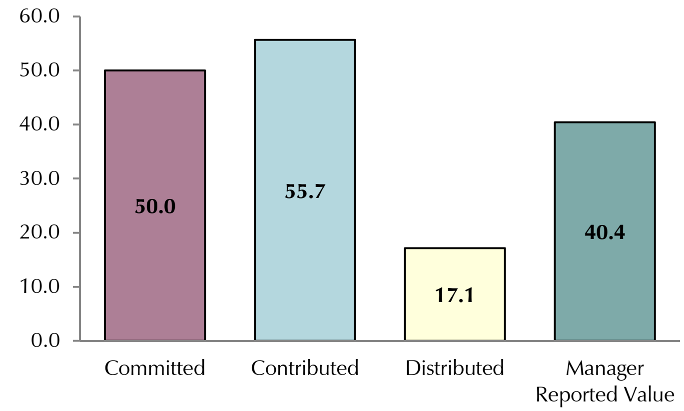
Portfolio Performance

During the year ended December 31, 2012, the Partnership's net IRR declined to 18.6%. During the same period, the value of the Pension Fund's interest in the Partnership increased 19.9%.

[1] Total contributions include management fees paid outside of capital committed.

White Oak Direct Lending as of 12/31/12

General Partner	White Oak Global Advisors, LLC	**Commitment**	$50.0 million
Location	San Francisco, CA	**Number of Investments**	16
Auditor	Harb, Levy & Weiland LLP	**Capital Contributions**[1]	$55.7 million
Strategy	Opportunistic Debt	**Realized Proceeds**	$17.1 million
Vintage Year	2010	**Manager Reported Value**	$40.4 million
Fund Size	$50.0 million	**Total Value**	$57.6 million
Fund Duration	Open-ended	**% of Program**	34.6%
Fee Schedule	1.75% of fair value 8.0% preferred return 20.0% carried interest	**Net IRR**	4.7%



Investment Strategy

White Oak Direct Lending will underwrite and monitor a portfolio of private loans to small and middle market businesses. Use of the proceeds by borrowers may include business growth and acquisition financing, capital structure optimization and refinancing, corporate asset utilization, and rescue and restructuring financings. The Partnership will strive to underwrite loans that are senior secured in the capital tranche of the borrower and will focus on shorter tenor loans that have an expected life of two to three years at the time of underwriting.

Portfolio Review

During 2012, the Partnership invested $28.3 million in nine new investments.

During the same period, the Partnership received interest and principal payments of $11.7 million.

Portfolio Performance

During the year ended December 31, 2012, the Partnership's net IRR increased to 4.7%. During the same period, the value of the Pension Fund's interest in the Partnership increased 6.0%.

[1] Total contributions include management fees paid outside of capital committed.

Appendices
As of December 31, 2012

Disclaimers and Valuation Policies
As of December 31, 2012

Disclaimer

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Meketa Investment Group has prepared this report on the basis of sources believed to be reliable. The data are based on matters as they are known as of the date of preparation of the report, and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available.

In general, the valuation numbers presented in this report are prepared by the custodian bank for listed securities, and by the fund manager or appropriate General Partner in the case of unlisted securities. The data used in the market comparison sections of this report are sourced from various databases. These data are continuously updated and are subject to change.

This report does not contain all the information necessary to fully evaluate the potential risks of any of the investments described herein. Because of inherent uncertainties involved in the valuations of investments that are not publicly traded, any estimated fair values shown in this report may differ significantly from the values that would have been used had a ready market for the underlying securities existed, and the differences could be material. Note that for unlisted securities the valuations may be lagged by one or more calendar quarters, or may reflect original cost.

This document may contain certain forward-looking statements, forecasts, estimates, projections, and opinions ("Forward Statements"). No representation is made or will be made that any Forward Statements will be achieved or will prove to be correct. A number of factors, in addition to any risk factors stated in this material, could cause actual future results to vary materially from the Forward Statements. No representation is given that the assumptions disclosed in this document upon which Forward Statements may be based are reasonable. There can be no assurance that the investment strategy or objective of any fund or investment will be achieved, or that the Retirement System will receive a return of the amount invested.

In some cases Meketa Investment Group assists the Retirement System in handling capital calls or asset transfers among investment managers. In these cases we do not make any representations as to the managers' use of the funds, but do confirm that the capital called or transferred is within the amounts authorized by the Retirement System.

Valuation Policies

The values of companies and partnerships in this review are based on audited reports for December 31, 2012, provided by the General Partners.

Because there is no readily accessible market for private markets assets (companies and partnerships), the values placed on private markets assets are calculated by General Partners using conservative and industry standard pricing procedures. Annually, an independent auditor reviews the pricing procedures employed by the General Partner of each partnership.

While all private markets partnerships are audited by an independent entity, there is some discretion as to the method employed to price private companies and, therefore, private markets partnerships. At all times, Meketa Investment Group expects General Partners to utilize conservative and industry standard pricing procedures, and requires the General Partners to disclose those procedures in their reports. However, because of the inherent uncertainty of valuation, these estimated values may differ from the values that would be used if a ready market for the investments existed, and the differences could be significant.

Private Equity
Glossary of Terms

Private equity investors have developed a number of unique terms to describe their investment work. The following glossary of private equity terms is intended to help make sense of these terms.

Advisory Board: Private equity partnerships often establish an advisory board comprised of representatives of the Limited Partners to oversee the on-going work of the General Partners. Advisory boards typically meet once each year to review the partnership's investments. It is important to note that unlike the Board of Directors of a public company, the advisory board has very little power to control the activities of the General Partners.

Angel Investor: Angel investors are individuals who invest their own capital directly in small, early stage companies. Angels are an alternative source of funding for entrepreneurs. Such investments are characterized by high levels of risk and potentially a large return on investment.

Blind Pool: Most private equity partnerships are organized as blind pools, meaning that Limited Partners commit capital to the partnership before any actual investments are made. At the point of commitment, the Limited Partners do not know specifically how their money will be used (hence the term blind pool), and must therefore rely entirely upon the track record and experience of the General Partner.

Buyout Fund: A buyout partnership uses the partners' capital to purchase existing, established businesses. The acquired firms may be family owned prior to purchase, or may be operating divisions of larger companies seeking to restructure their businesses. In a few cases, the buyout partners may purchase all of the outstanding shares of a publicly traded company, effectively taking it private. Buyout funds are not involved in venture capital or startups.

Buyout partnerships own the acquired companies outright, or in combination with other buyout partnerships. In some cases the buyout partners will replace the existing management with a new team, or the acquired firm will be left autonomous. The buyout partners frequently take one or more board seats in order to ensure control of the business.

Capital Call (Contribution): Once a partnership has declared its first close, the General Partners will begin to make portfolio investments. As each investment is made, the capital necessary to fund the investment is "called" from the Limited Partners.

Carried Interest: The share of profits that the fund manager is due once it has returned the cost of investment to investors. Carried interest is normally expressed as a percentage of the total profits of the fund. The industry norm is 20%. The fund manager will normally therefore receive 20% of the profits generated by the fund and distribute the remaining 80% of the profits to investors.

Carrying Value: The General Partner must list on the partnership's balance sheet a value for every investment held. These valuations are called carrying values, and in most cases are simply the original cost of the investment. Note that carrying values in most cases are not audited and do not represent actual market values.

Cash Flow Positive: When a company generates more free cash than it consumes in normal operations, it is deemed to be cash flow positive. Such companies may not need extra financing or debt in order to grow.

Cash on Cash Return: The simple gross total return earned by the Limited Partners, calculated as the total distributions received divided by the total contributions made. Thus, if an investor supplied a total of $100 in cash calls and contributions, and received over the life of the partnership $200 in distributions, the cash on cash return would be 100%. The cash on cash return is typically reported as a multiple. In the example above, the investment returned 2x (two times).

Claw-Back Provision: A claw-back provision ensures that a General Partner does not receive more than its agreed percentage of carried interest over the life of the fund. So, for example, if a General Partner receives 21% of the partnership's profits instead of the agreed 20%, Limited Partners can claw back the extra one percent.

Closings and Closing Dates: Every partnership must specify the date upon which the General Partners will cease fundraising and begin making actual investments with the Limited Partners' committed capital. That date is called the closing date, and defines the vintage year of the partnership. Most partnerships, however, have several closing dates, and all partnerships must eventually have a final closing. In most cases, the final closing lags six to nine months after the first closing. If a majority of the original Limited Partners consent, a partnership can remain open to new investors after the final closing and while early investments are being made, in order to have time to attract additional investors.

Co-Investment: In some cases, Limited Partners want the right to make additional direct investments in one or more of the underlying companies purchased by the General Partner. If the partnership agreement gives co-investment rights to specific Limited Partners, then they may elect to invest additional monies "along side" the General Partner in various deals. In these cases, the co-investing Limited Partners would have two investments in an underlying property: their share of the partnership's investment, and their direct additional co-investment on the side. Note that co-investment rights may be available only to the largest Limited Partners.

Co-investment rights are often negotiated by very large Limited Partners when they have strong convictions about the deal finding skills of the General Partners, because co-investment rights permit them to make even larger investments in the underlying properties than would otherwise be possible, without paying carried interest.

Committed Capital: When a private equity Limited Partnership is formed, each Limited Partner agrees to contribute a specific amount of capital to be invested over the life of the partnership. Once the agreement is signed, the Limited Partners are legally bound and committed to supply the agreed upon capital when it is called for by the General Partner.

Consolidation (Roll Up): Many industries in America are highly fragmented, as the market space is serviced by a large number of locally owned businesses. By consolidating fragmented industries (i.e., purchasing many local businesses), private equity firms can create a single larger company with greater market control, more attractive financial characteristics, and potentially, better pricing flexibility and lower costs.

Convertible Bonds: Some private equity partnerships, generally those that provide mezzanine financing, may take convertible bonds as part of their compensation for providing investment capital. The convertible bond pays interest like other bonds, but can be exchanged for shares of the company stock at a favorable price if certain conditions are met, hence the term convertible.

Direct Investment: Partnerships that invest in companies are said to make direct investments. The alternative is a partnership that invests in other partnerships, a fund of funds.

EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization): The "top line" profits of a private company are the monies earned before paying interest and taxes, and adding back depreciation and amortization. Unlike public companies, which are valued as the multiple of bottom line earnings to the stock price (P/E or price to earnings), private companies are valued as the multiple of EBITDA to the price of the stock.

There is no simple conversion factor that will convert an EBITDA multiple to a P/E for all companies, but in general, a factor of 2 is appropriate. Thus, a private company selling for an EBITDA multiple of 6 is priced about as richly as a public company with a P/E of 12.

EBITDA Multiples: The ratio of a private company's top line earnings to the price of its shares. See EBITDA above.

Enterprise Value: A measure of a company's value, often used as an alternative to straightforward market capitalization. Enterprise Value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Fee Income: The General Partners in a private equity partnership generally receive two types of compensation: fee income as payment for their portfolio management services, and a share of any profits (carried interest) as incentive compensation.

Fund of Funds: A private equity partnership that consists primarily of investments in other partnerships, as opposed to direct investments in individual companies and deals. The General Partners of a fund of funds thus act as a manager of managers to create a diversified portfolio of partnerships, each of which in turn consists of a portfolio of direct investment deals.

Although a fund of funds is a collection of partnerships, the fund of funds itself is a partnership, and therefore has a vintage year, a commitment period, a distribution phase, and a final end. Thus, fund of funds have finite lifetimes, just like their underlying partnerships.

The advantages of a fund of funds are high diversification and "one stop shopping," i.e., the client has a single relationship with the fund of funds manager.

The disadvantages of fund of funds are higher costs (another entire layer of management fees and carried interest), an additional loss of liquidity, and an additional loss of control by the Limited Partners. Just as with direct private equity funds, a fund of funds is organized as a blind pool. That is, when a new fund of funds is announced, and a subscription target set, early investors do not know what specific sub-funds will be selected by the manager. Generally, the Private Placement Memorandum gives the General Partner almost unlimited latitude in making subsequent investments.

General Partner: The control partner in private equity partnerships, analogous to the portfolio manager in a public stock portfolio. Under the IRS code, the General Partner must commit some personal capital to the partnership (a minimum of 1% of the partnership's committed capital), and unlike the Limited Partners, is liable for leverage and other losses generated by the partnership.

Growth (Expansion Capital): A strategy that entails providing capital to a private company with the intention that the capital be used to expand operations. Generally, expansion capital strategies result in minority equity positions in companies, but with some degree of control over how the expansion capital is spent.

Hurdle Rate: The minimum rate of return that the Limited Partners must receive before the General Partners have a right to a share of any additional profits (carried interest) produced by the partnership's investments. For example, the partnership may specify that once the Limited Partners have received distributions representing an 8% total return on their commitment (the hurdle rate), the General Partner will share in all future distributions until they have been allocated 80% to the Limited Partners, and 20% to the General Partners (their carried interest).

In-Kind Distribution: Most distributions from private equity partnerships are in cash. However, in some cases, a private deal will be taken public through an initial public offering (IPO), or through a trade sale for stock to a public company. In these cases, the Limited Partners will receive their distributions in the form of publicly traded common stocks and/or rights and warrants.

Investment Period: The period of time after the first closing during which the General Partner will call capital from the Limited Partners and make partnership investments. Legally, the investment period is usually six years. Practically, it is three to four years. Not to be confused with the term of the partnership, generally ten to twelve years.

IPO (Initial Public Offering): When a private company issues publicly traded stock, it becomes known as a public company. The initial sale of publicly available stock is called the initial public offering, or IPO.

IRR (Internal Rate of Return): The annualized rate of return on capital that is generated or capable of being generated within an investment or portfolio over a period of time, assuming all cash flows can be reinvested at the same rate. Mathematically, the IRR of an investment is the discount rate applied to that investment such that the net present value of the investment is zero. IRR is commonly used to measure profitability by applying the calculation to the after tax cash flows to arrive at an after-tax equity yield rate.

J-Curve: Many private equity partnerships have small negative returns in their first years of operation as capital is invested. The negative returns result because the partnership's investments have not matured and turned a profit, but the partnership has nevertheless experienced various operating costs. When early deals begin to mature and are liquidated at a profit, the partnership's returns should become positive. Thus, the graph of the partnership's returns versus time can resemble the capital letter "J."

Later Stage Fund: A venture capital partnership that specializes in investing in startup companies that have already achieved at least some actual revenues, or a venture fund that provides subsequent rounds of venture financing after all of the capital provided in the first rounds has been consumed.

Lead Investor: Describes a General Partner who is the "lead" investor in a deal, as opposed to co-investors or follow-on investors. The term implies that the lead investor has taken the lead in sourcing, evaluating, and executing the deal.

Leverage: Many General Partners use both equity capital provided by the Limited Partners and money borrowed from banks or other lenders to finance their investments. Any borrowed money is called leverage. If a deal is successful, leverage can often enhance the returns of the Limited Partners substantially. On the other hand, too much leverage can cripple an investment with interest and financing costs. It is important to note that the Limited Partners are not responsible for the repayment of any borrowed money.

Leveraged Buyouts: The purchase of a private or public company wherein the bulk of the purchase price is paid using borrowed money.

Limited Partner: All investors in a Limited Partnership other than the named General Partner are defined under the IRS code as Limited Partners. Limited Partners have only the control rights defined for them in the Private Placement Memorandum, and are generally passive investors in the partnership's deals.

A very important point is that Limited Partner's total liability for all deals made by the partnership are limited strictly by law to the Limited Partner's committed capital. Thus, even if the General Partners borrow a great deal of money (leverage), and lose it all, the lenders have no recourse to the assets of the Limited Partners. In effect, a Limited Partner can lose no more than the amount of money invested.

Look-Back Provision: See Claw-Back Provision above.

Mezzanine Financing: An additional level of financing provided to a private company to expand sales, market share, or develop new products. Most mezzanine financing is structured as a package of high coupon bonds with equity "kickers," i.e., rights to acquire the company's stock at a favorable price at a future point. Companies seeking mezzanine financing often have substantial revenues, and if not actual profits, the expectation of imminent profitability.

Multiples and Multiple Expansion: Managers purchasing public common stocks often buy companies with low price to earnings multiples when they believe some factor will induce other investors to bid up the price of the stock without an increase in actual earnings, thus causing the price multiple to expand. In the same fashion, a General Partner may purchase a private company with a low EBITDA multiple, expecting to profit through an expansion of that multiple. A typical example of a multiple expansion plan is consolidation. Many small companies, operating independently, may each be priced at relatively low multiples. But if purchased and combined into a larger, cohesive entity, investors might be willing to pay a higher multiple for the aggregate than for any individual component.

Placement Agent: Unlike public stock management companies, most of whom utilize an in-house sales force to market their services, private equity partnerships are generally marketed by third-party placement agents. These outside marketing firms and individuals are paid a commission by the General Partner.

Platform Company: Some private equity buyout funds attempt to add value by merging companies into larger, more cost efficient enterprises. This strategy generally begins with the acquisition of a platform company, often a market leader, to which other companies are added.

PPM (Private Placement Memorandum): Because Limited Partnership interests are not registered with the SEC, private equity managers must distribute a comprehensive document to prospective investors that describes the broad investment thesis of the partnership, and highlights any risks involved in the partnership. This document is called a Private Placement Memorandum.

Public to Private: If a private partnership (or group of private partnerships) purchases all of the outstanding shares of a publicly traded company, the company's shares may be de-listed from the stock exchange. The company is then said to have been "taken private." For example, in June 1989, the private partnership Wings Holdings acquired the public stock of Northwest Airlines in a $3.65 billion-dollar leveraged buyout. Following this acquisition, Northwest became a privately held corporation for the first time since 1941.

Secondary Fund: Occasionally, a Limited Partner will wish to sell his interest in a partnership before the term of the partnership is completed. Any such sale is termed a secondary market sale. A secondary fund creates a portfolio of partnership interests from earlier partnerships purchased in the secondary market. The advantage of a secondary fund is that it gives investors an opportunity to invest in seasoned partnerships from closed funds of prior vintage years.

Sponsor: Every private equity opportunity that Meketa Investment Group evaluates is assigned to a sponsor. This individual, who is a member of Meketa Investment Group's Private Equity Investment Committee, is responsible for the collection of information and the evaluation of the opportunity.

Take Down/Draw Down: A take down or a draw down is the same as a capital call.

Term: The term of a private equity partnership is its expected lifetime, and is specified in the Private Placement Memorandum. Most partnerships have a term of ten years, with the option to extend the term once or twice by an additional year if the Limited Partners approve.

The term of a partnership consists of several phases. After the final closing, no new commitments are accepted and the partnership enters the commitment phase or investment phase, legally lasting up to six years, but generally lasting three to four years, during which the individual investments are made. A distribution phase follows, during which mature investments are realized and profits distributed to the partners. The final phase is the liquidation phase, during which all remaining properties and assets are sold in order to terminate the partnership.

Trade Sale: The most prevalent exit strategy for many private equity managers involves selling a company in the private markets, usually through an auction process, to other private equity investors or to larger companies. This type of exit is termed a trade sale.

Turnaround: A turnaround strategy involves buying a troubled company, usually for a relatively low price, and making significant managerial or organizational changes to better the company's operations and enhance profitability.

VCOC (Venture Capital Operating Company): The IRS code defines one category of private partnerships to be venture capital operating companies for tax purposes. The General Partners of VCOCs are not required to register with the SEC as investment advisors. The name venture capital operating company relates only to the partnership's legal and tax structure, and does not imply that the partnership will invest in venture capital deals. For example, a middle market buyout fund, which invests only in mature companies with enterprise values of between $200 million and $1 billion, may be structured as a venture capital operating company.

Venture Capital: Money supplied to entrepreneurs to create new businesses is called venture capital. It is the first stage of financing for any new venture.

Traditionally, the recipient of the venture capital was a small group of entrepreneurs with an idea and a business plan, but no management team, corporate structure, revenues or profits. In the 1990s, however, venture capital was often used to seed established teams of entrepreneurs with well-defined products and in-place corporate structures. Thus, there is great variability in the meaning of venture capital and in the types of deals financed with venture capital money.

Vintage Year: The calendar year in which the first cash flow to a partnership occurred. This cash flow can be intended for management fees or investment capital. Vintage year can be used to differentiate the partnerships established over time by a General Partner, to track portfolio commitment pacing, and to benchmark portfolio performance.

Warrants: Just like publicly traded companies, private companies may issue warrants to their shareholders or to other groups providing some form of financing. A warrant is the right to purchase shares of the company's stock at a future date at a predetermined price, called the exercise price. Warrants become valuable if the exercise price is below the market price of the stock.

Private Real Estate
Glossary of Terms

Real Estate investors have developed a number of unique terms to describe their investment work. The following glossary of real estate terms is intended to help make sense of these terms.

Absorption: The amount of inventory or units of a specific commercial property type that become occupied during a specified time period (usually a year) in a given market, typically reported as the absorption rate.

Appreciation: An increase in the value or price of a real estate asset.

Appreciation return: The portion of the total return generated by the change in the value of the real estate assets during the current quarter, as measured by both appraisals and sales of assets.

Appraisal: An estimate of a property's fair market value that is typically based on replacement cost, discounted cash flow analysis and/or comparable sales price.

Asset management: The various disciplines involved with managing real property assets from the time of investment through the time of disposition, including acquisition, management, leasing, operational/financial reporting, appraisals, audits, market review and asset disposition plans.

Asset management fee: A fee charged to investors based on the amount invested into real estate assets for the fund or account.

Base rent: A set amount used as a minimum rent with provisions for increasing the rent over the term of the lease.

Blind Pool: Most Limited Partnerships are organized as blind pools, meaning that Limited Partners commit capital to the partnership before any actual investments are made. At the point of commitment, the Limited Partners do not know specifically how their money will be used (hence the term blind pool), and must therefore rely entirely upon the track record and experience of the General Partner.

Broker: A person who acts as an intermediary between two or more parties in connection with a transaction.

Capital appreciation: The change in market value of a property or portfolio adjusted for capital improvements and partial sales.

Capital Call (Contribution): Once a partnership has declared its first close, the General Partners will begin to make portfolio investments. As each investment is made, the capital necessary to fund the investment is "called" from the Limited Partners.

Capitalization Rate: A percentage that relates the value of an income-producing property to its future income, expressed as net operating income divided by purchase price. This is also referred to as *cap rate*.

Carried Interest: The share of profits that the fund manager is due once it has returned the cost of investment to investors. Carried interest is normally expressed as a percentage of the total profits of the fund. The industry norm is 20%. The fund manager will normally therefore receive 20% of the profits generated by the fund and distribute the remaining 80% of the profits to investors.

Cash on Cash Return: The simple gross total return earned by the Limited Partners, calculated as the total distributions received divided by the total contributions made. Thus, if an investor supplied a total of $100 in cash calls and contributions, and received over the life of the partnership $200 in distributions, the cash on cash return would be 100%. The cash on cash return is typically reported as a multiple. In the example above, the investment returned 2x (two times).

Claw-Back Provision: A claw-back provision ensures that a General Partner does not receive more than its agreed percentage of carried interest over the life of the fund. So, for example, if a General Partner receives 21% of the partnership's profits instead of the agreed 20%, Limited Partners can claw back the extra one percent.

Closed-end fund: A commingled fund that has a targeted range of investor capital and a finite life.

Closings and Closing Dates: Every partnership must specify the date upon which the General Partners will cease fundraising and begin making actual investments with the Limited Partners' committed capital. That date is called the closing date, and defines the vintage year of the partnership. Most partnerships, however, have several closing dates, and all partnerships must eventually have a final closing. In most cases, the final closing lags six to nine months after the first closing. If a majority of the original Limited Partners consent, a partnership can remain open to new investors after the final closing and while early investments are being made, in order to have time to attract additional investors.

Co-Investment: In some cases, Limited Partners want the right to make additional direct investments in one or more of the underlying properties purchased by the General Partner. If the partnership agreement gives co-investment rights to specific Limited Partners, then they may elect to invest additional monies "along side" the General Partner in various deals. In these cases, the co-investing Limited Partners would have two investments in an underlying property: their share of the partnership's investment, and their direct additional co-investment on the side. Note that co-investment rights may be available only to the largest Limited Partners.

Co-investment rights are often negotiated by very large Limited Partners when they have strong convictions about the deal finding skills of the General Partners, because co-investment rights permit them to make even larger investments in the underlying properties than would otherwise be possible, without paying carried interest.

Committed Capital: When a Limited Partnership is formed, each Limited Partner agrees to contribute a specific amount of capital to be invested over the life of the partnership. Once the agreement is signed, the Limited Partners are legally bound and committed to supply the agreed upon capital when it is called for by the General Partner.

Concessions: Cash or cash equivalents expended by the landlord in the form of rental abatement, additional tenant finish allowance, moving expenses or other monies expended to influence or persuade a tenant to sign a lease.

Construction loan: Interim financing during the developmental phase of a property.

Core properties: The major property types - specifically office, retail, industrial and multifamily. Core assets tend to be built within the past five years or recently renovated. They are substantially leased (90% or better) with higher-credit tenants and well-structured long-term leases with the majority fairly early in the term of the lease. Core assets generate good, stable income that, together with potential appreciation, is expected to generate total returns in the 10% to 12% range.

Diversification: The process of consummating individual investments in a manner that insulates a portfolio against the risk of reduced yield or capital loss, accomplished by allocating individual investments among a variety of asset types, each with different characteristics.

Due Diligence: The process of examining a property, related documents, and procedures conducted by or for the potential lender or purchaser to reduce risk. Applying a consistent standard of inspection and investigation one can determine if the actual conditions do or do not reflect the information as represented.

Fee Income: The General Partners in a private markets partnership generally receive two types of compensation: fee income as payment for their portfolio management services, and a share of any profits (carried interest) as incentive compensation.

Fund of Funds: A private markets partnership that consists primarily of investments in other partnerships, as opposed to direct investments in individual real estate funds. The General Partners of a fund of funds thus act as a manager of managers to create a diversified portfolio of partnerships, each of which in turn consists of a portfolio of direct investment deals.

Although a fund of funds is a collection of partnerships, the fund of funds itself is a partnership, and therefore has a vintage year, a commitment period, a distribution phase, and a final end. Thus, fund of funds have finite lifetimes, just like their underlying partnerships.

The advantages of a fund of funds are high diversification and "one stop shopping," i.e., the client has a single relationship with the fund of funds manager.

The disadvantages of fund of funds are higher costs (another entire layer of management fees and carried interest), an additional loss of liquidity, and an additional loss of control by the Limited Partners. Just as with direct private markets funds, a fund of funds is organized as a blind pool. That is, when a new fund of funds is announced, and a subscription target set, early investors do not know what specific sub-funds will be selected by the manager. Generally, the Private Placement Memorandum gives the General Partner almost unlimited latitude in making subsequent investments.

High-rise: In the central business district, this could mean a building higher than 25 stories above ground level, but in suburban markets, it generally refers to buildings higher than seven or eight stories.

Hurdle Rate: The minimum rate of return that the Limited Partners must receive before the General Partners have a right to a share of any additional profits (carried interest) produced by the partnership's investments. For example, the partnership may specify that once the Limited Partners have received distributions representing an 8% total return on their commitment (the hurdle rate), the General Partner will share in all future distributions until they have been allocated 80% to the Limited Partners, and 20% to the General Partners (their carried interest).

Improvements: In the context of leasing, the term typically refers to the improvements made to or inside a building but may include any permanent structure or other development, such as a street, sidewalk, utilities, etc.

Investment Period: The period of time after the first closing during which the General Partner will call capital from the Limited Partners and make partnership investments. Legally, the investment period is usually six years. Practically, it is three to four years. Not to be confused with the term of the partnership, generally ten to twelve years.

IRR (Internal Rate of Return): The annualized rate of return on capital that is generated or capable of being generated within an investment or portfolio over a period of time, assuming all cash flows can be reinvested at the same rate. Mathematically, the IRR of an investment is the discount rate applied to that investment such that the net present value of the investment is zero. IRR is commonly used to measure profitability by applying the calculation to the after tax cash flows to arrive at an after-tax equity yield rate.

J-Curve: Many private markets partnerships have small negative returns in their first years of operation as capital is invested. The negative returns result because the partnership's investments have not matured and turned a profit, but the partnership has nevertheless experienced various operating costs. When early deals begin to mature and are liquidated at a profit, the partnership's returns should become positive. Thus, the graph of the partnership's returns versus time can resemble the capital letter "J."

Lease: An agreement whereby the owner of real property gives the right of possession to another for a specified period of time and for a specified consideration.

Lease Rate: The period rental payment to a lessor for the use of assets. It may also be considered as the implicit interest rate in minimum lease payments.

Leverage: The use of credit to finance a portion of the costs of purchasing or developing a real estate investment. Positive leverage occurs when the interest rate is lower than the capitalization rate or projected internal rate of return. Negative leverage occurs when the current return on equity is diminished by the employment of debt.

Lifecycle: The various developmental stages of a property: pre-development, development, leasing, operating and redevelopment (or rehab).

Limited Partner: All investors in a Limited Partnership other than the named General Partner are defined under the IRS code as Limited Partners. Limited Partners have only the control rights defined for them in the Private Placement Memorandum, and are generally passive investors in the partnership's deals.

A very important point is that Limited Partner's total liability for all deals made by the partnership are limited strictly by law to the Limited Partner's committed capital. Thus, even if the General Partners borrow a great deal of money (leverage), and lose it all, the lenders have no recourse to the assets of the Limited Partners. In effect, a Limited Partner can lose no more than the amount of money invested.

Low-rise: A building with fewer than four stories above ground level.

Market Strategy: A course of action defined with respect to a particular real estate market phase. For example, consider the market strategy of avoiding real estate transactions when there is an oversupply of space available in the market.

Market Value: The most probable price that a property would bring in a competitive and open market under fair sale conditions. Market value also refers to an estimate of this price.

Net Operating Income (NOI): The potential rental income plus other income, less vacancy, credit losses, and operating expenses.

Open-end Fund: A commingled fund that does not have a finite life, it continually accepts new investor capital and makes new property investments.

Opportunistic: A phrase generally used by advisers and managers to describe investments in underperforming and/or undermanaged assets that hold the expectation of near-term increases in cash flow and value. Total return objectives for opportunistic strategies tend to be 20% or higher. Opportunistic investments typically involve a high degree of leverage - typically 60% to 100% on an asset basis and 60% to 80% on a portfolio basis.

Property Type: The classification of commercial real estate based on its primary use. The four primary property types are: retail, industrial, office, and multi-family residential.

Real Estate Cycles (phases): The regularly repeating sequence of economic downturns and upturns and associated changes in real estate market transactions tied to market dynamics and changing macroeconomic conditions, whose phases include (in order) recession, recovery, expansion, and oversupply.

Real Estate Investment Trust (REIT): An investment vehicle in which investors purchase certificates of ownership in the trust, which in turn invests the money in real property and then distributes any profits to the investors. The trust is not subject to corporate income tax as long as it complies with the tax requirements for a REIT.

Shareholders must include their share of the REIT's income in their personal tax returns. (Barron's Dictionary of Real Estate Terms and Encyclopedia of Real Estate Terms 2nd Edition, Damien Abbott)

Real Estate Trends: Long-term movements or tendencies in the demand for commercial real estate (which can typically last for years or decades), usually tied to macro-economic or business cycles.

Submarket: A segment or portion of a larger geographic market defined and identified on the basis of one or more attributes that distinguish it from other submarkets or locations.

Term: The term of a private partnership is its expected lifetime, and is specified in the Private Placement Memorandum. Most partnerships have a term of ten years, with the option to extend the term once or twice by an additional year if the Limited Partners approve.

The term of a partnership consists of several phases. After the final closing, no new commitments are accepted and the partnership enters the commitment phase or investment phase, legally lasting up to six years, but generally lasting three to four years, during which the individual investments are made. A distribution phase follows, during which mature investments are realized and profits distributed to the partners. The final phase is the liquidation phase, during which all remaining properties and assets are sold in order to terminate the partnership.

Vacancy: The number of units or space (of a specific commercial type) that are vacant and available for occupancy at a particular point in time within a given market (usually expressed as a vacancy rate).

Vacancy Rate: The percentage of the total supply of units or space of a specific commercial type that is vacant and available for occupancy at a particular point in time within a given market.

Value-added: A phrase generally used by advisers and managers to describe investments in underperforming and/or undermanaged assets. The objective is to generate 13 % to 18% returns.

Vintage Year: The calendar year in which the first cash flow to a partnership occurred. This cash flow can be intended for management fees or investment capital. Vintage year can be used to differentiate the partnerships established over time by a General Partner, to track portfolio commitment pacing, and to benchmark portfolio performance.

Private & Opportunistic Debt
Glossary of Terms

Private debt investors have developed a number of unique terms to describe their investment work. The following glossary of private debt terms is intended to help make sense of these terms. Where the term "private equity" is used, the definition will generally also apply to private debt funds that are structured in a similar manner.

Advisory Board: Private equity partnerships often establish an advisory board comprised of representatives of the Limited Partners to oversee the on-going work of the General Partners. Advisory boards typically meet once each year to review the partnership's investments. It is important to note that unlike the Board of Directors of a public company, the advisory board has very little power to control the activities of the General Partners.

Angel Investor: Angel investors are individuals who invest their own capital directly in small, early stage companies. Angels are an alternative source of funding for entrepreneurs. Such investments are characterized by high levels of risk and potentially a large return on investment.

Blind Pool: Most private equity partnerships are organized as blind pools, meaning that Limited Partners commit capital to the partnership before any actual investments are made. At the point of commitment, the Limited Partners do not know specifically how their money will be used (hence the term blind pool), and must therefore rely entirely upon the track record and experience of the General Partner.

Buyout Fund: A buyout partnership uses the partners' capital to purchase existing, established businesses. The acquired firms may be family owned prior to purchase, or may be operating divisions of larger companies seeking to restructure their businesses. In a few cases, the buyout partners may purchase all of the outstanding shares of a publicly traded company, effectively taking it private. Buyout funds are not involved in venture capital or startups.

Buyout partnerships own the acquired companies outright, or in combination with other buyout partnerships. In some cases the buyout partners will replace the existing management with a new team, or the acquired firm will be left autonomous. The buyout partners frequently take one or more board seats in order to ensure control of the business.

Capital Call (Contribution): Once a partnership has declared its first close, the General Partners will begin to make portfolio investments. As each investment is made, the capital necessary to fund the investment is "called" from the Limited Partners.

Carried Interest: The share of profits that the fund manager is due once it has returned the cost of investment to investors. Carried interest is normally expressed as a percentage of the total profits of the fund. The industry norm is 20%. The fund manager will normally therefore receive 20% of the profits generated by the fund and distribute the remaining 80% of the profits to investors.

Carrying Value: The General Partner must list on the partnership's balance sheet a value for every investment held. These valuations are called carrying values, and in most cases are simply the original cost of the investment. Note that carrying values in most cases are not audited and do not represent actual market values.

Cash Flow Positive: When a company generates more free cash than it consumes in normal operations, it is deemed to be cash flow positive. Such companies may not need extra financing or debt in order to grow.

Cash on Cash Return: The simple gross total return earned by the Limited Partners, calculated as the total distributions received divided by the total contributions made. Thus, if an investor supplied a total of $100 in cash calls and contributions, and received over the life of the partnership $200 in distributions, the cash on cash return would be 100%. The cash on cash return is typically reported as a multiple. In the example above, the investment returned 2x (two times).

Claw-Back Provision: A claw-back provision ensures that a General Partner does not receive more than its agreed percentage of carried interest over the life of the fund. So, for example, if a General Partner receives 21% of the partnership's profits instead of the agreed 20%, Limited Partners can claw back the extra one percent.

Closings and Closing Dates: Every partnership must specify the date upon which the General Partners will cease fundraising and begin making actual investments with the Limited Partners' committed capital. That date is called the closing date, and defines the vintage year of the partnership. Most partnerships, however, have several closing dates, and all partnerships must eventually have a final closing. In most cases, the final closing lags six to nine months after the first closing. If a majority of the original Limited Partners consent, a partnership can remain open to new investors after the final closing and while early investments are being made, in order to have time to attract additional investors.

Co-Investment: In some cases, Limited Partners want the right to make additional direct investments in one or more of the underlying companies purchased by the General Partner. If the partnership agreement gives co-investment rights to specific Limited Partners, then they may elect to invest additional monies "along side" the General Partner in various deals. In these cases, the co-investing Limited Partners would have two investments in an underlying property: their share of the partnership's investment, and their direct additional co-investment on the side. Note that co-investment rights may be available only to the largest Limited Partners.

Co-investment rights are often negotiated by very large Limited Partners when they have strong convictions about the deal finding skills of the General Partners, because co-investment rights permit them to make even larger investments in the underlying properties than would otherwise be possible, without paying carried interest.

Committed Capital: When a private equity Limited Partnership is formed, each Limited Partner agrees to contribute a specific amount of capital to be invested over the life of the partnership. Once the agreement is signed, the Limited Partners are legally bound and committed to supply the agreed upon capital when it is called for by the General Partner.

Consolidation (Roll Up): Many industries in America are highly fragmented, as the market space is serviced by a large number of locally owned businesses. By consolidating fragmented industries (i.e., purchasing many local businesses), private equity firms can create a single larger company with greater market control, more attractive financial characteristics, and potentially, better pricing flexibility and lower costs.

Convertible Bonds: Some private equity partnerships, generally those that provide mezzanine financing, may take convertible bonds as part of their compensation for providing investment capital. The convertible bond pays interest like other bonds, but can be exchanged for shares of the company stock at a favorable price if certain conditions are met, hence the term convertible.

Direct Investment: Partnerships that invest in companies are said to make direct investments. The alternative is a partnership that invests in other partnerships, a fund of funds.

EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization): The "top line" profits of a private company are the monies earned before paying interest and taxes, and adding back depreciation and amortization. Unlike public companies, which are valued as the multiple of bottom line earnings to the stock price (P/E or price to earnings), private companies are valued as the multiple of EBITDA to the price of the stock.

There is no simple conversion factor that will convert an EBITDA multiple to a P/E for all companies, but in general, a factor of 2 is appropriate. Thus, a private company selling for an EBITDA multiple of 6 is priced about as richly as a public company with a P/E of 12.

EBITDA Multiples: The ratio of a private company's top line earnings to the price of its shares. See EBITDA above.

Enterprise Value: A measure of a company's value, often used as an alternative to straightforward market capitalization. Enterprise Value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Fee Income: The General Partners in a private equity partnership generally receive two types of compensation: fee income as payment for their portfolio management services, and a share of any profits (carried interest) as incentive compensation.

Fund of Funds: A private equity partnership that consists primarily of investments in other partnerships, as opposed to direct investments in individual companies and deals. The General Partners of a fund of funds thus act as a manager of managers to create a diversified portfolio of partnerships, each of which in turn consists of a portfolio of direct investment deals.

Although a fund of funds is a collection of partnerships, the fund of funds itself is a partnership, and therefore has a vintage year, a commitment period, a distribution phase, and a final end. Thus, fund of funds have finite lifetimes, just like their underlying partnerships.

The advantages of a fund of funds are high diversification and "one stop shopping," i.e., the client has a single relationship with the fund of funds manager.

The disadvantages of fund of funds are higher costs (another entire layer of management fees and carried interest), an additional loss of liquidity, and an additional loss of control by the Limited Partners. Just as with direct private equity funds, a fund of funds is organized as a blind pool. That is, when a new fund of funds is announced, and a subscription target set, early investors do not know what specific sub-funds will be selected by the manager. Generally, the Private Placement Memorandum gives the General Partner almost unlimited latitude in making subsequent investments.

General Partner: The control partner in private equity partnerships, analogous to the portfolio manager in a public stock portfolio. Under the IRS code, the General Partner must commit some personal capital to the partnership (a minimum of 1% of the partnership's committed capital), and unlike the Limited Partners, is liable for leverage and other losses generated by the partnership.

Growth (Expansion Capital): A strategy that entails providing capital to a private company with the intention that the capital be used to expand operations. Generally, expansion capital strategies result in minority equity positions in companies, but with some degree of control over how the expansion capital is spent.

Hurdle Rate: The minimum rate of return that the Limited Partners must receive before the General Partners have a right to a share of any additional profits (carried interest) produced by the partnership's investments. For example, the partnership may specify that once the Limited Partners have received distributions representing an 8% total return on their commitment (the hurdle rate), the General Partner will share in all future distributions until they have been allocated 80% to the Limited Partners, and 20% to the General Partners (their carried interest).

In-Kind Distribution: Most distributions from private equity partnerships are in cash. However, in some cases, a private deal will be taken public through an initial public offering (IPO), or through a trade sale for stock to a public company. In these cases, the Limited Partners will receive their distributions in the form of publicly traded common stocks and/or rights and warrants.

Investment Period: The period of time after the first closing during which the General Partner will call capital from the Limited Partners and make partnership investments. Legally, the investment period is usually six years. Practically, it is three to four years. Not to be confused with the term of the partnership, generally ten to twelve years.

IPO (Initial Public Offering): When a private company issues publicly traded stock, it becomes known as a public company. The initial sale of publicly available stock is called the initial public offering, or IPO.

IRR (Internal Rate of Return): The annualized rate of return on capital that is generated or capable of being generated within an investment or portfolio over a period of time, assuming all cash flows can be reinvested at the same rate. Mathematically, the IRR of an investment is the discount rate applied to that investment such that the net present value of the investment is zero. IRR is commonly used to measure profitability by applying the calculation to the after tax cash flows to arrive at an after-tax equity yield rate.

J-Curve: Many private equity partnerships have small negative returns in their first years of operation as capital is invested. The negative returns result because the partnership's investments have not matured and turned a profit, but the partnership has nevertheless experienced various operating costs. When early deals begin to mature and are liquidated at a profit, the partnership's returns should become positive. Thus, the graph of the partnership's returns versus time can resemble the capital letter "J."

Later Stage Fund: A venture capital partnership that specializes in investing in startup companies that have already achieved at least some actual revenues, or a venture fund that provides subsequent rounds of venture financing after all of the capital provided in the first rounds has been consumed.

Lead Investor: Describes a General Partner who is the "lead" investor in a deal, as opposed to co-investors or follow-on investors. The term implies that the lead investor has taken the lead in sourcing, evaluating, and executing the deal.

Leverage: Many General Partners use both equity capital provided by the Limited Partners and money borrowed from banks or other lenders to finance their investments. Any borrowed money is called leverage. If a deal is successful, leverage can often enhance the returns of the Limited Partners substantially. On the other hand, too much leverage can cripple an investment with interest and financing costs. It is important to note that the Limited Partners are not responsible for the repayment of any borrowed money.

Leveraged Buyouts: The purchase of a private or public company wherein the bulk of the purchase price is paid using borrowed money.

Limited Partner: All investors in a Limited Partnership other than the named General Partner are defined under the IRS code as Limited Partners. Limited Partners have only the control rights defined for them in the Private Placement Memorandum, and are generally passive investors in the partnership's deals.

A very important point is that Limited Partner's total liability for all deals made by the partnership are limited strictly by law to the Limited Partner's committed capital. Thus, even if the General Partners borrow a great deal of money (leverage), and lose it all, the lenders have no recourse to the assets of the Limited Partners. In effect, a Limited Partner can lose no more than the amount of money invested.

Look-Back Provision: See Claw-Back Provision above.

Mezzanine Financing: An additional level of financing provided to a private company to expand sales, market share, or develop new products. Most mezzanine financing is structured as a package of high coupon bonds with equity "kickers," i.e., rights to acquire the company's stock at a favorable price at a future point. Companies seeking mezzanine financing often have substantial revenues, and if not actual profits, the expectation of imminent profitability.

Multiples and Multiple Expansion: Managers purchasing public common stocks often buy companies with low price to earnings multiples when they believe some factor will induce other investors to bid up the price of the stock without an increase in actual earnings, thus causing the price multiple to expand. In the same fashion, a General Partner may purchase a private company with a low EBITDA multiple, expecting to profit through an expansion of that multiple. A typical example of a multiple expansion plan is consolidation. Many small companies, operating independently, may each be priced at relatively low multiples. But if purchased and combined into a larger, cohesive entity, investors might be willing to pay a higher multiple for the aggregate than for any individual component.

Placement Agent: Unlike public stock management companies, most of whom utilize an in-house sales force to market their services, private equity partnerships are generally marketed by third-party placement agents. These outside marketing firms and individuals are paid a commission by the General Partner.

Platform Company: Some private equity buyout funds attempt to add value by merging companies into larger, more cost efficient enterprises. This strategy generally begins with the acquisition of a platform company, often a market leader, to which other companies are added.

PPM (Private Placement Memorandum): Because Limited Partnership interests are not registered with the SEC, private equity managers must distribute a comprehensive document to prospective investors that describes the broad investment thesis of the partnership, and highlights any risks involved in the partnership. This document is called a Private Placement Memorandum.

Public to Private: If a private partnership (or group of private partnerships) purchases all of the outstanding shares of a publicly traded company, the company's shares may be de-listed from the stock exchange. The company is then said to have been "taken private." For example, in June 1989, the private partnership Wings Holdings acquired the public stock of Northwest Airlines in a $3.65 billion-dollar leveraged buyout. Following this acquisition, Northwest became a privately held corporation for the first time since 1941.

Secondary Fund: Occasionally, a Limited Partner will wish to sell his interest in a partnership before the term of the partnership is completed. Any such sale is termed a secondary market sale. A secondary fund creates a portfolio of partnership interests from earlier partnerships purchased in the secondary market. The advantage of a secondary fund is that it gives investors an opportunity to invest in seasoned partnerships from closed funds of prior vintage years.

Sponsor: Every private equity opportunity that Meketa Investment Group evaluates is assigned to a sponsor. This individual, who is a member of Meketa Investment Group's Private Equity Investment Committee, is responsible for the collection of information and the evaluation of the opportunity.

Take Down/Draw Down: A take down or a draw down is the same as a capital call.

Term: The term of a private equity partnership is its expected lifetime, and is specified in the Private Placement Memorandum. Most partnerships have a term of ten years, with the option to extend the term once or twice by an additional year if the Limited Partners approve.

The term of a partnership consists of several phases. After the final closing, no new commitments are accepted and the partnership enters the commitment phase or investment phase, legally lasting up to six years, but generally lasting three to four years, during which the individual investments are made. A distribution phase follows, during which mature investments are realized and profits distributed to the partners. The final phase is the liquidation phase, during which all remaining properties and assets are sold in order to terminate the partnership.

Trade Sale: The most prevalent exit strategy for many private equity managers involves selling a company in the private markets, usually through an auction process, to other private equity investors or to larger companies. This type of exit is termed a trade sale.

Turnaround: A turnaround strategy involves buying a troubled company, usually for a relatively low price, and making significant managerial or organizational changes to better the company's operations and enhance profitability.

VCOC (Venture Capital Operating Company): The IRS code defines one category of private partnerships to be venture capital operating companies for tax purposes. The General Partners of VCOCs are not required to register with the SEC as investment advisors. The name venture capital operating company relates only to the partnership's legal and tax structure, and does not imply that the partnership will invest in venture capital deals. For example, a middle market buyout fund, which invests only in mature companies with enterprise values of between $200 million and $1 billion, may be structured as a venture capital operating company.

Venture Capital: Money supplied to entrepreneurs to create new businesses is called venture capital. It is the first stage of financing for any new venture.

Traditionally, the recipient of the venture capital was a small group of entrepreneurs with an idea and a business plan, but no management team, corporate structure, revenues or profits. In the 1990s, however, venture capital was often used to seed established teams of entrepreneurs with well-defined products and in-place corporate structures. Thus, there is great variability in the meaning of venture capital and in the types of deals financed with venture capital money.

Vintage Year: The calendar year in which the first cash flow to a partnership occurred. This cash flow can be intended for management fees or investment capital. Vintage year can be used to differentiate the partnerships established over time by a General Partner, to track portfolio commitment pacing, and to benchmark portfolio performance.

Warrants: Just like publicly traded companies, private companies may issue warrants to their shareholders or to other groups providing some form of financing. A warrant is the right to purchase shares of the company's stock at a future date at a predetermined price, called the exercise price. Warrants become valuable if the exercise price is below the market price of the stock.