San Jose Federated City Employees' Retirement System

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Table of Contents

Private Equity Program

Introduction
As of December 31, 2013

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, 2013, the San Jose Federated City Employees' Retirement System had committed $155.6 million to six partnerships (two fund of funds, three secondary funds, and one buyout fund). The reported fair value of the aggregate Private Equity Program was $101.4 million at December 31, 2013.

Aggregate Private Equity Program[1]	
Number of Partnerships	6
Committed Capital[2]	$155.6 million
Capital Called	$125.4 million
Distributions	$63.2 million
Reported Value[3]	$101.4 million
Total Value Multiple	1.3x
Net IRR[4]	6.9%

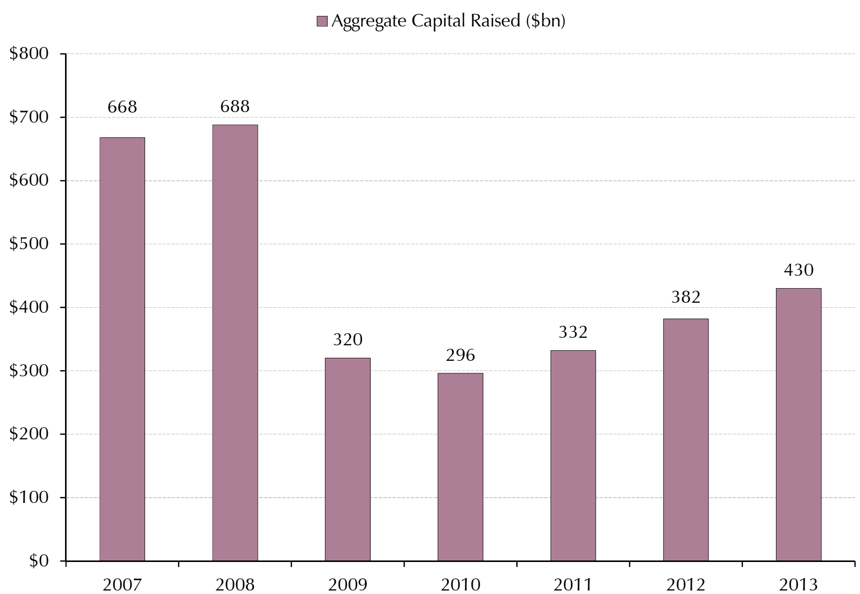
[1] Throughout this report, numbers may not sum due to rounding.
[2] One of the partnership commitments is made in a foreign currency. This total reflects committed capital in dollars, adjusted for foreign currency exchange rates, as of the report date.
[3] Includes estimated manager reported fair market value for Pathway Private Equity Fund VIII as of December 31, 2013.
[4] Net IRR is net of fees, expenses, and carried interest for each partnership.

Market and Industry Analysis
As of December 31, 2013

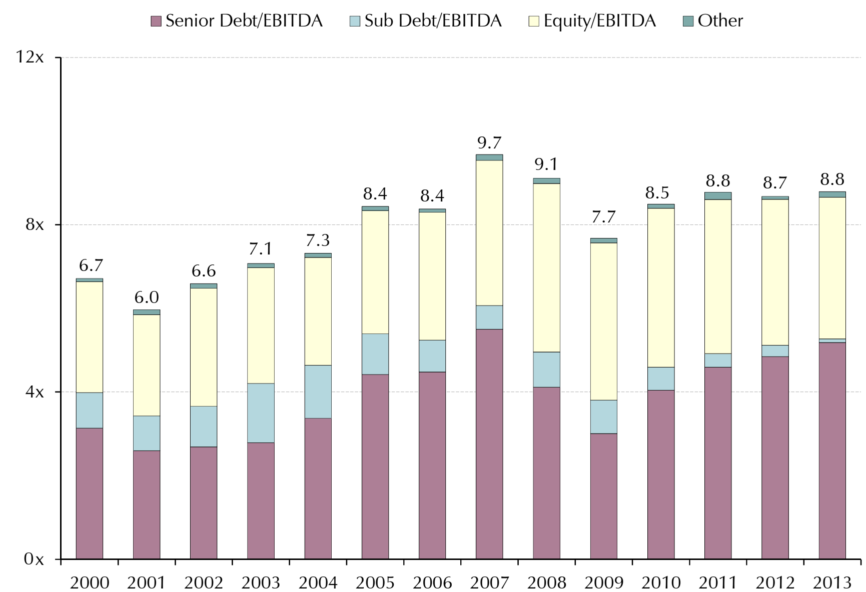
Private Equity in 2013

Private Equity had a strong 2013 in terms of fundraising, new investments, and distributions to limited partners. The robust debt market and rising public market valuations in North America were particularly supportive for completing buyout investments and generating distributions through dividend recapitalizations, IPOs, or sales to strategic buyers. In fact, 2013 ended up being one of the most active years for dividend recapitalizations on record as companies utilized easily available debt at record low interest rates to pay back investors. Venture Capital in North America also continued its momentum with a high level of new public offerings at high valuations as investors sought fast growing IT and biotech companies. The rise in public markets and increase in distributions led to reinvestment by the limited partners in the asset class and strong support for new commitments. As a result, 2013 was the best year for fundraising since the GFC as several prominent managers held successful closings during the year. Fundraising for Western Europe also picked up in 2013 despite lingering weak macroeconomic conditions, with many investors viewing such investments as contrarian. Emerging Markets fundraising, on the other hand, stayed flat compared to the prior year as weaker growth, currency volatility, and geopolitical concerns weighed on investors' minds.

Global Fundraising[1]



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



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

Buyout

Globally, buyout activity increased during the year with North America leading the charge. However, valuations in North America for all leveraged buyout (LBO) transactions remained flat versus the prior year. The industry showed remarkable restraint during the year as public markets in the U.S. continued to grow at a double digit rate. The debt markets continued to be supportive of the LBO transactions with a modest increase in debt levels during 2013, which in turn led to a modest decline in equity participation by buyout fund managers. The computer and electronics sector comprised 27.5% of the aggregate buyout volume, followed by the food & beverage sector[1]. However, both of these sectors were dominated by one mega buyout transaction – Dell and Heinz, respectively. The European market showed increased LBO activity as well but most transactions were being completed with significantly lower levels of debt. Finally, there were signs of LBO transactions entering the Chinese private equity market with the take-private transaction of Focus Media, which was structured like a North American buyout with similar levels of debt. Though other similar transactions are likely to happen in the coming years, growth capital transactions are expected to dominate Chinese private equity activity for at least the medium term.

Private Debt

Distressed debt managers enjoyed strong performance with existing investment positions during 2013 as default rates continued their recent decline, to below 1% and the lowest level since 2007, and average debt prices continued to increase. As has been the case over the past few years, pricing strength continues to present challenges for managers seeking new distressed debt investment opportunities. As capital for refinancing has been readily available, near term maturities have been extended and risk of default is seen as low for all but the most troubled companies. Mezzanine debt managers reported a slow year for new investment activity as competition was high, particularly from second lien/unitranche debt providers and Business Development Companies (BDCs). As a proportion of the total debt capital structure for new middle market financing transactions, mezzanine debt usage was at a ten year low. In addition to slower deal volume, mezzanine debt managers reported increased pricing pressure, with coupon rates regularly below 12% on higher quality and larger transactions, while total leverage continued its upward trend. Mezzanine debt managers at the smaller end of the market reported somewhat better opportunities, though a crowding down effect was also evident as some larger managers sought to compete on smaller transactions in an effort to deploy capital.

Venture Capital

Venture Capital maintained it strong momentum of the past few years. The biggest event of the year was the successful IPO of Twitter during the fourth quarter of 2013. Much of the outperformance of the sector was partly due to validation of the previously controversial IPO of Facebook which generated strong growth in 2013, boosting confidence in the new generation of technology companies. Although much of the activity centered on fast growing technology companies, there was also significant activity with biotech companies going public during the year. This marked a major change as biotech companies were out-of-favor with public equity investors for over a decade. The positive momentum had an impact on new venture capital valuations, especially in the consumer, software, and social sectors. This new group of public companies, especially technology companies, used their newly raised cash and stock to acquire start-up companies to improve their market positioning as well as offer new products/services. Throughout the year there were concerns about another technology bubble forming. Yet, it is important to note that, unlike the prior bubble, many start-up technology companies today are generating revenues and have a visible path to profitability.

[1] Source: S&P Leveraged Finance

The Global Economy

The global economy continued its slow pace of growth with major economies showing low growth rates, except for Japan, which generated higher than expected growth due to its massive quantitative easing program. Global GDP grew at 2.7% in 2013, which was lower than the prior year rate of 3.3%[1]. The decline was mostly a function of deceleration in the growth rates of emerging economies such as Brazil, Russia, and India. With the exception of Japan, most large economies such as the U.S., European Union, and China registered similar levels of growth as prior year. The emerging economies were hit hard in part due to the U.S. Federal Reserve's plan to taper its quantitative easing program, which in turn led to foreign capital leaving emerging market economies and depreciating their currencies. In the U.S., there was steady improvement in the unemployment rate, which stood at less than 7% at the end of 2013. However, this improvement did not make a major impact on GDP growth, which was less than 2% for 2013. The European Union appeared to be on a path towards recovery with most economies either generating positive GDP growth or having visibility to positive GDP growth by the early part of 2014. The outlook for 2014 was marginally positive with higher growth expected out of the U.S. as well as China and other emerging economies.

[1] Source: IMF

Private Equity Program
As of December 31, 2013

Executive Summary
As of December 31, 2013

The Retirement System did not make any new commitments during the fourth quarter of 2013.

In aggregate, $3.9 million of capital was called from the Retirement System during the fourth quarter of 2013 by the underlying partnerships.

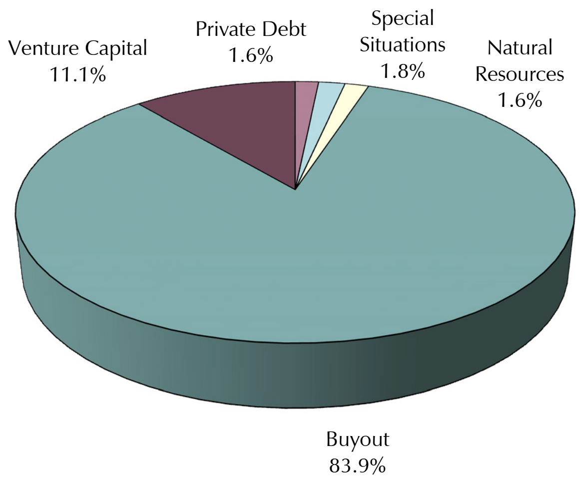
- Pantheon USA Fund VII called $3.2 million from the Retirement System to fund existing underlying partnership investments particularly in the buyout sector.
- Great Hill Equity Partners IV called $0.3 million to fund two new investments.
- Pathway Private Equity Fund VIII called $0.4 million to fund existing underlying partnership investments.

Distributions received by the Retirement System from underlying partnerships during the fourth quarter totaled $7.2 million.

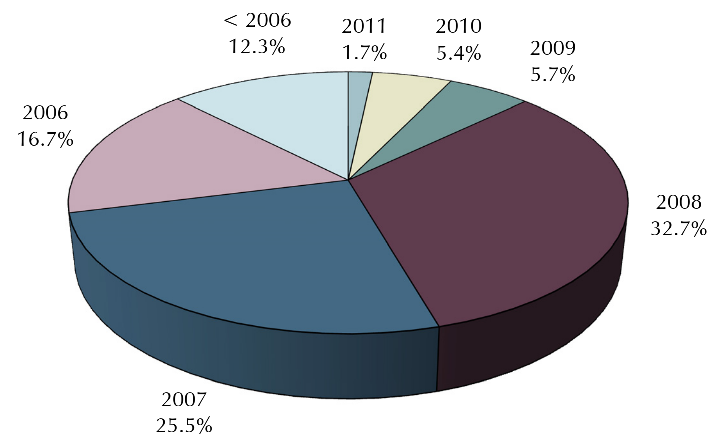
- Pantheon USA Fund VII distributed $3.8 million of proceeds from underlying partnerships. The partnership distributed 15.5% of capital commitments in 2013.
- Pathway Private Equity Fund VIII distributed $1.6 million of proceeds from the portfolio's underlying partnerships.
- Partners Group Secondary 2008 distributed $1.0 million of proceeds from several of its underlying partnerships.
- Pantheon Global Secondary Fund III 'B' distributed $0.8 million largely from distributions received from five underlying funds.

Executive Summary
Portfolio Overview as of 12/31/13

Diversification by Investment Strategy[1]



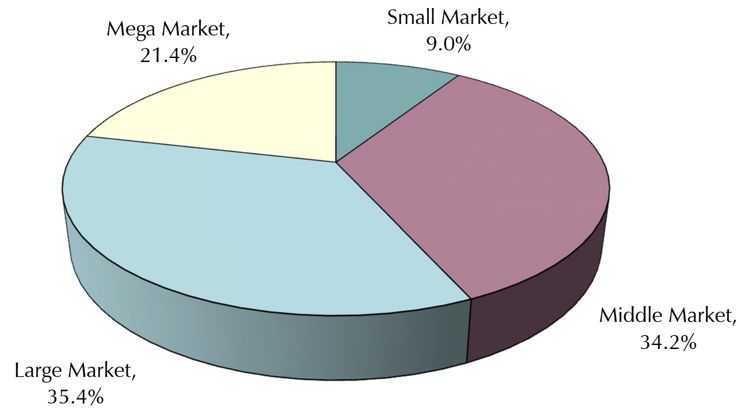
Diversification by Vintage Year[1]



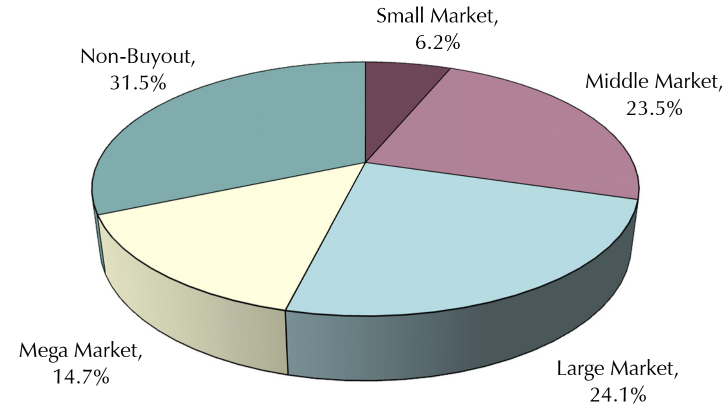
[1] These charts were created using the fair value of the Program as of December 31, 2013. The data includes the strategy and vintage year of underlying investments made by Secondary Funds and Fund of Funds.

Breakdown of Buyout Positions as of 12/31/13

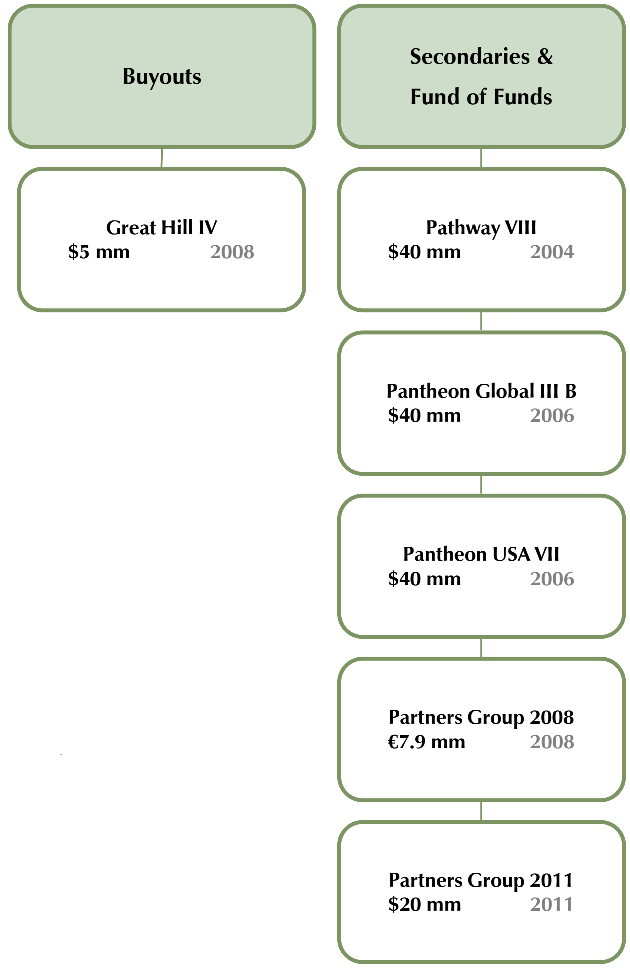
Buyout Exposure by Market Size[1,2]



Total PE Exposure by Buyout Market Size[1]



[1] These charts were created using the fair value of the Program as of December 31, 2013.
[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.



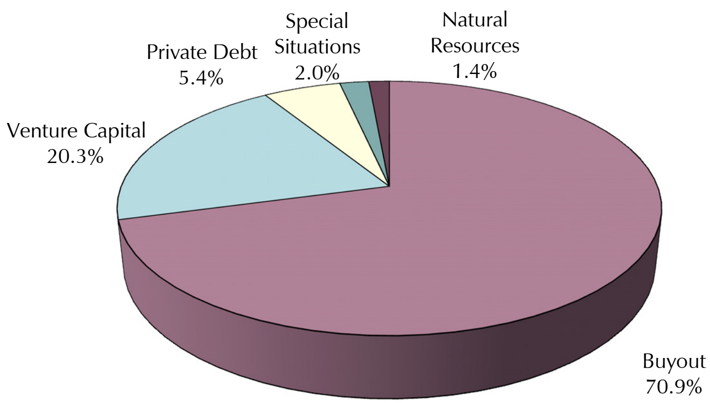
- The chart above shows current commitments made to partnerships by the Retirement System.

Aggregate Private Equity Portfolio
As of December 31, 2013

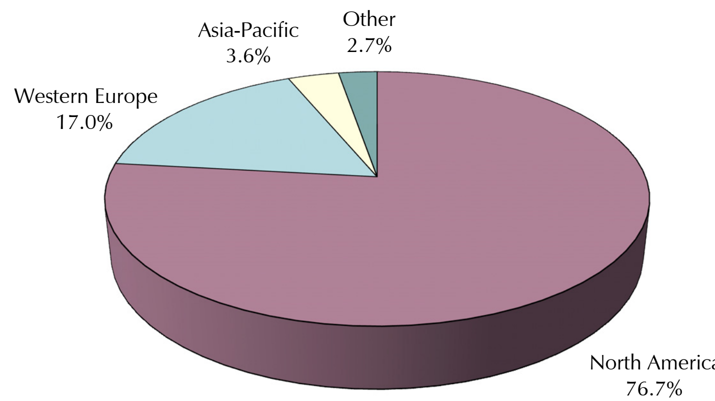
San Jose Federated City Employees' Retirement System
Private Equity Program

Aggregate Program
Portfolio Diversification as of 12/31/13

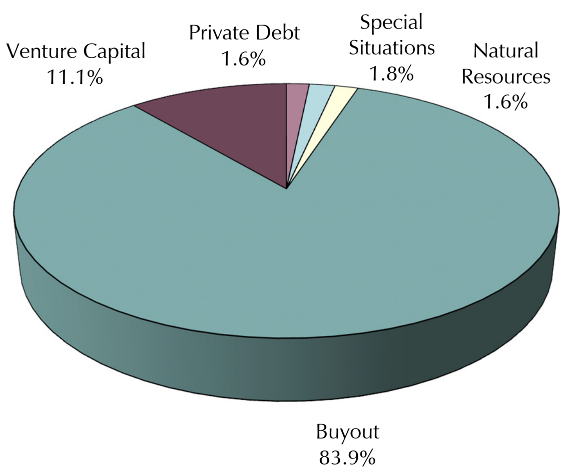
Commitment



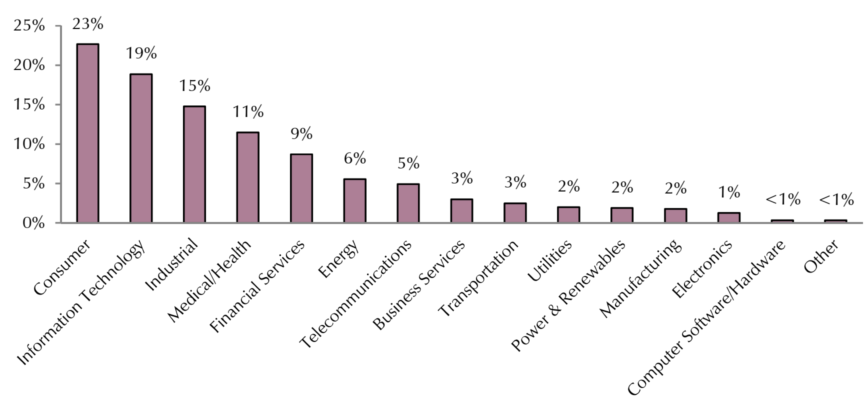
Geography[1]



Reported Fair Value[1]



Industry[1,2]



[1] These charts were created using the fair value of the Program as of December 31, 2013.
[2] Industry diversification data does not include Pantheon Global Secondary Fund III B, as 12/31/13 industry data for this fund is not available.

San Jose Federated City Employees' Retirement System Private Equity Program

Aggregate Program Performance Summary as of 12/31/13

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date ($ mm)[1]	Unfunded Commitment ($ mm)[2]	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions ($ mm)	Net IRR (%)[3]	Inv. Multiple (x)[4]
Total Program		**155.6**	**125.4**	**31.2**	**63.2**	**101.4**	**164.6**	**6.9**	**1.3**
Vintage Year 2004		**40.0**	**38.5**	**1.5**	**27.0**	**26.6**	**53.6**	**6.9**	**1.4**
Pathway Private Equity Fund VIII	Fund of Funds	40.0	38.5	1.5	27.0	26.6	53.6	6.9	1.4
Vintage Year 2006		**80.0**	**68.6**	**11.4**	**28.6**	**55.3**	**83.9**	**5.1**	**1.2**
Pantheon Global Secondary Fund III 'B'	Secondary	40.0	36.0	4.0	19.0	20.4	39.4	2.1	1.1
Pantheon USA Fund VII	Fund of Funds	40.0	32.6	7.4	9.6	34.9	44.5	9.0	1.4
Vintage Year 2008		**15.6**	**13.6**	**3.0**	**7.2**	**12.8**	**20.0**	**15.3**	**1.5**
Great Hill Equity Partners IV	Buyout	5.0	4.4	0.6	2.9	3.7	6.6	23.2	1.5
Partners Group Secondary 2008[5]	Secondary	10.6	9.2	2.4	4.4	9.0	13.4	13.0	1.5
Vintage Year 2011		**20.0**	**4.8**	**15.3**	**0.4**	**6.8**	**7.1**	**60.9**	**1.5**
Partners Group Secondary 2011, L.P.	Secondary	20.0	4.8	15.3	0.4	6.8	7.1	60.9	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 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.
5 The Retirement System committed €7.9 million to the Partnership in 2008. The $10.6 million is an estimated amount based on the contributed capital and unfunded commitment as of December 31, 2013.

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.

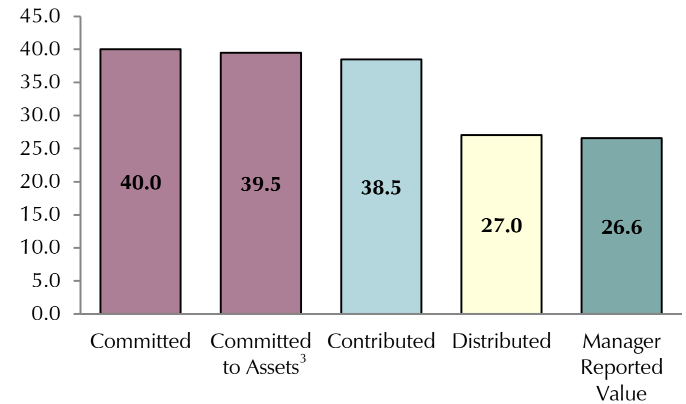
The Total Program net IRR increased by 70 basis points during the quarter, from 6.2% to 6.9%. During the quarter, the total reported fair value of the Private Equity Program increased by $5.9 million, or 6.1%, after adjusting for capital calls and distributions that occurred during the period. Performance was primarily driven by increases in net valuations of Pantheon Global Secondary Fund III "B," Pantheon USA Fund VII, and Partners Group Secondary 2008.

Individual Partnership Analyses
As of December 31, 2013

San Jose Federated City Employees' Retirement System Private Equity Program

Pathway Private Equity Fund VIII as of 12/31/13

General Partner	Pathway Capital Management, LLC	**Commitment**	$40.0 million
Location	Irvine, CA	**Number of Investments**	17
Auditor	KPMG	**Capital Contributions**	$38.5 million
Strategy	Fund of Funds	**Realized Proceeds**	$27.0 million
Vintage Year	2004	**Manager Reported Value**	$26.6 million
Fund Size	$40.0 million	**Total Value**	$53.6 million
Fund Duration	15 Years	**% of Program[1]**	26.2%
Fee Schedule	0.8% of commitments	**Net IRR**	6.9%
		ThomsonOne Median IRR[2]	6.4%



Investment Strategy

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

Portfolio Review

The Partnership provided $0.8 million to fund existing commitments during 2013.

During the same period, the Partnership received $5.8 million from various underlying partnerships.

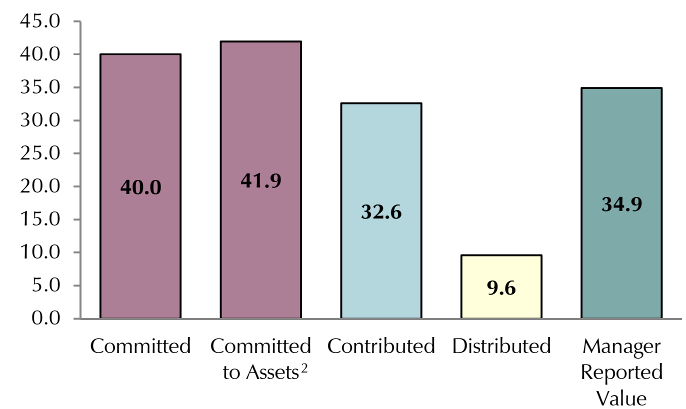
Portfolio Performance

During the year ended December 31, 2013, the Partnership's net IRR increased to 6.9%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 21.6%.

[1] The percentage of the Retirement System's total portfolio represented by this fund, based on reported fair value as of December 31, 2013. 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, 2013.
[3] Represents the Partnership's commitment to underlying funds.

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	66
Capital Contributions	$32.6 million
Realized Proceeds	$9.6 million
Manager Reported Value	$34.9 million
Total Value	$44.5 million
% of Program	34.4%
Net IRR	9.0%
ThomsonOne Median IRR[1]	5.7%



Investment Strategy

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

Portfolio Review

During 2013, the Partnership contributed $171.1 million to existing partnership commitments.

During the same period, the Partnership received $312.6 million in proceeds from various underlying partnership investments.

Portfolio Performance

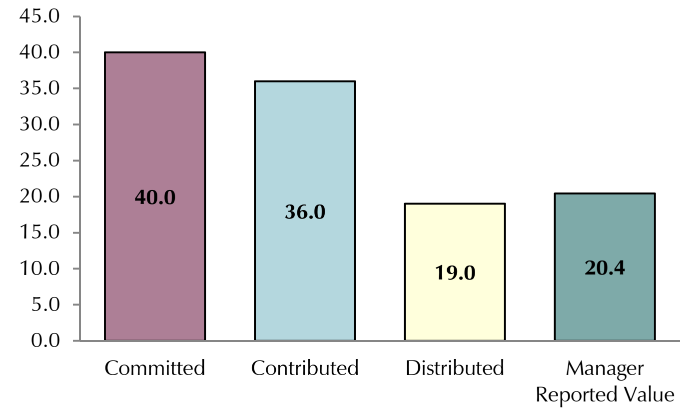
During the year ended December 31, 2013, the Partnership's net IRR increased to 9.0%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 6.5%.

[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, 2013.
[2] Represents the Partnership's commitment to underlying funds

Pantheon Global Secondary Fund III 'B' as of 12/31/13

General Partner	Pantheon Ventures, Inc.
Location	San Francisco, CA
Auditor	KPMG London
Strategy	Secondary
Vintage Year	2006
Fund Size	$589.9 million[1]
Fund Duration	13 years
Fee Schedule	1.0% of commitments 8.0% preferred return 10.0% carried interest

Commitment	$40.0 million
Number of Investments	44
Capital Contributions	$36.0 million
Realized Proceeds	$19.0 million
Manager Reported Value	$20.4 million
Total Value	$39.4 million
% of Program	20.1%
Net IRR	2.1%
ThomsonOne Median IRR[2]	4.7%



Investment Strategy

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

Portfolio Review

The Partnership called $16.0 million to fund existing commitments during 2013.

During the same period, the Partnership received $81.8 million in proceeds from various underlying partnerships.

Portfolio Performance

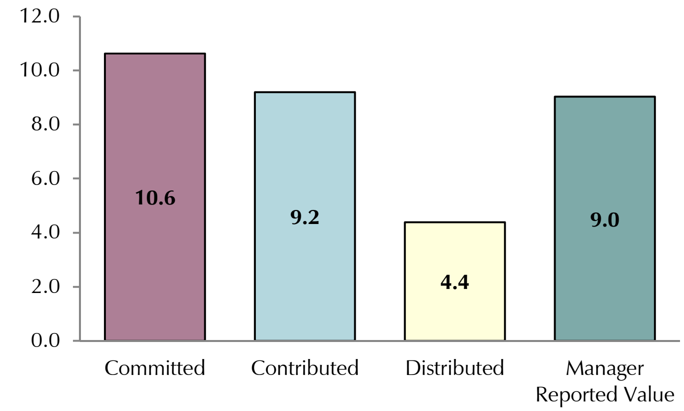
During the year ended December 31, 2013, the Partnership's net IRR increased to 2.1%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 6.5%.

[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, 2013.

Partners Group Secondary 2008
as of 12/31/13

General Partner	Partners Group	**Commitment**[1]	$10.6 million
Location	Switzerland	**Number of Investments**	163
Auditor	PriceWaterhouseCoopers CI LLP	**Capital Contributions**	$9.2 million
Strategy	Secondary	**Realized Proceeds**	$4.4 million
Vintage Year	2008	**Manager Reported Value**	$9.0 million
Fund Size	€2,500.0 million	**Total Value**	$13.4 million
Fund Duration	12 years	**% of Program**	8.9%
Fee Schedule	1.3% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	13.0%
		ThomsonOne Median IRR[2]	5.0%



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 2013, the Partnership invested a total of €109.5 million to fund follow-on investments in existing underlying portfolios.

During the same period, the Partnership realized proceeds of €539.7 from existing underlying portfolios.

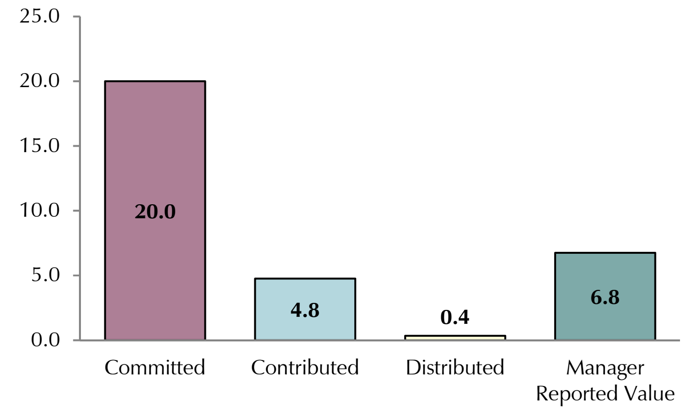
Portfolio Performance

During the one-year period ended December 31, 2013, the Partnership's net IRR increased to 13.0%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 18.6%.

[1] The Retirement System committed €7.9 million to the Partnership. The $10.6 million commitment is an estimated amount based on the contributed capital and unfunded commitment as of December 31, 2013.
[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, 2013.

Partners Group Secondary 2011, L.P.
as of 12/31/13

General Partner	Partners Group	**Commitment**	$20.0 million
Location	Switzerland	**Number of Investments**	12
Auditor	PricewaterhouseCoopers	**Capital Contributions**	$4.8 million
Strategy	Secondary	**Realized Proceeds**	$0.4 million
Vintage Year	2011	**Manager Reported Value**	$6.8 million
Fund Size	$1,800.0 million	**Total Value**	$7.1 million
Fund Duration	12 years	**% of Program**	6.7%
Fee Schedule	1.25% of commitments 8.0% preferred return 10.0% carried interest	**Net IRR**	60.9%
		ThomsonOne Median IRR[1]	6.9%



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 2013, the Partnership invested a total of $335.0 million in 16 new secondary purchases.

During the same period, the Partnership realized proceeds of $53.2 million.

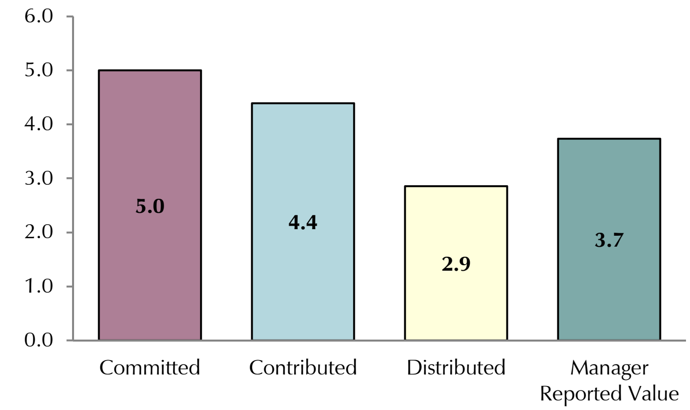
Portfolio Performance

During the one year period ended December 31, 2013, the Partnership's net IRR was 60.9%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 28.4%.

[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, 2013.

Great Hill Equity Partners IV
as of 12/31/13

General Partner	Great Hill Partners LLC	**Commitment**	$5.0 million
Location	Boston, MA	**Number of Investments**	17
Auditor	Ernst & Young LLP	**Capital Contributions**	$4.4 million
Strategy	Buyout	**Realized Proceeds**	$2.9 million
Vintage Year	2008	**Manager Reported Value**	$3.7 million
Fund Size	$1,100.0 million	**Total Value**	$6.6 million
Fund Duration	10 Years	**% of Program**	3.7%
Fee Schedule	2.25% of commitments 8.0% preferred return 20.0% carried interest	**Net IRR**	23.2%
		ThomsonOne Median IRR[1]	11.8%



Investment Strategy

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

Portfolio Review

During 2013, the Partnership invested a total of $166.9 million in three new investments and various follow-on investments.

During the same period, the Partnership realized a total of $61.5 million of proceeds from the portfolio.

Portfolio Performance

During the year ended December 31, 2013, the Partnership's net IRR increased to 23.2%. During the same period, the value of the System's interest in the Partnership experienced a net valuation increase of 33.8%.

[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, 2013.

Private Real Estate Program

Introduction
As of December 31, 2013

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, 2013, the System had invested in seven real estate funds (two core funds and five value-added funds). During the fourth quarter, The Retirement System committed $15.0 million to another value-add fund, but no capital was called during the quarter. The total reported fair value of real estate investments was $118.9 million at December 31, 2013, including $68.5 million in core real estate and $50.4 million in closed-end real estate.

Aggregate Closed-End Private Real Estate Program[1,2]	
Number of Partnerships	6
Committed Capital	$105.0 million
Capital Called	$89.6 million
Distributions	$37.6 million
Reported Value	$50.4 million
Total Value Multiple	1.0x
Net IRR	-0.4%

[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, 2013

Real estate fundamentals were generally positive during the quarter as private real estate investments reported another quarter of positive appreciation returns.

Real Estate Fundamentals

- During the fourth quarter of 2013, private real estate recorded a slight decrease in occupancy, but remained 70 basis points higher than a year ago. NOI growth increased 0.9%, after falling -0.4% last quarter. For the full year, 2013 NOI growth of 3.7% was in-line with the prior year's NOI annual growth rate.
- The NCREIF Property Index's (NPI) value-weighted cap rate (appraisal based) remained largely unchanged at 5.2% from the prior quarter, and is now nearly 160 basis points below the recent 4Q09 market trough and nearly 30 basis points above the 3Q08 market peak.
- Real estate capital market activity remained strong in 4Q13, posting the second highest post-recession quarterly transaction volume, with little evidence that the rise in interest rates during 2013 had an impact on either volume or prices. Real Capital Analytics (RCA) reported U.S. volumes for core properties of $117 billion during 4Q13, exceeding 4Q12 volume by 17% and the prior quarter's volume by 29%. Total sales volume for 2013 of $360 billion was up 20% from the prior year. The pricing of deals completed during the quarter was generally in-line with that of the prior quarter and the comparable year-earlier period. This was evidenced by just a 10 basis point decline in the average transactional capitalization rate to 6.8% in 4Q13 from the prior quarter, and unchanged from 2012.
- Most notable is that cap rates have continued to compress while interest rates have started to tick upwards. The expectation is that cap rates will edge higher as interest rates begin to rise, but the relationship is not necessarily one for one as real estate continues to attract large flows of capital from investors because it offers attractive cash returns, as well as appreciation. Strong demand for real estate, along with continued projected growth in NOI should help offset the interest rate increases in the broader capital markets.
- Real estate debt markets continued the trend of increasing activity as U.S. CMBS issuance during 4Q13 of $26 billion increased 46% over 4Q12 and 54% over the prior quarter. Total issuance of $86 billion for 2013 marks an increase of 78% from the prior year, as the volume of debt issued during 2013 reached highs not seen since 2007, as the favorable lending conditions that characterized the year persisted into the fourth quarter. Further, a recent Mortgage Bankers Association's survey of its members indicated that nearly half expect multifamily and commercial originations to increase 5% or more in 2014.

Fundamentals	4Q13 Value	Q-o-Q △	Y-o-Y △
NCREIF Occupancy	90.6%	↓ -0.1%	↑ 0.7%
NCREIF NOI	0.9%	↑ 1.3%	↑ 0.3%
NCREIF MV Cap Rate	5.2%	⇔ -3 bps	↓ -24 bps
RCA Transaction Volume	$117bn	↑ 29%	↑ 17%
RCA Transaction Cap Rate	6.8%	↓ -0.1%	⇔ 0.0%
NAREIT Dividend Yield	4.1%	↑ 0.3%	↑ 0.4%

U.S. Economic Indicators	4Q13 Value	Q-o-Q △	Y-o-Y △
Unemployment Rate	6.7%	↓ -0.5%	↓ -1.2%
Real GDP Growth	2.6%	↓ -1.5%	↑ 2.5%
10-Yr Treasury	2.9%	↑ 0.1%	↑ 1.2%
CPI	234.6	↑ 0.4%	↑ 1.5%
New Housing Unit Starts	231k	↓ -0.5%	↑ 13.8%

Trailing Returns	4Q13	1-Yr	3-Yr
NPI	2.5%	11.0%	11.9%
NFI-ODCE (EW, gross)	3.1%	13.4%	13.4%
NAREIT Equity	-0.7%	2.5%	9.4%
Barclays Aggregate	*-0.03%*	*-2.4%*	*3.6%*
S&P 500 Index	*10.5%*	*32.4%*	*16.2%*

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.

U.S. Macro Trends

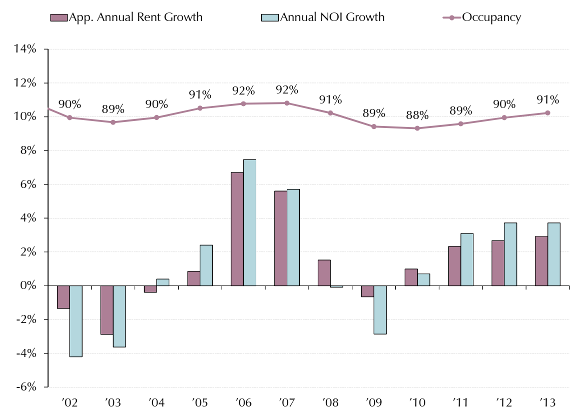
- The U.S. economy continued to make steady gains as real GDP expanded 2.6% during 4Q13. While the quarterly GDP figure was well below 3Q13's revised GDP growth figure of 4.1%, the national unemployment rate declined to 6.7%, marking the first time since 2008 that the U.S. unemployment rate was below 7%. Job growth is an important indicator to evaluate future real estate demand. During 4Q13, job growth averaged +172k per month, moderately lower than in the first three quarters of the year. Additionally, employment in office-using industries (financial, professional & business services, and information) increased by +117k during the quarter, accounting for 23% of the jobs added over this period, as office-using employment is now within 54k of its pre-recession peak; if this trend continues it should result in improved fundamentals, including landlord pricing power.
- Other positive data for the U.S. economy includes new privately owned housing units started in the U.S., which at 231k units (including both single-family and multifamily units), reflects a decline of 12k units from the prior quarter, but marks the largest quarter of multifamily unit construction starts in recent years. 4Q13 multifamily starts of 88k increased 13% from the prior quarter and 19% from the year-earlier period.

Real Estate Returns

- In the fourth quarter of 2013, U.S. private commercial real estate continued to experience positive returns off a bottom established in late 2009 and early 2010, while public real estate experienced its third consecutive quarter of negative returns for the first time since early 2009. Fundamentals continued to strengthen at the property level, but the pace of recovery slowed. These trends were reflected in the NCREIF Property Index (NPI), NFI-ODCE, and NAREIT Equity's (U.S. REITs) fourth quarter returns of 2.5%, 3.1% (gross of fees), and -0.7%, respectively.
- Over the past four quarters, the NPI returned 11.0%, split between an income return of 5.6% and an appreciation return of 5.2%. While the appreciation return continues to decelerate from a near 7% three-year rate, it remains well above the 20-year annualized appreciation return of 1.7%. Real estate continues to generate outsized returns compared to most other asset types, although stocks were very strong as well with the S&P 500 Index posting a one-year return of 32.4%. Government bonds had a negative return on a one-year basis as tracked by Barclays, while U.S. REITs recorded a 2.5% one-year return, as measured by the NAREIT Equity REIT Index.

4Q13 Real Estate Industry Analysis

Property Fundamentals[1]

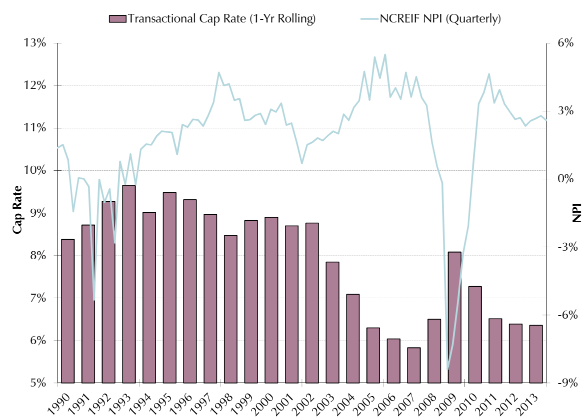


Operating fundamentals continued to improve throughout 2013 as vacancy rates declined in three of the four major property types.

During the year, vacancy declines ranged from 144 basis points in the retail sector to 47 basis points in the office sector, while apartment vacancy rates ticked up 70 basis points in 2013.

While year-over-year NOI growth was flat in the aggregate, 2013 NOI growth over 2012 moderated by -3.1% for the apartment sector to 3.1% NOI growth, but increased 2.4% to 5.3% NOI growth for the retail sector and 1.4% to 3.6% NOI growth for the industrial sector. Office NOI growth was largely unchanged at 3.1%.

Cap Rates vs. Returns[2]

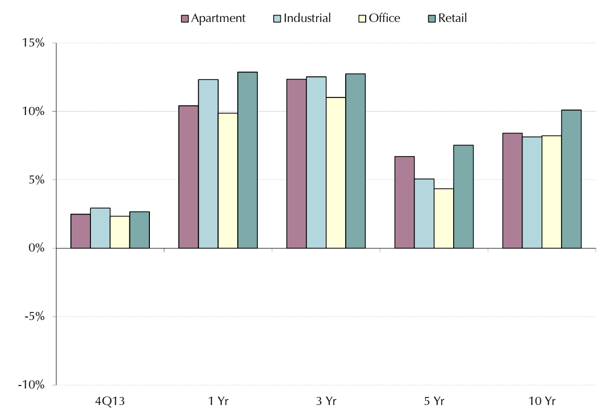


Over the long run, real estate relies more on steady income than on value gains to drive total return. Over the trailing twelve months, income return outpaced appreciation return in all property sectors except retail, suggesting that performance is approaching a period of sustainability.

Trailing one-year transaction volume for all commercial real estate is 23% above the ten-year annual average, according to Real Capital Analytics.

The NPI total return increased for the 14th consecutive quarter, reflecting a trailing one-year return of 11%. Average transactional cap rates, as measured by the NPI, were generally in-line with 2012 transactional cap rates and 15 basis points below 2011 cap rates.

Property Type Returns[1]



While property appreciation has driven the strong one- and three-year trailing returns, the rate of appreciation has begun to moderate.

Operating fundamentals, on the other hand, will likely continue to improve at varying degrees as new supply is primarily limited to the apartment sector. These improvements will translate into greater income growth as income now accounts for a larger portion of total return in commercial real estate. Despite a lower 2013 GDP estimate, modest economic and employment growth should still help lower vacancies and elevate rent in coming quarters, which would allow income to continue to rise.

[1] Source: NCREIF Property Index. Annual and year-to-date 2013 Rent Growth is an approximation as these figures also capture changes in expenses.
[2] Source: NCREIF Property Index.

Private Real Estate Program
As of December 31, 2013

Executive Summary
As of December 31, 2013

During the fourth quarter, the Retirement System committed $15.0 million to DRA Growth & Income Fund VIII, a value-added real estate fund targeting a diversified portfolio of individual properties, potential REIT privatizations, and spin-off acquisitions of REITs' non-core portfolios across the United States.

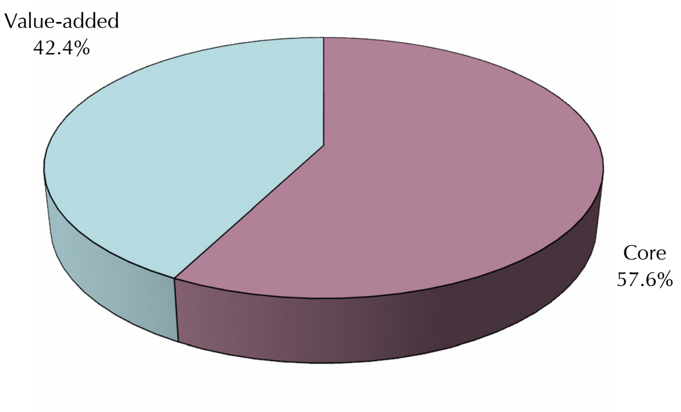
In aggregate, $1.4 million of capital was called from the Retirement System during the fourth quarter of 2013 by the closed-end underlying partnerships.

- DRA Growth & Income Fund VII called $1.1 million as the partnership used $77 million for the initial funding of two new acquisitions and to pay down a portion of the partnership's credit facility.
- DRA Growth & Income Fund VI called $0.2 million as the partnership used $18 million pay down a portion of the partnership's credit facility.

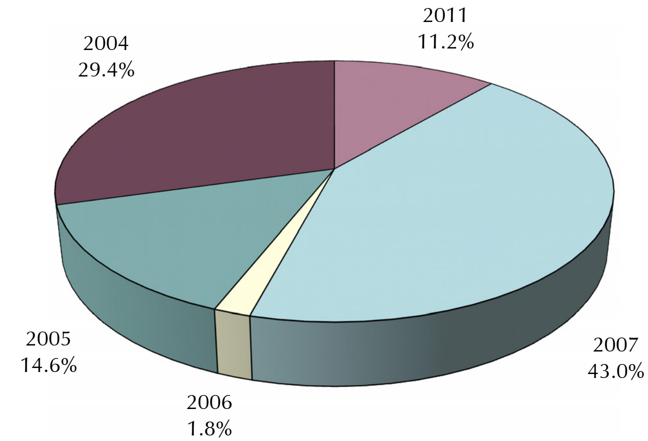
In aggregate, $7.2 million of capital was distributed to the Retirement System by the closed-end underlying partnerships during the fourth quarter of 2013.

- Fidelity Real Estate Growth Fund III distributed $3.2 million as the closed-end partnership distributed a total of $138 million to investors, primarily comprised of sale proceeds from four investments.
- DRA Growth & Income Fund VI distributed $2.4 million as the partnership distributed a total of $197 million to investors, primarily comprised of partial realizations from two investments, refinancing proceeds of one investment, and portfolio income.
- DRA Growth & Income Funds V & VII distributed a total of $0.5 million from portfolio income and $0.7 million from the return of capital of one Fund V investment.

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, 2013.

[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.

Core

- **PRISA I**
  Diversified
  North America
  NA 2004
- **American Core Realty**
  Diversified
  North America
  NA 2007

Value-Added

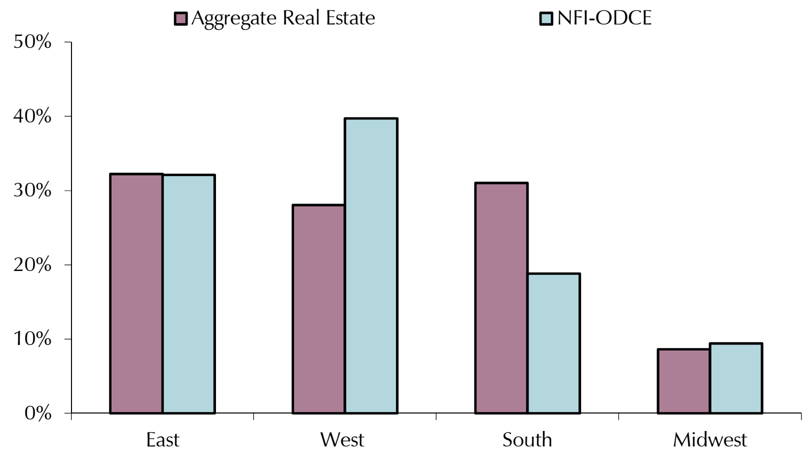
- **DRA Growth & Income V**
  Diversified
  North America
  $20 mm 2005
- **GEAM Value Added**
  Diversified
  North America
  $20 mm 2006
- **DRA Growth & Income VI**
  Diversified
  North America
  $15 mm 2007
- **Fidelity Growth Fund III**
  Diversified
  North America
  $20 mm 2007
- **DRA Growth & Income VII**
  Diversified
  North America
  $15 mm 2011
- **DRA Growth & Income VIII**
  Diversified
  North America
  $15 mm 2013

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

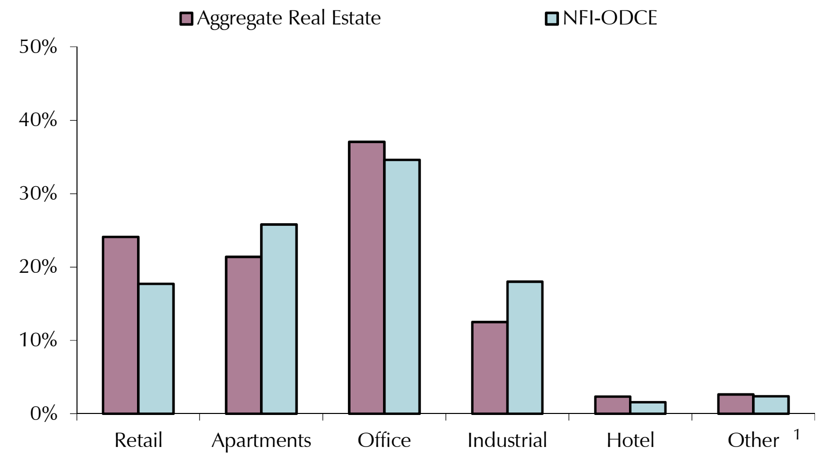
Aggregate Private Real Estate Portfolio
As of December 31, 2013

Aggregate Program
Portfolio Diversification as of 12/31/13

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.

Real Estate Assets
Performance as of 12/31/13

	4Q13 (%)	Fiscal YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	Inception Date	Since Inception (%)
Core Real Estate[1]							
PRISA I	3.4	7.0	13.7	13.3	2.1	7/1/04	5.5
NCREIF ODCE Equal Weighted, net	*2.9*	*6.2*	*12.4*	*12.4*	*2.4*		*5.5*
American Core Realty Fund, LLC	2.4	5.6	11.3	11.8	1.3	1/1/07	2.1
NCREIF ODCE Equal Weighted, net	*2.9*	*6.2*	*12.4*	*12.4*	*2.4*		*2.0*

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

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

Aggregate Program Performance Summary as of 12/31/13

	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		**105.0**	**89.6**	**20.2**	**37.6**	**50.4**	**88.1**	**-0.4**	**1.0**
Vintage Year 2005		**20.0**	**30.5**	**0.0**	**15.3**	**17.4**	**32.7**	**1.7**	**1.1**
DRA Growth and Income Fund V	Value-added	20.0	30.5	0.0	15.3	17.4	32.7	1.7	1.1
Vintage Year 2006		**20.0**	**18.2**	**1.8**	**5.4**	**2.2**	**7.6**	**-15.1**	**0.4**
GEAM Value Add Realty Partners, L.P.	Value-added	20.0	18.2	1.8	5.4	2.2	7.6	-15.1	0.4
Vintage Year 2007		**35.0**	**28.4**	**0.9**	**15.8**	**17.6**	**33.4**	**5.0**	**1.2**
DRA Growth and Income Fund VI	Value-added	15.0	10.5	0.9	5.5	8.2	13.6	7.0	1.3
Fidelity Real Estate Growth Fund III	Value-added	20.0	17.9	0.0	10.4	9.4	19.8	3.4	1.1
Vintage Year 2011		**15.0**	**12.5**	**2.5**	**1.1**	**13.3**	**14.4**	**14.8**	**1.1**
DRA Growth and Income Fund VII, LLC	Value-added	15.0	12.5	2.5	1.1	13.3	14.4	14.8	1.1
Vintage Year 2013		**15.0**	**0.0**	**15.0**	**0.0**	**NA**	**NA**	**NA**	**NA**
DRA Growth and Income Fund VIII, LLC	Value-added	15.0	0.0	15.0	0.0	NA	NA	NA	NA

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 70 basis points during the fourth quarter, from -1.2% to -0.4%.[2] The improved performance was driven primarily by increases in the valuations of Fidelity Real Estate Growth Fund III (6.9%), DRA Growth & Income Fund VII (3.6%), DRA Growth & Income Fund V (2.0%), and GEAM Value Add Realty Partners. During the fourth quarter, the total reported fair value of the Total Closed-End Program increased by $2.3 million, or 4.4%, after adjusting for capital calls and distributions that occurred during the quarter. Furthermore, the Aggregate Private Real Estate Program[3] increased by $4.2 million, or 3.6%, 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, 2013

Strategy: Real Estate
Private Market
Diversified Core

Market Value: $35.0 million

Senior Professionals: Kevin R. Smith

Location: Madison, NJ

Investment Date: 6/30/04

Account Type: Open-end Commingled Fund

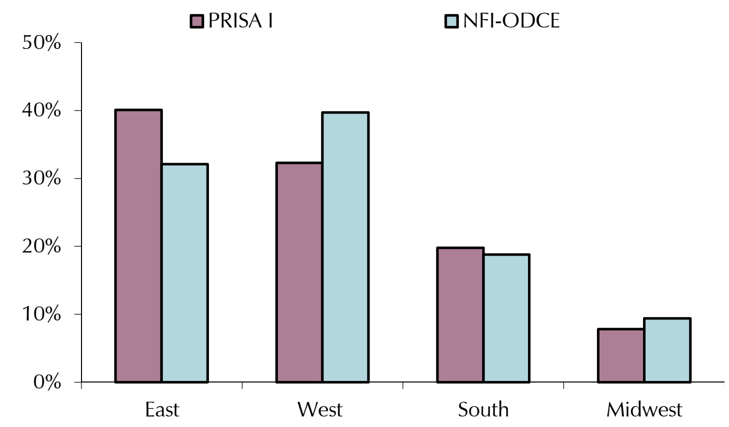
# of Investments: 259

Liquidity Constraints: Quarterly (with 30 days advance notice)

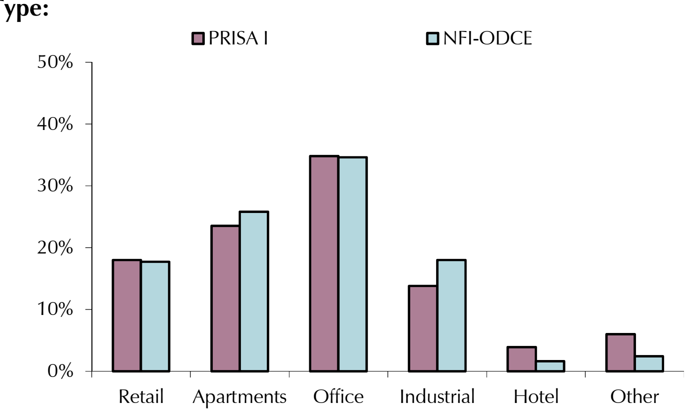
Fee Schedule: Annual maximum fee of 1.20% on first $25 mm; 1.15% on next $25 mm; 1.10% on next $50 mm; 1.05% on next $100 mm; 1.00% thereafter

Performance (%):	4Q13	Fiscal YTD	1 YR	3 YR	5 YR	Since 7/1/04
PRISA I, Gross	**3.6**	**7.4**	**14.7**	**14.4**	**3.1**	**6.5**
Net of Fees	**3.4**	**7.0**	**13.7**	**13.3**	**2.1**	**5.5**
NCREIF ODCE Equal Weighted, net	2.9	6.2	12.4	12.4	2.4	5.5

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.

American Core Realty Fund, LLC
as of 12/31/13

Strategy: Real Estate
Private Market
Diversified Core

Market Value: $33.5 million

Senior Professionals: Greg Blomstrand

Location: Glendale, CA

Investment Date: 1/1/2007

Account Type: Open-end Commingled Fund

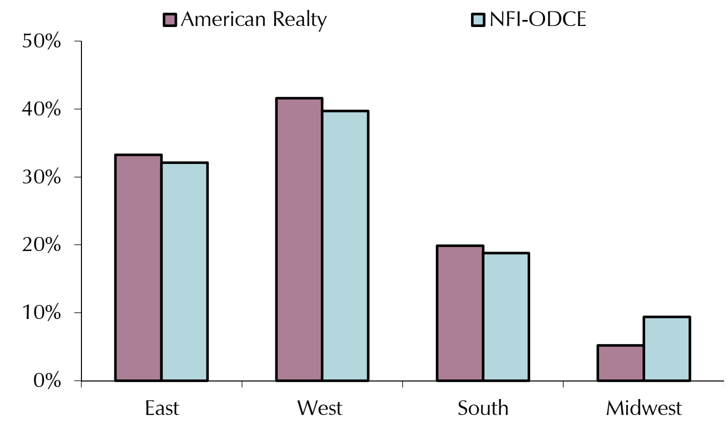
# of Investments: 73

Liquidity Constraints: Quarterly, payments usually delivered within 30 days

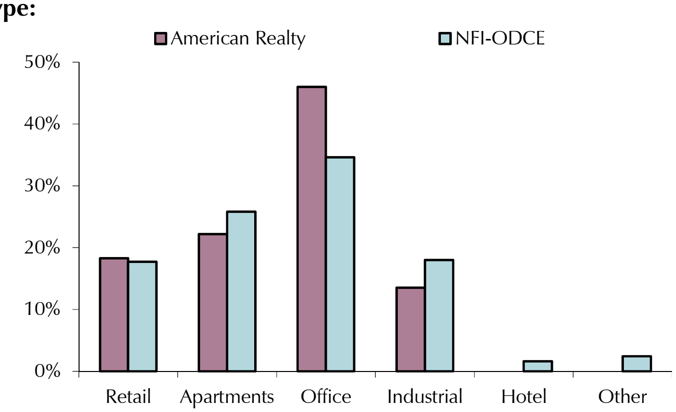
Fee Schedule: 1.10% on first $25 mm; 0.95% on next $50 mm; 0.85% thereafter

Performance (%):	4Q13	Fiscal YTD	1 YR	3 YR	5 YR	Since 1/1/07
American Core Realty Fund, LLC, gross	**2.6**	**6.1**	**12.4**	**12.9**	**2.3**	**3.2**
Net of Fees	**2.4**	**5.6**	**11.3**	**11.8**	**1.3**	**2.1**
NCREIF ODCE Equal Weighted, net	2.9	6.2	12.4	12.4	2.4	2.0

Geographic Region:



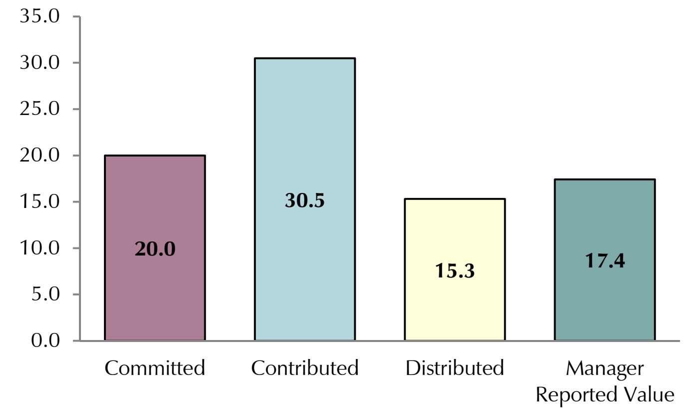
Property Type:



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

DRA Growth and Income Fund V
as of 12/31/13

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**	$15.3 million
Vintage Year	2005	**Manager Reported Value**	$17.4 million
Fund Size	$1,000.0 million	**Total Value**	$32.7 million
Fund Duration	10 Years	**% of Program**	14.6%
Fee Schedule	0.9% of gross invested capital 7.0% + CPI preferred return 15.0% carried interest	**Net IRR**	1.7%



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 2013, the Partnership invested a total of $19.4 million in various follow-on investments.

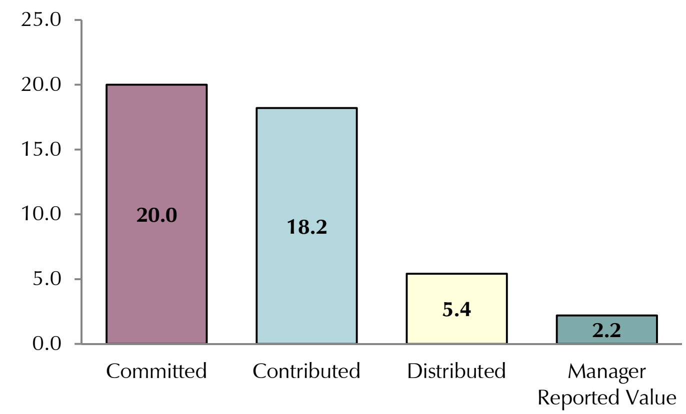
During the same period, the Partnership generated proceeds of $61.8 million.

Portfolio Performance

During the year ended December 31, 2013, the Partnership's net IRR increased to 1.7%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 6.3%.

GEAM Value Add Realty Partners, L.P.
as of 12/31/13

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**	$5.4 million
Vintage Year	2006	**Manager Reported Value**	$2.2 million
Fund Size	$380.8 million	**Total Value**	$7.6 million
Fund Duration	8 Years	**% of Program**	1.8%
Fee Schedule	1.0% of commitments 10.0% preferred return 20.0% carried interest	**Net IRR**	-15.1%



Investment Strategy

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

Portfolio Review

During 2013, the Partnership invested $0.5 million in a joint venture to build an office/retail building.

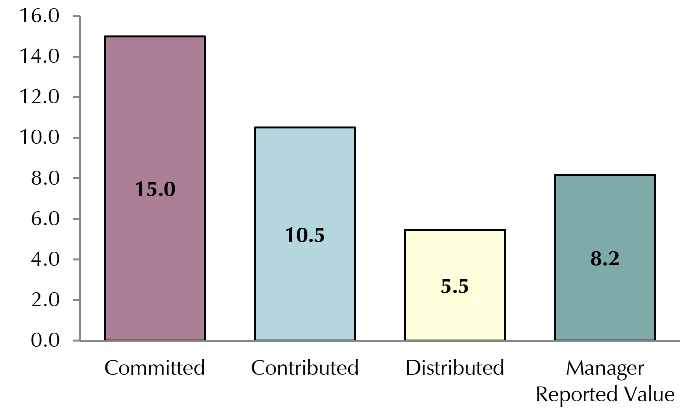
During the same period, the Partnership realized proceeds of $3.5 million.

Portfolio Performance

During the one year period ended December 31, 2013, the Partnership's net IRR increased to -15.1%.

DRA Growth and Income Fund VI as of 12/31/13

General Partner	DRA Advisors LLC	**Commitment**	$15.0 million
Location	New York, NY	**Number of Investments**	12
Auditor	WeiserMazars LLP	**Capital Contributions**	$10.5 million
Strategy	Value-added	**Realized Proceeds**	$5.5 million
Vintage Year	2007	**Manager Reported Value**	$8.2 million
Fund Size	$1,250.0 million	**Total Value**	$13.6 million
Fund Duration	10 Years	**% of Program**	6.9%
Fee Schedule	0.9% of gross invested capital 8.0% preferred return 15.0% carried interest	**Net IRR**	7.0%



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 2013, the Partnership invested a total of $16.6 million in various follow-on investments.

During the same period, the Partnership generated proceeds of $222.4 million.

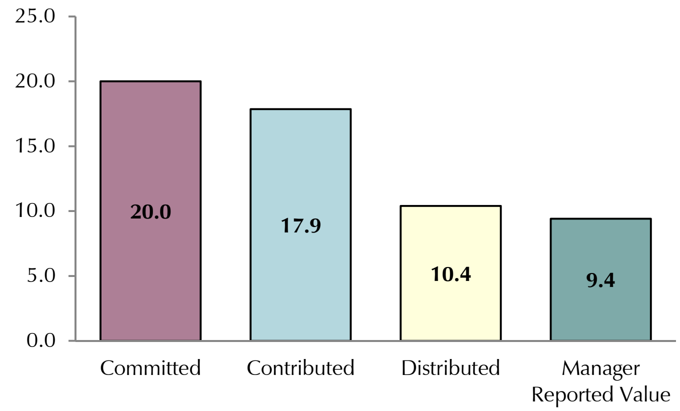
Portfolio Performance

During the year ended December 31, 2013, the Partnership's net IRR increased to 7.0%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 16.8%.

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

Fidelity Real Estate Growth Fund III
as of 12/31/13

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**	$10.4 million
Vintage Year	2007	**Manager Reported Value**	$9.4 million
Fund Size	$875.0 million	**Total Value**	$19.8 million
Fund Duration	8 Years	**% of Program**	7.9%
Fee Schedule	1.0% of commitments 10.0% preferred return 17.5% carried interest	**Net IRR**	3.4%



Investment Strategy

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

Portfolio Review

During 2013, the Partnership invested $4.1 million in 17 existing portfolio properties.

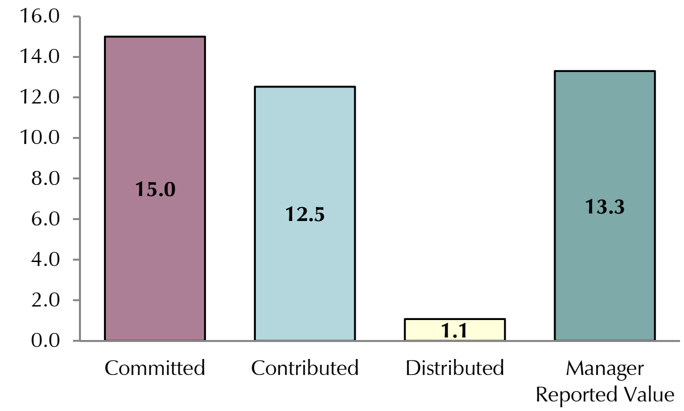
During 2013, the Partnership realized $283.1 million from 23 properties.

Portfolio Performance

During the year ended December 31, 2013, the Partnership's net IRR increased to 3.4%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 22.9%.

DRA Growth and Income Fund VII, LLC as of 12/31/13

General Partner	DRA Advisors LLC	**Commitment**	$15.0 million
Location	New York, NY	**Number of Investments**	38
Auditor	WeiserMazars LLC	**Capital Contributions**	$12.5 million
Strategy	Value-added	**Realized Proceeds**	$1.1 million
Vintage Year	2011	**Manager Reported Value**	$13.3 million
Fund Size	$1,000.0 million	**Total Value**	$14.4 million
Fund Duration	10 Years	**% of Program**	11.2%
Fee Schedule	0.9% of gross invested capital 8.0% preferred return 15.0% carried interest	**Net IRR**	14.8%



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 2013, the Partnership invested a total of $313.5 million in 18 new investments.

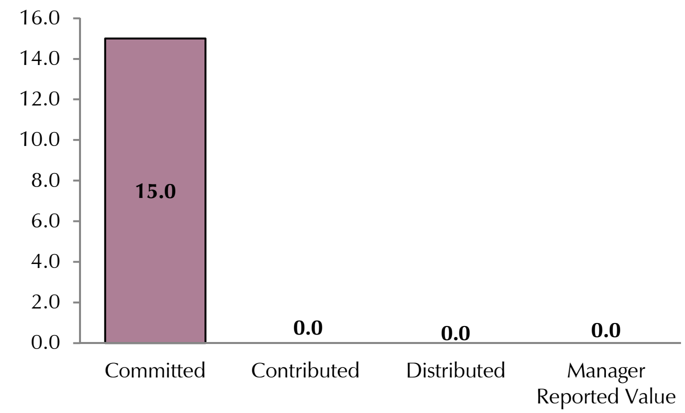
During the same period, the portfolio realized over $60 million in current income from the portfolio.

Portfolio Performance

During the year ended December 31, 2013, the Partnership's net IRR increased to 14.8%. During the same period, the value of the Retirement System's interest in the Partnership experienced a net valuation increase of 14.7%.

DRA Growth and Income Fund VIII, LLC
as of 12/31/13

General Partner	DRA Advisors LLC	**Commitment**	$15.0 million
Location	New York, NY	**Number of Investments**	0
Auditor	WeiserMazars LLC	**Capital Contributions**	$0.0 million
Strategy	Value-added	**Realized Proceeds**	$0.0 million
Vintage Year	2013	**Manager Reported Value**	$0.0 million
Fund Size	$1,350.0 million	**Total Value**	$0.0 million
Fund Duration	10 Years	**% of Program**	0.0%
Fee Schedule	0.9% of gross invested capital 8.0% preferred return 20.0% carried interest	**Net IRR**	NA



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

The Partnership did not experience any activity during 2013 as it is early in its life and it has not yet called capital for investments.

Portfolio Performance

As of December 31, 2013, the Partnership was at an early stage in its lifecycle, and, therefore, an IRR calculation was not meaningful.

Private & Opportunistic Debt Program

Introduction
As of December 31, 2013

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, 2013, 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 $117.1 million at December 31, 2013.

Aggregate Private Debt Program[1]	
Number of Partnerships	3
Committed Capital	$150.0 million
Capital Called	$152.5 million
Distributions	$57.4 million
Reported Value	$117.1 million
Total Value Multiple	1.1x
Net IRR	9.6%

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

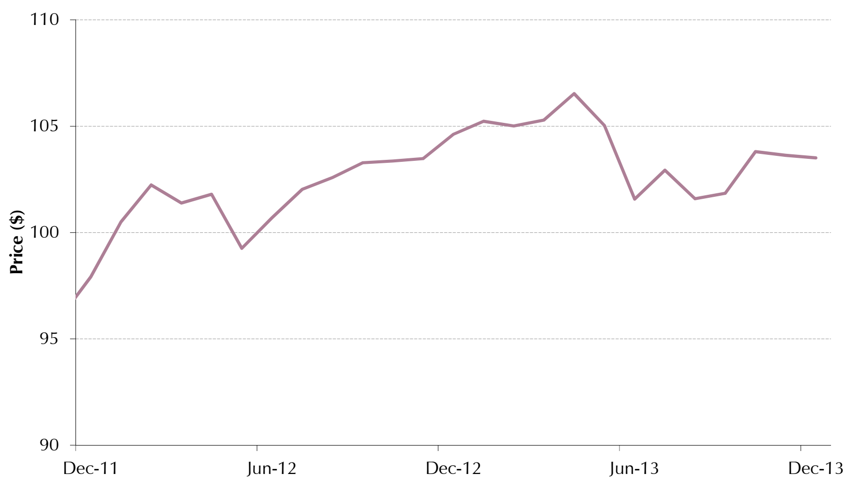
Market and Industry Analysis
As of December 31, 2013

Debt Markets in 2013

U.S. credit markets finished 2013 largely flat in terms of average pricing, though with substantial mid-year volatility. The markets increasingly feared a reduction in the Federal Reserve's bond buying program, exacerbated by an unexpectedly strong May jobs report. Although the tapering of quantitative easing had long been expected, the renewed uncertainty around timing sparked a sharp sell-off in the credit market and a rapid spike in Treasury yields in June. After digesting the news, the credit market recovered a large portion of its prior quarter losses in July before uncertainty again took hold and dampened further gains. The 10-year Treasury yield mostly settled into a range between 250 and 300 bps. Perhaps because of the prior volatility, market reaction was fairly muted when the Federal Reserve officially confirmed the start of tapering in December. High yield spreads continued their recent downward trend throughout the year, ending the year below 400 bps and at the lowest level since 2007. European credit markets experienced much less volatility during the year as the continent has continued to work through its de-leveraging process. European banks were focused on the sales of non-performing loans and non-core assets, particularly in situations where they did not have to take further write-downs.

New origination activity remained high in both the High Yield and Leveraged Loan markets and the maturity wall is no longer a near term issue. Along with easy credit availability, covenant light deal structures have also again become the norm. Investors and credit managers are increasingly wary of the next credit cycle, though the catalyst for the next downturn remains uncertain.

U.S. Corporate High Yield Price[1]



U.S. Corporate High Yield Spread[1]

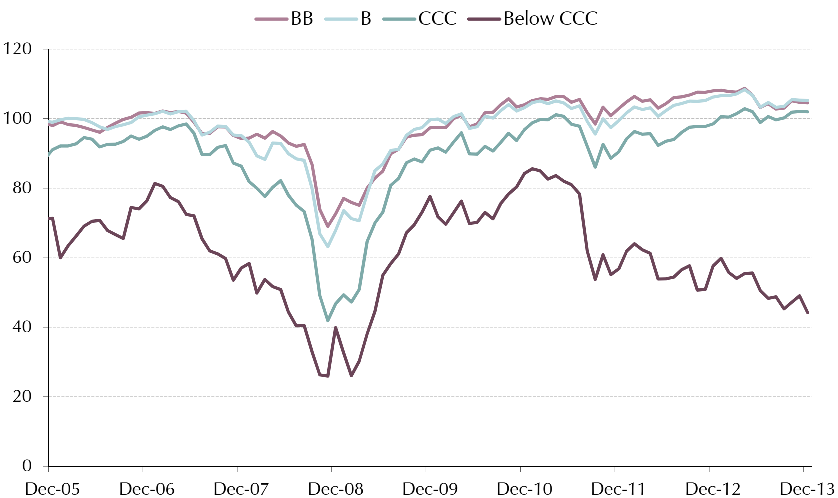
[1] Source: Barclays Capital

Distressed & Opportunistic Debt

Distressed debt managers enjoyed strong performance with existing investment positions during 2013 as default rates continued their recent decline, to below 1% and the lowest level since 2007, and average debt prices continued to increase. As has been the case over the past few years, pricing strength continues to present challenges for managers seeking new distressed debt investment opportunities. As capital for refinancing has been readily available, near term maturities have been extended and risk of default is seen as low for all but the most troubled companies. This has led to a further narrowing of credit spreads for speculative grade securities (CCC through BB) but a rapidly widening spread for riskier debt. Absent attractive corporate debt buying opportunities, managers have continued to seek asset-backed or direct asset investments, including in aviation, shipping, and credit receivables.

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

Debt Index Pricing by Credit Quality[2]

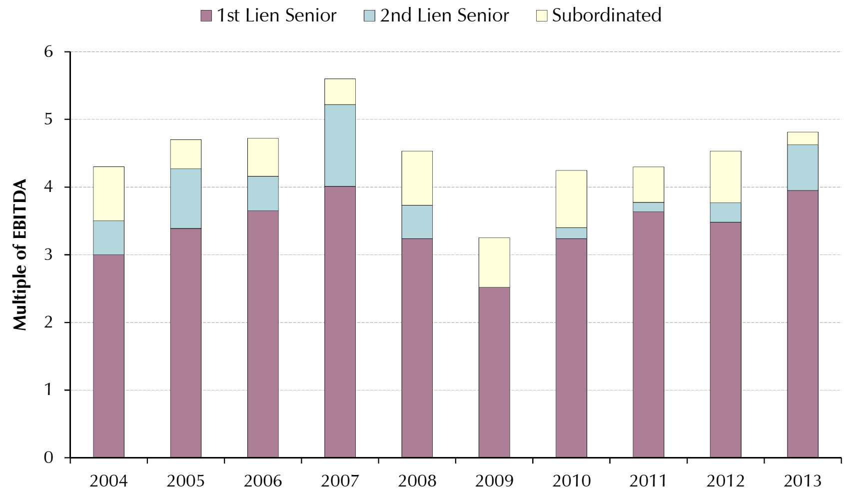


[1] Source: Barclays Capital
[2] Source: JP Morgan High-Yield Default Monitor, May 1, 2014

Mezzanine Debt

Mezzanine debt managers reported a slow year for new investment activity as competition was high, particularly from second lien/unitranche debt providers and Business Development Companies (BDCs). As a proportion of the total debt capital structure for new middle market financing transactions, mezzanine debt usage was at a ten year low. Second lien debt made up most of the gap, in addition to increased first lien usage, which included unitranche capital structures. In addition to slower deal volume, mezzanine debt managers reported increased pricing pressure, with coupon rates regularly below 12% on higher quality and larger transactions, while total leverage continued its upward trend. Ancillary deal terms, including up-front fees and call protection eroded, and rapid return of capital through refinancing became a potential concern on the investments that have been completed recently. Mezzanine debt managers at the smaller end of the market reported somewhat better opportunities, though a crowding down effect was also evident as some larger managers sought to compete on smaller transactions in an effort to deploy capital.

Middle Market Leverage Multiples, by Debt Security[1]



[1] Source: Standard & Poor's, December 2013

The Global Economy

The global economy continued its slow pace of growth with major economies showing low growth rates, except for Japan, which generated higher than expected growth due to its massive quantitative easing program. Global GDP grew at 2.7% in 2013, which was lower than the prior year rate of 3.3%[1]. The decline was mostly a function of deceleration in the growth rates of emerging economies such as Brazil, Russia, and India. With the exception of Japan, most large economies such as the U.S., European Union, and China registered similar levels of growth as prior year. The emerging economies were hit hard in part due to the U.S. Federal Reserve's plan to taper its quantitative easing program, which in turn led to foreign capital leaving emerging market economies and depreciating their currencies. In the U.S., there was steady improvement in the unemployment rate, which stood at less than 7% at the end of 2013. However, this improvement did not make a major impact on GDP growth, which was less than 2% for 2013. The European Union appeared to be on a path towards recovery with most economies either generating positive GDP growth or having visibility to positive GDP growth by the early part of 2014. The outlook for 2014 was marginally positive with higher growth expected out of the U.S. as well as China and other emerging economies.

[1] Source: IMF

Private & Opportunistic Debt Program
As of December 31, 2013

Executive Summary
As of December 31, 2013

In aggregate, $9.6 million of net capital was called from the Retirement System during the fourth quarter of 2013 by the underlying partnerships.

- Medley Opportunity Fund II called a total of $8.5 million during the quarter primarily to fund several new investments.
- White Oak Direct Lending called a total of $0.7 million during the quarter primarily to fund one new investment.
- GSO Direct Lending called $0.3 million to fund a new investment, a joint venture.

The Retirement System received an aggregate of $4.4 million in distributions during the fourth quarter of 2013 from its underlying partnerships.

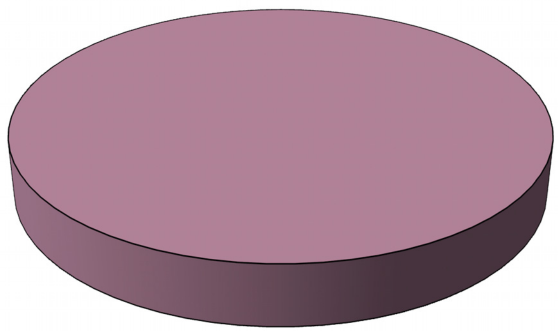
- GSO Direct Lending distributed $2.8 million during the quarter, which was composed of current income plus realized proceeds from one investment.
- White Oak Direct Lending distributed $1.5 million during the quarter, which was composed of current income received from numerous portfolio companies as well as principal repayments from three investments.
- Medley Opportunity Fund II distributed $0.1 million during the quarter from portfolio income proceeds.

Executive Summary
Investment Roadmap as of 5/15/14

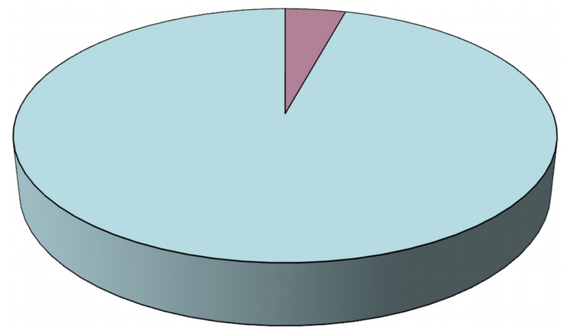
- The chart above shows current commitments made to partnerships by the Retirement System.

Aggregate Private & Opportunistic Debt Portfolio
As of December 31, 2013

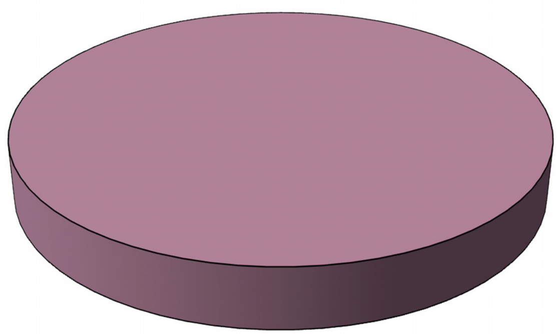
Commitment



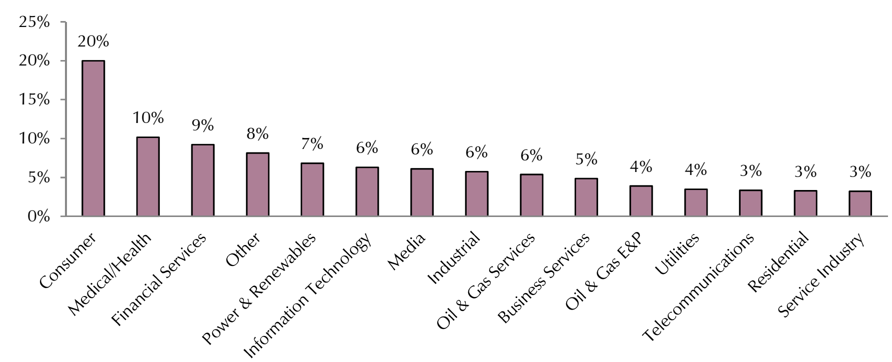
Geography[1]



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, 2013.

Aggregate Program
Performance Summary as of 12/31/13

	Capital Committed ($ mm)	Total Contributions Paid to Date[1,2] ($ mm)	Unfunded Commitment[3] ($ mm)	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions[4] ($ mm)	Net IRR[5] (%)	Inv. Multiple[6] (x)
Total Program	**150.0**	**152.5**	**38.4**	**57.4**	**117.1**	**174.5**	**9.6**	**1.1**
Vintage Year 2010	**150.0**	**152.5**	**38.4**	**57.4**	**117.1**	**174.5**	**9.6**	**1.1**
GSO Direct Lending	50.0	37.9	21.3	12.8	33.9	46.7	13.5	1.3
Medley Opportunity Fund II, L.P.	50.0	37.9	15.0	7.0	37.8	44.8	8.7	1.2
White Oak Direct Lending	50.0	76.7	2.1	37.6	45.3	82.9	7.4	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 Unfunded commitment amounts are an approximation due to the inclusion of recallable distributions.
4 Distributions may include capital that was recycled back into the Partnership.
5 The Net IRR calculation was performed by Meketa Investment Group. Total Program IRR is net of fees, expenses, and carried interest for each partnership. Partnership and Vintage Year IRRs are net of partnership fees.
6 The Inv. Multiple calculation was performed by Meketa Investment Group. Total Program Inv. Multiple is net of fees, expenses, and carried interest for each partnership. Partnership and Vintage Year Inv. Multiples are net of partnership fees.

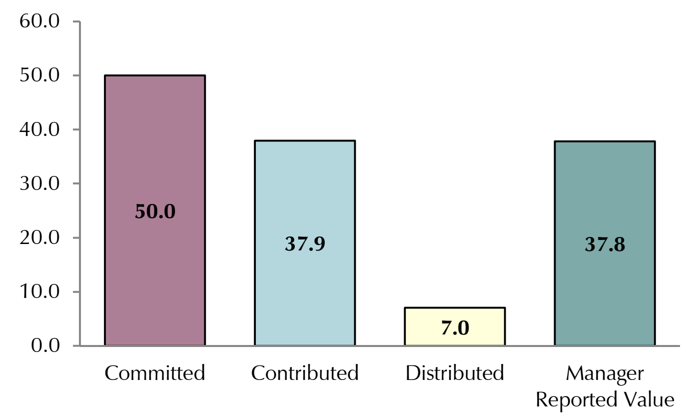
The IRR (internal rate of return) and investment multiple are the most meaningful measures of performance for private real estate funds. The IRR measures how assets are performing in relation to time. The investment multiple shows the cash on cash return generated on the invested capital by the underlying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

The total program net IRR remained unchanged at 9.6% during the fourth quarter. The fair market value of the total program increased by $2.6 million, or 2.3%, after adjusting for capital calls and distributions that occurred during the fourth quarter.

Individual Partnership Analyses
As of December 31, 2013

Medley Opportunity Fund II, L.P.
as of 12/31/13

General Partner	Medley Capital	**Commitment**	$50.0 million
Location	New York, NY	**Number of Investments**	30
Auditor	Deloitte & Touche LLP	**Capital Contributions**	$37.9 million
Strategy	Direct Lending	**Realized Proceeds**	$7.0 million
Vintage Year	2010	**Manager Reported Value**	$37.8 million
Fund Size	$452.5 million	**Total Value**	$44.8 million
Fund Duration	7 Years	**% of Program**	32.3%
Fee Schedule	2.0% of commitments 8.0% preferred return 20.0% carried interest	**Net IRR**	8.7%
		Barclays High Yield Index[1,2]	8.5%
		CSFB Leveraged Loan Index[1,2]	5.2%



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 2013, the Partnership invested $135.7 million in ten new investments.

During the same period, the Partnership received $124.2 million from the portfolio.

Portfolio Performance

During the one-year period ended December 31, 2013, the Partnership's net IRR increased to 8.7%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 7.7%.

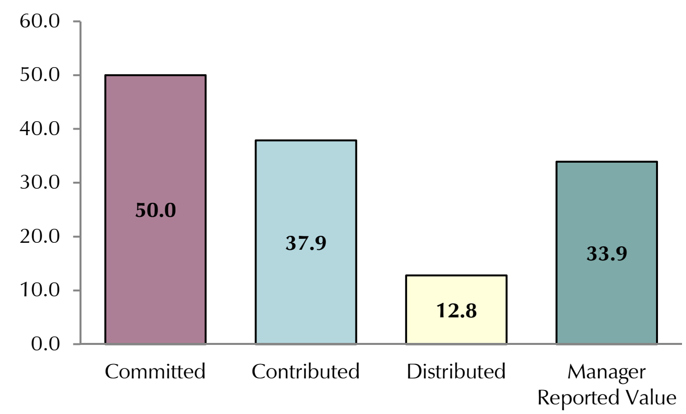
1 Currently there are no robust indices of private debt vehicles with which to benchmark the private debt managers. As such, we have included similar public indices over the same time period.
2 March 2011 – December 2013

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

GSO Direct Lending
as of 12/31/13

General Partner	GSO Capital Partners
Location	New York, NY
Auditor	Deloitte & Touche LLP
Strategy	Direct Lending
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	13
Capital Contributions	$37.9 million
Realized Proceeds	$12.8 million
Manager Reported Value	$33.9 million
Total Value	$46.7 million
% of Program	29.0%
Net IRR	13.5%
Barclays High Yield Index[1,2]	9.3%
CSFB Leveraged Loan Index[1,2]	5.8%



Investment Strategy

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

Portfolio Review

During 2013, the Partnership invested $6.5 million in a coinvestment vehicle.

During the same period, the Partnership realized a total of $18.6 million.

Portfolio Performance

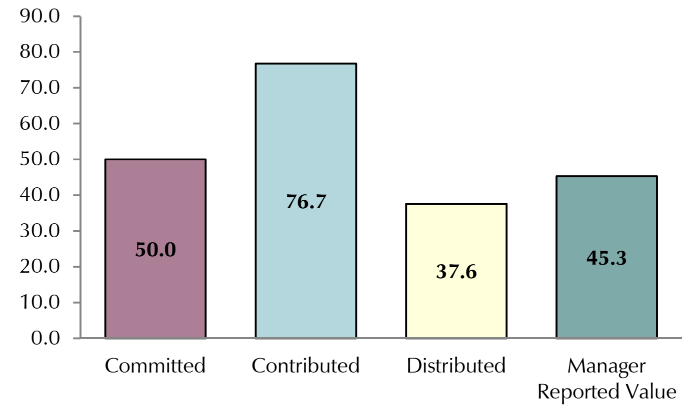
During the year ended December 31, 2013, the Partnership's net IRR decreased to 13.5%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 7.6%.

[1] 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.
[2] January 2011 – December 2013

White Oak Direct Lending as of 12/31/13

General Partner	White Oak Global Advisors, LLC
Location	San Francisco, CA
Auditor	Harb, Levy & Weiland LLP
Strategy	Direct Lending
Vintage Year	2010
Fund Size	$50.0 million
Fund Duration	Open-ended
Fee Schedule	1.75% of commitments 8.0% preferred return 20.0% carried interest

Commitment	$50.0 million
Number of Investments	24
Capital Contributions	$76.7 million
Realized Proceeds	$37.6 million
Manager Reported Value	$45.3 million
Total Value	$82.9 million
% of Program	38.7%
Net IRR	7.4%
Barclays High Yield Index[1,2]	9.7%
CSFB Leveraged Loan Index[1,2]	6.1%



Investment Strategy

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

Portfolio Review

During 2013, the Partnership invested $20.2 million in eight new investments.

During the same period, the Partnership received interest and principal payments of $17.7 million from various portfolio investments.

Portfolio Performance

During the year ended December 31, 2013, the Partnership's net IRR increased to 7.4%. During the same period, the value of the Pension Fund's interest in the Partnership experienced a net valuation increase of 10.6%.

[1] 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.
[2] December 2010 – December 2013

Appendices
As of December 31, 2013

Disclaimers and Valuation Policies
As of December 31, 2013

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, 2013, provided by the General Partners, except where otherwise noted.

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

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Private Real Estate
Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Private & Opportunistic Debt
Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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