Asset Class Glossary: Private Equity
Policy: Private Equity Program
~~May 14, 2012~~September 10, 2012

Advisory Committee
A group of investors in the partnership whose primary functions are to address certain partnership-related issues. Based on the roles and responsibilities outlined in limited partnership agreement, the Advisory Board may review conflicts of interest, approve valuation policies, review operating budgets, vote on partnership term extensions, and perform other duties as deemed appropriate.

Buyout
The purchase of all or part of the stock or assets of a company through the use of debt and equity. The company may be privately or publicly owned.

Co-Investment
A Direct Investment made by CalPERS where CalPERS has an existing commitment to a fund which is also investing in the company.

Corporate Restructuring (Buyouts)
Investments in the form of equity and/or debt of a public or private company designed to restructure the current capital structure of the company, including debt and equity buybacks, exchange offers and refinancings. Related terms include leveraged buyouts, management buyouts, employee buyouts, and buy-and-build strategies.

Credit Related
Investments in Distressed Securities, Mezzanie, Debt, Turnaround strategies or other similar debt related strategies.

Customized Investment Accounts
An investment structure in which CalPERS partners with a firm that has distinct investment expertise in an industry, geographic region or investment style and has demonstrated the ability to provide top quartile returns. Other than the General Partner, CalPERS would be the sole investor. This structure may have an individual mandate or may invest alongside other similarly structured funds in the same investments with different terms.

Direct Investment
An investment that is made directly or indirectly by CalPERS in a company.

Distressed Securities
Debt or equity securities of companies that are in financial distress. These securities tend to trade at significant discounts and attract investors that perceive a turnaround.

Due Diligence
The process of checking and verifying information as well as ensuring that sufficient analysis has been conducted before making an investment recommendation.

Emerging Management Team
A firm raising a first or second time Institutional Fund. ~~This may include establish firms raising a fund that is targeting a new strategy or has hired a new management team.~~

Expansion Capital (Growth Equity)
Investment in an established company for the purpose of growing its business.

External Resource(s)
Consultants and advisors qualified through a public contracting process to perform consulting and advisory work for the PE Program. May include but is not limited to management consultants, accountants, attorneys, industry specialists, traditional pension fund consultants, investment bankers, or industry experts.

General Partner
The managing member of a limited liability company (LLC), or the management company or managing organization of a limited partnership. As used in this delegation resolution, the term General Partner can also generically refer to the principals that manage a family of funds.

Independently Sourced Investment
A type of direct investment which is sourced through contacts other than the general partners with which CalPERS is invested.

Institutional Fund
A Fund which is being raised by a proven team with a demonstrable track record to which at least three institutional investors have made a commitment.

Leverage
The use of debt, derivative instruments, reinvestment of cash collateral, or other means to acquire more assets than the capital employed.

Limited Partnership
The most common format used in structuring private equity investments. Limited partners provide the capital but have no direct involvement in the management of the fund. Limited partners have limited liability but also have limited control over the management of the fund.

Management Fee
The fee paid to the General Partner to manage the fund.

Non-recourse Debt
Financial obligation for which an investor has no current or contingent liability. Non-recourse debt includes the liabilities of a publicly traded company of which an investor owns shares and financial obligations of a partnership or a non-publicly traded company of which an investor is a limited liability investor. Non-recourse debt includes debt that is recourse only to a certain investment, such as a separate account or a commingled fund, and is non-recourse to CalPERS. For an investment with non-recourse debt, the maximum potential loss is limited to the amount of the investment.

Opportunistic
Nontraditional investment strategies that are driven by current market circumstances and typical in private equity. Such non-traditional investment strategies include, but are not limited to, active minority positions, governance strategies, sector-specific strategies, and other strategies that may use unconventional instruments such as debt arrangements, collateralizations, corporate joint ventures, credit enhancements, leasing, off-balance sheet financings, etc.

Partnership Investment
An investment in a Limited Partnership.

Private Asset Class Board Investment Consultant
An individual or organization that provides specialized professional assistance to the Investment Committee related to an asset class regarding strategy and policy analysis, performance analysis and monitoring, and independent advisory service to the Investment Committee.

Private Equity Investments
Investments that are privately-held and illiquid. These investments are often structured as limited partnerships with strategies of investing in venture capital, growth equity, buyouts, mezzanine financing, and other investment strategies that are not based on public market activities.

Prudent Person Opinion
An opinion from a consultant or external resource subject to the Fiduciary Standard of Care that the proposed investment is a prudent investment consistent with Article XVI, Section 17(c) of the California Constitution and Section 20151 (c) of the California Government Code, i.e., made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

Recourse Debt
Amount of a debt guarantee; a financial liability contingent on the occurrence of an event such as borrower default or a certain decline in the equity value of an investment. Recourse debt includes letters of credit, lines of credit, Credit Accommodations, Subscription Financing, and other financing vehicles that serve as debt guarantees.

Return
A measure of the total performance of an investment over a designated time period. The return calculation for private equity is typically based on the internal rate of return, net of all fees and expenses.

Risk
A measurable probability of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable. Risk in this context is also referred to as "standard deviation", which is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.

Special Situations
A term used to describe non-traditional investment strategies that are typical in private equity. Such non-traditional investment strategies include, but are not limited to, mezzanine strategies, active minority positions, governance strategies, sector-specific strategies, and other strategies that may use unconventional instruments such as debt arrangements, collateralizations, corporate joint ventures, credit enhancements, leasing, off-balance sheet financings, etc.

Term
The duration of the partnership or direct investment.

Transaction
An agreement between a buyer and a seller to exchange an asset for payment. A transaction often takes the form of a partnership, co-investment, or direct investment.

Turnarounds
Investments in companies experiencing financial and/or operating issues. These companies may or may not be insolvent.

Venture Capital
The financing of rapidly-growing companies that do not have access to public equity or debt financing. Early-stage venture capital may involve financing a company during its initial years when assets may be limited and when there may be no revenues. Late-stage venture, sometimes referred to as growth equity or expansion capital, may involve financing a company that has established products or services and revenues.

Vintage Year
The year in which the first capital drawdown of the partnership occurs.