

# PRIVATE MARKETS PROGRAM OVERVIEW

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## San Jose Federated City Employees' Retirement System

PUBLIC VERSION

March 31, 2015



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## Private Equity Program

**Introduction**  
**As of March 31, 2015**

The purpose of this document is to offer an interim 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 aggregate and individual basis.

As of March 31, 2015, the San Jose Federated City Employees' Retirement System had committed \$155.3 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 \$96.4 million at March 31, 2015.

**Aggregate Private Equity Program<sup>1</sup>**

<b>Number of Partnerships</b>	6
<b>Committed Capital<sup>2</sup></b>	\$155.3 million
<b>Capital Called</b>	\$136.9 million
<b>Distributions</b>	\$95.4 million
<b>Reported Value</b>	\$96.7 million
<b>Total Value Multiple</b>	1.4x
<b>Net IRR<sup>3</sup></b>	7.8%

<sup>1</sup> Throughout this report, numbers may not sum due to rounding.

<sup>2</sup> 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.

<sup>3</sup> Net IRR is net of fees, expenses, and carried interest for each partnership.

**Market and Industry Analysis**  
**As of March 31, 2015**

**Global buyout activity slowed during the first quarter of 2015 compared to the prior quarter, although aggregate deal volume in dollar terms rose 14% over the same period. Similarly, the number of venture capital deals decreased slightly by 6%, while deal volume was up 4% over the last quarter.**

- According to Preqin data, the number of buyout deals decreased by 20% since last quarter with high valuations continuing to contribute to the reduced investment activity. Fundraising activity also noticeably slowed down with only 166 fund vehicles closed in Q1 2015 compared to 263 in Q1 2014. North America focused funds continue to receive the majority of capital raised.
- Global venture capital investment activity and fundraising remained strong during the first quarter, although the exit environment via IPOs was the worst in two years. Total exits for venture-backed startups in North America, including M&A, saw a drop of 29% in number of deals and 65% by dollar value compared to one year ago, according to Pitchbook data. Angel/seed financings remained the most common stage of venture deals, while Series D stage and later showed the largest increase in average deal value, climbing 66% from Q1 2014.
  - In the first quarter, 34 IPOs raised \$5.4 billion, the smallest amount raised since Q3 2011 and the lowest number since Q1 2013.
- Valuations continued to climb further in the first quarter of 2015 as buyout investments data published by S&P Capital IQ showed pricing at 9.9x trailing EBITDA for all buyout transactions. Even though the availability of debt remained high, most of these transactions were well capitalized with an equity ratio of 43%.
- In Europe, the pace of exits carried over from last quarter continued to remain strong. Deal flow increased 25% year-over-year, while total capital invested remained flat. Macro concerns will no doubt continue to weigh on the continent in 2015.
- Fundraising in emerging markets remained flat year-over-year, while total invested capital and the number of deals completed, decreased by 19% and 3%, respectively, according to data from EMPEA. The political and economic climate for investing in these countries has been weak for the past 12 to 18 months. However, valuations appear to be attractive, which may lead to an increase in new investments.

**Private Equity Program  
As of March 31, 2015**



**Executive Summary**  
**As of March 31, 2015**

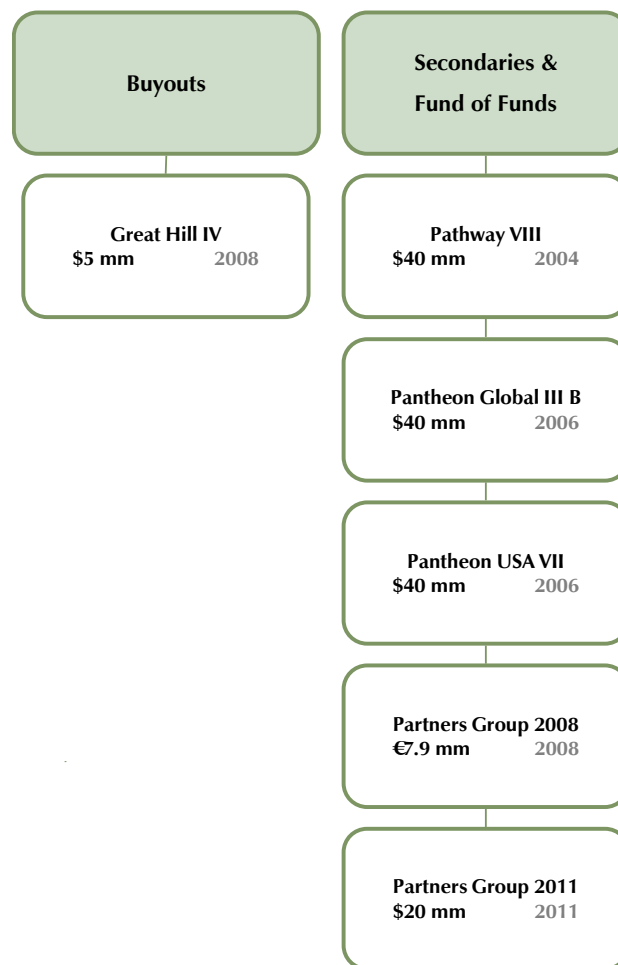
**The Retirement System did not make any new commitments during the first quarter of 2015.**

**In aggregate, \$2.2 million of capital was called from the Retirement System during the first quarter of 2015 by the underlying partnerships.**

- Pantheon Global Secondary Fund III 'B' called \$0.8 million from the Retirement System to fund capital calls from existing underlying partnerships.
- Partners Group Secondary 2011 called \$0.7 million to fund several secondary transactions, as well as to fund existing underlying partnership investments.

**Distributions received by the Retirement System from underlying partnerships during the first quarter totaled \$6.2 million.**

- Pantheon Global Secondary Fund III 'B' distributed \$2.3 million of proceeds from underlying partnerships.
- Pathway Private Equity Fund VIII distributed \$1.9 million of proceeds from the portfolio's underlying partnerships.
- Pantheon Global USA Fund VII distributed \$1.9 million largely from distributions received from four underlying funds.
- Great Hill Equity Partners IV distributed \$0.1 million of proceeds from the recapitalization of one company.



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

**Aggregate Private Equity Portfolio  
As of March 31, 2015**

## San Jose Federated City Employees' Retirement System Private Equity Program

## Aggregate Program Performance Summary as of 3/31/15

	Investment Strategy	Capital Committed (\$ mm)	Total Contributions Paid to Date <sup>1</sup> (\$ mm)	Unfunded Commitment <sup>2</sup> (\$ mm)	Total Distributions Received to Date (\$ mm)	Reported Fair Value (\$ mm)	Reported Fair Value Plus Distributions (\$ mm)	Net IRR <sup>3</sup> (%)	Inv. Multiple <sup>4</sup> (x)
<b>Total Program</b>		<b>155.3</b>	<b>136.9</b>	<b>18.3</b>	<b>95.4</b>	<b>96.7</b>	<b>192.1</b>	<b>7.8</b>	<b>1.4</b>
<b>Vintage Year 2004</b>		<b>40.0</b>	<b>38.9</b>	<b>1.1</b>	<b>38.0</b>	<b>19.8</b>	<b>57.8</b>	<b>7.5</b>	<b>1.5</b>
Pathway Private Equity Fund VIII	Fund of Funds	40.0	38.9	1.1	38.0	19.8	57.8	7.5	1.5
<b>Vintage Year 2006</b>		<b>80.0</b>	<b>72.8</b>	<b>7.2</b>	<b>45.0</b>	<b>50.6</b>	<b>95.6</b>	<b>6.1</b>	<b>1.3</b>
Pantheon Global Secondary Fund III 'B'	Secondary	40.0	37.4	2.6	25.4	16.0	41.3	2.1	1.1
Pantheon USA Fund VII	Fund of Funds	40.0	35.4	4.6	19.7	34.6	54.3	10.5	1.5
<b>Vintage Year 2008</b>		<b>15.3</b>	<b>14.1</b>	<b>1.2</b>	<b>10.0</b>	<b>12.2</b>	<b>22.1</b>	<b>14.5</b>	<b>1.6</b>
Great Hill Equity Partners IV	Buyout	5.0	4.9	0.1	3.5	5.0	8.5	24.4	1.7
Partners Group Secondary 2008 <sup>5</sup>	Secondary	10.3	9.2	1.1	6.5	7.2	13.7	11.1	1.5
<b>Vintage Year 2011</b>		<b>20.0</b>	<b>11.2</b>	<b>8.9</b>	<b>2.4</b>	<b>14.1</b>	<b>16.5</b>	<b>36.3</b>	<b>1.5</b>
Partners Group Secondary 2011, L.P.	Secondary	20.0	11.2	8.9	2.4	14.1	16.5	36.3	1.5

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

<sup>2</sup> Unfunded Commitment amounts are an approximation due to the inclusion of recallable distributions.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> The Retirement System committed €7.9 million to the Partnership in 2008. The \$10.3 million is an estimated amount based on the contributed capital and unfunded commitment as of 3/31/2015.



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 remained at 7.8% during the quarter. Over this period, the total reported fair value of the Private Equity Program increased by \$1.7 million, or 1.7%, 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 (\$0.7 million or 2.1%), Great Hill Equity Partners IV (\$0.6 million or 14.3%), and Partners Group Secondary 2011 (\$0.3 million or 2.6%), and offset by a decline in the valuation of Partners Group Secondary 2008 (\$0.2 million or -2.8%).

## **Private & Opportunistic Debt Program**

**Introduction**  
**As of March 31, 2015**



The purpose of this document is to offer an interim 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 March 31, 2015, 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 \$114.8 million at March 31, 2015.

**Aggregate Private Debt Program<sup>1</sup>**

<b>Number of Partnerships</b>	3
<b>Committed Capital</b>	\$150.0 million
<b>Capital Called<sup>2</sup></b>	\$188.0 million
<b>Distributions</b>	\$102.9 million
<b>Reported Value</b>	\$114.8 million
<b>Total Value Multiple</b>	1.2x
<b>Net IRR</b>	8.1%

<sup>1</sup> Throughout this report, numbers may not sum due to rounding.

<sup>2</sup> In certain instances, total contributions may exceed the commitment, as a Partnership may reserve the right to recycle capital and/or recall distributions depending upon the terms of its Limited Partnership Agreement.

**Market and Industry Analysis**  
**As of March 31, 2015**

**The U.S. high yield market began to recover from losses in the fourth quarter as it posted a return of 2.5% during the first quarter of 2015.**

- The average price of the market finished March at just over par and CCC-rated bonds traded at \$91.10. Spreads narrowed 19 basis points to 500 basis points above a comparable Treasury bond.
- Ratings downgrades lagged the market pullback in the fourth quarter and the below-CCC market size grew slightly as a result. Many of the downgrades were in the energy sector.
- The energy sector, which is about 15% of the high yield market, was attractive to many distressed investors as they sought to raise energy-focused strategies. Several billion dollars was raised during the quarter, though much of it remains on the sidelines uninvested.
- In addition to energy-focused strategies, broad market distressed managers continued to raise capital in anticipation of the default cycle eventually turning. The default rate, while below average, has remained consistent and managers have been able to find investment opportunities periodically. In addition, continued single loan and loan portfolio sales in Europe have been another target for distressed managers.
- Mezzanine debt deal activity continued to be slower than normal, with deal pricing pressured by an ample supply of capital and less demand for traditional mezzanine. Ancillary deal terms, including call protection, continued to be borrower friendly, and some mezzanine managers have sought increased equity co-investment opportunities to drive returns.
- Financing in the direct lending (senior, second lien, and unitranche) market continued, albeit at a slower pace, partially due to many BDCs trading below book value and unable to raise new capital to lend.

**Private & Opportunistic Debt Program**  
**As of March 31, 2015**

**Executive Summary**  
**As of March 31, 2015**

**In aggregate, \$3.0 million was called from the Retirement System during the first quarter of 2015 by the underlying partnerships.**

- White Oak Direct Lending called \$2.9 million primarily to fund investments in two companies.
- GSO Direct Lending called \$0.1 million to fund management fees and expenses.

**The Retirement System received an aggregate of \$7.7 million in distributions during the first quarter of 2015 from its underlying partnerships.**

- White Oak Direct Lending distributed \$7.3 million during the quarter from cash interest received from several underlying investments.
- GSO Direct Lending distributed \$0.5 million during the quarter from interest income and realized gains from several underlying investments.



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

**Aggregate Private & Opportunistic Debt Portfolio  
As of March 31, 2015**



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

## Aggregate Program Performance Summary as of 3/31/15

	Capital Committed (\$ mm)	Total Contributions Paid to Date <sup>1,2,3</sup> (\$ mm)	Unfunded Commitment <sup>4</sup> (\$ mm)	Total Distributions Received to Date (\$ mm)	Reported Fair Value (\$ mm)	Reported Fair Value Plus Distributions <sup>3,5</sup> (\$ mm)	Net IRR <sup>6</sup> (%)	Inv. Multiple <sup>7</sup> (x)
<b>Total Program</b>	<b>150.0</b>	<b>188.0</b>	<b>39.5</b>	<b>102.9</b>	<b>114.8</b>	<b>217.7</b>	<b>8.1</b>	<b>1.2</b>
<b>Vintage Year 2010</b>	<b>150.0</b>	<b>188.0</b>	<b>39.5</b>	<b>102.9</b>	<b>114.8</b>	<b>217.7</b>	<b>8.1</b>	<b>1.2</b>
GSO Direct Lending	50.0	39.0	32.7	29.6	20.1	49.7	11.2	1.3
Medley Opportunity Fund II, L.P.	50.0	59.4	1.7	17.2	53.9	71.1	8.6	1.2
White Oak Direct Lending	50.0	89.6	5.1	56.1	40.8	96.9	5.4	1.1

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

<sup>2</sup> Total contributions include management fees paid outside of capital committed.

<sup>3</sup> Recyclable distributions, fees out of commitment and returns of capital have been reclassified to match manager statements.

<sup>4</sup> Unfunded Commitment amounts are an approximation due to the inclusion of recyclable distributions.

<sup>5</sup> Distributions may include capital that was recycled back into the Partnership.

<sup>6</sup> The Net IRR calculation was performed by Meketa Investment Group. Total Program IRR is net of fees, expenses, and carried interest for each partnership. Partnership and Vintage Year IRRs are net of partnership fees.

<sup>7</sup> The Inv. Multiple calculation was performed by Meketa Investment Group. Total Program Inv. Multiple is net of fees, expenses, and carried interest for each partnership. Partnership and Vintage Year Inv. Multiples are net of partnership fees.



The IRR (internal rate of return) and investment multiple are the most meaningful measures of performance for private and opportunistic debt 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 80 basis points during the first quarter, from 8.9% to 8.1%. The fair market value of the total program decreased by \$0.6 million, or 0.5%, after adjusting for capital calls and distributions that occurred during the first quarter. The net portfolio valuation was driven down by a decrease in the valuation of White Oak Direct Lending (-4.2%), slightly offset by increases in valuations of Medley Opportunity Fund II (1.9%) and GSO Direct Lending (1.4%).

## **Private Real Estate Program**

**Introduction**  
**As of March 31, 2015**

The purpose of this document is to offer an interim 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 March 31, 2015, the System had invested in eight real estate funds (two core funds and six value-added funds). The total reported fair value of real estate investments was \$115.8 million at March 31, 2015, including \$79.1 million in core real estate and \$36.7 million in closed-end real estate.

**Aggregate Private Real Estate Program<sup>1,2</sup>**

<b>Number of Partnerships</b>	6
<b>Committed Capital</b>	\$105.0 million
<b>Capital Called</b>	\$95.7 million
<b>Distributions</b>	\$71.9 million
<b>Reported Value</b>	\$36.7 million
<b>Total Value Multiple</b>	1.1x
<b>Net IRR</b>	3.0%

<sup>1</sup> Throughout this report, numbers may not sum due to rounding.

<sup>2</sup> Excludes investments in PRISA I and American Core Realty Fund, both of which are open-end vehicles.

**Market and Industry Analysis**  
**As of March 31, 2015**

Strong rental growth and declining appraisal cap rates led to strong returns in public and private real estate during the first quarter of 2015.

### Real Estate Fundamentals

- The NCREIF Property Index's (NPI) value-weighted cap rate (appraisal based) decreased by 19 basis points from the prior quarter to 4.7%, and is now 16 basis points below the 3Q08 market peak. There remains a significant disparity in cap rates between property types, which can depend on the property's attributes and location, with the best-in-class assets in prime locations having cap rates that are significantly lower than their weaker counterparts. This is evident when comparing the NPI value-weighted cap rate of 4.7% to the NPI equal-weighted cap rate of 5.3%.
- Private real estate occupancy rates remained flat during 1Q15, but have risen 1.3% from the same period in 2014. The resulting vacancy rate of 8.1% is the lowest since the first quarter of 2008 and is 4.1% below its previous cycle peak of 12.2% in the first quarter of 2011. While the office sector ended the quarter with a vacancy rate of 13.9%, the highest amongst major property types, a strengthening U.S. labor market combined with constrained new construction has led to a vacancy rate decrease of 100 basis points since the beginning of 2014.
- The pace of NOI growth remained strong in the first quarter of 2015, rising at an annual growth rate of 6.1%. While this is slightly lower than the rate of growth from the prior quarter, it is still 3.3% higher than the rate of growth from 1Q14. The pace of NOI growth has been driven by increasing occupancy and rental rates across all property types.
- Real estate capital market activity continued to increase over the quarter, as Real Capital Analytics reported transaction volume of \$134 billion for properties valued over \$2.5 million. This is an increase of 3% over the prior quarter, and a 47% increase from the 1Q14 transaction volume of \$91 billion. The increase in quarterly volume over the prior quarter was primarily led by sales volumes for industrial and hotel properties, which increased by \$5.0 billion and \$4.4 billion, respectively.

Fundamentals	1Q15 Value		Q-o-Q Δ		Y-o-Y Δ
NPI Occupancy	91.9%	↔	0.0%	↑	1.3%
NPI TTM NOI Growth	6.1%	↓	-0.5%	↑	3.3%
NPI MV Cap Rate	4.7%	↓	-19 bps	↓	-26 bps
RCA Transaction Volume	\$134bn	↑	3.0%	↑	47.3%
RCA Transaction Cap Rate	6.6%	↓	-2 bps	↓	-20 bps
NAREIT Dividend Yield	3.4%	↓	-0.2%	↓	-0.5%

U.S. Economic Indicators	1Q15 Value		Q-o-Q Δ		Y-o-Y Δ
Unemployment Rate	5.5%	↓	-0.1%	↓	-1.2%
Real GDP Growth	-0.2%	↓	-2.4%	↑	1.9%
10-Yr Treasury	2.0%	↓	-0.2%	↓	-0.7%
CPI	236.1	↑	0.6%	↓	-0.1%
New Housing Unit Starts	215k	↓	-10.4%	↓	-21.8%

Trailing Returns	1Q15 Value	1-Yr	3-Yr
NPI	3.6%	12.7%	11.5%
NFI-ODCE (EW, gross)	3.4%	13.3%	12.5%
NFI-CEVA (EW, gross)	4.4%	21.2%	NA
NAREIT Equity REITs	4.8%	24.0%	14.2%
Barclays Aggregate	1.6%	5.7%	3.1%
S&P 500 Index	1.0%	12.7%	16.1%

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

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

### **U.S. Macro Trends**

- The U.S. economy began 2015 on a sluggish note, declining by 0.2% during the first quarter. Many economists attribute the decline to an unusually harsh winter, similar to the start of 2014, as well as to port strikes along the west coast. The labor market continues to strengthen and add jobs, as slightly less than 200k jobs were added per month throughout the first quarter, led by the tech and healthcare industries. The Bureau of Labor Statistics reported that there were 5.0 million job openings at the end of 1Q15, up from 4.2 million job openings from one year earlier, with professional and business services contributing the largest gains. The increasing number of job openings indicates some of the most vibrant labor market dynamics in the U.S. in many years.
- Due to foreign central bank quantitative easing (QE) and the expectation that the Federal Reserve will begin to raise the Federal Funds Rate by the end of 2015, the U.S. Dollar has increased by more than 30% relative to the Euro and nearly 20% relative to the Yen since the beginning of 2014. A strong Dollar will increase the spending power of the U.S. consumer, but will decrease the competitiveness of U.S. exports, as seen in the 1.6% decline of net exports in 1Q15. As long as the European Central Bank QE program remains in place, extraordinarily low yields in Europe will act to hold down yields in the U.S. and elsewhere as investors scramble to find positive-yielding, safe investments. For U.S. property investors, this likely means another year (or more) of historically low cap rates during a time of continued improvement in property operating fundamentals, such as rising occupancy rates and rent levels.

### **Real Estate Returns**

- The NFI-ODCE Equal Weight return in 1Q15 was 3.4%, gross of fees, with a 1.2% income return and a 2.2% appreciation return. The 30 basis point increase from 4Q14's 3.1% total return was entirely attributable to the appreciation component, which increased from 1.9% to 2.2%. For the year, the NFI-ODCE Equal Weight Index returned 13.3%, gross of fees, consisting of a 5.0% income component and 8.0% appreciation component. The strong trailing one-year performance across private real estate continues to be largely driven from appreciation growth, which can continue to generate strong returns through a combination of NOI growth and cap rate compression.
- The FTSE NAREIT Equity REITs Index increased 4.8% during the quarter, outperforming both the S&P 500 and the Barclays US Aggregate Bond Index. The Index's dividend yield decreased by 22 basis points and ended the quarter at 3.4%. As of 1Q15, REITs were trading at a 6% premium to NAV, slightly higher than the historical average of a 3.7% premium.



**Private Real Estate Program**  
**As of March 31, 2015**

**Executive Summary**  
**As of March 31, 2015**

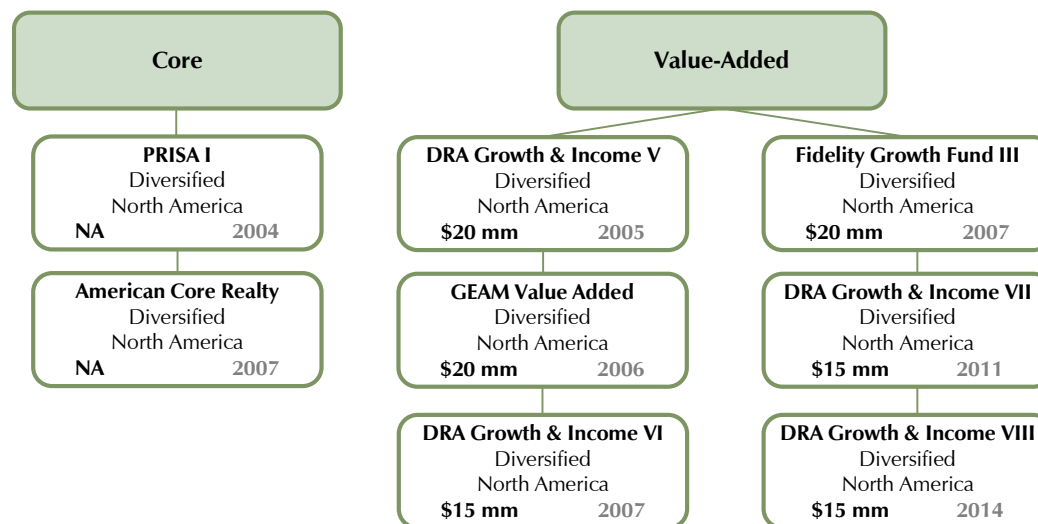
**In aggregate, \$1.2 million of capital was called from the Retirement System during the first quarter of 2015 by the underlying closed-end partnerships.**

- DRA Growth and Income Fund VIII called \$0.8 million to fund several new investments throughout the United States and diversified across property types.
- DRA Growth and Income Fund VII called \$0.4 million as the Partnership called \$24 million to paydown the fund's credit facility.

**In aggregate, \$2.1 million of capital was distributed to the Retirement System by the underlying closed-end partnerships during the first quarter of 2015.**

- DRA Growth and Income Fund V distributed \$0.9 million as the Partnership distributed \$41.2 million consisting of capital proceeds from the redemption of preferred shares and cumulative dividends.
- DRA Growth and Income Fund VII distributed \$0.8 million primarily from the proceeds from the sale of which generated a 41% gross IRR and 2.1x equity multiple, and another property, which achieved one property a 20% gross IRR and 1.4x equity multiple.
- DRA Growth & Income Fund VI distributed \$0.2 million as the partnership distributed \$20 million from the sale of two properties, which generated a 31% IRR and 2.4x equity multiple.
- DRA Growth & Income Fund VIII distributed \$0.2 million as the partnership distributed \$15.5 million primarily from the sale of a single story building within one portfolio.

**The Retirement System made no new commitments to private real estate during the first quarter of 2015.**



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

**Aggregate Private Real Estate Portfolio  
As of March 31, 2015**

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

## Real Estate Assets Performance as of 3/31/15

	1Q15 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date	Since Inception (%)
<b>Core Real Estate<sup>2</sup></b>	<b>3.6</b>	<b>9.5</b>	<b>12.6</b>	<b>11.3</b>	<b>13.7</b>	<b>NA</b>	<b>7/1/09</b>	<b>9.2</b>
PRISA I	3.0	9.9	13.3	11.6	14.7	5.8	7/1/04	6.3
<i>NCREIF ODCE Equal Weighted (net)</i>	3.2	9.6	12.4	11.5	13.3	5.7		6.2
American Core Realty Fund, LLC	4.2	9.1	11.9	11.2	12.3	NA	1/1/07	3.6
<i>NCREIF ODCE Equal Weighted (net)</i>	3.2	9.6	12.4	11.5	13.3	5.7		3.4

<sup>1</sup> Fiscal Year begins July 1.

<sup>2</sup> Time weighted returns are only presented for core open-end funds and are reported net of fees.



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

## Aggregate Program Performance Summary as of 3/31/15

	Investment Strategy	Capital Committed (\$ mm)	Total Contributions Paid to Date <sup>1</sup> (\$ mm)	Unfunded Commitment <sup>2</sup> (\$ mm)	Total Distributions Received to Date (\$ mm)	Reported Fair Value (\$ mm)	Reported Fair Value Plus Distributions (\$ mm)	Net IRR <sup>3</sup> (%)	Inv. Multiple <sup>4</sup> (x)
Total Closed-End Private Real Estate Program		105.0	95.7	15.4	71.9	36.7	108.6	3.0	1.1
Vintage Year 2005		20.0	30.5	0.0	31.7	5.6	37.3	4.1	1.2
DRA Growth and Income Fund V	Value-added	20.0	30.5	0.0	31.7	5.6	37.3	4.1	1.2
Vintage Year 2006		20.0	18.2	1.8	6.4	1.9	8.3	-12.5	0.5
GEAM Value Add Realty Partners, L.P.	Value-added	20.0	18.2	1.8	6.4	1.9	8.3	-12.5	0.5
Vintage Year 2007		35.0	28.4	0.9	28.9	10.5	39.5	8.6	1.4
DRA Growth and Income Fund VI	Value-added	15.0	10.6	0.9	13.8	3.0	16.8	10.8	1.6
Fidelity Real Estate Growth Fund III	Value-added	20.0	17.9	0.0	15.2	7.5	22.7	6.8	1.3
Vintage Year 2011		15.0	15.2	0.8	4.6	15.4	20.0	16.2	1.3
DRA Growth and Income Fund VII, LLC	Value-added	15.0	15.2	0.8	4.6	15.4	20.0	16.2	1.3
Vintage Year 2014		15.0	3.4	11.8	0.2	3.3	3.5	NM	1.0
DRA Growth and Income Fund VIII, LLC	Value-added	15.0	3.4	11.8	0.2	3.3	3.5	NM	1.0

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

<sup>2</sup> Unfunded Commitment amounts are an approximation due to the inclusion of recallable distributions.

<sup>3</sup> 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.

<sup>4</sup> The Inv. Multiple calculations were performed by Meketa Investment Group. Total Program, Partnership, and Vintage Year Inv. Multiples are net of fees, expenses, and carried interest for each partnership.



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<sup>1</sup> net IRR increased by 30 basis points during the first quarter, from 2.7% to 3.0%.<sup>2</sup> The improved performance was driven primarily by increases in the valuations of Fidelity Real Estate Growth Fund III (\$0.9 million or 13.2%), DRA Growth & Income Fund VII (\$0.5 million or 3.6%), and DRA Growth & Income Fund V (\$0.2 million or 3.0%). During the first quarter, the total reported fair value of the Total Closed-End Program increased by \$1.7 million, or 4.8%, after adjusting for capital calls and distributions that occurred during the quarter. Furthermore, the Aggregate Private Real Estate Program<sup>3</sup> increased by \$4.4 million, or 4.0%, over the same period.

<sup>1</sup> Total Closed-End Program includes all closed-end funds in the real estate program.

<sup>2</sup> May not sum due to rounding.

<sup>3</sup> The Aggregate Private Real Estate Program includes both open-end and closed-end funds in the real estate program.





## **Appendices**

### **As of March 31, 2015**

**Disclaimers and Valuation Policies**  
**As of March 31, 2015**

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 as of March 31, 2015, provided by the General Partners.

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

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

## **Private Equity Glossary of Terms**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Private & Opportunistic Debt Glossary of Terms**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**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.