



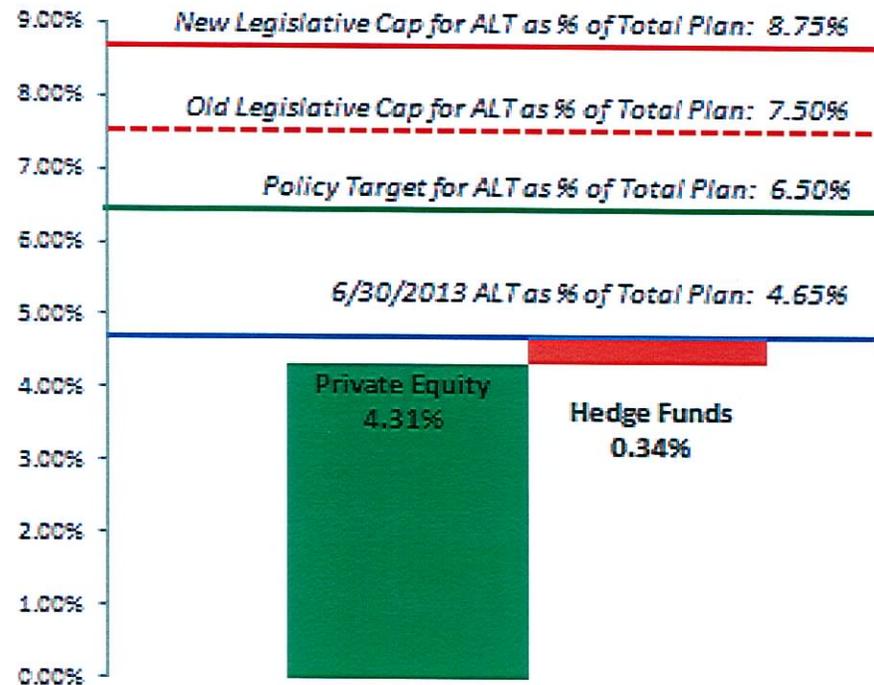
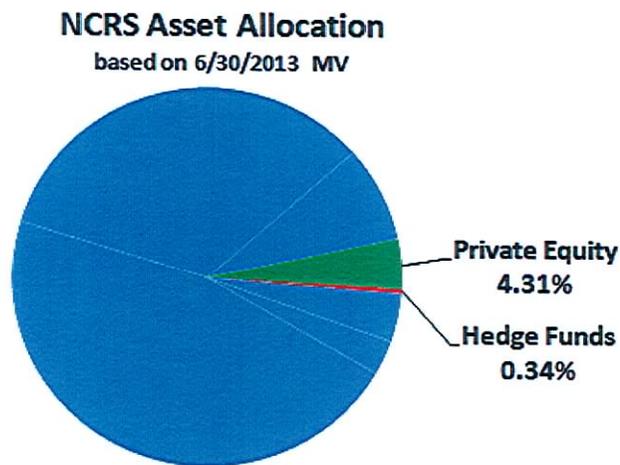
# Alternatives Update

September 18, 2013

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

# Alternatives Allocation

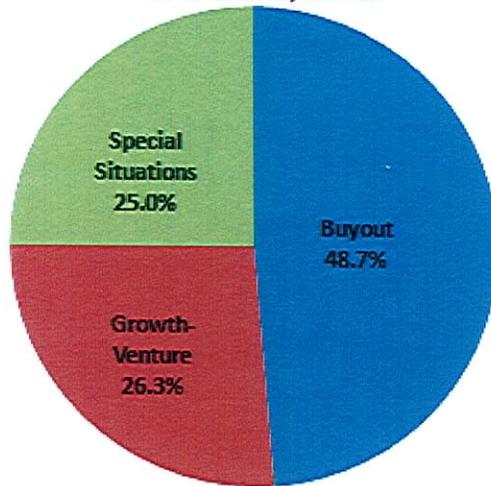
As of June 30, 2013, Alternatives represented 4.65% of the Total NCRS Plan, below its Policy Target and Legislative Cap.



# Private Equity Allocation

## Strategic Allocation

based on June 30, 2013 FMV

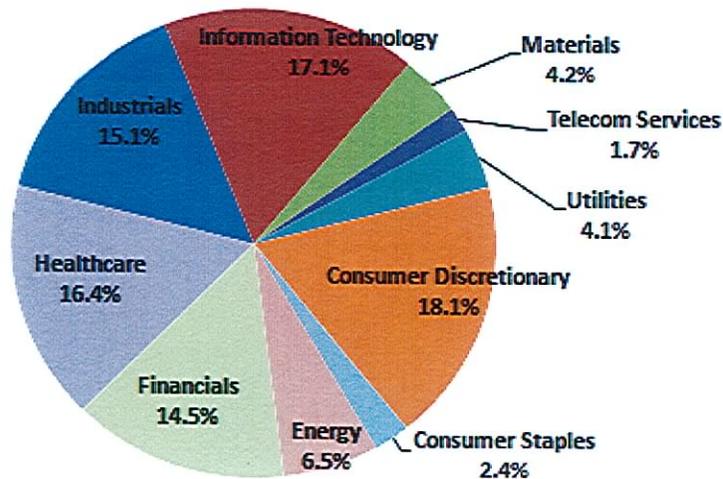


## Policy relative to Actual Portfolio weights

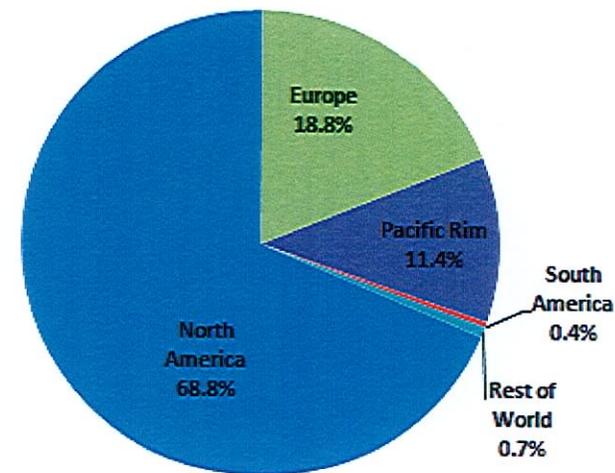
Strategy	Policy Range			Actual
	MIN	TARGET	MAX	FMV
Buyouts	35.0%	50.0%	65.0%	48.7%
Growth-Venture	15.0%	25.0%	35.0%	26.3%
Special Situations	15.0%	25.0%	35.0%	25.0%

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

## GICS Industry Allocation\*\*

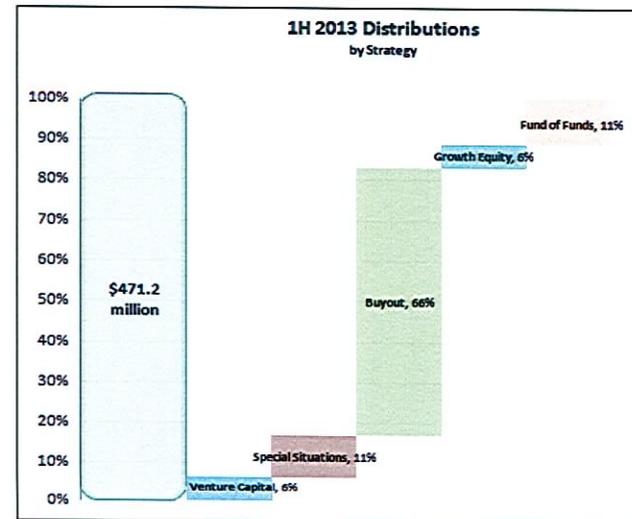
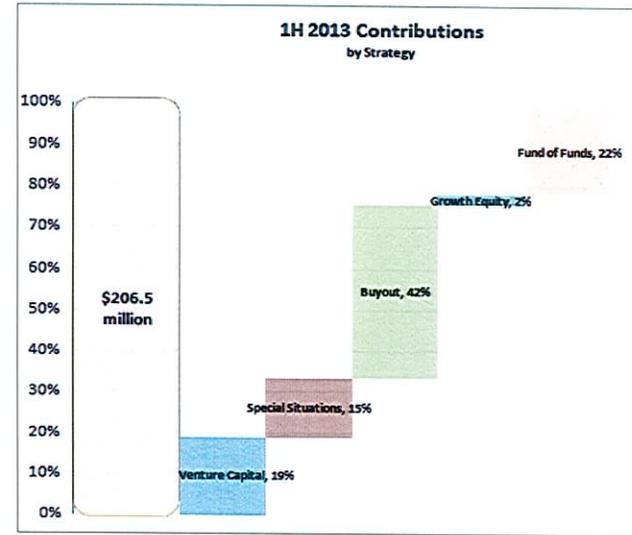
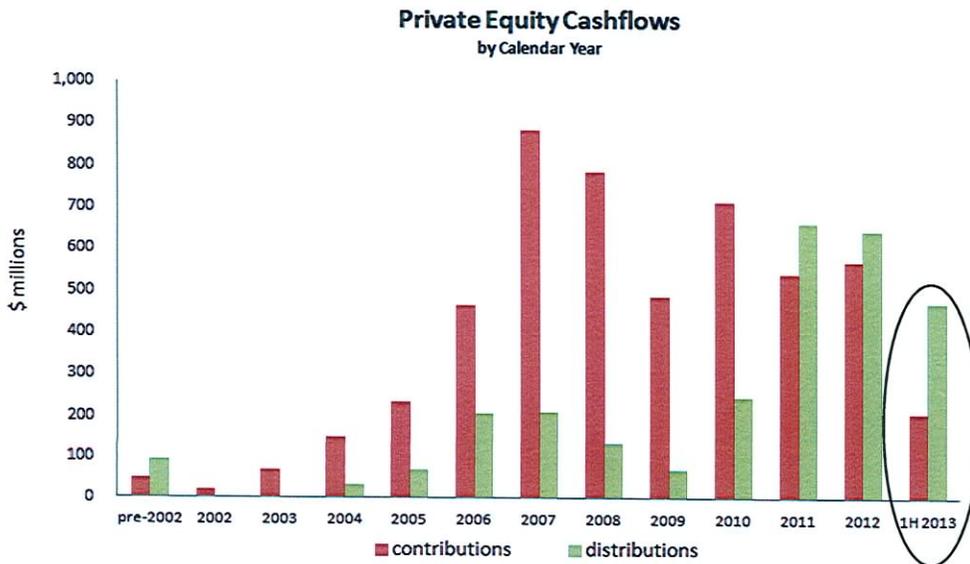


## Geographic Allocation\*\*

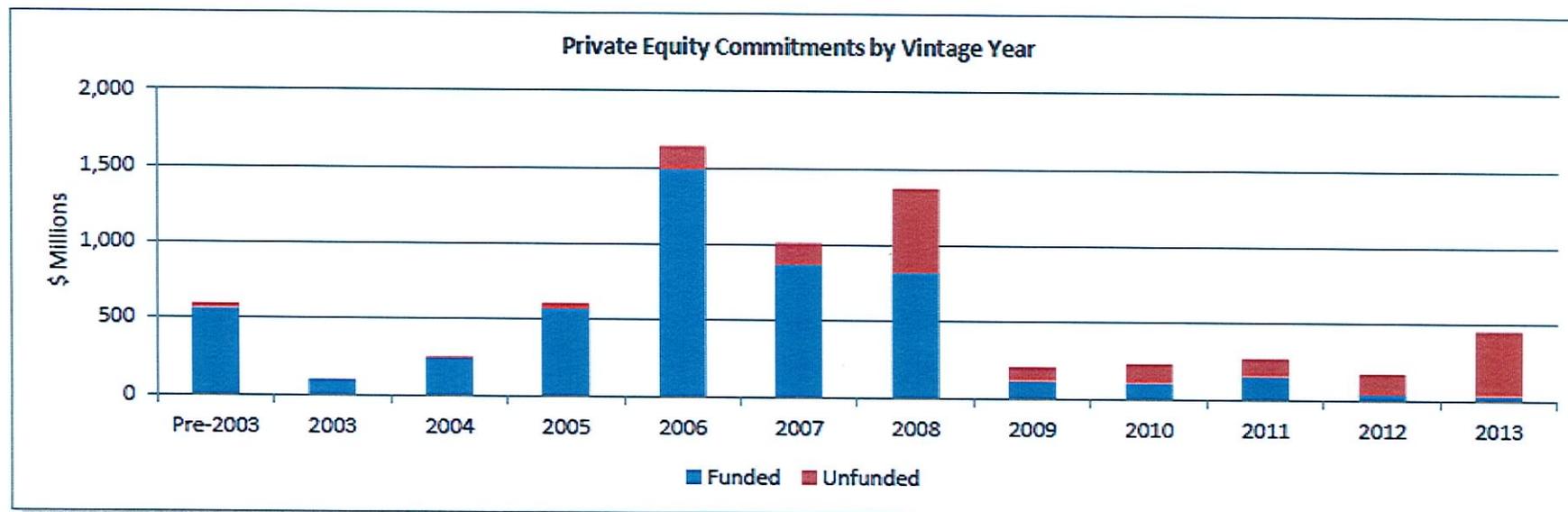


# Private Equity Cashflow Detail

In 2011, 2012, and through the first half of 2013, Distributions have exceeded Contributions.



# Private Equity Performance



	IRR by Vintage Year											
	<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>2013</u>	<u>Total*</u>
a/o 6/30/13	13.22	6.85	5.25	2.13	5.12	7.08	8.65	12.39	-0.82	-19.28	-8.48	5.91
a/o 6/30/12	13.76	6.67	6.21	1.92	4.16	5.20	-0.95	3.45	-1.36	-1.62	N/A	5.94

# Private Equity Performance

Secondary – transacted beginning of 2010

- \$850 MM initial commitments
- \$570 MM of 9/30/10 NAV, 19.5%

Fund-of-Fund exposure

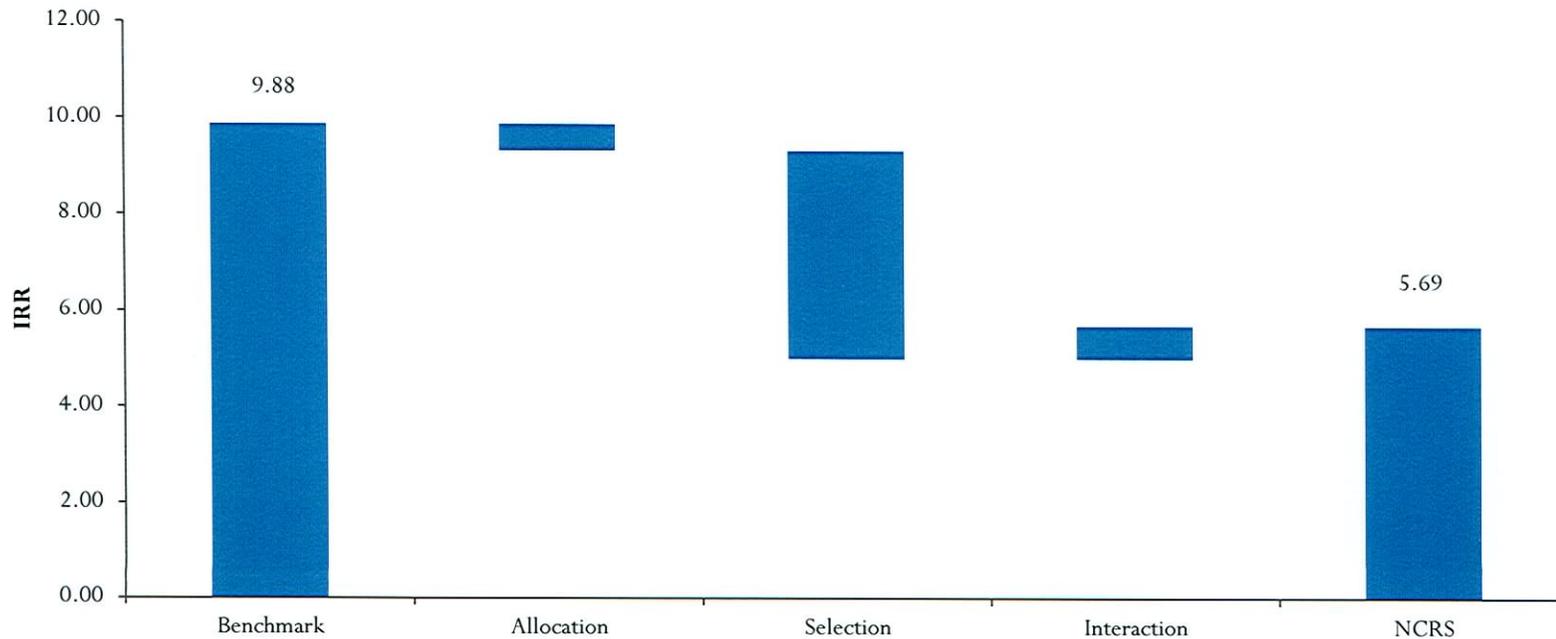
- double layer of fees & weaker performance
- 24% of commitments as of 3/31/13
- 27% of NAV as of 3/31/13

**Combined IRR  
impact  
= -1.66<sup>1</sup>  
(through 3/31/13)**

# Performance Attribution

## Contribution to Cumulative Active Return Vintage Years 2000-2012

As of March 31, 2013



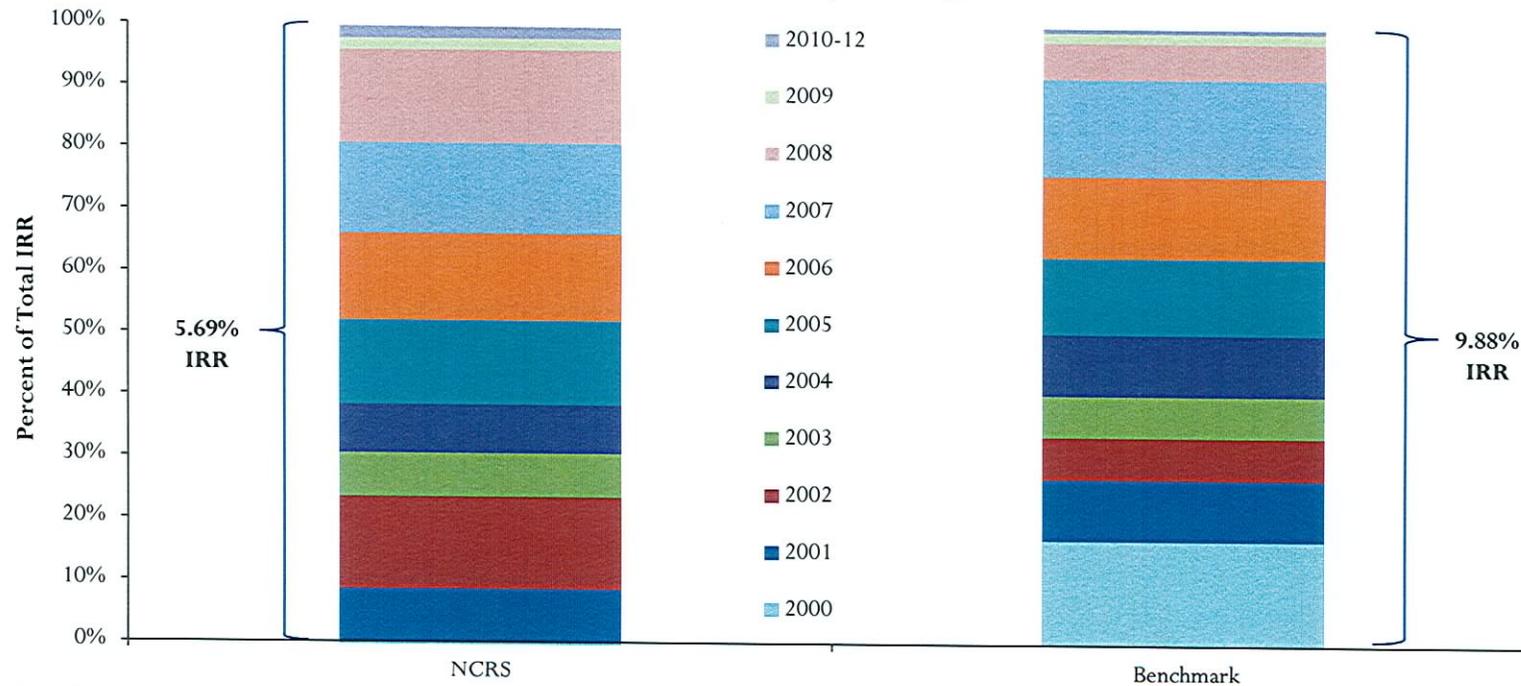
- Selection variance has been the primary discrepancy between the Benchmark returns and the portfolio returns
- 55% of the Selection variance is attributable to Vintage Year 2000 investments
- 41% of the cumulative difference between the Benchmark and portfolio return is attributable to Vintage Year 2000 investments

Note: For the purpose of this analysis, vintage years 1999 and earlier are excluded, thus the cumulative IRR of 5.69% does not include the impact of returns generated from these earlier vintage years.

# Performance Attribution by Vintage Year

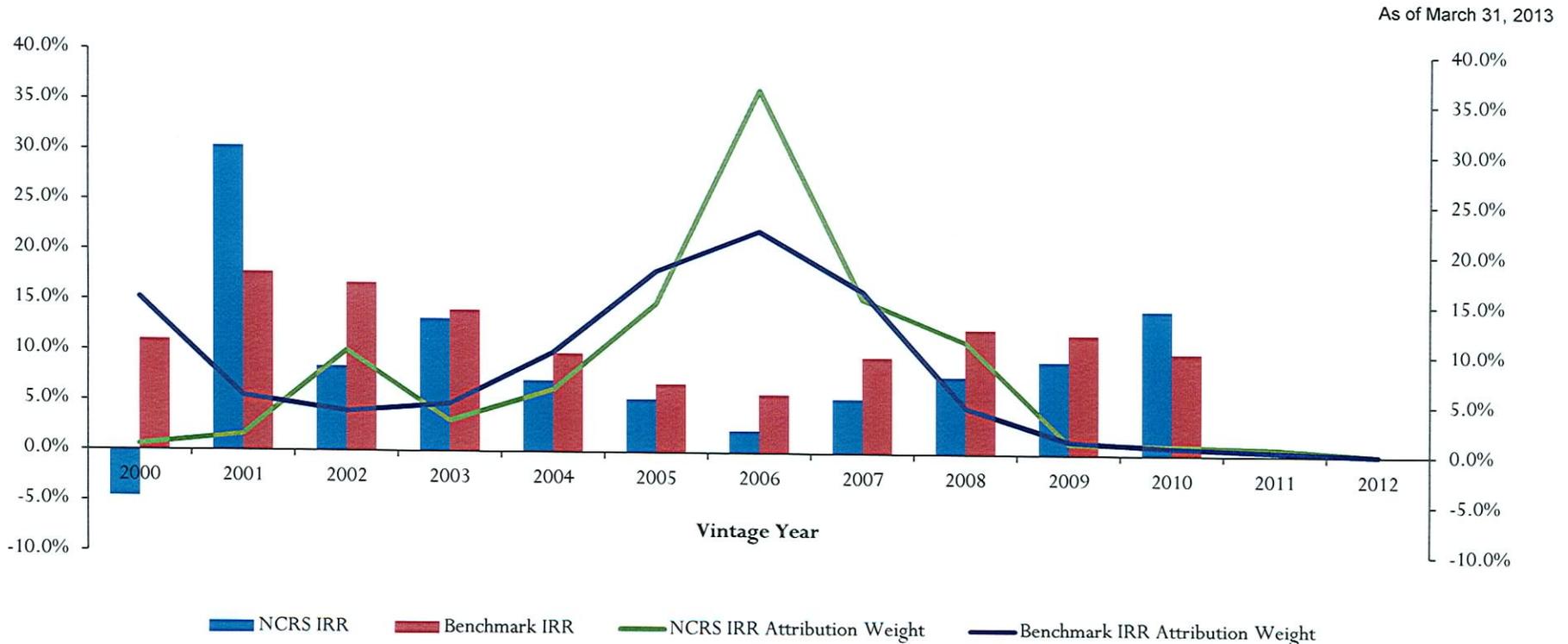
## IRR Contribution by Vintage Year

As of March 31, 2013



- The chart above illustrates the contribution, by vintage year, to the NCRS private equity portfolio and the benchmark as of March 31, 2013
- Thus far, investments in vintage years 2009-2012 have had limited impact on returns for both NCRS and the benchmark
- Vintage years 2005-2008 account for nearly 60% of NCRS returns, which is meaningfully greater impact than the same years have had on the Benchmark
- Vintage year 2000 has a dramatic impact on the Benchmark returns, whereas it has had effectively no impact on the portfolio's returns

# Attribution Weight and IRR



- NCRS was meaningfully underweight the Benchmark in 2000, and overweight in 2006
- NCRS effectively ceased making new investments from the end of 2008 until the third quarter of 2011 due to a temporary breach of statutory limits
- Returns from vintage years 2011-2012 are not yet meaningful due to the relative immaturity of the investments from those years

# Private Equity Performance

Private Equity Attribution Analysis					
Strategy	NC IRR	Contribution to NC IRR (A)	Benchmark IRR	Contribution to Benchmark IRR (B)	Contribution to Active IRR (A – B)
VC	5.98	0.64	7.14	0.61	0.03
Growth Equity	9.39	0.59	9.92	1.22	-0.63
Buyout	5.76	2.59	7.36	3.81	-1.22
Special Situations	8.39	1.18	12.37	2.67	-1.49
Fund-of-Funds	4.92	1.18	5.52	0.32	0.86
Total	6.18	6.18	8.63	8.63	-2.45

**Buyout – secondary executed was 100% Buyout strategy**

**Fund-of-Funds – weakest performer relative to other strategies**

**Special Sits – includes energy, which is within the Inflation Protection Strategy**

# Prior & Current Activities

Fund commitments by calendar year in which commitment was made.

FUND COMMITMENTS COMPLETED IN 2011			
FUND	COMMITMENT AMOUNT (\$ millions)	VINTAGE YEAR	RELATIONSHIP
<b>BUYOUT</b>			
Harvest Partners VI	100	2011	existing
Vista Equity Partners Fund IV	50	2011	NEW
<b>VC / GROWTH</b>			
Tenaya Capital Fund VI	75	2012	existing
<b>SPECIAL SITUATION</b>			
Oaktree European Principal Fund II	50	2011	NEW
<b>TOTAL COMMITMENTS</b>	<b>275</b>		

FUND COMMITMENTS COMPLETED IN 2012			
FUND	COMMITMENT AMOUNT (\$ millions)	VINTAGE YEAR	RELATIONSHIP
<b>BUYOUT</b>			
Accel-KKR Capital Partners IV	10	2013	NEW
Carousel Capital Partners IV	25	2012	existing
Halifax Capital Partners III	30	2012	existing
<b>VC / GROWTH</b>			
NEA 14	45	2012	NEW
<b>SPECIAL SITUATION</b>			
Mount Kellett Capital Partners II	75	2011	NEW
<b>TOTAL COMMITMENTS</b>	<b>185</b>		

FUND COMMITMENTS COMPLETED IN 2013			
FUND	COMMITMENT AMOUNT (\$ millions)	VINTAGE YEAR	RELATIONSHIP
<b>BUYOUT</b>			
Avista Capital Partners III	150	2011	existing
Catterton Partners VII	100	2013	existing
CVC Capital Partners VI	97.5	2013	existing
HgCapital 7	98.2	2013	NEW
Levine Leichtman Capital Ptnrs V	150	2013	NEW
Milestone Partners IV	50	2011	NEW
Warburg Pincus XI	150	2012	existing
<b>TOTAL BUYOUTS</b>	<b>795.7</b>		
<b>VC / GROWTH</b>			
Catterton Growth Partners II	75	2013	existing
<b>SPECIAL SITUATION</b>			
Marlin Equity IV	49	2013	NEW
StepStone SYN	5	2006	existing
<b>TOTAL COMMITMENTS</b>	<b>924.7</b>		

Vintage Year commitment translation:

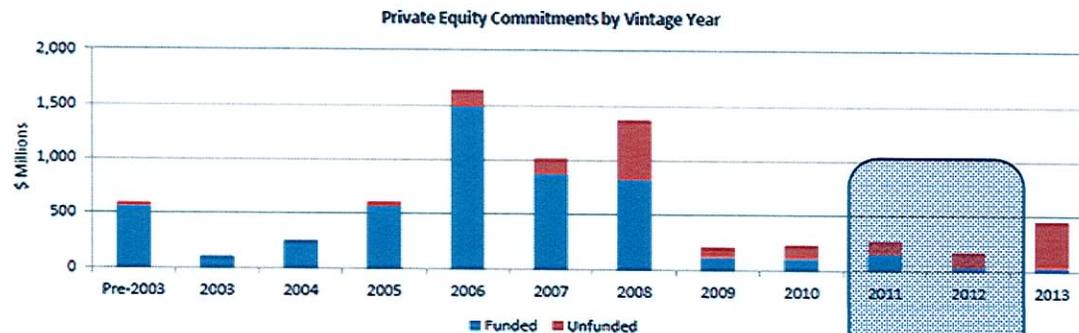
Vintage	Commitment (\$s MM)
2006	5.0
2011	575.0
2012	325.0
2013	579.9

# Prior & Current Activities

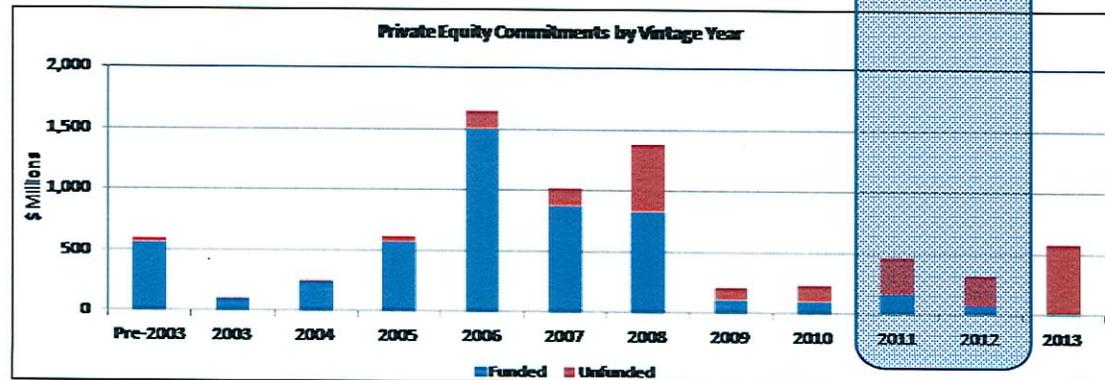
2013 commitments completed since June 30:  
 ➤ backfilled 2011 & 2012 to a degree

Fund	Vintage / commitment
Avista III	2011 / \$150 MM
Catterton Growth II	2013 / \$75 MM
CVCVI	2013 / \$97.5 MM
StepStone SYN	2006 / addit. \$5 MM
Warburg Pincus XI	2012 / \$150 MM

as of 6/30/13

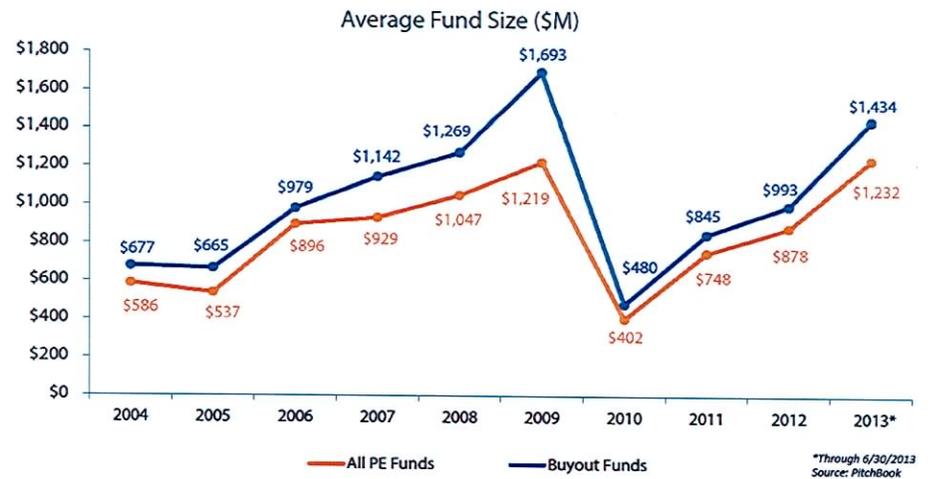
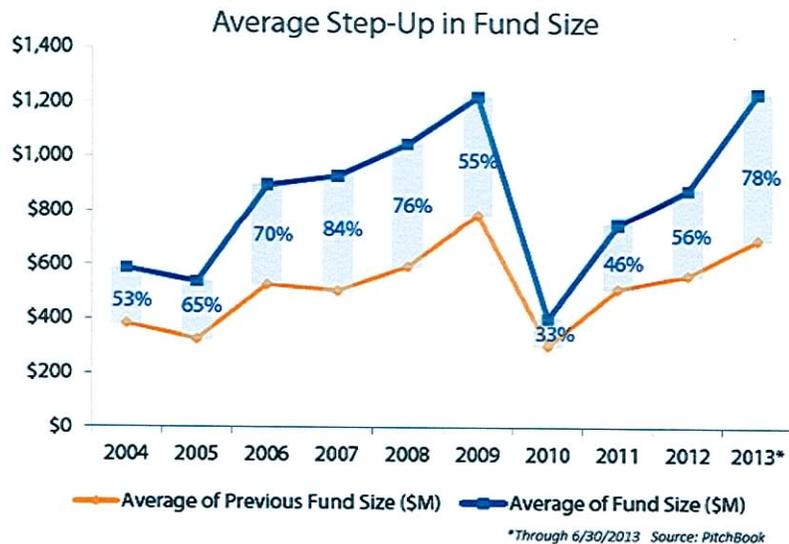
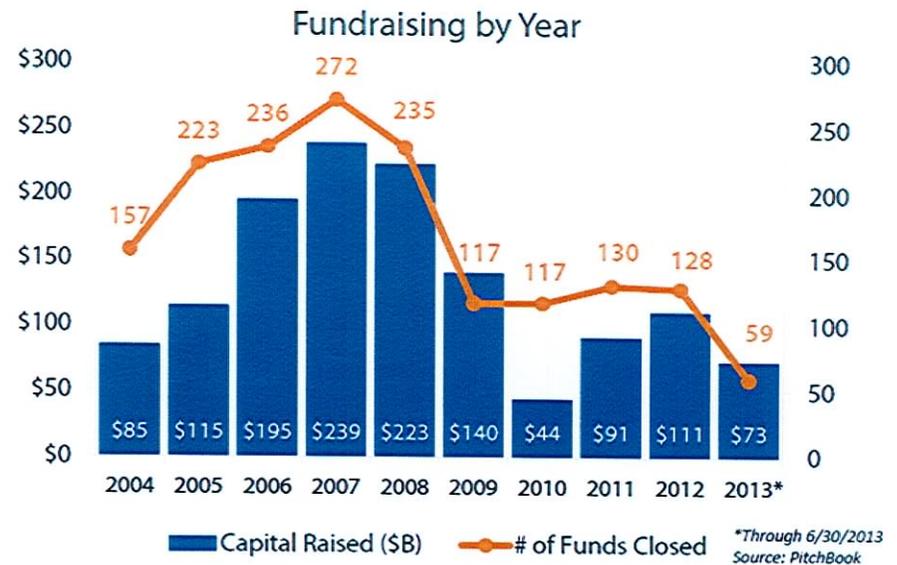


post 6/30/13



# Private Equity Fundraising

- 2013 is on track to be the largest private equity fundraising market globally since 2009 in total value
- Consolidation to established brand name firms has led to fewer, yet larger funds raised
- On average, managers are increasing fund size
- Small funds have struggled to raise capital in 2013, however funds greater than \$5 billion have done exceptionally well, accounting for over 50% of capital raised through June 2013

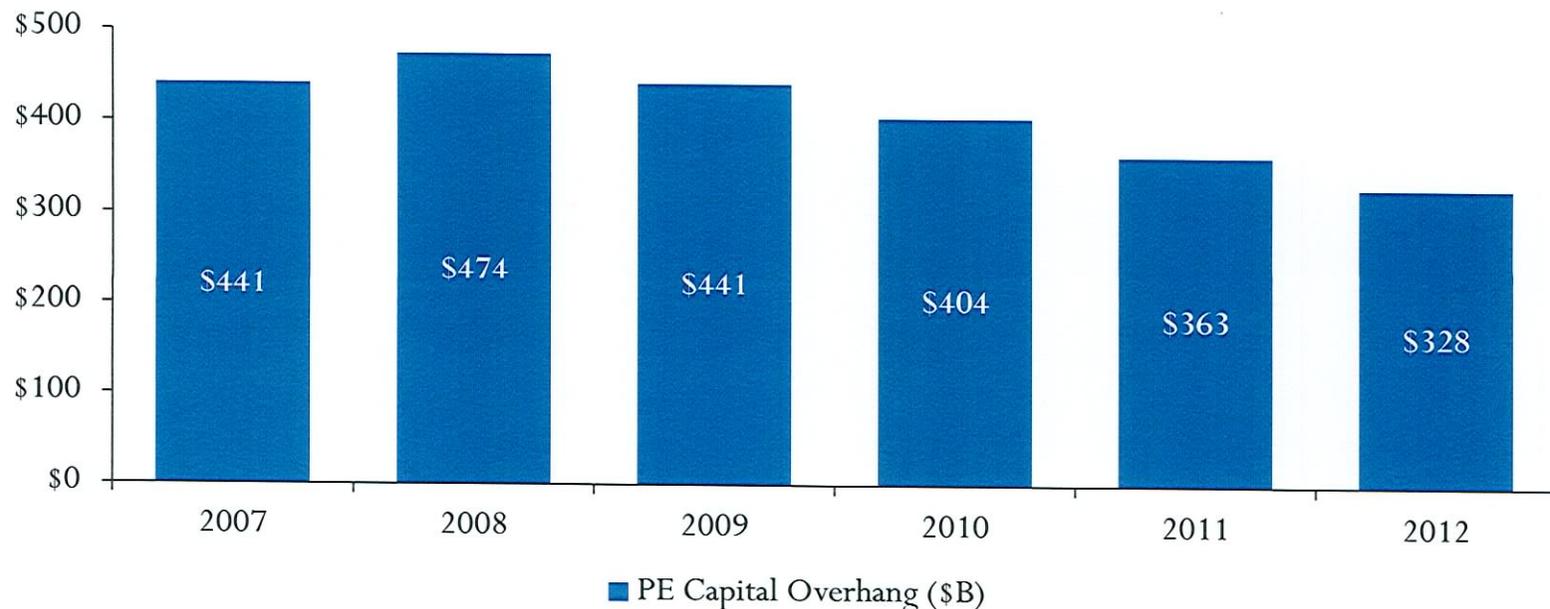


# Buyouts

REDACTED: CONTAINS CONFIDENTIAL INFORMATION PROVIDED BY A VENDOR

# Private Equity Capital Overhang

- Capital overhang in private equity has declined 30% since the peak in 2008
- Buyout funds represent approximately 76% of the overhang
- Approximately 70% of the overhang is represented by funds of \$1 billion or more
- Vintage Year 2007 and 2008 funds represent 26% of the overhang, suggesting these funds may have pressure to deploy capital before their investment periods end



# Buyouts – Entry Valuations

REDACTED: CONTAINS CONFIDENTIAL INFORMATION PROVIDED BY A VENDOR

# Buyouts – Net Debt Multiples

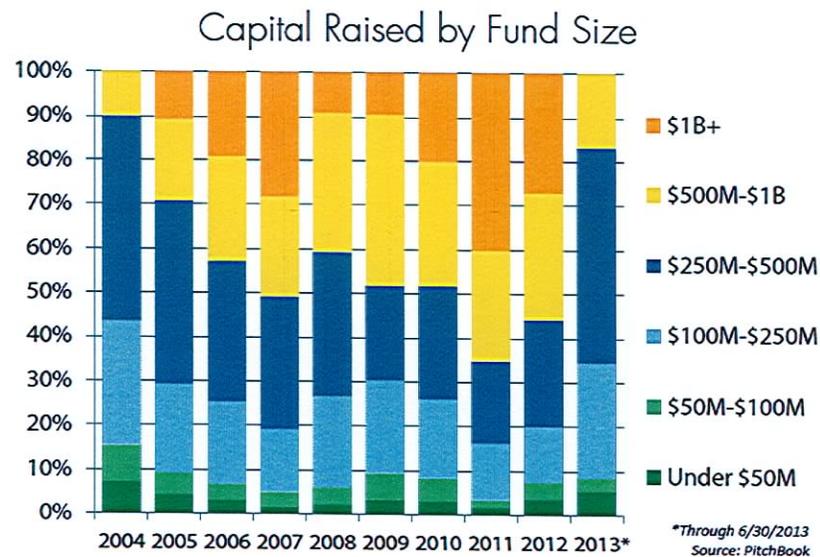
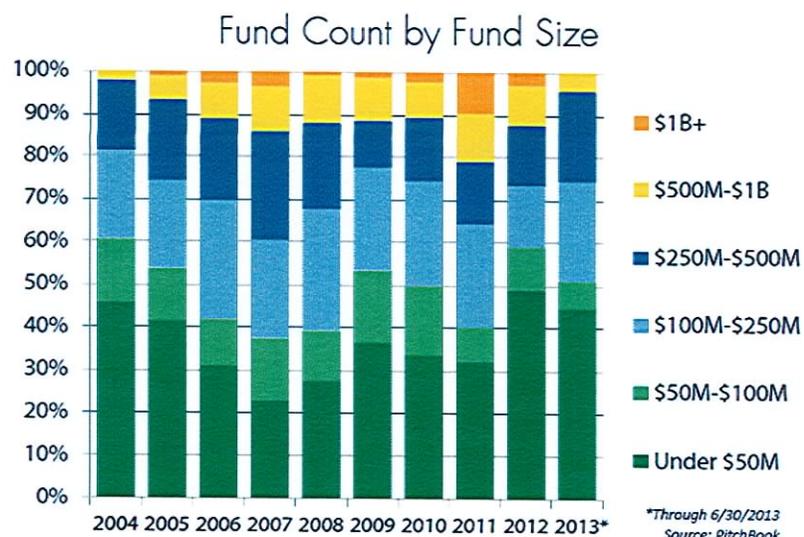
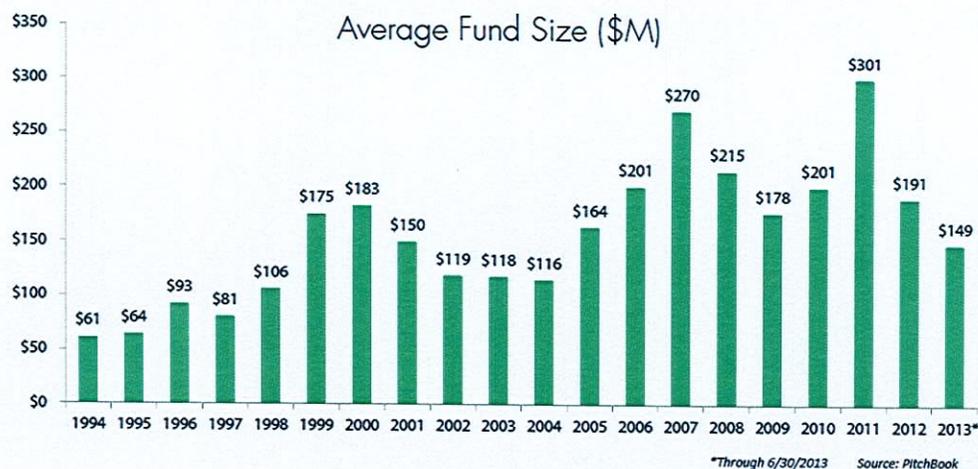
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# NCRS Strategy 2014-2015: Buyouts

- Primarily focused on funds based in North America, however selectively will consider Western European opportunities
- Preference for middle market funds and a limited number of large funds
- Differentiated investment strategy is critical in an increasingly competitive marketplace
  - Sector focus
  - Deep value
  - Structured transactions or securities
  - Operational expertise
- Mix of re-ups with existing managers and select new relationships
- Typical Buyout commitment size going forward = \$200 MM
  - Expect to concentrate on fewer number of high conviction managers/GPs

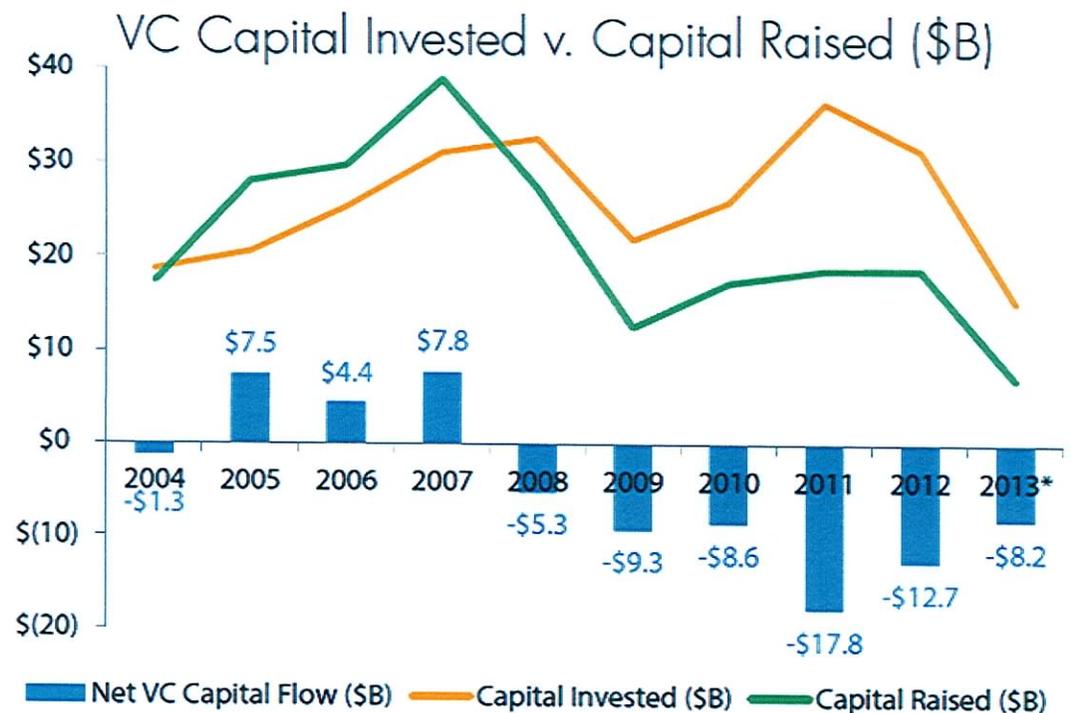
# Venture Capital Fundraising

- Through June 2013, VC firms have closed 47 funds for a total of \$7.0 billion compared to \$10.6 billion in the first half of 2012
- Fundraising activity has been dominated by funds raising \$100 million or less
- Funds raising in excess of \$500 million typically represent less than 15% of funds in market



# Venture Capital Overhang

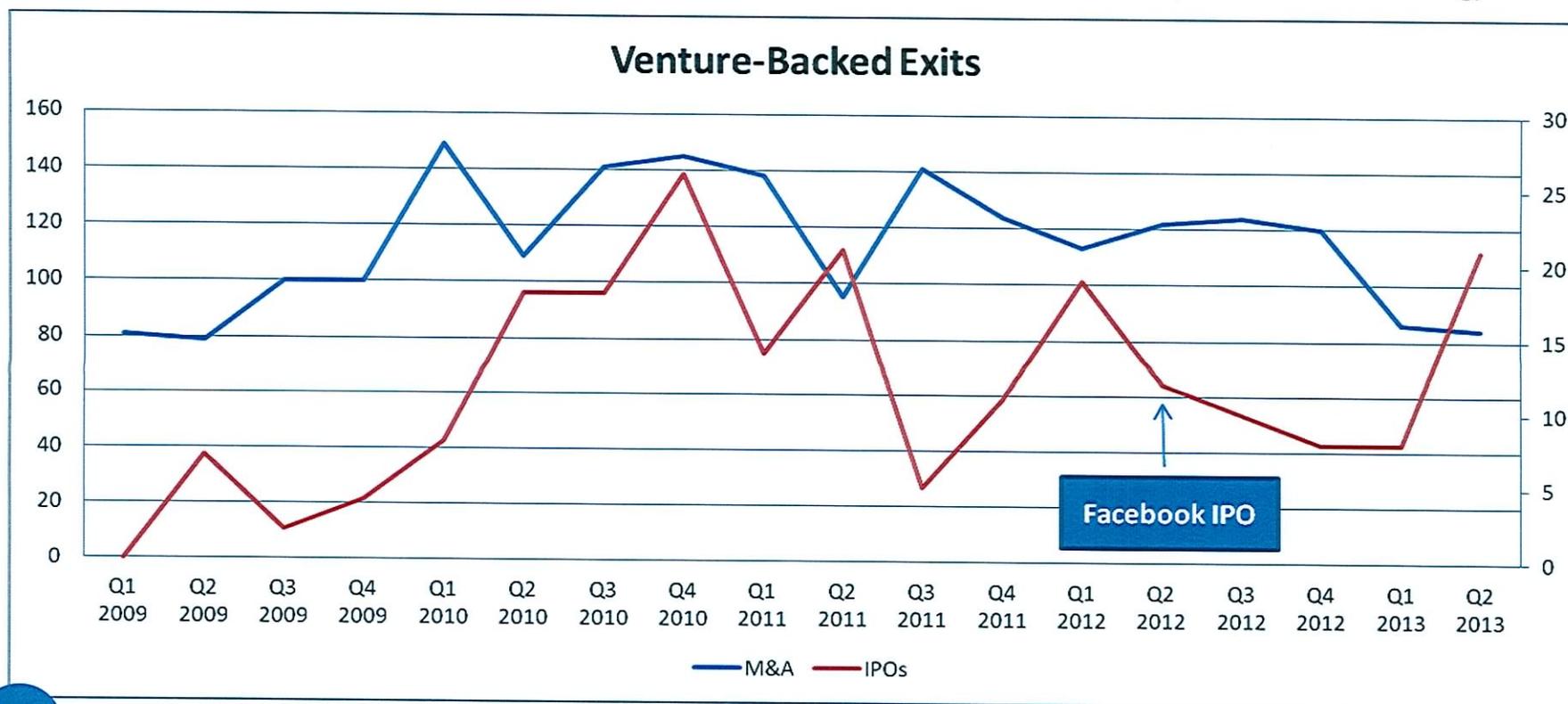
- Venture capital firms have invested more than they have raised every year since 2008, which has created a structural change in the marketplace
- Over 55% of capital available for investment is held in funds over \$500 million



\*Through 6/30/2013 Source: PitchBook

# Venture Capital Exits

- 21 venture-backed companies raised \$2.1 billion in Q2 2013, more than double the amount of exits and dollars raised over Q1 2013 and a dramatic surge in the number of IPOs since the Facebook IPO chilled the market in Q2 2012
- 11 of the 21 IPOs were biotechnology companies, which marks the most biotech IPOs since Q3 2000
- As the IPO market was particularly attractive, M&A activity declined, particularly within biotechnology



# NCRS Strategy 2014-2015: VC/Growth Equity

- Access to best managers is critical
  - ❑ Relationship building
  
- Emphasize Growth Equity:
  - ❑ Deployment of more meaningful capital
  - ❑ Reduction of early stage risks
  - ❑ GPs are diversifying LP base
  
- Seed Stage Capital
  - ❑ Significant amount of capital raised
  - ❑ Seed valuations up significantly
    - Attractive opportunities moving directly to series A financing
  
- Geography:
  - ❑ VC – more US based
  - ❑ Growth Equity – potentially more global

# NCRS Strategy 2014-2015 : Special Situations

## ➤ Distressed / Turnaround Opportunities

- Default rates are expected to remain low
- Exploring managers that are not reliant on true defaults/bankruptcy to successfully implement strategy
- Exposure to Europe:
  - European dedicated distressed for control fund
  - 2 others – smaller portion of their focus
  - In process – additional fund where will not be a meaningful portion

## ➤ Secondaries

- Recent fund performance makes an attractive entry valuation critical
- Explore opportunity to back fill prior vintage years where exposure is not at desired levels

## ➤ Co-Invest

- Reduced economics
- Must remain nimble

# Current Initiatives

- Multi-Year Work Plan
  - ❑ Incorporates pacing model, tentatively targeting 6.5% allocation
  - ❑ Flexible guidelines for pacing and focus
  - ❑ Will be finalized following asset liability study
- Non-Core Residual Funds
- Fee Monitoring and Review
  - ❑ Fund-of-Funds – restructure / decrease fees
- Middle Office Support Review
  - ❑ Risk Analytics Platform
- Special Programs
  - ❑ In-State Program – success of the NC Innovation Fund / Fund II
  - ❑ Small / Emerging Manager Program – access to smaller funds efficiently
  - ❑ Co-Investment Program – zero fees / zero carry
- Staff Expansion and Development
  - ❑ Incorporate Consultant – project based