San Jose Federated City Employees' Retirement System

PUBLIC VERSION

June 30, 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 June 30, 2012

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

As of June 30, 2012, the San Jose Federated City Employees' Retirement System had committed $135.5 million to five partnerships (two fund of funds, two secondary funds, and one buyout fund). The reported fair value of the aggregate Private Equity Program was $95.0 million at June 30, 2012.

Aggregate Private Equity Program[1]	
Number of Partnerships	5
Committed Capital[2]	$135.5 million
Capital Called	$110.7 million
Distributions	$33.1 million
Reported Value	$95.0 million
Total Value Multiple	1.2x
Net IRR	4.4%

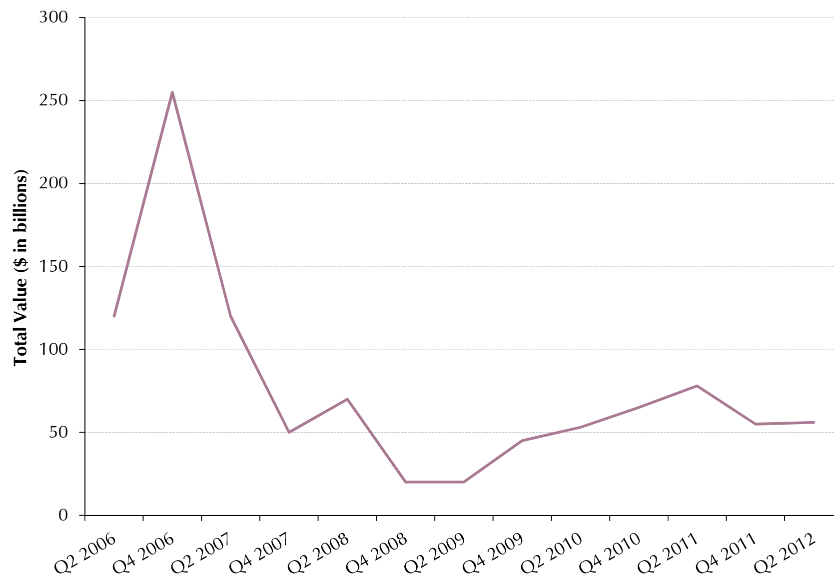
[1] Throughout this report, numbers may not sum due to rounding.
[2] One of the partnership commitments is made in a foreign currency. This total reflects committed capital in dollars, adjusted for foreign currency exchange rates, as of the report date.

Market and Industry Analysis
As of June 30, 2012

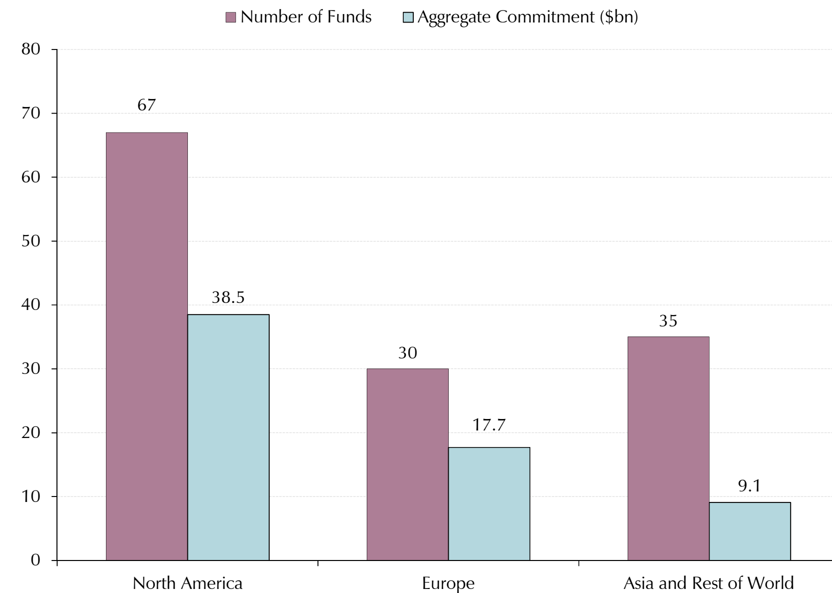
Private Equity in 2012

The first half of 2012 was one of the more active six month periods since the global financial crisis. Based on buyout deal activity, 2012 appears to be the most active year in North America since 2007 and is on pace to surpass $100 billion of aggregate invested capital. Much of the buyout activity is attributed to stability around corporate earnings and more accessible debt markets. Although, while debt for buyout transactions was easier to obtain, the amount of available debt for a transaction was still limited. As such, mega deals, which exceed $5 billion transaction size, were almost non-existent. Due to better earnings over the past 12 to 18 months, sellers were able to complete transactions at an acceptable price, leading to increased supply. Looking ahead, the market faced meaningful challenges related to the European sovereign debt crisis and global economic slowdown. Better corporate earnings also opened up public markets for private equity companies. The beneficiaries of this trend were largely venture capital investments, led by the high profile IPO of Facebook (FB) during the second quarter. In fact, due to the large amount of capital raised by FB, Q2 2012 marked the largest single quarter on record for IPO capital raised by venture capital-backed companies[1]. Buyout backed companies were also able to access public markets for liquidity during the first half of 2012.

Global Buyout Activity



Global Fundraising



[1] Source: Thomson Reuters and National Venture Capital Association

Buyout

Global buyout activity stood at $104.4 billion for the first half of 2012, led by North America which accounted for approximately 53% of total activity by transaction value. Global activity was lower than it was in the first half of 2011 which registered nearly $130 billion in total buyout activity[1]. The decline was driven by a lack of European deals as the continent continued to face a sovereign debt crisis. This reduced activity was expected to continue for the near-term. Compared to recent years, the industry break-down was more diversified than in the years following the GFC when investors favored defensive industries. There were some hints that large market deals (over $1 billion in transaction value) were more prevalent. These deals were being completed by mega funds, as these groups continued to find a limited supply of debt available to complete mega transactions. On the positive front, the first half of 2012 generated a high level of liquidity for buyout investors, generating over $130 billion in total exit value[1]. Overall, exit activity (by value) increased for the past several quarters as buyout funds looked to liquidate mega deals completed during 2006/2007 timeframe.

Private Debt

As was the case in 2010 and 2011, credit markets enjoyed a strong first half in 2012, with the continuation of the rebound that began in the fourth quarter of 2011 after a volatile Q3 2011. The high yield spread to Treasuries, which had reached a recent peak of more than 800 basis points in September 2011, was back below 600 basis points by February of this year and spent the next four months moving in a relatively narrow band. The average price of U.S. high yield debt moved back above $100 in January and similarly traded in a tight range for the rest of the first half.

Substantial volatility remained in Europe, where the European Central Bank ("ECB") and local governments continued to take action in an attempt to prevent a full-blown sovereign debt crisis and possible Eurozone breakup. In February, the ECB completed a second round of LTRO, providing an additional €529 billion to European banks and bringing the total amount of that program to more than €1 trillion. Banks largely used this three-year, 1% interest rate capital to purchase sovereign debt, briefly pushing yields below 5% in both Spain and Italy. However, by the end of March, yields again approached 6% in both countries. Greece finally completed its long-discussed debt restructuring in March, which included a CDS-triggering haircut to lenders. In the second quarter, Spain emerged as the new biggest threat to Eurozone stability after its fourth largest bank, Bankia, required nationalization to halt a bank run. Reflecting Spain's "too big to fail" status, the country negotiated a €100 billion bailout in June that was notable for its absence of the strict austerity measures imposed on prior bailout recipients. Nevertheless, Spanish sovereign debt yields continued to increase to more than 7%, and the half ended with Spain looming as a continued threat to the European economy.

Venture Capital

One of the biggest events of the first half of 2012 in the U.S. capital markets was related to a venture capital investment in FB. During the second quarter, FB went public on NASDAQ at a near $100 billion valuation. The hype before the IPO was at levels not seen in many years. However, the stock price collapsed rapidly thereafter, largely due to questions about slower revenue growth. This affected several other social medial companies, especially Zynga which is highly reliant on FB for its services. The failed FB IPO (for IPO investors) closed the IPO market for new listings for a considerable period of time. Overall, venture capital activity was somewhat lower than in the first half of 2011 and valuations continued to dip as investors grappled with the lofty valuation ascribed to FB and other social media companies.

[1] Source: Preqin

The Global Economy

The first half of 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. 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.

The U.S. economy grew at a better rate than the Eurozone, registering 2.0% and 1.3% annualized GDP growth in Q1 2012 and Q2 2012 respectively[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 8% at the end of second quarter of 2012. The Federal Reserve maintained its zero interest rate policy to stimulate the economy and, subsequently, 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. India, in particular, faced major issues from the rapid devaluation of its currency due to political instability, high inflation, and a massive capital flight from the country. China, the biggest of the emerging economies, continued to slow down during the first half of 2012 as it had significant amount of exposure to the Eurozone – its largest trading partner. Despite cuts in reserve ratios and interest rates in China, the economy remained on slower growth trajectory. Part of the problem was a sudden political crisis surrounding a high profile leader, causing a high level of uncertainty during challenging economic times.

[1] Source: Bureau of Economic Analysis

Private Equity Program
As of June 30, 2012

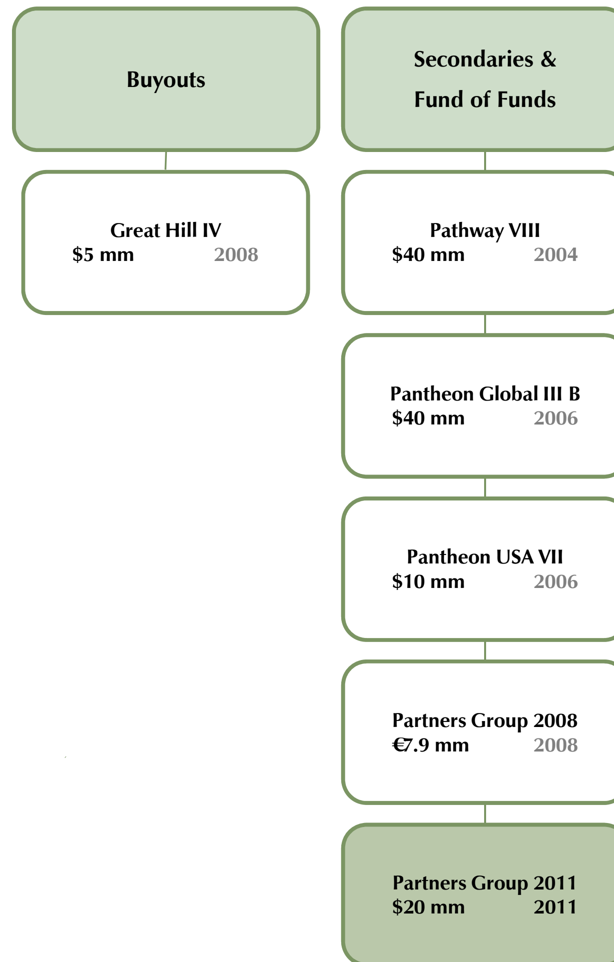
Executive Summary
As of June 30, 2012

In aggregate, $0.8 million of capital was called from the Retirement System during the second quarter of 2012 by the underlying partnerships.

- Great Hill Equity Partners IV called $0.1 million primarily to make one new investment.
- Pantheon Global Secondary Fund III 'B' called $0.2 million to fund existing investments.
- Pantheon USA Fund VII called an aggregate of $0.4 million to fund capital calls from existing underlying partnerships.

Distributions received by the Retirement System from underlying partnerships during the second quarter totaled $5.1 million.

- Pantheon Global Secondary Fund III 'B' distributed $1.8 million of proceeds from underlying partnerships.
- Pathway Private Equity Fund VIII distributed $3.3 million of proceeds in aggregate from its underlying partnerships.



- The chart above shows current commitments made to partnerships by the Retirement System (white boxes), and investments made subsequent to quarter-end (green boxes).
- A commitment to Partners Group 2011 was made subsequent to the second quarter of 2012, and, as such, is not included in any other sections of this report.

Aggregate Private Equity Portfolio
As of June 30, 2012

San Jose Federated City Employees' Retirement System
Private Equity Program

Aggregate Program
Performance Summary as of 6/30/12

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date ($ mm)	Unfunded Commitment ($ mm)	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions ($ mm)	Net IRR[1] (%)	Inv. Multiple[2] (x)
Total Program		**135.5**	**110.7**	**27.8**	**33.1**	**95.0**	**128.1**	**4.4**	**1.2**
Vintage Year 2004		**40.0**	**37.3**	**5.7**	**17.2**	**28.4**	**45.6**	**5.0**	**1.2**
Pathway Private Equity Fund VIII	Fund of Funds	40.0	37.3	5.7	17.2	28.4	45.6	5.0	1.2
Vintage Year 2006		**80.0**	**61.4**	**18.6**	**13.6**	**53.9**	**67.5**	**3.0**	**1.1**
Pantheon Global Secondary Fund III 'B'	Secondary	40.0	34.6	5.4	11.8	24.6	36.4	1.4	1.1
Pantheon USA Fund VII	Fund of Funds	40.0	26.8	13.2	1.8	29.4	31.2	5.5	1.2
Vintage Year 2008		**15.5**	**12.1**	**3.4**	**2.4**	**12.7**	**15.0**	**12.6**	**1.2**
Great Hill Equity Partners IV	Buyout	5.0	3.3	1.7	1.0	3.2	4.2	17.6	1.3
Partners Group Secondary 2008[3]	Secondary	10.5	8.7	1.8	1.3	9.5	10.8	11.2	1.2

1 The Net IRR calculation was performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year IRRs are net of fees, expenses, and carried interest for each partnership.
2 The Inv. Multiple calculation was performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year Inv. Multiple are net of fees, expenses, and carried interest for each partnership.
3 The Retirement System committed €7.9 million to the Partnership. The $10.5 million commitment is an estimated amount based on the contributed capital and unfunded commitment as of June 30, 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 decreased by 40 basis points during the second quarter, from 4.8% to 4.4%. During the second quarter, the total reported fair value of the Private Equity Program decreased by $0.6 million, or -0.6%, after adjusting for capital calls and distributions that occurred during the quarter.

Private Real Estate Program

Introduction
As of June 30, 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, and Aggregate Private Real Estate Portfolio. The real estate industry analysis is a broad overview of the economy and the real estate industry through quarter-end. The final two sections are a review of the San Jose Federated City Employees' Retirement System's private real estate partnership investments on an aggregated basis.

As of June 30, 2012, the Private Real Estate Program had invested in seven real estate funds[1] (two core funds and five value-added funds). The reported fair value of the aggregate Program was $94.9 million at June 30, 2012.

Aggregate Real Estate Program[2]	
Number of Partnerships	7
Committed Capital	$90.0 million[3]
Capital Called	$123.4 million[4]
Distributions	$25.1 million
Reported Value	$94.9 million
Total Value Multiple	1.0x
Net IRR	-0.7%

[1] The Retirement System also had a direct investment in an Industrial Warehouse in Milipitas, California, which is not included in any of the calculations contained in this report. Further, the sale of the Milipitas warehouse closed on June 26, 2012 for $11.0 million, with all proceeds transferred to the custodial bank account. Concurrent with this sale, an incremental $11.0 million investment in American Core Realty Fund was executed and one or more capital calls for these funds will be made in the future.

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

[3] Committed Capital excludes investments in PRISA I and American Core Realty Fund, both of which are open-ended vehicles with no definitive commitment.

[4] Includes $43.6 million of capital contributions and reinvested dividends in PRISA I and American Core Realty Fund.

Market and Industry Analysis
As of June 30, 2012

Investor interest in commercial real estate remained high due to durable income characteristics and strong returns.

- In the second 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 improve during the quarter, performance indicators reflect lackluster confidence and generally slow growth expectations. These trends were reflected in the NCREIF Property Index's (NPI), NFI-ODCE's, and NAREIT Equity's 2Q12 total returns of 2.7%, 2.4%, and 4.0%, respectively. As the NPI's positive returns have decelerated from the prior seven quarters, they remain above their long-run average of 2.1%. Since bottoming in 1Q10, the appreciation component of the NPI return has registered an increase of 18.2% cumulatively, but appraised values remain 19.3% below the pre-recession peak in 1Q08.
- Real estate fundamentals improved marginally during the quarter with underlying real estate performance slowly catching the recovering capital markets. During 2Q12, the NPI's capitalization rate (appraisal-based) remained essentially flat at 6.0% and same store net operating income increased 1.7%, after rising 1.4% last quarter, as the economy remains in a recovery mode. Until the economy shifts into a full expansion mode, property demand fundamentals will likely not reach their full potential.

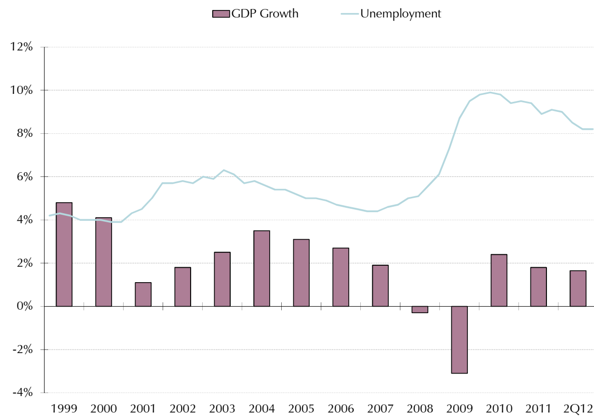
Second quarter real estate market summary.

- The U.S. economy has slowed once again, repeating a trend that has played out each spring over the past few years, as real GDP slowed to 1.3% during 2Q12 from 2.0% in the prior quarter, and the unemployment rate remained flat at 8.2%. A variety of economic indicators including equity prices, consumer sentiment, labor market data, and the ongoing economic uncertainty in Europe have signaled slowing momentum. Still, economic conditions in the U.S. are expected to support improving real estate fundamentals and pricing this year. Property fundamentals reflect these conditions as vacancy rates marginally declined for industrial and office properties during 2Q12, largely due to a general lack of new supply as net absorption for both of these property types remains an average of 34% below their 10-year historic averages before the recession. Apartment vacancy rates continued their decline to 4.8% and are now more than 200 basis points below their 4Q09 high-water mark. Retail vacancy rates, on the other hand, remain elevated at 13.0% as of 2Q12 and have changed little over the past two years.

- Real estate capital market activity continued to slow in 2Q12 as transaction volume most recently peaked at $62.3 billion during 2Q11. Real Capital Analytics (RCA) reported U.S. volumes of $53.8 billion during 2Q12, exceeding the prior quarter's volume by 15% but falling short of 2Q11 volume by 14%. The transactions that were completed during the quarter were generally in-line with the prior quarter, as evidenced by only a four basis point decline in the average capitalization rate to 6.8% in 2Q12 from the prior quarter and a 27 basis point decline from 2Q11. While apartment and industrial cap rates edged downward by an average of four basis points, retail and office cap rates expanded marginally from the prior quarter.
- Real estate debt markets are showing some improvement as U.S. CMBS issuance during 2Q12 of $12.4 billion represented a large increase over the previous quarter's $6 billion, albeit far below the peak quarterly issuance of $70 billion in 2007. As looming mortgage maturities continue to drive asset sales, distressed sales have slowed somewhat. According to RCA, they accounted for 12% of the sales in the first half of 2012, down from the average 15% over 2011. Throughout the cycle, approximately $375 billion of commercial property has become distressed, and as of 2Q12, only 55% of this balance has been resolved.
- The FTSE EPRA/NAREIT Developed Global REIT Index returned 2.1% during 2Q12. During the quarter, North America listed REITs posted the strongest returns at 3.6%, while Asia Pacific returned 1.5% and Europe returned -1.8%. As of 2Q12, the North America region's dividend yield stood at 3.6%, as compared to 4.8%, 3.7%, 2.2% and 1.6% for Europe, Asia Pacific, the S&P 500 and the ten-year U.S. Treasury yield, respectively.

2Q12 Real Estate Industry Analysis

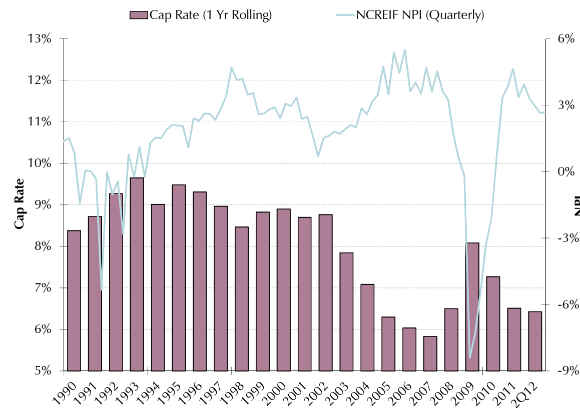
Economic Information[1]



Real GDP growth fell from an annual rate of 2.0% during 1Q12 to a mere 1.3% annual rate during 2Q12. More significantly for real estate investors, payroll job gains have averaged only 75,000 per month over the quarter, down from 225,000 during 1Q12. The jobless rate remains elevated at 8.2% and will likely remain high for some time.

Businesses are reluctant to invest capital and to hire new employees due to concerns over the substantial tax increases and spending cuts that are scheduled to take place in January under current law. Additionally, the recession in Europe and the potential break-up of the euro zone is affecting U.S. exports and some lending by big European banks to American businesses.

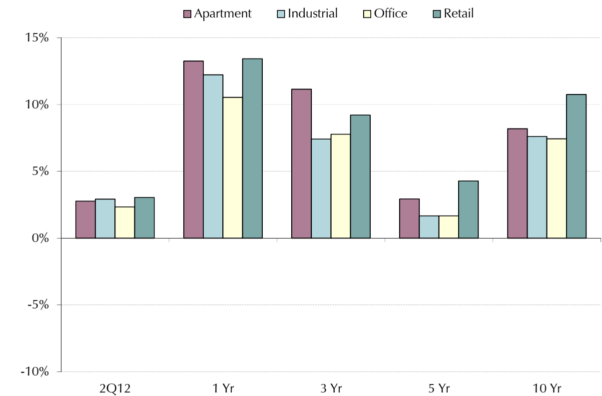
Cap Rates vs. Returns[2]



As liquidity and operating fundamentals gradually improved, and capitalization rates compressed, the commercial real estate market experienced a significant recovery from its 2009 lows.

The NPI total return increased for the eighth consecutive quarter, reflecting a trailing one-year return of 12%. Average transactional cap rates, as measured by NCREIF, also continued to compress, however, the relative strength and the rising values appear to be led by core assets with durable in-place income. The recovery in the more distressed markets and assets will likely begin to improve as investors deploy capital in higher yielding assets and these assets' operating fundamentals begin to recover.

Property Type Returns[2]



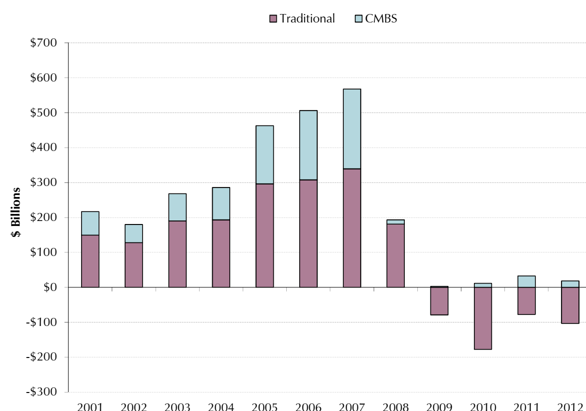
Operating fundamentals were mixed during 2Q12 as vacancy rates across the U.S. declined for apartment, office, and industrial, but remained unchanged for retail (little changed since mid-2010). Year-over-year effective rent growth only improved for apartment properties and select office markets.

These operating improvements generated positive earnings growth for apartments while the property returns for the other three sectors were primarily driven by improved buyer sentiment and lower capitalization rates. Operating fundamentals will likely continue to improve at varying degrees as new supply is limited to only apartments.

1 Source: US Bureau of Labor Statistics and US Bureau of Commerce.
2 Source: NCREIF Property Index.

2Q12 Real Estate Industry Analysis

Debt Capital Flows[1]



Bank lending for traditional commercial and multifamily real estate fell by approximately $438.0 billion from the peak in 2008 through 2Q12, as total traditional mortgages outstanding stood at $3.0 trillion.

The large decrease was mostly the result of tightening in the commercial real estate credit markets and a CMBS market that had dried up. However, through 2Q12, traditional lending activity declines have moderated and new U.S. CMBS issuance of $18.3 billion represents a 7% increase over the same period in 2011.

Trailing Period Returns[2]

As of June 30, 2012	1 Year	5 Years	10 Years
Core	**12.5%**	**-1.2%**	**6.1%**
Value-Added	**20.8**	**-1.5**	**8.6**
Opportunistic	**8.0**	**-3.0**	**10.2**
Domestic REITs	***12.5***	***2.6***	***10.3***
S&P 500 Index	***5.5***	***0.9***	***1.8***

Public and private real estate outperformed the S&P over the last twelve months and over the longer ten-year period. 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 and Commercial Mortgage Alert.
[2] Source: NCREIF and The Townsend Group, 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 June 30, 2012

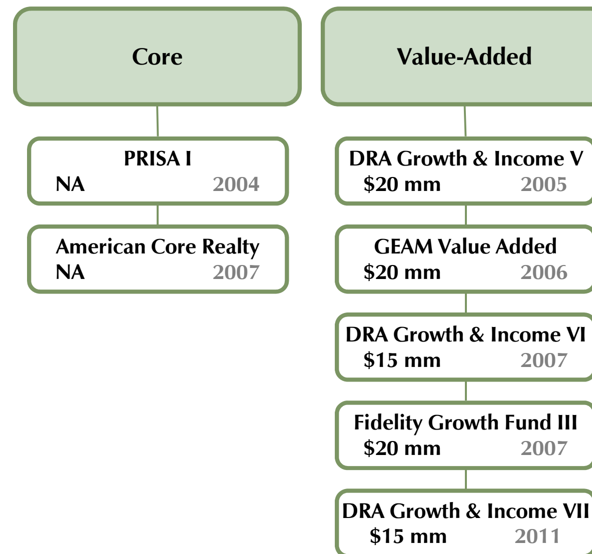
Executive Summary
As of June 30, 2012

In aggregate, $3.4 million of capital was called from the Retirement System during the second quarter of 2012 by the underlying partnerships.

- DRA Growth & Income Fund VII called $3.2 million to fund the acquisition of five new investments.

In aggregate, $2.5 million of capital was distributed to the Retirement System by the underlying partnerships during the second quarter of 2012.

- GEAM Value Add Realty Partners distributed $1.7 million relating to the partnership’s sale of three assets during the quarter, which generated $24.9 million in net proceeds to the partnership.
- Fidelity Real Estate Growth Fund III distributed $0.4 million from portfolio income received during the first half of 2012 and refinancing proceeds from a portfolio.
- American Core Realty Fund distributed $0.2 million from portfolio income, which was reinvested through their Dividend Reinvestment Program.
- DRA Growth & Income Fund VI distributed $0.1 million from portfolio income.



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

Aggregate Private Real Estate Portfolio
As of June 30, 2012

Aggregate Program
Performance as of 6/30/12

	2Q12 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date	Since Inception (%)
Real Estate[1]								
PRISA I	2.1	5.2	12.6	9.0	-2.9	NA	7/1/04	4.4
NFI – ODCE Equal Weight	*2.7*	*5.5*	*12.5*	*7.7*	*-1.2*	*6.1*		*5.4*
American Core Realty Fund, LLC	2.5	5.3	11.0	4.3	-1.7	NA	1/1/07	-0.1
NFI – ODCE Equal Weight	*2.7*	*5.5*	*12.5*	*7.7*	*-1.2*	*6.1*		*0.5*

[1] Time weighted returns are only presented for core open-ended funds.

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

Aggregate Program
Performance Summary as of 6/30/12

	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**	**79.8**	**17.1**	**22.8**	**46.8**	**69.6**	**-4.5**	**0.9**
Vintage Year 2005		**20.0**	**30.5**	**0.0**	**13.7**	**17.6**	**31.3**	**0.8**	**1.0**
DRA Growth & Income Fund V	Value-added	20.0	30.5	0.0	13.7	17.6	31.3	0.8	1.0
Vintage Year 2006		**20.0**	**18.2**	**1.8**	**3.6**	**3.0**	**6.6**	**-19.6**	**0.4**
GEAM Value Add Realty Partners, L.P.	Value-added	20.0	18.2	1.8	3.6	3.0	6.6	-19.6	0.4
Vintage Year 2007		**35.0**	**26.8**	**4.6**	**5.4**	**21.8**	**27.2**	**0.6**	**1.0**
DRA Growth & Income Fund VI	Value-added	15.0	9.8	1.6	2.5	9.1	11.5	5.8	1.2
Fidelity Real Estate Growth Fund III	Value-added	20.0	17.1	2.9	3.0	12.7	15.7	-4.2	0.9
Vintage Year 2011		**15.0**	**4.3**	**10.7**	**0.0**	**4.4**	**4.4**	**18.2**	**1.0**
DRA Growth and Income Fund VII, LLC	Value-added	15.0	4.3	10.7	0.0	4.4	4.4	18.2	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] 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 calculation was performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year IRRs are net of fees, expenses, and carried interest for each partnership.
[4] The Inv. Multiple calculation was performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year Inv. Multiple are net of fees, expenses, and carried interest for each partnership.
[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 90 basis points during the second quarter, from -5.4% to -4.5%. The improved performance was driven primarily by increases in the valuations of GEAM Value Add Realty Partners (14.9%), Fidelity Real Estate Growth Fund III (2.5%), and DRA Growth & Income Fund V (0.9%). During the second quarter, the total reported fair value of the Aggregate Private Real Estate Program increased by $2.2 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.

Private & Opportunistic Debt Program

Introduction
As of June 30, 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 June 30, 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 $90.8 million at June 30, 2012.

Aggregate Private & Opportunistic Debt Program[1]	
Number of Partnerships	3
Committed Capital	$150.0 million
Capital Called	$93.9 million
Distributions	$8.8 million
Reported Value	$90.8 million
Total Value Multiple	1.1x
Net IRR	8.0%

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

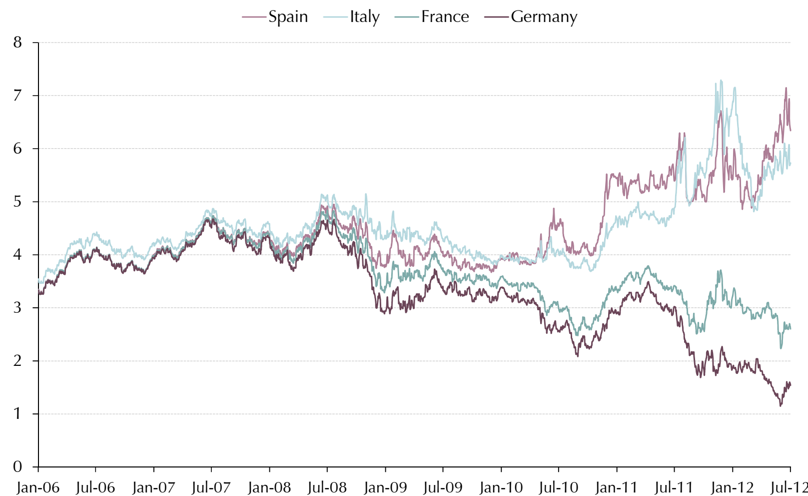
Market and Industry Analysis
As of June 30, 2012

Debt Markets in 2012

As was the case in 2010 and 2011, credit markets enjoyed a strong first half in 2012, with the continuation of the rebound that began in the fourth quarter of 2011 after a volatile Q3 2011. The high yield spread to Treasuries, which had reached a recent peak of more than 800 basis points in September 2011, was back below 600 basis points by February of this year and spent the next four months moving in a relatively narrow band. The average price of U.S. high yield debt moved back above $100 in January and similarly traded in a tight range for the rest of the first half.

Substantial volatility remained in Europe, where the European Central Bank ("ECB") and local governments continued to take action in an attempt to prevent a full-blown sovereign debt crisis and possible Eurozone breakup. In February, the ECB completed a second round of LTRO, providing an additional €529 billion to European banks and bringing the total amount of that program to more than €1 trillion. Banks largely used this three-year, 1% interest rate capital to purchase sovereign debt, briefly pushing yields below 5% in both Spain and Italy. However, by the end of March, yields again approached 6% in both countries. Greece finally completed its long-discussed debt restructuring in March, which included a CDS-triggering haircut to lenders. In the second quarter, Spain emerged as the new biggest threat to Eurozone stability after its fourth largest bank, Bankia, required nationalization to halt a bank run. Reflecting Spain's "too big to fail" status, the country negotiated a €100 billion bailout in June that was notable for its absence of the strict austerity measures imposed on prior bailout recipients. Nevertheless, Spanish sovereign debt yields continued to increase to more than 7%, and the half ended with Spain looming as a continued threat to the European economy.

European Sovereign Debt Yields[1]



U.S. Corporate High Yield Spread[2]

[1] Source: Thomson Reuters, 10-year Benchmark Bond yield for each respective country.
[2] Source: Barclays Capital

Distressed & Opportunistic Debt

The relatively quiet first half for the U.S. debt market resulted in a return to a less attractive near-term investment environment for U.S. distressed debt. Managers continued to believe that upcoming debt maturities will provide opportunities, with a general belief that any short-term maturities only remain because they cannot be refinanced, and are thus indicative of underlying distress. These types of situations may be more likely to favor control-oriented strategies, although a trading opportunity could also exist if balance sheet solutions result in par repayments. The European distressed debt opportunity continued to represent a potentially more attractive near term opportunity, with continued economic weakness across the region, coupled with the fact that European banks still need to massively de-lever to both fix their own balance sheets and to come into compliance with Basel III. Although the timing of the European opportunity remains somewhat uncertain, it increasingly appears that the opportunity will last for multiple years rather than being marked by short term volatility followed by a rapid recovery.

Mezzanine Debt

Mezzanine debt deal activity remained high and managers continued to demonstrate an ability to command attractive deal terms in line with historical norms, despite the overall trend of declining yields in the public and syndicated credit markets. More seasoned mezzanine funds continued to see liquidity related to both debt repayment and equity sponsor exit activity. Mezzanine fundraising activity also continued to be active, although some managers faced challenges to replace commitments from banks dealing with Volcker Rule restrictions on investments in private equity funds. One solution has been for mezzanine managers to raise SBIC funds, which carry Volcker Rule exemptions, and as a result there has been a marked increase in funds offered under the SBA leverage program. As most of these funds tend to be smaller in size, and are required to invest in smaller companies, it remains to be seen whether competitive dynamics at the lower end of the market will shift meaningfully.

Economic Update

The first half of 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. 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.

The U.S. economy grew at a better rate than the Eurozone, registering 2.0% and 1.3% annualized GDP growth in Q1 2012 and Q2 2012 respectively[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 8% at the end of second quarter of 2012. The Federal Reserve maintained its zero interest rate policy to stimulate the economy and, subsequently, 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 June 30, 2012

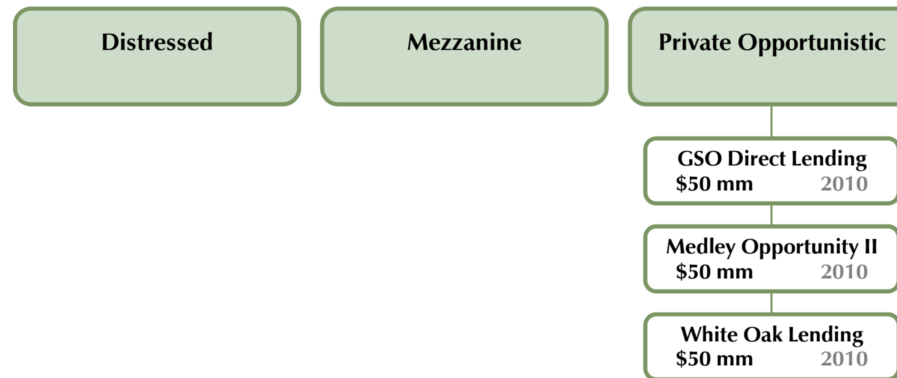
Executive Summary
As of June 30, 2012

In aggregate, $4.5 million of net capital was called from the Retirement System during the second quarter of 2012 by the underlying partnerships.

- Medley Opportunity Fund II called $5.1 million during the quarter to support new investments in two companies, in addition to several follow-on investments in existing portfolio holdings. However, $6.9 million of prior capital contributions were returned during the quarter related to a rebalancing of the partnership as a result of a subsequent close. The net result was equivalent to a negative capital call of $1.8 million.
- The most significant drawdowns during the quarter came from GSO Direct Lending, which called a net total of $4.2 million primarily to fund a new investment.
- White Oak Direct Lending called $2.0 million during the quarter primarily to fund a new investment.

The Retirement System received an aggregate of $2.9 million in distributions during the second quarter of 2012 from its underlying partnerships.

- White Oak Direct Lending received $2.6 million of interest and principal repayments.
- GSO Direct Lending distributed $0.3 million of interest income during the quarter.



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

Aggregate Private & Opportunistic Debt Portfolio
As of June 30, 2012

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

Aggregate Program
Performance Summary as of 6/30/12

	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**	**93.9**	**63.3**	**8.8**	**90.8**	**99.6**	**NM**	**1.1**
Vintage Year 2010		**150.0**	**93.9**	**63.3**	**8.8**	**90.8**	**99.6**	**NM**	**1.1**
GSO Direct Lending	Opportunistic Debt	50.0	29.2	21.1	0.9	32.3	33.2	NM	1.1
Medley Opportunity Fund II, L.P.	Opportunistic Debt	50.0	32.4	17.6	0.0	34.6	34.6	NM	1.1
White Oak Direct Lending	Opportunistic Debt	50.0	32.3	24.6	7.9	23.8	31.7	NM	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 and net of Meketa Investment Group fees. Partnership and Vintage Year IRRs are net of partnership fees but gross of Meketa Investment Group 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 and net of Meketa Investment Group fees. Partnership and Vintage Year Inv. Multiples are net of partnership fees but gross of Meketa Investment Group 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 Private & Opportunistic Debt Program is at a very early stage in its life and, therefore, performance calculation is not yet meaningful.

Appendices
As of June 30, 2012

Disclaimers and Valuation Policies
As of June 30, 2012

Disclaimer

The material contained in this report is confidential and may not be reproduced, disclosed, or distributed, in whole or in part, to any person or entity other than the intended recipient. The data are provided for informational purposes only, may not be complete, and cannot be relied upon for any purpose other than for discussion.

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 unaudited reports for June 30, 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.