



# Private Equity Review

## Investment Advisory Committee

February 16, 2011

# Agenda

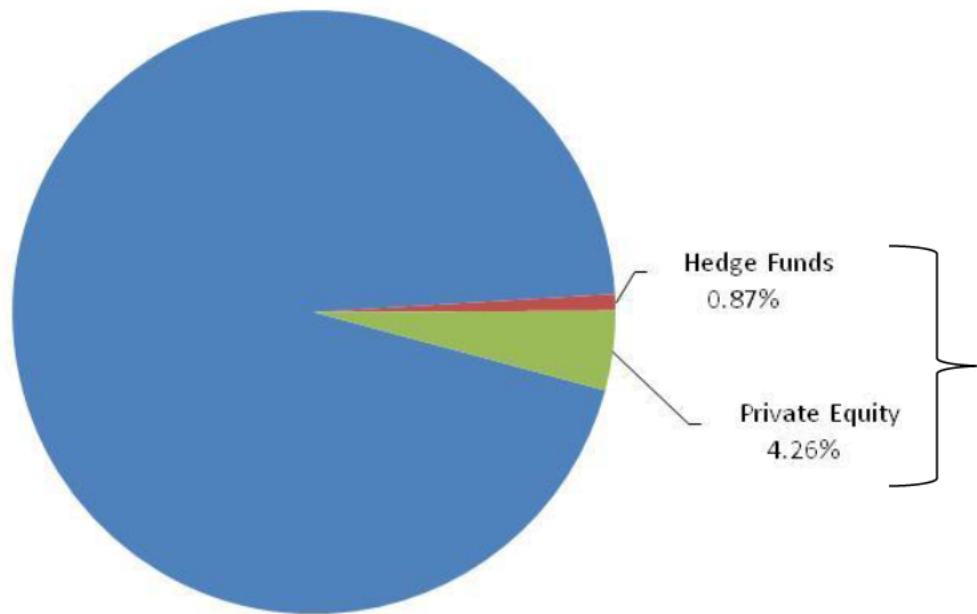
- Current Portfolio / Allocation
- Secondary Undertaking
- Cash Flow / Performance
- Current Environment / Potential Future Opportunities

# Current Portfolio / Allocation

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# Current Portfolio / Allocation

**NCRS Asset Allocation**  
based on 12/31/2010 market value



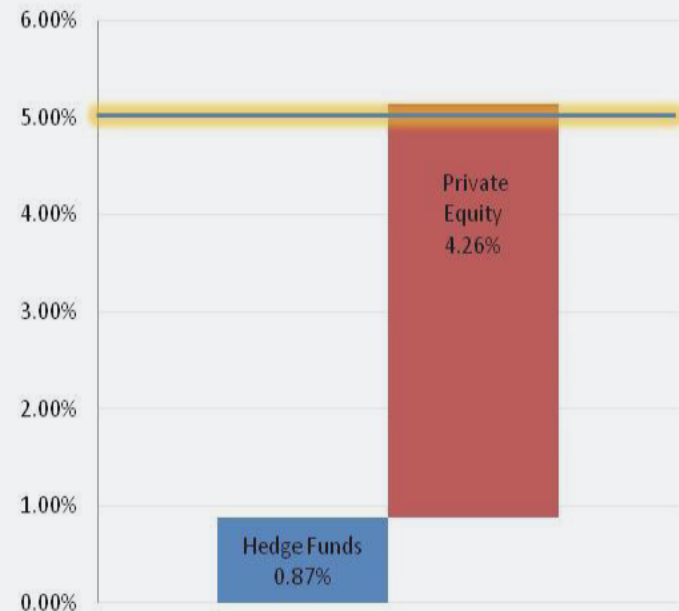
## Private Equity

Market Value = \$3.05 billion

Unfunded = \$2.45 billion

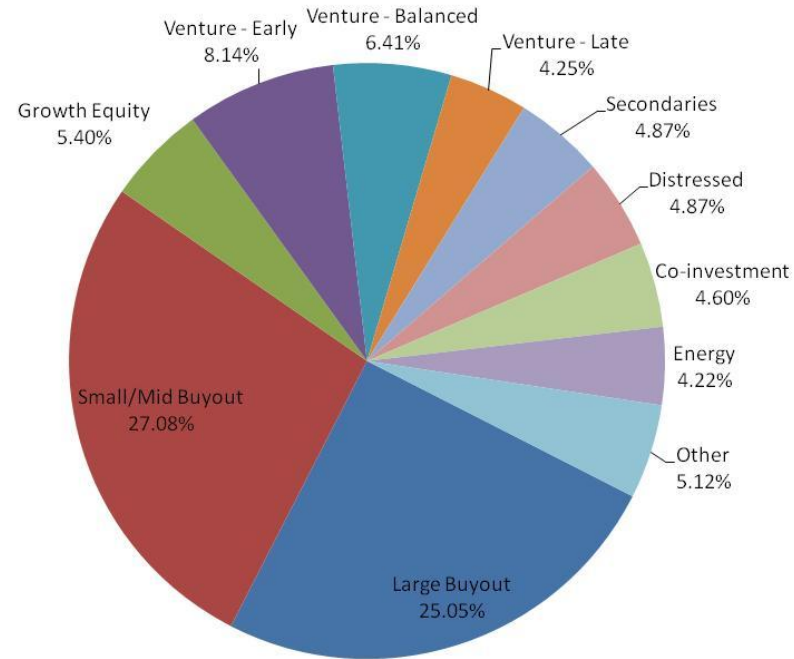
*as of 12/31/2010*

Alternatives represents 5.13% of the NCRS portfolio – exceeding its 5.0% Legislative Cap.\*



*\*as of 12/31/2010*

**Strategy Allocation**  
based on commitment amount\*

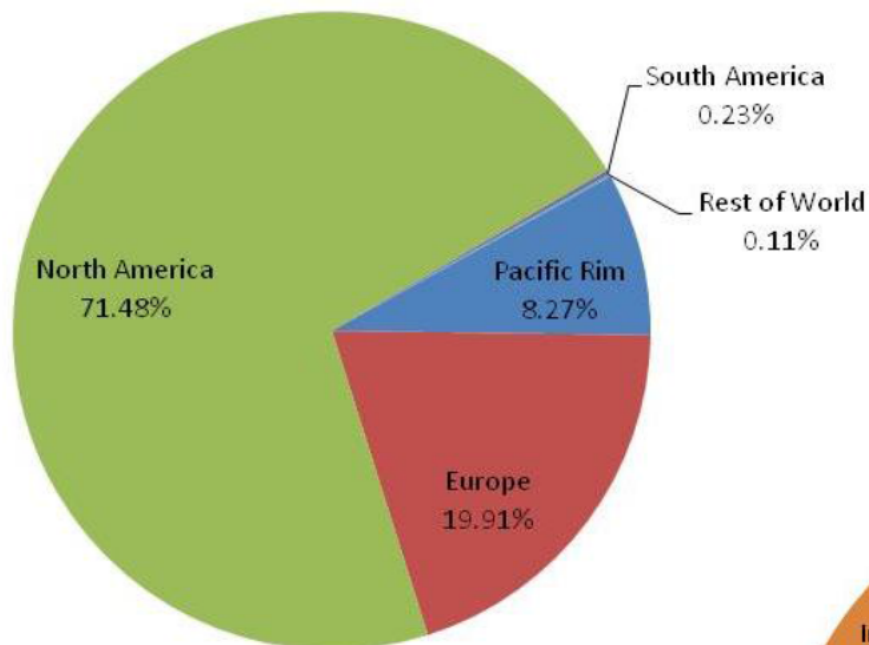


**Policy Targets relative to Actual Portfolio weights**

Strategy	Policy Range			Actual
	MIN	TARGET	MAX	Commitment Amount
Buyouts	40.0%	50.0%	60.0%	52.1%
Growth Equity	5.0%	10.0%	15.0%	5.4%
Venture	10.0%	20.0%	25.0%	18.8%
Special Situations	5.0%	20.0%	35.0%	23.7%

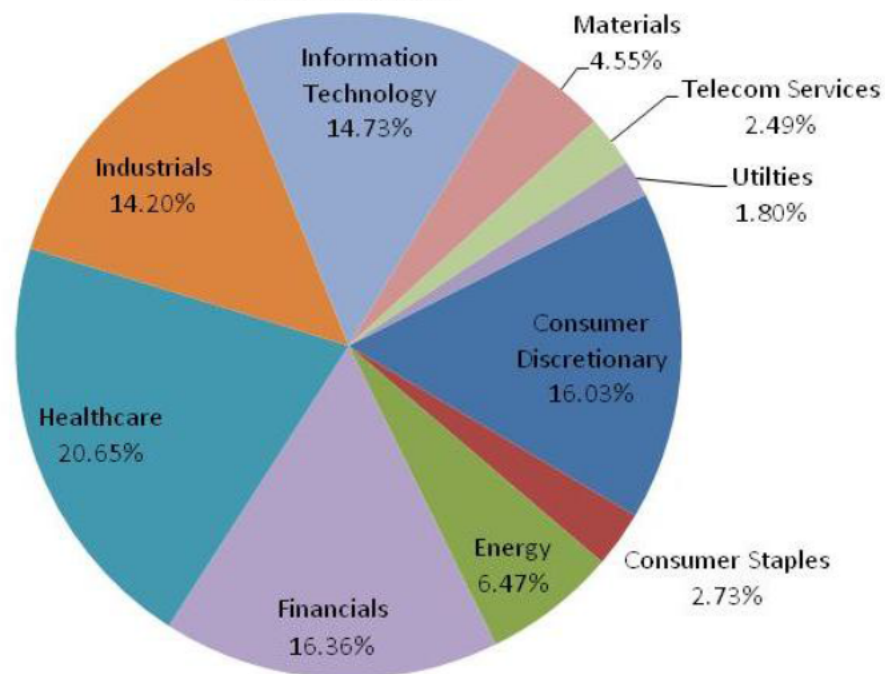
## Geographic Allocation

based on valuation\*



## Industry Allocation

based on valuation\*



# Secondary Undertaking

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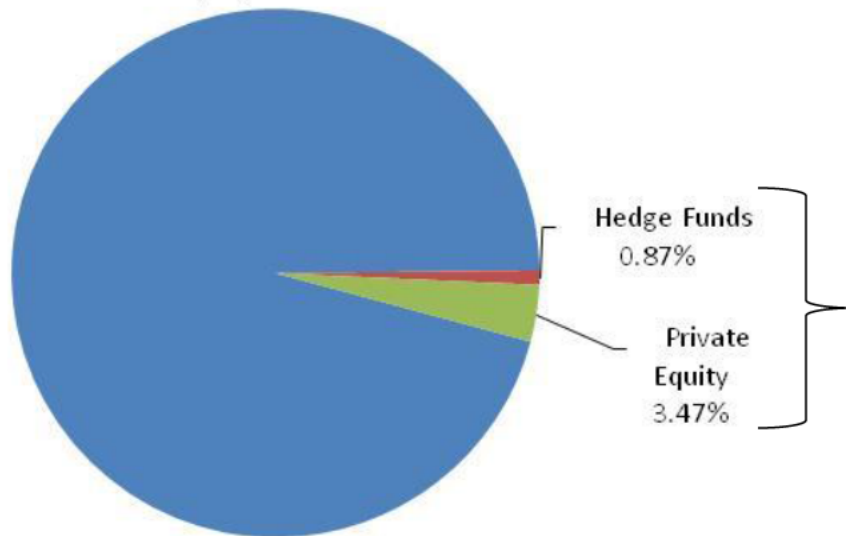
# Secondary Action

- **Engaged Secondary Consultant**
- **Identified 7 Funds / 3 Relationships of interest from Secondary Buyers**
  - Total Commitments = \$850 MM
- **As of December 31, 2010**
  - Market Value = \$575 MM
  - Unfunded = \$225 MM
- **Portfolio Impact if Exited**
  - Market Value = 0.79%
  - Unfunded = 0.31%

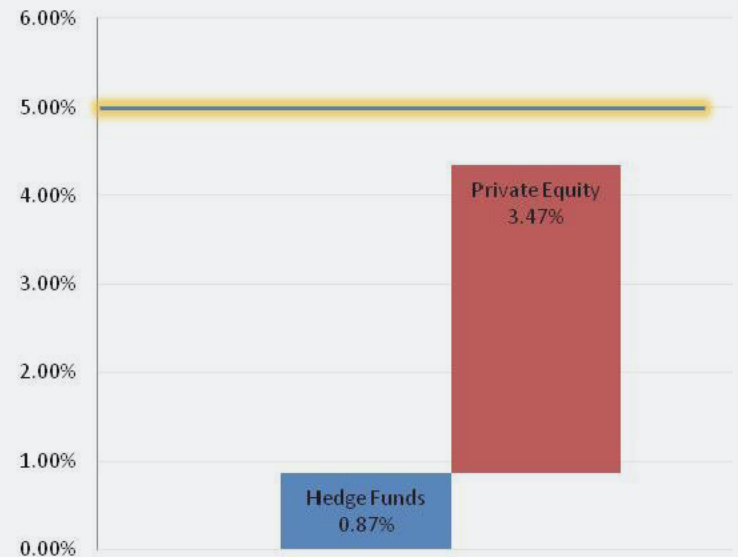


## NCRS Asset Allocation, Post-Secondaries

based on 12/31/2010 market value



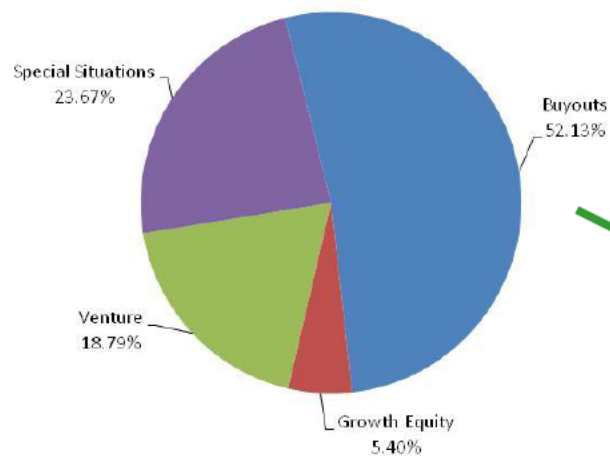
Post-Secondaries, Alternatives would represent 4.34% of the NCRS portfolio – within its 5.0% Legislative Cap.\*



*\*If as of 12/31/2010*

## NCRS Private Equity Portfolio

based on commitment

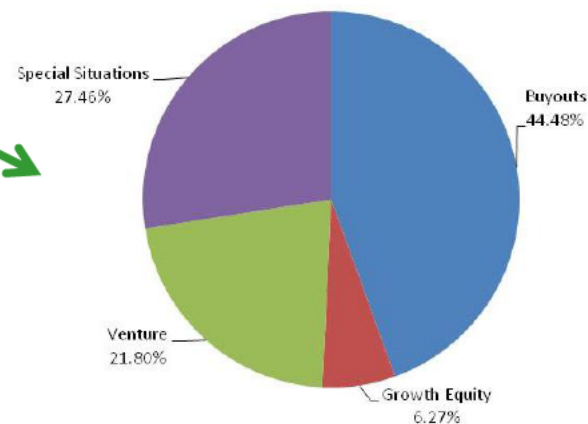


Execute  
Secondary  
Sales

## NCRS Private Equity Portfolio

*post-Secondaries*

based on commitment

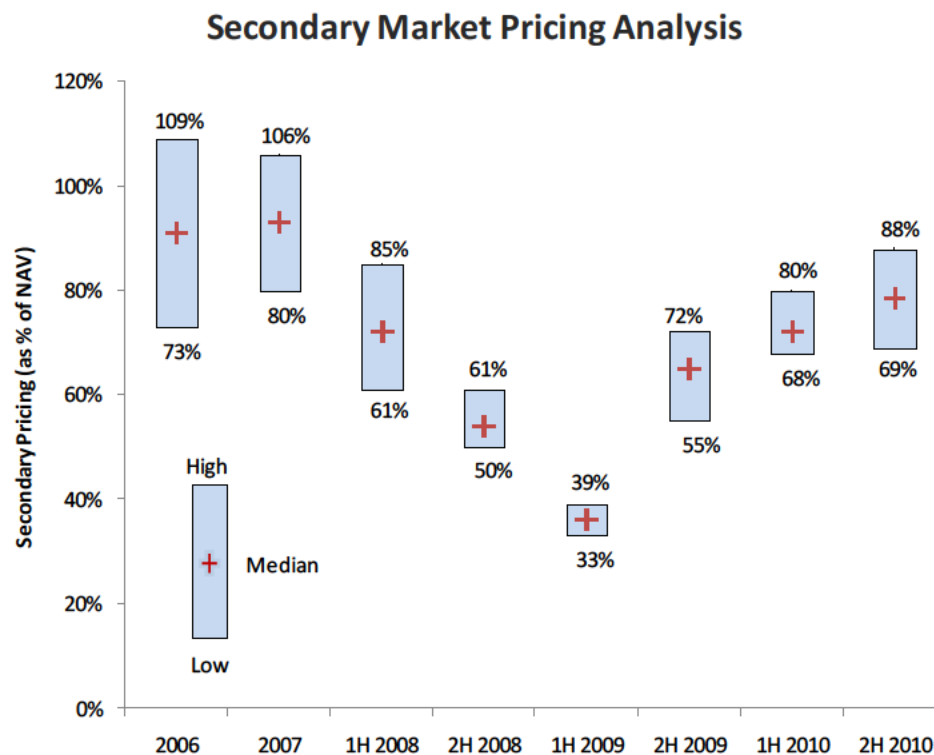


### Policy Targets relative to Actual Portfolio weights

Strategy	Policy Range			Actual	Post-Secondary
	MIN	TARGET	MAX		
Buyouts	40.0%	50.0%	60.0%	52.1%	44.5%
Growth Equity	5.0%	10.0%	15.0%	5.4%	6.3%
Venture	10.0%	20.0%	25.0%	18.8%	21.8%
Special Situations	5.0%	20.0%	35.0%	23.7%	27.5%

# Secondary Market | *Current Market Pricing*

- Market pricing has improved due to:
  - Equity market stabilization
  - Falling risk premiums
  - Structural techniques
- Portfolio pricing of 80% – 90% of NAV for quality, mature assets is achievable

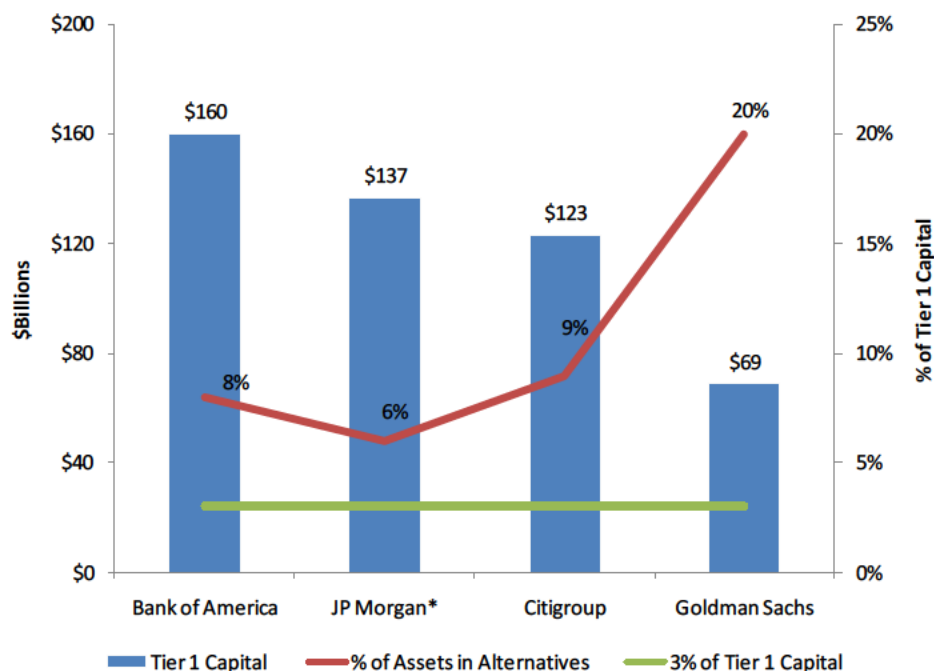


Source: Landmark Partners, Cogent Partners, UBS

# Secondary Market | Volcker Rule

The impact of legislation could be a major driver of future secondary deal volume as financial institutions are required to reduce their exposure to the asset class

**Sample Bank Holding Company Assets Exposure to Alternatives**  
(Hedge Funds, Private Equity, and Real Estate)



Source: Regulatory Filings, Freeman & Co. Analysis \* JP Morgan data excludes hedge funds and real estate

## Volcker Rule

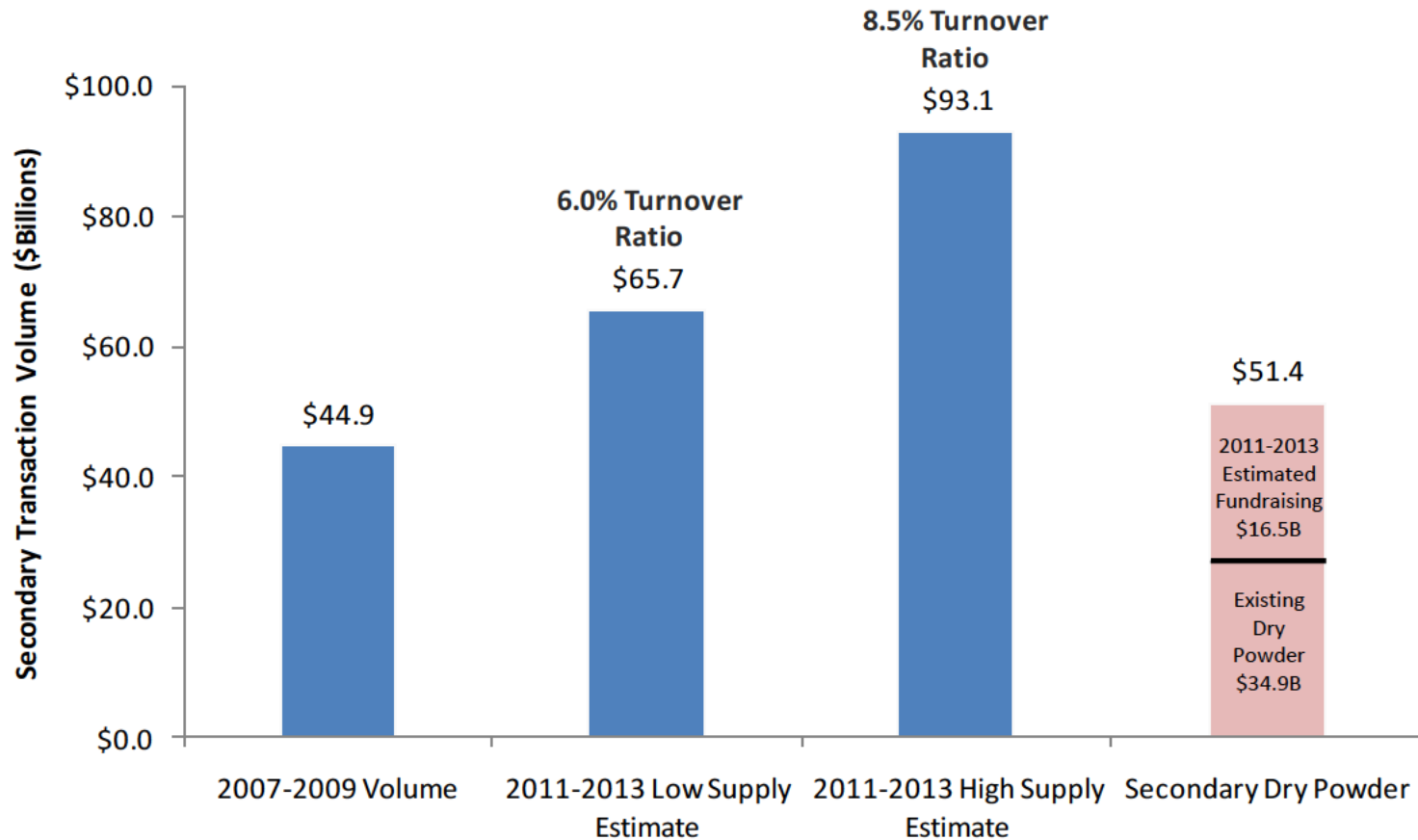
### *Interpretation and Impact*

- Limits investments in alternative investments to 3% of Tier 1 capital
- Limits ownership in any specific fund to a maximum of 3% of total fund size
- Timing, final language and implementation are still uncertain, thereby allowing the banks to take a “wait and see” approach

**These four institutions currently exceed regulatory requirements by \$30 Billion in alternative assets**

# Secondary Market | Volume Forecasts

Depending on turnover rates, deal volume could range from \$65-95 billion between 2011–2013, well in excess of current and expected demand from dedicated buyers

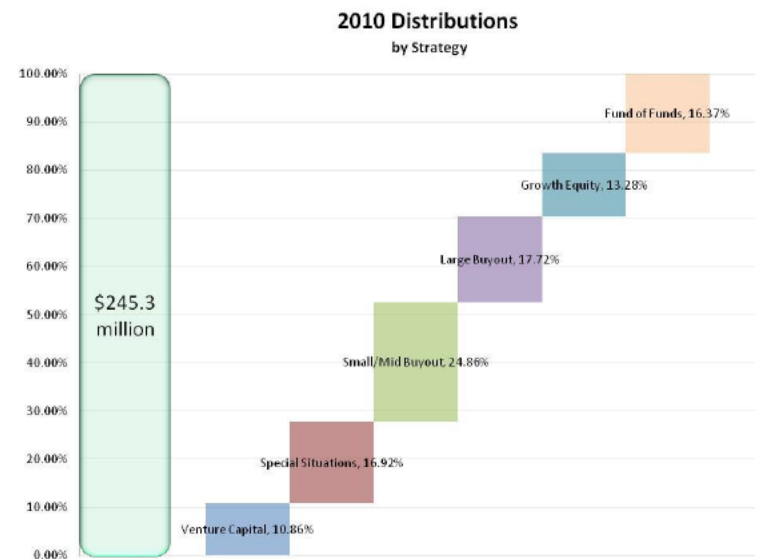
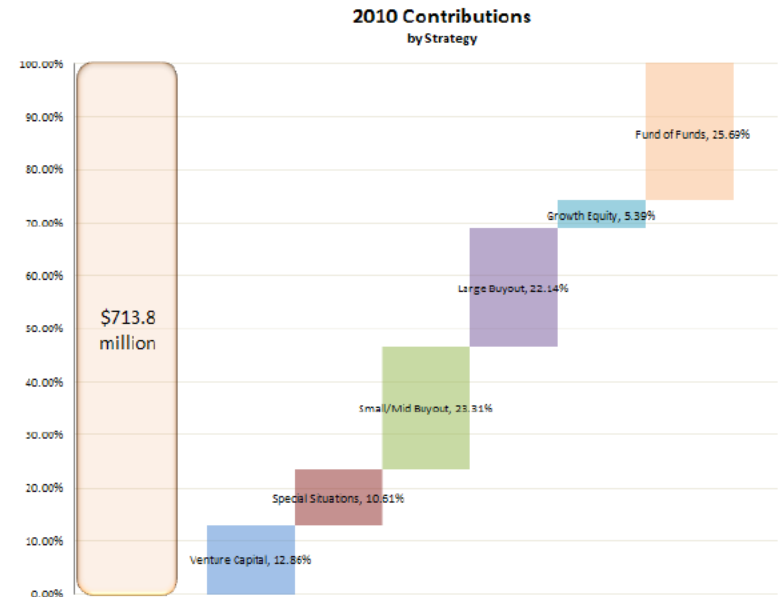
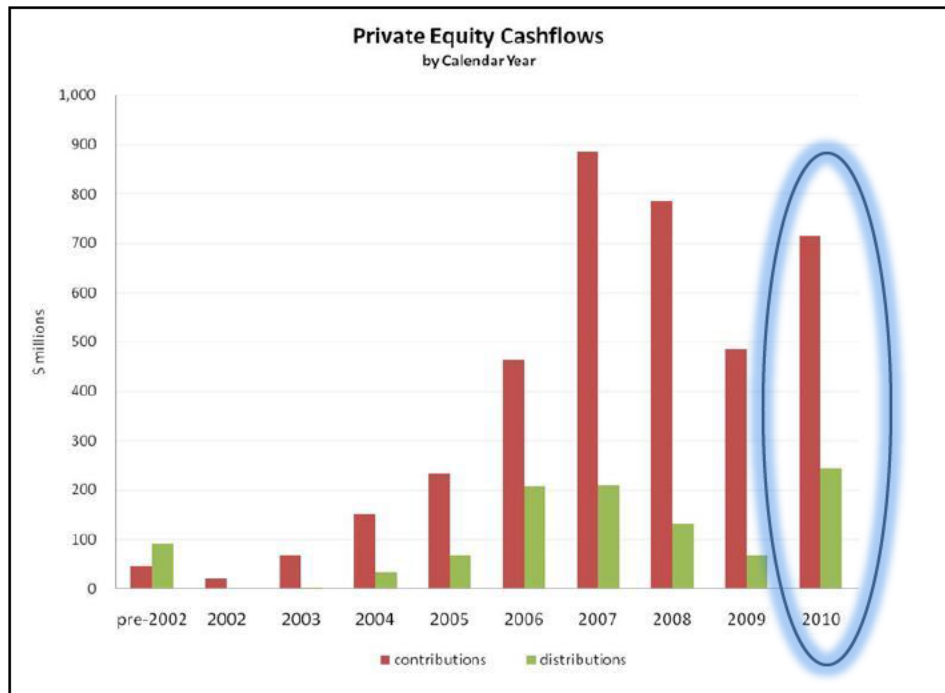


Source: Preqin, Venture Economics, Landmark Partners

# Cash Flow / Performance

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# 2010 Cashflow Detail



# Exit Environment

## IPO Market \*

	Transactions		
	2008	2009	2010
Global	110	131	279
U.S.	31	63	154
<i>U.S. Filings</i>	<i>107</i>	<i>119</i>	<i>255</i>

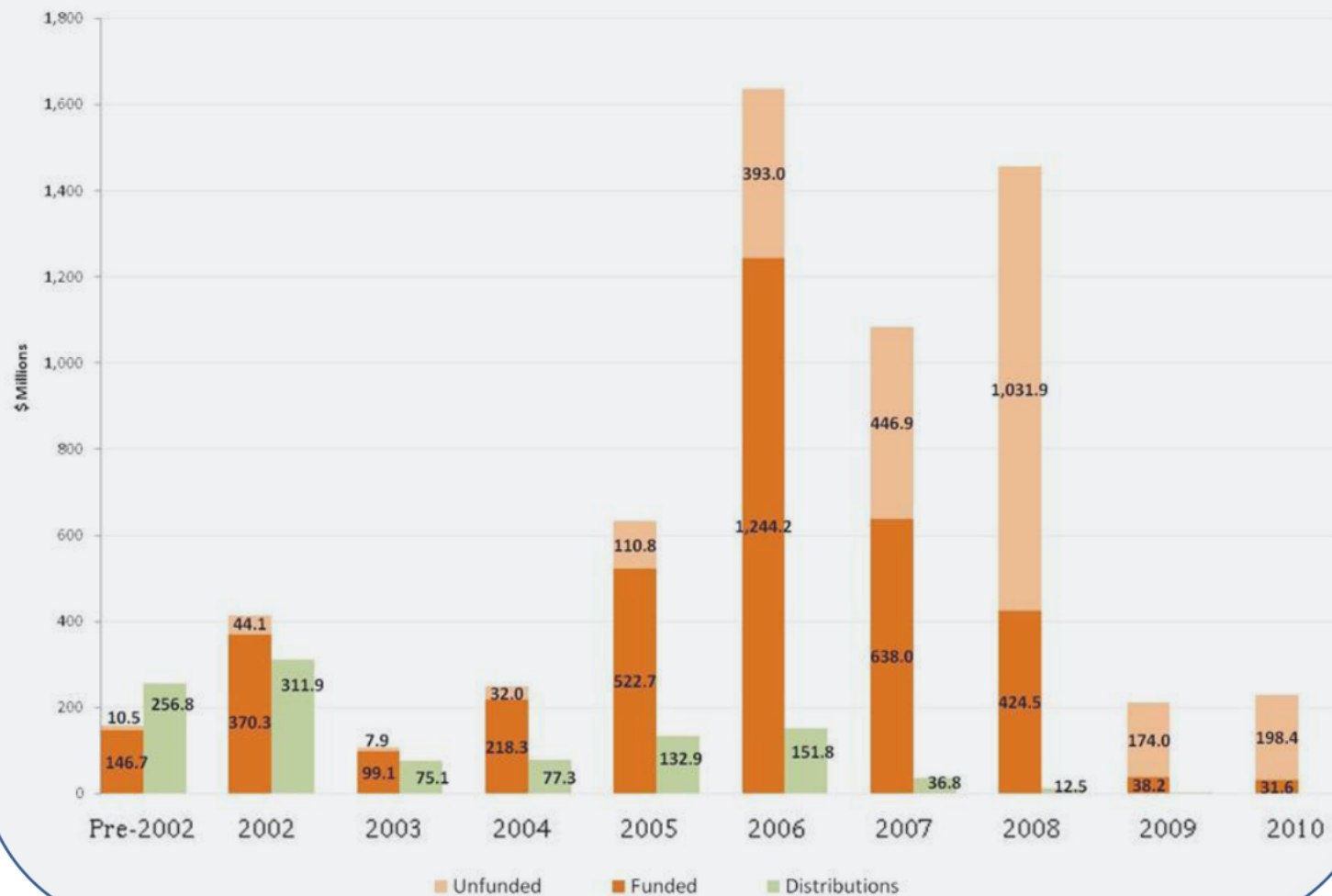
- Nearly 26% of \$38 billion in 2010 U.S. IPOs were proceeds to Private Equity sponsors

\*Source: Renaissance Capital



## Private Equity Commitments and Distributions

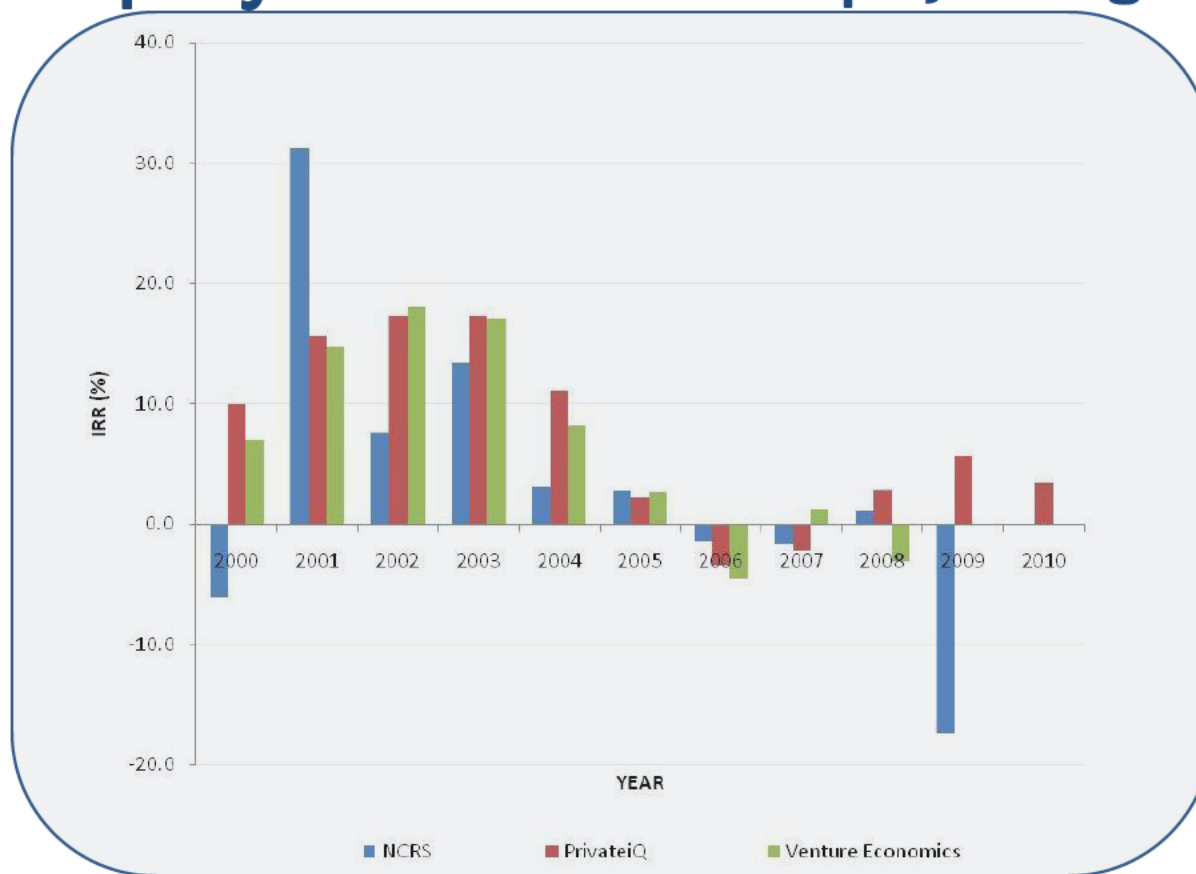
by Vintage Year



IRR by Vintage Year*											
	<u>Pre-2002</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
NCRS	15.62	7.66	13.43	3.15	2.78	-1.42	-1.60	1.11	-17.32	0.00	3.69
# of Funds	18	8	2	3	11	21	13	17	3	1	97

\*as of 9/30/2010

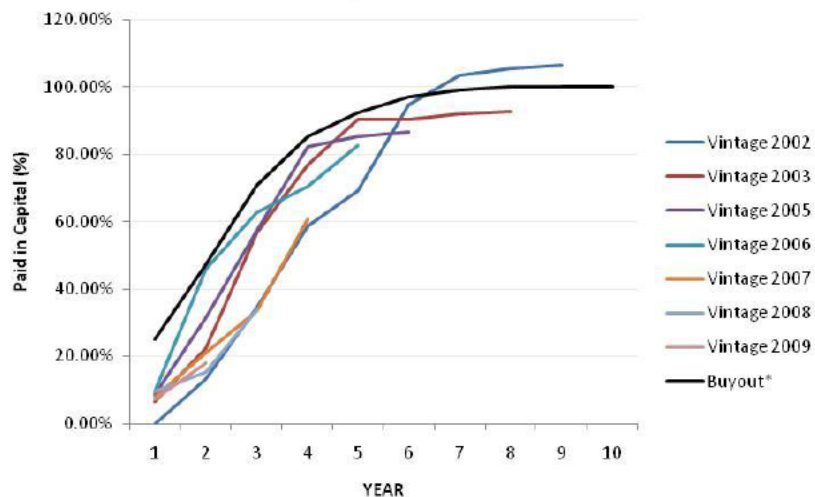
# Private Equity Performance | *By Vintage Year*



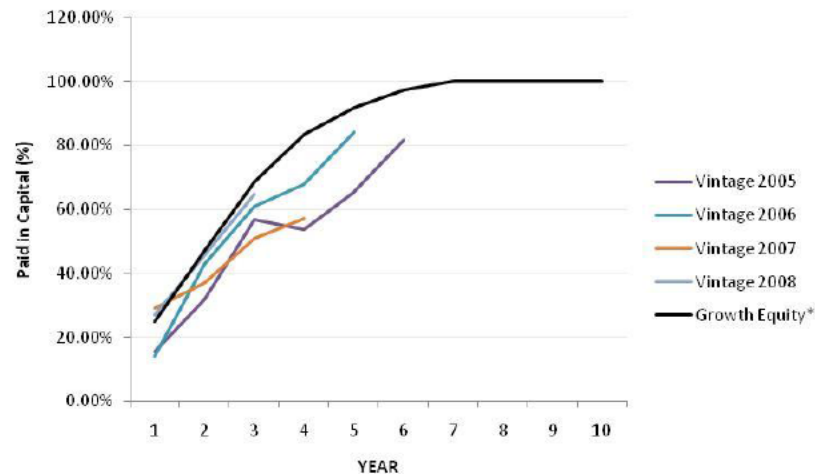
IRR by Vintage Year*											
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
NCRS	-6.03	31.19	7.66	13.43	3.15	2.78	-1.42	-1.60	1.11	-17.32	n/a
PrivateiQ	9.95	15.71	17.30	17.38	11.16	2.20	-3.37	-2.27	2.85	5.68	3.50
Venture Economics	6.96	14.79	18.06	16.99	8.26	2.69	-4.51	1.25	-3.05	0.01	n/a
NCRS Fund Data											
Committed (\$ millions)	22.00	87.50	414.34	107.00	250.28	633.54	1,637.24	1,084.99	1,456.43	212.18	230.00
# of Funds	2	4	8	2	3	11	21	13	17	3	1

# Paid-in Capital | *By Strategy*

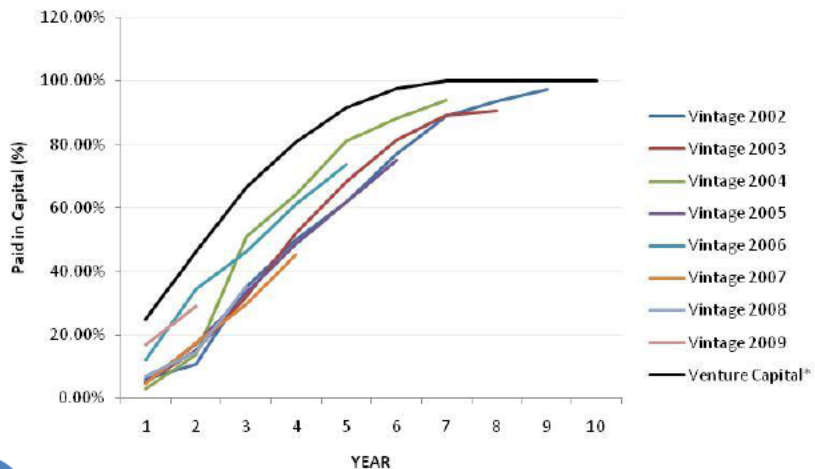
## Buyout Funds



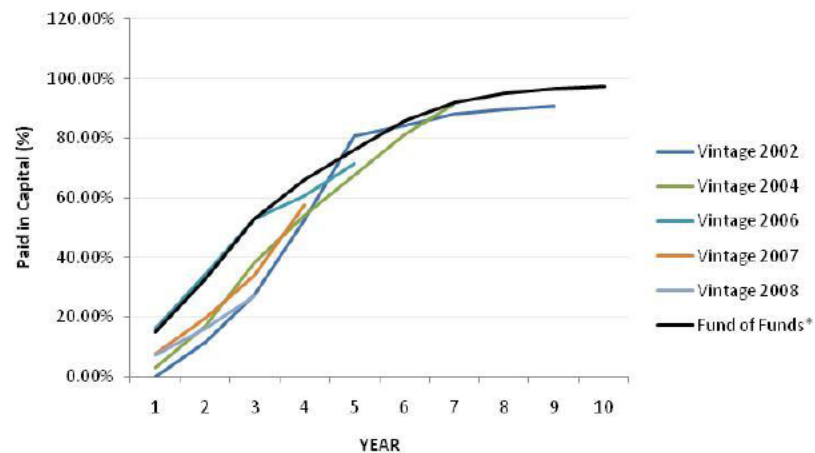
## Growth Equity Funds



## Venture Capital Funds



## Fund of Funds



# Current Environment / Potential Future Opportunities

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# Current Environment / Potential Future Opportunities

- **Financing for North American sponsor-backed LBO deals in 4Q10 = \$21.9 B**

Record = \$24.1 B in 2Q07

2010 total issuance = \$53 B, 4X the volume of 2009

*(According to Thomson Reuters)*

- **Cost of Capital**

LIBOR + 350-500 bps

LIBOR floor 1.25%-1.50%

- **EBITDA Multiple**

Senior: 2.75 – 3X

Mezzanine: 1 – 2X

Total: 4 - 5X

- **High yield markets are active**

Appetite - Investors are chasing yield

- **Financing very dependent on the quality of the deal**

Still an uphill battle for good companies

Larger deals are able to secure financing more easily

- Perception that large companies are higher quality / less risky
- Smaller transactions require more time and effort to properly diligence
- Time efficiency - large lenders would have to do many more transactions

# Current Environment / Potential Future Opportunities

**“Not Covenant Light, but Covenant Gentle.”**

**Opportunity for New Sources of Capital: Filling a need in the lower end of the market.**

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- **Amalgamated Capital founded Amalgamated Bank in September 2009**
  - Target LBOs in the lower middle market
  - Enterprise value less than \$100 MM, Revenue of \$15-\$100 MM, EBITDA \$3-\$15 MM
- **Fifth Third Sponsor Leveraged Finance - an arm of Fifth Third Bancorp that launched in October 2009**
  - Helped finance a dozen debt deals last year, expanding into bigger deals
  - Companies with \$10 MM - \$75 MM EBITDA  
(Fifth Third's existing business had focused on companies with \$4 - \$10 MM EBITDA)
- **NXT Capital - a mid-market commercial finance co. based in Chicago that launched in May 2010**
  - Capacity to finance \$1 billion in corporate finance and real estate deals
  - Companies with \$5 MM - \$50 MM EBITDA

# Current Environment / Potential Future Opportunities

## 1. Secondary Market

Forced Supply (Volcker Rule) > Demand = Buyer's Market

## 2. Re-ups

Continue to Back Strongest Funds

## 3. Venture Capital

“Survival of the Fittest”

Fewer dollars implies only better deals supported

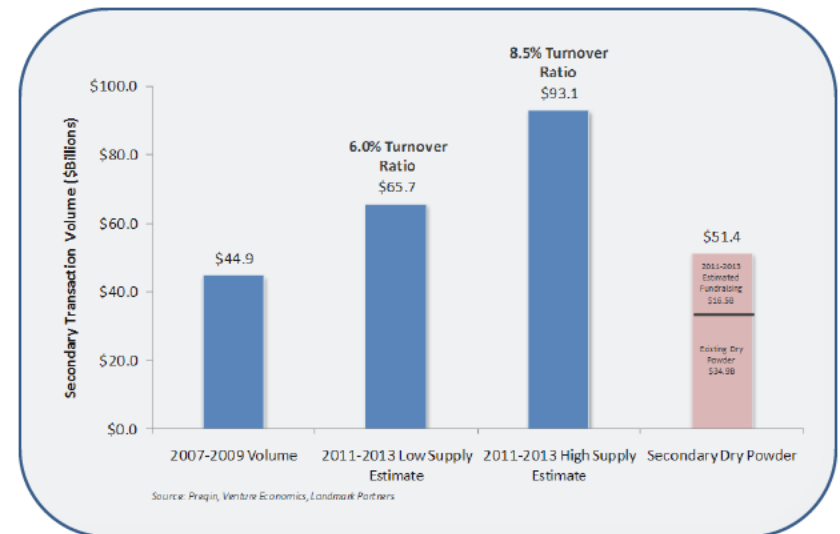
Less market competition for funded portfolio companies

## 4. Growth Equity

Positive attributes – 15% annual growth, little or no leverage, close or at cash flow positive, execution risk as opposed to technology or market risk

## 5. International Opportunities

Explore Geographic Diversification



Geographic Allocation  
based on valuation\*

