



Office of the Treasurer of The Regents

University of California

I-4 UC Private Equity Program Review

Committee on Investments / Investment Advisory Group

February 22, 2011

Presentation Outline

- **Industry Update**
- **Strategy Overview**
- **Portfolio Review**
- **Performance**



Industry Update: Fundraising

- 2010 Fundraising declined 16% from 2009... LP's still recovering
- Improved terms with GP as a result of weak market coupled with ILPA Principles
- Extremely difficult Venture Capital fundraising market
 - Life sciences experiencing extraordinary return compression & longer holds
 - Negative ten year industry returns
- China growth equity driving Asian fundraising

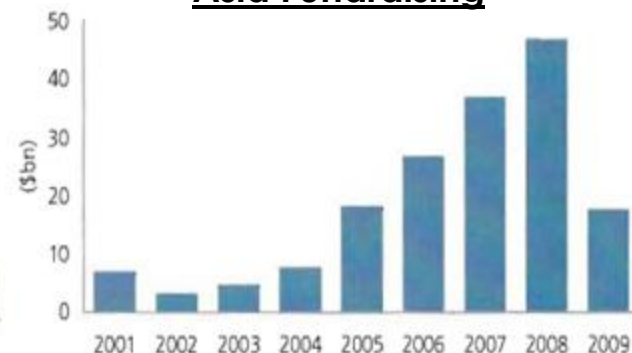
US Fundraising



Europe Fundraising



Asia Fundraising

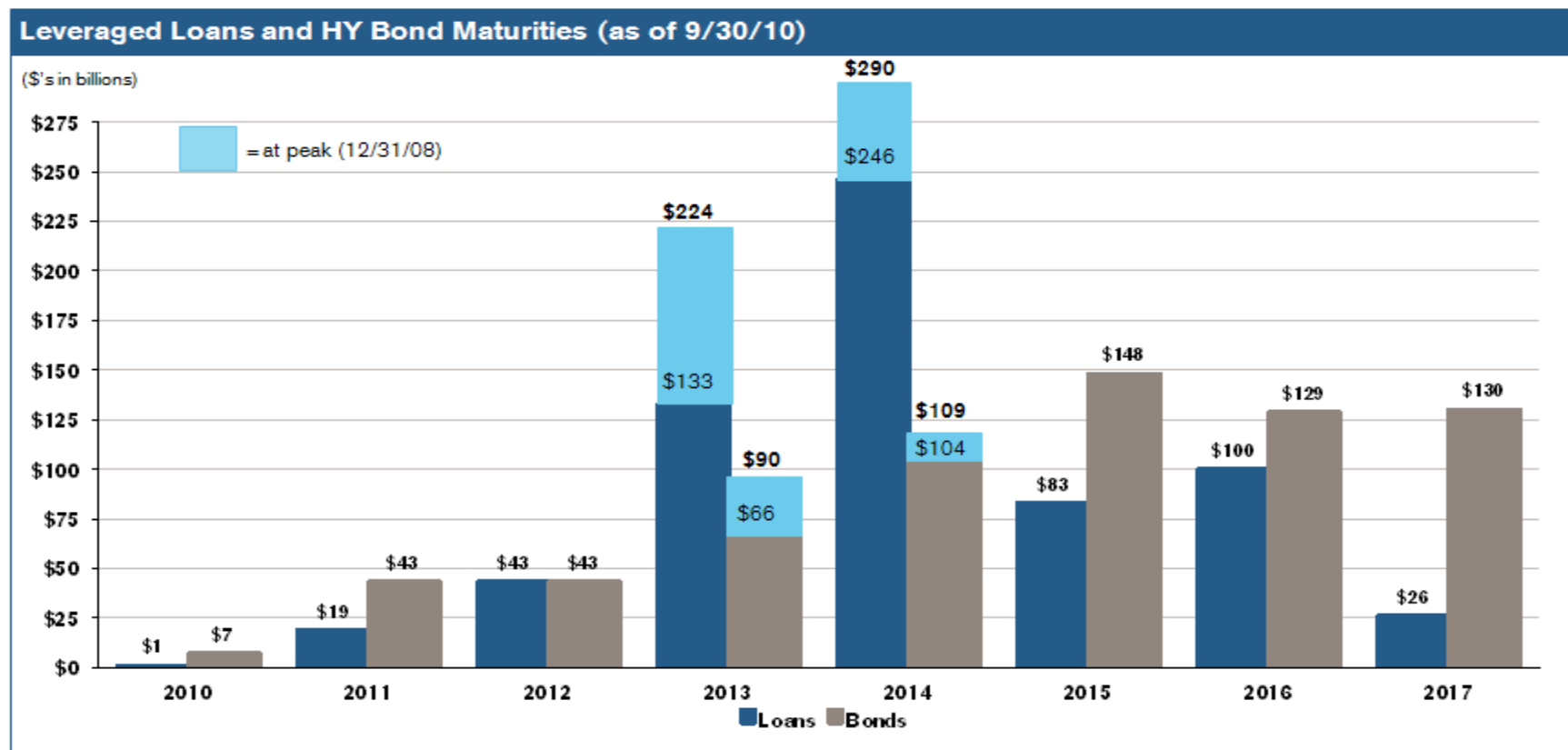


Source: EMPEA, data through December 31, 2009



Industry Update: Debt Maturities

- Significant amount of debt has been refinanced with extended maturities
- Wall of maturities still ahead in 2013 – 2014... Driving longer holding periods



Source: Credit Suisse

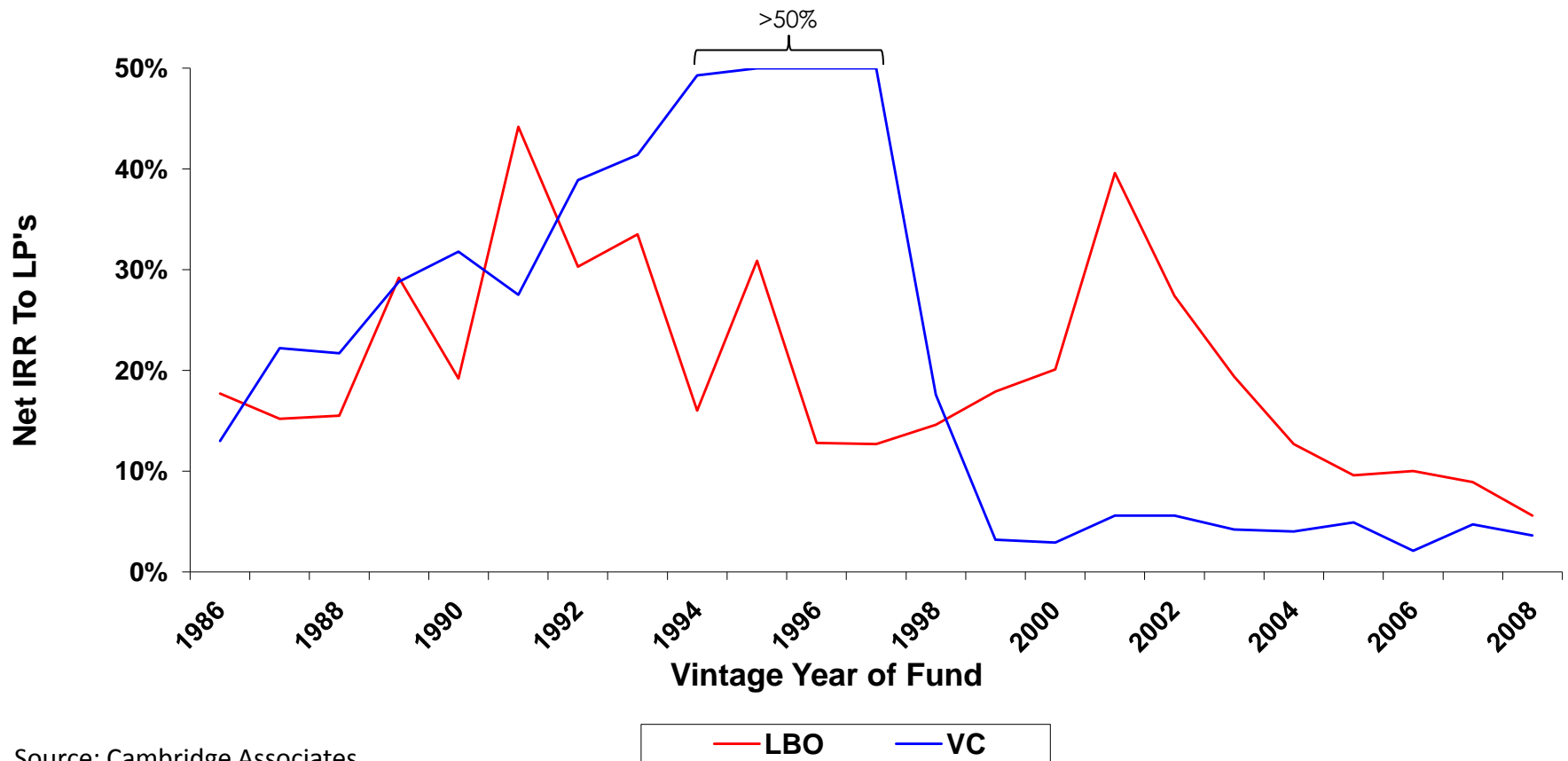


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Industry Update: 1st Quartile Returns

- Negative ten year VC industry return... 1st quartile generally 2% - 6% past decade
- Buyout managers enhancing value creation skills to drive returns



Source: Cambridge Associates



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Strategy: Core

- Differentiate portfolio through manager selection and due diligence
 - Strong alignment of interest with investment partner
 - Focus on managers with value creation skills beyond leverage
 - Disciplined re-investment decision process
- Construct portfolio of best and most complementary set of managers globally
- Proactive and timely focus on tactical opportunities as they arise
 - Evaluate secondary opportunities
 - Evaluate portfolio rotation
 - Canvas market for dislocations and resulting opportunistic investments
 - Consider out-of-favor investment strategies
- Expand co-investment focus and capabilities.... Continuously refine process



Strategy: Actions During Downturn

- Moved defensively early in 2007
- Utilized UC liquidity to buy funds from distressed investors (secondaries)
- Added premier firms
 - Gained new relationships through secondary purchases
 - Anemic fundraising market provided opportunity to access two key VC firms
- Invested in unlevered distressed credit in mid 2008
- Continued to invest during downturn to build future value
- Invested cautiously in Europe... Began increasing China in 2008
- Proactively enhanced monitoring



Program Overview

- Private equity program inception date **1979**
- Total number of active managers/funds **95 firms, 182 funds**
- Current UCRP allocation to private equity **6.6%**
- Current GEP allocation to private equity **7.4%**
- Top 10 Relationships (% of total exposure) **32%**

As of 12/31/10 (\$ millions)

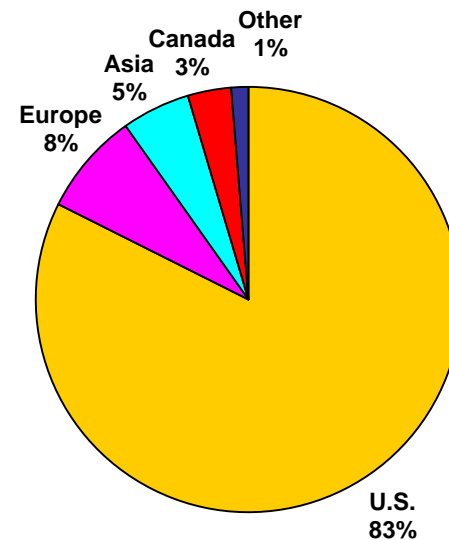
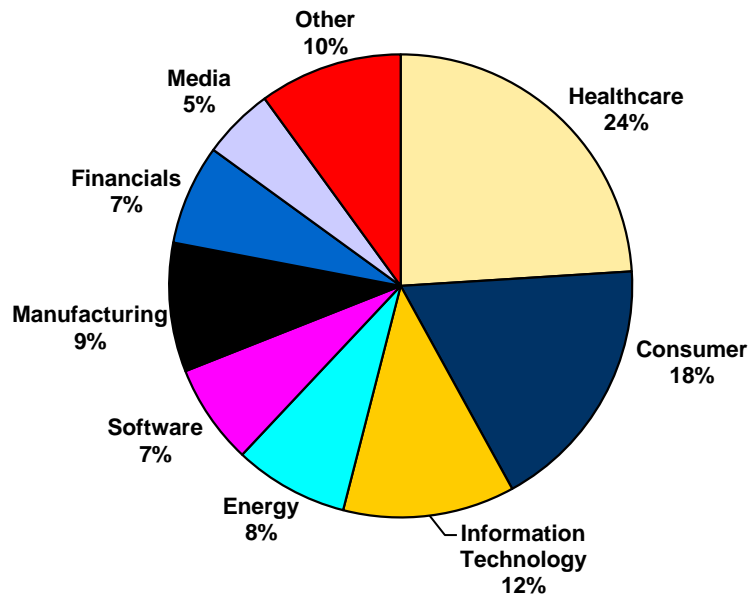
<u>Asset Type</u>	<u>NAV</u>	<u>Unfunded Commitment</u>	<u>Total Exposure</u>	<u>% NAV</u>	<u>% Total Exposure</u>
Leveraged Buyouts	\$2,009	\$1,137	\$3,147	62%	62%
Venture Capital	\$1,116	\$585	\$1,701	34%	33%
Co-Investments	\$20	\$2	\$22	1%	1%
International Funds	<u>\$86</u>	<u>\$116</u>	<u>\$201</u>	<u>3%</u>	<u>4%</u>
Total Private Equity	\$3,231	\$1,840	\$5,071	100%	100%

* Combined private equity exposure across the UCRP, GEP and 403(b)



Program Overview: Exposures

- Diversified portfolio by Industry
- Increasing global diversity
 - U.S. continues to be emphasis
 - Europe and Asia have become core
 - Evaluating other developing markets



As of September 30, 2010)

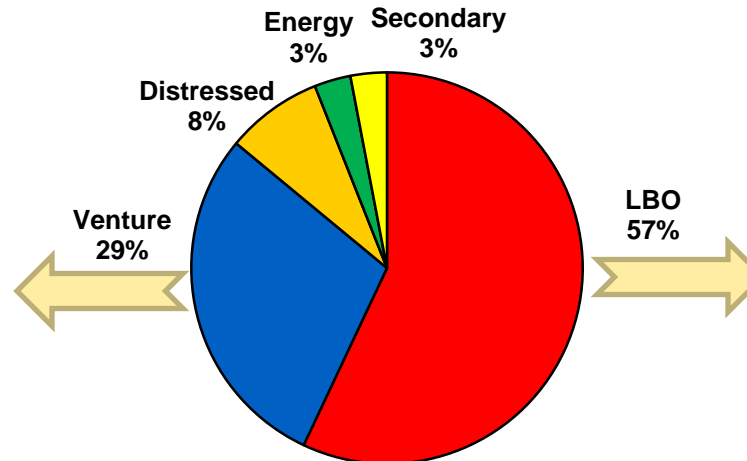
* Combined private equity exposure across the UCRP, GEP and 403(b) based on underlying portfolio company investments



Program Overview: Historical Commitments

- Opportunistic Secondary purchases during 2008 – 2010
- Distressed investments primarily made during 2007 – 2008
- Energy Investments have been expanded since 2008
- Venture Capital has been shrinking the past four years

Commitments Since 2002



Venture Breakdown

<u>VC Type</u>	<u>% of Total</u>
Early Stage	17%
Expansion VC	12%
Total Venture	29%

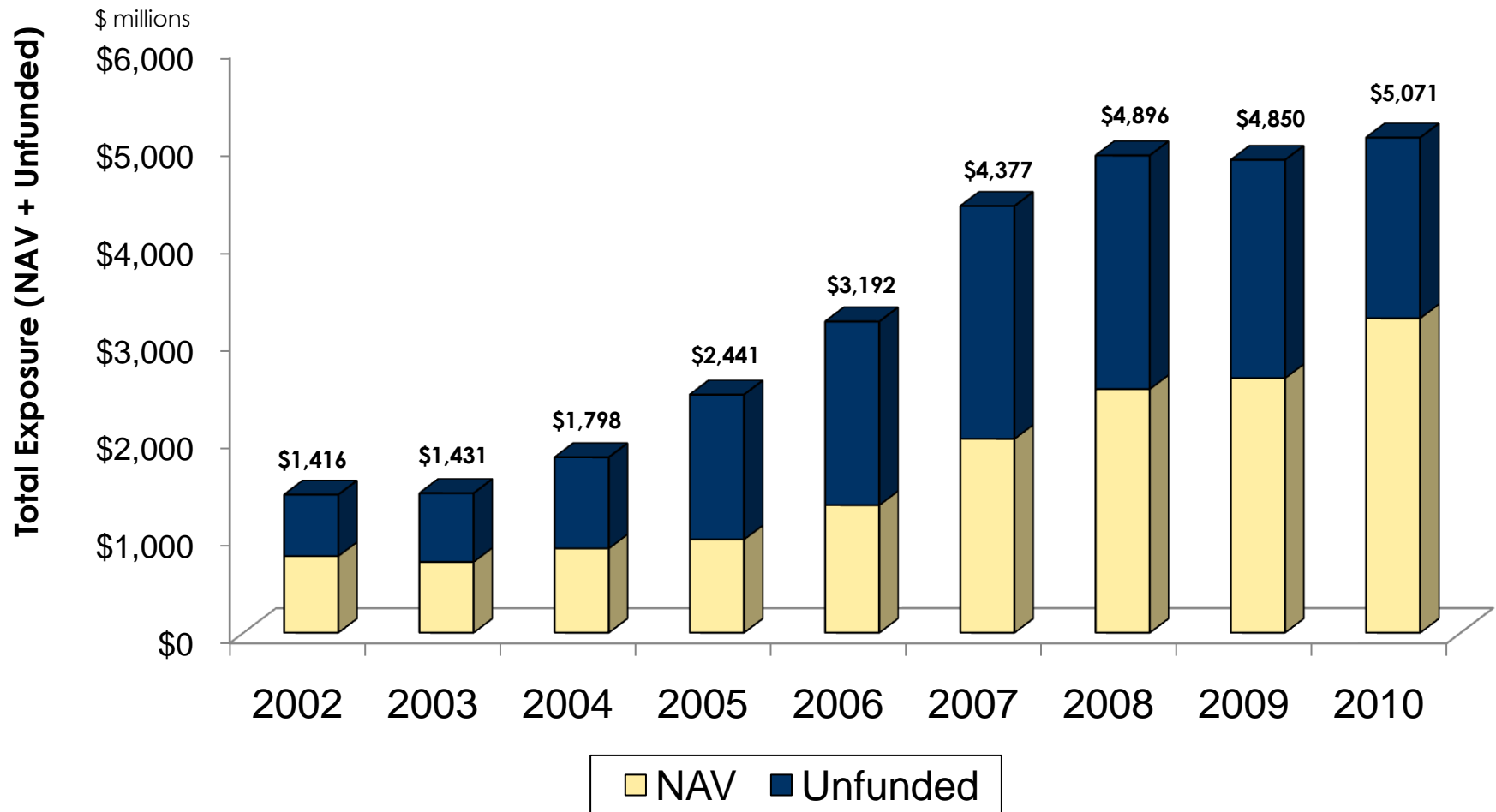
Buyout Breakdown

<u>LBO Type</u>	<u>% of Total</u>
Mega	18%
Large	7%
Mid	19%
Lower	13%
Total Buyout	57%



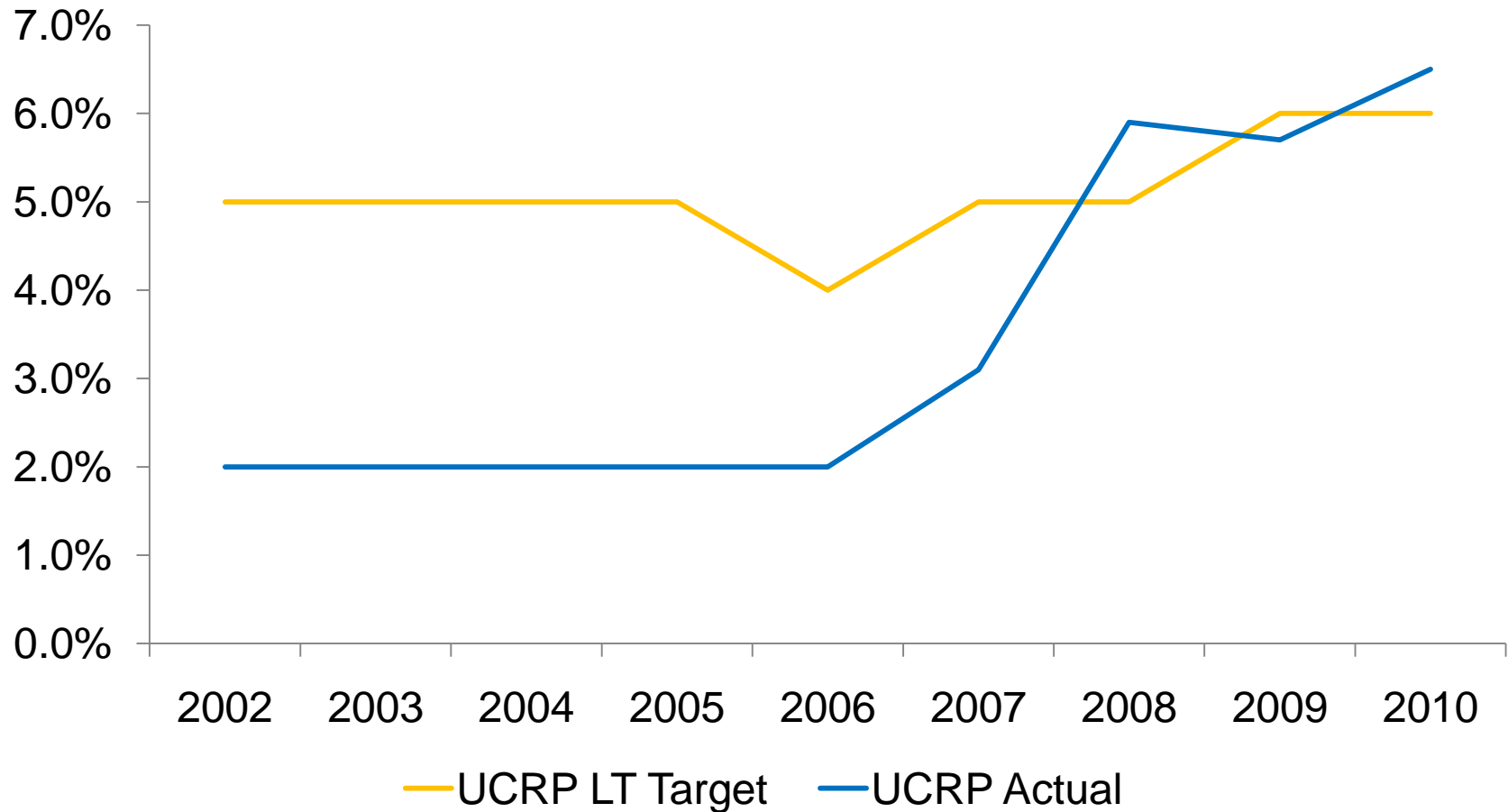
Program Overview: Portfolio Development

- **Maturing portfolio has driven NAV growth and reduced unfunded commitments**



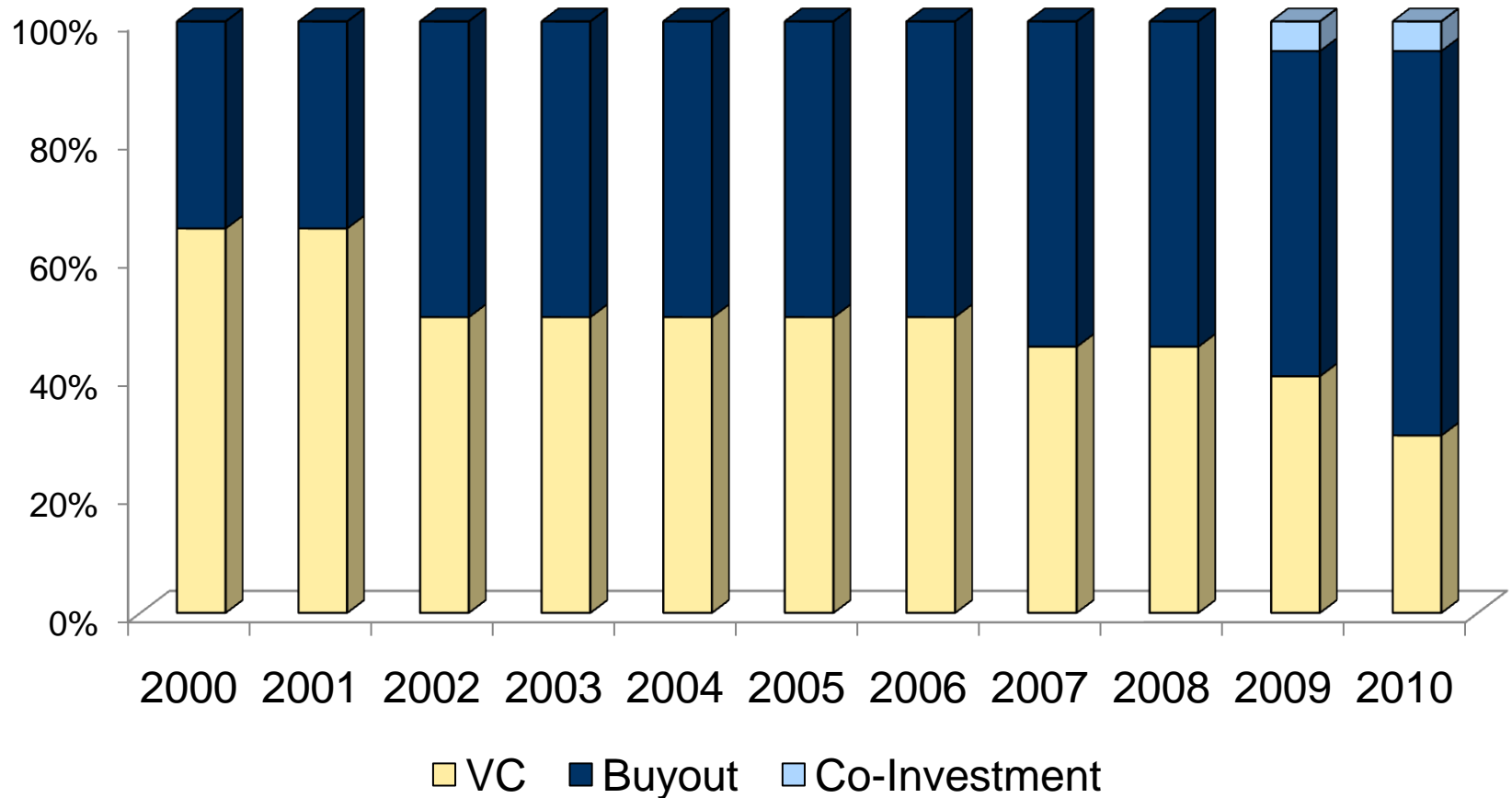
Program Overview: Asset Allocation Growth

- Portfolio has reach maturity at current allocation levels



Program Overview: Strategy Allocations

- Shift over time from a venture capital focus to a buyout focus



Performance

- Strong returns in the downturn
- Expect recent public market gains to drive strong private equity returns in 2011

Current Returns

As of 12/31/10

	<u>FYTD</u>	<u>1 year</u>	<u>3 year</u>	<u>5 year</u>	<u>10 year</u>
UC Private Equity*	6.2%	16.3%	1.1%	6.5%	0.8%
Russell 3000 Lag**	-1.1%	11.0%	-6.6%	0.9%	0.0%
Excess Return	+730bps	+530bps	+770bps	+560bps	+80bps

Returns in the Downturn

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
UC Private Equity*	18.7%	-2.6%	-8.5%	16.3%
Russell 3000 Lag**	16.5%	-21.5%	-6.4%	11.0%
Excess Return	+220bps	+1,890bps	-210bps	+530bps

* UC Private Equity is the combined return for the UCRP, GEP and the 403(b)

** Russell 3000 lag = Russell 3000 returns on a one quarter lag which is comparable to the private equity returns which are lagged

