



## Agenda Item 8a

August 13, 2012

**ITEM NAME:** Private Equity Program Update and Partner Presentation

**PROGRAM:** Private Equity

**ITEM TYPE:** Program Review – Information

### **EXECUTIVE SUMMARY**

Attached is a Private Equity (PE) Program Update with performance as of June 30, 2012. The PE Program has remained within its policy range (10 - 18% of the Total Fund) as the Program continues to rebalance and restructure the portfolio. This Program Update also includes an update on the California Initiative from Staff and a Partner Presentation by Dr. David Brailer from Health Evolution Management Co, LLC (HEMC).

### **BACKGROUND**

The attached presentation discusses the major accomplishments of the PE Program since the last Investment Committee Update in February 2012 and provides an update on the following:

- Program Role
- Portfolio Review
- Market and Investment Review
- Special Program Update: The California Initiative

The Partner Presentation will include an overview and update on the CalPERS Healthcare Investment Initiative (HII) which was created in 2007 with the objective to generate attractive risk-adjusted returns by leveraging the CalPERS Investment Office and Health Benefits Branch. Prior to the formation of HII, McKinsey & Company and Pension Consulting Alliance were hired to assess the feasibility of a potential HII Program.

HEMC was selected to manage CalPERS commitments to the HII Program. CalPERS committed a total of \$710 million to HEMC as the sole limited partner. The commitments were structured into three strategies as outlined below:

- HEMC Fund of Funds (The Spectrum Fund) – In 2007 CalPERS closed on a \$200 million commitment to a fund of funds that targets investments in healthcare focused funds and co-investments.

- HEMC Growth Fund – In 2008 CalPERS closed on a \$505 million commitment to a fund targeting growth stage investments in companies that address the unmet needs and inefficiencies in the delivery of health services.
- HEMC – In 2007 CalPERS invested \$5 million for a 15% ownership stake in the management company.

As of December 31, 2011 the Net Asset Value of the investments managed by HEMC was \$275 million. The combined performance of all HEMC funds was 1.0X and -2.8% Net IRR. CalPERS paid \$52.1 million in management fees from 2007 through 2011.

Dr. Brailer will discuss the history of HII, the current status of the HEMC investments and the Healthcare landscape.

#### **ATTACHMENTS**

Attachment 1 – Private Equity Program Update

Attachment 2 – HEMC Presentation

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RÉAL DESROCHERS  
Senior Investment Officer  
Private Equity Program

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JOSEPH A. DEAR  
Chief Investment Officer