

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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INVESTMENT MANAGEMENT DIVISION

Private Equity Update

May 17th, 2018

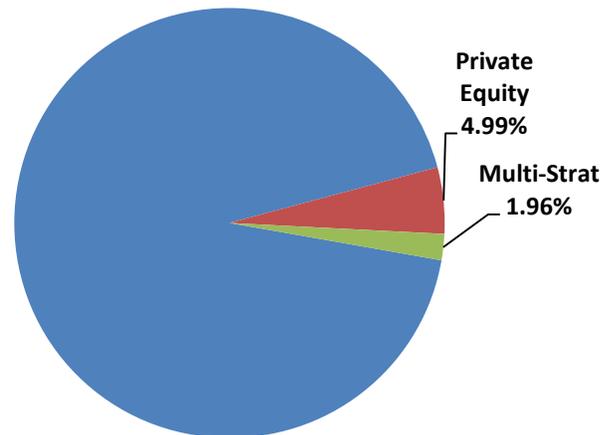


Statutory Allocation

As of April 23, 2018

- Private Equity and Multi-Strat comprised 6.95% of the Total NCRS Plan
 - Legislative Cap for Private Equity and Multi-Strat is 8.75%
- Private Equity represented 4.99%, which is below the Policy Target of 6%

NCRS PE + Multi-Strat Allocation
based on 4/23/2018 MV



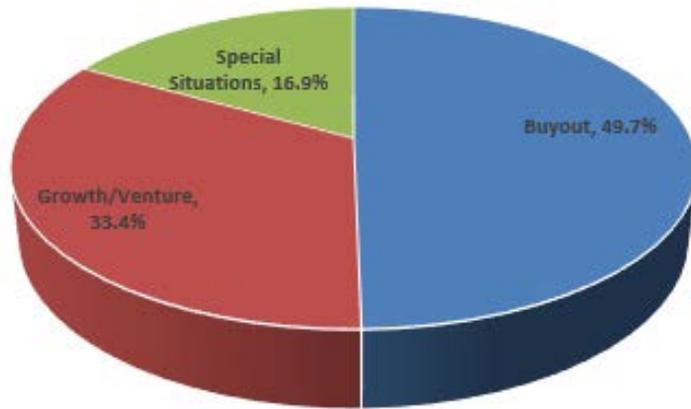


Performance

Private Equity Portfolio <i>Net of Fees as of December 31, 2017 or latest available</i>	USD in Millions		
	<i>Since Inception</i>	<i>1988 to 2009</i>	<i>2010 to Present</i>
Number of Funds	145	96	49
Called Capital	\$8,603.1	\$5,422.7	\$3,180.4
Realized Value	\$6,550.8	\$5,553.9	\$996.9
Residual Value	\$5,260.3	\$1,961.1	\$3,199.2
Total Value	\$11,811.1	\$7,514.9	\$4,196.1
Gain/Loss	\$3,208.0	\$2,092.3	\$1,015.7
TVPI	1.36x	1.39x	1.32x
DPI	0.76x	1.02x	0.31x
IRR	8.24%	7.17%	14.34%
K&S PME (S&P 500)	0.93x	0.91x	1.00x
K&S PME (Russell 2000)	0.93x	0.90x	1.03x
K&S PME (Russell 3000)	0.93x	0.90x	1.00x



Private Equity Composition



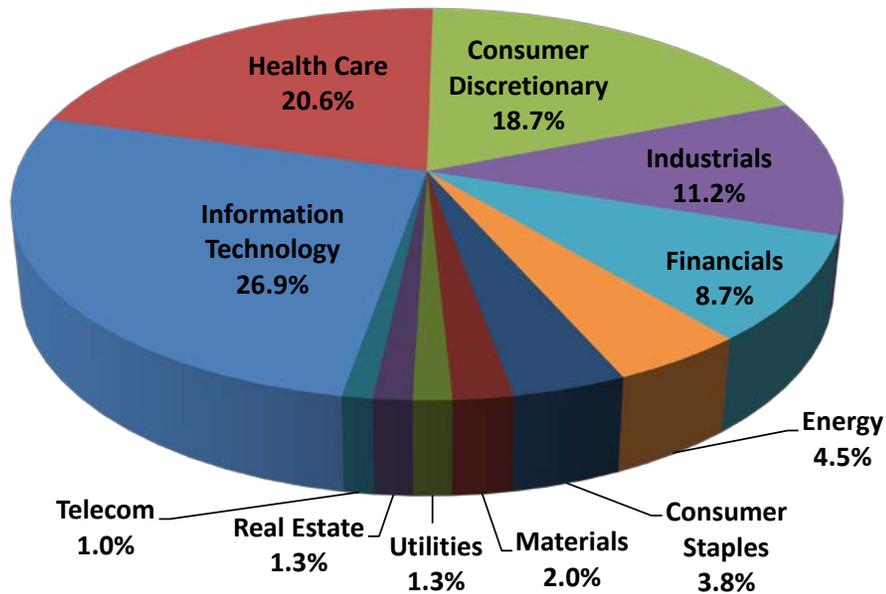
Policy Relative to Actual Portfolio Weights					
Strategy	# of Funds	Policy Range			Actual (3/31/2018)
		MIN	TARGET	MAX	% of FMV*
Buyout	42	35%	50%	65%	49.7%
Growth/Venture	40	10%	20%	30%	33.4%
Special Situations	19	15%	30%	45%	16.9%
Fund of Funds	12	-	-	-	-
TOTAL	113				100%

*Data includes Fund of Funds' underlying exposure cash flow as of most recently reported date

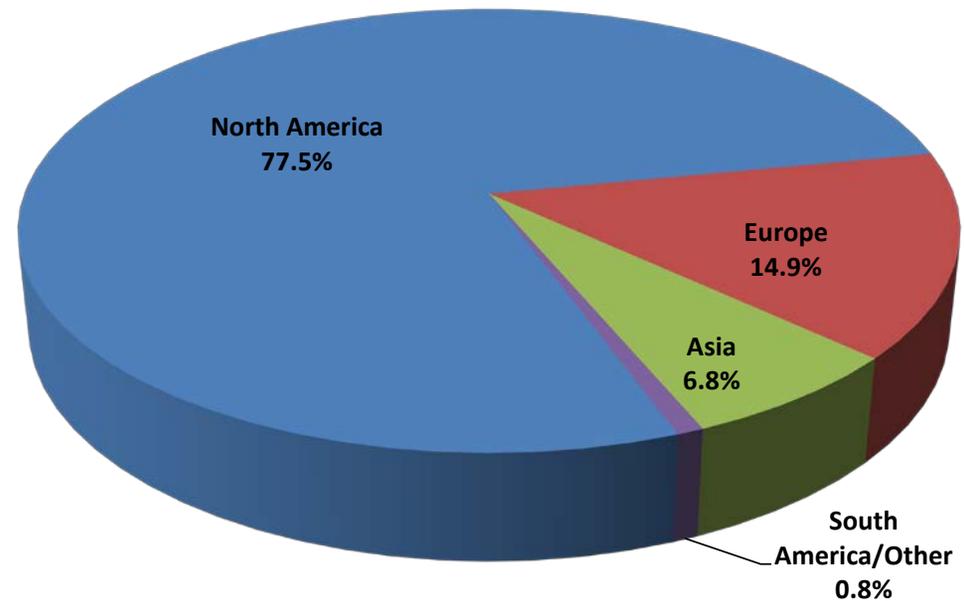


Private Equity Composition

GICS Industry Allocation*



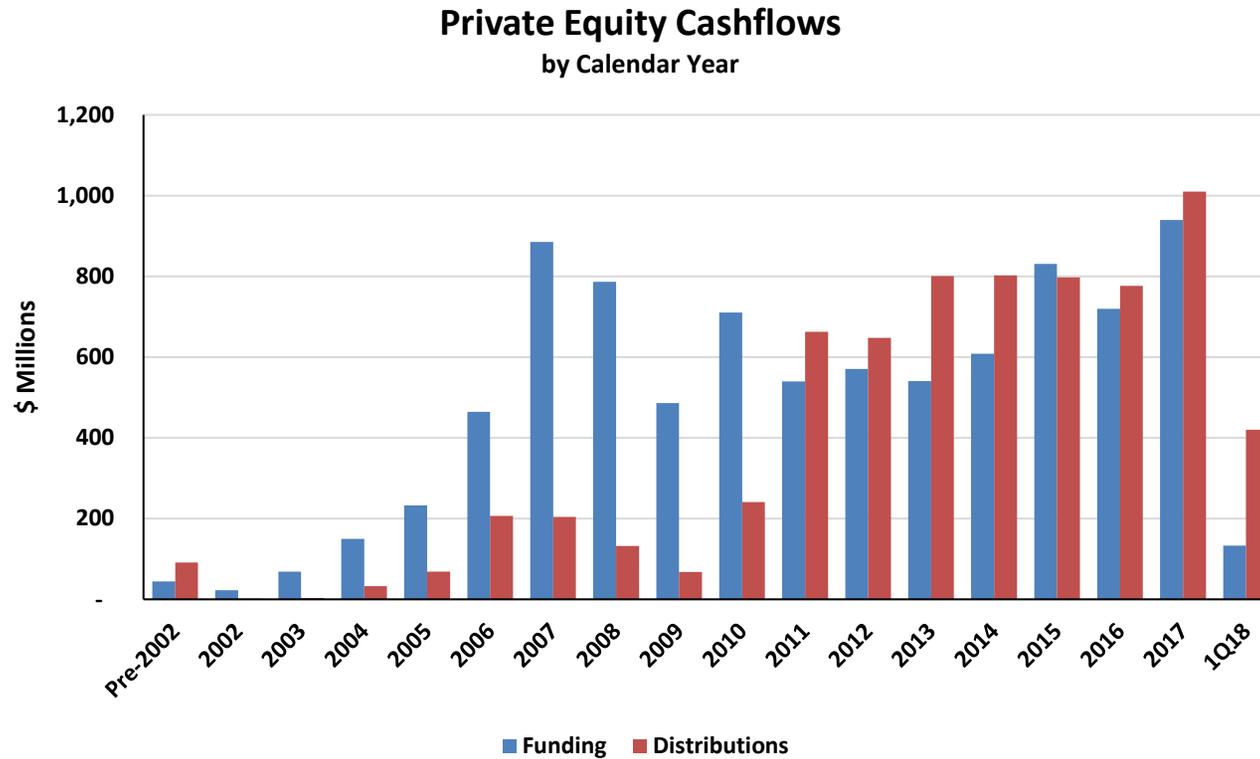
Geographic Allocation*



*Data includes Fund of Funds' underlying exposure (As of 12/31/2017 or most recently reported)

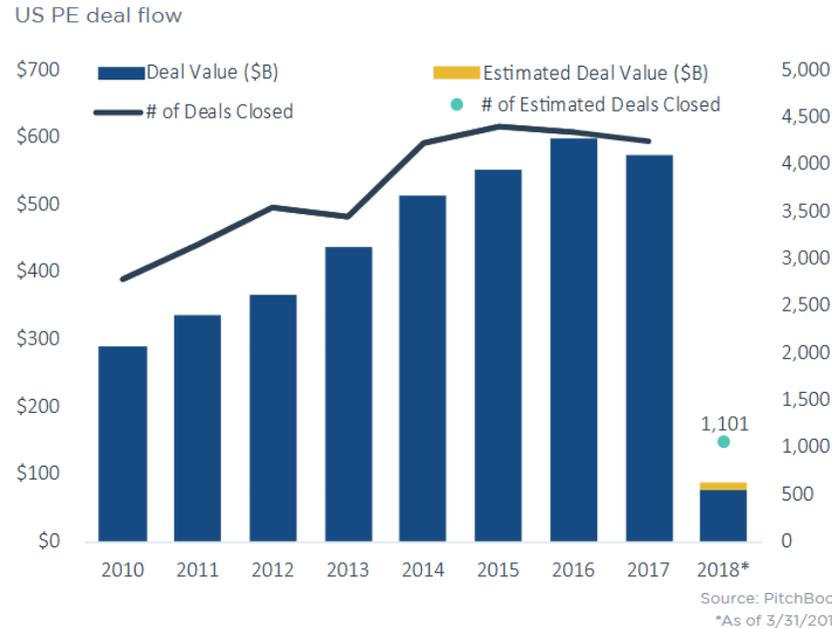
Private Equity Cash Flow Detail

➤ 6 out of the last 7 full calendar years, distributions have exceeded funding





Market Trends – Purchase Transactions



2018 activity started mixed

Transaction count remains strong

Deal value falls, but expected to increase

- 1) 124 pending deals worth \$94+ B
- 2) 1Q not all known as of yet

NCRS 1Q experience is following this trend

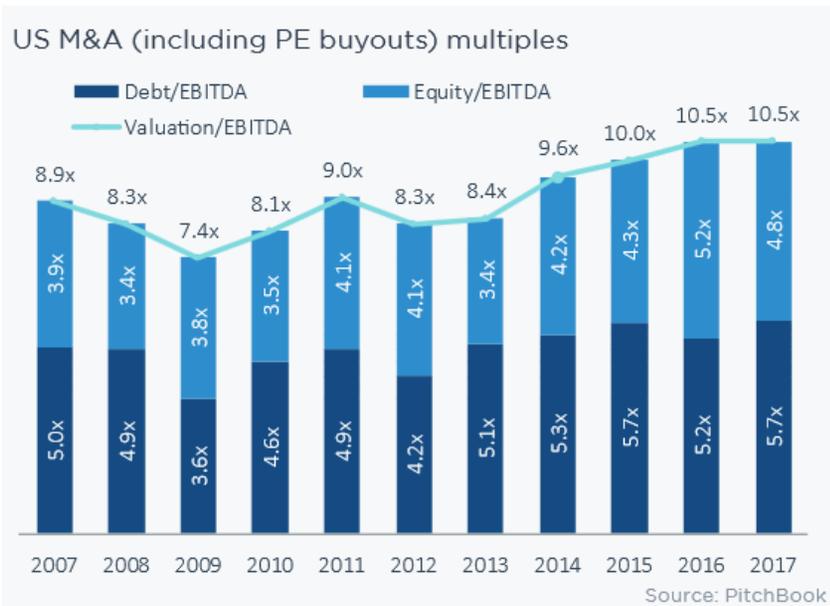
Market Trends – Entry Pricing

Add-on acquisitions as a percentage of deal count have hovered in the low 60s % since '13.

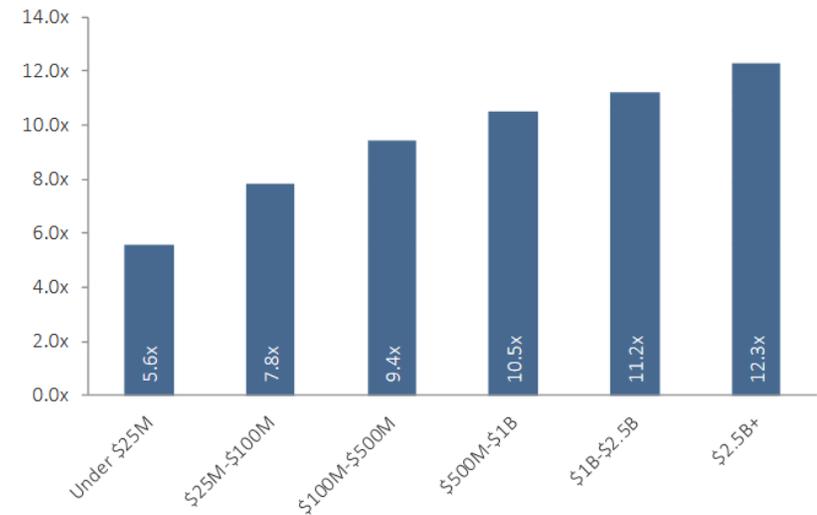
➔ 1Q18 witnessed an increase to 70%.

Add-on acquisitions are typically completed at a lower multiple of EBITDA.

➔ lowers the overall multiple



Median global buyout multiples by enterprise value

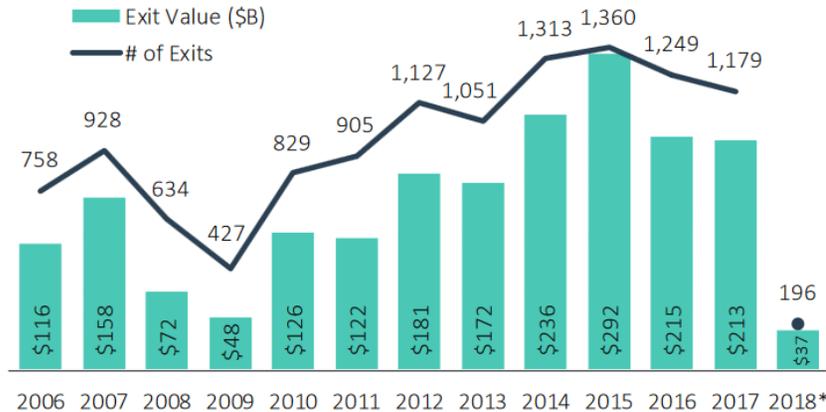


Source: PitchBook
Data scope: global PE buyouts, 1/1/2006-6/5/2017



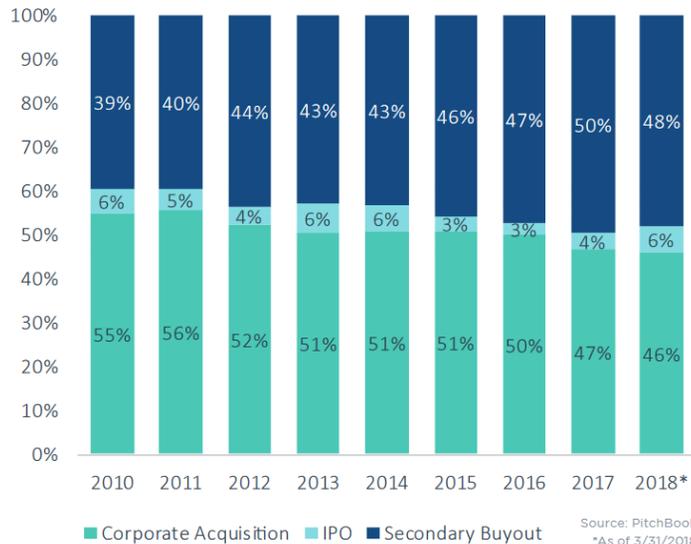
Market Trends – Exit

US PE-backed exits



Source: PitchBook
*As of 3/31/2018

US PE-backed exits (#) by type



Source: PitchBook
*As of 3/31/2018

2018 exits off to a slow start:

- However the 1Q has generally been slower over the recent years

NCRS 1Q activity was strong:

- 2Q is off to a slow start
- Expected to accelerate given exits in process

As a percentage of exit activity in 1Q:

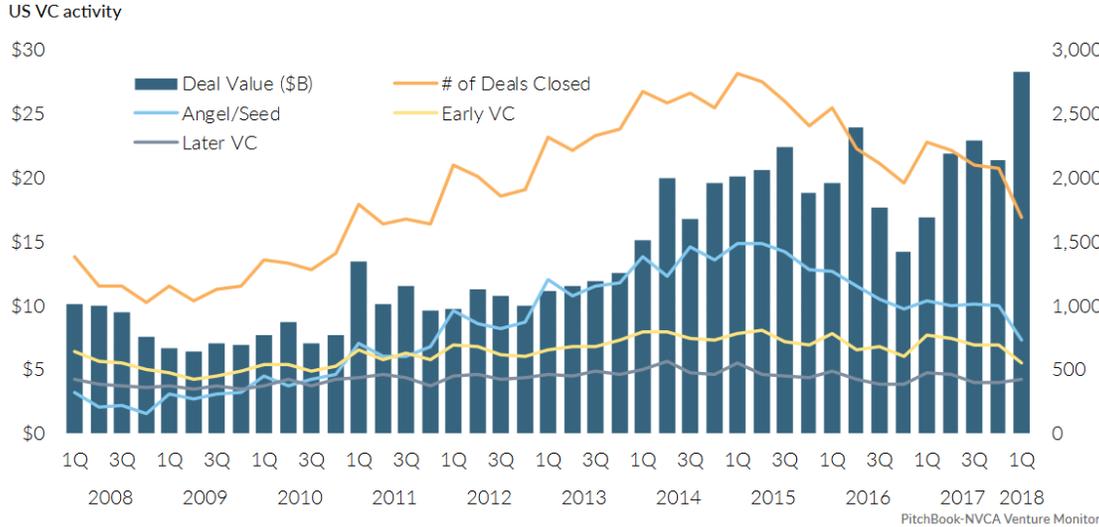
- Corporate Acquisitions and Secondary Buyouts have declined slightly
- PE backed IPO exits showed a slight uptick despite 1Q volatility

Corporate Acquisition at multi-year low

- Buyers incorporating recent acquisitions
- Expected to turn due to:
repatriation of foreign earnings
tax changes

Market Trends – Venture Capital

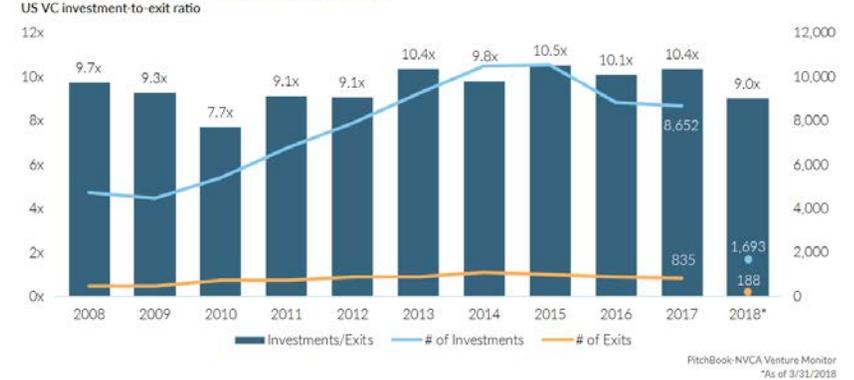
1Q marks fourth consecutive quarter with more than \$20B invested



Exits slide during three of past four quarters



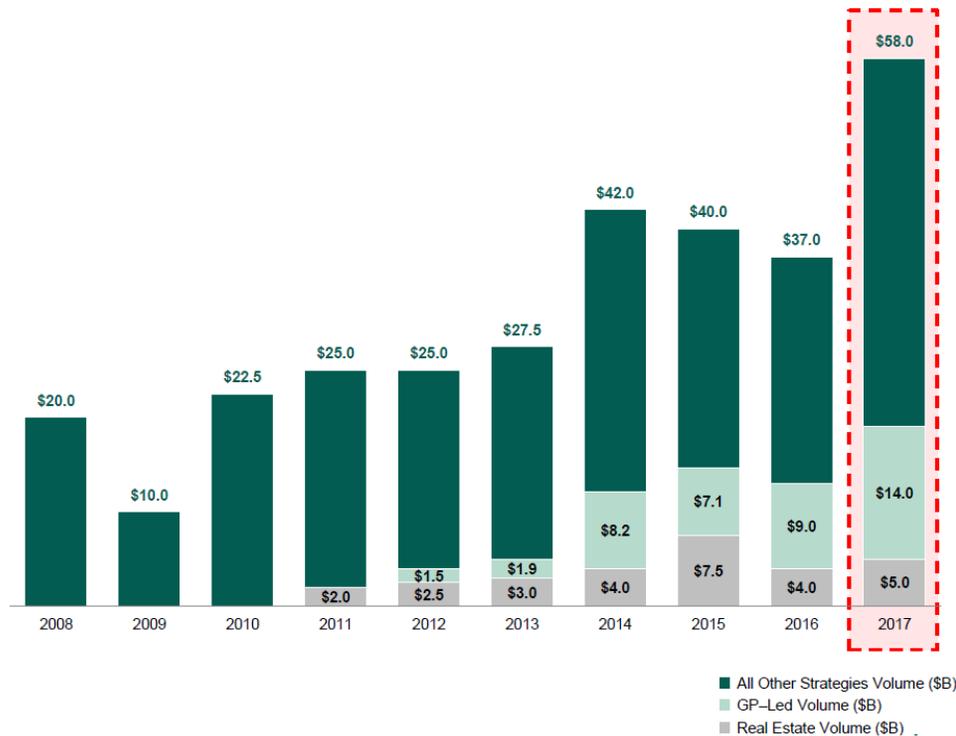
Slow dealmaking has caused ratio to fall



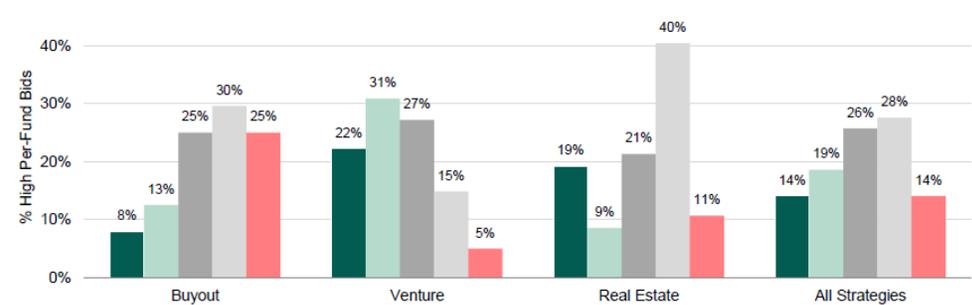


Market Trends – Secondaries

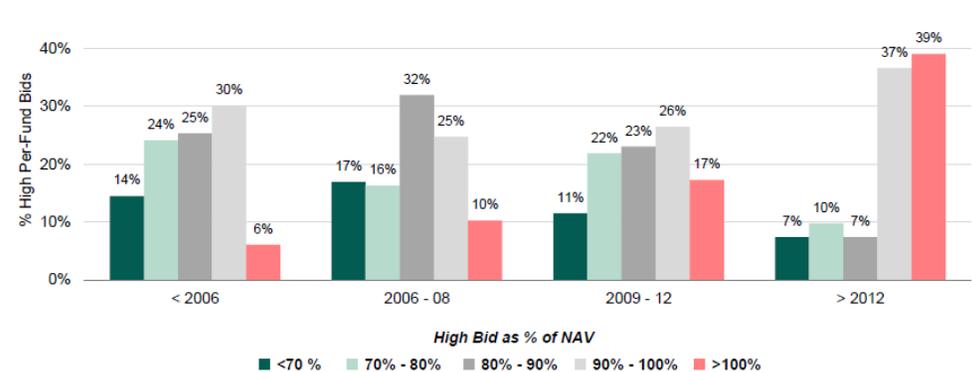
Market Volume (\$B)



Bid Dispersion by Strategy (1)



Bid Dispersion by Vintage (1)



Record Volume in 2017

- GP-Led volume more material
- LPs reducing non-core exposure
- Tool to manage allocation targets
- Strategy changes

Pricing increased through the year

- rising public markets
- competitive environment

Average pricing was 93% of NAV



New Activity

Secondary Fund Commitment – Landmark Partners

- Cross Asset Class: Private Equity = up to \$800 MM
Inflation Sensitive = \$450 MM
- Attractive Structure: Opportunistic Tranche
More control – NC has discretion