



Alternatives Update to the Investment Advisory Committee

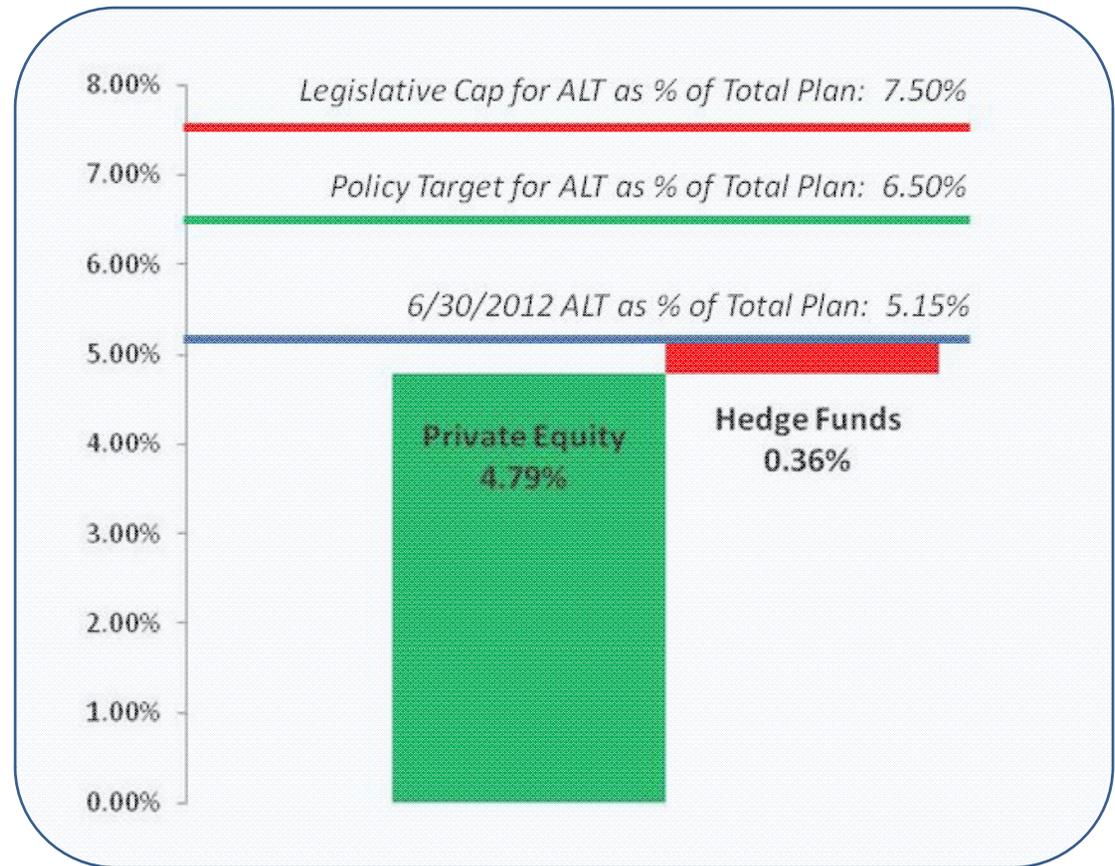
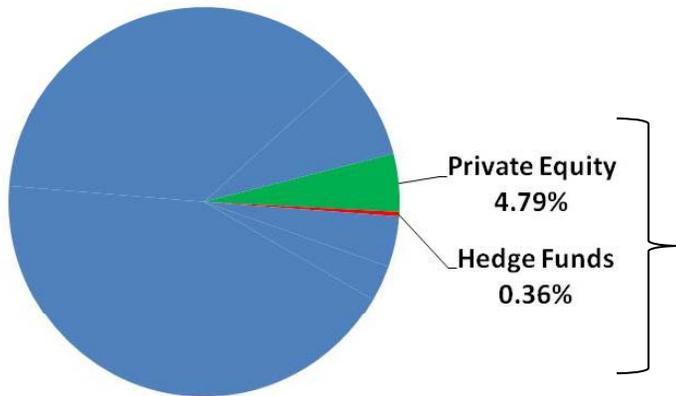
September 13, 2012

- **Current Allocation**
- **Cash Flow / Performance**
- **Outlook**
- **Initiatives**

Alternatives Allocation

As of June 30, 2012, Alternatives represented 5.15% of the Total NCRS Plan, below its Policy Target and Legislative Cap.

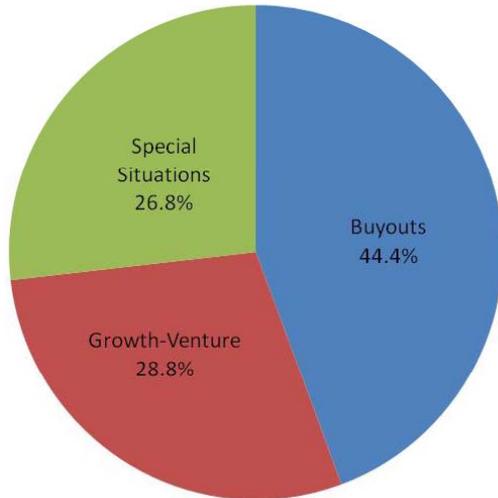
NCRS Asset Allocation
based on 6/30/2012 MV



Private Equity Allocation

Strategic Allocation

based on June 30, 2012 FMV*

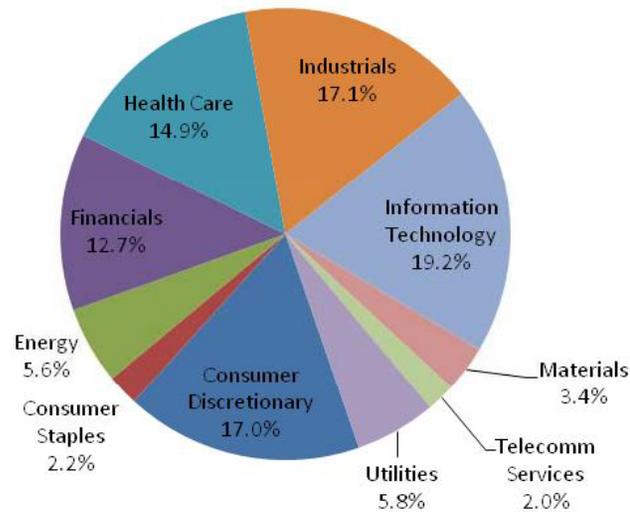


Policy relative to Actual Portfolio weights

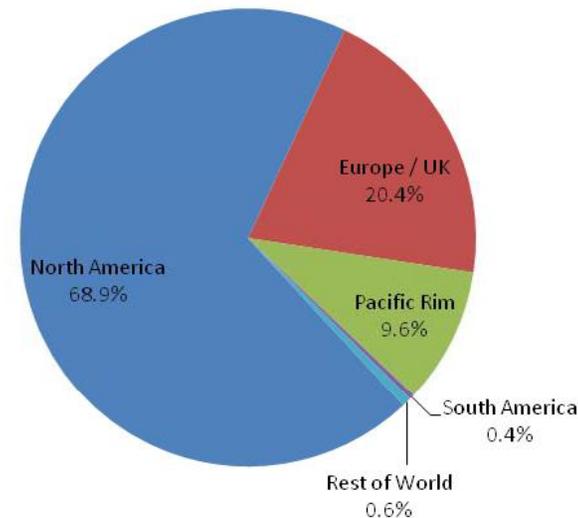
Strategy	Policy Range			Actual
	MIN	TARGET	MAX	FMV
Buyouts	40.0%	50.0%	60.0%	44.4%
Growth-Venture	15.0%	25.0%	40.0%	28.8%
Special Situations	5.0%	25.0%	35.0%	26.8%

*Through Fund of Funds, excludes residual value related to 2011 secondary process.

GICS Industry Allocation**



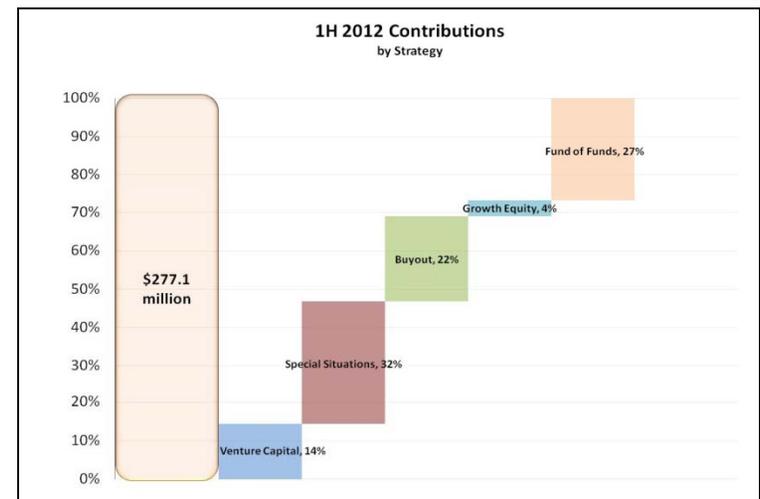
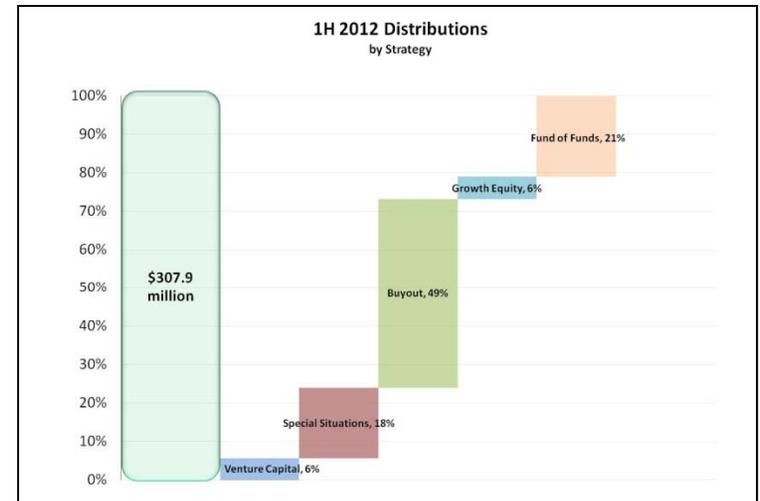
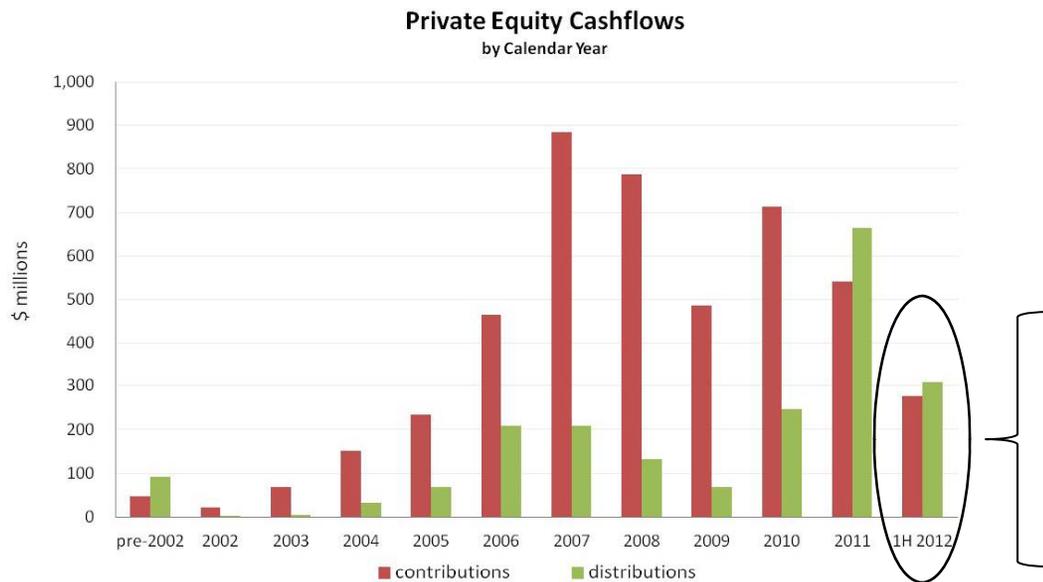
Geographic Allocation**



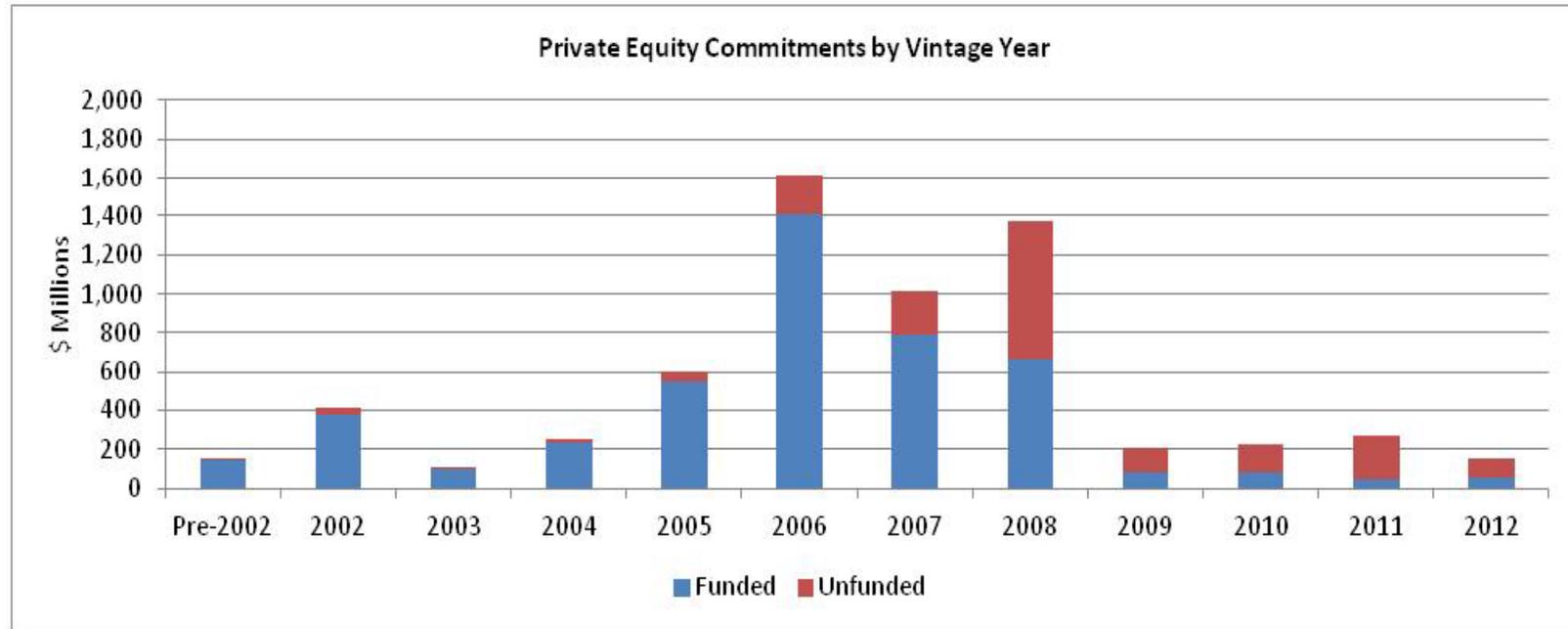
**Through Fund of Funds, based on latest available FMV through September 5, 2012, excludes residual value related to 2011 secondary process.

Private Equity Cashflow Detail

In 2011 and through the first half of 2012, Distributions have exceeded Contributions.



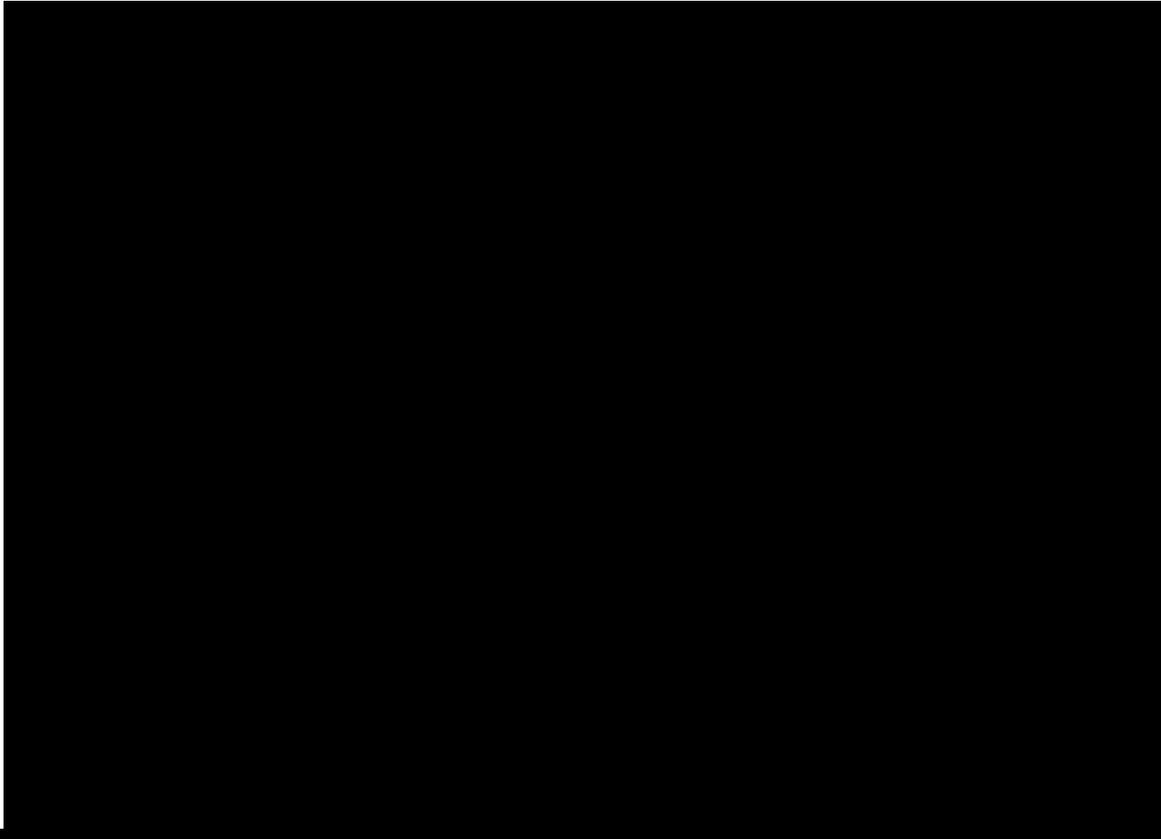
Private Equity Performance



	IRR by Vintage Year											
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total¹</u>
a/o 6/30/2012 NCRS	9.24	13.76	6.67	6.21	1.92	4.16	5.20	-0.95	3.45	-1.36	-1.62	5.94
a/o 6/30/2011 NCRS	10.30	14.60	4.93	4.93	1.18	2.87	2.93	3.97	-11.66	N/A	N/A	5.73

Outlook: Growth - VC

- Repetition in Top Quartile
- Brand Names
- Access
- Do not force VC commitments



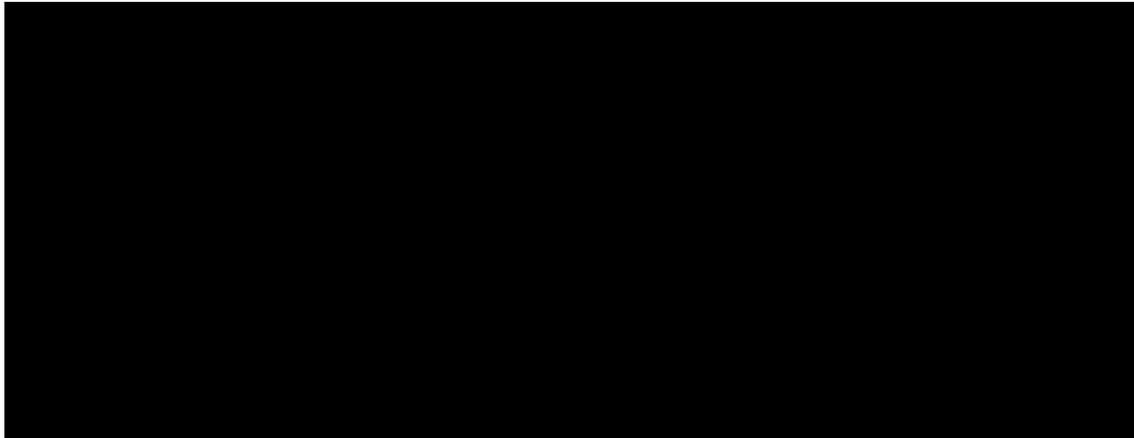
Outlook: Buyout

Greater NCRS focus on Middle-Market



[REDACTED]

- outside formal auction processes
- sellers looking for a partner
- room for improvement



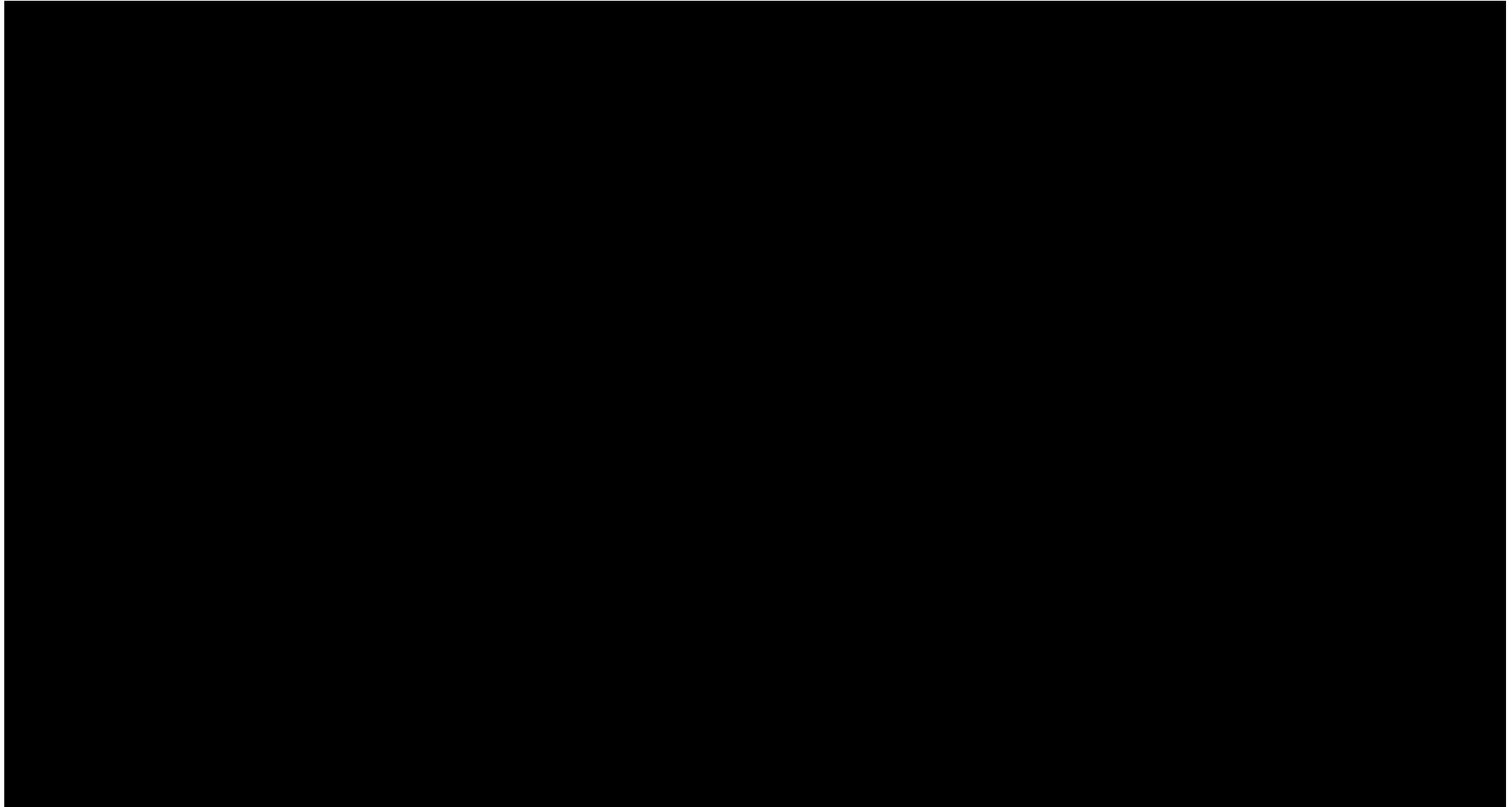
Greater opportunity for management improvements:

- Businesses typically not managed to ultimate potential.
- geographic / product expansion IT implementation / upgrade accounting systems

[REDACTED]

Outlook: Buyout

Greater NCRS focus on Middle-Market



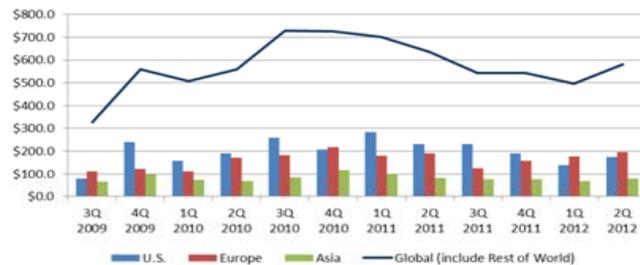
Outlook: Buyout

Greater NCRS focus on Middle-Market



- More exit options:
 - Financial - other Private Equity Sponsors
 - Strategic – Corporations / Larger Companies
 - IPO

Global Announced M&A by Region⁽²⁾



U.S. IPO Statistics as of 8/31/12⁽³⁾

	2007	2008	2009	2010	2011	2012
Filings	298	107	119	259	261	104
Pricings	213	31	63	154	125	91
Withdrawals	51	103	48	52	67	42

- Funds are typically smaller, which better aligns GP/LP interests
 - larger fund capital base equates to significant management fees
- NCRS Observation:
 - Small funds have a higher probability of generating outsized returns
 - The probability of an IRR below 0 was nearly identical for both small and large funds

(2) Data Source: Mergers & Acquisitions Review , Thomson Reuters, Q2 2012

(3) Data Source: Renaissance Capital, as of August 31, 2012

Outlook: Special Situations

➤ Distressed / Turnaround Opportunities

- ❑ High yield New Issuance
- ❑ “Relaxed” Lending Standards
- ❑ *“Despite low activity in June and July, Fitch expects the default rate to move higher and end the year in a range of 2.5%-3%.”⁽¹⁾*

➤ Secondaries ⁽²⁾

- ❑ 1H12 volume remained strong at \$13 B (vs. 1H11 record breaking \$14 B)
- ❑ Sellers:
 - North America – predominantly government public pensions sellers
 - Europe – predominantly financial institutions as sellers
- ❑ Pricing: 1H12 Average 1st round bid = 80% of NAV
- ❑ Opportunistic within Opportunistic – 1) Clean Tech; 2) Co-Invest with Secondary Managers

➤ Co-Invest

- ❑ Zero Fees and Zero Carry
- ❑ Must remain nimble

Policy relative to Actual Portfolio weights

Strategy	Policy Range			Actual	Potential Adjustment
	MIN	TARGET	MAX	FMV	
Buyouts	40.0%	50.0%	60.0%	44.2%	Increase
Growth-Venture	15.0%	25.0%	40.0%	28.78%	Decrease
Special Situations	5.0%	25.0%	35.0%	26.8%	Opportunistic

(1) Data Source: Fitch, Inc., Fitch Ratings Ltd. “Fitch: U.S. High Yield Default Rate Falls Back to 2% in July”, August 17, 2012

(2) Data Source: Cogent Partners Secondary Pricing Trends & Analysis, July 2012

Private Equity Geographic Diversification

North America 68.9%

Europe 20.4%

Pacific Rim 9.6%

US Dollar per Euro



Current Initiatives

1) Internet Hosted Private Equity Research Platform:

“focused on providing the private equity and venture capital communities with high-quality, in-depth data through a simple, intuitive platform providing clients with all the tools they need to make better investing decisions”

- sourcing
- due diligence

2) Risk Management

- monitoring
- portfolio management