

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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INVESTMENT MANAGEMENT DIVISION

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Private Equity Update

August 17th, 2017

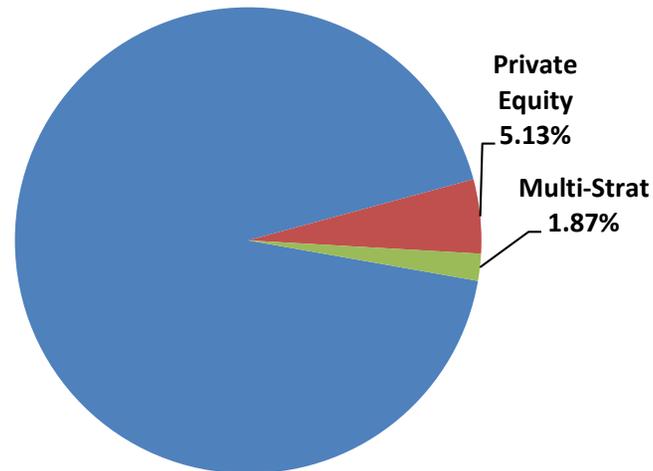


Statutory Allocation

As of June 30, 2017

- Private Equity and Multi-Strat comprised 7.00% of the Total NCRS Plan
 - Legislative Cap for Private Equity and Multi-Strat is 8.75%
- Private Equity represented 5.13%, which is below the Policy Target of 6%

NCRS PE + Multi-Strat Allocation
based on 6/30/2017 MV



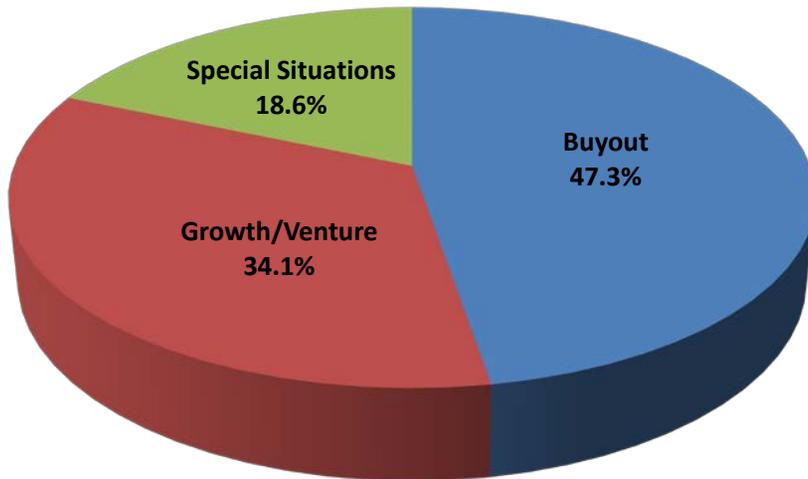


Performance

Private Equity Portfolio <i>Net of Fees as of March 31, 2017</i>	<i>USD in Millions</i>		
	<i>Since Inception</i>	1988 to 2009	2010 to Present
Number of Funds	146	98	48
Called Capital	\$7,894.6	\$5,387.4	\$2,507.2
Realized Value	\$5,677.1	\$5,070.6	\$606.5
Residual Value	\$4,811.1	\$2,267.7	\$2,543.4
Total Value	\$10,488.1	\$7,338.3	\$3,149.8
Gain/Loss	\$2,593.6	\$1,950.9	\$642.7
TVPI	1.33x	1.36x	1.26x
DPI	0.72x	0.94x	0.24x
IRR	7.79%	7.09%	12.94%
K&S PME (S&P 500)	1.00x	0.99x	1.05x
K&S PME (Russell 2000)	0.97x	0.95x	1.05x
K&S PME (Russell 3000)	0.99x	0.98x	1.05x



Private Equity Composition



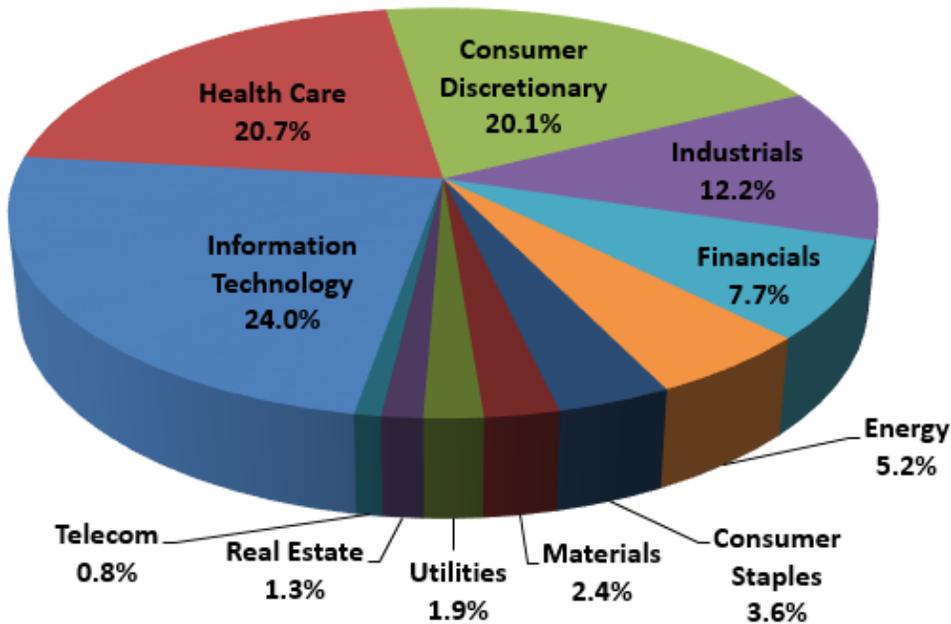
Policy Relative to Actual Portfolio Weights					
Strategy	# of Funds	Policy Range			Actual
		MIN	TARGET	MAX	(3/31/2017)
Buyout	44	35%	50%	65%	47.3%
Growth/Venture	42	10%	20%	30%	34.1%
Special Situations	19	15%	30%	45%	18.6%
Fund of Funds	13	-	-	-	-
TOTAL	118				100%

*Data includes Fund of Funds' underlying exposure (as of 3/31/2017 or most recently reported)

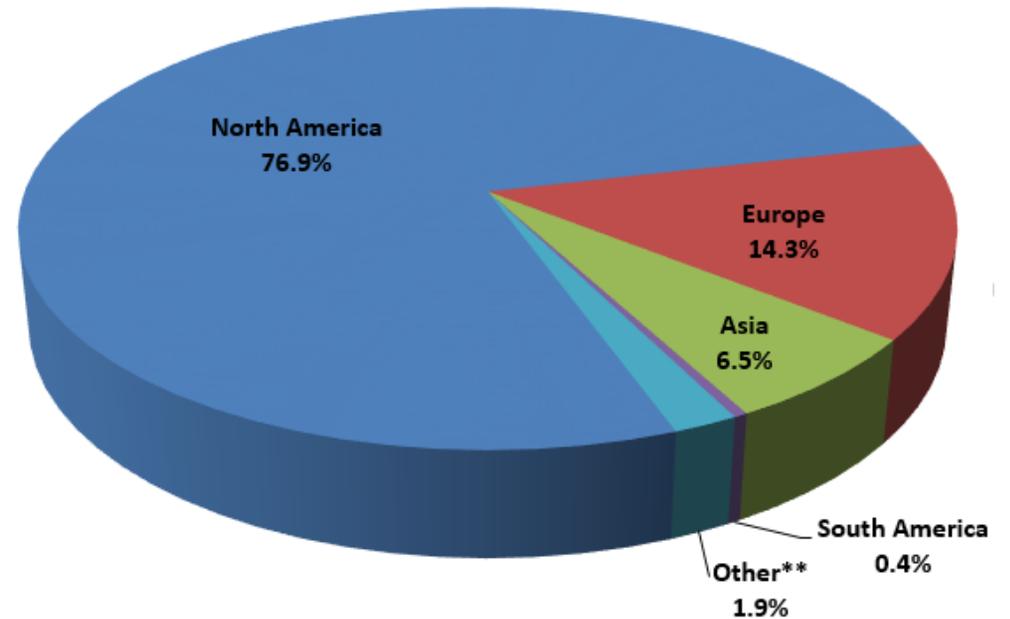


Private Equity Composition

GICS Industry Allocation*



Geographic Allocation*

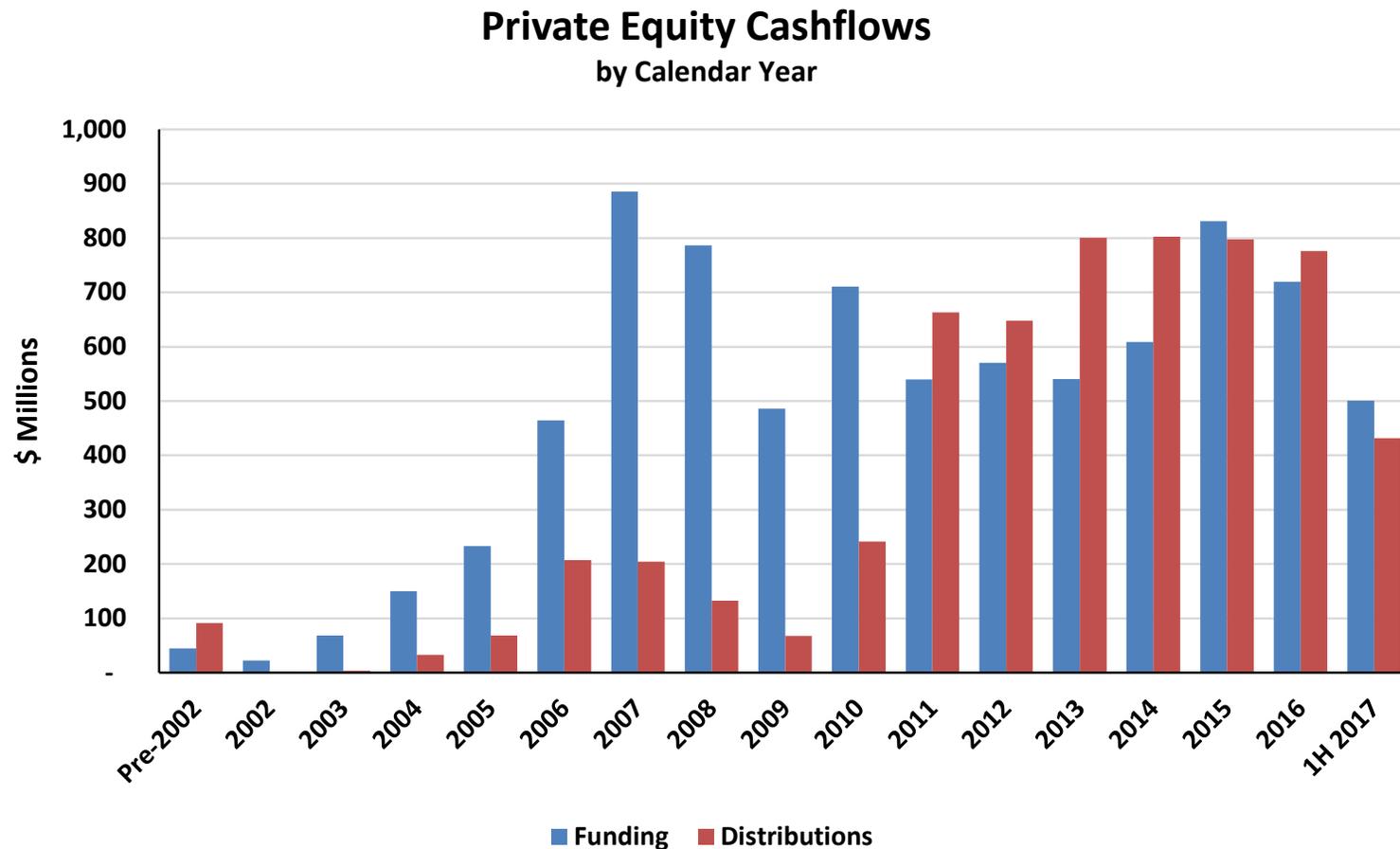


*Data includes Fund of Funds' underlying exposure (as of 3/31/2017 or most recently reported)

**Other consists of Middle East, Africa, and Multi-Country

Private Equity Cash Flow Detail

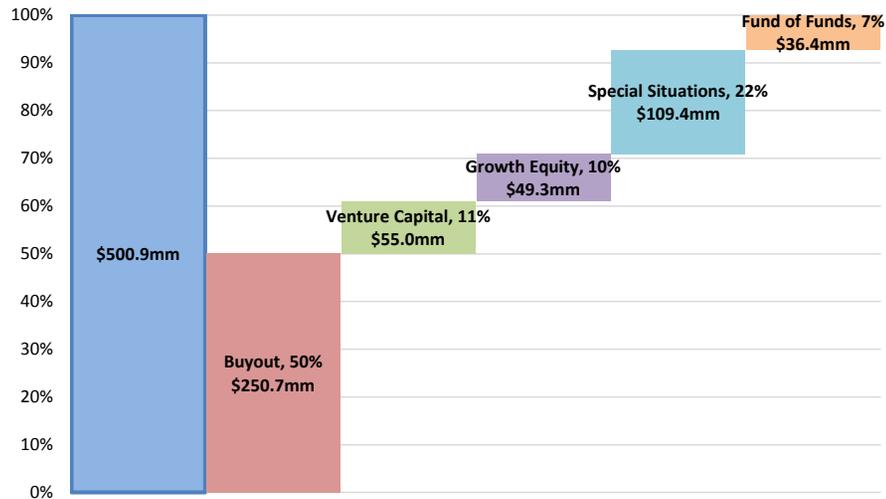
➤ 5 out of the last 6 full calendar years, Distributions have exceeded Funding



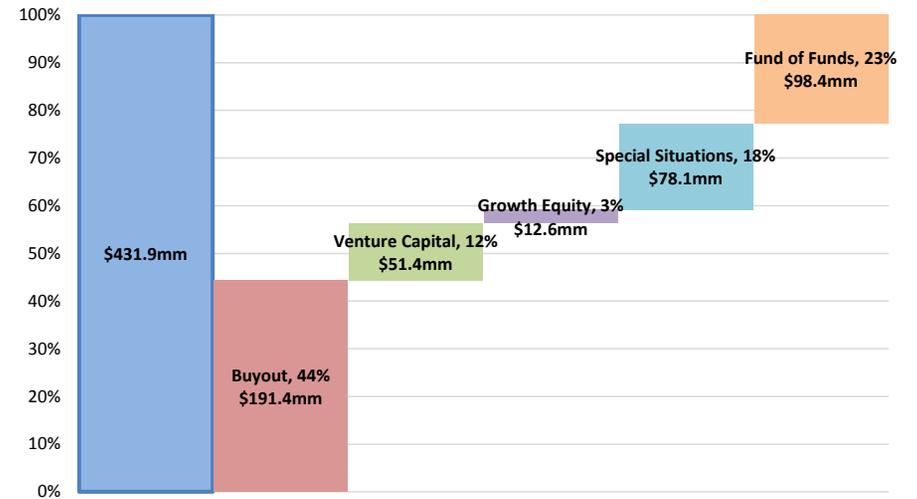


Private Equity Cash Flow Detail

1H 2017 Funding
by Strategy

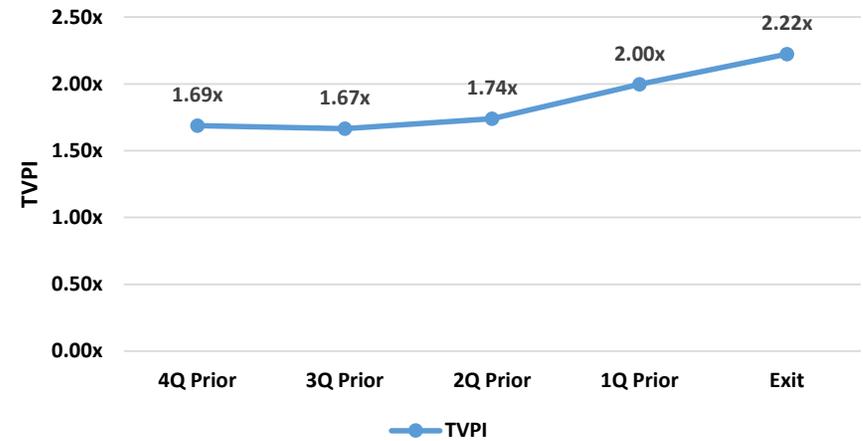
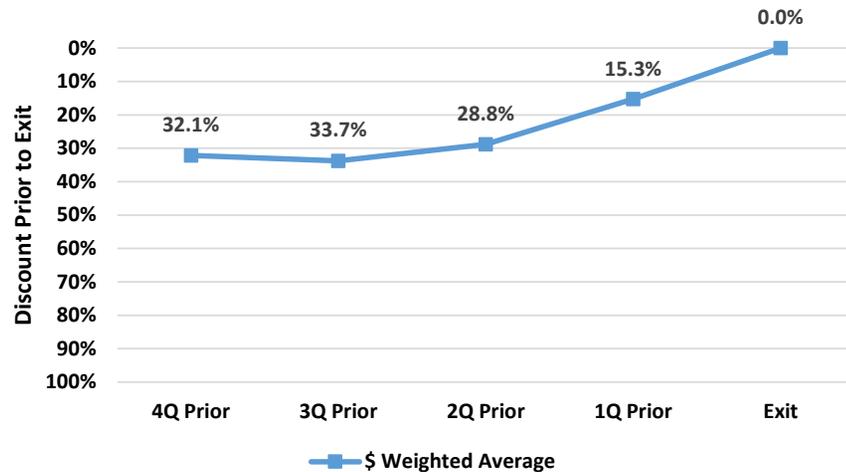


1H 2017 Distributions
by Strategy





Valuation Trend for Realized Investments

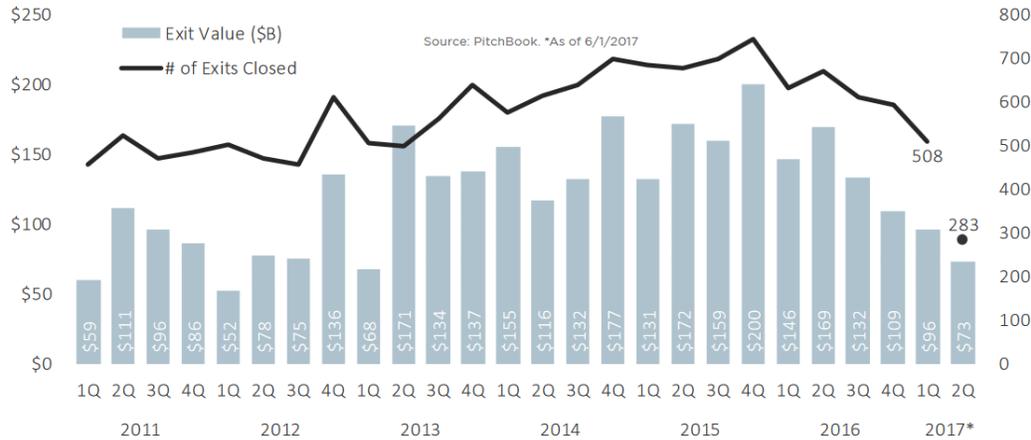


- The data is based on the exit of 59 positions during the 2016 calendar year from 27 funds
- Average hold period for realized investments was 5.9 years



Market Trends – Exit

PE-backed exit activity in North America & Europe



NCRS portfolio not witnessing this downward trajectory

Would have expected to see more exits given market strength

US PE-backed exits (#) by type



Corporate activity (means of exit) remains low

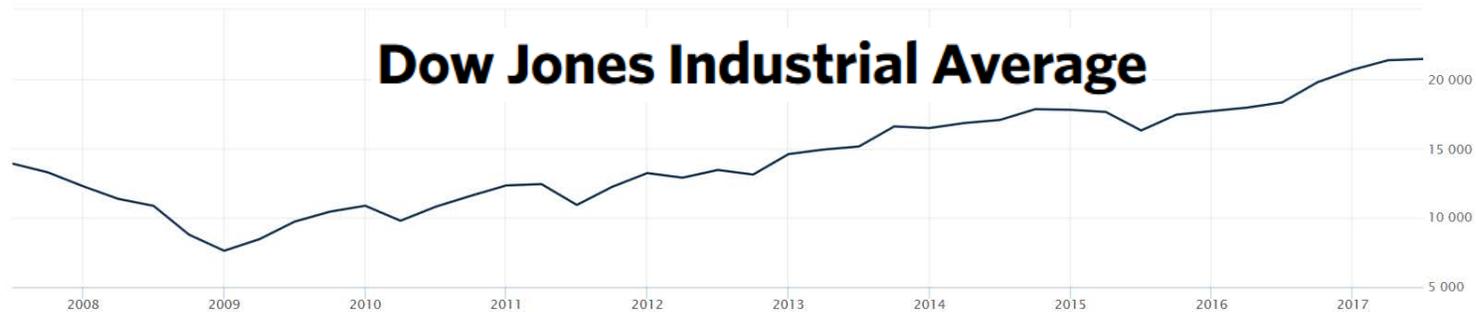
- uptick 2Q
- expected to increase in 2H17
- still expected to be a down year

Secondary Buyouts - weaker

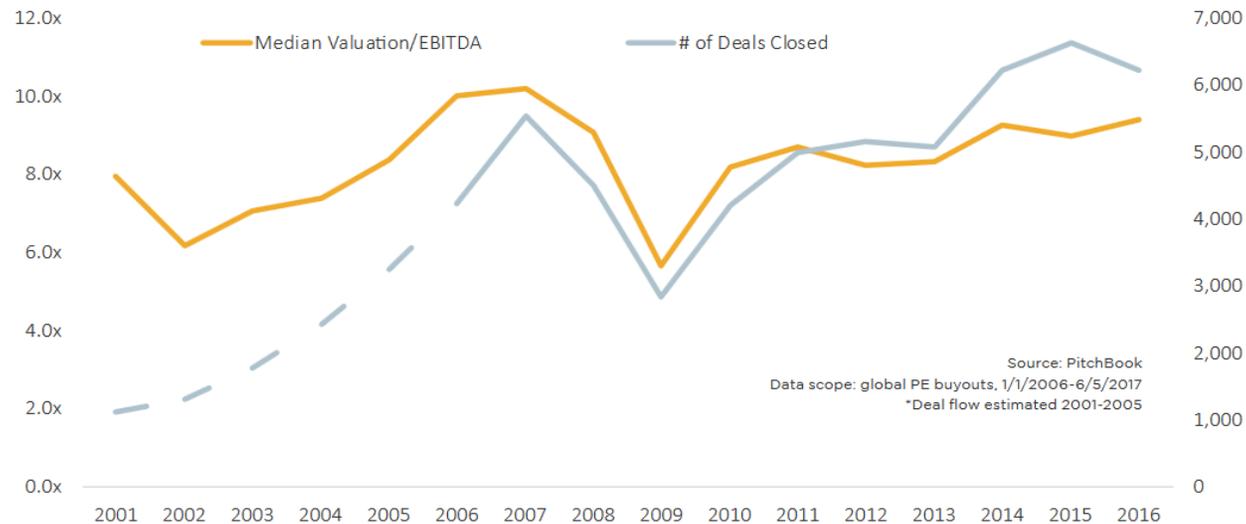
IPO market - sluggish

Market Trends – Entry

Where can PE firms find attractive valuations?



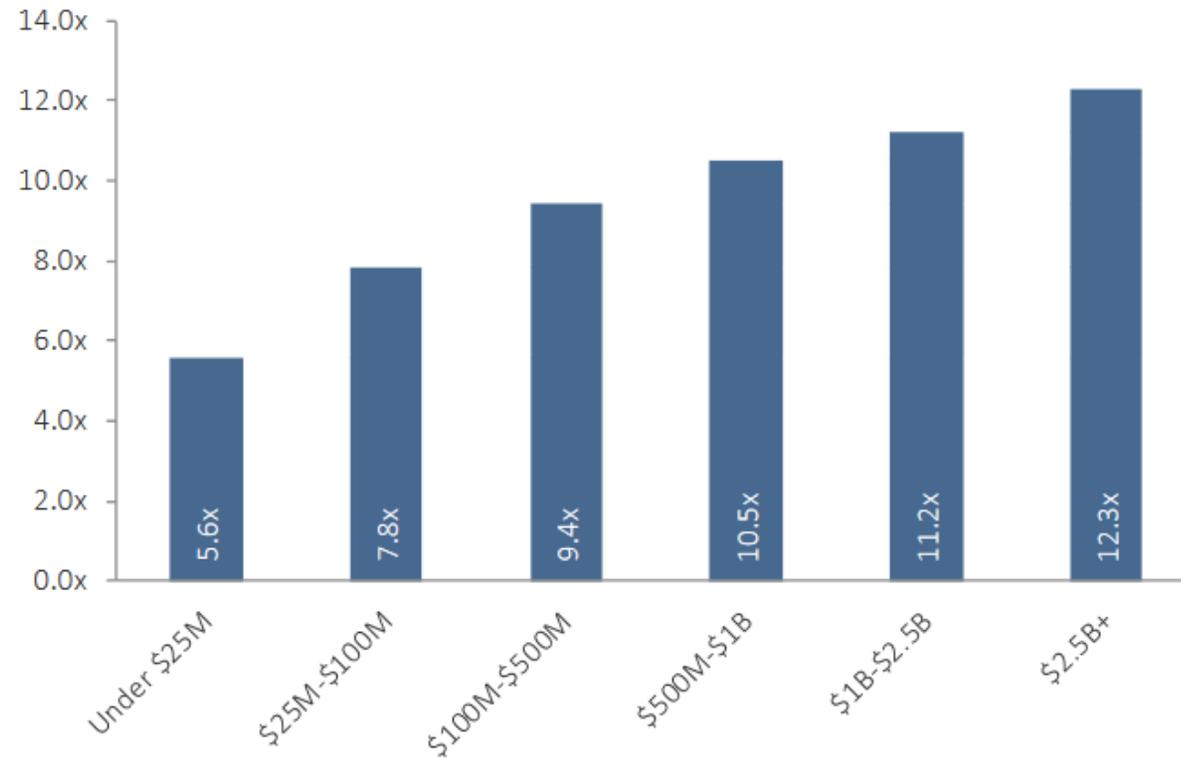
Median global buyout multiples versus global PE deal flow



Market Trends – Entry

Where can PE firms find attractive valuations?

Median global buyout multiples by enterprise value

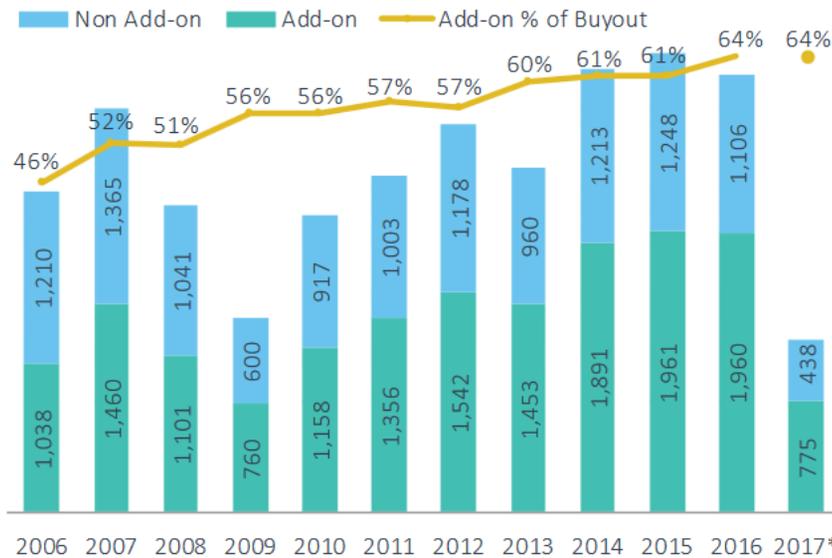


Source: PitchBook
Data scope: global PE buyouts, 1/1/2006-6/5/2017

Market Trends

Add-On Stats

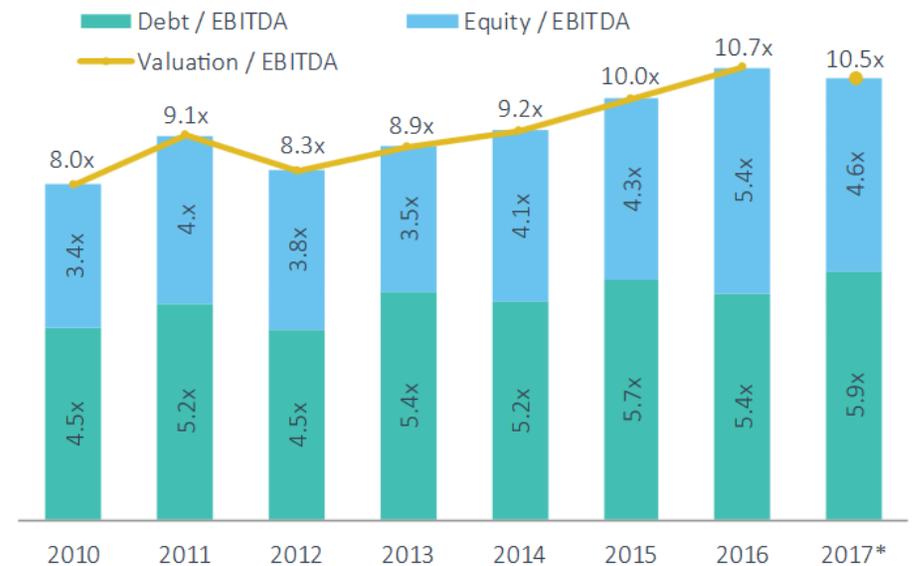
US add-on % of buyout activity



Source: PitchBook. *As of 6/30/2017

Debt / Equity

US M&A (including PE buyouts) multiples

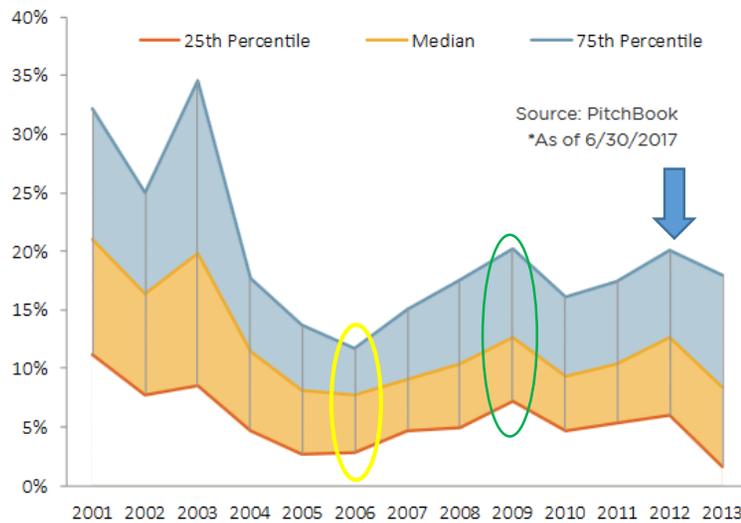


Source: PitchBook. *As of 6/30/2017

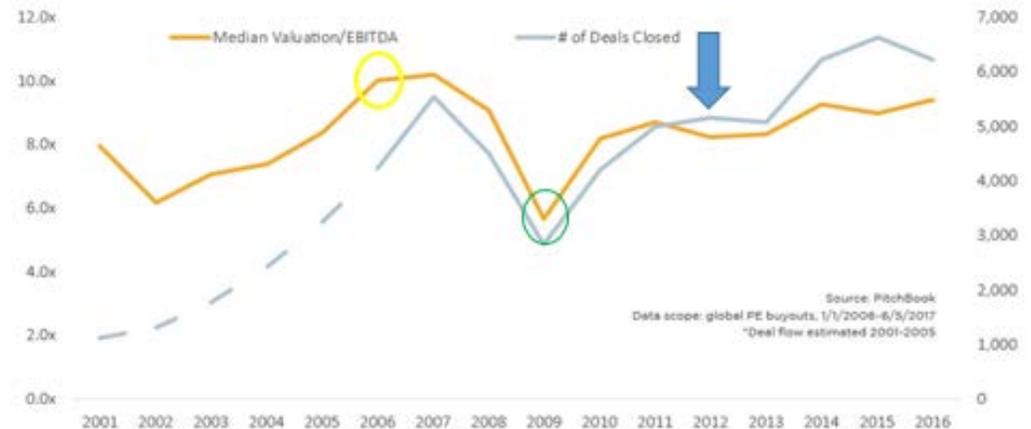
U.S. transactions through 2Q17

Market Trends – Cyclicality ?

Global PE IRR quartiles by vintage



Median global buyout multiples versus global PE deal flow



Vintage 2012 performance essentially mirrors 2009 despite significantly higher entry multiples.



Initiatives

1. Valuation Analysis
 - Burgiss custom report
2. Secondary / Portfolio Rationalization
3. Forward Calendar
 - Allocation discussions pending
4. Consultant Review