

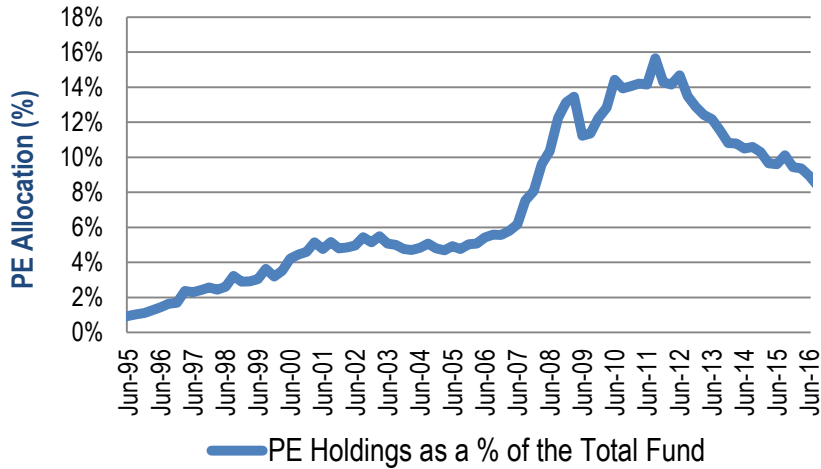
Alternative Private Equity Business Models

July 17, 2017

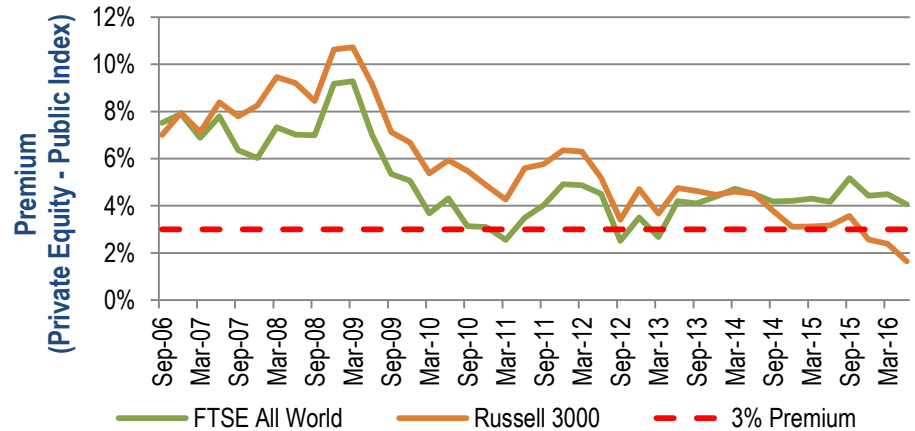
Agenda

- Initial strategic review of Private Equity at CalPERS
- Role of emerging managers and value of diversity
- Potential future states

Actual Exposure to Private Equity



Excess Return of Private Equity over Public Equity Rolling 10 YR Annualized Compound Return

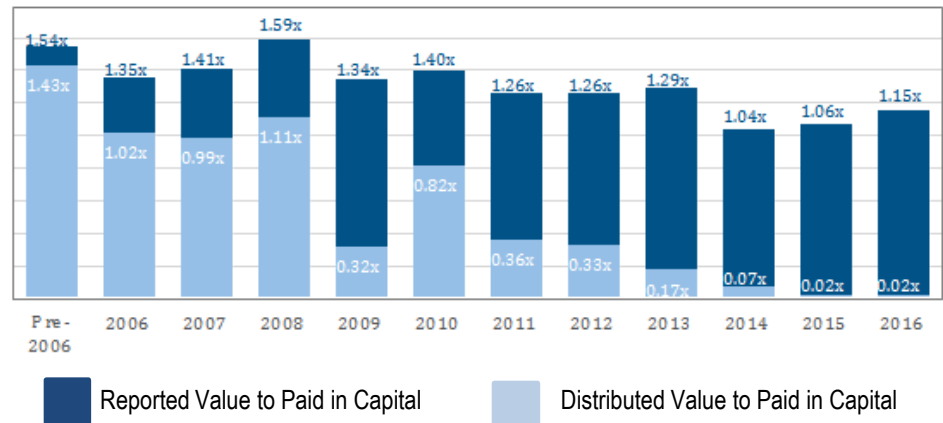


Data sources: FTSE All World (Bloomberg), Russell 3000 (Bloomberg) and Private Equity Index (SSGX) using quarterly horizon return data from Q4 1996 to Q2 2016

Commitments and Cash Flow by Year



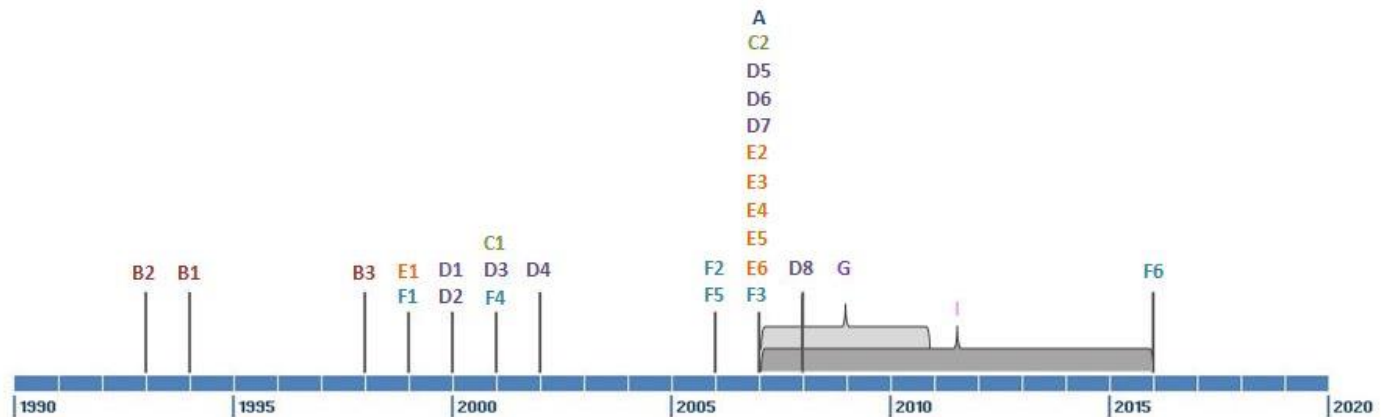
Total Value to Paid in Capital by Vintage Year



Past Initiatives

ID	Project/Initiative	Name/Description
A	Listed PE	Conversus
B	Corporate Partnering	Comcast (B1), Enron/JEDI (B2, B3)
C	Follow-on Corporate Partner Fund	PCG Corporate Partners (C1, C2)
D	GP Investments	Carlyle (D1), TWP (D2), TPG (D3), Yucaipa (D4), Apollo (D5), Centinela (D6), HEP (D7), Silver Lake (D8)
E	Seeding New FoF	Grove Street (E1), Asia Alt (E2), Centinela (E3), EM Alternatives (E4), HEP (E5), PCG Int'l (57 Stars) (E6)
F	Theme Initiatives	Entering Venture Capital (F1), Clean Tech (F2), HEP (F3), CA Initiative (F4, F5), CA Initiative Mezzanine (F6)
G	Outsourcing: Monitoring Legacy Investments	LP Capital
H	Co-Investments	Stops and Starts
I	Secondary Sales	6 portfolio sales (2007-2016)

Project Timeline



SWOT Analysis*

Strengths	Weaknesses
Brand	Brand
Size	Size
Knowledge	Relationships
Thought Leader	Legacy Portfolio
Program Flexibility	Governance
	Transparency

Opportunities	Threats
Brand	Headline Risk
Size	Size
Relationships	Team Retention
Long-term Ownership	Legacy Portfolio
Platform	Consistency
California	Regulations
Spin-out Entity	Competition

* Hamilton Lane report for CalPERS – June, 2017

Characteristics of Successful LPs*

1. Importance of clearly articulated strategy, consistently applied (both externally and internally)
2. Brand reputation – viewed as a desirable LP
3. Staff resources with appropriate experience and consistency
4. Clear governance structure(s) providing timely and expert decision-making
5. Ongoing process of self-examination in place

**taken from Professor Josh Lerner presentation, PE Workshop, November 2015*

Listening Tour

- Process
- Recurring themes:
 - Importance of effective governance
 - Talent identification
 - Fee trends and co-investments
 - Negotiation trade-offs
 - Insourcing vs. outsourcing
 - Costs of a direct investing model

More of what we heard

- Likelihood of persistence of returns
- Companies fleeing or avoiding public markets
- Rate of change in an age of acceleration
- Drain of public company talent to private equity
- Disintermediation of talent from large GPs
- Parallels to real estate business evolution
- Impact of the millennial generation
- Owning great companies indefinitely
- Costs versus returns

Private Equity Business Model Continuum

