Memorandum

MEETING DATE
DEC 14 2011
AGENDA ITEM
#12

Date: December 7, 2011

To: CCCERA Board of Retirement

From: Cary Hally, Retirement CIO; Chih-chi Chu, Retirement Investment Analyst

Subject: Commitments to Adams Street 2012 Global Fund and Adams Street Secondary Fund

Recommendation
We recommend the Board make a capital commitment of $40 million to Adams Street 2012 Global Fund (2012 Global), subject to final contract negotiations and due diligence. In addition, we recommend the Board make a capital commitment of $40 million to Adams Street Secondary Fund 5 (Secondary 5), subject to final contract negotiations and due diligence.

Overview
CCCERA's alternative investment allocation consists of private equity fund-of-fund investments (with Pathway and Adams Street), direct investments in private equity partnerships, and energy investments (power plants). The process used by CCCERA to make additional commitments to private equity fund-of-funds is to make additional commitments when new vintage years are offered.

In October 2008, in addition to CCCERA's commitment to Adams Street's Global Offering program, the Board for the first time made a capital commitment of $30 million to Adams Street's Secondary Fund, taking advantage of the active secondary market driven by the motivated sellers during the financial crisis. Since its inception of January 2009, CCCERA's Adams Street secondary fund has a gross IRR of 64.95% as of March 31, 2011.

Adams Street is currently seeking final commitments from investors to the firm's 2012 Global Offering, Direct Investment Fund, and Secondary Fund. After reviewing all three offerings and an on-site visit to Adams Street's Menlo Park office, we found compelling argument to continue CCCERA's subscription to Adams Street's Global Offering program and Secondary Fund.

The secondary market emerged in the mid to late 1980s. The market is for limited partners to exit private partnerships prior to the natural end of the partnerships. There are several reasons why a limited partner may need to exit a partnership early. A limited partner may be distressed for various reasons, or need liquidity. Limited partners may also use the secondary market to manage their private equity portfolios proactively. Secondary transfers in a fund do not necessarily imply a lack of confidence in the general partners, but rather reflect the ever evolving private equity portfolios and the needs (endowments need to raise liquidity) or changes (bank M&A results in disposing private equity investments) of the limited partners. The overall secondary market has grown significantly over the decades and is now used more by the limited partners to manage their private equity portfolio (such as re-balance) than for distress reasons from limited partners.

There are several advantages to couple the Secondary Fund investment with the Global Offering investment. One of which is the dampened J curve effect. J curve effect refers to the longer wait time for private companies to mature and is inherent in primary private equity investments. Secondary Funds however draw most of committed capital at the beginning of the transaction, therefore capital is deployed at a more rapid pace. Since Secondary Fund's underlying companies may have been held by a primary fund for a number of years, purchasing an interest in the secondary market buys in at a point closer to possible liquidity events. This results in expectations that capital will be returned at a more rapid pace as well.

Secondary investments also provide the ability to evaluate and analyze the known portfolio companies thus reducing the investment risk. With primary partnership investments, when a commitment is made, there are no investments in the portfolio yet. Emphasis is often made on reliance of the general partner's track record, and the general partner's ability to successfully implement a strategy and eventually exit a portfolio holding. When evaluating a secondary investment, these same factors can apply in addition to the ability of an experienced investor to analyze the companies already in the partnership and price the secondary investment accordingly. Adams Street, with decades of experience and networks as both a limited partner and a co-investor, is able to capitalize this "look through" characteristic uniquely provided by investing in the secondary market.

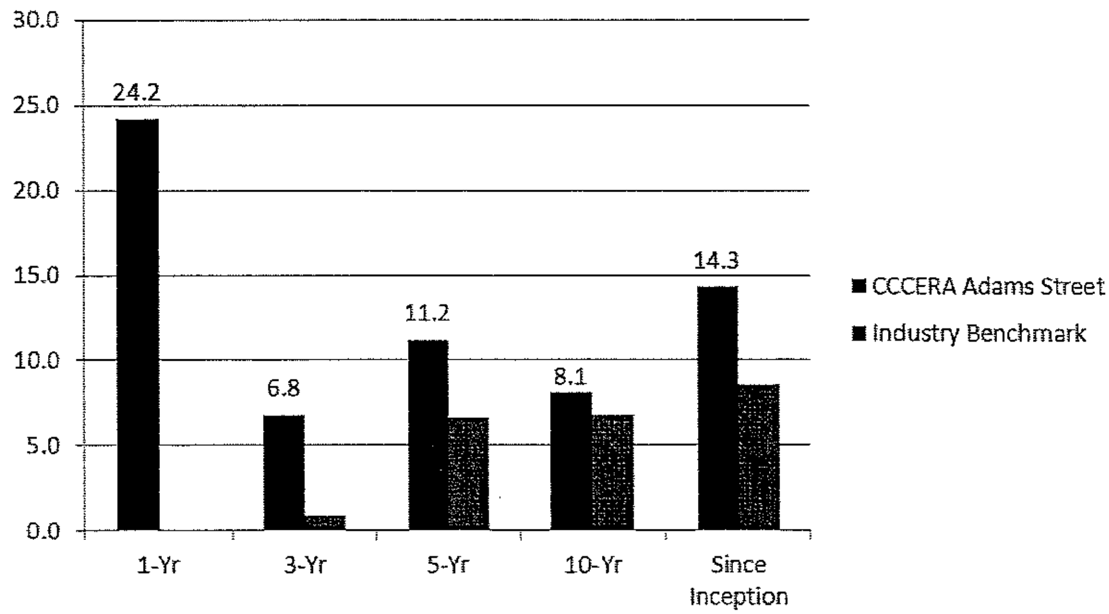
This memo provides a review of CCCERA's investments with Adams Street Partners, an analysis reviewing the amount of commitments available for CCCERA to alternative investments, the possible impacts of making the proposed commitments on the overall CCCERA alternative investment portfolio, and the summary of terms.

Review of Adams Street Partners
CCCERA began investing with Adams Street (originally Brinson) at the end of 1995 through a private equity fund-of-fund vehicle. CCCERA's original investment commitment was $30 million. Over the years CCCERA has made additional commitments of $180 million ($15 million in 1999, $15 million in 2000, $15 million in 2003, $15 million in 2004, $40 million in 2006, and $80 million in 2008). The following highlights information for CCCERA's investments with Adams Street as of March 31, 2011:

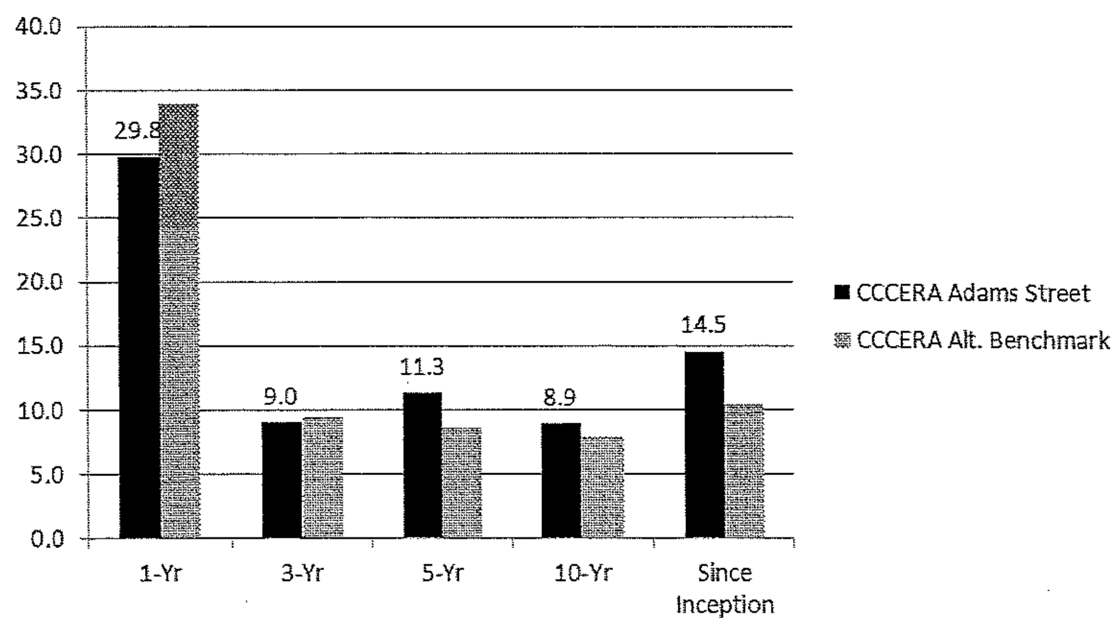
• Number of partnership commitments	524 combined partnerships
• Since Inception Gross IRR	14.3%
• Since Inception Net IRR	11.2%
• Total Capital Called	$122 million
• Total Capital Distributions	$85 million
• Percentage of Capital Returned	70%
• Market Value as of 3/31/11	$92 million
• Distributions & Market Value / Capital Called	1.45x
• CCCERA Remaining Commitment	$88 million

The first chart below compares Adams Street's reported combined performance for CCCERA to private equity industry's benchmark - Venture Economics' Private Equity Survey as of March

31, 2011. The second chart compares to CCCERA's alternative investments benchmark, S&P + 400bps as of June 30, 2011. Displayed CCCERA's Adams Street returns are 1-year, 3- year, 5-year, 10-year, and since inception IRRs on a gross basis.



*Industry benchmark, Venture Economics Private Equity Survey, includes U.S. and Europe venture capital, buyout, mezzanine and special situation funds. Its 1 YR return is not available. All returns are as of March 31, 2011.



CCCERA Alt. Benchmark, S&P+400bps, is adjusted based on all cash flows from Adams Street. All returns are as of June 30, 2011.

As shown in both charts, CCCERA's Adams Street combined portfolio out-performs private equity industry's benchmark consistently. It also compares favorably to CCCERA's alternative investment benchmark on 5-year, 10-year, and since inception investment horizons.

In 2010, Adams Street conducted an extensive project to analyze the expected return going forward. It came up with the results that suggest the expected net IRR in the range between 12 and 15%. By taking advantage of Adams Street's competitive edge in the secondary market and adding secondary funds to CCCERA's Adams Street investments, CCCERA should be able to increase the return expectation coming out of Adams Street with limited risk due to the firm's broad diversification.

The following table displays the portfolio diversification of CCCERA's investments with Adams Street:

Adams Street Portfolio Diversification

By Subclass* (US Only)		**By Geography**		**By Type**	
LBO	38%	U.S.	76%	Primary	76%
VC	42%	Non-U.S.	24%	Secondary	24%
SPEC	11%				
MEZZ	5%				
RR	4%				
Total	100%	Total	100%	Total	100%

*LBO=Buyouts
VC=Venture Capital
SPEC=Special Situations
MEZZ=Mezzanine
RR=Restructure/Distressed Debt

One other important diversification with Adams Street's fund-of-fund program in addition to industry, sector and geography, is the vintage year. If a commitment is made today with Adams Street, it will generally take them three years to commit all of CCCERA's commitment to partnerships, and once the commitments are made, it can take three more years before all the capital is drawn down from a specific partnership. This lengthy process will result in investments in different partnerships across various vintage years. As highlighted on page 2, CCCERA's investments with Adams Street include over 500 partnerships across different vintage years.

CCCERA Available Commitments to Alternative Investments
Based on the October 31, 2011 market value of $5.17 billion and CCCERA's 10% (new) target allocation to Alternative Investments, CCCERA has a target allocation of $517 million to alternative investments.

As of October 31, 2011, CCCERA's alternative investments had a market value of approximately $309 million. Outstanding commitments to alternative investments which have not yet been drawn total $250 million. The combination of market value and outstanding commitments totals $559 million, $42 million greater than the dollar target of $517 million.

As has been discussed, there is a significant lag period from when a commitment is made until the actual dollars are invested. The majority of CCCERA's alternative investments are in private equity. In this area of alternatives, when a dollar is committed by CCCERA it can take up to six to seven years before the final dollar committed actually is invested. Meanwhile, partnership commitments made in the first few years begin distributions and returning capital.

Taking lag time and distribution characteristics of investing in private equity into account, CCCERA needs to over-commit relative to the desired target of $517 million to alternative investments. Historically CCCERA has been over-committing 75%-100% of its target allocation yet staying below the desired target. Based on an over-commitment amount of 100%, the total amount available for CCCERA to commit to alternative investments is $475 million. These figures are illustrated in the following table:

	Value (Millions)
CCCERA Total Fund *as of 10/31/2011*	**$5,171**
Target Alternatives @ 10%	**$517**
Market Value Closed End Investments	
Adams Street Partners	$83
Adams Street Secondary	$19
Pathway	$78
Pathway 2008	$4
Pathway 6	$1
EIF USPF I	$3
EIF USPF II	$43
EIF USPF III	$28
EIF USPF IV	
Nogales Investment	$3
Bay Area Equity Fund	$8
Bay Area Equity Fund II	$4
Paladin III	$13
Carpenter Community BancFund	$22
	$309

Commitments Not Yet Drawn

Adams Street Partners	$58
Adams Street Secondary	$19
Pathway	$29
Pathway 2008	$26
Pathway 6	$39
EIF USPF IV	$50
Nogales Investment	$2
Bay Area Equity Fund II	$6
Paladin	$10
Carpenter Community BancFund	$11
	$250

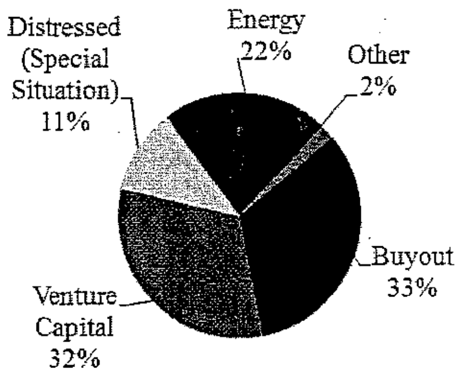
Target to Alternatives	$517
less Investments	$309
less Commitments	$250
Available to Commit	-$42
plus 100% Over-Commitment (reflects funding lag time)	$517
Estimated Available to Commit	**$475**

Impact on CCCERA Combined Alternative Investment Portfolio

As discussed in the previous section, the combined CCCERA alternative investment portfolio has $559 million of invested and committed capital. Currently, fund-of-fund account for 64% of the total CCCERA alternative allocation, with Adams Street and Pathway evenly split with 32% each. The fund-of fund allocation is broadly diversified in a large number of partnerships and multiple categories of private equity such as various stages of Buyouts, Venture Capital, Special Situation and Distressed. The rest of CCCERA's alternative allocations are direct investments in venture capital and energy partnerships, including US Power Fund I, II, III, and IV, DBL Investors' Bay Area Equity Fund I and II, Paladin Capital Group's Fund III, and Carpenter Community BancFund.

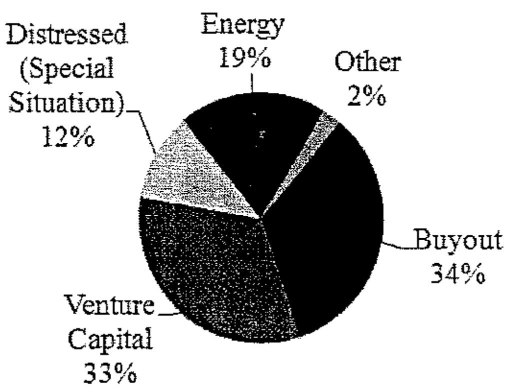
The pre- and post-commitment analysis on allocation by strategy is shown in the following two charts. The analysis shows that the proposed $40 million investment in Adams Street's 2012 Global Offering and $40 million investment in Secondary 5 will not drastically alter CCCERA's alternative investment structure.

CCCERA Current Alternative Allocation



Taken altogether, currently the direct and fund-of-fund investments have 33% allocation in various stages of Buyouts, 32% in Venture Capital, 22% in Energy, 11% in Distressed and Special Situation, and 2% in Other category. This allocation gives CCCERA a balanced alternative portfolio, with approximately one-third of the pool in Buyouts, one-third in Venture Capital, and the rest one-third in Energy, Distressed and Special Situation, and Other.

CCCERA Alternative Allocation, post recommended commitments



We have evaluated the impact of a $40 million commitment to each Adams Street's 2012 Global and Secondary 5. The two commitments if approved will increase CCCERA's combined invested and committed allocation from $559 million to $639 million. With this additional commitment (and based on historical diversification), the allocation to Buyouts will increase from the current 33% to 34%, the allocation to Venture Capital will increase 1% to 33%, Energy will decrease from the current 22% to 19%, and the allocation to Distressed and Special Situation will increase 1% to 12% of the total alternative investments. Other category stays at 2%.

In terms of fund-to-fund exposure, the total CCCERA alternative investment allocation to fund-to-fund will increases from the current 64% to 68%. The total allocation of alternative investments to Adams Street will increase from the current 32% to 41%.

Summary of Key Terms of Secondary 5

The following is a summary of the key terms:

The Fund:	Adams Street Global Secondary Fund 5, L.P.
Investment Restriction:	No more than 25% of the Fund's investments will be made in primary investments.
Minimum Subscription:	$10 million
General Partner Commitment	1%
Investment Period:	3~4 years after the initial investment
Fund Term:	The twelfth anniversary of the Initial Invesment Date
Fees:	1% per annum of the first $25 million subscription amount, 90 bps per annum on amounts over $25 million and up to $50 million, etc. Fees will be reduced to 90% of the regular fee in year 6, 80% in year 7, etc. An investor who subscribe to one of more funds in Adams Street Partnership Fund program 2012 will receive 100% fee credit applicable.
Carried Interest:	10%, only after the fifth anniversary of the initial investment date and the subscription has been returned.
Lookback:	After final liquidating distribution, carried interest in excess of 10% will be returned to the Fund (less tax distributions).

Summary of Key Terms of 2012 Global

The following is a summary of the key terms:

The Fund:	Adams Street Partnership Fund Program 2012
Investment Options:	50% in the US Fund, 30% in the Developed Markets Fund, 10% in the Emerging Markets Fund and 10% in the Direct Fund.
Investment Restrictions:	No more than 10% of a Partnership Fund will be invested in any single partnership investment and no more than an aggregate of 40% of a Partnership Fund will be invested in secondary investments and co-investments.
Minimum Subscription:	$10 million
General Partner Commitment:	1%
Investment Period:	3~4 years after the initial investment
Fund Term:	The twelfth anniversary of the Initial Closing Date
Fees:	1% per annum of the first $25 million subscription amount, 90 bps per annum on amounts over $25 million and up to $50 million, etc. Fees will be reduced to 90% of the regular fee in year 6, 80% in year 7, etc. An investor who subscribe to one of more funds in Adams Street Partnership Fund program 2012 will receive 100% fee credit applicable.
Carried Interest:	10%, only after the subscription has been returned.
Lookback:	After final liquidating distribution, carried interest in excess of 10% will be returned to the Fund (less tax distributions).