WURTS ASSOCIATES

INSTITUTIONAL INVESTMENT CONSULTANTS

MEMORANDUM

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

From: Jeffrey MacLean, CEO and Senior Consultant

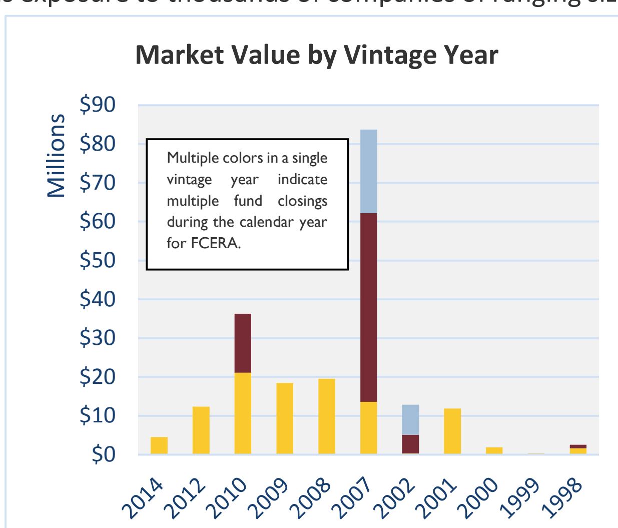
Date: March 19, 2015

RE: Update on Private Equity and Private Credit Programs

This memo serves to provide an informational update regarding FCERA's private equity and private credit investments. As of December 31, 2014, the market value of FCERA's private equity and credit investments, as estimated by the underlying general partners was approximately $126 million in private equity (3.2% of the total portfolio) and $78.5 million in private credit (2.0% of the total portfolio). The current allocation target is 6% for private equity and 8% for private credit; given the underweight to the policy in both asset classes, Wurts & Associates has recommended an increased commitment pace for Private Credit (see "Private Credit" presentation dated October 2014), recommended and assisted in closing two private credit commitments totaling $60 million in March of 2015 (GSO and CarVal), and will be presenting future private credit and private equity opportunities to the Board as they become available.

<u>Diversification:</u>

The portfolio is comprised of 17 different fund investments managed by 11 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 thousands of companies of ranging size, from very small venture-backed start-ups to multi-national corporations with household names. The graphs below illustrate 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, $48.6 million market value, with 29 underlying partnerships of varying vintage year. The market value graph represents a snapshot in a point in time; older investments have

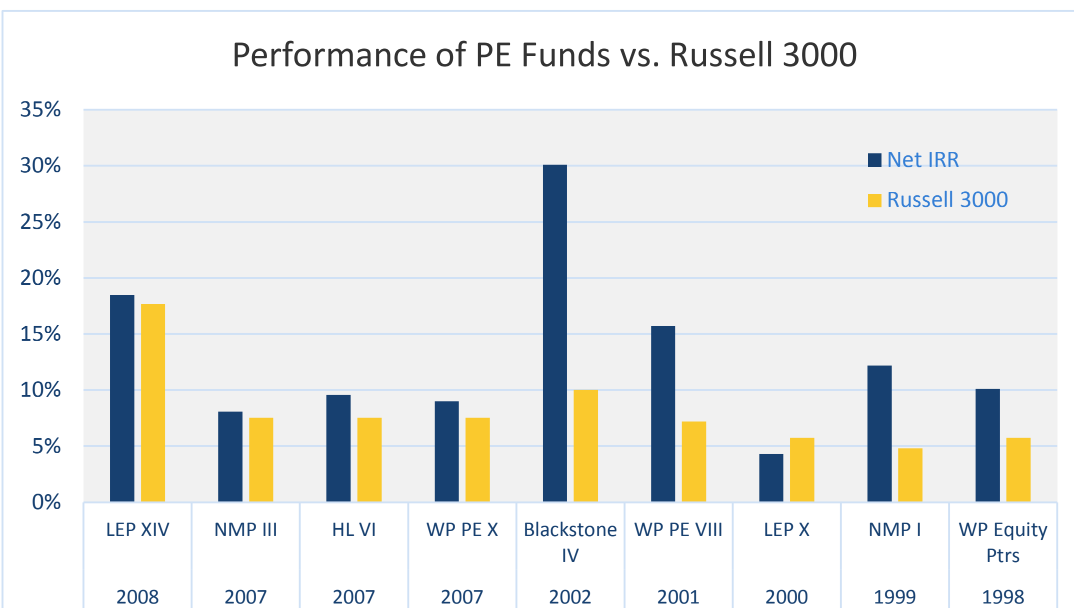


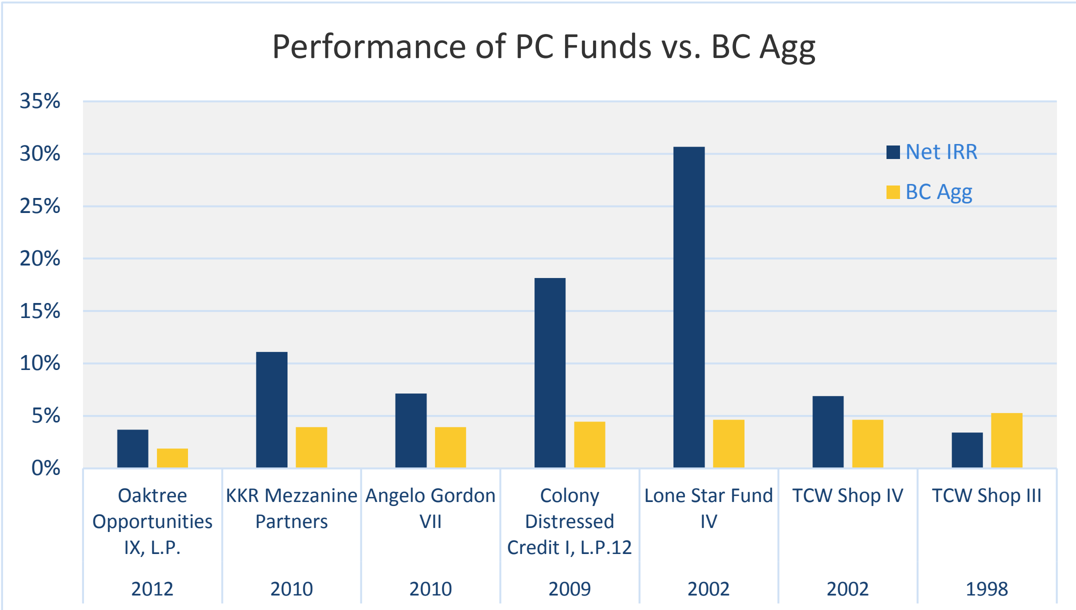
distributed most of their capital back and have lower market values remaining, while the newer investments are in the value-creation phase or still calling capital.

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 and private credit funds is inherently difficult. For purposes of performance reporting, Wurts reports the aggregate historical return in a time weighted method similar to traditional investments. These illiquid investments as a whole returned 11.5% annualized net of fees for the ten years ending December 31, 2014. The asset class benchmark is the Russell 3000 plus 250 basis points, which has returned 10.6% over the same period. By this measure, the private equity/credit program is performing quite well, outperforming the benchmark by about 1% per year.

More commonly, private 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 December 31, 2014, relative to the annualized return of the Russell 3000 or the BC Aggregate 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, all 16 have generated a positive return and 14 have outperformed their respective index after consideration of fees. It is important to note that relatively younger funds (i.e. Colony Capital, Oaktree) 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.

Although the Association is underweight to both private equity and private credit funds, the remaining allocations to these asset classes are in low-cost index funds to either the S&P 500 Index or the BC Aggregate Index as temporary placeholders until commitments are called by current or future illiquid investments.

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 maintains significant "dry powder" managed in either equity or fixed income index funds, waiting for deployment to new or existing commitments. Wurts & Associates will continue to monitor and provide the Board with updates and opportunities as necessary.

Appendix: Non-Marketable Securities Overview

Private Equity Investments

(as of 12/31/14 or most recent available)

Vintage Year	Fund	Estimated MV as of 12/31/14	Total Commitment	Net IRR Since Inception	Comments
2008	Landmark Equity XIV, L.P.	$19,549,193	$30,000,000	18.5%	LEP XIV is a $2.0B fund-of-funds formed to acquire private equity partnerships interests and direct investments primarily through secondary market transactions. The four year investment period ended on February 1, 2014 with the fund completing 36 secondary transactions comprised of 3,218 underlying company investments diversified by vintage year, geography, industry and strategy. The largest allocations are to the 2007 vintage year (31%), non-US investments (26%) and large leverage buy-out strategies (61%). The fund has returned 61% of capital called to FCERA while meeting expectations of Landmark.
2007	New Mountain Partners III	$13,574,847	$15,000,000	8.1%	NMP III is a $5.1B private equity fund that began its investment period in August of 2007. A majority of the capital was deployed in 2010-2012 after the liquidity bubble. 2014 has seen five add-on acquisitions for Fund III Companies as well as a partial sale of EverBank (NYSE:EVER). The portfolio did experience some losses during 2014 driven primarily by reduced projections in a major holding, RedPrairie, a supply chain, workforce and all-channel commerce software provider. NMP III has returned 36% of called capital to FCERA.
2007	Hamilton Lane VI	$48,635,831	$70,000,000	9.6%	HLPEV VI is a private equity fund-of-funds that was formed to provide investors with exposure to a well-diversified PE portfolio. The overall portfolio's largest investment strategy is mid-sized buyout (25%) followed closely by co-investment (21%) and has remained fairly constant over time. The buyout strategy, in addition to being the largest part of the portfolio, is also the strongest performing strategy generating a since inception IRR of 15.1%. The Fund's distributions are accelerating indicating a maturing portfolio; as of 12/31, 67% of called capital had been returned.
2007	WP Private Equity X, L.P.	$21,469,325	$25,000,000	9.0%	WP PE X raised $15.1B during fundraising. The Fund has a current focus on the natural resources industry, representing 34% of the portfolio which could prove to be a headwind as adverse industry conditions persist. The fund has a home-country bias with two-thirds of the portfolio invested in US based companies, a majority of which are growth-stage investments. The fund has returned 57% of called capital.
2002	Blackstone IV	$7,701,945	$20,000,000	30.1%	BCP IV raised $7.8B is in the process of liquidating the remaining holdings, but continues to have strong performance. The portfolio generated nearly a billion of cash realizations in 2014 and has $2.8 billion of remaining value, largely

					through stakes in Merlin, Kosmos and Sithe; the portfolio will continue to liquidate throughout 2015. The Fund has returned 200% of called capital and has a 30.1% net IRR since inception.
2001	WP Private Equity VIII, L.P.	$11,883,848	$25,000,000	15.7%	WBPE III raised $5.3B and is in the process of liquidating the portfolio; nine investments remain, four private investments and five public investments. Warburg has exercised two, one-year extensions, at which time a liquidation trust will likely be set-up. WPPE III has distributed 197% of called capital.
2000	Landmark Equity X, L.P.	$1,889,194	$20,000,000	4.3%	LEP X was established in 2000 to acquire private equity partnership interests and direct investments through secondary market transactions; the investment phase concluded in the first quarter of 2004 and is currently comprised of 79 partnerships with 314 company investments. LEP X distributed $10.2 million during 2014 and has returned 111% of called capital.
1999	New Mountain Partners, L.P.	$333,041	$20,000,000	12.2%	NMP I raised $770 million with the investment period ending in 2004. The Fund held 5 portfolio companies; 1.) Strayer Educational was sold in 2005 producing a 79% IRR, 2.) Sturgis, Inc. was sold in 2006 for a 20% IRR, 3.) National Medical Health Card Systems Inc., was sold in 2006 for a 7.3% IRR 4.) Apptis, Inc./Iron Bow, LLC was sold for an IRR of 10.2%, and still holds common and preferred stock for the company that is generating income for the Fund, 5.) The final investment, Overland, was just announced as sold during the 4Q 2014. The Fund has distributed 138% of called capital and will likely liquidate during 2015.
1998	WP Equity Partners, L.P	$939,255	$20,000,000	10.1%	The Fund is in wind-down mode and has been set-up as a liquidation trust since 2012. 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 $275 million. Competitive Power Ventures has a cost basis of $30 million and a valuation of $11 million, constituting a 6.7% ownership. FCERA is no longer paying fees on this investment. WPEP has distributed 160% of called capital.

Private Credit Investments

(as of 12/31/14 or most recent available)

Vintage Year	Fund	Estimated MV as of 12/31/14	Total Commitment	Net IRR Since Inception	Comments
2014	Colony Distressed Credit III	$4,510,800	$20,000,000	N/A	The fund has called $91 million to-date for seven closed and one pending investment that includes 465 total loans across all assets classes; transactions include Ritz-Carlton Kapalua, a Freddie Mac Loan Portfolio, and a Spanish Commercial Loan Portfolio. Projected IRR for the current investments in

Appendix: Non-Marketable Securities Overview

					approximately 15% on a gross basis. Colony has called approximately 27% of FCERAs commitment.
2012	Oaktree Opportunities IX	$12,395,613	$15,000,000	3.7%	Opportunities IX returned 7.3% during 2014 and has called 80% of FCERA's $15M commitment; Oaktree is pleased with the current portfolio which is currently comprised of 57% U.S. assets and the remainder in Western Europe. Recent transactions mark the interest of the Fund in European real estate and the energy front; they believe that recent macro events have allowed for attractive risk-return opportunities to surface. The Fund has yet to make any distributions.
2010	KKR Mezzanine Partners	$21,122,309	$30,000,000	11.1%	KKRMP has deployed $1.1B in capital across 26 deals since its 2010 inception and is approximately 70% deployed. The Fund closed one deal during the fourth quarter of 2014, TIBCO Software, which is a provider of infrastructure and analytical/business intelligence software. The Fund is well diversified with its holdings spread across 20 different GICS industries; the highest concentrations are in luxury goods and application software, accounting for approximately 25% of the Fund's industry exposure. As of 12/31/2014, the fund has returned 47% of called capital.
2010	Angelo Gordon VII	$15,187,154	$30,000,000	7.1%	A roughly $1B Fund, AGO VII, focuses primarily on distressed debt investment. The investment thesis of the fund was predicated on the expected massive deleveraging in the financial system with forced sellers and relatively few buyers, creating new opportunities in the credit markets. The investment period ended in the first quarter of 2013 and the Fund has returned 79% of called capital.
2009	Colony Distressed Credit I	$18,484,986	$40,000,000	18.2%	The Fund raised approximately $1B in assets in 2008 and 2009 to buy loans/assets across all asset types totaling $5.7B in unpaid balances. The portfolio is generating consistent cash flows with all investments contributing to the 17 distributions since the beginning of 2002. As of 12/31/14, 43% of committed capital is in FDIC & other loan portfolios, 29% is in Originated & Acquired Loans and 9% is in CMBS/Debt securities. To date, the fund has returned 105% of called capital.
2002	Lone Star fund IV	$356,814	$20,000,000	30.7%	Lone Star Fund IV raised $4.2B and used leverage to reach the total acquisition of the portfolio, $13.1B. The portfolio consisted of 65 investments that were globally diversified, but were heavily weighted in Asia, specifically Japan and Korea. The portfolio is nearly liquidated; since inception, the Fund has returned 229% of invested capital.
2002	TCW Shop IV	$4,766,893	$15,000,000	6.9%	Shop IV is in advanced harvest mode and is in the process of liquidation; all assets are expected to be sold during the remaining months of 2015. Since inception, the fund has returned 123% of invested capital with a net IRR of 6.9%.

1998	TCW Shop III	$1,631,428	$15,000,000	3.4%	Shop III is in advanced harvest mode and is the process of liquidation; all assets are expected to be sold during the remaining months of 2015. Since inception, the fund has returned 124% of invested capital with a net IRR of 3.4%.