San Jose Federated City Employees' Retirement System

PUBLIC VERSION

June 30, 2013

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

MEKETA INVESTMENT GROUP

100 LOWDER BROOK DRIVE SUITE 1100
WESTWOOD MA 02090
781 471 3500 FAX 781 471 3411

1001 BRICKELL BAY DRIVE SUITE 2000
MIAMI FL 33131
305 341 2900 FAX 305 341 2142

5796 ARMADA DRIVE SUITE 110
CARLSBAD CA 92008
760 795 3450 FAX 760 795 3445

www.meketagroup.com

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As of June 30, 2013

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

As of June 30, 2013, the San Jose Federated City Employees' Retirement System had committed $155.5 million to six partnerships (two fund of funds, three secondary funds, and one buyout fund). The reported fair value of the aggregate Private Equity Program was $96.7 million at June 30, 2013.

Aggregate Private Equity Program[1]	
Number of Partnerships	6
Committed Capital[2]	$155.5 million
Capital Called	$120.4 million
Distributions	$52.8 million
Reported Value	$96.7 million
Total Value Multiple	1.2x
Net IRR[3]	5.8%

[1] Throughout this report, numbers may not sum due to rounding.
[2] One of the partnership commitments is made in a foreign currency. This total reflects committed capital in dollars, adjusted for foreign currency exchange rates, as of the report date.
[3] Net IRR is net of fees, expenses, and carried interest for each partnership but gross of Meketa Investment Group fees.

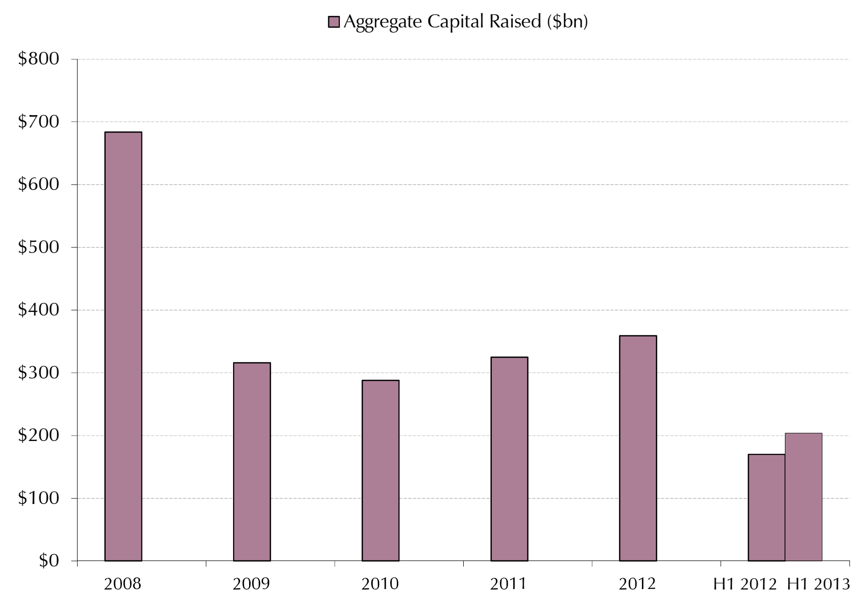
Market and Industry Analysis
As of June 30, 2013

Private Equity in 2013

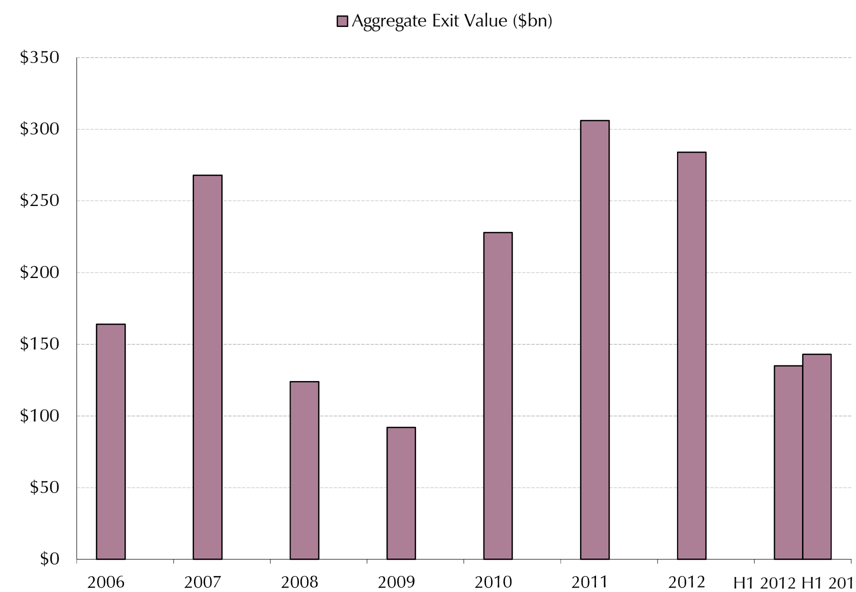
Global buyout investment activity in the first half of 2013 was slower than expected with Q2 2013 registering a meaningful drop from Q1 2013. The slowdown can be attributed to an uncertain political and economic environment in the U.S., a continued slowdown in Europe, and weaker growth in emerging markets. However, aggregate global exit value increased markedly, with Q2 2013 registering the largest exit value in the past two years. The primary reasons for the increase in exit markets were supportive public markets in the U.S. and continued appetite for acquisitions by corporations. The re-emergence of public market activity was helpful for venture capital investments and biotech investments, in particular, registered their best period since 2000. This resurgence in biotech investments was attributable to recent outperformance of biotech companies after an IPO and public markets continued desire to capture growth.

Fundraising for new private equity funds continued to improve with $124 billion raised globally in Q2 2013 which was the busiest quarter since Q4 2008. Larger funds were back in the market planning to raise significant amounts of capital. Silver Lake, for example, raised over $10 billion and held a final close during Q2 2013. Other larger funds in the market with $10 billion or more in target were Warburg Pincus, Apollo, Carlyle, and KKR. Based on this positive momentum, 2013 and 2014 are on pace to be the most active fundraising years since 2008.

Global Fundraising[1]



Global Exit Value[1]



[1] Source: Preqin

Buyout

Buyout activity slowed down in Q2 2013, and overall first half 2013 buyout activity was lower than expected. A weak and uncertain political and economic environment combined with increased valuations due to a rise in public markets were the primary reasons for the dip in activity. However, surprisingly, the buyout industry was disciplined in valuation. Purchase prices for all buyouts and investments above $500 million averaged 8.5x EBITDA[1]. This discipline was remarkable considering the cheap cost of debt and the pressure to invest in a high public market valuation environment. The equity contribution for buyout transactions has continued to decline, and was approximately 40% at the end of Q2 2013.

Private Debt

Distressed debt managers continued to face relatively few near term attractive debt buying opportunities during the first half of 2013, even when prices fell towards the end of the period. As a result, managers continued to focus largely on investment opportunities outside of corporate debt, including direct asset investments, in areas such as shipping, aviation, and credit receivables, as well as real estate-related debt and non-performing loan (NPLs) pools. NPLs have been a particular area of increased focus in Europe, as one of the few areas where banks are consistent sellers and are less price sensitive. Mezzanine lending was slow in first half of 2013 in terms of completed deal volume. Competition from second lien/unitranche debt providers and BDCs was high and had a meaningful impact on pricing and total leverage multiples. Coupon rates fell below 12% on higher quality transactions, and total leverage reached an average multiple of 5.5x, the second highest level behind only 2007 in the past decade.

Venture Capital

Venture Capital investments in both number and size declined in the first half of 2013. This led to a decrease in valuations across the board, especially for IT focused investments. Part of the reason behind the decline was a shift from late stage deals towards more seed and early stage investments. The IPO market which shut down after the high-profile listing of Facebook in 2012, re-opened in 2013 with biotech investments taking a larger share of the total listings. Within IT, the trend towards social media and consumer internet companies slowed as there were fewer high quality companies in this segment. Instead, enterprise and security related investments became more prominent as investors valued unique intellectual property that is often a core asset of such companies.

[1] Source: S&P Capital IQ

The Global Economy

The first half of 2013 saw a continuation of the weak economic growth in the global economy that started in 2011. The U.S. GDP grew at a rate of less than 2%[1] for the first half of 2013 and was affected by the automatic government sequester that went in effect during the period. The Euro Area continued to generate negative growth but showed some signs of break-even activity in the coming 12 months. Emerging Markets also continued to post lower GDP growth than in years past due to lower demand for goods and services from the U.S. and Europe and internal monetary policies targeted towards addressing high inflation. Towards the end of Q2 2013, some emerging markets countries including India, Turkey, Indonesia, and Brazil, experienced currency volatility as investors pulled money out of these counties in anticipation of higher yields in the U.S. as the Federal Reserve began discussing its tapering plans. On the positive side, Japan, the third largest economy in the world, had 4.1% GDP growth in Q1 2013 and 3.8% in Q2 2013[2]. This improvement was largely attributable to a new round of monetary, fiscal, and regulatory reform, dubbed Abenomics, initiated under the leadership of Prime Minister Abe.

1 Source: US Bureau of Economic Analysis
2 Source: WSJ

Private Equity Program
As of June 30, 2013

Executive Summary
As of June 30, 2013

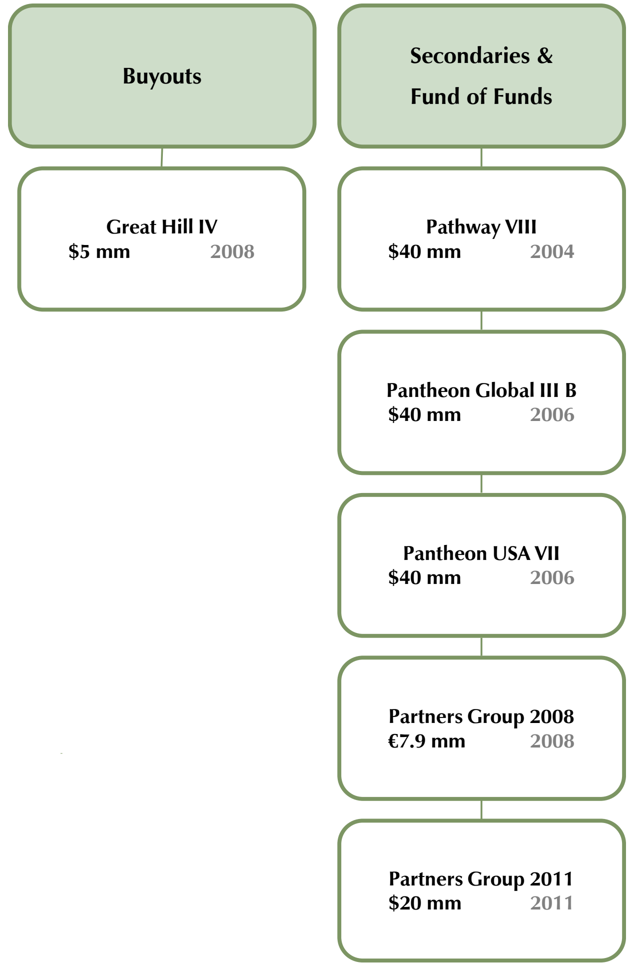
The Retirement System did not make any new commitments during the second quarter of 2013.

In aggregate, $2.4 million of capital was called from the Retirement System during the second quarter of 2013 by the underlying partnerships.

- Partners Group Secondary 2011 called $1.5 million from the Retirement System primarily to fund secondary transactions as well as to fund existing underlying partnership investments.
- Pantheon Global Secondary Fund III 'B' called $0.6 million to fund existing underlying partnership investments.
- Pathway Private Equity Fund VIII called $0.2 million to fund existing underlying partnership investments.
- Great Hill Equity Partners IV called $0.1 million to fund three follow on investments.

Distributions received by the Retirement System from underlying partnerships during the second quarter totaled $4.6 million.

- Pantheon Global Secondary Fund III 'B' distributed $1.8 million largely from distributions.
- Pathway Private Equity Fund VIII distributed $1.4 million of proceeds from 15 of the portfolio's 17 partnerships.
- Pantheon USA Fund VII distributed $0.6 million of proceeds in aggregate.
- Partners Group Secondary 2008 distributed $0.5 million of proceeds from several of its underlying partnerships.
- Partners Group Secondary 2011 distributed $0.2 million of proceeds from early exit events across underlying partnership investments.



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

Aggregate Private Equity Portfolio
As of June 30, 2013

Aggregate Program
Performance Summary as of 6/30/13

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date ($ mm)	Unfunded Commitment ($ mm)[1]	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions ($ mm)	Net IRR (%)[2]	Inv. Multiple (x)[3]
Total Program		**155.5**	**120.4**	**35.9**	**52.8**	**96.7**	**149.5**	**5.8**	**1.2**
Vintage Year 2004		**40.0**	**38.0**	**2.0**	**24.4**	**25.7**	**50.1**	**6.0**	**1.3**
Pathway Private Equity Fund VIII	Fund of Funds	40.0	38.0	2.0	24.4	25.7	50.1	6.0	1.3
Vintage Year 2006		**80.0**	**65.4**	**14.6**	**22.0**	**54.5**	**76.5**	**4.2**	**1.2**
Pantheon Global Secondary Fund III 'B'	Secondary	40.0	36.0	4.0	16.8	21.9	38.7	1.8	1.1
Pantheon USA Fund VII	Fund of Funds	40.0	29.4	10.6	5.2	32.6	37.8	7.5	1.3
Vintage Year 2008		**15.5**	**13.2**	**3.1**	**6.1**	**11.5**	**17.6**	**12.8**	**1.3**
Great Hill Equity Partners IV	Buyout	5.0	4.0	1.0	2.9	2.7	5.5	20.2	1.4
Partners Group Secondary 2008[4]	Secondary	10.5	9.2	2.1	3.2	8.9	12.1	10.7	1.3
Vintage Year 2011		**20.0**	**3.8**	**16.3**	**0.4**	**5.0**	**5.3**	**NM**	**1.4**
Partners Group Secondary 2011, L.P.	Secondary	20.0	3.8	16.3	0.4	5.0	5.3	NM	1.4

1 Unfunded Commitment amounts are an approximation due to the inclusion of recallable distributions.
2 The Net IRR calculations were performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year IRRs are net of fees, expenses, and carried interest for each partnership but gross of Meketa Investment Group fees.
3 The Inv. Multiple calculations were performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year Inv. Multiples are net of partnership fees but gross of Meketa Investment Group fees.
4 The Retirement System committed €7.9 million to the Partnership. The $10.5 million commitment is an estimated amount based on the contributed capital and unfunded commitment as of June 30, 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 30 basis points during the quarter, from 5.5% to 5.8%. During the quarter, the total reported fair value of the Private Equity Program increased by $2.9 million, or 3.1%, after adjusting for capital calls and distributions that occurred during the period. Performance was primarily driven by increases in net valuations of Pantheon USA Fund VII, Pantheon Global Secondary Fund III "B", and Pathway Private Equity Fund VIII.

Private Real Estate Program

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

As of June 30, 2013, the Private Real Estate Program had invested in seven real estate funds (two core funds and five value-added funds). The reported fair value of the Aggregate Program was $114.9 million at June 30, 2013.

Aggregate Private Real Estate Program[1]	
Number of Partnerships	7
Committed Capital[2]	$90.0 million
Capital Called[3]	$139.3 million
Distributions	$31 million
Reported Value	$114.9 million
Total Value Multiple	1.0x
Net IRR	1.0%

[1] Throughout this report, numbers may not sum due to rounding.
[2] Committed Capital excludes investments in PRISA I and American Core Realty Fund, both of which are open-end vehicles with no definitive commitment.
[3] Includes $52.3 million of capital contributions and reinvested dividends in PRISA I and American Core Realty Fund.

Market and Industry Analysis
As of June 30, 2013

Real estate fundamentals showed strong growth during the quarter, which helped support overall strong appreciation returns for private market investments. The major property types reported mostly positive results.

- In the second quarter of 2013, private commercial real estate continued to produce strong gains. While property fundamentals continued to strengthen, the recovery pace moderated. These trends were reflected in the NCREIF Property Index (NPI), NFI-ODCE, and NAREIT Equity's (U.S. REITs) second quarter returns of 2.9%, 3.4% (net of fees), and -1.6%, respectively.
- Over the past four quarters, the NPI returned 10.7%, split between an income return of 5.7% and an appreciation return of 4.8%. The appreciation return continues to decelerate from a near 7% three-year rate and a 6% two-year rate, but continues well above the 20-year annualized appreciation return of 1.6%. The appreciation return continues to benefit from ongoing pricing gains and income growth associated with improving market fundamentals and rent growth.
- Real estate fundamentals showed strong overall growth during the quarter as the NPI's occupancy rate increased 36 basis points from the prior quarter to 90.3%. The overall occupancy rate is up nearly 250 basis points from the low in 1Q11 but is still nearly 200 basis points lower than in 3Q07. Retail and industrial logged the biggest occupancy gains, as both property types gained more than 50 basis points in occupancy over the prior quarter, while multifamily and office occupancy rates declined slightly over the same period. Same store net operating income (NOI) growth increased 2.0%, after rising 1.2% last quarter, reflecting the largest gain since 4Q07. Office recorded the largest quarterly NOI increase at 4.6%, despite the sector's decline in occupancy while industrial experienced the opposite trend, with NOI declining 1.3% despite the occupancy gains. Industrial's NOI decline was likely due to leasing costs. As such, NOI should show growth in future quarters as the new leasing contributes to greater income. Multifamily and retail NOI growth both increased over 1.2% during the quarter. Additionally, the NPI's value-weighted cap rate (appraisal based) remained nearly flat at 5.4% at the end of the quarter and is now 135 basis points below the recent 4Q09 market trough and nearly 50 basis points above the 3Q08 market peak.

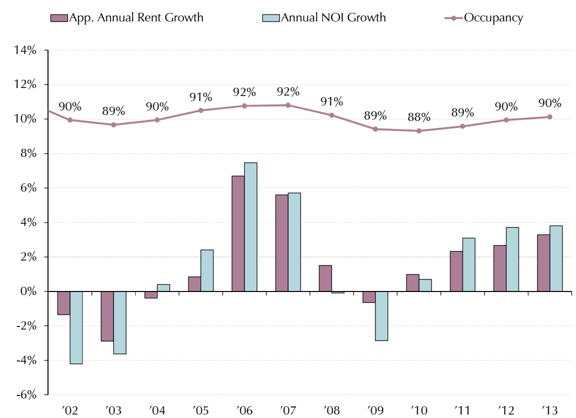
Second quarter real estate market summary

- The U.S. economy continued to make steady gains as real GDP expanded 2.5% during 2Q13. Except for a few slight upticks, the unemployment rate has been trending down since 2Q12 and remained at 7.6% through 2Q13, unchanged from the prior quarter. As economic conditions in the U.S. continue their modest and uneven recovery, the current pace of job growth is seen as being sufficient, especially in the current environment of little new construction, to whittle vacancy rates down and incrementally push rents and NOI up.
- Real estate capital market activity remained strong in 2Q13 after posting the second highest post-recession quarterly transaction volume in 1Q13, as there was little evidence that the rise in interest rates in May and June had an impact on either volume or prices. Real Capital Analytics (RCA) reported U.S. volumes for core properties of $65 billion during 2Q13, exceeding 2Q12 volume by 16% and remaining unchanged from the prior quarter's volume. During the quarter, office, retail, and industrial all recorded sales gains of 30% or more from the prior quarter, offsetting multifamily sales transactions that decelerated nearly 60% from the prior quarter's record sales transaction volume. The pricing of deals that were completed during the quarter was generally in-line with that of the prior quarter. This was evidenced by only a five basis point increase in the average capitalization rate to 6.8% in 2Q13 from the prior quarter and unchanged from 1Q12. Office and retail property sectors recorded capitalization rate compression, decreasing 16 basis points and 6 basis points, respectively, from the prior quarter. Multifamily and retail capitalization rates both recorded capitalization rate expansion of approximately 10 basis points.

- Real estate debt markets continued the trend of increased activity with U.S. CMBS issuance during 2Q13 of $21 billion, which was the second highest quarterly issuance since 4Q07 and represented only an 8% decrease over the prior quarter's $23 billion. Lenders continue to make progress in reducing distressed balances related to commercial real estate loans, as according to RCA estimates, approximately 63% of the nearly $400 billion of commercial mortgages that were distressed had been resolved as of 2Q13. Multifamily loans have experienced the strongest workout rates at 68%, while land loans stand at just 44% resolved. Lenders' recovery rates when liquidating defaulted mortgages have averaged 66% before costs and fees over the cycle. Additionally, new instances of distress continue to decelerate and totaled $3.1 billion in 2Q13, the lowest level since 3Q07.
- The FTSE EPRA/NAREIT Developed Global REIT Index returned -3.6% during 2Q13. During the quarter, European listed REITs posted the only positive returns at 2.2%, while North America returned -2.2% and Asia Pacific returned -7.7%. As of 2Q13, the North America region's dividend yield stood at 3.8%, as compared to 4.2%, 3.0%, 2.2% and 2.5% for Europe, Asia Pacific, the S&P 500, and the ten-year U.S. Treasury yield, respectively. Despite NAREIT Equity's U.S. REITs -1.6% return for the quarter, U.S. REITs raised $15.8 billion dollars in equity, which was only a slight drop from the first quarters $16.1 billion as year-to-date equity raises reflect the highest two-quarter total in the history of the NAREIT Equity index. As of 2Q13, the equity market capitalization of the U.S. REIT market totaled $538 billion and included 131 companies, as measured by the FTSE NAREIT Equity REITs Index, and property securities on a global basis totaled $1.0 trillion and included 304 companies, as measured by the FTSE EPRA/NAREIT Developed Index.

2Q13 Real Estate Industry Analysis

Property Fundamentals[1]

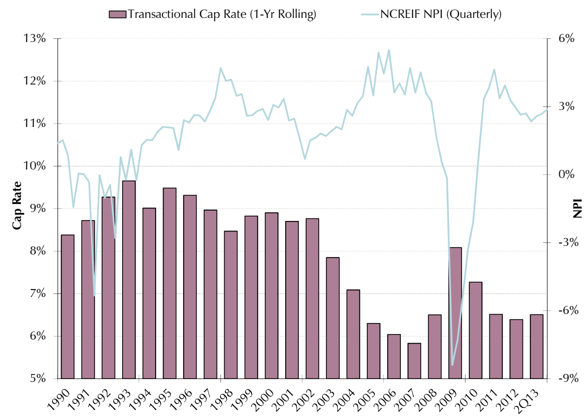


Operating fundamentals continued to improve throughout the first half of 2013 as vacancy rates declined in three of the four major property types.

Through the first two quarters, vacancy declines ranged from 8 basis points in the office sector to 93 basis points in the industrial sector. While apartment vacancy rates ticked up 48 basis points year-to-date in 2013, the vacancy rate is still 41 basis points below its ten-year average.

Year-over-year NOI growth as of June 30, 2013, ranged from 0.4% in the industrial sector to 6.5% in retail. The apartment sector growth moderated to 4.9%.

Cap Rates vs. Returns[2]

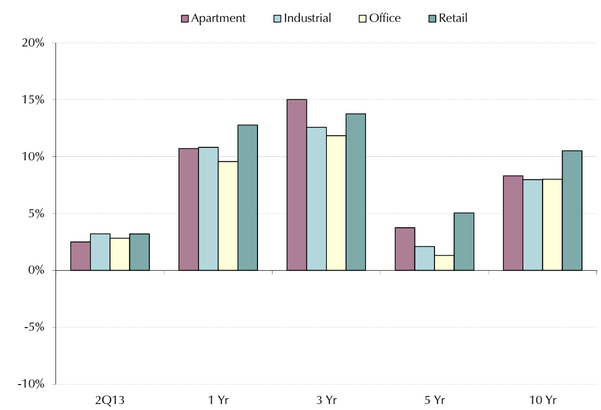


Over the long run, real estate relies more on steady income than on value gains to drive total return. Over the trailing twelve months, income return outpaced appreciation return in all property sectors except retail, suggesting that performance is approaching a period of sustainability.

Trailing one-year transaction volume for all commercial real estate is 25% above the ten-year annual average, according to Real Capital Analytics.

The NPI total return increased for the 12th consecutive quarter, reflecting a trailing one-year return of 11%. Average transactional cap rates, as measured by the NPI, continued to modestly expand from 2012 and are in-line with 2011 transaction cap rates.

Property Type Returns[1]



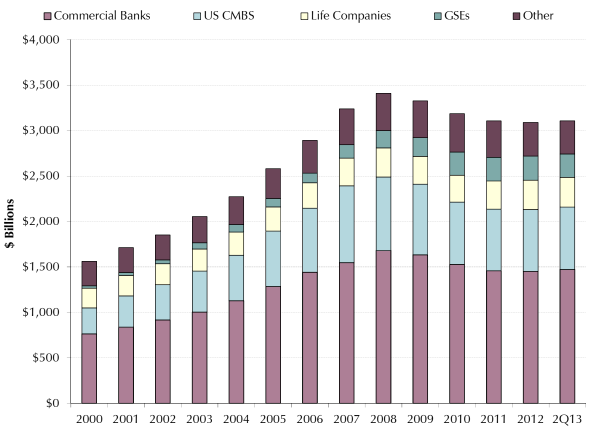
While property appreciation has driven the strong one- and three-year trailing returns, the rate of appreciation has begun to moderate.

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.

2Q13 Real Estate Industry Analysis

Debt Capital Outstanding[1]



Bank lending for traditional commercial and multifamily real estate ticked up during the first two quarters of 2013 after falling by approximately $347 billion from the peak in 2008 through 3Q12, as total traditional mortgages outstanding increased by nearly $40 billion from the 3Q12 low to $3.1 trillion in 2Q13.

This moderate increase was largely the result of increased lending activity of $63 billion from commercial banks, life insurance companies, and a resurgent CMBS market during the first two quarters of 2013, offsetting moderate declines from the other two lending sources.

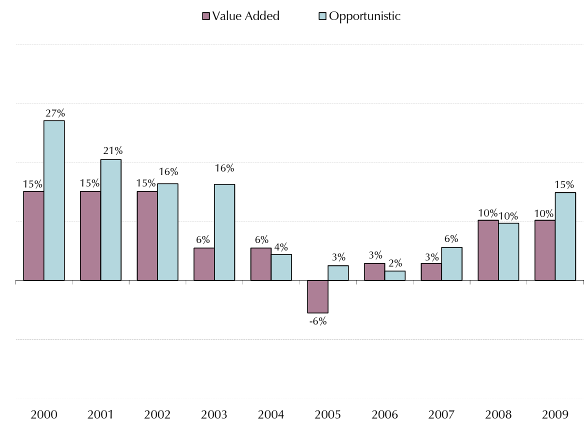
Trailing Period Returns[2]

As of June 30, 2013	1 Year	5 Years	10 Years
Core	**11.8%**	**-0.7%**	**6.6%**
Value-Added	**10.8**	**-0.5**	**9.4**
Opportunistic	**14.6**	**-0.6**	**11.6**
Domestic REITs	***9.4***	***7.6***	***10.9***
S&P 500 Index	***20.6***	***7.0***	***7.3***

While private market real estate underperformed the S&P 500 over the trailing twelve months, private real estate's strong double-digit growth is encouraging as private real estate typically lags the broader equity markets. REITs, on the other hand, were subject to a market correction during 2Q13 but the trailing five- and ten-year returns still reflect the strong appetite for real estate in the public markets, outperforming the broader equity markets over the long-term periods.

Within private real estate strategies, core performance has moderated as opportunistic strategies have benefitted from their aggressive posture and outperformed the other strategies in both the short-term and the long-term periods.

Vintage Year IRRs[3]



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

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

More recent funds had been impacted by the GFC, but recent appreciation for real estate has moderated unrealized losses in recent quarters as almost all vintage years and strategies, with the exception of 2005 value-added funds, are now reporting positive median gross IRRs.

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

Private Real Estate Program
As of June 30, 2013

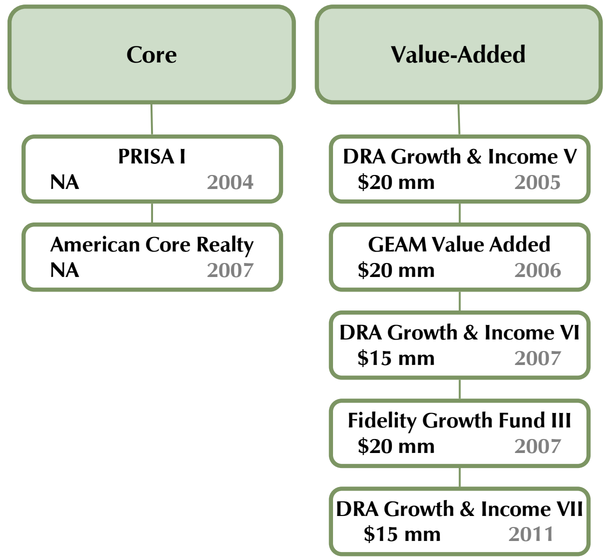
Executive Summary
As of June 30, 2013

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

- American Core Realty Fund called $1.7 million during the second quarter, excluding reinvested dividends. In 3Q12, the Retirement System made an additional $11.0 million commitment to the American Core Realty Fund after American completed the sale of a property on behalf of the Retirement System's separate account. American will be issuing one more capital call for the remaining $3.9 million during the third quarter.
- DRA Growth & Income Fund VII called $1.9 million for the initial funding of eight new acquisitions and to pay down a portion of the partnership's credit facility. The largest acquisitions include: a multifamily property in MD, acquired for $94.7 million; a multifamily property in IL, acquired for $37.8 million; and a planned retail center in FL, that is being entirely re-developed from an existing center at a total cost of $27.5 million.

In aggregate, $1.6 million of capital was distributed to the Retirement System by the underlying partnerships during the second quarter of 2013.

- DRA Growth & Income Fund V, VI & VII distributed a total of $0.6 million from portfolio income and DRA Growth & Income Fund V distributed an additional $0.2 million a capital distribution.
- American Core Realty Fund distributed $0.3 million from portfolio income, which was reinvested through their Dividend Reinvestment Program.
- Fidelity Real Estate Growth Fund III distributed $0.2 million as the partnership distributed a total of $8.0 million to investors.
- PRISA distributed $0.3 million from portfolio income, which was reinvested.



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

Aggregate Private Real Estate Portfolio
As of June 30, 2013

	2Q13 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date	Since Inception (%)
Core Real Estate[1]								
PRISA I	3.1	6.3	9.7	14.2	-2.4	NA	7/1/04	5.0
NCREIF ODCE Equal Weighted	*3.4*	*5.8*	*10.8*	*13.8*	*-1.6*	*5.6*		*5.4*
American Core Realty Fund, LLC	3.1	5.4	10.3	12.6	-1.6	NA	1/1/07	2.5
NCREIF ODCE Equal Weighted	*3.4*	*5.8*	*10.8*	*13.8*	*-1.5*	*5.6*		*1.6*

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

Aggregate Program
Performance Summary as of 6/30/13

	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 Closed-end Program		**90.0**	**87.1**	**7.7**	**27.3**	**54.4**	**81.6**	**-1.8**	**0.9**
Vintage Year 2005		**20.0**	**30.5**	**0.0**	**14.2**	**18.0**	**32.2**	**1.4**	**1.1**
DRA Growth & Income Fund V	Value-added	20.0	30.5	0.0	14.2	18.0	32.2	1.4	1.1
Vintage Year 2006		**20.0**	**18.2**	**1.8**	**4.9**	**2.2**	**7.1**	**-16.9**	**0.4**
GEAM Value Add Realty Partners	Value-added	20.0	18.2	1.8	4.9	2.2	7.1	-16.9	0.4
Vintage Year 2007		**35.0**	**28.1**	**1.1**	**7.6**	**23.4**	**31.0**	**3.3**	**1.1**
DRA Growth & Income Fund VI	Value-added	15.0	10.3	1.1	3.0	9.7	12.6	6.0	1.2
Fidelity Real Estate Growth Fund III	Value-added	20.0	17.9	0.0	4.6	13.8	18.4	1.1	1.0
Vintage Year 2011		**15.0**	**10.3**	**4.7**	**0.6**	**10.8**	**11.3**	**15.2**	**1.1**
DRA Growth and Income Fund VII	Value-added	15.0	10.3	4.7	0.6	10.8	11.3	15.2	1.1

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

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 second quarter, from -2.5% to -1.8%. The improved performance was driven primarily by increases in the valuations of Fidelity Real Estate Growth Fund III (3.9%), DRA Growth & Income Fund V (2.6%), and DRA Growth & Income Fund VII (3.3%). During the second quarter, the total reported fair value of the Total Closed-end Program increased by $1.6 million, or 3.0%, after adjusting for capital calls and distributions that occurred during the quarter. Furthermore, the Aggregate Private Real Estate Program[2] increased by $3.4 million, or 3.1%, over the same period.

[1] Total Closed-end Program includes all closed-end funds in the real estate program.
[2] The Aggregate Private Real Estate Program includes both open-end and closed-end funds in the real estate program.

Private & Opportunistic Debt Program

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

As of June 30, 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 $107.4 million at June 30, 2013.

Aggregate Private & Opportunistic Debt Program[1]	
Number of Partnerships	3
Committed Capital	$150.0 million
Capital Called	$133.4 million
Distributions	$42.6 million
Reported Value	$107.4 million
Total Value Multiple	1.1x
Net IRR	9.4%

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

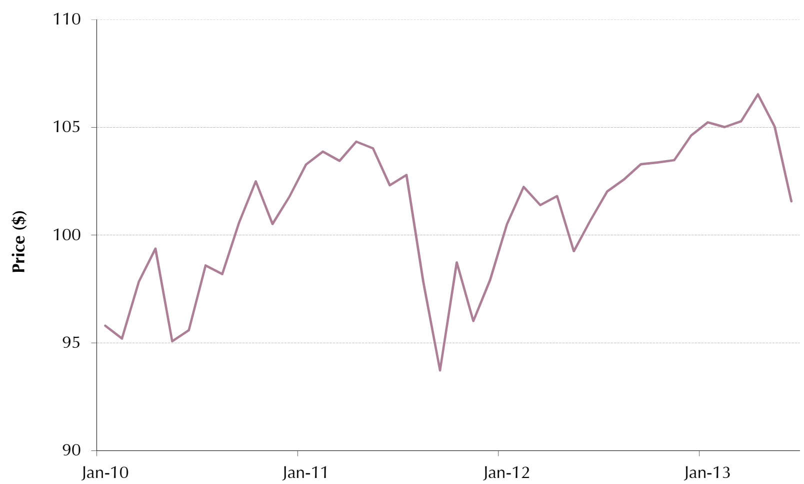
Market and Industry Analysis
As of June 30, 2013

Debt Markets in 2013

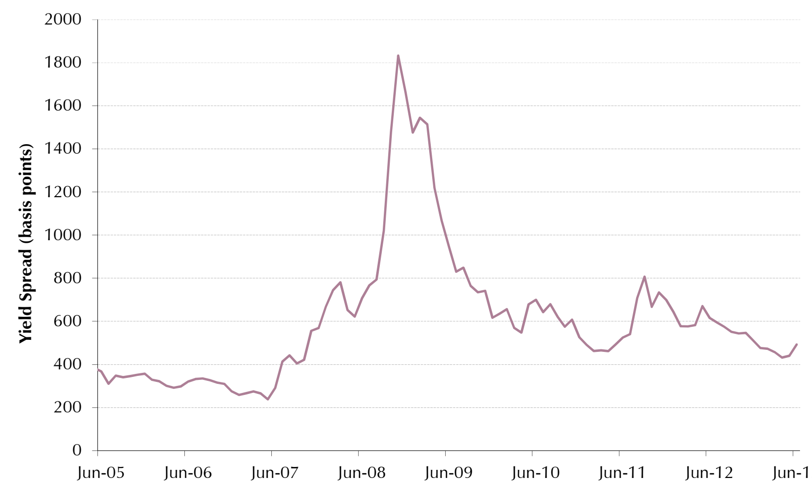
U.S. credit markets continued to rally into the first half of 2013. By May, the U.S. high yield spread to Treasuries had fallen below 430 basis points, its lowest level since October 2007. At the same time, the average price of U.S. high yield debt reached a record high of $107. This rally reversed suddenly and sharply at the end of May, driven by fears about the Federal Reserve's plans to "taper" its latest bond buying program. Although a surprise to no one, the increased attention to the eventual end to quantitative easing, combined with an unexpectedly strong May jobs report, sparked a substantial sell-off in the credit market. The average price of high yield debt fell almost 5% to end the second quarter below $102 and the yield spread spiked to 490 basis points, while the 10-year Treasury yield itself increased nearly 100 basis points to end the quarter above 2.5%.

European credit markets experienced much less volatility during the period as the continent continued to work through its de-leveraging process. European leveraged loans rallied in the first quarter alongside the U.S. market, with a narrowing spread versus U.S. leveraged loans. The second quarter in Europe was largely flat and for the first half overall, those markets avoided any flare-ups of the sovereign debt crises that have dominated headlines for the past two years. Though Europe is still lagging the U.S. in solving its problems, its relatively orderly de-leveraging continues. European banks are less capital starved, and thus can be more selective sellers of assets, than was originally feared.

U.S. Corporate High Yield Price[1]



U.S. Corporate High Yield Spread[1]



[1] Source: Barclays Capital

Distressed & Opportunistic Debt

Distressed debt managers continued to face relatively few near term attractive debt buying opportunities during the first half of 2013, even when prices fell towards the end of the period. As a result, those managers continued to focus largely on investment opportunities outside of traditional corporate debt. These have included direct asset investments, in areas such as shipping, aviation, and credit receivables, as well as real estate-related debt and non-performing loan ("NPL") pools. NPLs have been a particular area of increased focus in Europe, as one of the few areas where banks are consistent sellers of assets and are relatively less price sensitive. As reported in prior periods, fundraising for directly-originated middle market lending strategies remained high, matched with increasing investor demand. As capital supply increases for middle market loans, pricing already has and may continue to be pressured downward. However, most managers believe that, despite these signs of an increasingly efficient market, there remains a supply/demand imbalance that is likely to persist for several years.

Mezzanine Debt

Mezzanine debt managers reported a slow first half of 2013 in terms of completed deal volume. Competition from second lien/unitranche debt providers and BDCs was high and had a meaningful impact on pricing and total leverage multiples. Coupon rates fell below 12% on higher quality transactions and total leverage reached an average multiple of 5.5x, the second highest level behind only 2007 in the past decade. At the same time, overall purchase price multiples remained mostly flat at 8.5x and well below the 2007 peak of almost 10x, indicating lower equity contribution rates as buyout managers sought to take advantage of cheap leverage while it remained available. Mezzanine providers at the lower end of the middle market fared somewhat better, both in terms of pricing pressure and deal volume, but faced largely the same competitive dynamics.

Economic Update

The first half of 2013 saw a continuation of the weak economic growth in the global economy that started in 2011. The U.S. GDP grew at a rate of less than 2%[1] for the first half of 2013 and was affected by the automatic government sequester that went in effect during the period. The Euro Area continued to generate negative growth but showed some signs of break-even activity in the coming 12 months. Emerging Markets also continued to post lower GDP growth than in years past due to lower demand for goods and services from the U.S. and Europe and internal monetary policies targeted towards addressing high inflation. Towards the end of Q2 2013, some emerging markets counties including India, Turkey, Indonesia, and Brazil, experienced currency volatility as investors pulled money out of these counties in anticipation of higher yields in the U.S. as the Federal Reserve began discussing its tapering plans. On the positive side, Japan, third largest economy in the world, had 4.1% GDP growth in Q1 2013 and 3.8% in Q2 2013[2]. This improvement was largely attributable to a new round of monetary, fiscal, and regulatory reform, dubbed Abenomics, initiated under the leadership of Prime Minister Abe.

[1] Source: US Bureau of Economic Analysis
[2] Source: WSJ

Private & Opportunistic Debt Program
As of June 30, 2013

Executive Summary
As of June 30, 2013

In aggregate, $1.8 million of net capital was called from the Retirement System during the second quarter of 2013 by the underlying partnerships.

- White Oak Direct Lending called a total of $2.7 million during the quarter to fund primarily an additional private term loan (third tranche).
- GSO Direct Lending called $1.1 million to fund primarily an investment in a newly formed joint venture, to pursue the acquisition and development of oil properties in North Dakota.
- Medley Opportunity Fund II returned $3.6 million of prior capital contributions during the quarter as a result of the seventh closing true up, and called $1.6 million.

The Retirement System received an aggregate of $15.6 million in distributions during the second quarter of 2013 from its underlying partnerships.

- White Oak Direct Lending distributed $8.7 million during the quarter.
- GSO Direct Lending distributed $4.7 million during the quarter.
- Medley Opportunity Fund II distributed $2.2 million during the quarter primarily to cover investors' income tax liabilities arising from the allocations made or to be made since inception of the Partnership.

Distressed

Mezzanine

Private Opportunistic

- **GSO Direct Lending** — **$50 mm** 2010
- **Medley Opportunity II** — **$50 mm** 2010
- **White Oak Lending** — **$50 mm** 2010

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

Aggregate Private & Opportunistic Debt Portfolio
As of June 30, 2013

Aggregate Program
Performance Summary as of 6/30/13

	Investment Strategy	Capital Committed ($ mm)	Total Contributions Paid to Date[1,2] ($ mm)	Unfunded Commitment[3] ($ mm)	Total Distributions Received to Date ($ mm)	Reported Fair Value ($ mm)	Reported Fair Value Plus Distributions[4] ($ mm)	Net IRR[5] (%)	Inv. Multiple[6] (x)
Total Program		**150.0**	**133.4**	**46.4**	**42.6**	**107.4**	**150.0**	**9.4**	**1.1**
Vintage Year 2010		**150.0**	**133.4**	**46.4**	**42.6**	**107.4**	**150.0**	**9.4**	**1.1**
GSO Direct Lending	Mezzanine	50.0	34.8	21.1	9.2	33.3	42.4	15.3	1.2
Medley Opportunity Fund II, L.P.	Distressed	50.0	32.9	20.1	6.4	32.1	38.5	8.7	1.2
White Oak Direct Lending	Mezzanine	50.0	65.6	5.2	27.0	42.0	69.0	5.5	1.1

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

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

The total program net IRR decreased by 30 basis points during the second quarter, to 9.4% from 9.7%. The fair market value of the total program increased by $2.1 million, or 1.9%, after adjusting for capital calls and distributions that occurred during the first quarter.

Appendices
As of June 30, 2013

Disclaimers and Valuation Policies
As of June 30, 2013

Disclaimer

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

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

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

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

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

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

The values of companies and partnerships in this review are based on unaudited reports for June 30, 2013, provided by the General Partners.

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

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

Private Equity
Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Private Real Estate
Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Private & Opportunistic Debt
Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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