San Jose Federated City Employees' Retirement System

PUBLIC VERSION

December 31, 2014

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Private Equity Program

Introduction
As of December 31, 2014

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

As of December 31, 2014, the San Jose Federated City Employees' Retirement System had committed $155.1 million to six partnerships (two fund of funds, three secondary funds, and one buyout fund). The reported fair value of the aggregate Private Equity Program was $99.0 million at December 31, 2014.

Aggregate Private Equity Program[1]	
Number of Partnerships	6
Committed Capital[2]	$155.1 million
Capital Called	$134.7 million
Distributions	$89.3 million
Reported Value[3]	$99.0 million
Total Value Multiple	1.4x
Net IRR[4]	7.8%

1 Throughout this report, numbers may not sum due to rounding.
2 One of the partnership commitments is made in a foreign currency. This total reflects committed capital in dollars, adjusted for foreign currency exchange rates, as of the report date.
3 Includes estimated manager reported fair market value for Pathway Private Equity Fund VIII as of December 31, 2014.
4 Net IRR is net of fees, expenses, and carried interest for each partnership.

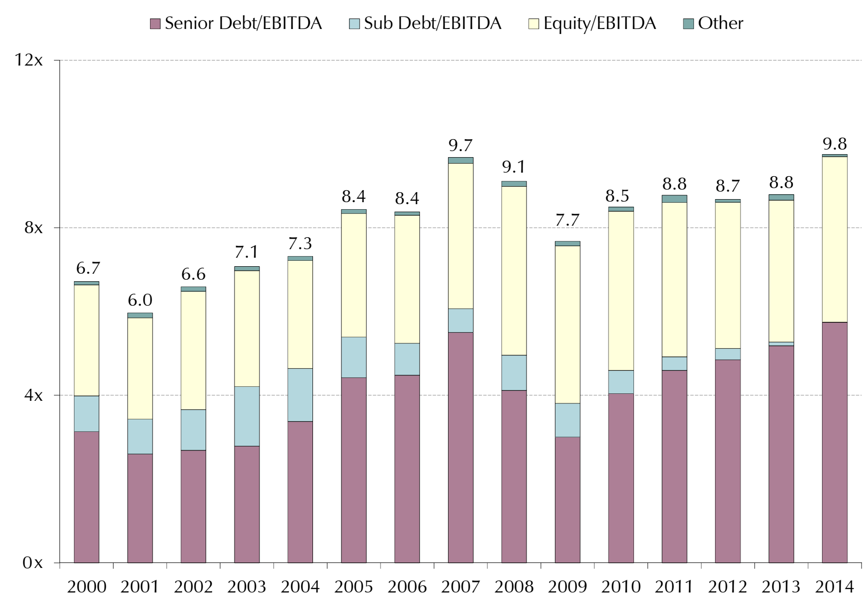
Market and Industry Analysis
As of December 31, 2014

Private Equity in 2014

Private Equity in 2014 experienced a standout year in distributions to limited partners, while fundraising and new investments held largely steady with the prior year. Improved market conditions, characterized by supportive M&A activity, rising public market valuations in North America, and a robust debt market continued to drive exit value in private equity buyout investments. Meanwhile, dry powder levels for overall private equity reached $1.2 trillion at the end of December[1], raising concerns of increasing competition between partnerships to find attractive deals. Venture capital fundraising, investment pace, and distribution activity continued their momentum in 2014. Venture capital in North America continued to lead the way in terms of investment activity and fundraising with China now second, jumping ahead of Europe. Fundraising for Europe-focused funds amassed to $131.0 billion, the largest total for the region since the financial crisis, with investors viewing such investments as contrarian given the continued fears over the Eurozone economy. Asia-focused funds raised $55.0 billion in 2014. China accounted for $20.0 billion, which represents a five-year low as the exit environment in Asia still remained a concern for investors.

Global Fundraising[1]

Purchase Price break-down All LBO, North America[2]



[1] Source: Preqin
[2] Source: S&P Leverage Finance

Buyout

North American buyout activity continued to surpass all other regions in fundraising amount and aggregate investment value, representing 62% and 55%, respectively, of the global total in 2014[1]. After showing restraint in 2013, North American buyout valuations reported by S&P Capital IQ averaged 9.8x trailing EBITDA through December 2014. Debt markets were active with covenant-lite deals again becoming common. Debt levels for all U.S. buyouts averaged approximately 5.7x trailing EBITDA through December 2014. The largest North American deal was 3G Capital-backed Burger King's acquisition of Tim Hortons, valued at $11.5 billion. The services and leasing sector comprised 20.6% of the aggregate buyout volume, followed by the computer and electronics sector at 17.2% and the healthcare sector at 11.2%. The European buyout market represented 30% by number and 28% by aggregate value of global deals. Meanwhile, the Asia buyout market represented 8% of all deals globally and 13% of the global aggregative value. In terms of exits by type, trade sales represented the largest at 59% of total global aggregate value, with IPOs at 20%, which was a decrease from 27% in 2013. There was also a resurgence in the sale-to-GP category driven by capital overhang and pressure to return cash back to investors.

Private Debt

While default rates remained low, the high yield market exhibited price volatility that had not been seen in over two years. Distressed and opportunistic managers used the price volatility as an entry point to buy debt of highly leveraged companies that they believed was priced too richly without an adequate margin of safety prior to the correction. Many managers directed their efforts to the energy sector and many even raised dedicated funds and accounts that will focus on energy companies. Although the actual default rate remained low, there was $24.2 billion of defaulted debt during the year, the most since 2009. These defaults gave control oriented distressed managers opportunities to restructure companies and take them over. Mezzanine managers continued to see active competition on deals both in terms of price and structure. Both private and public (BDC) direct lending managers were very actively raising capital, and these lenders have moved further down the capital structure resulting in an increase in unitranche and second lien transactions. As a result, pricing in terms of both coupon rates and ancillary deal terms remained pressured, which may create a drag on future mezzanine partnership returns, though potentially providing a benefit to buyout partnerships that employ mezzanine debt.

Venture Capital

2014 proved to be another strong year for global venture capital investment, which reached its highest level since 2000. Many successful start-up companies are staying private longer and raising capital at increasingly lofty valuations, in part related to new investor entrants such as mutual funds and hedge funds. The ride-sharing company, Uber, raised a $1.2 billion round of capital in December valuing the company at a $40.0 billion, more than double its prior $17.0 billion valuation. Joining Uber in the small but growing group of venture-backed companies valued over $10.0 billion were Flipkart, Snapchat, Airbnb, and Xiaomi, among others. Venture capital exits, particularly in the internet and software segments, continued at a fast pace throughout the year. One of the highly anticipated events for venture capitalists during the year was the IPO of Alibaba, the dominant Chinese e-commerce company. The company successfully listed in September 2014 raising $25 billion and valuing the company at more than $200 billion. In terms of fundraising, North America-focused funds remained dominant, while Asia-focused funds raised nearly three times 2013's capital levels and Europe-focused fundraising grew slightly from 2013. As in prior years, concerns continued to be raised over lofty valuations of VC-backed companies even within the venture community.

[1] Source: Preqin

The Global Economy

The global economy continued to experience only modest over growth six years removed from the global financial crisis. Countries such as the United States and the United Kingdom fared relatively better, while countries in the Euro-area, Japan, and Latin America continued to face headwinds. Global GDP grew at 3.3% in 2014, which remains flat compared to the prior year rate; advanced economies grew at an overall rate of 1.8%, while developing and emerging economies grew at 4.4%.

One of the dominant headlines of the year was the nearly 55% drop in oil prices in the second half of the year, which in the short-term should benefit net oil importing countries in the Euro-area, China, Japan and, India, while serving as a drag on net oil exporting economies such as Saudi Arabia, Russia, and Venezuela. Major economies, including Brazil, faced a challenging 2014, growing at a meager 0.1% while Russia was impacted by the lower oil prices and increased geopolitical tensions. China's economic growth has gradually decelerated as the country structurally shifts from an export-led economy to a consumption-driven economy, while also dealing with an overheated property market and companies and local governments that have become overly-leveraged. India was one of the rare bright spots among emerging markets and looks promising as reform momentum picked up after the election of Prime Minister Modi. Concerns about long-term growth prospects continued to weigh over the Euro-area as growth has been weaker than anticipated.

The United States saw unemployment drop to 5.6%, improved housing market conditions, and increased private consumption growth due to declining oil prices. With diminishing slack in the economy, the Federal Reserve was seen as likely to raise the federal funds rates sometime in 2015, although tightening is likely to remain gradual and timing uncertain. Developed markets growth in 2015 should continue to be led by the United States with gradual improvements in the Euro-area, and global growth may benefit from receding headwinds in emerging economies.

Private Equity Program
As of December 31, 2014

Executive Summary
As of December 31, 2014

The Retirement System did not make any new commitments during the fourth quarter of 2014.

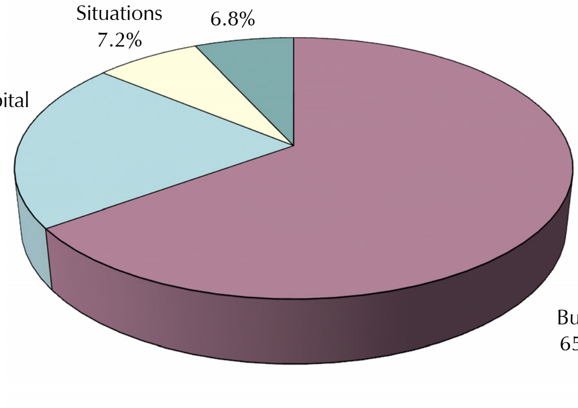
In aggregate, $2.2 million of capital was called from the Retirement System during the fourth quarter of 2014 by the underlying partnerships.

- Pantheon USA Fund VII called $1.4 million from the Retirement System to fund existing underlying partnership investments particularly in the buyout sector.
- Partners Group Secondary 2011 called $0.6 million to fund various partnerships.
- Great Hill Equity Partners IV called $0.2 million as part of a majority recapitalization of a company.

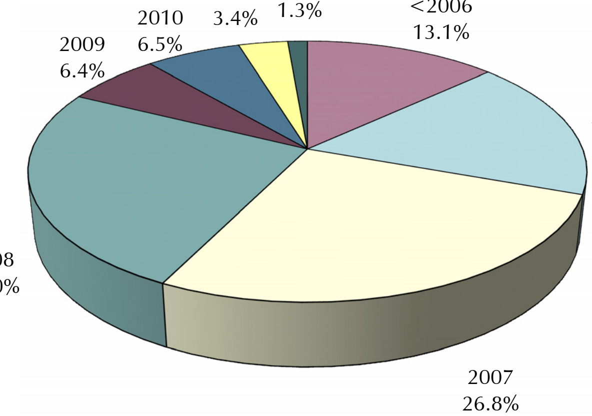
Distributions received by the Retirement System from underlying partnerships during the fourth quarter totaled $8.2 million.

- Pantheon USA Fund VII distributed $3.3 million of proceeds from underlying partnerships. The partnership distributed 19.5% of capital commitments in 2014.
- Pathway Private Equity Fund VIII distributed $2.4 million of proceeds from the portfolio's underlying partnerships.
- Partners Group Secondary 2011 distributed $1.0 million of proceeds from several of its underlying partnerships.
- Pantheon Global Secondary Fund III 'B' distributed $0.6 million largely from distributions.

Diversification by Investment Strategy[1]



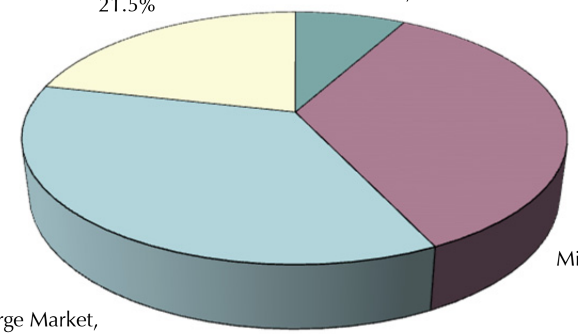
Diversification by Vintage Year[1]



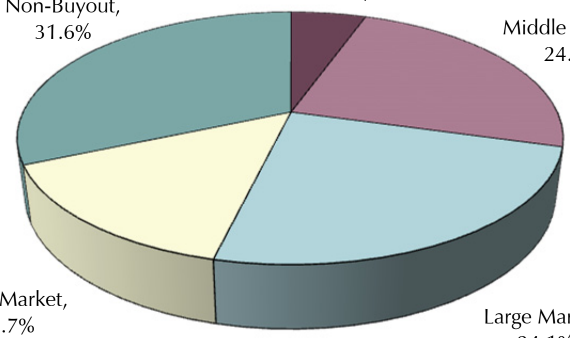
[1] These charts were created using the fair value of the Program as of December 31, 2014. The data includes the strategy and vintage year of underlying investments made by Secondary Funds and Fund of Funds.

Breakdown of Buyout Positions as of 12/31/14

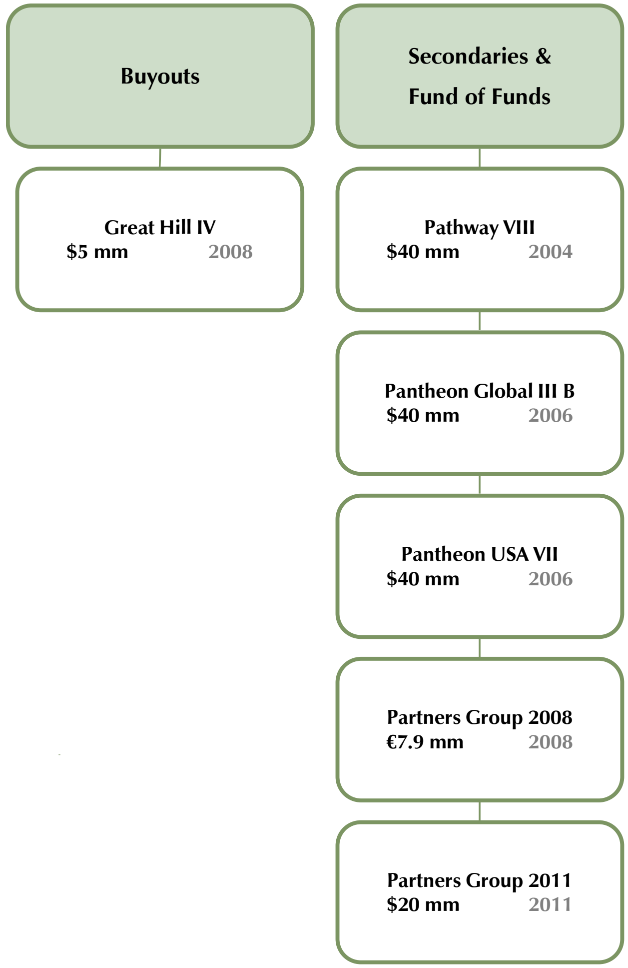
Buyout Exposure by Market Size[1,2]



Total PE Exposure by Buyout Market Size[1]



1 These charts were created using the fair value of the Program as of December 31, 2014.
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.

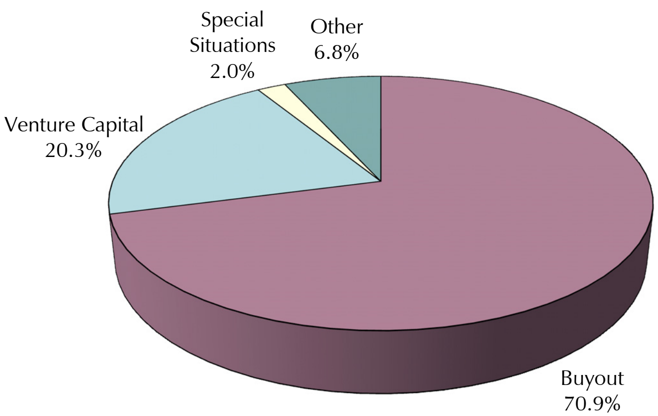


- The chart above shows current commitments made to partnerships by the Retirement System.

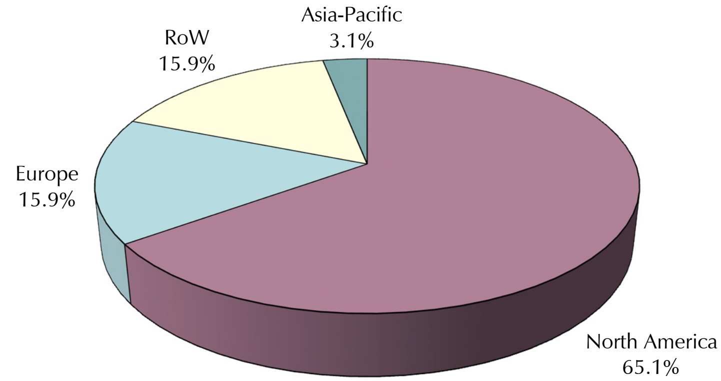
Aggregate Private Equity Portfolio
As of December 31, 2014

Aggregate Program
Portfolio Diversification as of 12/31/14

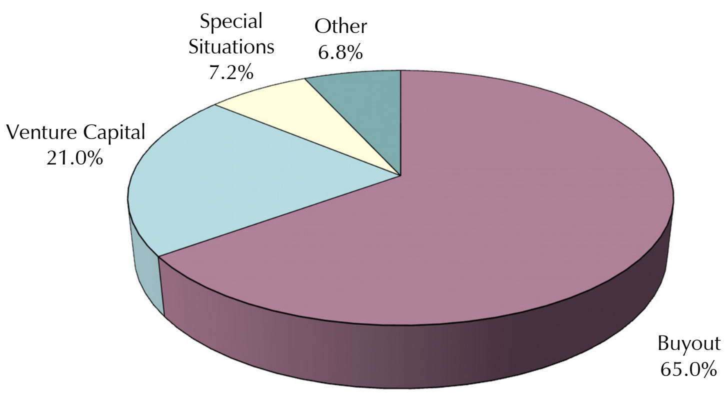
Commitment



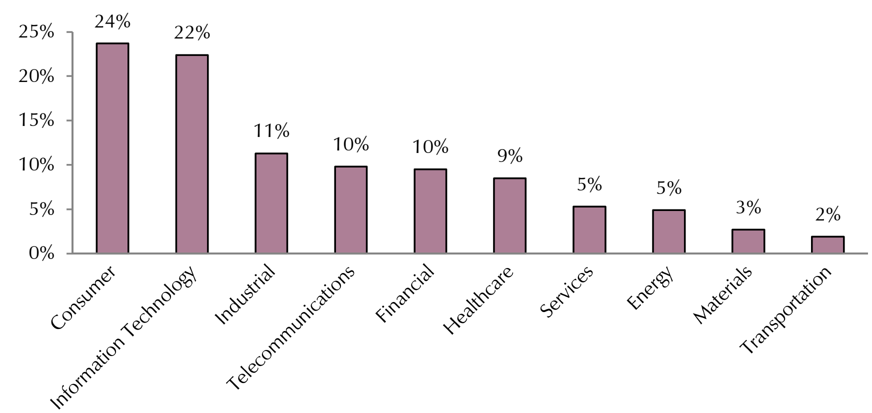
Geography[1]



Reported Fair Value[1]



Industry[1]



[1] These charts were created using the fair value of the Program as of December 31, 2014.

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date[1] ($ mm)	Unfunded Commitment[2] ($ mm)	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions ($ mm)	Net IRR[3] (%)	Inv. Multiple[4] (x)
Total Program		**155.1**	**134.7**	**22.0**	**89.3**	**99.0**	**188.2**	**7.8**	**1.4**
Vintage Year 2004		**40.0**	**38.8**	**1.2**	**36.1**	**21.6**	**57.8**	**7.6**	**1.5**
Pathway Private Equity Fund VIII	Fund of Funds	40.0	38.8	1.2	36.1	21.6	57.8	7.6	1.5
Vintage Year 2006		**80.0**	**71.4**	**8.6**	**40.9**	**52.4**	**93.3**	**6.1**	**1.3**
Pantheon Global Secondary Fund III 'B'	Secondary	40.0	36.6	3.4	23.1	17.3	40.4	2.1	1.1
Pantheon USA Fund VII	Fund of Funds	40.0	34.8	5.2	17.8	35.2	53.0	10.6	1.5
Vintage Year 2008		**15.1**	**14.0**	**2.6**	**9.8**	**11.8**	**21.6**	**14.5**	**1.5**
Partners Group Secondary 2008[5]	Secondary	10.1	9.2	2.2	6.5	7.4	13.9	11.9	1.5
Great Hill Equity Partners IV	Buyout	5.0	4.8	0.4	3.4	4.4	7.8	22.6	1.6
Vintage Year 2011		**20.0**	**10.5**	**9.6**	**2.4**	**13.1**	**15.5**	**41.1**	**1.5**
Partners Group Secondary 2011, L.P.	Secondary	20.0	10.5	9.6	2.4	13.1	15.5	41.1	1.5

1 In certain instances, Total Contributions Paid to Date may exceed Capital Committed as certain partnerships may call fees outside of commitment and most partnerships reserve a limited right to recycle capital and/or recall distributions.

2 Unfunded Commitment amounts are an approximation due to the inclusion of recallable distributions.

3 The Net IRR calculation was performed by Meketa Investment Group. Total Program IRR is net of fees, expenses, and carried interest for each partnership and net of Meketa Investment Group fees. Partnership and Vintage Year IRRs are net of partnership fees but gross of Meketa Investment Group fees.

4 The Inv. Multiple calculation was performed by Meketa Investment Group. Total Program Inv. Multiple is net of fees, expenses, and carried interest for each partnership and net of Meketa Investment Group fees. Partnership and Vintage Year Inv. Multiples are net of partnership fees but gross of Meketa Investment Group fees.

5 The Retirement System committed €7.9 million to the Partnership in 2008. The $10.1 million is an estimated amount based on the contributed capital and unfunded commitment as of 12/31/2014.

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.

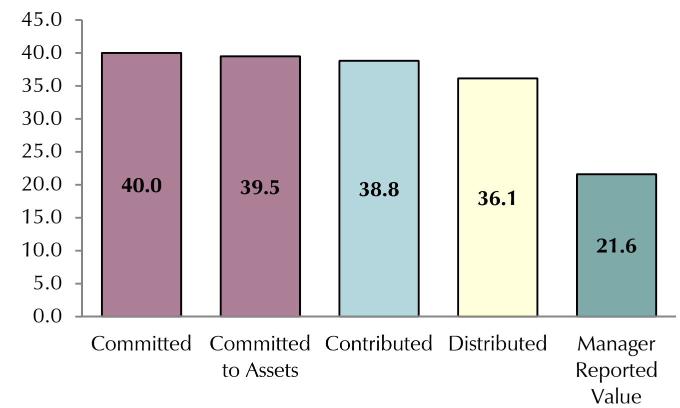
The Total Program net IRR increased by 30 basis points during the quarter, from 7.5% to 7.8%. During the quarter, the total reported fair value of the Private Equity Program increased by $4.1 million, or 4.2%, after adjusting for capital calls and distributions that occurred during the period. Performance was primarily driven by increases in net valuations of Pathway Private Equity Fund VIII (8.8%), Partners Group Secondary 2011 (4.5%), and Pantheon USA Fund VII (4.3%).

Individual Partnership Analyses
As of December 31, 2014

Individual Partnership Analyses
Page Reference

Pathway Private Equity Fund VIII
as of 12/31/14

General Partner	Pathway Capital Management, LLC	**Commitment**	$40.0 million
Location	Irvine, CA	**Number of Investments**	17
Auditor	KPMG	**Capital Contributions**	$38.8 million
Strategy	Fund of Funds	**Realized Proceeds**	$36.1 million
Vintage Year	2004	**Manager Reported Value**	$21.6 million
Fund Size	$40.0 million	**Total Value**	$57.8 million
Fund Duration	15 years	**% of Program**[1]	21.8%
Fee Schedule	0.8% of commitments	**Net IRR**	7.6%
		ThomsonOne Median IRR[2]	7.2%



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

During 2014, the Partnership invested a total of $1.0 million to fund existing commitments during 2014.

During the same period, the Partnership realized proceeds totaling $12.6 million from various underlying partnerships.

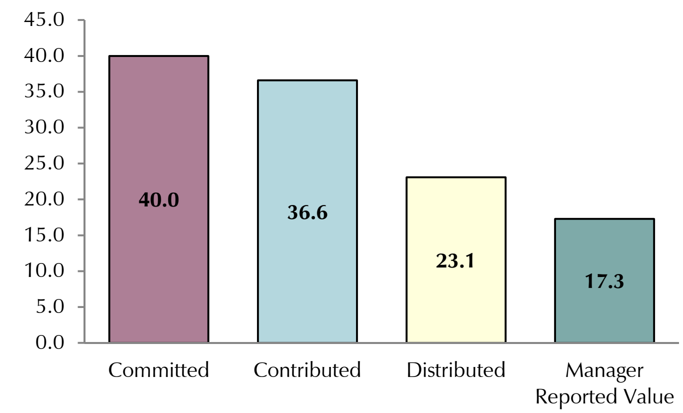
Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR increased to 7.6%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 17.4%.

[1] The percentage of the Retirement System's total portfolio represented by this fund, based on reported fair value as of December 31, 2014. 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, 2014.

Pantheon Global Secondary Fund III 'B'
as of 12/31/14

General Partner	Pantheon Ventures, Inc.	**Commitment**	$40.0 million
Location	San Francisco, CA	**Number of Investments**	26
Auditor	KPMG London	**Capital Contributions**	$36.6 million
Strategy	Secondary	**Realized Proceeds**	$23.1 million
Vintage Year	2006	**Manager Reported Value**	$17.3 million
Fund Size	$589.9 million[1]	**Total Value**	$40.4 million
Fund Duration	13 years	**% of Program**	17.5%
Fee Schedule	1.0% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	2.1%
		ThomsonOne Median IRR[2]	7.2%



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 direct investments).

Portfolio Review

The Partnership called $1.9 million to fund existing commitments during 2014.

During the same period, the Partnership received $55.9 million in proceeds from various underlying partnerships.

Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR remained at 2.1%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 1.8%.

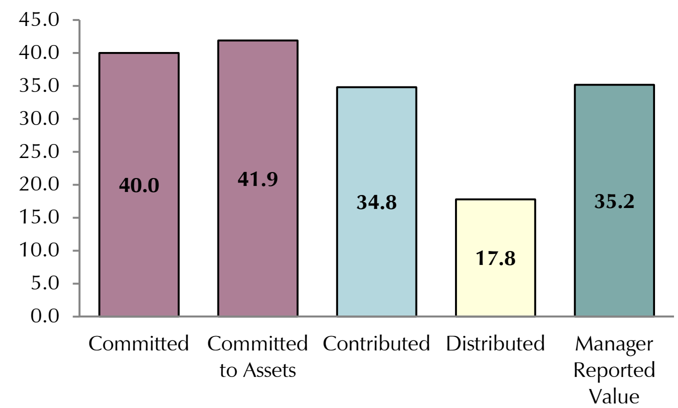
[1] Pantheon Global Secondary Fund is comprised of two vehicles, labeled as "A" and "B." The Retirement System is committed entirely to the "B" vehicle, which contains $589.9 million in commitments. The "A" vehicle has an additional $1.4 billion in commitments, making the total amount committed to Pantheon 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, 2014.

Pantheon USA Fund VII
as of 12/31/14

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	0.75% of commitments 10.0% preferred return 5.0% carried interest

Commitment	$40.0 million
Number of Investments	26
Capital Contributions	$34.8 million
Realized Proceeds	$17.8 million
Manager Reported Value	$35.2 million
Total Value	$53.0 million
% of Program	35.5%
Net IRR	10.6%
ThomsonOne Median IRR[1]	8.1%



Investment Strategy

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

Portfolio Review

During 2014, the Partnership contributed $122.9 million to existing partnership commitments.

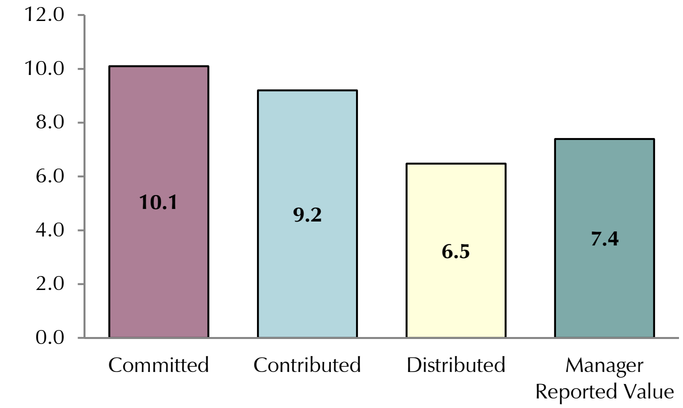
During the same period, the Partnership received $461.2 million in proceeds from various underlying partnership investments.

Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR increased to 10.6%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 19.6%.

[1] The Benchmark is the ThomsonOne U.S. All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2014.

General Partner	Partners Group	**Commitment**[1]	$10.1 million
Location	Switzerland	**Number of Investments**	26
Auditor	PriceWaterhouseCoopers CI LLP	**Capital Contributions**	$9.2 million
Strategy	Secondary	**Realized Proceeds**	$6.5 million
Vintage Year	2008	**Manager Reported Value**	$7.4 million
Fund Size	€2,500.0 million	**Total Value**	$13.9 million
Fund Duration	12 years	**% of Program**	7.5%
Fee Schedule	1.3% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	11.9%
		ThomsonOne Median IRR[2]	10.9%



Investment Strategy

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

Portfolio Review

During 2014, the Partnership invested a total of €89.1 million to fund follow-on investments in existing underlying portfolios.

During the same period, the Partnership realized proceeds of €746.6 million from existing underlying portfolios.

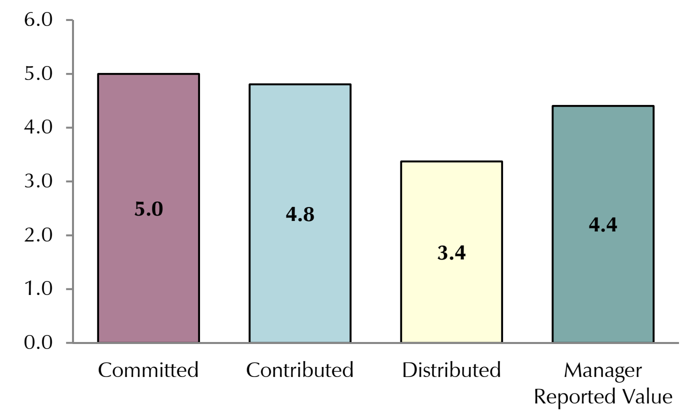
Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR decreased to 11.9%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 5.8%.

[1] The Retirement System committed €7.9 million to the hip. The $10.1 million commitment is an estimated amount based on the contributed capital and unfunded commitment as of December 31, 2014.
[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, 2014.

General Partner	Great Hill Partners LLC
Location	Boston, MA
Auditor	Ernst & Young LLP
Strategy	Buyout
Vintage Year	2008
Fund Size	$1,100.0 million
Fund Duration	10 years
Fee Schedule	2.25% of commitments 8.0% preferred return 20.0% carried interest

Commitment	$5.0 million
Number of Investments	18
Capital Contributions	$4.8 million
Realized Proceeds	$3.4 million
Manager Reported Value	$4.4 million
Total Value	$7.8 million
% of Program	4.5%
Net IRR	22.6%
ThomsonOne Median IRR[1]	12.0%



Investment Strategy

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

Portfolio Review

During 2014, the Partnership invested a total of $51.5 million in one new investment. Additionally, the Partnership made two follow-on investments totaling $40.3 million.

During the same period, the Partnership realized a total of $240.7 million of proceeds from ten portfolio companies.

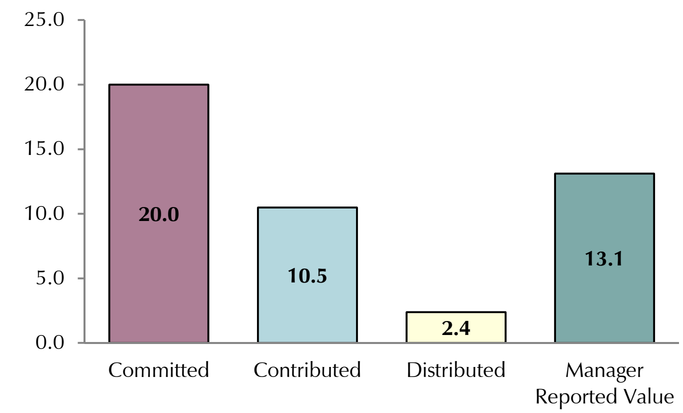
Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR increased to 23.2%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 21.1%.

[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, 2014.

Partners Group Secondary 2011, L.P.
as of 12/31/14

General Partner	Partners Group	**Commitment**	$20.0 million
Location	Switzerland	**Number of Investments**	26
Auditor	PricewaterhouseCoopers	**Capital Contributions**	$10.5 million
Strategy	Secondary	**Realized Proceeds**	$2.4 million
Vintage Year	2011	**Manager Reported Value**	$13.1 million
Fund Size	$1,800.0 million	**Total Value**	$15.5 million
Fund Duration	12 years	**% of Program**	13.2%
Fee Schedule	1.25% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	41.1%
		ThomsonOne Median IRR[1]	10.1%



Investment Strategy

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

Portfolio Review

During 2014, the Partnership invested a total of $327.4 million to fund several new investments and follow-on investments in existing underlying portfolios.

During the same period, the Partnership realized proceeds of $142.8 million from existing underlying portfolios.

Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR decreased to 41.1%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 30.7%.

[1] The Benchmark is the ThomsonOne All Regions All Private Equity Median Quartile IRR, respective of the Fund's vintage year, as of December 31, 2014.

Private & Opportunistic Debt Program

Introduction
As of December 31, 2014

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, 2014, 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 $120.1 million at December 31, 2014.

Aggregate Private Debt Program[1]	
Number of Partnerships	3
Committed Capital	$150.0 million
Capital Called[2]	$191.2 million
Distributions	$101.1 million
Reported Value	$120.1 million
Total Value Multiple	1.2x
Net IRR	8.9%

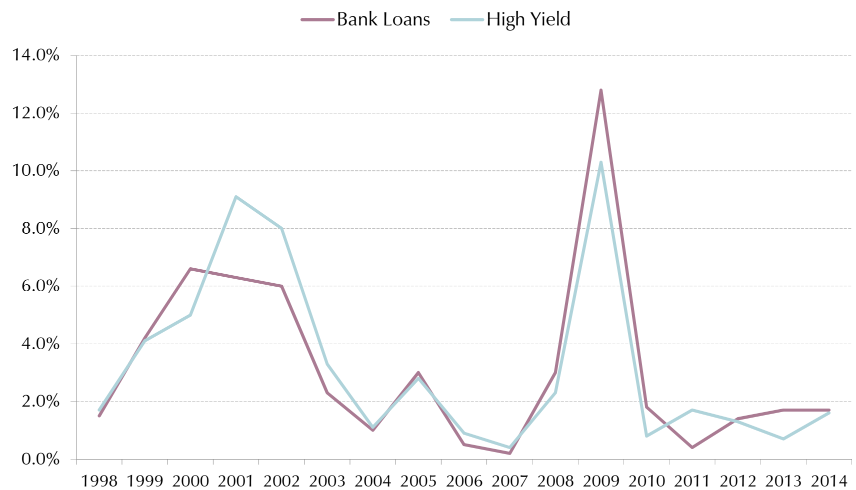
[1] Throughout this report, numbers may not sum due to rounding.
[2] In certain instances, total contributions may exceed the commitment, as a Partnership may reserve the right to recycle capital and/or recall distributions depending upon the terms of its Limited Partnership Agreement.

Market and Industry Analysis
As of December 31, 2014

Debt Markets in 2014

The leveraged credit markets performed fairly well for much of 2014, until falling energy prices led to increased volatility in bond and loan prices in September that continued through the end of the year. Bank loans held up better than the high yield bonds, due to their senior position in the capital structure and lower energy weighting. Lower rated high yield bonds (those rated CCC and below) had negative performance for the year while similarly rated bank loans showed positive performance. High yield spreads finished the year at 483 basis points, approximately 100 basis points wider than where they began the year, but still 35 basis points lower than the long-term average. Despite the volatility, there was not a meaningful increase in defaults in 2014. The trailing loan and bond default rates remain meaningfully below their long-term averages, although the distressed ratio in high yield jumped from a low of 4.3% in July to 11.6% by the end of the year. Given recent high rates of new debt issuance, including for refinancings, there is a relatively low level of upcoming maturities for loans and bonds. As a result, most companies will have a multi-year window to refinance or pay down outstanding debt, which may keep overall default rates low for a longer period than would typically have been expected in the past.

U.S. Corporate High Yield Default Rate[1]



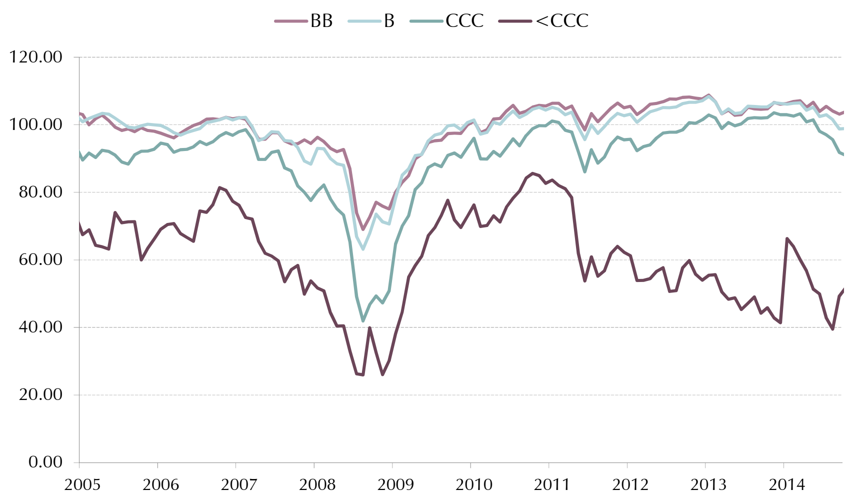
U.S. Corporate High Yield Spread[2]

[1] Source: JP Morgan
[2] Source: Barclays Capital

Distressed & Opportunistic Debt

While default rates remained low, the high yield market exhibited price volatility that had not been seen in over two years. The volatility was credit driven, so the lowest rated bonds underperformed, as evidenced by prices in CCC rated and below CCC rated bonds. Distressed and opportunistic managers used the price volatility as an entry point to buy debt of highly leveraged companies that they believed offered strong prospects, but that was priced too richly and thus did not have an adequate margin of downside protection, prior to the market correction. Many managers directed their efforts to the energy sector and many even raised dedicated funds and accounts that will focus on energy companies. Although the actual default rate remained low, there was $24.2 billion of defaulted debt during the year, the most since 2009. These defaults gave control oriented distressed managers opportunities to restructure companies and take them over.

Debt Index Pricing by Credit Quality[1]



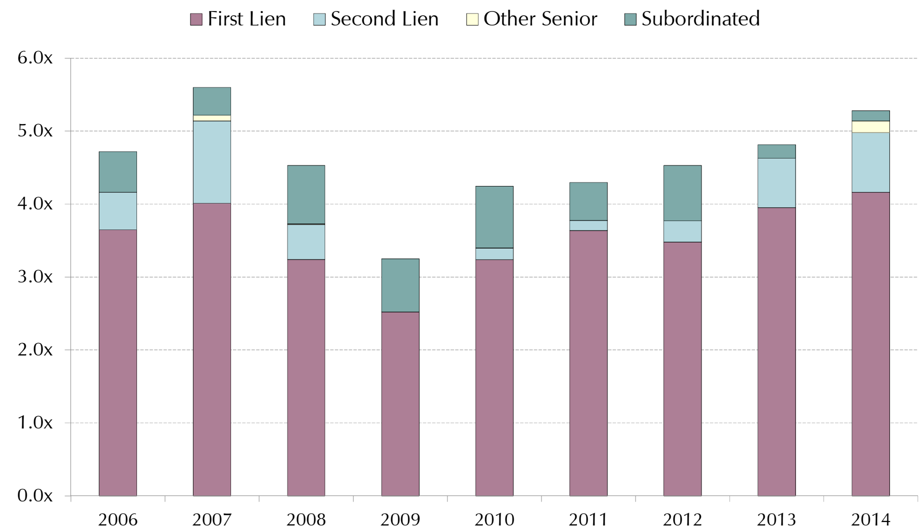
High Yield Energy Spreads[1]

[1] Source: Barclays Capital

Mezzanine Debt

Mezzanine managers continued to see active competition on deals both in terms of price and structure. Both private and public (BDC) direct lending managers were very actively raising capital, and these lenders have moved further down the capital structure resulting in an increase in unitranche and second lien transactions. As a result, pricing in terms of both coupon rates and ancillary deal terms remained pressured, which may create a drag on future mezzanine partnership returns, though potentially providing a benefit to buyout partnerships that employ mezzanine debt.

Middle Market Leverage Multiples, by Debt Security[1]



[1] Source: Standard & Poor's, December 2014

The Global Economy

The global economy continued to experience only modest growth six years removed from the global financial crisis. Countries such as the United States and the United Kingdom fared relatively better, while countries in the Euro-area, Japan, and Latin America continued to face headwinds. Global GDP grew at 3.3% in 2014, similar to the prior year rate; advanced economies grew at an overall rate of 1.8%, while developing and emerging economies grew at 4.4%.

One of the dominant headlines of the year was the nearly 55% drop in oil prices in the second half of the year, which in the short-term should benefit net oil importing countries in the Euro-area, China, Japan and, India, while serving as a drag on net oil exporting economies such as Saudi Arabia, Russia, and Venezuela. Major economies, including Brazil, faced a challenging 2014, growing at a meager 0.1% while Russia was impacted by the lower oil prices and increased geopolitical tensions. China's economic growth has gradually decelerated as the country structurally shifts from an export-led economy to a consumption-driven economy, while also dealing with an overheated property market and companies and local governments that have become overly-leveraged. India was one of the rare bright spots among emerging markets and looks promising as reform momentum picked up after the election of Prime Minister Modi. Concerns about long-term growth prospects continued to weigh over the Euro-area as growth has been weaker than anticipated.

The United States saw unemployment drop to 5.6%, improved housing market conditions, and increased private consumption growth due to declining oil prices. With diminishing slack in the economy, the Federal Reserve was seen as likely to raise the federal funds rates sometime in 2015, although tightening is likely to remain gradual and timing remained uncertain. Developed markets growth in 2015 should continue to be led by the United States with gradual improvements in the Euro-area, and global growth may benefit from receding headwinds in emerging economies.

Private & Opportunistic Debt Program
As of December 31, 2014

Executive Summary
As of December 31, 2014

In aggregate, $9.0 million of net capital was called from the Retirement System during the fourth quarter of 2014 by the underlying partnerships.

- White Oak Direct Lending called a total of $6.2 million during the quarter to fund new investments.
- Medley Opportunity Fund II called a total of $2.9 million during the quarter to fund new investments.
- GSO Direct Lending called $0.2 million to fund an indirect investment in a newly formed joint venture.

The Retirement System received an aggregate of $7.3 million in distributions during the fourth quarter of 2014 from its underlying partnerships.

- GSO Direct Lending distributed $4.4 million during the quarter.
- White Oak Direct Lending distributed $2.9 million during the quarter from numerous portfolio companies.

Private Opportunistic

GSO Direct Lending
$50 mm 2010

Medley Opportunity II
$50 mm 2010

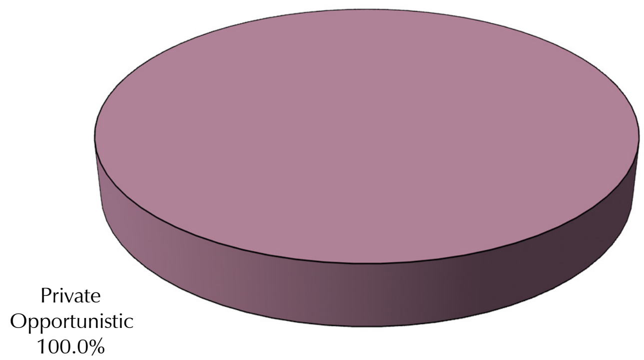
White Oak Lending
$50 mm 2010

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

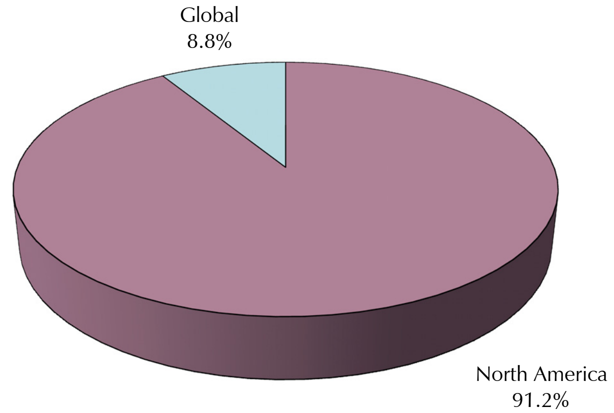
Aggregate Private & Opportunistic Debt Portfolio
As of December 31, 2014

Aggregate Program
Portfolio Diversification as of 12/31/14

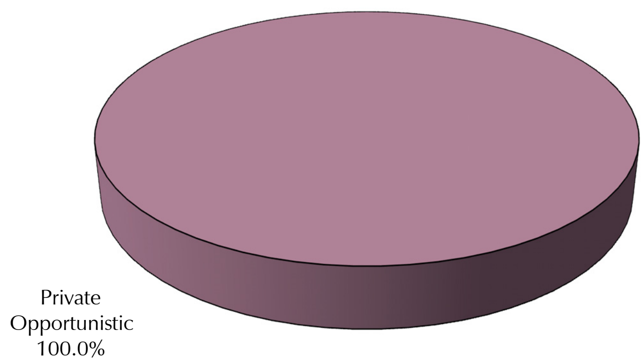
Commitment



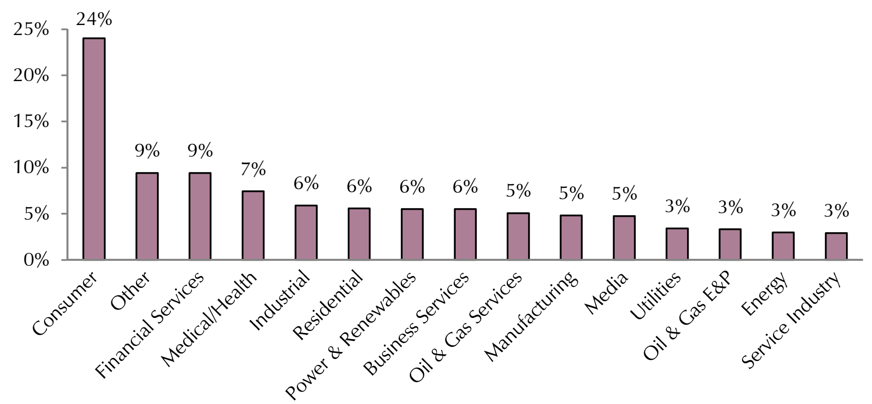
Geography[1]



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, 2014.

	Capital Committed ($ mm)	Total Contributions Paid to Date[1,2,3] ($ mm)	Unfunded Commitment[4] ($ mm)	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions[3,5] ($ mm)	Net IRR[6] (%)	Inv. Multiple[7] (x)
Total Program	**150.0**	**191.2**	**35.2**	**101.1**	**120.1**	**221.3**	**8.9**	**1.2**
Vintage Year 2010	**150.0**	**191.2**	**35.2**	**101.1**	**120.1**	**221.3**	**8.9**	**1.2**
GSO Direct Lending	50.0	37.1	32.7	30.0	20.2	50.2	11.4	1.4
Medley Opportunity Fund II, L.P.	50.0	67.4	1.7	22.3	52.9	75.3	8.7	1.1
White Oak Direct Lending	50.0	86.7	0.8	48.8	47.0	95.8	7.2	1.1

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

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

The total program net IRR increased to 8.9% during the fourth quarter. The fair market value of the total program increased by $3.0 million, or 2.6%, after adjusting for capital calls and distributions that occurred during the fourth quarter.

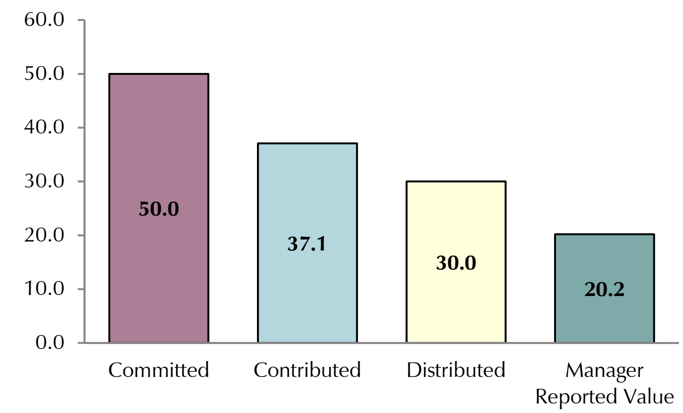
Individual Partnership Analyses
As of December 31, 2014

Individual Partnership Analyses
Page Reference

GSO Direct Lending
as of 12/31/14

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

Commitment	$50.0 million
Number of Investments	14
Capital Contributions[1]	$37.1 million
Realized Proceeds[1]	$30.0 million
Manager Reported Value	$20.2 million
Total Value[1]	$50.2 million
% of Program	16.8%
Net IRR	11.4%
Barclays High Yield Index[2,3]	8.5%
CSFB Leveraged Loan Index[2,3]	4.0%



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 2014, the Partnership invested $4.3 million, primarily to fund a new investment.

During the same period, the Partnership realized a total of approximately $16.3 comprised of realized gains and current income from its investments.

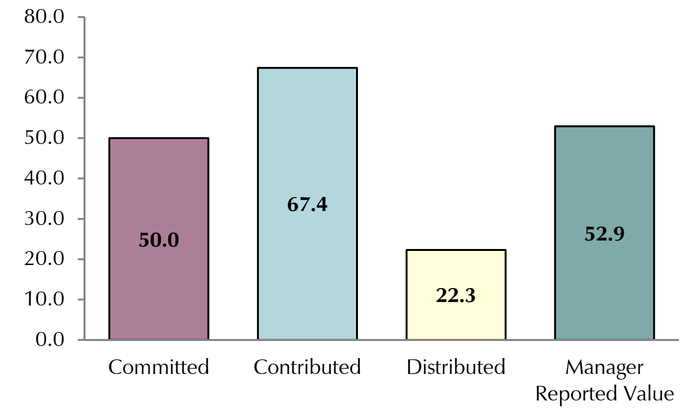
Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR decreased to 11.4%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 6.0%.

1 Recallable distributions, fees out of commitment and returns of capital have been reclassified to match manager statements.
2 Currently there are no robust indices of private debt vehicles with which to benchmark the private debt managers. As such, we have included similar public indices over the same time period.
3 January 2011 – December 2014.

Medley Opportunity Fund II, L.P.
as of 12/31/14

General Partner	Medley Capital	**Commitment**	$50.0 million
Location	New York, NY	**Number of Investments**	46
Auditor	Deloitte & Touche LLP	**Capital Contributions**[1]	$67.4 million
Strategy	Distressed	**Realized Proceeds**[1]	$22.3 million
Vintage Year	2010	**Manager Reported Value**	$52.9 million
Fund Size	$452.5 million	**Total Value**[1]	$75.3 million
Fund Duration	7 years	**% of Program**	44.0%
Fee Schedule	1.5% of commitments 8.0% preferred return 20.0% carried interest	**Net IRR**	8.7%
		Barclays High Yield Index[2,3]	8.3%
		CSFB Leveraged Loan Index[2, 3]	3.7%



Investment Strategy

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

Portfolio Review

During 2014, the Partnership invested a total of $330.5 million in 17 new investments and several follow-on investments.

During the same period, the Partnership realized proceeds of $204.0 million from the portfolio.

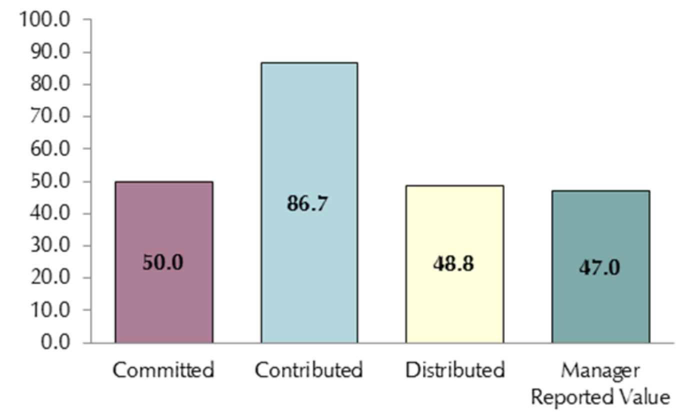
Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR remained at 8.7%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 8.9%.

1 Recallable distributions, fees out of commitment and returns of capital have been reclassified to match manager statements.
2 Currently there are no robust indices of private debt vehicles with which to benchmark the private debt managers. As such, we have included similar public indices over the same time period.
3 March 2011 – December 2014.

White Oak Direct Lending as of 12/31/14

General Partner	White Oak Global Advisors, LLC	**Commitment**	$50.0 million
Location	San Francisco, CA	**Number of Investments**	27
Auditor	Harb, Levy & Weiland LLP	**Capital Contributions**[1]	$86.7 million
Strategy	Mezzanine	**Realized Proceeds**[1]	$48.8 million
Vintage Year	2010	**Manager Reported Value**	$47.0 million
Fund Size	$50.0 million	**Total Value**[1]	$95.8 million
Fund Duration	Open-ended	**% of Program**	39.2%
Fee Schedule	1.75% of commitments 8.0% preferred return 20.0% carried interest	**Net IRR**	7.2%
		Barclays High Yield Index[2,3]	8.3%
		CSFB Leveraged Loan Index[2,3]	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 structures of the borrowers, and will focus on shorter term loans that have an expected life of two to three years at the time of underwriting.

Portfolio Review

During 2014, the Partnership invested $27.0 in various follow-on investments and four new investments.

During the same period, the Partnership realized proceeds of $28.7 million.

Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR decreased to 7.2%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 5.1%.

[1] Recallable distributions, fees out of commitment and returns of capital have been reclassified to match manager statements.
[2] Currently there are no robust indices of private debt vehicles with which to benchmark the private debt managers. As such, we have included similar public indices over the same time period.
[3] December 2010 – December 2014.

Private Real Estate Program

Introduction
As of December 31, 2014

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: Market and Industry Analysis, Executive Summary, Aggregate Private Real Estate Portfolio, and Individual Partnership Analyses. The Market and 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, 2014, the System had invested in eight real estate funds (two core funds and six value-added funds). The total reported fair value of real estate investments was $112.3 million at December 31, 2014, including $76.4 million in core real estate and $35.9 million in closed-end real estate.

Aggregate Private Real Estate Program[1,2]	
Number of Partnerships	6
Committed Capital	$105.0 million
Capital Called	$94.5 million
Distributions	$69.8 million
Reported Value	$35.9 million
Total Value Multiple	1.1x
Net IRR	2.7%

[1] Throughout this report, numbers may not sum due to rounding.
[2] Excludes investments in PRISA I and American Core Realty Fund, both of which are open-end vehicles.

Market and Industry Analysis
As of December 31, 2014

During the fourth quarter of 2014, strong property-level fundamentals continued to drive positive returns in public and private real estate.

Real Estate Fundamentals

- Occupancy rates for private real estate continued to improve, rising 0.1% over the fourth quarter and 1.3% year-over-year. Vacancy rates for all property types declined 1.3% during 2014 and ended 4Q14 at 8.1%, slightly above the previous market cycle low of 7.7% recorded in 3Q07. Vacancy rates for apartment properties stood at 4.4% at the end of the year, the lowest amongst property types. While suburban office had the highest vacancy rate by major property type, at 15.5%, CBD office buildings had a vacancy rate of 11.1%, down 120 basis points from a year earlier.
- The pace of NOI growth increased in the fourth quarter and ended 2014 with a 6.6% annual growth rate. This is above the 3.8% NOI growth rate for the full year 2013 and is the highest trailing twelve month NOI growth rate since 3Q07.
- With improving fundamentals and relatively attractive returns compared to global bond yields, capital flows to U.S. real estate continued to put downward pressure on cap rates. The NCREIF Property Index's (NPI) value-weighted cap rate (appraisal based) decreased by 9 basis points to 4.9%, just 3 basis points above the 3Q08 market peak.
- Transaction volumes remained healthy in 4Q14, as Real Capital Analytics (RCA) reported U.S. volumes for core properties of $126 billion during the quarter, an increase of 15% over the prior quarter and 7% from the year earlier period. Office and apartment properties account for the largest percentages of quarterly volume at 29% and 28%, respectively. Total volume for 2014 of $424 billion reflects a 17% increase from 2013 and the largest annual volume since 2007.
- While the Federal Reserve is generally expected to raise short-term interest rates in the second half of 2015, rate rises are anticipated to be slow and gradual, as not to shock the financial markets. Associated upward movements in cap rates are likely to remain muted due to the above-average spread between current cap rates and the 10-year Treasury (2.7% compared to an average of 2.0% since 1990).

Fundamentals	4Q14 Value	Q-o-Q △	Y-o-Y △
NPI Occupancy	91.9%	↑ 0.1%	↑ 1.3%
NPI TTM NOI Growth	6.6%	↑ 0.7%	↑ 2.8%
NPI MV Cap Rate	4.9%	↓ -9 bps	↓ -24 bps
RCA Transaction Volume	$126bn	↑ 15%	↑ 7%
RCA Transaction Cap Rate	6.6%	↓ -17 bps	↓ -19 bps
NAREIT Dividend Yield	3.7%	↓ -0.3%	↓ -0.4%

U.S. Economic Indicators	4Q14 Value	Q-o-Q △	Y-o-Y △
Unemployment Rate	5.6%	↓ -0.3%	↓ -1.1%
Real GDP Growth	2.2%	↓ -2.7%	↓ -1.3%
10-Yr Treasury	2.3%	↓ -0.2%	↓ -0.3%
CPI	234.8	↓ -1.4%	↑ 0.8%
New Housing Unit Starts	240k	↓ -14.9%	↑ 4.8%

Trailing Returns	4Q14 Value	1-Yr	3-Yr
NPI	3.0%	11.8%	11.1%
NFI-ODCE (EW, gross)	3.1%	12.4%	12.2%
NFI-CEVA (EW, gross)	5.7%	14.4%	NA
NAREIT Equity REITs	14.2%	30.1%	16.3%
Barclays Aggregate	*1.8%*	*6.0%*	*2.7%*
S&P 500 Index	*4.9%*	*13.7%*	*20.4%*

Sources: NCREIF Property Index, Real Capital Analytics, NAREIT Equity Index, U.S. Bureau of Labor Statistics, U.S. Federal Reserve, U.S. Census Bureau, NCREIF Fund Index, ANREV, INREV.

Note: For cap rates, a down arrow indicates falling cap rates or rising prices.

U.S. Macro Trends

- The U.S. economy continued to serve as a primary source of global growth through the end of 2014, with GDP growing at an annualized rate of 2.2% in the fourth quarter. While fourth quarter growth is slightly slower than the 5.0% annualized growth seen in the third quarter, the strongest quarter in more than ten years, U.S. GDP recorded a moderate annual growth rate of 2.4% throughout 2014. Average monthly job growth accelerated over the year and ended 2014 at a pace of 250k jobs created per month, the highest level since 1999.
- As a result of increasing U.S. production levels and slowing non-U.S. global growth, oil prices declined approximately 50% during the second half of 2014. The decline in energy prices is generally considered a net positive for most U.S. markets and consumers, however the impact on the economies and job growth of oil-centric markets such as Houston is difficult to quantify until oil prices stabilize.

Real Estate Returns

- In the fourth quarter of 2014, private real estate returns continued to benefit from improving fundamentals. The NFI-ODCE Equal Weight returns in 4Q14 were 3.1%, gross of fees, with a 1.2% income return and a 1.9% appreciation return. For the year, the NFI-ODCE Equal Weight index returned 12.4% gross of fees, consisting of a 5.1% income return and a 7.0% appreciation return. The slight decrease from the 2013 return of 13.3% is primarily attributed to a 70 basis point drop in appreciation return though income has remained stable. While appreciation may moderate in the coming quarters, the positive trend is expected to continue as gains in the U.S. job market contribute to NOI growth and capital inflows contribute to downward pressure on cap rates.
- Public real estate returns rebounded strongly in the fourth quarter as the FTSE NAREIT Equity REITs Index increased 14.2% following the previous quarter's decline of -3.1%. The Index's dividend yield decreased by 34 basis points and ended 4Q14 at 3.7%. REITs were trading at a 7% premium to NAV at year-end, slightly higher than the historical average of a 3.7% premium. Spreads between REIT dividend yields and the 10-year Treasury ended the year at 144 basis points, above the historical average of 105 basis points. REITs have generated strong recent performance: a one-year total return of 30.1% and an annualized three-year total return of 16.3%.

Private Real Estate Program
As of December 31, 2014

Executive Summary
As of December 31, 2014

In aggregate, $1.3 million of capital was called from the Retirement System during the fourth quarter of 2014 by the closed-end underlying partnerships.

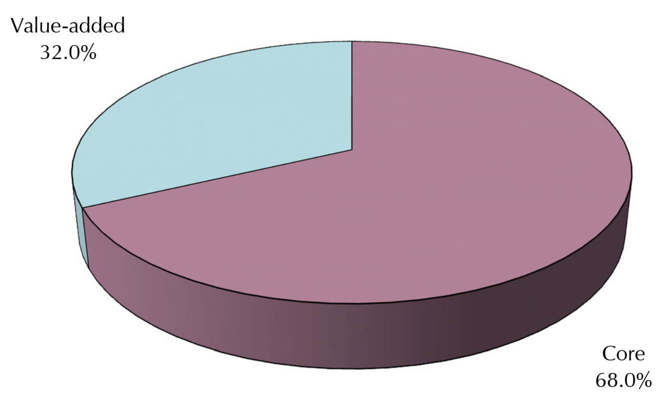
- DRA Growth & Income Fund VIII called $1.2 million as the partnership used $130 million in capital to acquire two industrial buildings totaling 567,000 sq. ft. and two office buildings totaling 290,000 sq. ft. The partnership also used $69 million to acquire a 450,000 sq. ft. Class B office tower. Additionally, the Partnership acquired a 585,000 sq. ft. Class B office tower, and an office portfolio for $43 million, totaling 466,000 sq. ft. across three Class B+ buildings in Texas.

In aggregate, $23.9 million of capital was distributed to the Retirement System by the closed-end underlying partnerships during the fourth quarter of 2014.

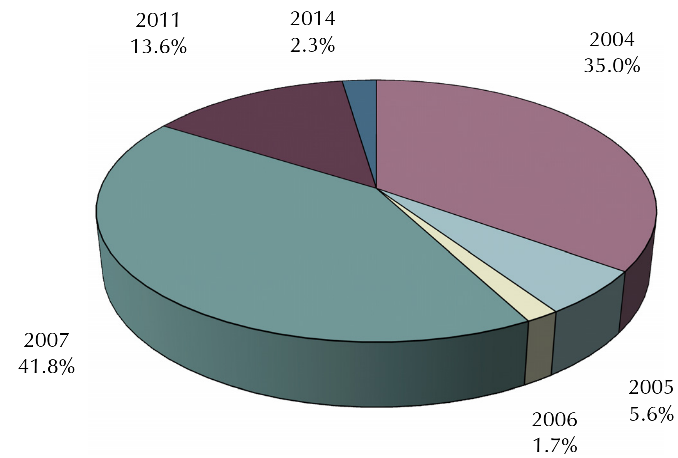
- DRA Growth & Income Fund V distributed $14.5 million, resulting primarily from the sale of a portfolio for a total sales price of $4.3 billion. The realization generated a gross IRR of 12.2% and a gross multiple of 2.2x invested capital. The sale excluded five assets which are expected to be liquidated within 6 to 18 months.
- DRA Growth & Income Fund VI distributed $7.1 million due to the sale of a multifamily portfolio for $1.8 billion, resulting in a 21.1% gross IRR and a gross multiple of 2.3x invested capital. The fund also sold another property for $26 million, resulting in a 31.1% gross IRR and a 2.4x multiple.
- DRA Growth & Income Fund VII distributed $0.8 million, resulting primarily from the sale of one property, achieving a gross IRR of 37.7% and a gross multiple of 2.3x invested capital.
- GEAM Value Add Realty Partners distributed $0.8 million from the sale of a multifamily development, generating a 2.1% IRR and a 1.2x multiple.

The Retirement System made no commitments during the fourth quarter of 2014.

Diversification by Investment Strategy[1]

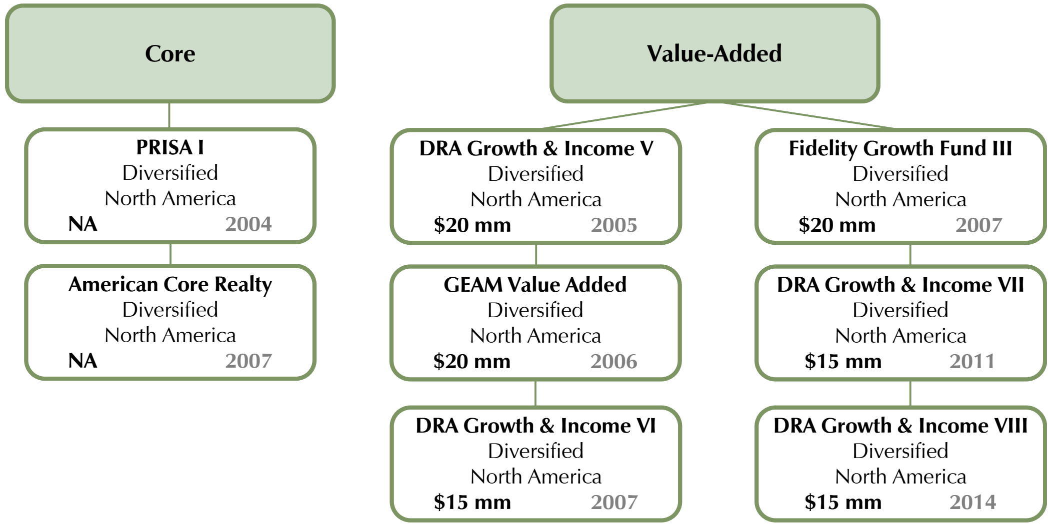


Diversification by Vintage Year[1,2]



[1] These charts are created using the fair value of the Program as of December 31, 2014.

[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, 2014

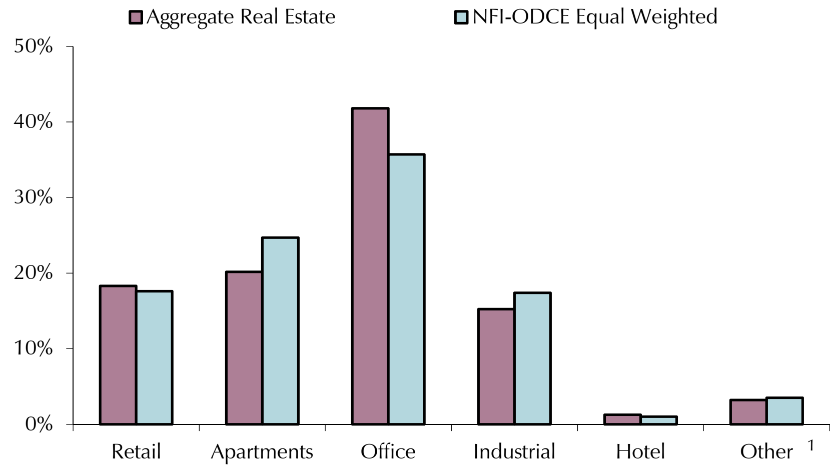
	4Q14 (%)	Fiscal[1] YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	Inception Date	Since Inception (%)
Core Real Estate[2]							
PRISA I	3.6	6.7	12.4	11.6	13.9	7/1/04	6.1
NCREIF ODCE Equal Weighted (net)	*2.9*	*6.2*	*11.4*	*11.2*	*12.7*		*6.1*
American Core Realty Fund, LLC	1.6	4.7	10.6	10.7	11.2	1/1/07	3.1
NCREIF ODCE Equal Weighted (net)	*2.9*	*6.2*	*11.4*	*11.2*	*12.7*		*3.1*

[1] Fiscal year begins July 1.
[2] Time weighted returns are only presented for core open-end funds and are reported net of fees.

Aggregate Program
Portfolio Diversification as of 12/31/14

Geographic Diversification by Reported Fair Value

Property Type Diversification by Reported Fair Value



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

Aggregate Program
Performance Summary as of 12/31/14

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date[1] ($ mm)	Unfunded Commitment[2] ($ mm)	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions ($ mm)	Net IRR[3] (%)	Inv. Multiple[4] (x)
Total Closed-End Private Real Estate Program		**105.0**	**94.5**	**22.9**	**69.8**	**35.9**	**105.7**	**2.7**	**1.1**
Vintage Year 2005		**20.0**	**30.5**	**0.0**	**30.9**	**6.3**	**37.1**	**4.1**	**1.2**
DRA Growth and Income Fund V	Value-added	20.0	30.5	0.0	30.9	6.3	37.1	4.1	1.2
Vintage Year 2006		**20.0**	**18.2**	**1.8**	**6.4**	**1.9**	**8.3**	**-12.6**	**0.5**
GEAM Value Add Realty Partners, L.P.	Value-added	20.0	18.2	1.8	6.4	1.9	8.3	-12.6	0.5
Vintage Year 2007		**35.0**	**28.4**	**7.4**	**28.7**	**9.8**	**38.5**	**8.1**	**1.4**
DRA Growth and Income Fund VI	Value-added	15.0	10.6	5.3	13.5	3.2	16.7	10.9	1.6
Fidelity Real Estate Growth Fund III	Value-added	20.0	17.9	2.1	15.2	6.6	21.8	5.8	1.2
Vintage Year 2011		**15.0**	**14.9**	**1.2**	**3.8**	**15.3**	**19.1**	**16.2**	**1.3**
DRA Growth and Income Fund VII, LLC	Value-added	15.0	14.9	1.2	3.8	15.3	19.1	16.2	1.3
Vintage Year 2014		**15.0**	**2.6**	**12.4**	**<0.1**	**2.6**	**2.6**	**NM**	**1.0**
DRA Growth and Income Fund VIII, LLC	Value-added	15.0	2.6	12.4	<0.1	2.6	2.6	NM	1.0

1 In certain instances, Total Contributions Paid to Date may exceed Capital Committed as certain partnerships may call fees outside of commitment and most partnerships reserve a limited right to recycle capital and/or recall distributions.
2 Unfunded Commitment amounts are an approximation due to the inclusion of recallable distributions.
3 The Net IRR calculations were performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year IRRs are net of fees, expenses, and carried interest for each partnership.
4 The Inv. Multiple calculations were performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year Inv. Multiples are net of partnership fees.

The IRR (internal rate of return) and investment multiple are the most meaningful measures of performance for private closed-end 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 Closed-End Program[1] net IRR increased by 20 basis points during the fourth quarter, from 2.5% to 2.7%.[2] During the quarter, the total reported fair value of the Total Closed-End Program increased by $1.1 million, or 2.3%, after adjusting for capital calls and distributions that occurred during the period. The performance was driven primarily by increases in the valuations of GEAM Value Add Realty Partners ($0.5 million or 26.6%), DRA Growth & Income Fund VII ($0.5 million or 3.5%), and Fidelity Real Estate Growth Fund III ($0.4 million or 6.2%). Furthermore, the Aggregate Private Real Estate Program[3] increased by $3.0 million, or 2.5%, over the same period.

1 Total Closed-End Program includes all closed-end funds in the real estate program.
2 May not sum due to rounding.
3 The Aggregate Private Real Estate Program includes both open-end and closed-end funds in the real estate program.

Individual Partnership Analyses
As of December 31, 2014

Individual Partnership Analyses
Page Reference

Strategy: Real Estate
Private Market
Diversified Core

Market Value: $39.3 million

Senior Professionals: Kevin R. Smith

Location: Madison, NJ

Investment Date: 6/30/04

Account Type: Open-end Commingled Fund

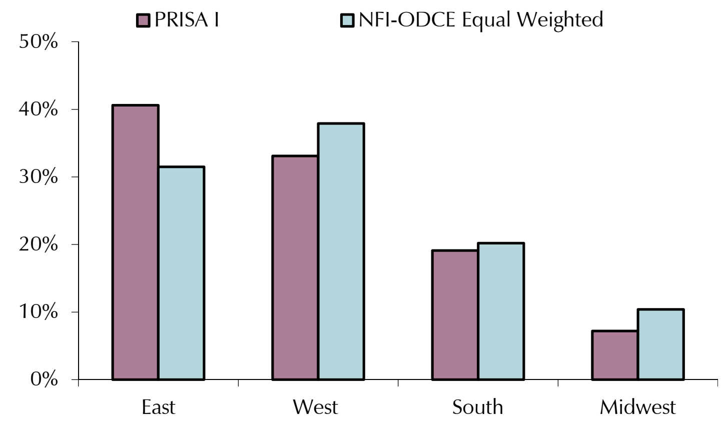
# of Investments: 263

Liquidity Constraints: Quarterly (with 30 days advance notice)

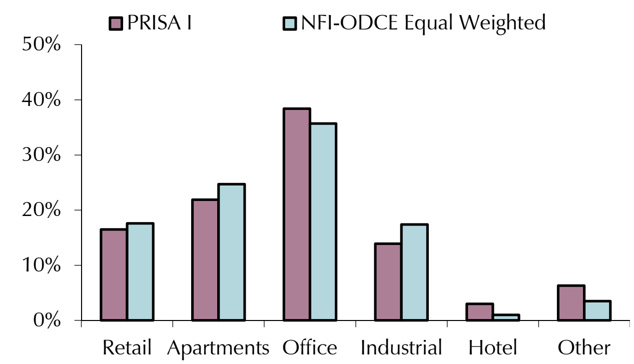
Fee Schedule: Annual maximum fee of 1.20% on first $25 mm; 1.15% on next $25 mm; 1.10% on next $50 mm; 1.05% on next $100 mm; 1.00% thereafter

Performance (%):	4Q14	Fiscal YTD[1]	1 YR	3 YR	5 YR	Since 7/1/04
PRISA I, Gross	**3.8**	**7.1**	**13.3**	**12.5**	**15.0**	**7.1**
Net of Fees	**3.6**	**6.7**	**12.4**	**11.6**	**13.9**	**6.1**
NCREIF ODCE Equal Weighted, net	2.9	6.2	11.4	11.2	12.7	6.1

Geographic Region:



Property Type:



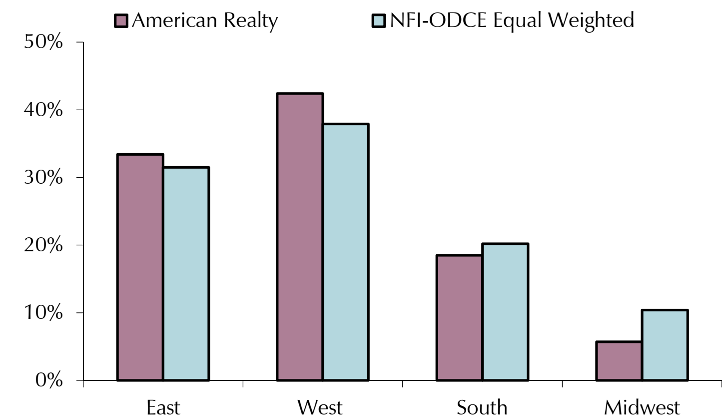
Investment Strategy: PRISA invests primarily in existing, income-producing properties with strong cash flow that is expected to increase over time and thereby provide the potential for capital appreciation. PRISA makes investments primarily in office, retail, industrial, apartment, and hotel properties.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

1 Fiscal year begins July 1.

American Core Realty Fund, LLC
as of 12/31/14

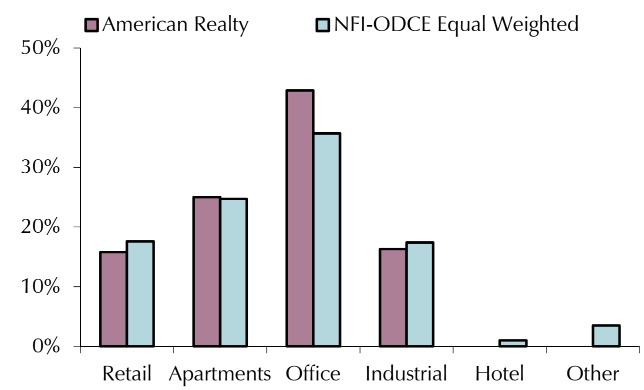
Strategy:	Real Estate Private Market Diversified Core
Market Value:	$37.1 million
Senior Professionals:	Greg Blomstrand
Location:	Glendale, CA
Investment Date:	1/1/2007
Account Type:	Open-end Commingled Fund
# of Investments:	79
Liquidity Constraints:	Quarterly, payments usually delivered within 30 days
Fee Schedule:	1.10% on first $25 mm; 0.95% on next $50 mm; 0.85% thereafter

Geographic Region:



Performance (%):	4Q14	Fiscal YTD[1]	1 YR	3 YR	5 YR	Since 1/1/07
American Core Realty Fund, LLC, gross	**1.8**	**5.2**	**11.6**	**11.8**	**12.3**	**4.2**
Net of Fees	**1.6**	**4.7**	**10.6**	**10.7**	**11.2**	**3.1**
NCREIF ODCE Equal Weighted, net	2.9	6.2	11.4	11.2	12.7	3.1

Property Type:

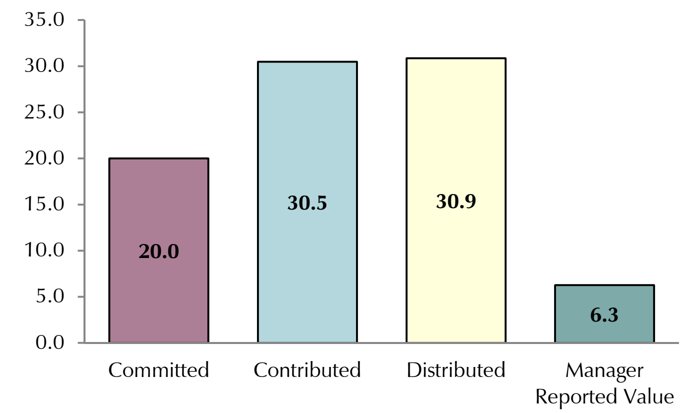


Investment Strategy: American Realty targets institutional-quality office, industrial, retail, and multifamily properties in the United States. American Realty will seek properties in the $5 million to $50 million range. Target properties will be 80% to 100% occupied, less than ten years old, and will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

[1] Fiscal year begins July 1.

DRA Growth and Income Fund V
as of 12/31/14

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**	$30.9 million
Vintage Year	2005	**Manager Reported Value**	$6.3 million
Fund Size	$1,000.0 million	**Total Value**	$37.1 million
Fund Duration	10 years	**% of Program**	5.6%
Fee Schedule	0.9% of commitments 15.0% carried interest	**Net IRR**	4.1%



Investment Strategy

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

Portfolio Review

During 2014, the Partnership invested a total of $2.2 million in a follow-on investment.

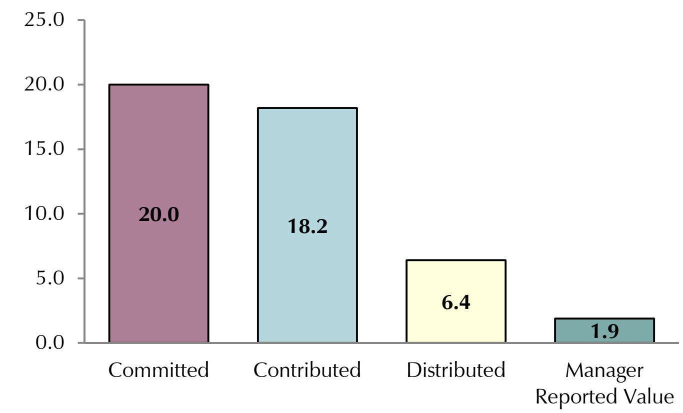
During the same period, the Partnership received proceeds of $848.2 million.

Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR increased to 4.1%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 45.6%.

GEAM Value Add Realty Partners, L.P.
as of 12/31/14

General Partner	GE Asset Management Incorporated	**Commitment**	$20.0 million
Location	Stamford, CT	**Number of Investments**	16
Auditor	KPMG	**Capital Contributions**	$18.2 million
Strategy	Value-added	**Realized Proceeds**	$6.4 million
Vintage Year	2006	**Manager Reported Value**	$1.9 million
Fund Size	$380.8 million	**Total Value**	$8.3 million
Fund Duration	8 Years	**% of Program**	1.7%
Fee Schedule	Confidential	**Net IRR**	-12.6%



Investment Strategy

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

Portfolio Review

There was no investment activity within the portfolio during 2014.

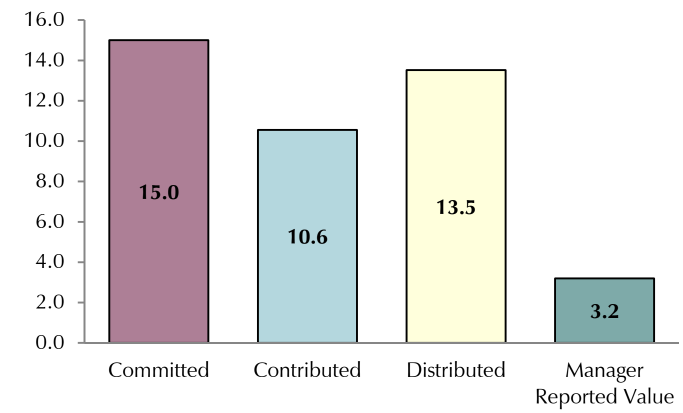
During the same period, the Partnership realized proceeds of $18.0 million from the portfolio, including $14.7 million from the sale of one property.

Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR increased to -12.6%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 41.7%.

DRA Growth and Income Fund VI
as of 12/31/14

General Partner	DRA Advisors LLC	**Commitment**	$15.0 million
Location	New York, NY	**Number of Investments**	12
Auditor	WeiserMazars LLP	**Capital Contributions**	$10.6 million
Strategy	Value-added	**Realized Proceeds**	$13.5 million
Vintage Year	2007	**Manager Reported Value**	$3.2 million
Fund Size	$1,250.0 million	**Total Value**	$16.7 million
Fund Duration	10 years	**% of Program**	2.8%
Fee Schedule	0.9% of commitments 8.0% preferred return 15.0% carried interest	**Net IRR**	10.9%



Investment Strategy

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

Portfolio Review

During 2014, the Partnership invested a total of $54.7 million in various follow-on investments.

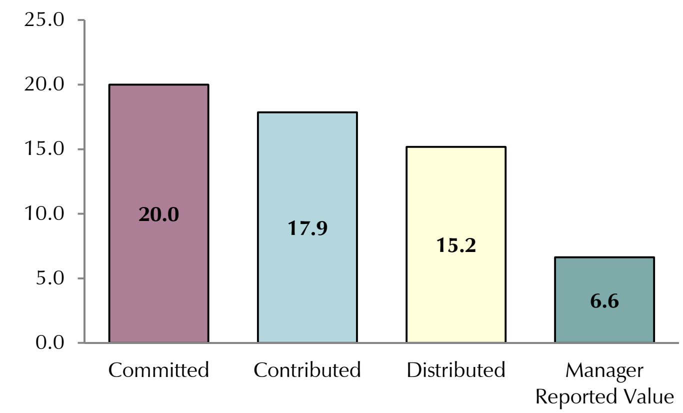
During the same period, the Partnership generated proceeds of $725.1 million, including $641.9 million from the sale of four properties.

Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR increased to 10.9%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 73.9%.

Fidelity Real Estate Growth Fund III as of 12/31/14

General Partner	Long Wharf Real Estate Partners, LLC	**Commitment**	$20.0 million
Location	Boston, MA	**Number of Investments**	33
Auditor	PriceWaterhouseCoopers	**Capital Contributions**	$17.9 million
Strategy	Value-added	**Realized Proceeds**	$15.2 million
Vintage Year	2007	**Manager Reported Value**	$6.6 million
Fund Size	$875.0 million	**Total Value**	$21.8 million
Fund Duration	8 Years	**% of Program**	5.9%
Fee Schedule	1.0% of commitments	**Net IRR**	5.8%



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 multi-family properties with investments in the range of $10.0 million to $50.0 million and leverage in the range of 50% to 75%. Potential investments can be structured as joint ventures, preferred equity, fixed-rate mezzanine debt, participating mezzanine debt, or discounted senior debt. Investments will have an expected holding period of three to five years.

Portfolio Review

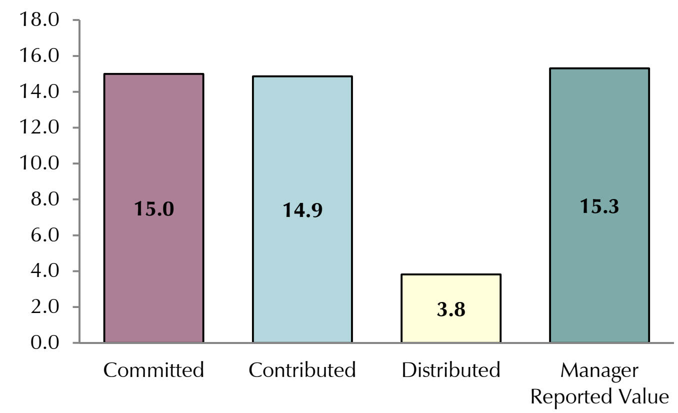
During 2014, the Partnership invested $0.5 million in nine existing portfolio properties.

During 2014, the Partnership realized $212.7 million from 19 properties.

Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR increased to 5.8%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 29.0%.

General Partner	DRA Advisors LLC	**Commitment**	$15.0 million
Location	New York, NY	**Number of Investments**	41
Auditor	WeiserMazars LLC	**Capital Contributions**	$14.9 million
Strategy	Value-added	**Realized Proceeds**	$3.8 million
Vintage Year	2011	**Manager Reported Value**	$15.3 million
Fund Size	$1,000.0 million	**Total Value**	$19.1 million
Fund Duration	10 years	**% of Program**	13.6%
Fee Schedule	0.9% of commitments 8.0% preferred return 15.0% carried interest	**Net IRR**	16.2%



Investment Strategy

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

Portfolio Review

During 2014, the Partnership invested a total of $71.8 million in three new investments and various follow-on investments.

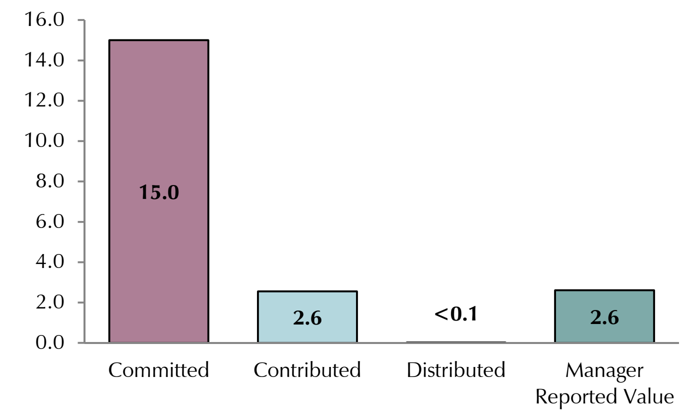
During the same period, the portfolio realized over $148.9 million in current income from the portfolio.

Portfolio Performance

During the one-year period ended December 31, 2014, the Partnership's net IRR increased to 16.2%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 18.7%.

DRA Growth & Income Fund VIII
as of 12/31/14

General Partner	DRA Advisors LLC	**Commitment**	$15.0 million
Location	New York, NY	**Number of Investments**	17
Auditor	WeiserMazars LLP	**Capital Contributions**	$2.6 million
Strategy	Value-added	**Realized Proceeds**	<$0.1 million
Vintage Year	2014	**Manager Reported Value**	$2.6 million
Fund Size	$1,350.0 million	**Total Value**	$2.6 million
Fund Duration	10 years	**% of Program**	2.3%
Fee Schedule	0.9% of commitments 8.0% preferred return 20.0% carried interest	**Net IRR**	NM



Investment Strategy

DRA Growth and Income Fund VIII ("DRA VIII") is a continuation of DRA Advisors' series of private, closed-end 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, multi-family, and industrial properties with a minimum value of $20.0 million, using up to 70% leverage. Potential investments may be structured as portfolios or single-assets and may consist of property or partnership recapitalizations, outright acquisitions, REIT privatizations, or joint ventures.

Portfolio Review

During 2014, the Partnership invested a total of $233.6 million in 17 properties, including $a portfolio consisting of office and retail buildings in Florida, $39.0 million in a four-building park of office and industrial buildings in California, and $18.9 million a 449,000 square foot office tower in Texas.

During the same period, the Partnership received proceeds of $2.9 million from the portfolio, including $1.2 million from one portfolio.

Portfolio Performance

As of December 31, 2014, the Partnership was at an early stage in its lifecycle and, therefore, an IRR calculation was not meaningful.

Appendices
As of December 31, 2014

Disclaimers and Valuation Policies
As of December 31, 2014

Disclaimer

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

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

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

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

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

The values of companies and partnerships in this review are based on audited reports for December 31, 2014, provided by the General Partners.

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

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

Private Equity
Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Private & Opportunistic Debt
Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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).

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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.

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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."

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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.

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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.

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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.

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

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

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

Private Real Estate
Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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