WURTS ASSOCIATES
INSTITUTIONAL INVESTMENT CONSULTANTS

MEMORANDUM

To: Board of Trustees, Fresno County Employees' Retirement Association

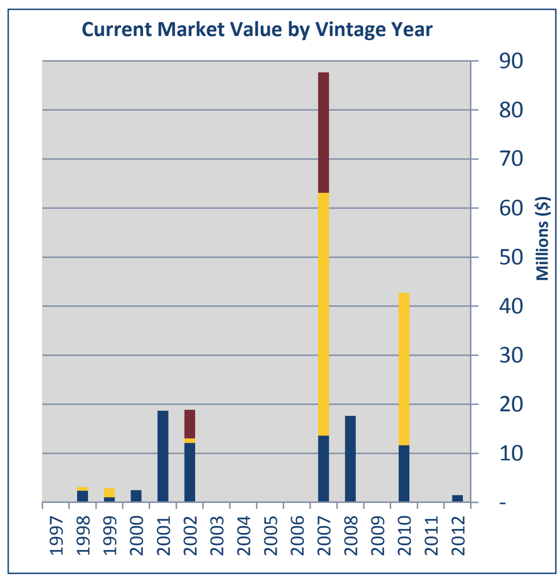
From: Jeffrey MacLean, CEO and Senior Consultant

Date: October 29, 2013

RE: Update on Private Equity Program

This memo serves to provide an informational update regarding FCERA's private equity investments. As of June 30, 2013, the market value of FCERA's private equity investments, as estimated by the underlying general partners was $195,639,450 or 5.6% of the total portfolio. The current allocation target is 7% (due to the unpredictable nature of cash flows, both on the distribution and call of capital, the variance with target is expected.)

Diversification:

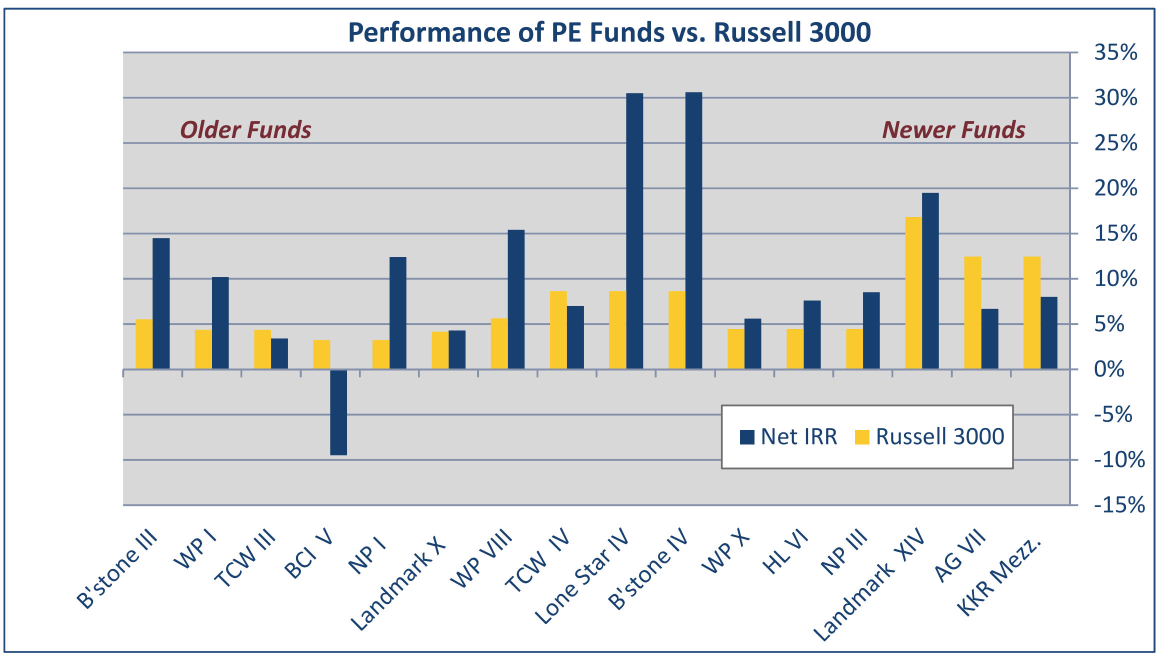


The portfolio is comprised of 17 different fund investments managed by 12 different Fund Managers. The Funds are diversified by vintage year, strategy, and geography. Including FCERA's exposure through Fund-of-Funds, FCERA has exposure to several thousand companies of ranging size, from very small venture-backed start-ups to multi-national corporations with household names. The industry types are equally broad; from power plants in Uganda, hotel chains in China, to medical device and financial services companies in the United States. The graph to the right illustrates the current market value by vintage year, however some investments represent fund of funds, where the underlying funds' vintage years can vary. For example, the 2007 investment includes Hamilton Lane VI, $49.6 million market value, with 29 underlying partnerships of varying vintage year. The market value graph above represents a snapshot in a point in time; older investments have distributed most of their capital back and have lower market values remaining, while the newer investments are in the value-creation phase or still calling capital (Colors represent more than one fund in a given year).

Performance:

Because of the lack of timely information, lack of pure benchmarks, and the idiosyncratic nature of each investment, evaluating the performance of private equity funds is inherently difficult. For purposes of performance reporting, Wurts reports the aggregate historical return in a time weighted method similar to traditional investments. The private equity investments as a whole returned 11.5% annualized net of fees for the ten years ending June 30, 2013. The asset class benchmark is the Russell 3000 plus 250 basis points, which has returned 10.5% over the same period. By this measure, the private equity program is performing quite well, outperforming the benchmark by about 1% per year.

More commonly, private equity funds are evaluated on a case by case basis using internal rate of return ("IRR"). This measure standardizes for the timing and magnitude of cash flows in order to determine the annualized effective compound return rate. The following graph illustrates the performance of each fund investment, on an IRR basis. Each Fund is not necessarily comparable against each other since certain funds began investing in recessionary environments, others expansionary. To provide a basis for comparison, we show each Fund's since inception IRR as of June 30, 2013, relative to the annualized return of the Russell 3000 from January 1st of the year immediately after the fund's vintage year (since most funds don't deploy capital immediately we think this is a reasonable assumption):



Of the 16 Funds that are mature enough to report an IRR, 15 have generated a positive return and 10 have outperformed public equities after consideration of fees; 6 have trailed the Russell 3000. Important to note, for relatively younger funds (Angelo Gordon VII and KKR Mezzanine Partners), they may still be in the "J-Curve", which is to say that much of the value-add has not been generated or realized yet and we expect performance to improve. Another important caveat is that newer funds must assign a value to the underlying portfolio investments; this can often be very subjective for illiquid holdings. Because of this, (and the fact that unrealized gains are captured within the IRR calculation) an IRR generally has more meaning towards the end of a Fund's life, when investments have been liquidated and the proceeds realized.

Conclusion:

Broadly speaking, we are pleased with the returns that have been achieved thus far, and continue to be mindful of niche opportunities that may be created by increased volatility and/or dislocations in the capital markets. FCERA does have some "dry powder" in that the newer funds are still drawing capital as new investment opportunities arise (primarily Oaktree Opportunities IX, KKR mezzanine partners, Landmark Equity XIV, and Hamilton Lane VI). Wurts & Associates will review additional commitments to private equity once the Asset Liability Study is concluded.

Appendix: Status Update By Fund

Vintage Year	Fund	Estimated Market Value as of 6/30/13	Total Commitment	Net IRR Since Inception (as of 6/30/13)	Comments
2012	Oaktree Opportunities Fund	$1,479,451	$15,000,000	n/a	The Fund has drawn 10% of committed capital spread across 5 investments. this capital has been deployed for "overflow opportunities" (investments for which Oaktree thinks the predecessor funds are at full exposure). The formal investment period has not began yet, as Oaktree is waiting for a more robust opportunity set relative to the Fund's size. Until the investment period begins, the Fund only charges on invested capital rather than committed capital. The two largest holdings are Countryside Properties, a U.K. homebuilder, and Texas Competitive Electric Holdings, a Texas-based electric company. These two investments represent 72% of the total cost basis of investments but less than 5% of the Fund's total capital commitments.
2010	KKR Mezzanine Partners	$11,650,296	$30,000,000	8.0%	The Fund focuses on mezzanine debt investments and has deployed roughly $655 million (61%), on pace given the Fund is ~60% through the investment period. The portfolio consists of 17 companies across 13 industries. As of June 2013, the Fund's investments have a weighted average cash coupon of 7.7% and a weighted average PIK coupon of 5.1%. To date, the Fund has a gross IRR of 16.3% and a net IRR of 8%. While KKR continues to see attractive opportunities in traditional mezzanine financing, they are becoming increasingly active in other types of investment that have a similar risk/return profile, such as refinancings, traded securities, and non-corporate debt. As the deleveraging cycle continues, KKR is focused on four main pillars; housing, autos, energy, and manufacturing.
2010	Angelo Gordon VII	$31,093,621	$30,000,000	6.7%	This is a roughly $1 billion Fund focused on distressed debt investments. The investment thesis was predicated on the expected massive deleveraging in the financial system with forced sellers and few buyers, creating opportunities in credit markets. The investment period ended in in the first quarter of 2013; since then aproximately 17% of capital has been returned to investors. The terms of the partnership dictate 4 more years classified as the liquidation period with the option to extend two additional one year periods.
2008	Landmark Equity XIV	$17,640,028	$30,000,000	19.5%	This is a ~$2 billion private equity fund of funds. The Fund was fully committed to the underlying funds as of July 2013. Investments consist of 34 secondary transactions constituting 251 partnership interests managed by 134 sponsors with an average age of 6.7 years at time of purchase. The underlying funds provide indirect exposure to over 2,500 underlying companies, diversified by vintage year, geography, industry, and strategy. The largest allocations are to the 2006 vintage year (30%), Non-U.S. investments (33%), consumer products companies (23%) and large leverage buy-out strategies (42%). 34% of contributed capital has been distributed back to investors. The portfolio is exceeding early expectations of Landmark, all major deals are performing above or at expectation, and Landmark's current forecast is for the Fund to earn a net IRR in the 16-18% range, with a 1.5x multiple of invested capital.
2007	New Mountain Partners III	$13,636,152	$15,000,000	8.5%	The Fund raised $5.1 billion and began its investment period in August of 2007. The Fund invested in five companies between 2007 and 2009, and used no acquisition debt in four of the five. The Fund has distributed back 76% of the capital invested in these five companies, and retained the equity upside in four of the five, plus $100 million in publicly listed equity in the fifth. The Fund deployed the majority of its capital in 2010-2012 after the liquidity bubble. The gross IRR on the 2007-2009 transactions is about 10.6% while the investments in 2010-2012 are currently about 23.8% gross so far. As of June 30, 2013 the average age of the portfolio was only 2.5 years given most of the capital was deployed between 2010 - 2012. Because of the relatively young nature of the investments the valuations are heavily dependent on assumptions used, so the realized IRR will depend on future events and could fluctuate significantly.

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Vintage Year	Fund	Estimated Market Value as of 6/30/13	Total Commitment	Net IRR Since Inception (as of 6/30/13)	Comments
2007	Hamilton Lane PE Fund VI	$49,458,076	$70,000,000	7.6%	This is a private equity fund of fund strategy. The Fund is fully committed to 29 private equity partnerships totalling approximately $494 million, diversified across 24 different fund managers. The average age of commitments is 5.5 years. More than 93% of the Fund's underlying partnerships are generating positive performance as of June 30. The Fund is diversified by strategy, with the primary components being mid-buyout (25%), mega-buyout (20%), small-buyout (13%), Co-Investment (20%), secondary investment (10%), and venture capital (5%). The Fund has called 85% of committed capital. Hamilton Lane estimates that 4-5% will be called in 2014 and 1-2% in 2015, with 20-22% of commitments distributed in each year. The Fund is in the value creation stage, with the intial close scheduled for 2020. Hamilton Lane may then exercise two one year extensions, after which two additional one year extensions can be exercised with LP majority interest.
2007	Warburg Pincus PE X	$24,553,903	$25,000,000	5.6%	The Fund raised $15.1 billion. Similar to other funds, the timeline is a 12 year life with 2 one year extensions. The Fund is 100% called. The portfolio included 101 portfolio companies, of which 78 remain This fund is still very young, the average life of the investments is 2.9 . years. As of September 30, 2013, the Fund was valued at 1.3x invested capital. The investment team is confident in the current positioning. While still very early, the current estimate is a 13-14% net IRR, with a 2x multiple of invested capital.
2002	Blackstone IV	$12,102,625	$20,000,000	30.6%	The Fund raised $7.8 billion and invested the capital across 28 portfolio companies, and has realized $16.5 billion in proceeds since inception, with an additional $4.4 billion in unrealized value. As of September 30th, 2013, the net IRR was 37%. The Fund still holds 4-5 sizable investments, one of which is a company that owns theme parks, another investment is a power plant construction company that owns a powerplant in Uganda and the Philippines, another is a public oil and gas company. Blackstone expects to liquidate these investments in the next 2-3 years.
2002	Lone Star IV	$961,522	$20,000,000	30.5%	The Fund raised $4.2 billion. Using leverage, the total acquisition price of the portfolio was $13.08 billion. The portfolio consisted of 65 investments diversified globally but with more than 80% of investments domiciled in Japan and Korea. Since inception the Fund has returned 223% of capital net of fees. The remaining portfolio consists primarily of two investments. The first investment is a portfolio of non-performing loans secured by a 51,000 square foot office building (Arco Tower) in central Tokyo, the second investment is a Japanese company that owns or leases 24 hotels. Lone Star is projecting both investments will be disposed of by December 31, 2014.
2002	TCW Shop IV	$5,830,386	$15,000,000	7.0%	The Fund has generated a net multiple of invested capital of 1.3x. The Fund is in advanced harvest mode and the portfolio consists of $86 million in remaining value across 7 companies; all securities are illiquid. The Fund Manager anticipates approximately $31 million will be liquidated by January of 2014, with the remainder of the portfolio liquidated in 2014.
2001	Warburg Pincus PE VIII	$18,701,655	$25,000,000	15.4%	The Fund raised $5.3 billion. The Fund's 12 year life ends in early 2014, at which point their are 2 one year extensions; Warburg Pincus has the sole discretion to exercise the extensions and expects both will be necessary, after which a liquidation trust will likely be set up. Warburg is actively looking to exit remaining investments. The Fund held a total of 82 portfolio investments, as of June 30, 2013, 15 remain. The Fund expects 10-15% of the total commitment distributed in the second half of 2013, 25-30% distributed in 2014, and maybe another 10-15% in 2015.

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Vintage Year	Fund	Estimated Market Value as of 6/30/13	Total Commitment	Net IRR Since Inception (as of 6/30/13)	Comments
2000	Landmark Equity X	$2,465,200	$20,000,000	4.3%	This is a private equity fund of fund strategy. The Fund started investing in 2000 and was fully invested in early 2004. The underlying investments comprised 54 transactions totalling 174 partnership interests managed by 113 different sponsors, with exposure to over 2,000 portfolio companies. There have been 1,658 liquidity events since inception, including 86 IPOs.The residual value is comprised of quite a few small investments rather than a few large ones, making a timely liquidation unlikely. Landmark explained the number of residual investments left is more than they would like or expect at this point, this may be attributable to the underlying assets experiencing two major recessions. In most cases, the underlying General Partners are requesting extensions, and Landmark is usually pressing for liquidity where possible, waived fees, and in some cases, in-kind liquidations. For example, Landmark Equity Partners X holds a limited partnership interest in BCI Growth V (below). The Fund was scheduled to be wound down by February of 2014, but Landmark will approach limited partners to request the first of two permissable one year extensions. Fees are currently 1% on invested capital.
1999	New Mountain Partners	$1,862,865	$20,000,000	12.4%	The Fund raised $770 million. The investing period ended in 2004. The Fund held 5 portfolio companies; Strayer Educational was sold in 2005 producing a 79% IRR. Sturgis, Inc. was sold in 2006 for a 20% gross IRR. National Medical Health Card Systems, Inc. was sold for 7.3% IRR. The Fund sold a majority of its interests in Apptis, Inc./Iron Bow, LLC for a gross IRR of 10.2%, and still holds 21% of the common equity ownership as well as $9 million in preferred stock. The last portfolio investment, Overland Solutions, Inc. specializes in workers compensation audits, and was materially hurt by AIG, which was Overland's primary client. The current value is .6x initial cost. The Fund has generated a 1.9x gross multiple (1.5x net). The management fee has not been charged since 2011 and New Mountain continues to seek exit opportunities in order to wind down the Fund.
1999	BCI Growth V	$1,030,605	$20,000,000	-9.5%	The Fund is focused on liquidating all remaining investments. All prior attempts to liquidate remaining investments have not worked. As a result, BCI has again sought for management to consider repurchasing the Fund's remaining positions. During the third quarter of 2013, BCI wrote down all remaining investments by 50% to reflect that an orderly liquidation may not be available. As a result of the write-down, the value of FCERA's interest in the Fund was $521,811 as of September 30th. BCI intends to recommend that the limited partners wind down the fund and distribute the remaining securites; if the limited partner committee elects to continue the fund, BCI will agree to waive the current $100,000 in partner compensation.
1998	TCW Shop III	$2,408,767	$15,000,000	3.4%	The Fund has generated a net multiple of invested capital of 1.2x. The Fund is in advanced harvest mode and the portfolio consists of approximately $12 million of remaining value across 4 companies. The Fund Manager anticipates that one $4-5 million portfolio company will be sold by January 2014, with the last three positions monetized in 2014, possibly 2015.
1998	Warburg Pincus Equity Partners	$733,690	$20,000,000	10.2%	The Fund is in wind-down mode and is set up as a liquidation trust. There are two investments remaining; GT Nexus, Inc. and Competitive Power Ventures LLC. The Fund has a cost basis in GT Nexus of $120 million and a carrying value of $175 million. Warburg Pincus owns 42.3% of the company on a fully diluted basis. Competitive Power Ventures has a cost basis of $30 million and a carrying value of $12 million, constituting 4.9% ownership. No distributions are expected for at least another year. The Fund has been classified as a liquidating trust since June of 2012. FCERA is no longer paying fees for this investment. The Fund has generated a 1.6x multiple of invested capital.
1997	Blackstone III	$608	$15,000,000	14.5%	The Fund is in final wind-down. All investments are liquidated and there is a minimal amount of cash left to distribute once the final audit is complete.