



PRESENTED BY





Demystifying Private Equity

June 23, 2015

Today's Presenters



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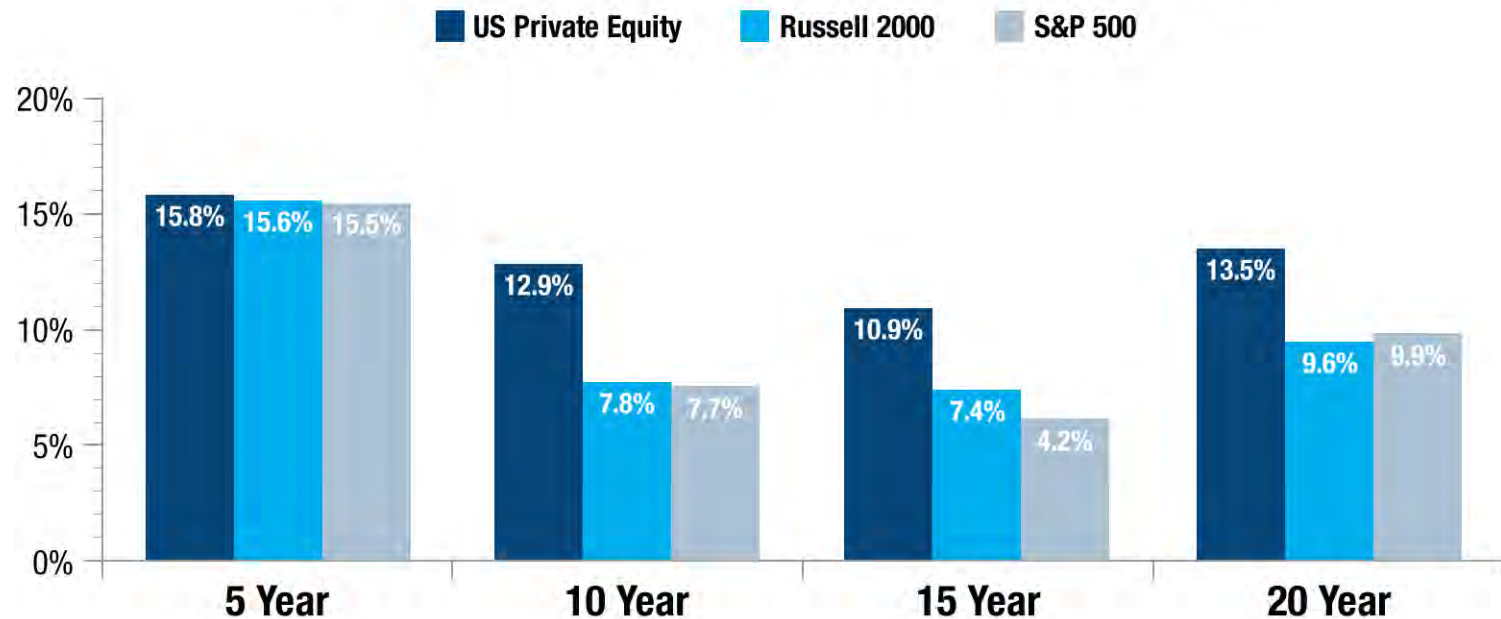
Nick Veronis

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Long-Term Net Outperformance

PRIVATE EQUITY HAS CONSISTENTLY OUTPERFORMED PUBLIC MARKET INDICES OVER MULTIPLE TIME PERIODS

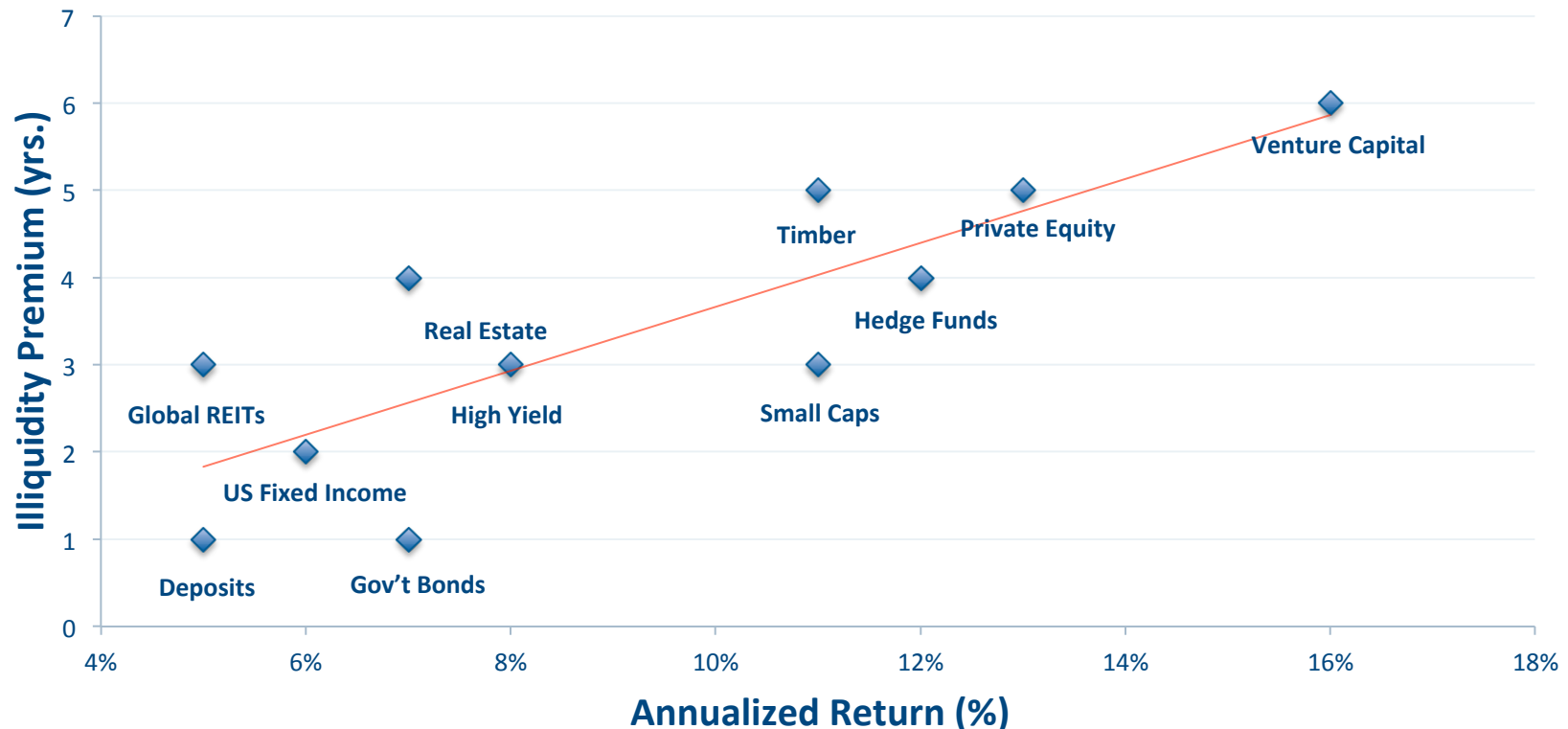
Private Equity Returns vs. Public Markets



Source: Cambridge Associates US Private Equity Index as of 12/31/14
Past performance is not indicative of future results

Returns Increase with Degree of Illiquidity

THE LONG TERM PREMIUM OF PRIVATE EQUITY AND VENTURE CAPITAL ARE COMPENSATED FOR THEIR ILLIQUID CHARACTERISTICS



Source: Blackstone "Patient Capital, Private Opportunity" Display 5
Past performance is not indicative of future results

Why Does PE Work?

- **Active ownership of companies with focus on long-term value creation**
- **Alignment of interests between management and shareholders**
- **Ability to be decisive with strategic and tactical decision-making**
- **Not distracted by managing to quarterly public earnings**
- **Professional managers with complete information optimize the sequencing of buying and selling companies**

Public vs. Private Market Investments

Public Markets

Frequent transactions

Access to capital

Information widely and quickly shared

Performance generally in line with the markets

Minority shareholders

Private Markets

Infrequent transactions

More difficult for small companies to easily access capital

Asymmetric information

Performance premium to liquid markets

Hands-on, value-added control investors

Source: Blackstone "Patient Capital, Private Opportunity" Display 2

How PE Fund Managers Create Value

OPTIMIZE CAPITAL STRUCTURE

Boosting equity returns with increased leverage

Guidance in helping companies navigate the capital markets

GROWTH STRATEGIES

Consolidations, acquisitions, divestments

Developing new products

OPERATIONAL IMPROVEMENTS

Increasing revenue through operating efficiencies

MULTIPLE EXPANSION

Selling a portfolio company at higher multiples than what they were acquired for

Investment Examples

Public to Private



Growth Capital

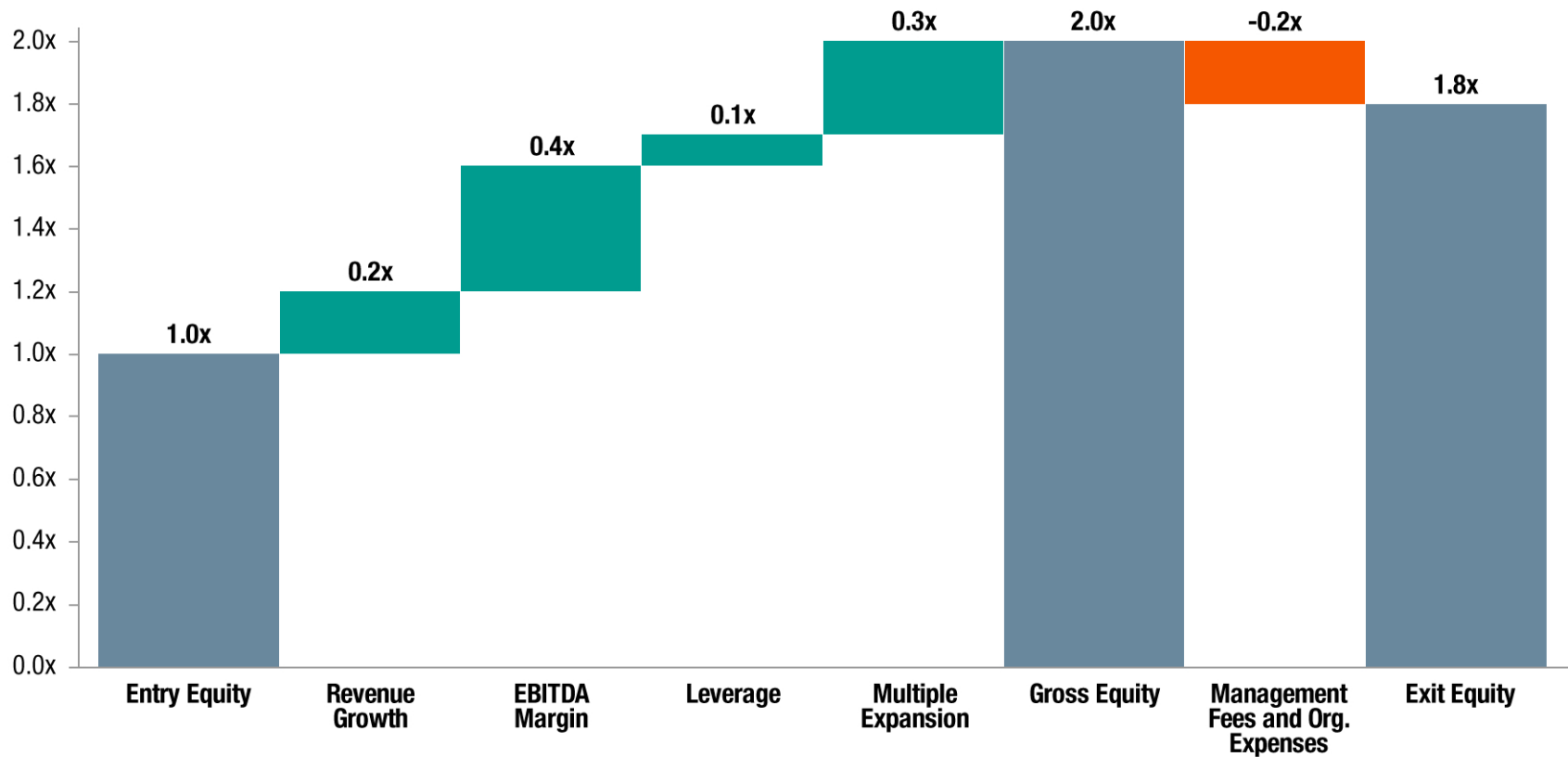


Corporate Restructuring



Value Creation Bridge

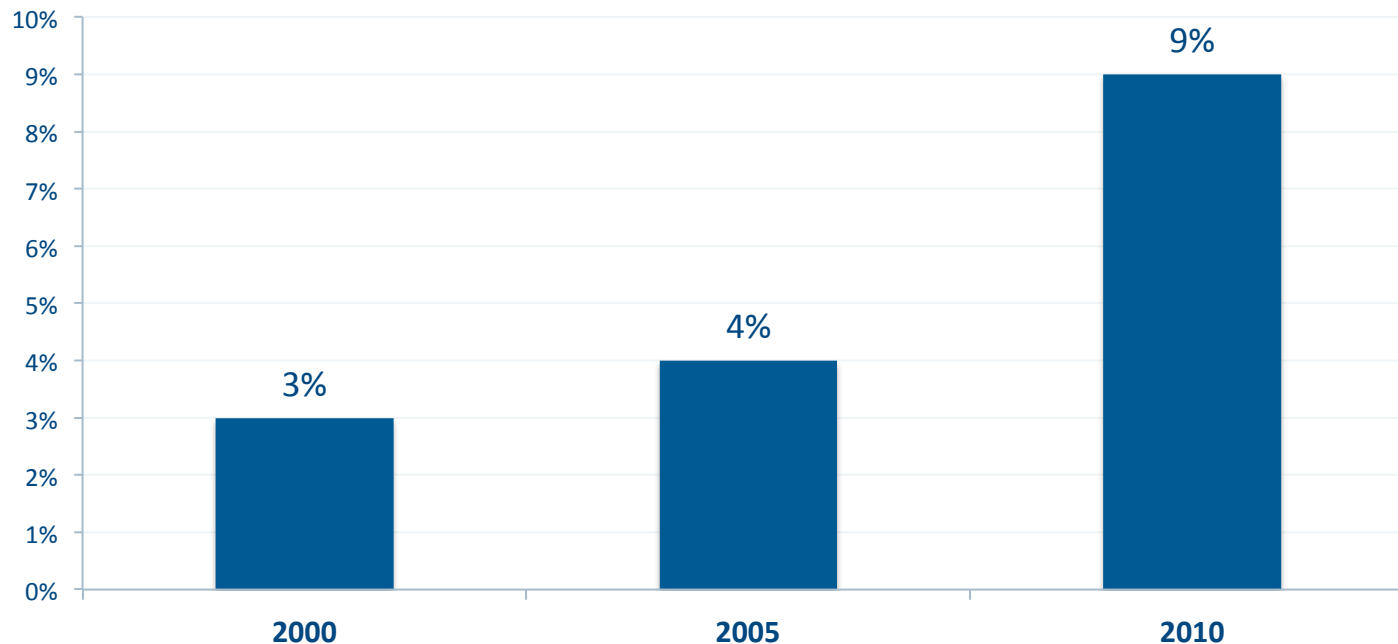
VALUE CREATION COMES FROM: OPERATIONAL IMPROVEMENTS (OR EBITDA GROWTH), MULTIPLE EXPANSION, GROWTH STRATEGIES AND FINANCIAL ENGINEERING



Pension Allocation to PE

POST GLOBAL FINANCIAL CRISIS, PENSIONS CONTINUED TO INCREASE THEIR ALLOCATIONS TO PRIVATE EQUITY

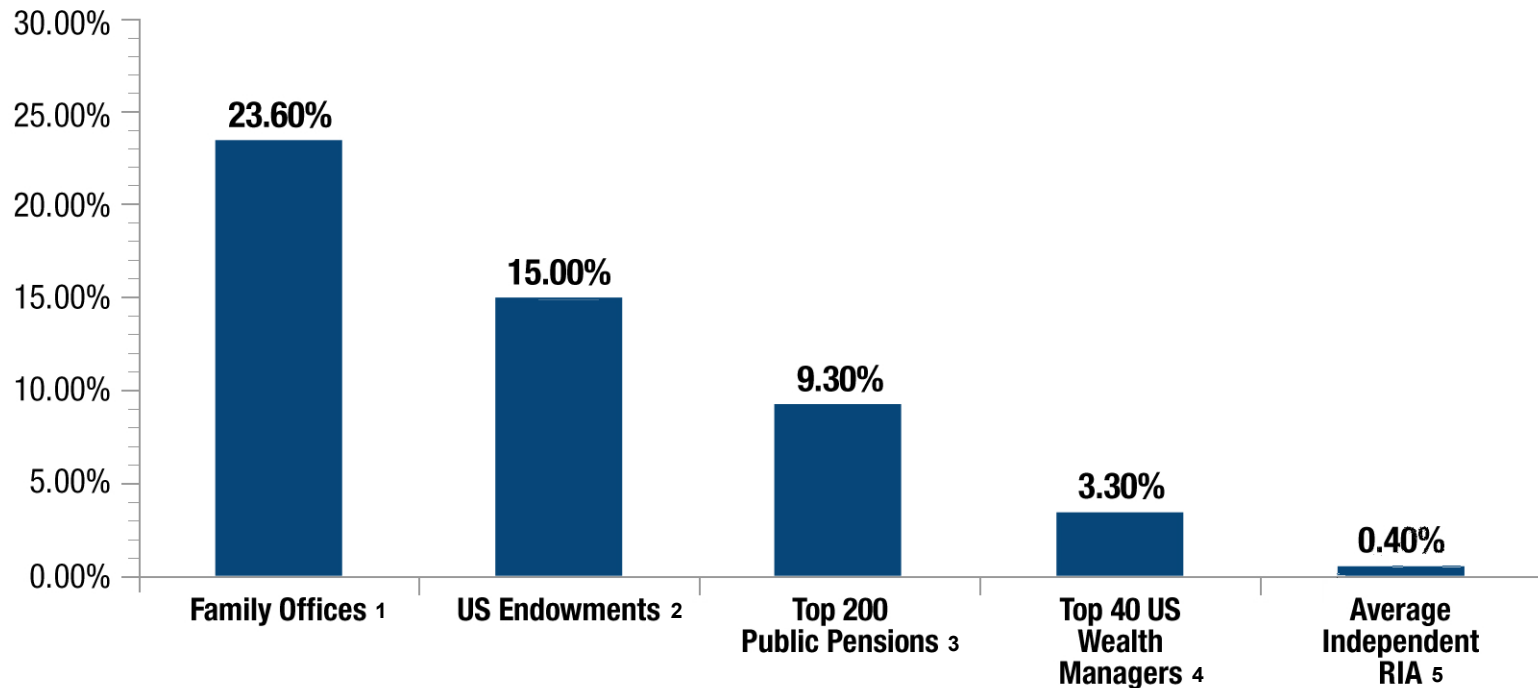
Historical Allocation to Private Equity



Source: Preqin/Upwelling Research

PE Allocations by Investor Type

Allocation to Private Equity by Institution Type



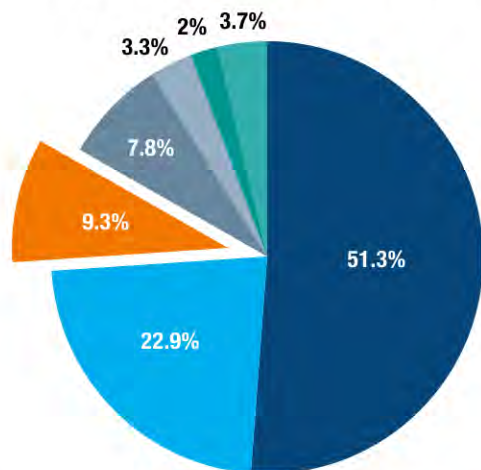
Sources:

- 1) Preqin
- 2) 2014 NACUBO-Commonfund Study of Endowments
- 3) P&I 2014. Public defined benefit plans only.
- 4) Barron's 2014 America's 40 Largest Wealth Managers
- 5) Cerulli 2012 RIA Marketplace

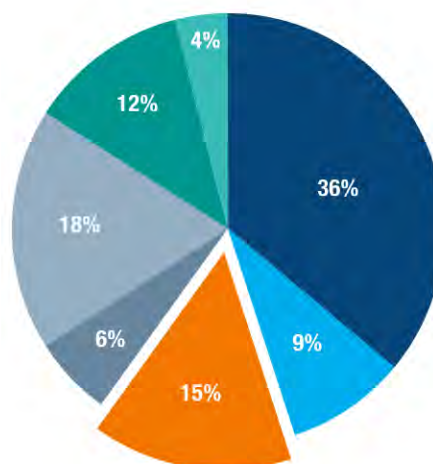
Asset Allocations by Investor Types

THE NATION'S LEADING WEALTH MANAGERS HAVE SIGNIFICANTLY LOWER ALLOCATIONS TO PE RELATIVE TO PUBLIC PENSION FUNDS AND ENDOWMENTS

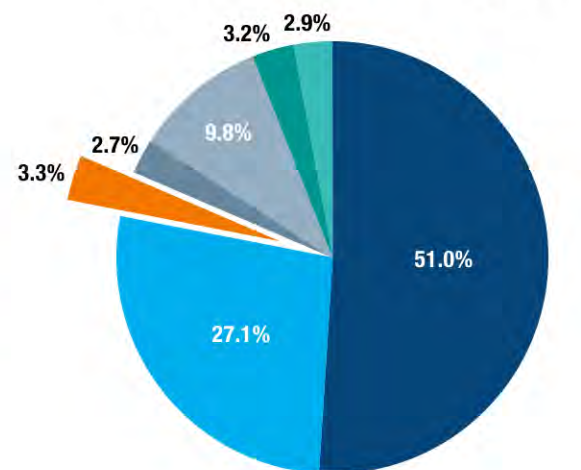
Top 200 Public Pensions¹



US Endowments²



Top 40 Wealth Managers³



■ Equity
■ Fixed Income
■ Private Equity
■ Real Estate
■ Hedge Funds
■ Other Alts
■ Cash & Other

Sources:

1) P&I 2014. Public defined benefit plans only.

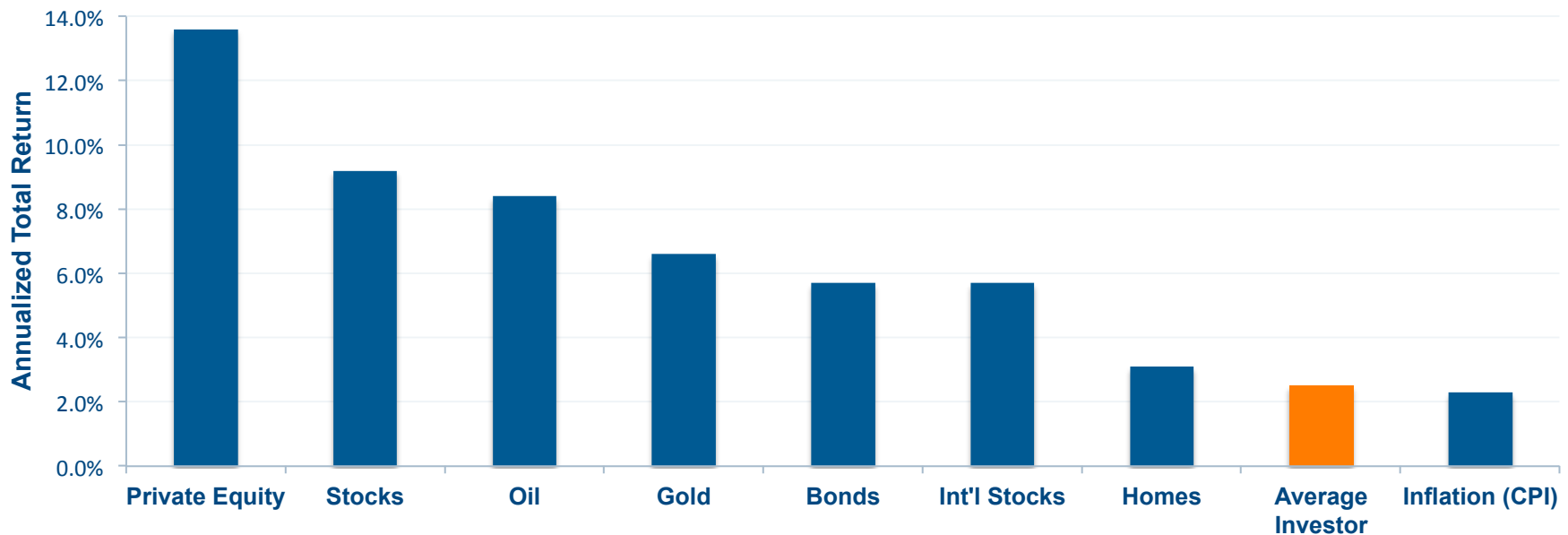
2) 2014 NACUBO-Commonfund Study of Endowments

3) Barrons 2014 America's 40 Largest Asset Managers

Average Joe Underperforms

THE AVERAGE INVESTOR HAS REALIZED A 2.5% RETURN OVER THE PAST 20 YEARS. THIS MEANS THE AVERAGE JOE HAS OUTPERFORMED INFLATION BY JUST 0.2% PER YEAR

20-Year Annualized Returns (1994-2013)

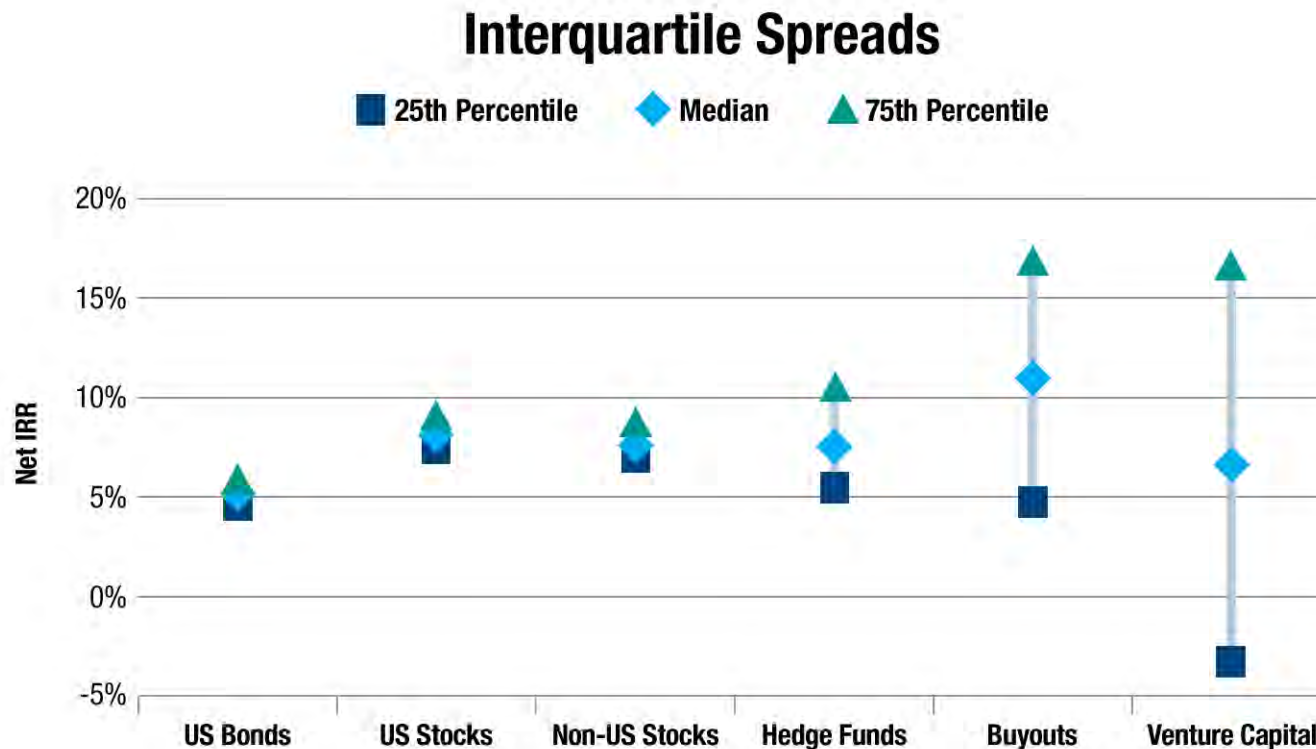


Source: Blackrock, Dalbar, Cambridge Associates

Past performance is not indicative of future results

Manager Selection in Private Fund Investing is Critical

THE DISPERSION BETWEEN THE BEST PERFORMING AND WORST PERFORMING MANAGERS IS MUCH GREATER IN PE THAN IN OTHER ASSET CLASSES



Source: DailyAlts – Liquid Alternative News and Information

Persistence in Performance

TOP AND BOTTOM QUARTILE MANAGERS TEND TO PERFORM IN LINE WITH THEIR PREVIOUS FUNDS

First Fund

1st Quartile

2nd Quartile

3rd Quartile

4th Quartile

Second Fund

35%

24%

28%

13%

Nearly 60% of top quartile managers remain **above median** in their subsequent funds

Second Fund

19%

22%

23%

36%

Nearly 60% of bottom quartile managers remain **below median** in their subsequent funds

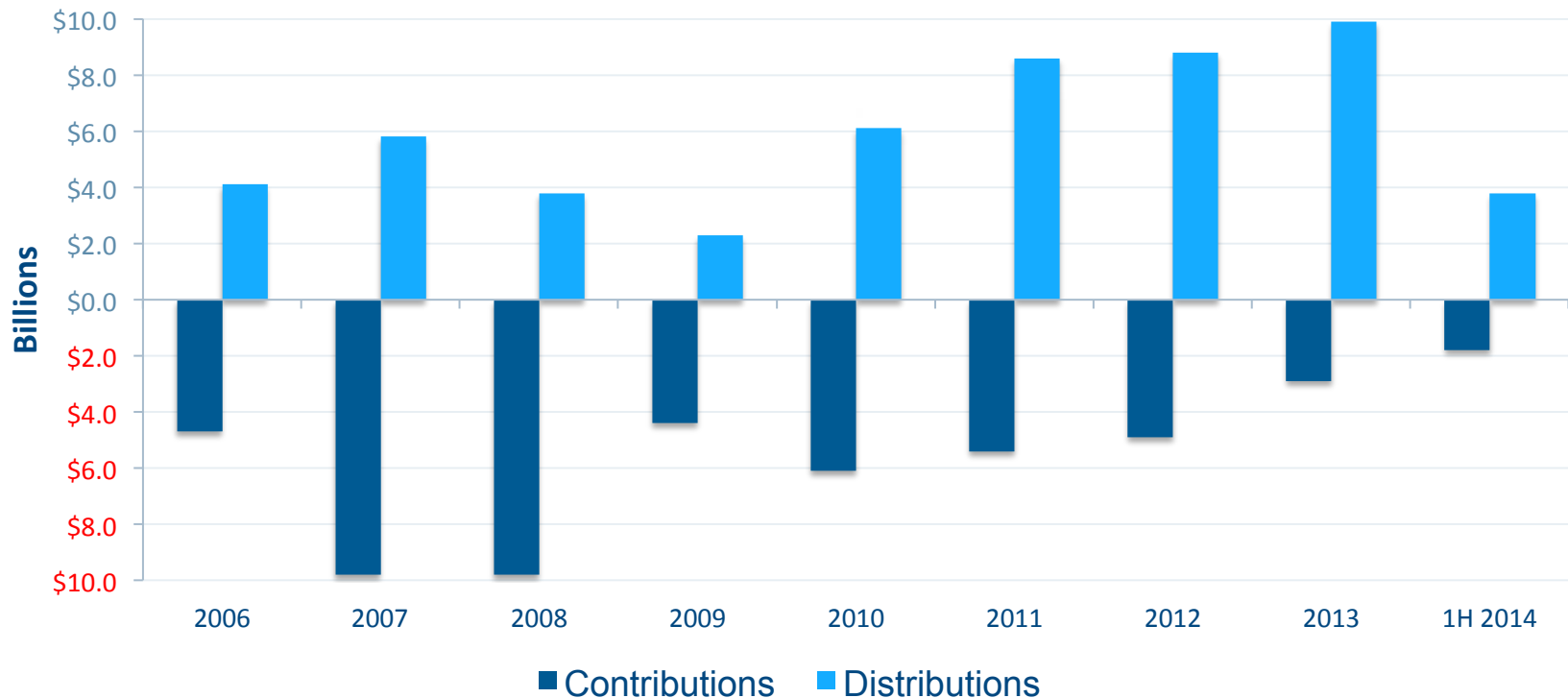
Source: Blackstone "Patient Capital, Private Opportunity" Display 7
Past performance is not indicative of future results

The J-Curve



PE Program Annual Cash Flows

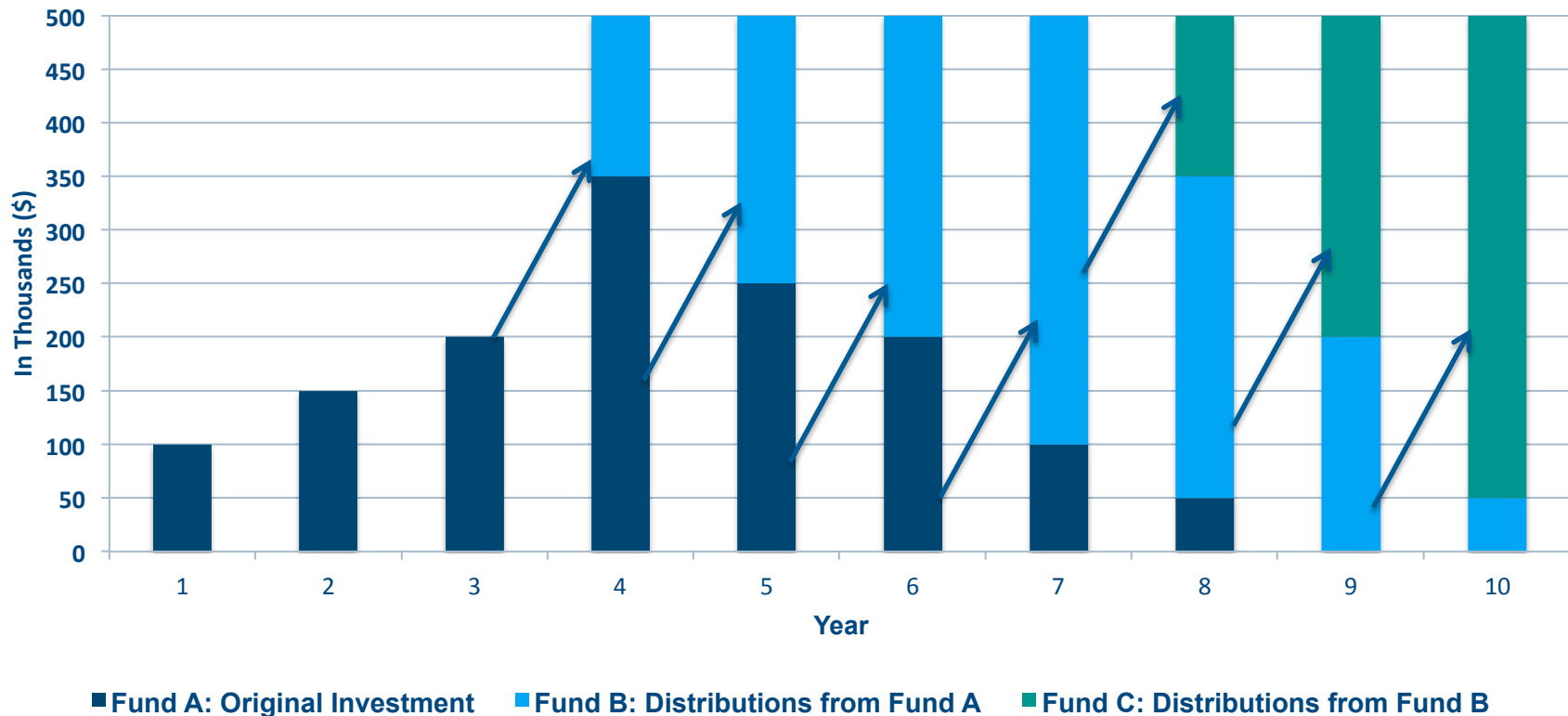
CALPERS PRIVATE EQUITY PROGRAM EXHIBITED CASH FLOWS THROUGH THE CYCLE



Source: CalPERS Private Equity Annual Program Review, as of June 30, 2014.

Self-Funding PE Program

PE Allocation Program: Target \$500k

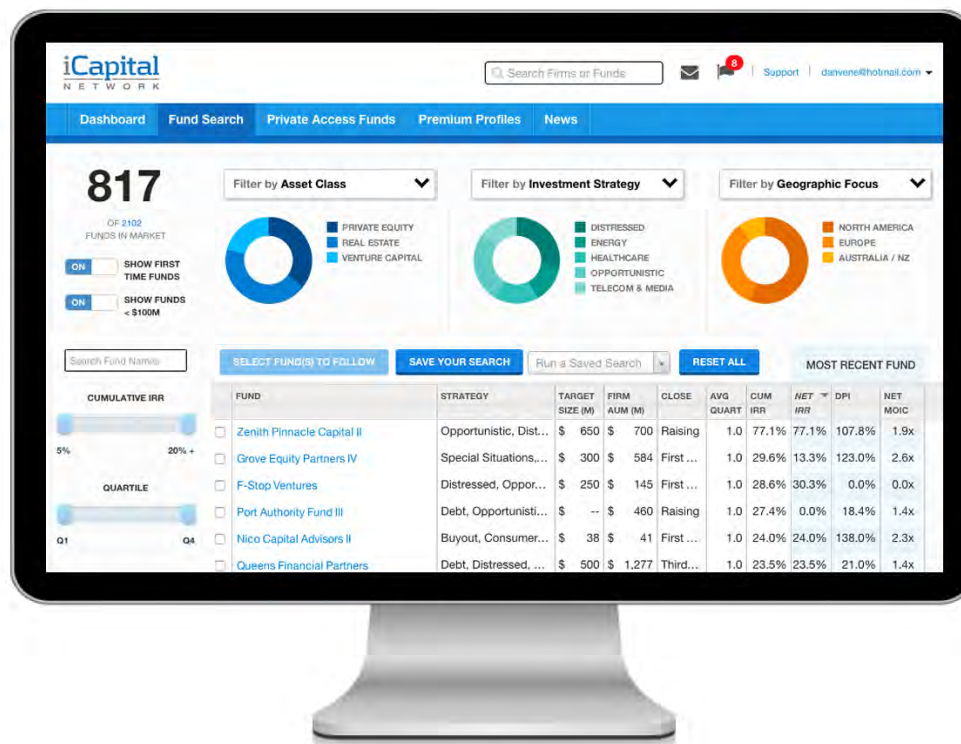


Source: Blackstone "Patient Capital, Private Opportunity" Display 9

Key Takeaways About Private Equity

1. Outsized returns
2. Low volatility
3. Alignment of interests between fund managers and investors
4. Core part of institutional investment portfolios
5. Ability to invest in quality private assets

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