

4 T H A N N U A L

Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

Evaluating Private Equity and Venture Capital Opportunities

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PANELISTS

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Defining Private Equity

- Private Equity = provision of capital (debt or equity) to companies not listed on public exchanges
 - Central purpose is to participate in emerging and growing businesses
 - Capital is used for restructuring the capital structure, operations or product lines of ongoing businesses, and provide capital and turnaround expertise to financially stressed companies



Categories of Private Equity Investments

- **Leveraged buyout:** Provide financing by buying out current shareholders in a mature operating company with ongoing cash flows
- **Growth financing/venture capital:** Provide capital for businesses in early or critical stages of building businesses
- **Mezzanine:** Provide subordinated debt or preferred equity capital (alternative to issuing high yield debt securities)
- **Distressed/special situations:** Restructure companies facing challenges in meeting existing debt obligations



Listed Private Equity (LPE)

- Although many investors traditionally think of unlisted PE as the only type available, it is also possible to purchase listed private equity vehicles
- LPE refers to publicly-listed investments that either directly or indirectly invest in private equity
- Three types of LPE vehicles
 - Direct Investing Companies (used by PEX)
 - Fund of Funds
 - Fund Managers



Direct Investing Companies

- In the listed private equity (LPE) space, the most widely-used vehicle is direct investing private equity companies
 - Direct investing companies typically use capital raised in public offerings to invest in the equity or debt securities of private firms
 - These investments are held on the balance sheet of the LPE firm
 - The main driver of earnings for the LPE firm is the value of their investments



Direct Investing Companies (continued)

- An investor buying shares of a direct investing company has exposure to the earnings potential of the private companies held on its balance sheet
 - In the U.S., these are referred to as business development companies (BDCs)
 - BDCs are regulated under the Investment Company Act of 1940 and are mandated to hold 70% of their total assets in privately issued securities
 - Equity securities of a BDC trade over exchanges, just like any other stock
 - The management of a BDC may charge management as well as performance fees



LPX Direct Index Design

LPX Group Research
>300 Global LPE Vehicles Covered

LPX Group Research screens the global LPE Universe:
LPE market overview, IPO market, M&A activity

LPX Group Research
>120 Global LPE Vehicles

Based on specific minimum liquidity criteria, LPX
Group Research covers more than 120 companies on
a daily basis

Indexing
Liquidity Analysis

Various liquidity constraints guarantee for liquid,
transparent and replicable equity index series

**LPX Direct
US**

LPX Direct Index focuses on identifying LPE firms that
have at least 80% of total assets invested directly in
private companies (through either equity or debt
investments)



Attributes of LPX Direct Index

- Listed private equity investing
 - Index methodology identifies those firms which best meet the criteria for direct PE investing—gaining access to the private companies held by those LPE firms
- Immediate, liquid access
 - LPX focus is on immediate access to a diversified portfolio of LPE firms at a low cost
 - Firms may be mostly if not fully invested in private companies, without the lead time of an unlisted PE LP
- Diversification
 - The LPX Direct is diversified across regions, PE investment styles, vintages and currencies



Largest Companies in LPX Direct Index

Company	Weight	Country
3i Group	10.21%	United Kingdom
Ares Capital Corp	9.85%	United States
Onex Corp	9.42%	Canada
American Capital Ltd	9.05%	United States
Ratos AB	4.64%	Sweden
Intermediate Capital Group PLC	4.60%	United Kingdom
Eurazeo SA	4.56%	France
Wendel SA	4.52%	France
Apollo Investment Corp	4.47%	United States
Brait SA	4.47%	South Africa
Prospect Capital Corp	4.45%	United States
Fifth Street Finance Corp	3.57%	United States

Country	Weight
United States	48%
Belgium	2%
Brazil	0%
Canada	9%
France	10%
Germany	1%
Greece	0%
South Africa	4%
Sweden	5%
Switzerland	1%
United Kingdom	18%
Total	100%



Risks Associated With BDCs

- Lack of public information for private and thinly traded companies increases the potential for fraud
- Inability for BDC's management to invest in or provide mezzanine financing to privately held companies
- Increasing competition for limited BDC investment opportunities
- Potential uncertainty as to the value of a BDC's private investments
- Risks associated with leverage
- Reliance on a BDC's management team to choose and manage companies
- May hold a significant portion of its assets in cash or cash equivalents



To Get a Prospectus

Carefully consider the investment objectives, risks, charges and expenses of ProShares before investing. This and other information can be found in their summary and full prospectuses. Read them carefully before investing. Obtain them from your financial advisor or broker/dealer representative or visit ProShares.com. ProShares are not suitable for all investors.

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Investing involves risk, including the possible loss of principal. ProShares are non-diversified and each entails certain risks, which may include risk associated with the use of derivatives (swap agreements, futures contracts and similar instruments), imperfect benchmark correlation, leverage and market price variance, all of which can increase volatility and decrease performance. Please see their summary and full prospectuses for a more complete description of risks. **There is no guarantee any ProShares ETF will achieve its investment objective.**



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Disclaimer

Investments in smaller companies typically exhibit higher volatility. International investments may also involve risk from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, and from economic or political instability. There are risks in investing in listed private equity companies (LPEs), which encompass business development companies (BDCs) and other financial institutions or vehicles whose principal business is to invest in and provide financing to privately held companies. Little public information may exist for private or thinly traded companies, and investors may not be able to make fully informed investment decisions. Private equity securities carry risks related to unclear ownership, market access and market opaqueness. BDCs are subject to the Investment Company Act of 1940 but are exempt from many of its regulatory constraints. The fund is subject to risks faced by BDCs to the same extent as its index is so concentrated. A significant portion of the index is composed of BDCs or other investment companies. The fund may not acquire greater than 3% of the total outstanding shares of such companies. As a result, the fund's ability to purchase certain securities in the proportions represented in the index could be inhibited. The fund may be required to use sampling techniques in these circumstances, which could increase correlation risk. For more on the fund, LPEs, BDCs, correlation and other risks, please read the prospectus by visiting ProShares.com.



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Investing in Private Equity

Panelist

Kirk Michie

Partner

Triton Pacific Investment Corporation



Why Add Alternative Investments?

“Though it may seem counter-intuitive, the addition of a high-risk asset to your portfolio may reduce your total portfolio risk if the high-risk asset has a low correlation with your other investment assets. In this way, you can lower your portfolio risk while at the same time increasing your potential return.”

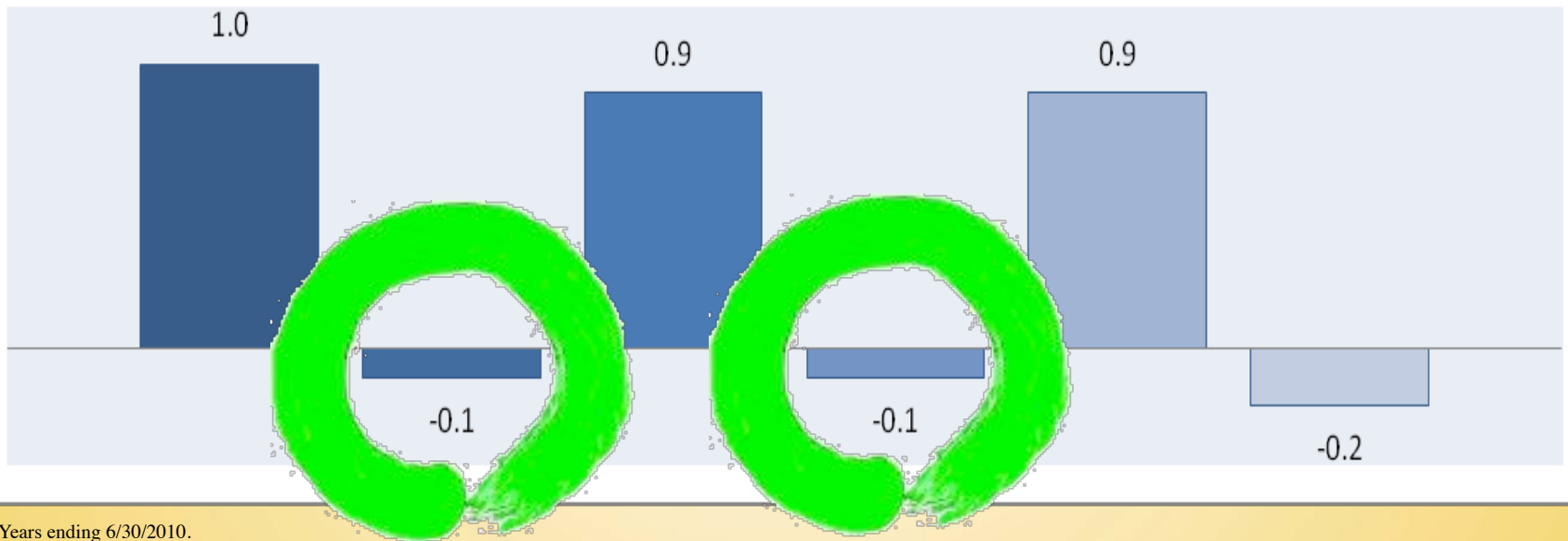
-- Professor Roger Ibbotson, Yale University,
Chairman and Founder of Ibbotson Associates



Balanced Portfolios with Alternatives: Reduced Volatility

Correlation with S&P 500

■ Equity ■ Fixed Income ■ Alt Mutual Funds ■ Private Equity ■ Hedge Funds ■ Managed Futures



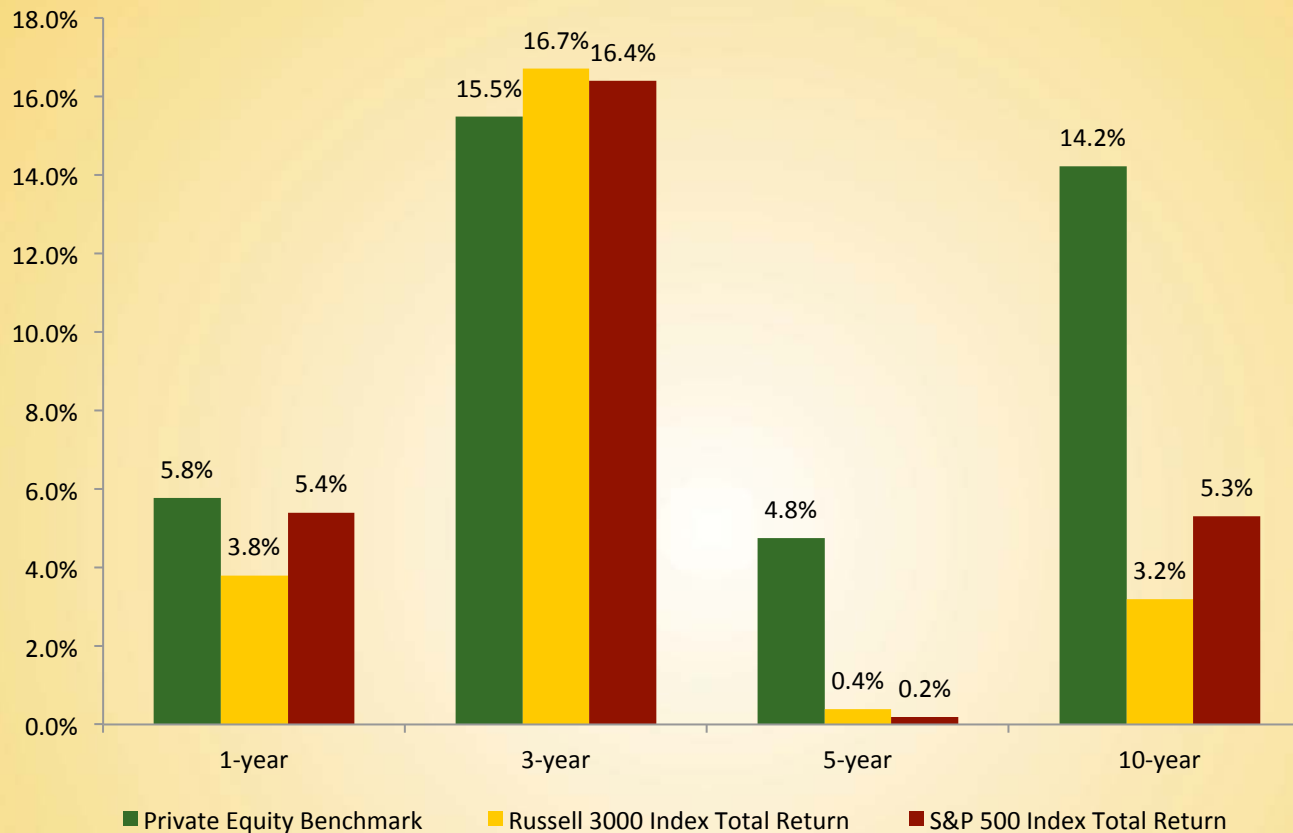
5 Years ending 6/30/2010.

Fixed Income: Barclay's Capital US Aggregate Bond Index; Alt Mutual Funds: Style-specific universe of mutual funds categorized as Long-Short by Morningstar;
Private Equity: Cambridge Associates Private Equity Index; Hedge Funds: HFRI Funds Weighted Composite Index; Managed Futures: S&P 500 Diversified Trends Indicator

Source: *Demystifying the Role of Alternative Investments in a Diversified Investment Portfolio*. Baird's Advisory Services Research.
<http://www.rwbaird.com/bolimages/Media/PDF/Whitepapers/Demystifying-the-Role.pdf>



Performance of Private Equity

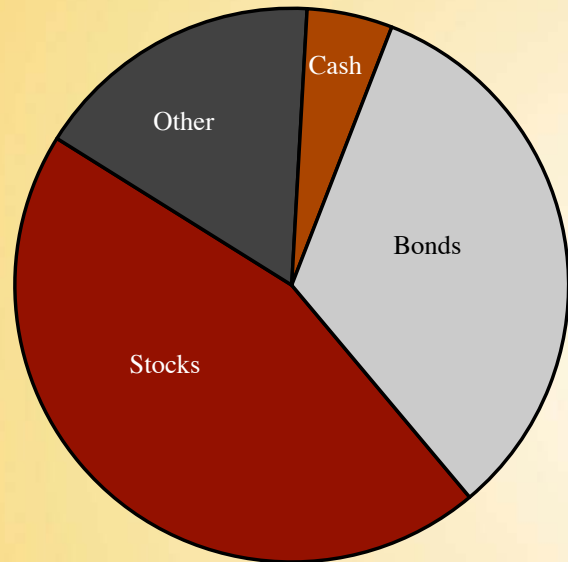


Private Equity Benchmark is the mean performance of the Cambridge Associates U.S. Private Equity Index (excluding Venture Capital), Pitchbook U.S. Private Equity Median Return (excluding venture capital), Preqin Performance analyses (buyouts only) and Thomson Reuters's Private Equity Performance Index (with buyouts only).

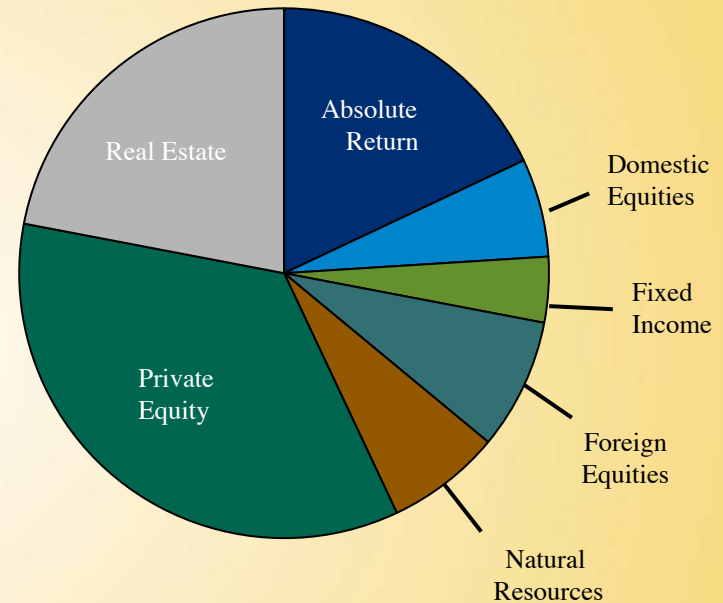
Triton Pacific uses the aggregate of multiple buyout indices as most broadly applicable to their current investment activities, as both the index and TPIC's investment strategy include buyouts, mezzanine debt and growth capital. The broader indices which include venture capital investing have been excluded as N/A.

The Evolution of the “Endowment Model”

Major Ivy League Endowment in
1980's



Same Ivy League Endowment
Allocation in 2012



Higher Returns

Lower Volatility

Many of the most successful endowment, pension plan, and family office investors allocate substantial portions of their portfolios to private equity in the pursuit of potentially higher returns. Individual investors may not have all of the same opportunities, but many Advisors have sought to address this through a variety of mutual fund, private placement, and BDC offerings.

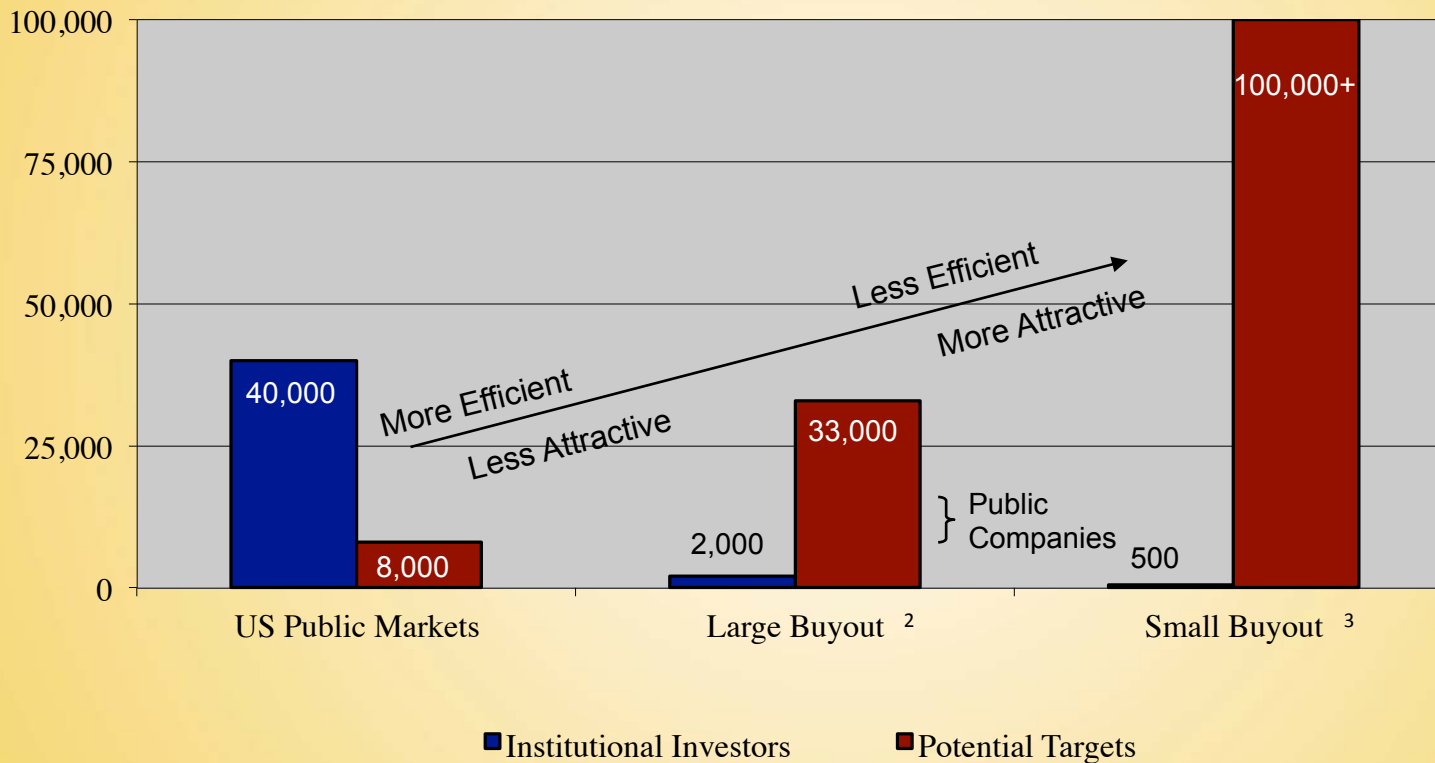
¹Source: Yale Endowment Report 2012. http://www.yale.edu/investments/Endowment_Update.pdf

*Past performance does not guarantee future results.
Results may vary in an individual's portfolio.



TPIC Focuses on Lower Middle Market Private Equity

Inefficiency in the Lower Middle Market¹



¹ Source: Dun & Bradstreet, Industry estimates.

² U.S. Companies with greater than \$100 million in revenues.

³ U.S. Companies with \$10 to \$100 million in revenues



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Market Observation:

**“If everyone’s think’ the same,
nobody’s thinkin’!”**

~General George Patton



“Hands-On Investing”

Private Wealth Magazine May/June 2013

- Direct Investing
- Angel Investing
- **Relatively small amounts of capital**

“...direct investing can be a fascinating and profitable component of a family’s overall investment portfolio.”



Direct Investing GOALS

- Deliver Positive Returns
- Reduce/Control Fees and Expenses
- Provide Low Correlation (beta) to Traditional Market Indices
- Provide Access to Family Expertise or Interest



“Hands-On Investing”

Private Wealth Magazine May/June 2013

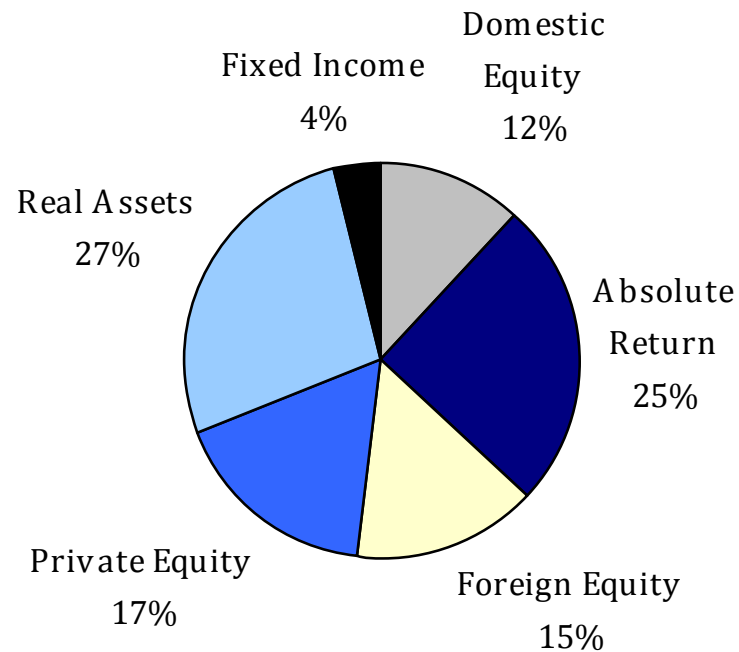
- Wharton Global Family Alliance study
- **Allocations to private companies & real estate increase**
- 2009 Average of 6% of portfolio value
- 2012 Average of 11%



Yale University Endowment

- Yale Endowment allocation in Private Equity as a distinct asset class in 2006, was 17%
- Fixed Income only 4%; US Equity only 15%; Absolute Return 25%
- **By 2012 Private Equity allocation increased to 35%**

Yale Endowment Asset Allocation Targets



Source: Bloomberg; 2006 Yale Endowment, Annual Report

“Hands-On Investing”

Private Wealth Magazine May/June 2013

Regulation: Registration Exemption

- 2011 SEC
- Preserved the family exemption
- Retain their shield of privacy



Convertible Promissory Note

- **Review By Attorney(s)**

“I understand the Note perfectly. It’s very similar to a number of deals we have done.”

“It has the elements we would prefer.”

A. Edward McGinty

Attorney at Law

Shumaker, Loop & Kendrick LLP



Convertible Promissory Note

Basic Elements

- 8% Interest
- May Convert to Common Shares
- 15% bonus using Warrants
- 10x Preferred Return



Convertible Promissory Note Interactive Spreadsheet

ABC CORPORATION INVESTMENT CALCULATOR

- Cash Investment
- Net Total Revenue
- Enterprise Value (EV) Factor
- Years to Liquidity
- Total Investment Value
- Preferred Return

