San Jose Federated City Employees' Retirement System

PUBLIC VERSION

December 31, 2011

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

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Private Equity Program

Introduction
As of December 31, 2011

The purpose of this document is to offer a comprehensive review of the Retirement System's private equity investments. It is divided into four sections: Industry Analysis, Executive Summary, Aggregate Private Equity Portfolio, and Individual Partnership Analyses. The private equity industry analysis is a broad overview of the private equity industry. The final three 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 December 31, 2011, the San Jose Federated City Employees' Retirement System had committed $135.6 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 $95.9 million at December 31, 2011.

Aggregate Private Equity Program[1]	
Number of Partnerships	5
Committed Capital	$135.6 million
Capital Called[2]	$107.4 million
Distributions	$25.7 million
Reported Value[3]	$95.9 million
Total Value Multiple	1.1x
Net IRR	4.1%

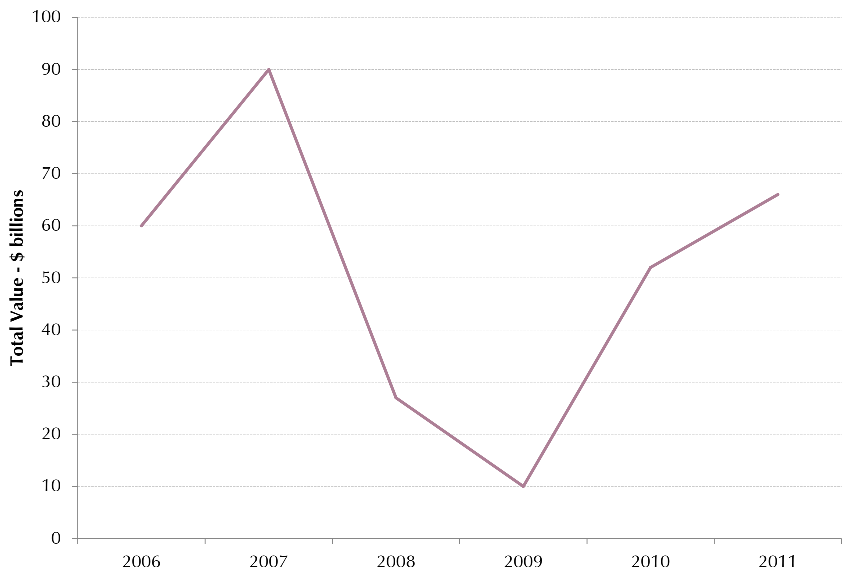
1 Throughout this report, numbers may not sum due to rounding.
2 One of the partnership commitments is made in a foreign currency. This total reflects committed capital in dollars, adjusted for foreign currency exchange rates, as of the report date.
3 Includes manager reported fair market value for Pathway Private Equity Fund VIII as of December 31, 2011.

Market and Industry Analysis
As of December 31, 2011

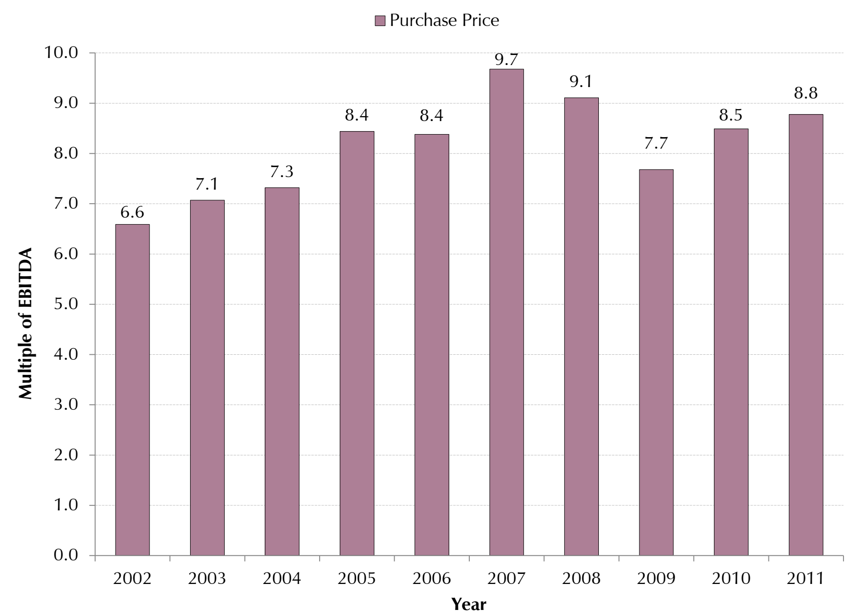
Private Equity in 2011

Throughout 2011 the global Private Equity industry was active in funding new investments, in spite of macro-economic volatility mainly from Europe. Buyout investments were supported by a continued increase in secondary buyouts (i.e., one buyout manager selling to another) whereas venture capital and growth investments were driven by the continued positive outlook for social media and new technology-driven business models. With an increase in investment activity, which started in mid-2010, the North American private equity industry has been able to reduce its capital overhang from over $600 billion at the end of 2008 to approximately $500 billion at the end of 2011[1]. This reduction was expected to continue for the near term, supported by anemic growth in North American fundraising. One major impact of increased investment activity was seen in prices paid by the industry. The venture capital market, in particular, seemed highly frothy with arguably unsustainable valuations on high profile companies such as LinkedIn, Groupon, and Zynga.

Total Secondary Buyout Activity



Purchase Price by Year



[1] Source: Preqin

Buyout

As optimism surrounding the economy increased, buyout investments reflected this by moving away from defensive sectors such as healthcare in 2011. The top three sectors in 2011 were industrials, consumer/retail, and information technology, which together accounted for nearly 50% of total investments[1]. Compared to recent years, the industry break-down was more diversified, as in the years following the GFC, investors favored defensive industries.

The average purchase for buyouts stood at 8.8 times EBITDA at the end of 2011, up marginally from the 8.5 times reported at the end of 2010. This was the third highest mark since 1994[2]. Based on the data provided by S&P, the average purchase price for transactions completed in Q4 2011 was 9.4 times EBITDA. The increase in valuations was due to: i) improved market conditions pushing investors to transact after the relative lull of 2009 and 2010, ii) the industry as a whole having more capital than optimal, and iii) internal pressure for general partners to raise new funds and from limited partners adverse to paying fees for inactivity. The Investors will need to grow these businesses rapidly in order to justify the high price tags.

Private Debt

After a relatively stable first half of 2011, U.S. debt markets experienced significant volatility starting in early August when Standard & Poor's downgraded the U.S. government's long-term sovereign credit rating from AAA to AA+. At that time, the average price of U.S. high yield debt fell by more than 5% while equity markets saw even greater short-term declines. The high yield spread over Treasuries widened by more than 150 bps during August as Treasuries, somewhat ironically, staged a strong rally in the overall flight to quality after the downgrade. Weakness continued into September, with prices falling another 4% and spreads widening by another 100 bps during the month, with negative sentiment exacerbated by renewed fears of a European sovereign debt crisis. While still centering on Greece, European debt fears were increasingly spreading to other European peripheral countries, most notably Italy and Spain. By October, U.S. debt markets had largely stabilized and began a partial rebound throughout the fourth quarter to end the year at price and spread levels even with August. Weakness in Europe peaked slightly later, and Italy held sovereign debt auctions in November resulting in Euro-record yields of more than 7.5%, before settling below 7.0% by the end of December. Also at the end of December, the European Central Bank funded the first tranche of its Long Term Refinancing Operation, providing €500 billion of low cost loans to European banks to help shore up balance sheets.

Venture Capital

The Venture Capital industry continued to grab headlines throughout 2011 based on appreciation and adoption of new technologies/services in the areas of e-commerce, mobile, gaming, and cloud computing. The key theme over the past few years for market observers has been the growth in user bases of new industry giants such as Facebook and Groupon. One of the key reasons for this resurgence had been the cost of computing which continues to decline at a rapid pace as internet and mobile infrastructure improves. In fact, with each passing year, the time required to get 50 million users was shrinking due to these factors and allowing businesses to scale at unprecedented speeds. The majority of these businesses have been able to monetize their user base and generate revenue and, in some cases, achieve profitability.

[1] Source: Preqin
[2] Source: S&P Leveraged Loan

However, in 2011, the valuations for some of these new business models were extremely high. The median pre-money valuation in 2011 was approximately $21 million[1] (all rounds of financings), which was the highest mark since 2003. There were some signs that the market was cooling down towards the end of the year, based on Q4 2011 numbers.

The Venture Capital industry also saw a higher receptiveness from public markets, leading to several notable and large size IPOs in 2011. In all, public markets provided nearly $10 billion of liquidity to investors. This, combined with continued liquidity through M&A, led to nearly $33 billion of liquidity for the industry in 2011, a highest mark since 2007. New investment activity increased by 10% over the prior year, but remained below pre-GFC levels[2]. The continued shrinking of the venture capital industry might be a factor in new investment activity remaining relatively modest, despite higher valuations.

The Global Economy

2011 was a turbulent year from a macroeconomic perspective with persistent concerns originating from the European Union's sovereign debt issues. Several countries, already saddled with high debt burdens, faced shrinking economies and revenue bases. Lacking the ability to print money, many governments were forced into austerity and were required to bring down their sovereign debt levels. This negatively impacted consumer and business confidence. Further, due to banks' exposure to sovereign debt, credit flow was reduced meaningfully. In December, the European Central Bank (ECB) agreed to provide over $1 trillion of loans to banks, at low interest rates, to shore up their capital bases. This was a welcome relief for the global markets; however, since much of the debt was used to shore up balance sheets and support sovereign debt, credit to the private sector continued to be hampered.

Despite major challenges to the global economy coming from the European Union, the global economy grew by 3.8% in 2011[3]. The U.S. economy, despite a high level of exposure to the Euro zone, was able to grow at 1.7%[4] based on continued stimulus through the Fed's zero interest rate policy, improved consumption, and better manufacturing output supported by increasing exports. Still, the U.S. economic recovery continued to be slow and the sensitive nature of global economic recovery made it difficult to make major policy changes. In 2011, the Federal Reserve announced that it plans to keep interest rates at the current level for at least second half of 2013, demonstrating consternation surrounding sustained economic growth.

Emerging markets continued to enjoy higher growth rates and provided a boost to the global economy once again in 2011. Most major economies in emerging markets were in tightening mode due to inflationary pressures related to an increase in the price of energy and speculative foreign capital seeking higher returns. China, the largest emerging markets economy and the second largest global economy, once again had a growth rate of over 8% for 2011. This was achieved even after significant monetary contraction in an attempt to cool its overheated economy. The Chinese economy, however, remained on uneven footing as the fall-out from an inflated real estate market was expected to hamper GDP growth. Further, as China entered a year of leadership transition, it was expected to not announce any of the major reforms needed for its continued economic growth. Finally, China's largest trading partner was European Union, leading to additional challenges and uncertainty for the economy.

[1] Source: Dow Jones VentureSource
[2] Source: National Venture Capital Association
[3] Source: IMF
[4] Source: Bureau of Economic Analysis

Private Equity Program
As of December 31, 2011

Executive Summary
As of December 31, 2011

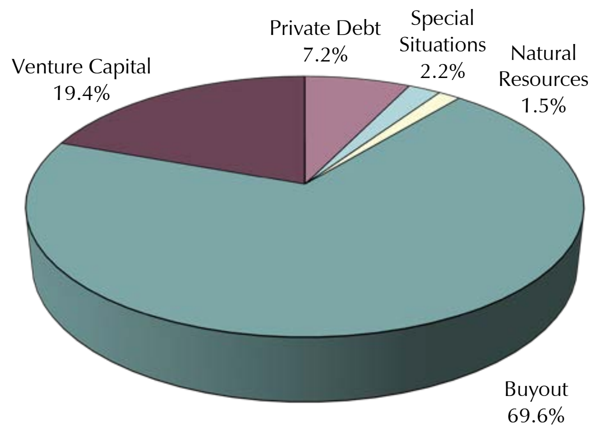
In aggregate, $2.7 million of capital was called from the Retirement System during the fourth quarter of 2011 by the underlying partnerships.

- Pantheon USA Fund VII called an aggregate of $2.2 million to fund capital calls from existing underlying partnerships.
- Partners Group Secondary 2008 called $0.2 million to invest in one new secondary portfolio comprised of 30 underlying partnerships and to fund various follow-on investments from existing underlying portfolios.
- Pathway Private Equity Fund VIII called an aggregate of $0.3 million.

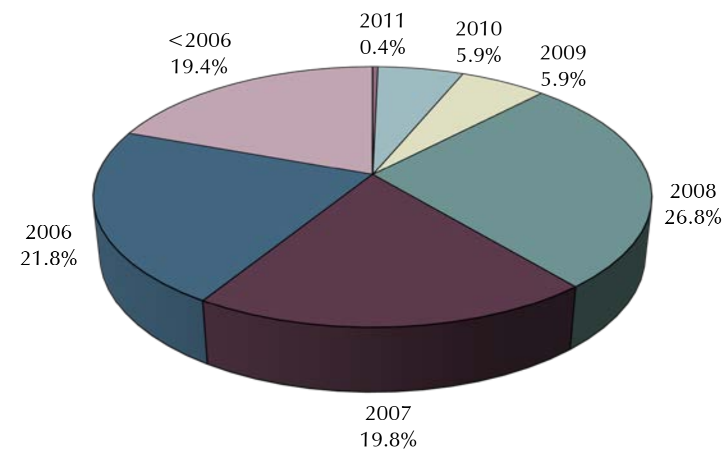
Total distributions received by the Retirement System from underlying partnerships during the fourth quarter were $3.5 million.

- Pantheon Global Secondary Fund III 'B' distributed $0.4 million of proceeds from underlying partnerships.
- Pathway Private Equity Fund VIII distributed $1.6 million of proceeds in aggregate from its underlying partnerships.
- Pantheon USA Fund VII distributed $0.6 million of proceeds from its underlying partnerships.
- Partners Group Secondary 2008 distributed $0.2 million of proceeds from several underlying partnerships.
- Great Hill Equity Partners IV distributed $0.8 million of proceeds from the sale of a portfolio company in November.

Diversification by Investment Strategy[1]



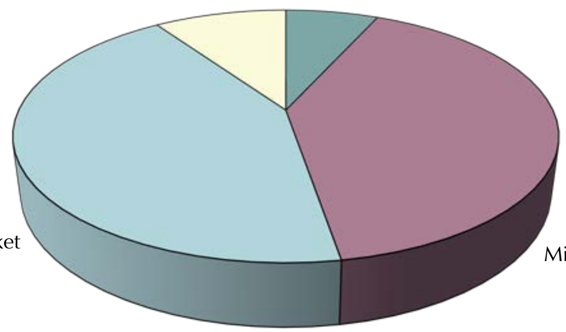
Diversification by Vintage Year[1]



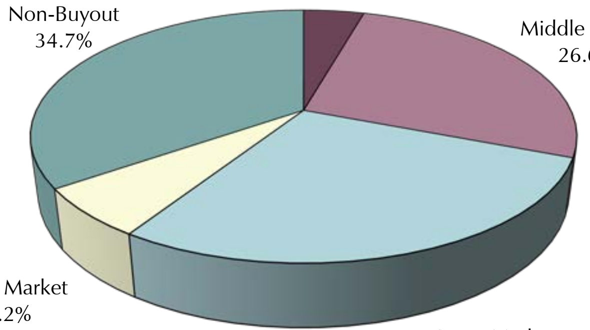
[1] These charts were created using the fair value of the Program as of 12/31/11. The data includes the strategy and vintage year of underlying investments made by Secondary Funds and Fund of Funds.

Breakdown of Buyout Positions as of 12/31/11

Buyout Exposure by Market Size[1,2]



Total PE Exposure by Buyout Market Size[1]



[1] These charts were created using the fair value of the Program as of December 31, 2011.
[2] Categories are defined as follows: Small Market: Less than $200 million, Middle Market: $200 million to $1 billion, Large Market: $1 billion to $10 billion, Mega Market: $10 billion or greater.

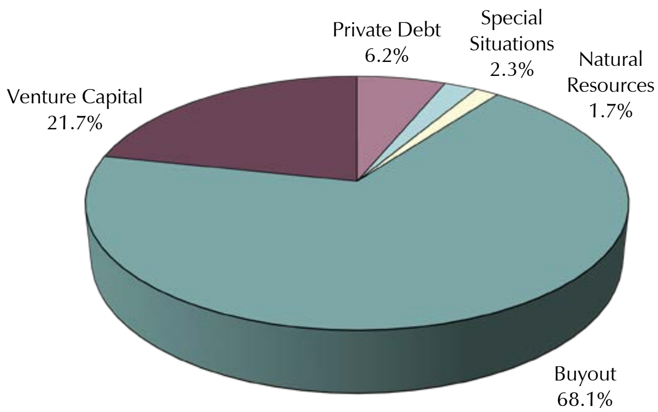
Buyouts	Secondaries & Fund of Funds
Great Hill IV $5 mm 2008	**Pathway VIII** $40 mm 2004
	Pantheon Global III B $40 mm 2006
	Pantheon USA VII $10 mm 2006
	Partners Group 2008 €7.9 mm 2008

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

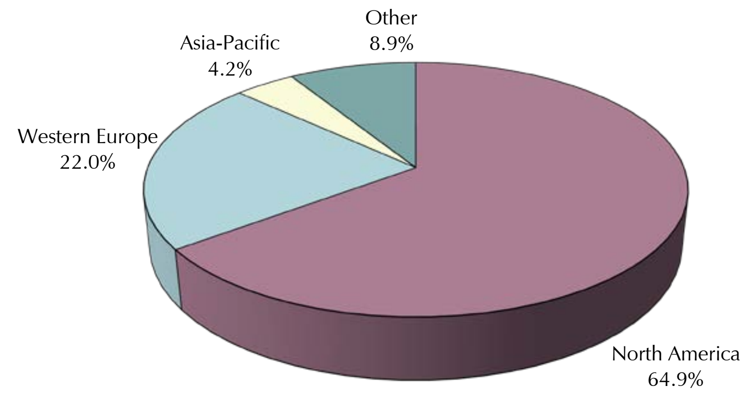
Aggregate Private Equity Portfolio
As of December 31, 2011

Aggregate Program
Portfolio Diversification as of 12/31/11

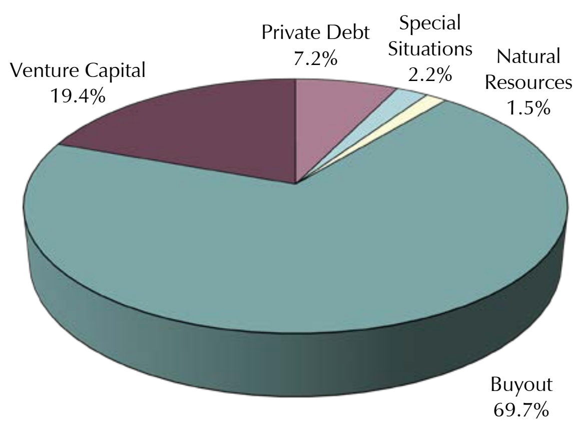
Commitment



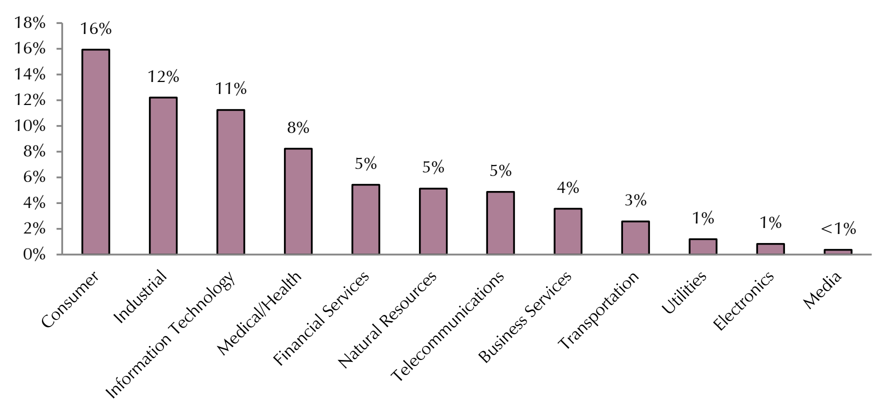
Geography[1]



Reported Fair Value[1]



Industry[2]



[1] These charts were created using the fair value of the Program as of December 31, 2011.
[2] Industry diversification data does not include Pantheon Global Secondary Fund III B, as 12/31/11 industry data for this fund is not available.

San Jose Federated City Employees' Retirement System
Private Equity Program

Aggregate Program
Performance Summary as of 12/31/11

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date[1] ($ mm)	Unfunded Commitment ($ mm)	Total Distributions Received to Date ($ mm)	Reported Fair Value[2] ($ mm)	Reported Fair Value Plus Distributions ($ mm)	Net IRR[3] (%)	Inv. Multiple (x)
Total Program		**135.6**	**107.4**	**28.2**	**25.7**	**95.9**	**121.6**	**4.1**	**1.1**
Vintage Year 2004		**40.0**	**36.6**	**3.4**	**13.6**	**30.0**	**43.5**	**4.6**	**1.2**
Pathway Private Equity Fund VIII	Fund of Funds	40.0	36.6	3.4	13.6	30.0	43.5	4.6	1.2
Vintage Year 2006		**80.0**	**59.4**	**20.6**	**9.8**	**54.1**	**63.9**	**2.6**	**1.1**
Pantheon Global Secondary Fund III 'B'	Secondary	40.0	33.8	6.2	8.0	27.4	35.4	1.4	1.0
Pantheon USA Fund VII	Fund of Funds	40.0	25.6	14.4	1.8	26.8	28.6	4.6	1.1
Vintage Year 2008		**15.6**	**11.4**	**4.2**	**2.4**	**11.8**	**14.1**	**15.2**	**1.2**
Great Hill Equity Partners IV	Buyout	5.0	2.8	2.2	1.0	2.8	3.8	23.9	1.3
Partners Group Secondary 2008[4]	Secondary	10.6	8.6	2.0	1.3	9.0	10.3	12.7	1.2

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 Includes manager reported fair market value for Pathway Private Equity Fund VIII as of December 31, 2011.
3 Internal rate of return (IRR) calculations were completed by Meketa Investment Group. Vintage Year and Total Portfolio Net IRR's are net of fees, expenses, and carried interest to the Limited Partners in each partnership.
4 The Retirement System committed €7.9 million to the Partnership. The $10.6 million commitment is an estimated amount based on the contributed capital and unfunded commitment as of December 31, 2011.

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

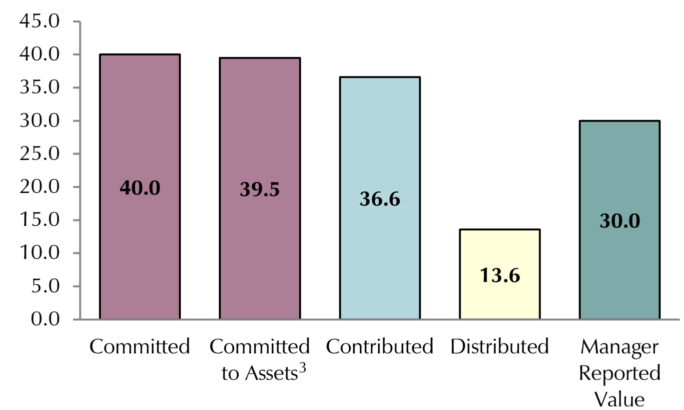
The Total Program net IRR increased by 30 basis points during the fourth quarter, from 3.8% to 4.1%. The improvement in performance was driven by increases in the valuations of Pantheon USA Fund VII, Pathway Private Equity Fund VIII, and most notably, Great Hills Equity Partners IV. During the fourth quarter, the total reported fair value of the Private Equity Program increased by $1.9 million, or 2.0%, after adjusting for capital calls and distributions that occurred during the quarter.

Individual Partnership Analyses
As of December 31, 2011

Pathway Private Equity Fund VIII
as of 12/31/11

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

Commitment	$40.0 million
Number of Investments	17
Capital Contributions	$36.6 million
Realized Proceeds	$13.6 million
Manager Reported Value	$30.0 million
Total Value	$43.5 million
% of Program[1]	31.3%
Net IRR	4.6%
ThomsonOne Median IRR[2]	3.8%



Investment Strategy

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

Portfolio Review

The Partnership called an aggregate of $0.3 million from the Retirement System during the three month period ended December 31, 2011.

The Partnership distributed $1.6 million to the Retirement System during the fourth quarter.

Portfolio Performance

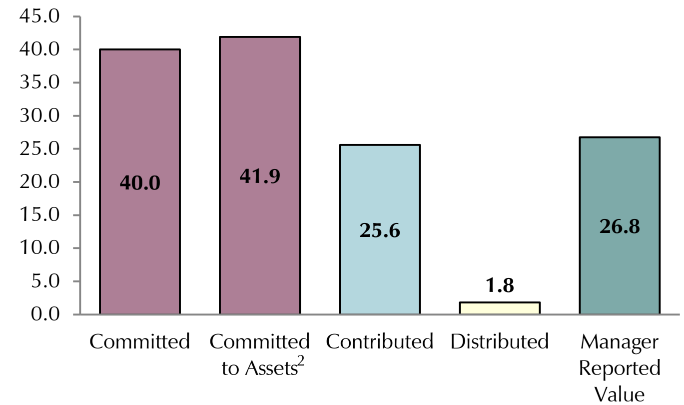
During the three month period ended December 31, 2011, the Partnership's net IRR increased to 4.6%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 4.2%.

[1] The percentage of the Retirement System's total portfolio represented by this fund, based on reported fair value as of December 31, 2011. Throughout this report, manager reported value is used for the "% of Program" calculation.
[2] The Benchmark is the ThomsonOne U.S. All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2011.
[3] Represents the Partnership's commitment to underlying funds.

Pantheon USA Fund VII
as of 12/31/11

General Partner	Pantheon Ventures, Inc.
Location	San Francisco, CA
Auditor	PriceWaterhouseCoopers LLC
Strategy	Fund of Funds
Vintage Year	2006
Fund Size	$2,254.8 million
Fund Duration	13 years
Fee Schedule	0.8% of commitments 10.0% preferred return 5.0% carried interest

Commitment	$40.0 million
Number of Investments	66
Capital Contributions	$25.6 million
Realized Proceeds	$1.8 million
Manager Reported Value	$26.8 million
Total Value	$28.6 million
% of Program	27.9%
Net IRR	4.6%
ThomsonOne Median IRR[1]	3.7%



Investment Strategy

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

Portfolio Review

The Partnership called an aggregate of $2.2 million from the Retirement System during the three month period ended on December 31, 2011. The Partnership made additional capital commitments in three underlying funds.

The Partnership received $33.9 million in distributions from underlying partnerships and distributed $0.6 million to the Retirement System during the fourth quarter.

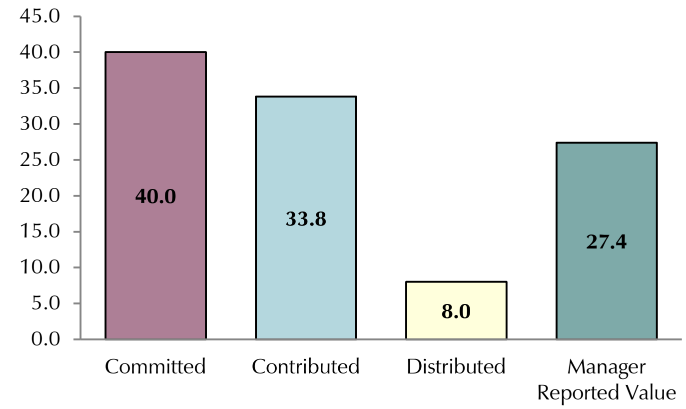
Portfolio Performance

During the three month period ended December 31, 2011, the Partnership's net IRR increased to 4.6%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 3.3%.

[1] The Benchmark is the ThomsonOne U.S. All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2011.
[2] Represents the Partnership's commitment to underlying funds.

Pantheon Global Secondary Fund III 'B'
as of 12/31/11

General Partner	Pantheon Ventures, Inc.	**Commitment**	$40.0 million
Location	San Francisco, CA	**Number of Investments**	44
Auditor	KPMG London	**Capital Contributions**	$33.8 million
Strategy	Secondary	**Realized Proceeds**	$8.0 million
Vintage Year	2006	**Manager Reported Value**	$27.4 million
Fund Size	$589.9 million[1]	**Total Value**	$35.4 million
Fund Duration	13 years	**% of Program**	28.5%
Fee Schedule	1.0% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	1.4%
		ThomsonOne Median IRR[2]	2.2%



Investment Strategy

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

Portfolio Review

There was no investment activity within the portfolio during 2011.

The Partnership received $5.9 million in distributions from underlying partnerships and distributed $0.4 million to the Retirement System during the fourth quarter.

Portfolio Performance

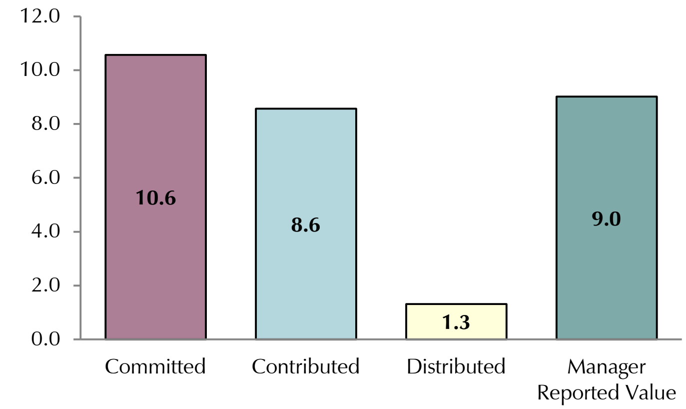
During the three month period ended December 31, 2011, the Partnership's net IRR declined to 1.4%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation decrease of 0.4%.

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

[2] The Benchmark is the ThomsonOne All Regions All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2011.

Partners Group Secondary 2008
as of 12/31/11

General Partner	Partners Group	**Commitment[1]**	$10.6 million
Location	Switzerland	**Number of Investments**	155
Auditor	PriceWaterhouseCoopers	**Capital Contributions**	$8.6 million
Strategy	Secondary	**Realized Proceeds**	$1.3 million
Vintage Year	2008	**Manager Reported Value**	$9.0 million
Fund Size	€2,500.0 million	**Total Value**	$10.3 million
Fund Duration	12 years	**% of Program**	9.4%
Fee Schedule	1.3% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	12.7%
		ThomsonOne Median IRR[2]	0.3%



Investment Strategy

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

Portfolio Review

The Partnership called an aggregate of $0.2 million from the Retirement System during the three month period ended on December 31, 2011.

The Partnership distributed $0.2 million to the Retirement System during the fourth quarter.

Portfolio Performance

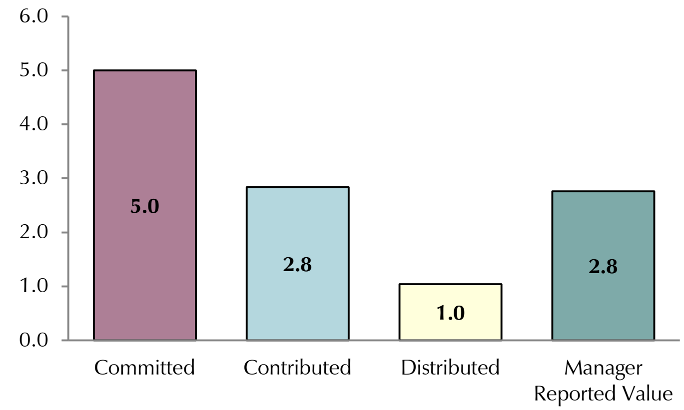
During the three month period ended December 31, 2011, the Partnership's net IRR declined to 12.7%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation decrease of 3.2%.

1 The Retirement System committed €7.9 million to the Partnership. The $10.6 million commitment is an estimated amount based on the contributed capital and unfunded commitment as of December 31, 2011.
2 The Benchmark is the ThomsonOne All Regions All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2011.

San Jose Federated City Employees' Retirement System Private Equity Program

Great Hill Equity Partners IV as of 12/31/11

General Partner	Great Hill Partners LLC	**Commitment**	$5.0 million
Location	Boston, MA	**Number of Investments**	11
Auditor	Ernst & Young LLP	**Capital Contributions**	$2.8 million
Strategy	Buyout	**Realized Proceeds**	$1.0 million
Vintage Year	2008	**Manager Reported Value**	$2.8 million
Fund Size	$1,100.0 million	**Total Value**	$3.8 million
Fund Duration	10 Years	**% of Program**	2.9%
Fee Schedule	GP won't display publicly	**Net IRR**	23.9%
		ThomsonOne Median IRR[1]	8.8%



Investment Strategy

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

Portfolio Review

There was no investment activity within the portfolio during the fourth quarter.

The Partnership sold a portfolio company in November 2011, representing a return of 1.7x invested capital. The Retirement System received $0.8 million from the proceeds of the sale during the quarter.

Portfolio Performance

During the three month period ended December 31, 2011, the Partnership's net IRR increased to 23.9%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 8.9%.

[1] The Benchmark is the ThomsonOne U.S. All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2011.

Private Real Estate Program

Introduction
As of December 31, 2011

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

As of December 31, 2011, the Private Real Estate Program had invested in seven real estate funds (two core funds and five value-added funds). The reported fair value of the aggregate Program was $89.2 million at December 31, 2011.

Aggregate Real Estate Program[1]	
Number of Partnerships	7
Committed Capital	$90.0 million[2]
Capital Called	$119.0 million[3]
Distributions	$22.2 million
Reported Value	$89.2 million
Total Value Multiple	0.9x
Net IRR	-1.7%

1 Throughout this report, numbers may not sum due to rounding.
2 Committed Capital excludes investments in PRISA I and American Core Realty Fund, both of which are open-ended vehicles with no definitive commitment.
3 Includes $43.2 million of capital contributions and reinvested dividends in PRISA I and American Core Realty Fund.

Market and Industry Analysis
As of December 31, 2011

Private real estate values bottomed during the first half of 2010. The recovery through the fourth quarter of 2011 has lifted values in a wide range based on quality, location and net operating income (NOI) of assets.

In the fourth quarter of 2011, commercial real estate continued to experience positive returns off a bottom established in late 2009 and early-2010. Property fundamentals continued to strengthen, albeit at a more moderate pace. These trends were reflected in the NFI-ODCE's and NAREIT Equity's 4Q11 total returns of 3.0% and 15.3%, respectively, which represented the eighth consecutive quarter of positive returns for the NFI-ODCE and a significant rebound from the NAREIT Equity's 3Q11 return of -14.7%.

In general, commercial real estate has experienced multiple consecutive quarters of improving fundamentals, which has led to declining concessions and modest growth in effective rents. However, the pace and magnitude of recovery has been variable and dependent on property type and market. National trends suggest higher occupancy rates and stabilized or improving rents in most markets and property types. Throughout 2011 across the U.S., the office vacancy rate declined 50 basis points to 16% and the industrial market vacancy rate declined 80 basis points over the year to 13.5%. The multifamily market continues to outpace other property types as strong rental demand reduced the national vacancy rate 70 basis points to 5.3% and has pushed effective rent growth to more than 5% (annualized). Multifamily effective rents have now surpassed pre-recession levels in most major markets. Retail fundamentals remain weak with the vacancy rate increasing 20 basis points to 13.2%.

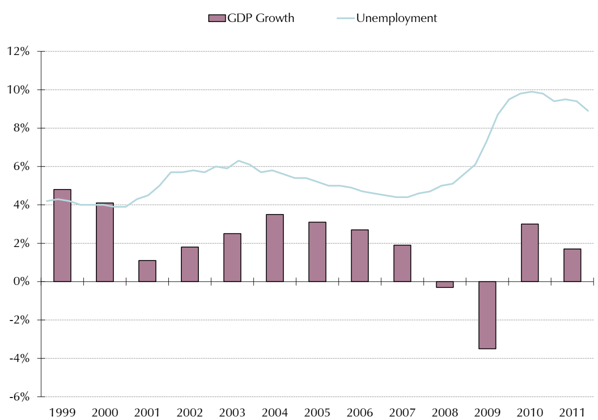
Overall real estate market summary

- As the U.S. economy expanded during 4Q11, recording the strongest quarterly real GDP growth for the year at 3.0%, it gave conflicting signals of both recovery and stagnation. These mixed-signals aside, market sentiment continued to improve for commercial real estate and capital flows into the sector continued due to the attractive yields. Preqin reported 23 closed-end funds raised a total of $9.4 billion during 4Q11 for private equity real estate investments, reflecting a 25% increase over 4Q10.
- Real estate capital markets continued to strengthen over 2011, although peak activity occurred during 2Q11. Real Capital Analytics reported U.S. transaction volumes of $55 billion during 4Q11, exceeding the prior quarter's volume by 27% and 4Q10 volume by 14%. While U.S. transaction volume of $185 billion for the full year exceeded 2010 by 62%, sales volume still fell short of 2004 volume by 10% and remains well below the volume achieved in the 2005 to 2007 time frame. The bulk of debt and equity capital continues to pursue core, stabilized product, primarily in the nation's most favored markets. Although capitalization rates for these transactions have reverted back to all-time lows, they are being applied to trough rent levels.

- Real estate debt markets markedly improved during 4Q11 after experiencing a pullback in the prior quarter. CMBS senior AAA spreads tightened 120 bps during 4Q11 (now 255 bps over 10-year swaps). Even after the recent rally, primary market spreads remain wide for CMBS as better-quality borrowers are turning to portfolio lenders (banks and insurance companies) for more attractive financing and middle market assets continue to have limited financing options.
- Three of the four primary property types reported vacancy rate declines during 4Q11, with only the retail vacancy rate increasing, albeit slightly. Accordingly, the NCREIF Property Index returned 3.3% during the quarter, led by the apartment and retail sectors, which gained 3.5% and 3.4%, respectively, as both sectors reported NOI growth in excess of 4.0%. The industrial and office sectors returned 2.7% and 2.5%, respectively, as these sectors reported more muted NOI growth.
- The FTSE EPRA/NAREIT Developed Global REIT Index returned 7.4% during 4Q11 and posted a 2011 return of -5.8%. North American listed REITs posted the strongest returns during 4Q11 at 14.6% as this was the only region to post a positive return for 2011 at 8.2%. During the quarter, Asia Pacific returned 1.5% and Europe returned -2.6%, as both regions posted negative returns for 2011 of -19.6% and -12.3%, respectively. As of 4Q11, the North America region's dividend yield stood at 3.7%, as compared to 4.8%, 3.9%, 2.1% and 2.6% for Europe, Asia Pacific, the S&P 500 and the DJIA, respectively. While U.S. REITs continued to attract fresh capital, raising approximately $3.8 billion of equity during 4Q11, new capital inflows have continued to moderate from prior quarters, reflecting a 50% drop over the prior quarter and a 65% drop from 4Q10.

4Q11 Real Estate Industry Analysis

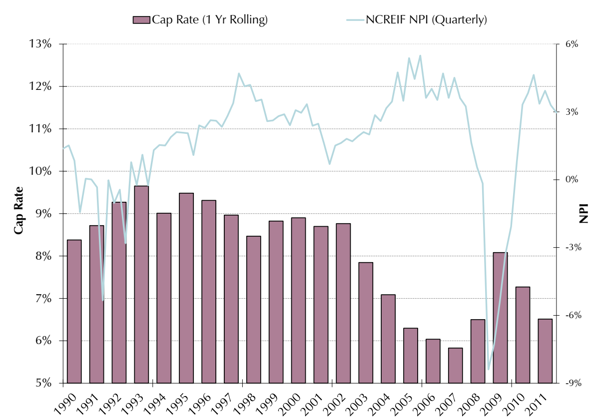
Economic Information[1]



The U.S. economy regained momentum in late 2011 as a sustainable economic expansion appeared to gain traction. Annualized real GDP growth accelerated to 3.0% during 4Q11 and the recovering jobless rate once again fell below 9%. As markets remain weary of another slowdown caused by the unresolved sovereign debt crisis in Europe and political instability leading-up to the 2012 election, Bloomberg's economic survey projects 2012 real GDP growth of 2.2%.

These factors continue to limit new development activity, which should permit vacancy rates for all property types to decline further, causing rents to increase, and allowing NOI growth to gain traction.

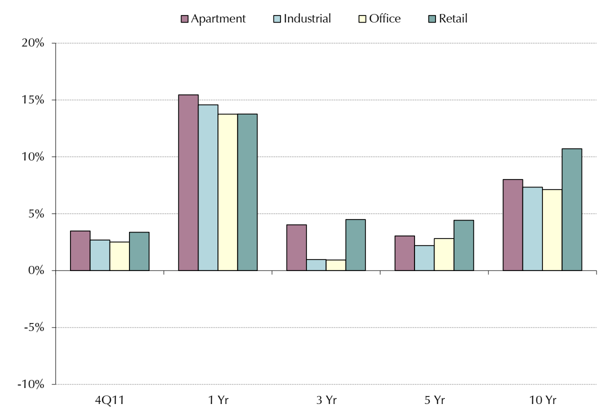
Cap Rates vs. Returns[2]



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 2011 return of 14%. 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]



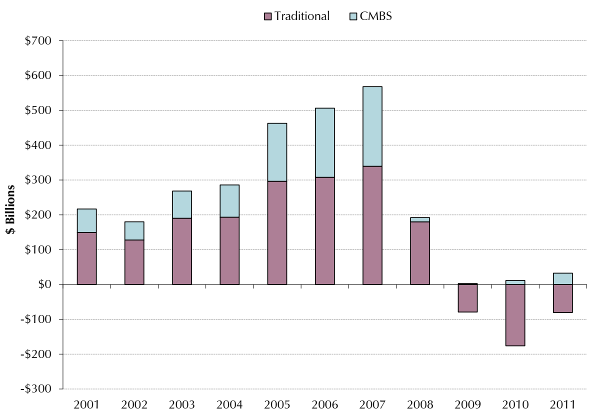
Operating fundamentals were mixed during 4Q11 as vacancy rates across the U.S. declined for apartment and industrial, ticked slightly higher for office, and remained unchanged for retail (little changed since mid-2010). Year-over-year effective rent growth only improved for apartment properties and select 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.

4Q11 Real Estate Industry Analysis

Debt Capital Flows[1]



Bank lending for traditional commercial and multifamily real estate fell by approximately $335 billion from the peak in 2008 through 4Q11, as total traditional mortgages outstanding stood at $3.1 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 4Q11, traditional lending activity declines have moderated and new U.S. CMBS issuance of $32.7 billion throughout 2011 reflects a 181% increase over 2010's issuance.

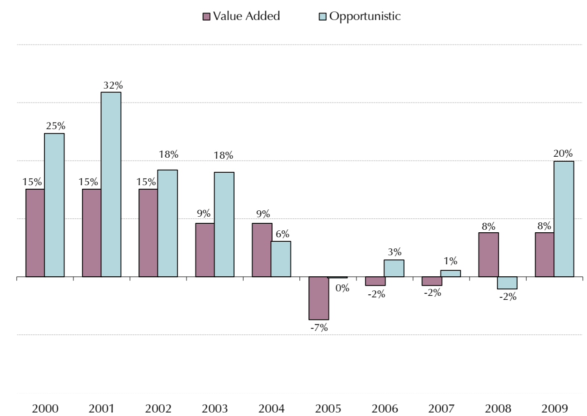
Trailing Period Returns[2]

As of December 31, 2011	1 Year	5 Years	10 Years
Core	**16.0%**	**-0.6%**	**5.8%**
Value-Added	**25.9**	**-0.7**	**8.2**
Opportunistic	**9.8**	**-2.3**	**10.0**
Domestic REITs	***8.3***	***-1.4***	***10.2***
S&P 500 Index	***2.1***	***-0.3***	***2.9***

Private market real estate significantly outperformed Domestic REITs and the S&P 500 during 2011, as private real estate growth historically lags the broader equity markets. While all real estate strategies lagged the S&P 500 over the five-year period, these strategies significantly outpaced S&P 500 returns over the longer-term period of ten-years.

Within private real estate strategies, core performance has moderated as opportunistic strategies have benefitted from their aggressive posture.

Vintage Year IRRs[3]



Closed-end real estate partnerships generally require five to seven years to "mature". Until that time, investments held at cost and 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 December 31, 2011

Executive Summary
As of December 31, 2011

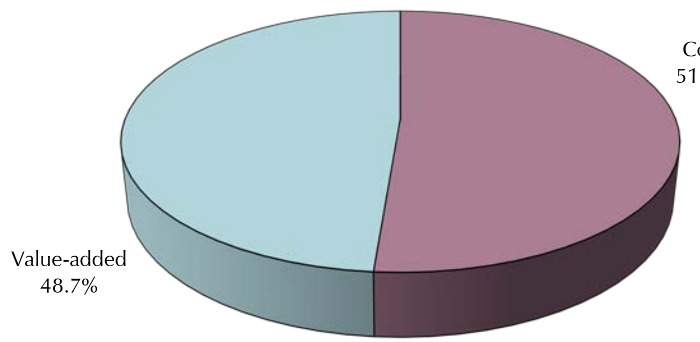
In aggregate, $3.6 million of capital was called from the Retirement System during the fourth quarter of 2011 by the underlying partnerships.

- Fidelity Real Estate Growth Fund III called $2.9 million to fund four acquisitions.
- DRA Growth & Income Fund VII called $0.4 million to pay down the partnership's line of credit relating to four acquisitions in 2011.

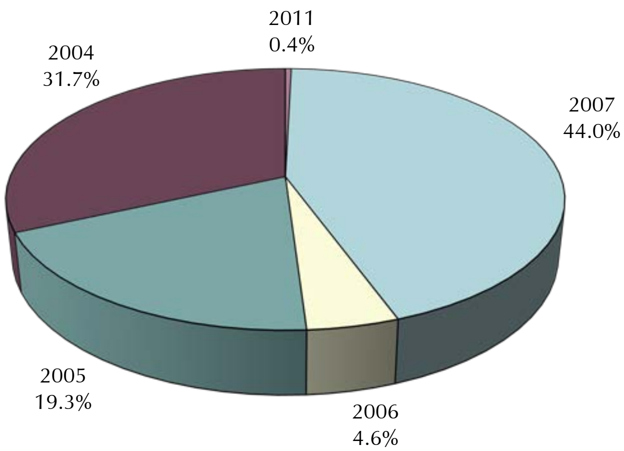
In aggregate, $3.6 million of capital was distributed to the Retirement System by the underlying partnerships during the fourth quarter of 2011.

- GEAM Value Add Realty Partners distributed $1.8 million from the disposition of three investments throughout 2011.
- Fidelity Real Estate Growth Fund III distributed $1.4 million from the disposition of a class-A office property.
- American Core Realty Fund distributed $0.2 million from portfolio income, which was reinvested through their Dividend Reinvestment Program.
- DRA Growth & Income Funds V & VI each distributed $0.1 million from portfolio income.

Diversification by Investment Strategy[1]

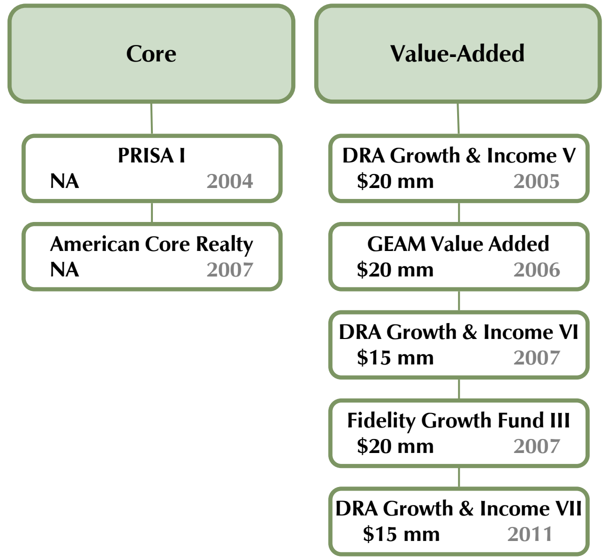


Diversification by Vintage Year[1, 2]



[1] These charts are created using the fair value of the Program as of December 31, 2011.

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

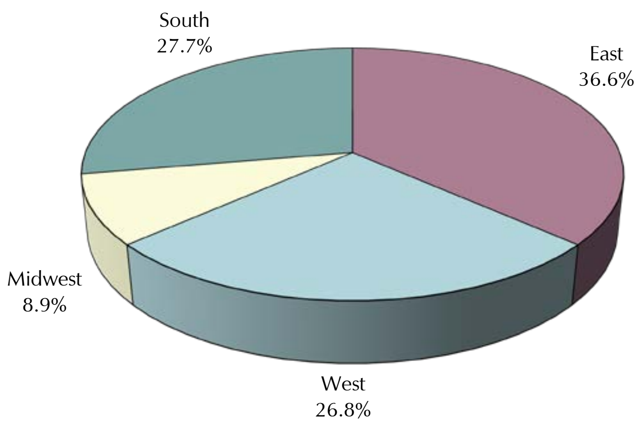


- The chart above shows current commitments and investments made to partnerships and strategies by the Retirement System.

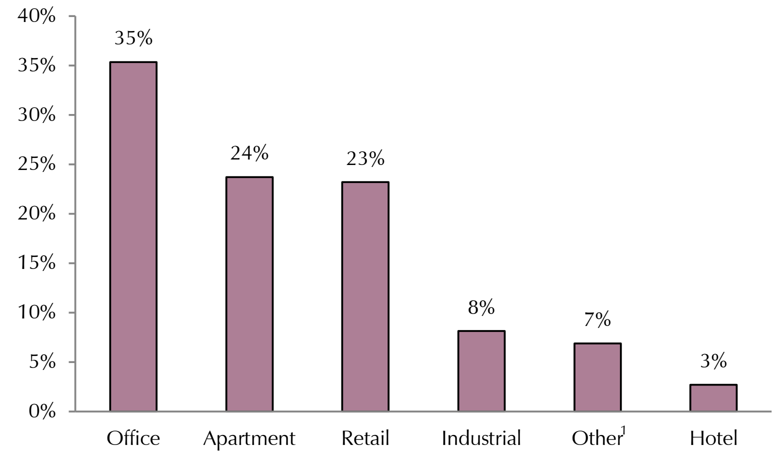
Aggregate Private Real Estate Portfolio
As of December 31, 2011

Aggregate Program
Portfolio Diversification as of 12/31/11

Geographic Diversification by Reported Fair Value



Property Type Diversification by Reported Fair Value



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

Aggregate Program
Performance as of 12/31/11

	4Q11 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date	Since Inception (%)
Real Estate[1]							
American Core Realty Fund, LLC	2.8	15.0	-3.6	NA	NA	4/1/07	-1.1
NCREIF ODCE	*3.0*	*16.0*	*-1.8*	*-0.3*	*6.2*		*-1.4*
PRISA I	3.3	19.1	-2.5	-1.1	NA	7/1/04	5.0
NCREIF ODCE	*3.0*	*16.0*	*-1.8*	*-0.3*	*6.2*		*5.0*

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

Aggregate Program
Performance Summary as of 12/31/11

	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 (x)
Total Program[4]		**90.0**	**75.9**	**21.0**	**20.3**	**43.5**	**63.8**	**-6.1**	**0.8**
Vintage Year 2005		**20.0**	**30.5**	**0.0**	**13.6**	**17.2**	**30.8**	**0.4**	**1.0**
DRA Growth & Income Fund V	Value-added	20.0	30.5	0.0	13.6	17.2	30.8	0.4	1.0
Vintage Year 2006		**20.0**	**18.2**	**1.8**	**1.9**	**4.1**	**6.0**	**-23.0**	**0.3**
GEAM Value Add Realty Partners, L.P.	Value-added	20.0	18.2	1.8	1.9	4.1	6.0	-23.0	0.3
Vintage Year 2007		**35.0**	**26.8**	**4.6**	**4.8**	**21.8**	**26.7**	**-0.4**	**1.0**
DRA Growth & Income Fund VI	Value-added	15.0	9.8	1.6	2.3	9.1	11.4	6.1	1.2
Fidelity Real Estate Growth Fund III	Value-added	20.0	17.1	2.9	2.6	12.7	15.3	-7.2	0.9
Vintage Year 2011		**15.0**	**0.4**	**14.6**	**0.0**	**0.4**	**0.4**	**NM**	**NM**
DRA Growth and Income Fund VII, LLC	Value-added	15.0	0.4	14.6	0.0	0.4	0.4	NM	NM

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 Internal rate of return (IRR) calculations were completed by Meketa Investment Group. Total Program and Vintage Year Net IRRs are net of fees, expenses, and carried interest to the Limited Partners.
4 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 fourth quarter, from -7.2% to -6.1%. The improved performance was driven primarily by increases in the valuations of Fidelity Real Estate Growth Fund III (7.5%), and DRA Growth & Income Fund V (1.2%). During the fourth quarter, the total reported fair value of the Aggregate Private Real Estate Program increased by $2.4 million, or 2.7%, after adjusting for capital calls and distributions that occurred during the quarter.

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

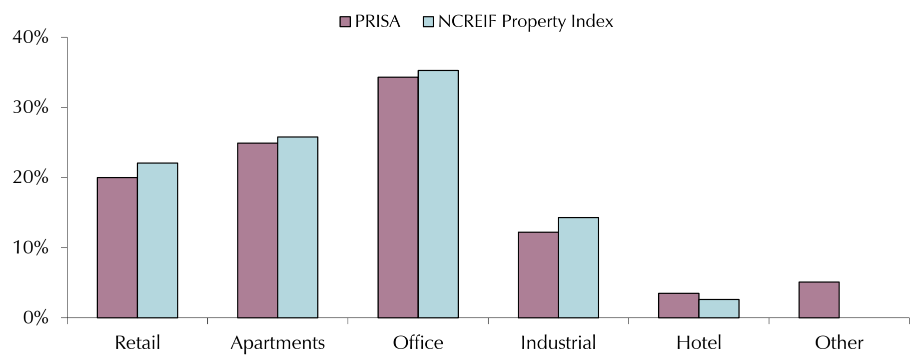
Individual Partnership Analyses
As of December 31, 2011

Strategy:	Real Estate Private Market Diversified Core
Market Value:	$28.3 million
Senior Professionals:	Kevin R. Smith
Location:	San Francisco, California
Inception Date:	6/30/2004
Account Type:	Commingled Fund
# of Investments:	230
Liquidity Constraints:	Quarterly (with 30 days advance notice)
Fee Schedule:	1.25% on first $25 mm; 1.15% on next $25 mm; 1.10% on next $50 mm; 1.05% on next $100 mm; 1.00% thereafter

Geographic Region:

Performance (%):	**4Q11**	**1 YR**	**3 YR**	**5 YR**	**10 YR**	**Since 7/1/04**
PRISA I	**3.3**	**19.1**	**-2.5**	**-1.1**	**NA**	**5.0**
NCREIF ODCE	3.0	16.0	-1.8	-0.3	6.2	5.0

Property Type:

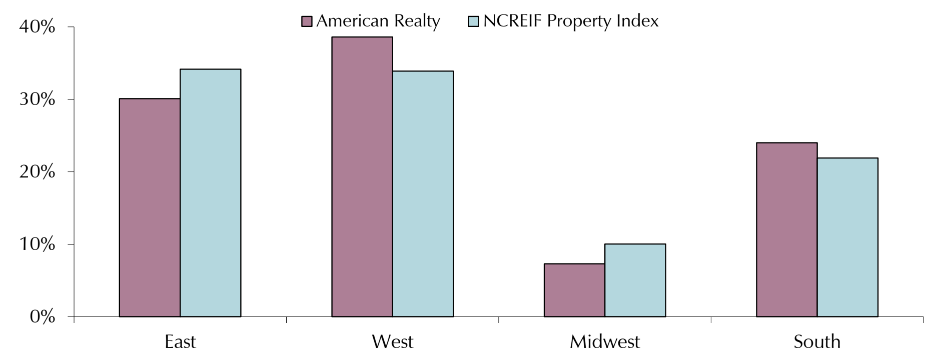


Investment Strategy: PRISA invests primarily in existing, income-producing properties with strong cash flow that is expected to increase over time and thereby provide the potential for capital appreciation. The account makes investments in office, retail, industrial, apartment, and hotel properties.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

American Core Realty Fund, LLC
Portfolio Detail as of 12/31/11

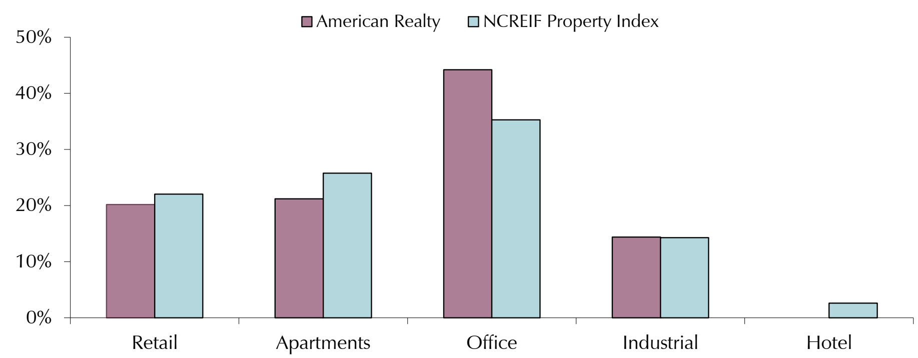
Strategy:	Real Estate Private Market Diversified Core
Market Value:	$17.4 million
Senior Professionals:	Greg Blomstrand
Location:	Glendale, California
Inception Date:	1/2/2007
Account Type:	Commingled Fund
# of Investments:	66
Liquidity Constraints:	Quarterly, payments usually delivered within 30 days
Fee Schedule:	0.85% on all assets; plus 0.50% disposition fee

Geographic Region:



Performance (%):	4Q11	1 YR	3 YR	5 YR	10 YR	Since 4/1/07
American Core Realty Fund, LLC	**2.8**	**15.0**	**-3.6**	**NA**	**NA**	**-1.1**
NCREIF ODCE	3.0	16.0	-1.8	-0.3	6.2	-1.4

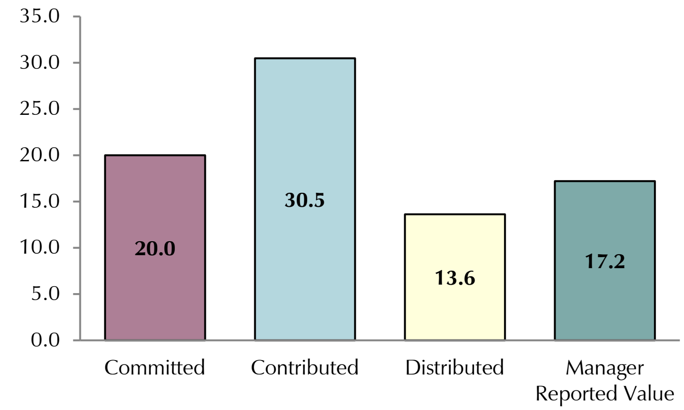
Property Type:



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

DRA Growth & Income Fund V
as of 12/31/11

General Partner	DRA Advisors LLC	**Commitment**	$20.0 million
Location	New York, NY	**Number of Investments**	17
Auditor	WeiserMazars LLP	**Capital Contributions**	$30.5 million
Strategy	Value-added	**Realized Proceeds**	$13.6 million
Vintage Year	2005	**Manager Reported Value**	$17.2 million
Fund Size	$1,000.0 million	**Total Value**	$30.8 million
Fund Duration	10 years	**% of Program**	19.3%
Fee Schedule	0.9% of gross invested capital 7.0% + CPI preferred return 15.0% carried interest	**Net IRR**	0.4%
		N/T Median IRR[1]	-8.9%



Investment Strategy

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

Portfolio Review

There was no investment activity within the portfolio during the fourth quarter.

During the fourth quarter, the Partnership sold four assets for $97.1 million, achieving an IRR of 10.5%.

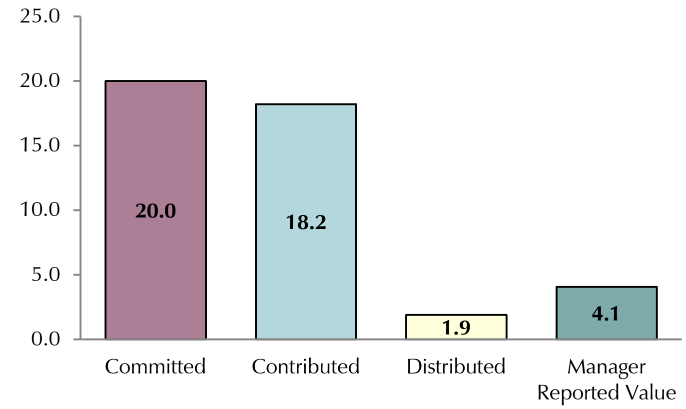
Portfolio Performance

During the three month period ended December 31, 2011, the Partnership's net IRR increased to 0.4%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 1.2%.

[1] The referenced benchmark is the NCREIF Townsend 2005 vintage, closed-ended, value-added median net IRR as of December 31, 2011.

GEAM Value Add Realty Partners, L.P.
as of 12/31/11

General Partner	GE Asset Management Incorporated	**Commitment**	$20.0 million
Location	Stamford, CT	**Number of Investments**	14
Auditor	KPMG	**Capital Contributions**	$18.2 million
Strategy	Value-added	**Realized Proceeds**	$1.9 million
Vintage Year	2006	**Manager Reported Value**	$4.1 million
Fund Size	$380.8 million	**Total Value**	$6.0 million
Fund Duration	8 Years	**% of Program**	4.6%
Fee Schedule	GP won't disclose publicly	**Net IRR**	-23.0%
		N/T Median IRR[1]	-2.4%



Investment Strategy

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

Portfolio Review

There was no investment activity within the portfolio during the fourth quarter.

In December, the Partnership distributed the proceeds from three properties sold throughout 2011.

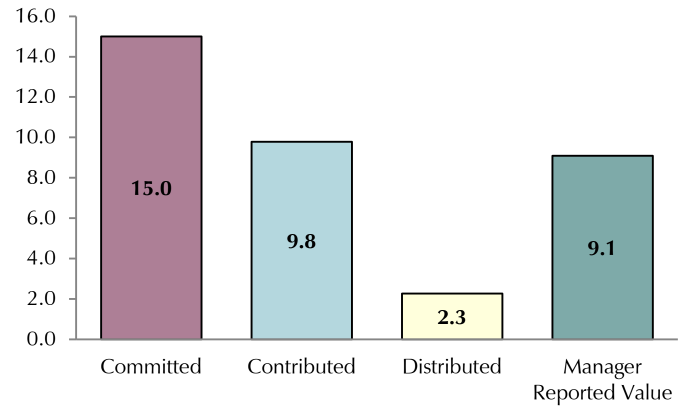
Portfolio Performance

During the three month period ended December 31, 2011, the Partnership's net IRR increased to -23.0%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation decrease of 0.2%.

[1] The referenced benchmark is the NCREIF Townsend 2006 vintage, closed-ended, value-added median net IRR as of December 31, 2011.

DRA Growth & Income Fund VI
as of 12/31/11

General Partner	DRA Advisors LLC	**Commitment**	$15.0 million
Location	New York, NY	**Number of Investments**	12
Auditor	WeiserMazars LLP	**Capital Contributions**	$9.8 million
Strategy	Value-added	**Realized Proceeds**	$2.3 million
Vintage Year	2007	**Manager Reported Value**	$9.1 million
Fund Size	$1,250.0 million	**Total Value**	$11.4 million
Fund Duration	10 years	**% of Program**	10.2%
Fee Schedule	0.9% of gross invested capital 8.0% preferred return 15.0% carried interest	**Net IRR**	6.1%
		N/T Median IRR[1]	-2.4%



Investment Strategy

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

Portfolio Review

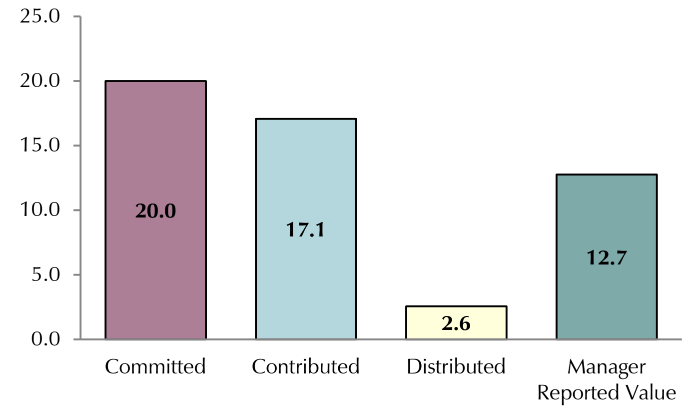
There was no investment activity within the portfolio during the fourth quarter.

Portfolio Performance

During the three month period ended December 31, 2011, the Partnership's net IRR decreased to 6.1%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 1.0%.

[1] The referenced benchmark is the NCREIF Townsend 2007 vintage, closed-ended, value-added median net IRR as of December 31, 2011.

General Partner	Long Wharf Real Estate Partners, LLC [1]	**Commitment**	$20.0 million
Location	Boston, MA	**Number of Investments**	30
Auditor	PriceWaterhouseCoopers	**Capital Contributions**	$17.1 million
Strategy	Value-added	**Realized Proceeds**	$2.6 million
Vintage Year	2007	**Manager Reported Value**	$12.7 million
Fund Size	$875.0 million	**Total Value**	$15.3 million
Fund Duration	8 Years	**% of Program**	14.3%
Fee Schedule	1.0% of commitments 10.0% preferred return 17.5% carried interest	**Net IRR**	-7.2%
		N/T Median IRR[2]	-2.4%



Investment Strategy

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

Portfolio Review

The Partnership made three primary new investments during the fourth quarter. The Partnership's investment period expired during the fourth quarter, which means that no new platform investments will be made going forward.

The Partnership distributed $62.0 million in proceeds to investors during the quarter, generated by rental income and net proceeds from a sale.

Portfolio Performance

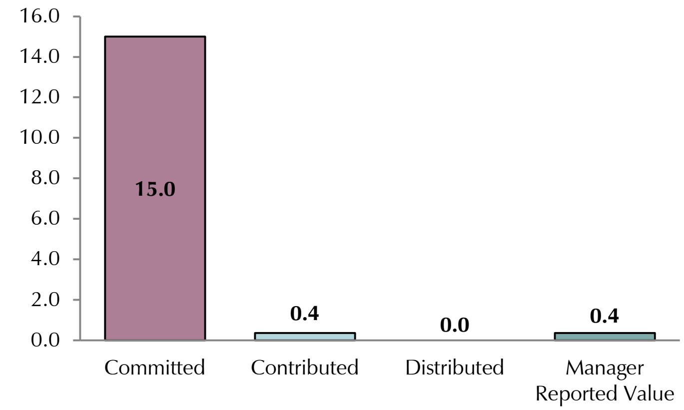
During the three month period ended December 31, 2011, the Partnership's net IRR increased to -7.2%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 7.5%.

[1] On July 5, 2011, the team that comprised the Fidelity Real Estate Group and managed Fidelity Real Estate Growth Fund III became Long Wharf Real Estate Partners. Although the name of the General Partner has changed, the Partnership will continue to be known as Fidelity Real Estate Growth Fund III.

[2] The referenced benchmark is the NCREIF Townsend 2007 vintage, closed-ended, value-added median net IRR as of December 31, 2011.

DRA Growth and Income Fund VII, LLC
as of 12/31/11

General Partner	DRA Advisors LLC	**Commitment**	$15.0 million
Location	New York, NY	**Number of Investments**	7
Auditor	WeiserMazars LLC	**Capital Contributions**	$0.4 million
Strategy	Value-added	**Realized Proceeds**	$0.0 million
Vintage Year	2011	**Manager Reported Value**	$0.4 million
Fund Size	$1,000.0 million	**Total Value**	$0.4 million
Fund Duration	10 years	**% of Program**	0.4%
Fee Schedule	0.9% of gross invested capital 8.0% preferred return 15.0% carried interest	**Net IRR**	NM
		N/T Median IRR	NA



Investment Strategy

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

Portfolio Review

The Partnership held its final closing on October 3, 2011 with $1.0 billion in capital commitments.

During the fourth quarter, DRA made its first capital call of $24.0 million to support five investments.

There was no realization activity within the portfolio during the fourth quarter.

Portfolio Performance

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

Private & Opportunistic Debt Program

Introduction
As of December 31, 2011

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

As of December 31, 2011, 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 $70.0 million at December 31, 2011.

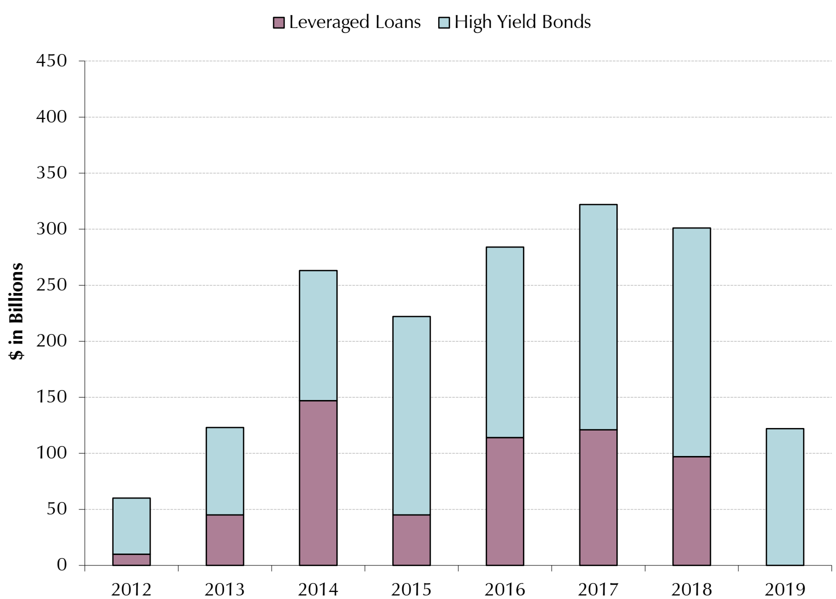
Aggregate Private Debt	
Number of Partnerships	3
Committed Capital	$150.0 million
Capital Called	$72.2 million
Distributions	$4.3 million
Reported Value	$70.0 million
Total Value Multiple	1.0x
Net IRR	6.8%

Market and Industry Analysis
As of December 31, 2011

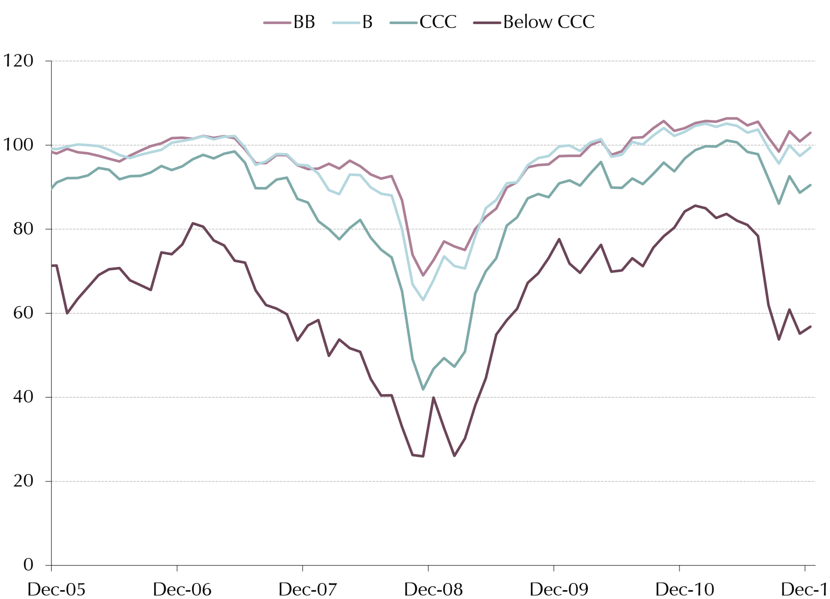
Debt Markets in 2011

After a relatively stable first half of 2011, U.S. debt markets experienced significant volatility starting in early August when Standard & Poor's downgraded the U.S. government's long-term sovereign credit rating from AAA to AA+. At that time, the average price of U.S. high yield debt fell by more than 5% while equity markets saw even greater short-term declines. The high yield spread over Treasuries widened by more than 150 bps during August as Treasuries, somewhat ironically, staged a strong rally in the overall flight to quality after the downgrade. Weakness continued into September, with prices falling another 4% and spreads widening by another 100 bps during the month, with negative sentiment exacerbated by renewed fears of a European sovereign debt crisis. While still centering on Greece, European debt fears were increasingly spreading to other European peripheral countries, most notably Italy and Spain. By October, U.S. debt markets had largely stabilized and began a partial rebound throughout the fourth quarter to end the year at price and spread levels even with August. Weakness in Europe peaked slightly later, and Italy held sovereign debt auctions in November resulting in Euro-record yields of more than 7.5%, before settling below 7.0% by the end of December. Also at the end of December, the European Central Bank funded the first tranche of its Long Term Refinancing Operation, providing €500 billion of low cost loans to European banks to help shore up balance sheets.

U.S. Maturity Schedule[1]



U.S. Corporate High Yield – Average Price[2]

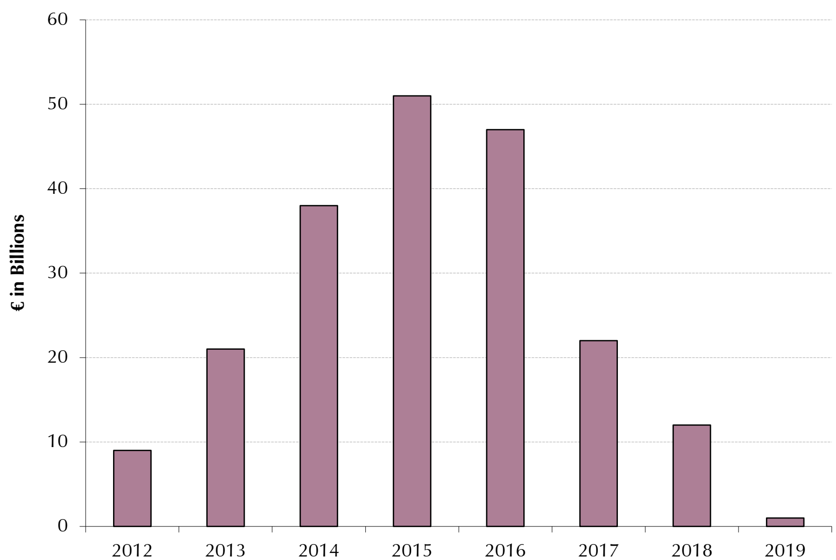


[1] Source: JP Morgan, as of December 31, 2011
[2] Source: Barclays Capital

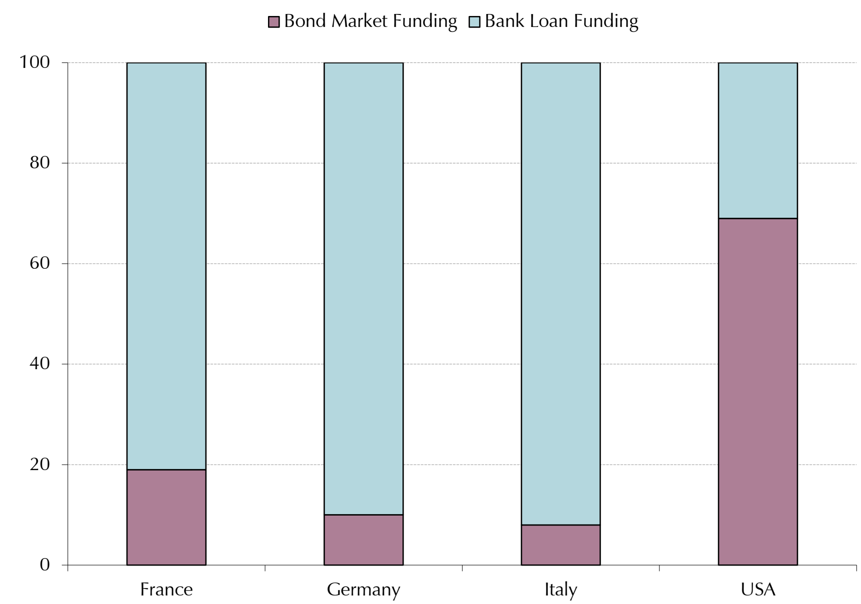
Distressed & Opportunistic Debt

Debt market volatility in the third quarter provided an attractive, though short-lived, opportunity for trading-oriented distressed debt managers to initiate or add to positions at relatively low prices. Those managers will need to continue to be nimble in taking advantage of future volatility, which may be similarly short-lived, but the third quarter did appear to be a validation of their claim that opportunities do remain for patient capital providers. Further, as shown in the chart above, the spread between the lowest quality high yield securities has widened, reflecting both short-term risk of default and the overall reluctance by investors to take additional credit risk without adequate compensation. The longer term outlook, including for control-oriented distressed debt strategies, remains strong, supported by the $1.7 trillion of upcoming high yield and leveraged loan maturities by 2019. Similarly, Europe remains a potentially attractive opportunity, with less overall debt outstanding but also a much less robust high yield market to deal with those upcoming capital needs, and therefore a greater proportion of near term maturities. As banks continue to need to de-lever their balance sheets, particularly in the face of persistent sovereign debt concerns, there should be increasing opportunities to purchase both distressed and performing debt assets at attractive prices. Although the timing of this opportunity remains somewhat uncertain, European debt managers have already reported asset purchases at average prices in the mid-60s.

European Maturity Schedule[1]



Relative Size of Loan vs. Bond Markets[2]



[1] Source: Credit Suisse 2012 Leveraged Finance Outlook
[2] Source: Bank of America-Merrill Lynch, as of December 31, 2011

Mezzanine Debt

Mezzanine debt fundraising remained relatively active during the year, as fund managers continued to see robust investor demand. Following a similar trend as the public high yield market, mezzanine debt managers reported somewhat increased competition for deals and pricing pressure in the first half of 2011, and deals being completed at slightly elevated total leverage levels, though still well below the total leverage seen prior to the Global Financial Crisis. In the third quarter, pricing pressure and total leverage both eased, reflective of the overall reduced willingness for investors to take higher risk in the debt markets. Many mezzanine strategies also saw increased realizations during the year, both from the increased buyout activity and through refinancing of mezzanine debt by portfolio companies into lower cost capital structures.

Economic Update

2011 was a turbulent year from a macroeconomic perspective with persistent concerns originating from the European Union's sovereign debt issues. Several countries, already saddled with high debt burdens, faced shrinking economies and revenue bases. Lacking the ability to print money, many governments were forced into austerity and were required to bring down their sovereign debt levels. This negatively impacted consumer and business confidence. Further, due to banks' exposure to sovereign debt, credit flow was reduced meaningfully. In December, the European Central Bank (ECB) agreed to provide over $1 trillion of loans to banks, at low interest rates, to shore up their capital bases. This was a welcome relief for the global markets; however, since much of the debt was used to shore up balance sheets and support sovereign debt, credit to the private sector continued to be hampered.

Despite major challenges to the global economy coming from the European Union, the global economy grew by 3.8% in 2011[1]. The U.S. economy, despite a high level of exposure to the Euro zone, was able to grow at 1.7%[2] based on continued stimulus through the Fed's zero interest rate policy, improved consumption, and better manufacturing output supported by increasing exports. Still, the U.S. economic recovery continued to be slow and the sensitive nature of global economic recovery made it difficult to make major policy changes. In 2011, the Federal Reserve announced that it plans to keep interest rates at the current level for at least second half of 2013, demonstrating consternation surrounding sustained economic growth.

Market Outlook

Meketa Investment Group continues to believe that an allocation to private debt strategies offers portfolio diversification and reduced volatility. Short-term opportunities through trading-oriented and non-control distressed debt strategies may continue to be somewhat limited, although recent market volatility has provided renewed entry points for distressed debt managers. Additionally, as outlined above, control-oriented distressed debt managers are likely to see a longer-term opportunity to benefit from upcoming debt maturities, despite those maturities having largely been pushed back to the latter part of the decade. Although with still somewhat uncertain timing, Europe remains poised to provide highly attractive opportunities for debt strategies, and warrants continued monitoring.

[1] Source: IMF
[2] Source: Bureau of Economic Analysis

Private & Opportunistic Debt Program
As of December 31, 2011

Executive Summary
As of December 31, 2011

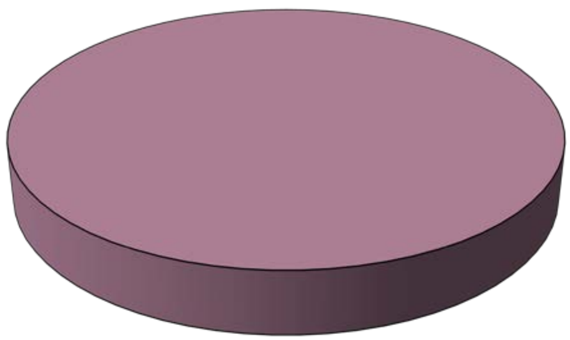
In aggregate, $28.4 million of capital was called from the Retirement System during the fourth quarter of 2011 by the underlying partnerships.

- The most significant drawdowns during the quarter came from Medley Opportunity Fund II, which called a total of $13.7 million to fund existing investments.
- White Oak Direct Lending called $8.4 million during the quarter, of which $2.1 million was funded through recycling. The majority of the capital called during the quarter was not invested as of December 31, 2011. However, $2.6 million was invested in two companies during the quarter.
- GSO Direct Lending called $6.3 million during the quarter, primarily to fund a new investment.

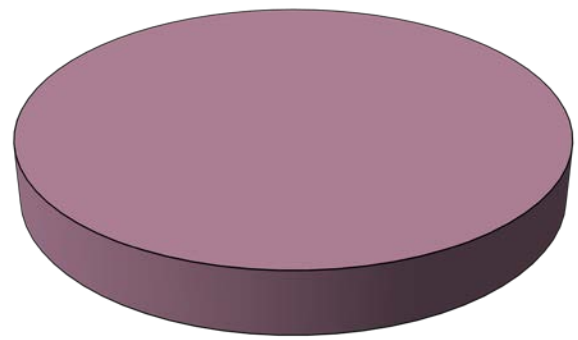
The Retirement System received an aggregate of $2.3 million in distributions during the fourth quarter of 2011 from its underlying partnerships.

- White Oak Direct Lending received $2.1 million of interest and principal repayments, which was recycled back into the Partnership.
- GSO Direct Lending distributed $0.1 million of interest income during the quarter.

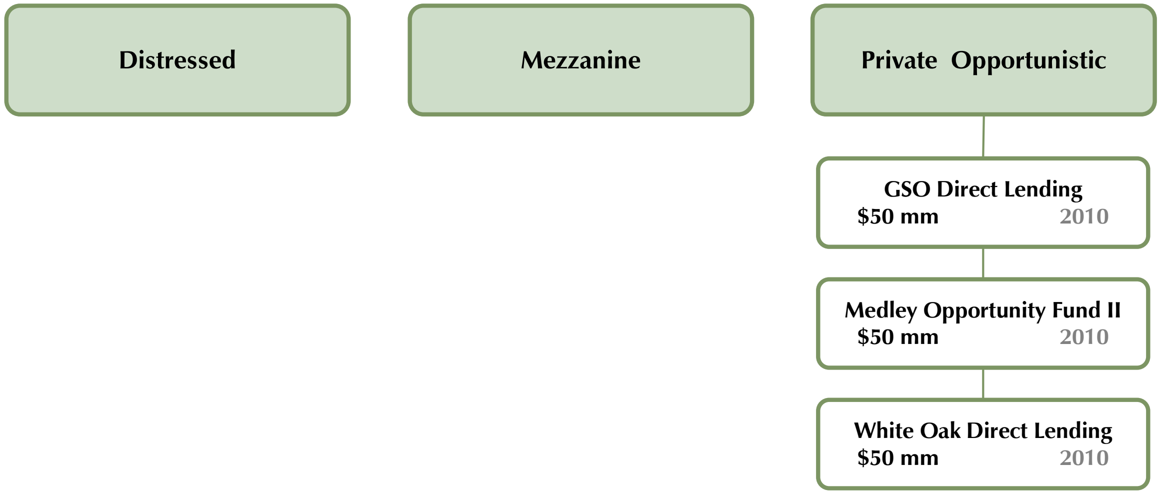
Diversification by Investment Strategy[1]



Diversification by Vintage Year[1]



[1] These charts were created using the fair value of the Program as of December 31, 2011.

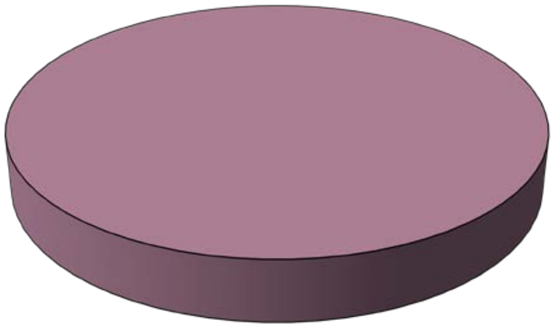


- The chart above shows current commitments made to partnerships by the Retirement System.

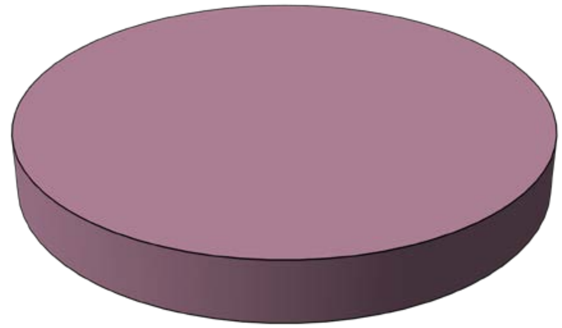
Aggregate Private & Opportunistic Debt Portfolio
As of December 31, 2011

Aggregate Private & Opportunistic Debt Program Breakdown as of 12/31/11

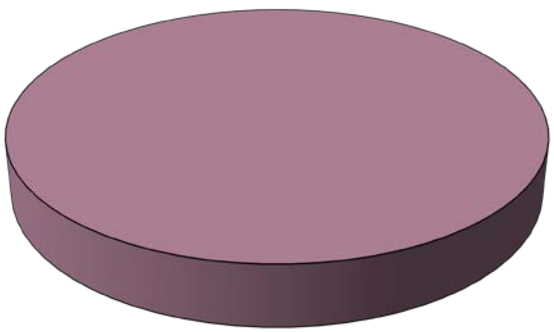
Commitment



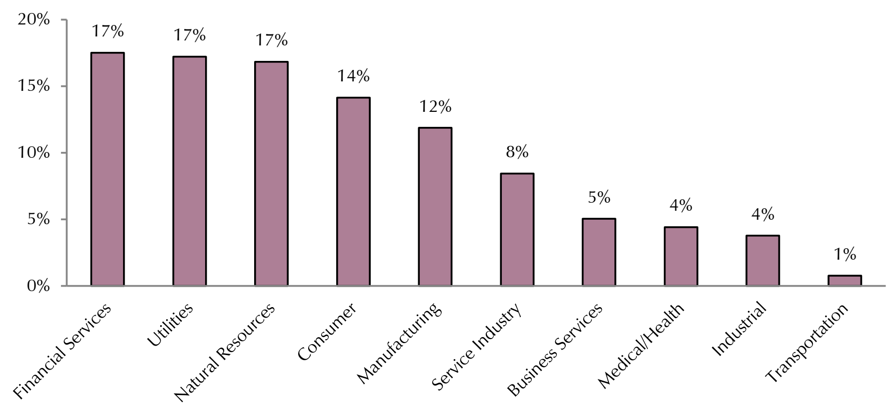
Geography[1]



Reported Fair Value[1]



Industry



[1] These charts were created using the fair value of the Retirement System's private & opportunistic debt investments as of December 31, 2011.

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

Aggregate Program
Performance Summary as of 12/31/11

	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 (x)
Total Program		**150.0**	**72.2**	**82.3**	**4.3**	**70.0**	**74.3**	**NM**	**NM**
Vintage Year 2010		**150.0**	**72.2**	**82.3**	**4.3**	**70.0**	**74.3**	**NM**	**NM**
GSO Direct Lending	Private Debt	50.0	13.7	36.6	0.4	15.0	15.4	NM	NM
Medley Opportunity Fund II, L.P.	Private Debt	50.0	31.6	18.4	0.0	31.9	31.9	NM	NM
White Oak Direct Lending	Private Debt	50.0	26.9	27.3	3.8	23.1	26.9	NM	NM

[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 includes recallable distributions.
[4] Distributions may include capital that was recycled back into the Partnership.
[5] Internal rate of return (IRR) calculations were completed by Meketa Investment Group.

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.

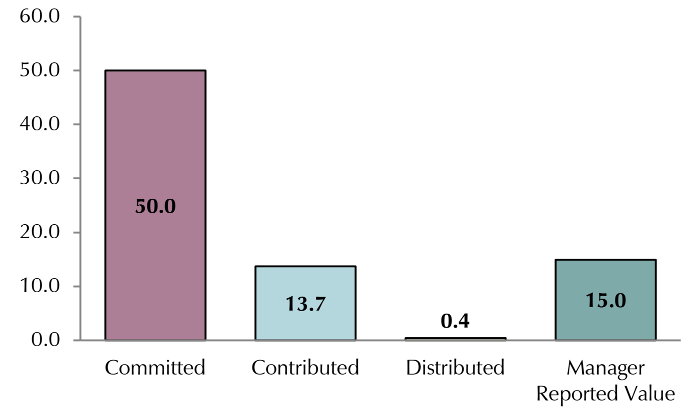
The Private & Opportunistic Debt Program is at a very early stage in its life and, therefore, performance calculation is not yet meaningful.

Individual Partnership Analyses
As of December 31, 2011

GSO Direct Lending as of 12/31/11

General Partner	GSO Capital Partners
Location	New York, NY
Auditor	Deloitte & Touche LLP
Strategy	Opportunistic Debt
Vintage Year	2010
Fund Size	$100.0 million
Fund Duration	7 years
Fee Schedule	1.5% of invested capital 8.0% preferred return 20.0% carried interest

Commitment	$50.0 million
Number of Investments	4
Capital Contributions[1]	$13.7 million
Realized Proceeds	$0.4 million
Manager Reported Value	$15.0 million
Total Value	$15.4 million
% of Program	21.4%
Net IRR	NM
ThomsonOne Median IRR[2]	3.8%



Investment Strategy

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

Portfolio Review

During the fourth quarter of 2011, the Partnership completed a new investment in a company that engages in the acquisition, development, exploration and production of natural gas and oil properties in the United States.

The Partnership distributed $0.1 million of interest income from existing investments during the period.

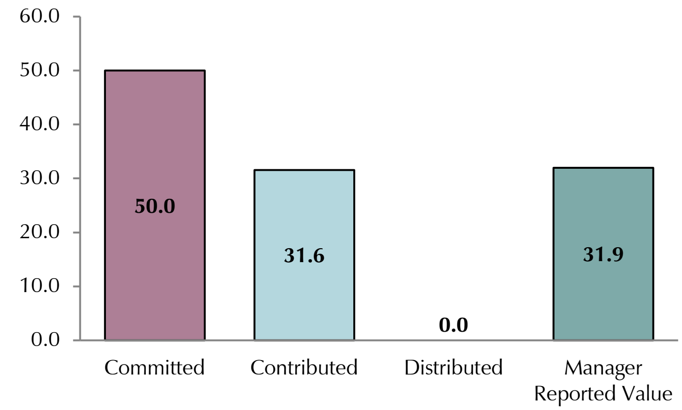
Portfolio Performance

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

[1] Total contributions include management fees paid outside of capital committed.
[2] The Benchmark for all partnerships in the Private & Opportunistic Debt Program is the ThomsonOne U.S. All Private Equity Median Quartile IRR as of December 31, 2011.

Medley Opportunity Fund II, L.P.
as of 12/31/11

General Partner	Medley Capital	**Commitment**	$50.0 million
Location	New York, NY	**Number of Investments**	11
Auditor	Deloitte & Touche LLP	**Capital Contributions**	$31.6 million
Strategy	Opportunistic Debt	**Realized Proceeds**	$0.0 million
Vintage Year	2010	**Manager Reported Value**	$31.9 million
Fund Size	$308.1 million	**Total Value**	$31.9 million
Fund Duration	7 years	**% of Program**	45.6%
Fee Schedule	2.0% of commitments 8.0% preferred return 20.0% carried interest	**Net IRR**	NM
		ThomsonOne Median IRR[1]	3.8%



Investment Strategy

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

Portfolio Review

During the fourth quarter of 2011, the Partnership called $13.7 million to fund several existing debt investments.

There was no capital distributed from the portfolio during the fourth quarter.

Portfolio Performance

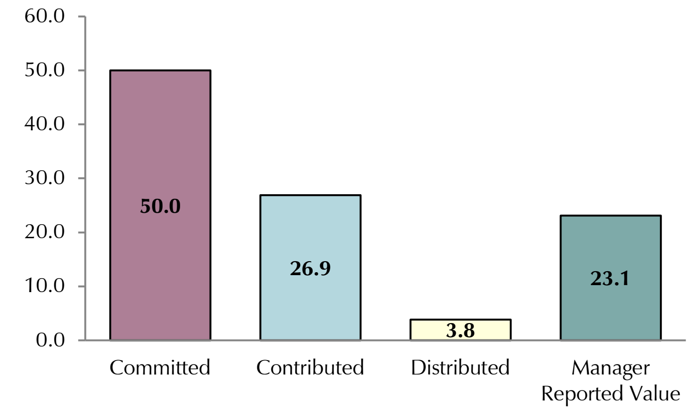
The Partnership is at an early stage in its life and, therefore, performance calculation is not yet meaningful.

[1] The Benchmark for all partnerships in the Private & Opportunistic Debt Program is the ThomsonOne U.S. All Private Equity Median Quartile IRR as of December 31, 2011.

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

White Oak Direct Lending
as of 12/31/11

General Partner	White Oak Global Advisors, LLC	**Commitment**	$50.0 million
Location	San Francisco, CA	**Number of Investments**	7
Auditor	Harb, Levy & Weiland LLP	**Capital Contributions**[1]	$26.9 million
Strategy	Opportunistic Debt	**Realized Proceeds**	$3.8 million
Vintage Year	2010	**Manager Reported Value**	$23.1 million
Fund Size	$50.0 million	**Total Value**	$26.9 million
Fund Duration	Open-ended	**% of Program**	33.0%
Fee Schedule	1.75% of fair market value 8.0% preferred return 20.0% carried interest	**Net IRR**	NM
		ThomsonOne Median IRR[2]	3.8%



Investment Strategy

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

Portfolio Review

During the fourth quarter of 2011, the Partnership called $8.4 million to fund new loans, of which $2.1 million was funded through recycling.

During the same period, the Partnership received interest and principal repayments of $2.1 million, which was recycled back into the Partnership.

Portfolio Performance

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

[1] Total contributions include management fees paid outside of capital committed.
[2] The Benchmark for all partnerships in the Private & Opportunistic Debt Program is the ThomsonOne U.S. All Private Equity Median Quartile IRR as of December 31, 2011.

Appendices
As of December 31, 2011

Disclaimers and Valuation Policies
As of December 31, 2011

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 audited reports for December 31, 2011, 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 of the final closing of a private equity partnership is defined as its vintage year, and is used to differentiate the different funds established over the course of time by the same team of General Partners.

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 of the final closing of a private markets partnership is defined as its vintage year, and is used to differentiate the different funds established over the course of time by the same team of General Partners.

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.

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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.

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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 of the final closing of a private equity partnership is defined as its vintage year, and is used to differentiate the different funds established over the course of time by the same team of General Partners.

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.