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Institutional
Investment
Solutions



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PREPARED FOR

PAPERS Workshop

Conference Call

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OVERVIEW OF ALTERNATIVE ASSET CLASSES FOR INSTITUTIONAL PORTFOLIOS

PRIVATE EQUITY

- Primary Funds
- Co-Investments
- Secondaries
- Fund of Funds
- Venture Capital

PRIVATE DEBT

- 1st & 2nd Liens
- Unitranche
- Mezzanine

REAL ASSETS

- Real Estate
 - Core
 - Value-Added
 - Opportunistic
- Infrastructure

HEDGE FUNDS/ OTHER

- Long / Short Equity
- Credit
- Fund of Funds
- Managed Futures
- Custom Strategies

PRIVATE EQUITY

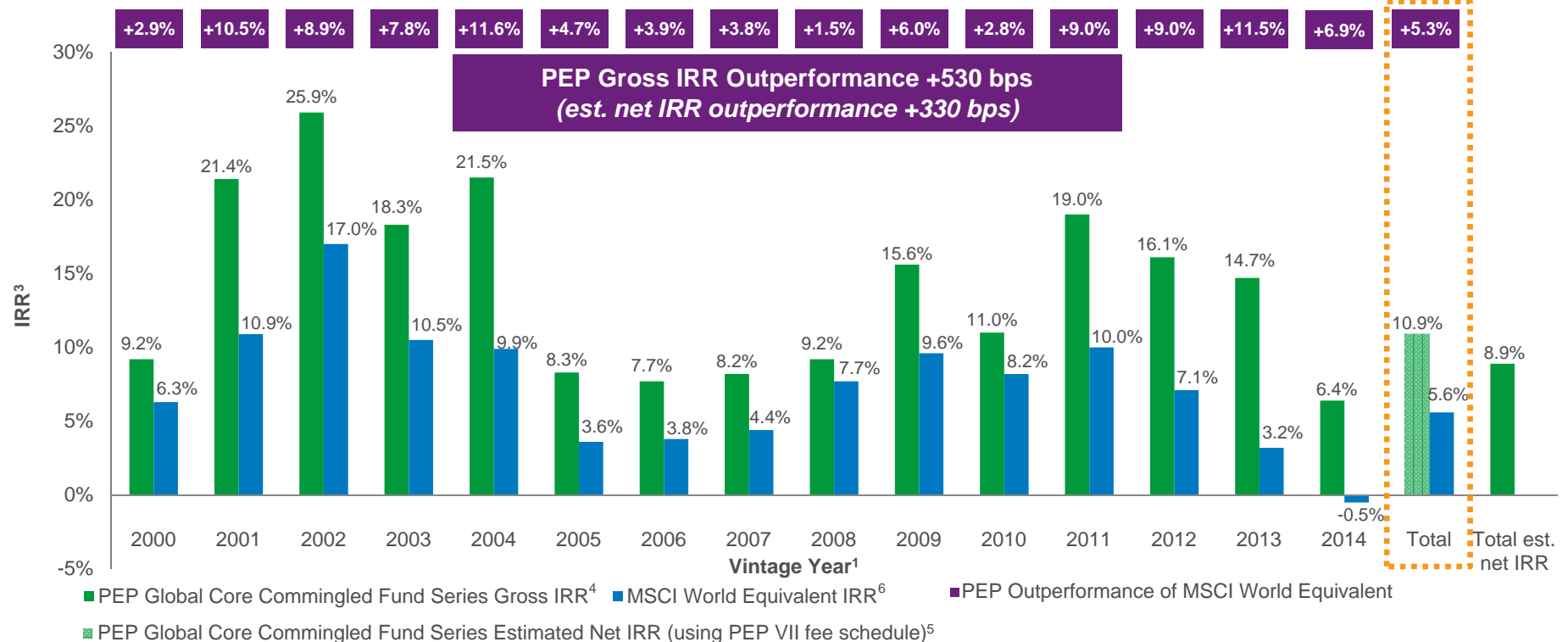
- Through a limited partnership structure, private equity (PE) investors invest in the equity or debt securities of non-publicly traded companies with valuations more attractive than publicly traded equities.
- PE investing includes direct co-investments, primary funds, secondary investments, and fund of fund structures.
- PE strategies include Leveraged Buyouts (LBOs), Venture & Growth Capital, and Special Situations.
- Historically, PE returns have exceeded publicly-traded equity returns over most short and long term time periods.
- Successful PE funds diversify across vintage years, geography, and industry sectors. Opportunistically adding secondary and direct co-investments can help mitigate the 'J-curve' effect and improve an investor's expected IRR.
- PE valuations are established quarterly based on common valuation metrics and not publically traded markets thus commanding an illiquidity premium. PE funds can take 5 years to be fully invested with a 10 year final liquidation period.



PEP's global core commingled fund series track record

Outperformance of public equity markets and no capital loss in all vintage years

PEP global core commingled fund series track record vs. MSCI World PME as of 30 June 2016



Supplemental information

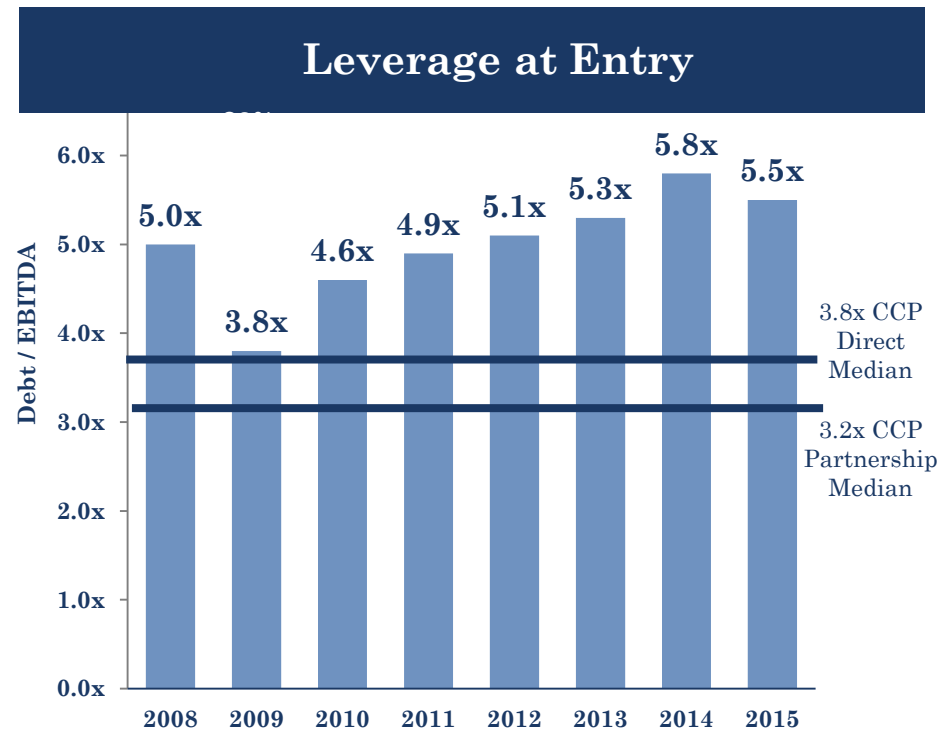
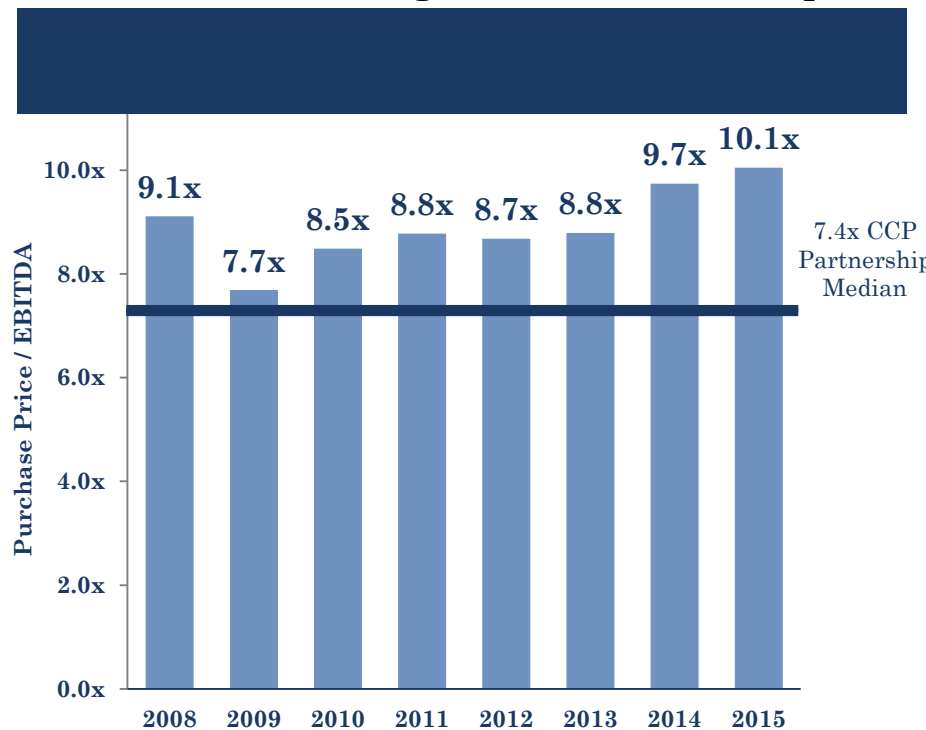
*The calculation of the Total Estimated Net IRR reflects PEP VII's Basic Management Fee Rate (equal to 0.7% per annum of the aggregate Portfolio Fund Commitments) and carried interest (8% of gains subject to a preferred return of 8% per year, compounded).

As of 30 June 2016. **Past performance is not indicative of future results. The returns shown do not predict the returns of the PEP VII.** The performance information provided above represents all investments made by PEP since inception for its core commingled fund series, DivPEP I-V (collectively the "Legacy BlackRock series") and PEP II-V, (collectively the "Legacy Swiss series") and PEP VI. Performance figures exclude investments made by PEP I, PEP III Asia and all other non-core commingled funds and all separate account mandates, as they are not reflective of the strategy that will be employed on a prospective basis for the PEP VII program. These investments were made as part of the overall investment program of the relevant core commingled fund, some of which had investment mandates broader than that respective investment type. The nature of the investments and the amount and timing of them were influenced by the prior investments made by, and the guidelines of, those core commingled funds. As such, no client received the above returns. The composition of the legacy Swiss PEP investment team has changed significantly since inception of the Legacy Swiss series with relatively little overlap between the current investment team members and the prior Swiss PEP funds. See "**Disclosures for PEP's global core commingled fund series investments – Track Record performance**" for important disclosures and more information about prior fund performance, including the calculation of IRR.

Conservative Approach to Robust Returns

CCP has consistently focused on structuring direct investments with prudent use of leverage and reasonable purchase prices consistent with a value investing philosophy

- CCP has a median purchase price of 7.4x and median leverage of 3.8x across 35 direct investments
- CCP's underlying partnership investments have a median purchase price of 7.4x and median leverage of 3.2x across 210 portfolio investments



*Note: Data as of January 2016. Includes pending investments in 2016. Purchase Price and Leverage Multiples sourced from Standard and Poor's as of November 2015.

PRIVATE DEBT

- Private Debt Funds serve the middle-market leveraged loan market as traditional bank lenders have moved away from this type of lending.
- Opportunities in middle-market loans appear significant due to traditional banks' changing regulatory environment and an inability of middle-market borrowers to access public market financing.
- Private debt investment strategies target credit investments in 1st and 2nd lien, senior secured loans, unitranche loans, and/or mezzanine debt with significant levels of asset coverage and strong underwriting criteria structured to minimize impairment in downside scenarios.
- Private Debt funds target current cash returns to help mitigate the 'J-curve' effect. Floating rate income structures (i.e. Libor + 800bps) can help insulate the fund from interest rate rises.
- Exposure to private credit can provide attractive risk-adjusted returns with shorter duration and current yield compared to other parts of Plan's private markets allocations.



Direct Lending: Current Pricing and Context

| US | 1 st Lien | Unitranche | 2 nd Lien | Mezzanine |
|-------------------------------|----------------------|----------------------------|---------------------------|--------------------------|
| Floor: | 1% | 1% | 1% | N/A |
| Spread: | 5 - 6% | 6 - 8% | 9 - 11% | 11 - 14% |
| Fee / OID: | 1 - 2% | 2 - 4% | 2 - 4% | 2 - 4% |
| Targeted Gross Return: | 7 - 8.5% | 8.5 - 10.5% ⁽¹⁾ | 10.5 - 13% ⁽¹⁾ | 13 - 16%+ ⁽²⁾ |

| Europe | 1 st Lien | Unitranche | 2 nd Lien | Mezzanine |
|-------------------------------|----------------------|-----------------------------|----------------------------|----------------------------|
| Floor: | N/A | N/A | N/A | 1% |
| Spread: | 4.75 - 6% | 6 - 8% | 8.0 – 10% | 9.5 – 12.5% |
| Fee / OID: | 2.5 - 4% | 3 - 4% | 1 - 5% | 3 - 4% |
| Targeted Gross Return: | 6.0 - 8.5% | 7.25 - 10.5% ⁽¹⁾ | 9.0 – 12.0% ⁽¹⁾ | 12.5 - 15%+ ⁽²⁾ |

2017 Fund Terms & Structure

- **Target Size:** \$250 million
- **Minimum Commitment:** \$2.5 million
- **Investment Period:** 12 months
- **Partnership Term:** 5 years
- **Hamilton Lane Commitment:** 1% of aggregate commitments
- **Management Fees:** Charged only on net invested capital

New for 2017

| Commitment Size | Management Fees |
|-----------------|-----------------|
| \$2.5-\$20M | 100 bps |
| \$21M-\$35M | 90 bps |
| \$36M+ | 75 bps |

Multi-Year Commitment Option

- Ability to elect up to three series (2017-2019)
- Additional discounts available - up to 5%

- **Carried Interest:** 10%
- **Preferred Return:** 6%
- **Fund Structure:** Several options available