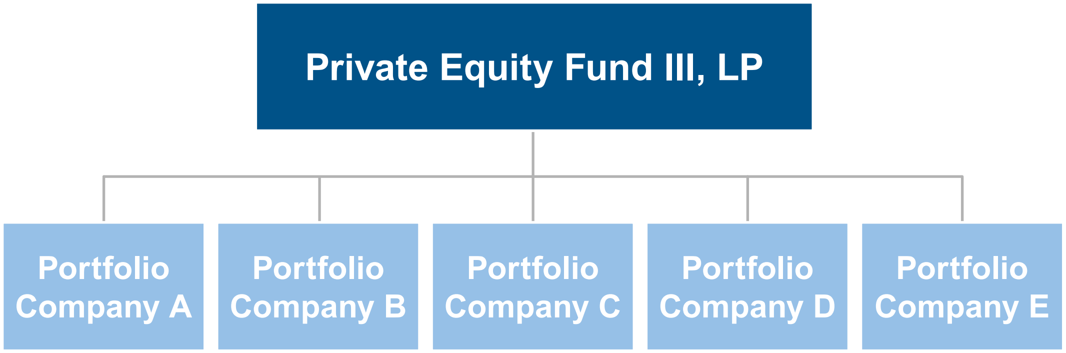
Hamilton Lane®

Pennsylvania Association of Public Employee Retirement Systems

May 2014

What is Private Equity?



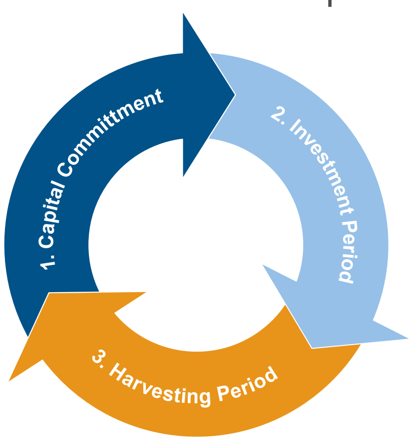
A professionally managed pool of capital that invests primarily in private companies or securities

How it Works

The Process

1. Capital Commitment

Investor makes a capital commitment to a fund manager in year 1



2. Investment Period

Over the next 4-5 years the fund manager calls capital for investments in portfolio companies

3. Harvesting Period

Typically, in years 6-10, fund manager begins to exit portfolio company investments, sending capital back to investors in the form of distributions. Partial realizations can occur as early as year 2-3.

The Terminology

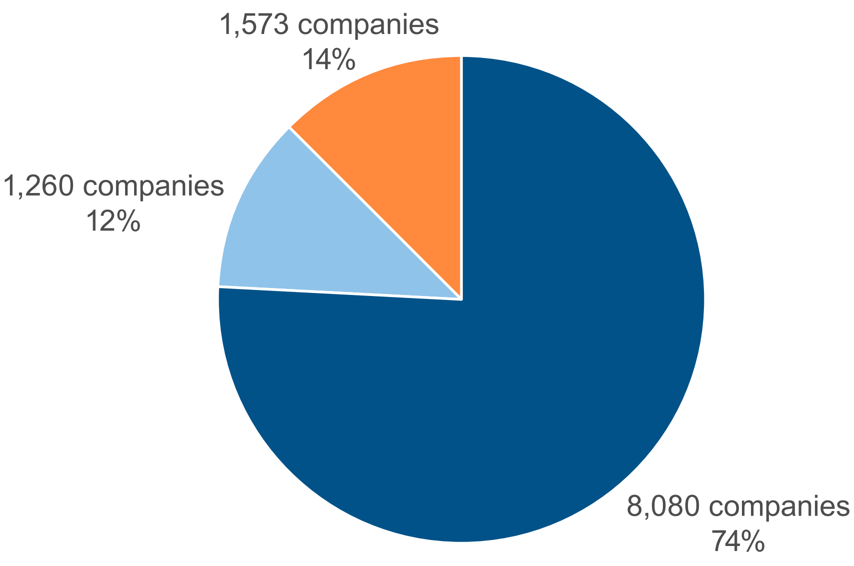
- **Capital Committed:** An investor's financial obligation to provide a set amount of capital to the fund
- **Capital Contributions:** Capital contributed from an investor's capital commitment to fund partnership investments, organizational expenses and management fees
- **Distributions:** Cash or stock disbursed to the investors from a fully or partially realized investment

Private vs. Public Universe

Over 13,000 private U.S. companies with annual revenues over $100 million vs. approximately 3,000 public U.S. companies with the same annual revenues

- Private equity represents a target-rich environment, the market potential of which is dramatically larger compared to publicly-traded companies

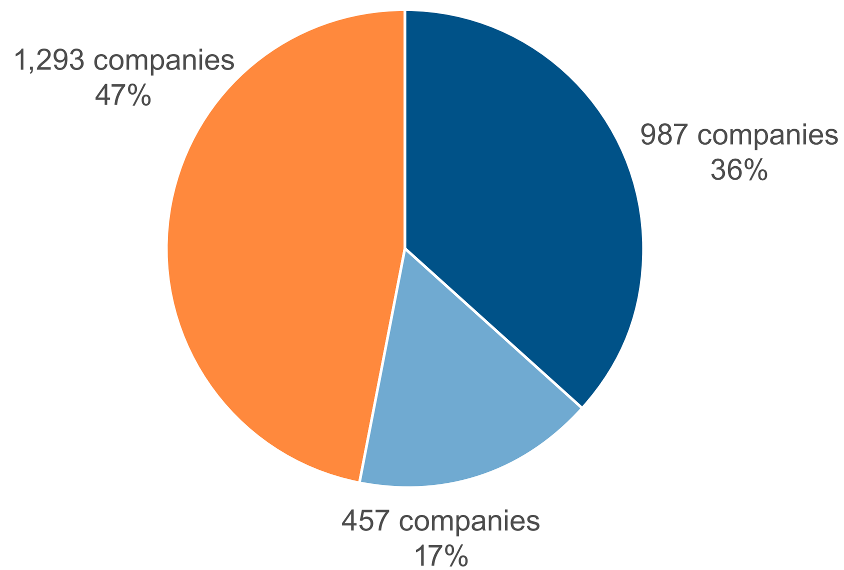
Number of Private US Companies
By LTM Revenue ($M)*



$100-$500 $500-$1,000 $1,001+

* Source: CapIQ (November 2013)

Number of Public US Companies
By LTM Revenue ($M)*

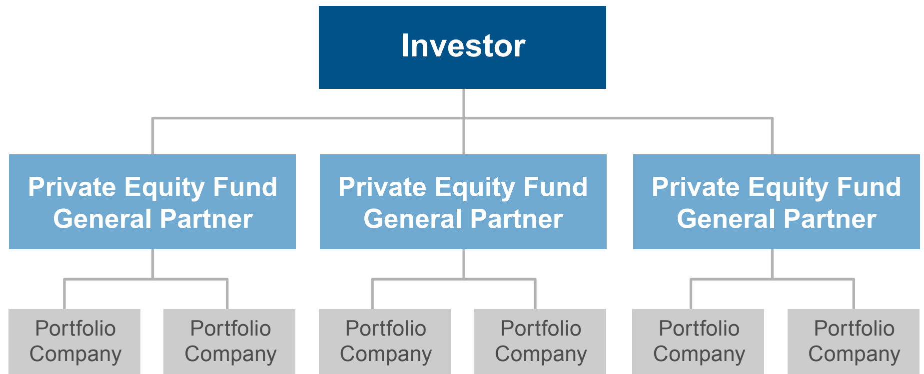


$100-$500 $500-$1,000 $1,001+

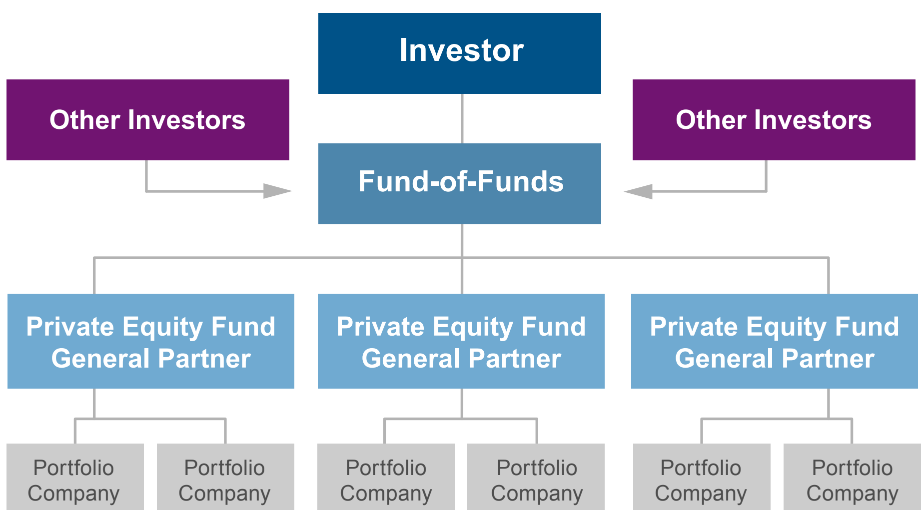
* Source: CapIQ (November 2013)

How To Access the Private Equity Market?

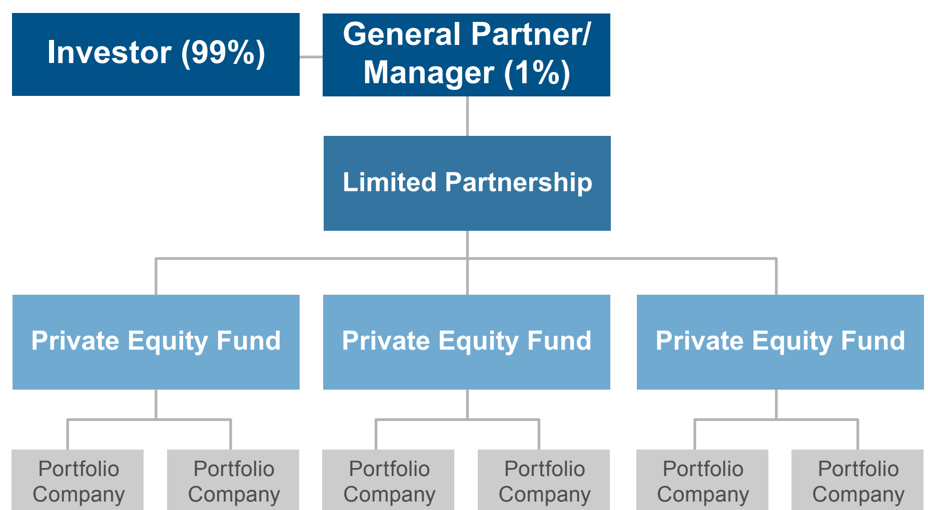
Invest Directly in a Fund



Invest in a Commingled Fund-of-Funds



Invest in a Fund-of-Funds for One (Separate Account)

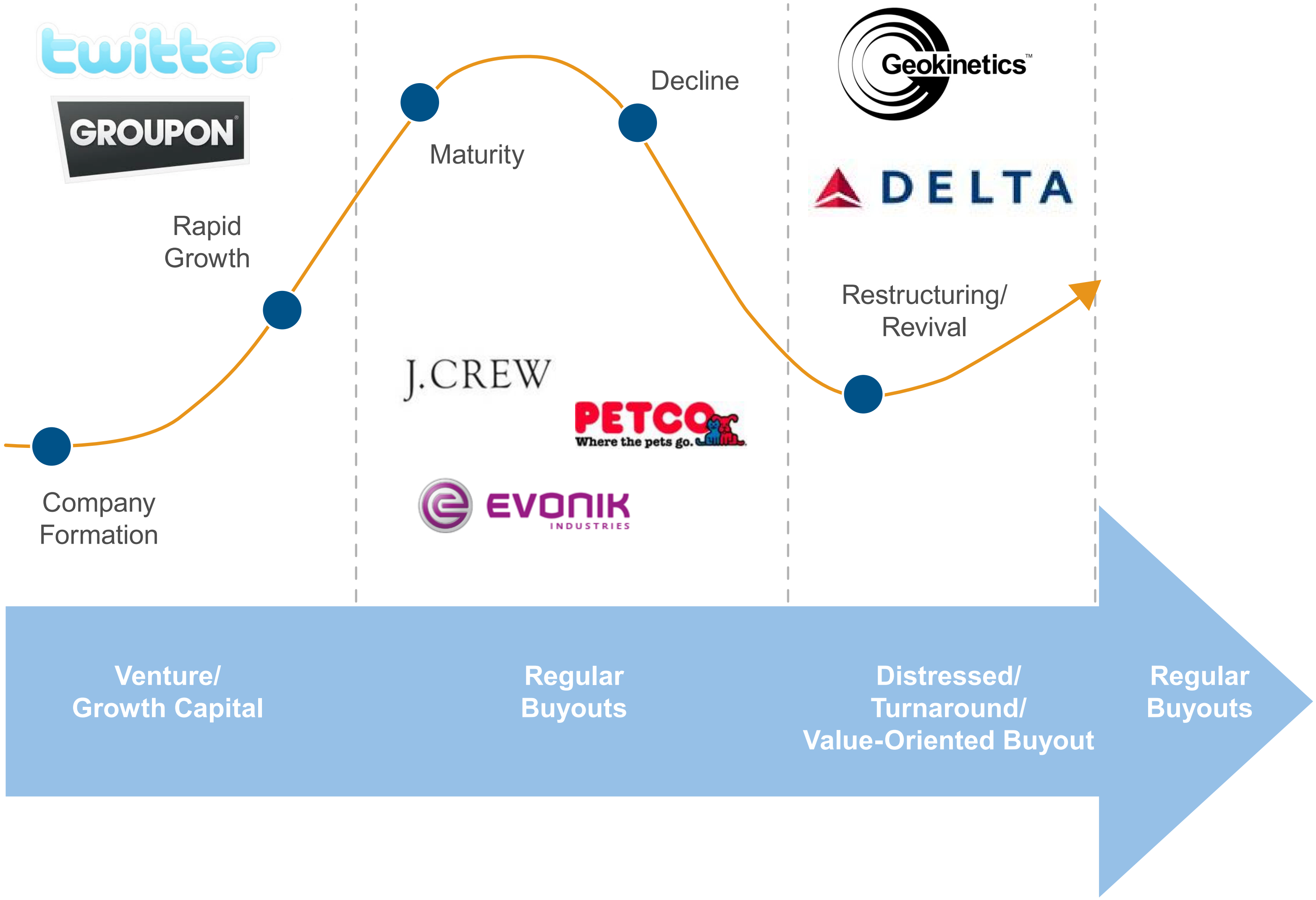


Private Equity Investment Strategies

		Examples of portfolio companies in prior HL Funds-of-Funds
U.S. Buyout and Europe Buyout	Equity investments where a company, business unit or assets are acquired from the current shareholders, typically with the use of financial leverage. These companies are generally mature and generating operating cash flows.	J.CREW; PETCO Where the pets go.; EVONIK INDUSTRIES
Venture/ Growth Equity	Investments in startup and early stage, high risk/high potential companies; investments in relatively mature companies looking for growth over the long term.	twitter; GROUPON
Credit/Distressed	Investments in securities of companies that are either already in default, under bankruptcy protection, or in distress and heading toward such a condition. The most common distressed securities are bonds and bank debt.	DELTA; Geokinetics
Secondaries	Investments in existing portfolios or direct investments at a discount based on remaining life and funded capital percentage. These opportunities are generally already delivering positive returns and therefore valuable to include in the early years of a fund-of-funds.	NYCOMED; KINDER MORGAN INC.

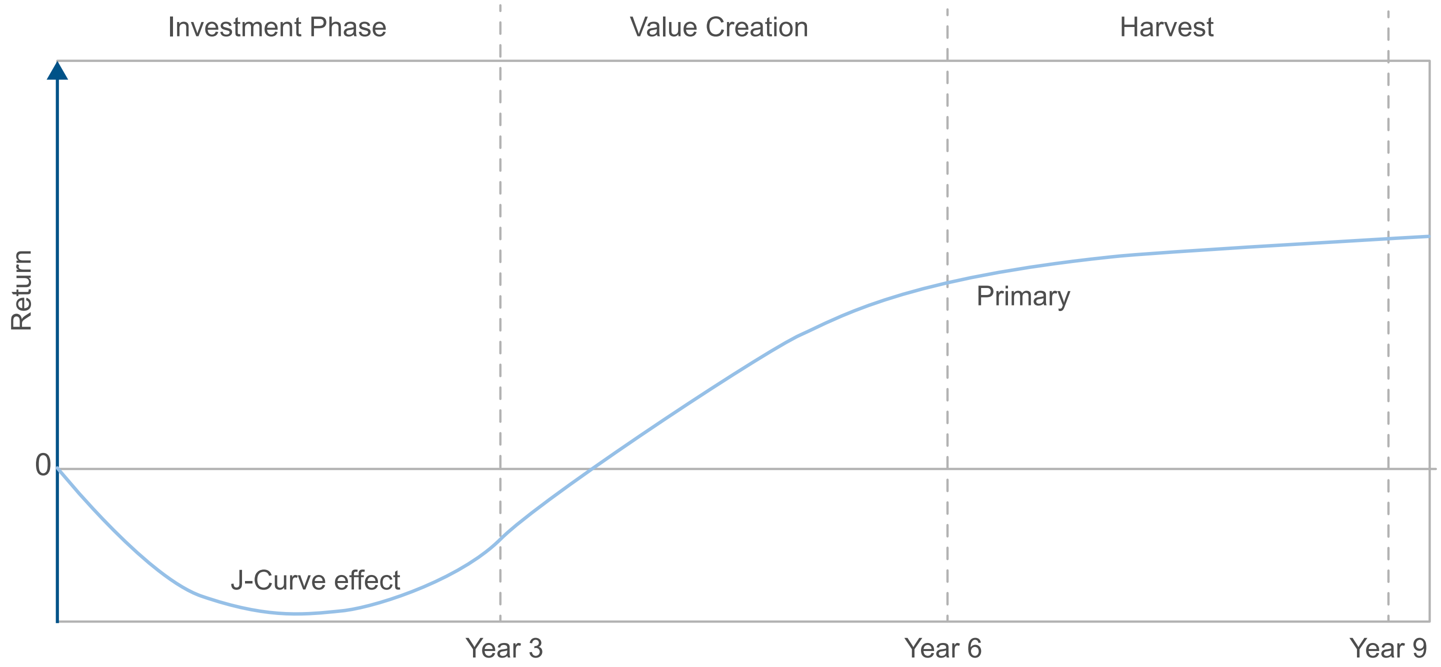
Company Lifecycle and Applicable PE Strategies

Private equity enables investors to cover the entire lifecycle of a company or industry. It also provides an element of diversification to an investment portfolio by allowing institutional investors to spread their exposure over the full lifecycle of businesses.



Understanding the J-Curve

Life Cycle of a Private Equity Partnership



The J-curve:

- During the first few years of a funds life, when capital is initially drawn, valuations appear to decline relative to the paid-in capital
- This is the result of management fees and other organizational expenses, which are paid based on total committed capital
- In the early stages of a funds life, these costs represent a large portion of total contributed capital, resulting in negative valuations
- Secondary investments and other strategies that are able to distribute capital early in a fund's life help mitigate the J-curve

*This graph is for illustrative purposes only. The actual profile of any given investment in a fund may vary substantially.

Understanding Private Equity Exposure and Cash Flows

Commitment ≠ Exposure → *commitment pacing requires careful planning*

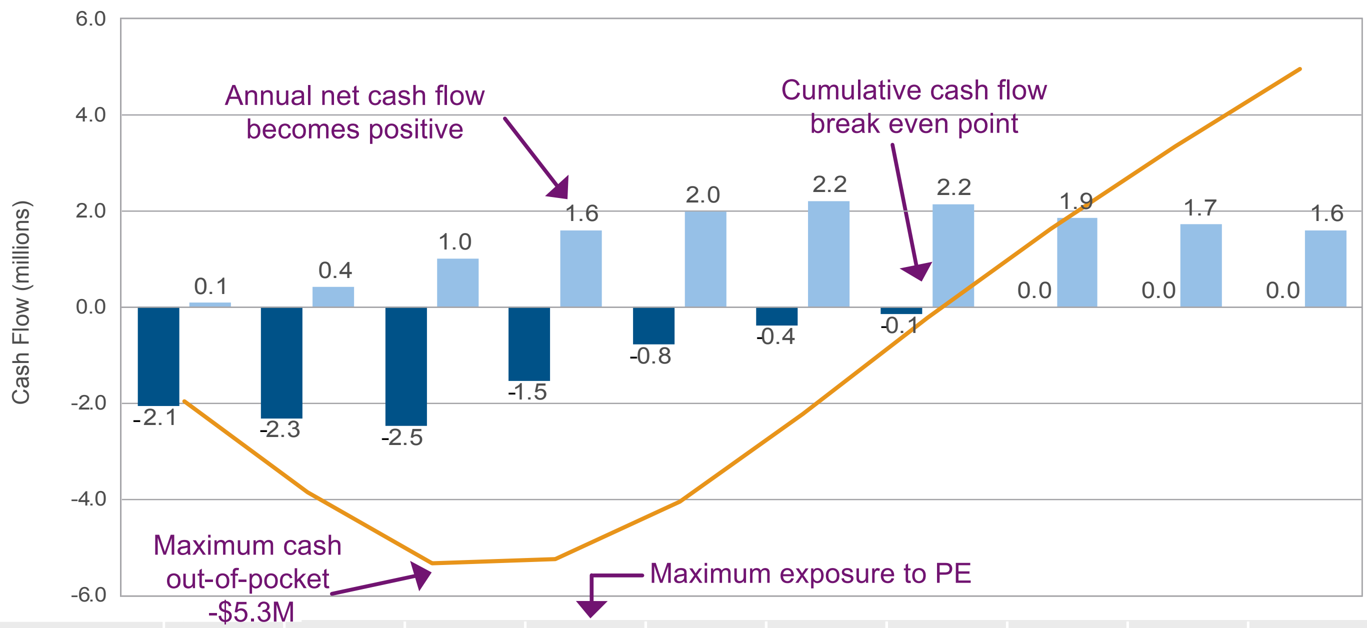
- $10M commitment never fully exposed

As cash goes out, cash also comes back in → *while private equity is illiquid, cash returns can be generated as early as 2-3 years and the entire commitment is not fully exposed all at once*

Example:

- Maximum cash out-of-pocket is roughly half of commitment
- Cash flow positive for the year in years 4-5
- Full commitment returned in form of distributions in years 7-8

Investment Life Cycle: $10M Commitment to a Buyout Fund



Year	1	2	3	4	5	6	7	8	9	10
Market Value	1.9	3.9	5.9	6.7	6.5	5.9	5.0	3.9	2.8	1.5

Annual Capital Calls | Annual Distributions | Cumulative Net Cash Flow

Please refer to endnotes in Appendix

Why Invest in Private Equity?

Advantages

- Access to private, less efficient market
- Exposure to carefully selected and efficiently structured companies with strong corporate governance and growth potential
- Long-term historical outperformance vs. public markets

Concerns

- Illiquidity
- Blind pool investment
- Transparency/valuations

Private equity outperforms most asset classes on absolute and risk-adjusted bases

10-Year Asset Class Risk Adjusted Performance - As of September 30, 2013			
Asset Class	**Annualized Total Return**	**Annualized Volatility**	**Sharpe Ratio**
Private Equity[1]	13.9%	17.5%	0.60
Domestic Equities[2]	8.1%	17.1%	0.27
International Equities[3]	8.2%	20.7%	0.23
Emerging Market Equities[4]	12.8%	25.6%	0.36
High Grade Bonds[5]	6.0%	6.7%	0.37
High Yield Bonds[6]	8.6%	11.4%	0.45
Hedge Funds[7]	5.9%	8.0%	0.30
REITs[8]	9.7%	26.3%	0.23
Commodities[9]	2.1%	20.7%	-0.07

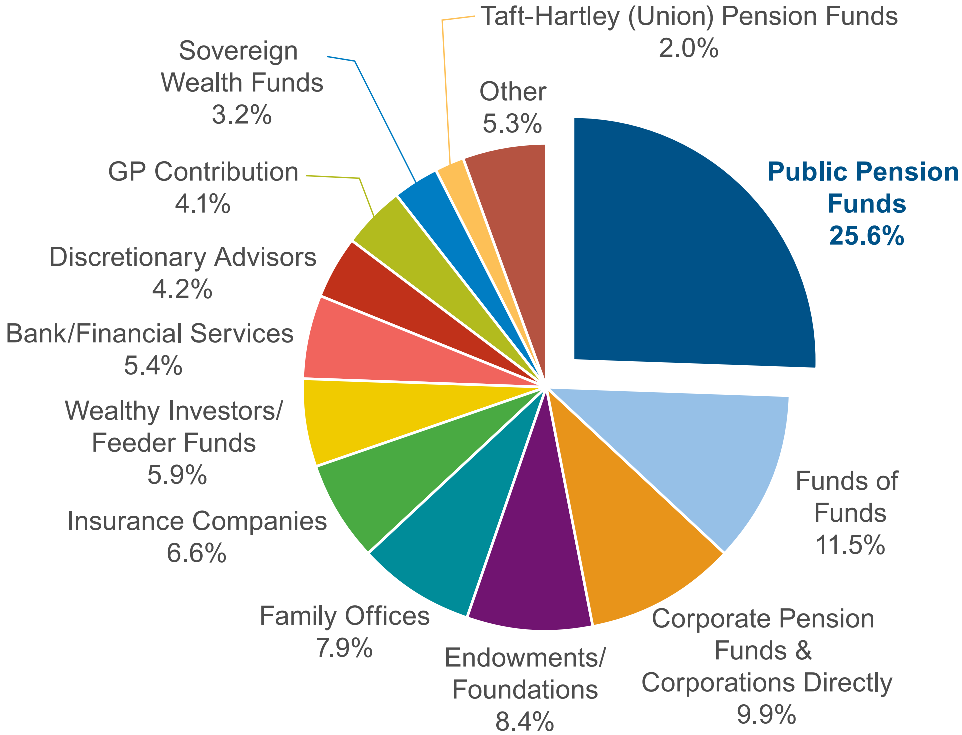
Geometric mean returns in USD
Please refer to endnotes in Appendix

Who Invests in Private Equity?

Public pension funds make up approximately 26% of all private equity commitments

- A longer-term asset class, private equity may be suitable for investors who are able to make capital commitments over a multi-year period

Percentage of Private Equity Capital by Limited Partner Type



Source: Dow Jones Private Equity Analyst

What Is the Appropriate Private Equity Allocation?

The largest pension funds allocate approximately 10.0% of their assets to private equity*

Asset Class	Public	Corporate	Union
Domestic Stock	28.5%	22.7%	32.5%
International Stock	19.1%	14.9%	10.3%
Global Equity	2.8%	2.3%	6.3%
Domestic Fixed Income	22.6%	33.7%	31.0%
Global/International Fixed Income	2.1%	2.2%	0.8%
Cash	2.3%	2.1%	0.7%
Private Equity	**9.9%**	**8.1%**	**4.2%**
Real Estate Equity	7.5%	5.0%	6.2%
Alternatives	3.8%	7.9%	7.5%
Other	1.4%	1.1%	0.5%

Source: Pensions and Investments: Average Asset Mixes - Top 200 Defined Benefit Pension Funds - as of September 30, 2012

*Pensions and Investments: Aggregate Asset Mixes - Top 200 Defined Benefit Pension Funds - as of September 30, 2012

Hamilton Lane Overview

Who We Are

- Independent firm dedicated to private equity for 20+ years
- 11 offices around the world
- More than 200 global employees and significant employee ownership
- More than $29 billion of discretionary assets under management[1]
- Approximately $145 million committed alongside our clients since 1997[1]

What We Offer

- Separate accounts
- Specialized strategies
- Advisory services
- Full service back office support

Benefits of Working with Hamilton Lane

- Global Access: Global team that sees the market
- Influence: Seat at the table with GPs
- Realized Performance: 1,200+ basis point outperformance versus S&P 500 PME for the 10-year composite history[2]
- Customized Approach: Ability to create a customized relationship
- Comprehensive Offering: Complete, full service option
- Responsible Investing: PRI signatory and integration of ESG across investment activities

Awards & Recognitions

[1] As of March 31, 2014
[2] Please refer to endnotes in the Appendix

Appendix

Glossary of Terms

Capital Committed: An investor's financial obligation to provide a set amount of capital to the investment.

Capital Contributed: Capital contributed from an investor's capital commitment to fund partnership investments, organizational expenses and management fees.

Capital Distributed: Cash or stock disbursed to the investors of an investment.

Co/Direct Investment: A direct investment is a purchased interest of an operating company. A co-investment is a direct investment made alongside a partnership.

Corporate Finance/Buyout: Funds seeking to make controlling and non-controlling investments in established companies which have the potential to achieve greater value through improved performance.

Cost Basis: Capital contributions less return of principal.

Fund-of-Funds: An investment vehicle which invests in other private equity partnerships.

Fund/Investment Size: The total amount of capital committed by investors to a fund.

Investment Category: Used to identify investments in one of the following categories: co/direct investments, fund-of-funds, primary funds, secondary fund-of-funds or secondary purchases.

Investment Strategy: A sub-classification of a partnership's investment type, such as Co/Direct Investment, Corporate Finance/Buyout, Mezzanine, Real Estate, Special Situation, Venture Capital.

Life Cycle Period: The current stage of a partnership depending on the percentage contributed to date. Life cycle periods are investment and realization.

Mezzanine: An investment strategy involving the purchase of subordinated debt. These securities exist between the senior debt and equity of a holding's capital structure. Subordinated debt carries a lower level of risk than pure equity structures because they generate current income and have a more senior position in the company's capital structure.

Net Internal Rate Of Return ("IRR"): The discount rate that equates the net present value of the partnership's cash outflows with its inflows and residual value at the time of calculation. The calculation is net of management fees and the general partner's carried interest.

Paid-In Capital: The amount of capital an investor has contributed to a partnership, which includes capital contributions and additional fees.

Pooled Average IRR: An IRR calculation which aggregates cash flows (paid-in capital and capital distributed) and the reported market values of each investment within a portfolio to create one portfolio investment and return.

Portfolio Holding Exposure: The limited partner's pro rata allocation to an underlying investment based on the ownership percentage of the partnership.

Primary Fund: Defines when the investor acquired an interest in the partnership. Primary fund is the investment category when an investor participates in a closing at the inception of the partnership.

Glossary of Terms

Private Equity Partnership: A professionally managed pool of capital that generally invests in unlisted companies or securities. Common investment strategies include corporate finance/buyout, mezzanine, special situations and venture capital.

Realized Multiple: Ratio of cumulative distributions to paid-in capital.

Return On Investment ("ROI"): A calculation based on the total value (market value plus distributions) divided by paid-in capital for an investment.

Reported Market Value: The investment's capital account balance at quarter end, which includes the general partner's reported value of the underlying holdings and other assets and liabilities.

Secondary Fund-of-Funds: A private equity vehicle formed to purchase active partnership interests from an investor.

Secondary Purchase: A purchase of an existing partnership interest or pool of partnership interests from an investor.

Special Situation: Partnerships that invest using a unique strategy. Examples include distressed and turnaround, industry focused and multi-stage partnerships.

Total Exposure: Calculated by the summation of market value and unfunded commitments.

Venture Capital: An investment strategy that provides start-up or growth capital to companies in the early stages of development. Venture investments generally involve a greater degree of risk, but have the potential for higher returns.

Vintage Year: The year in which a partnership makes its first capital call for an investment into a portfolio company/holding.

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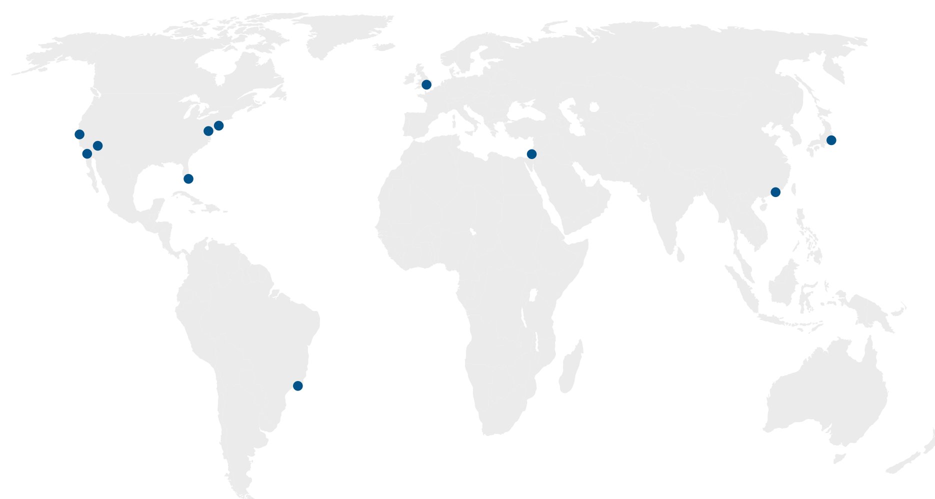

Endnotes

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The information contained in this model may include forward-looking statements regarding the model, investment strategies, or funds presented. Forward-looking statements include a number of risks, uncertainties and other factors beyond the control of the model, investment strategies, or funds, which may result in material differences in actual results, performance or other expectations. This model has been prepared based upon historical private equity fund data and is not intended to indicate future performance of investments made with, or independently of, Hamilton Lane. Its assumptions are derived from historical private equity investments and are designed to demonstrate potential behaviors of private equity investments. The opinions, estimates and analyses reflect our current judgment, which may change in the future. Therefore, this model is not intended to predict future performance and should not be used as the basis for an investment decision.

The performance results that are derived from the model's assumptions reflect the deduction of management fees and carried interest of the underlying general partners, but do not include Hamilton Lane fees or carried interest. A client's rate of return will be reduced by any applicable fees, carried interest, and other expenses incurred.

The following hypothetical example illustrates the effect of fees on earned returns for both separate accounts and fund of funds investment vehicles. The example is solely for illustration purposes and is not intended as a guarantee or prediction of the actual returns that would be earned by similar investment vehicles having comparable features. The example is as follows: The hypothetical separate account or fund of funds consisted of $100 million in commitments with a fee structure of 1.0% on committed capital during the first four years of the term of the investment and then declining by 10% per year thereafter for the 12-year life of the account. The commitments were made during the first three years in relatively equal increments and the assumption of returns was based on cash flow assumptions derived from a historical database of actual private equity cash flows. Hamilton Lane modeled the impact of fees on four different return streams over a 12-year time period. In these examples, the effect of the fees reduced returns by approximately 2%. This does not include performance fees since the performance of the account would determine the effect such fees would have on returns. Expenses also vary based on the particular investment vehicle and, therefore, were not included in this hypothetical example. Both performance fees and expenses would further decrease the return.

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[1] The All Private Equity sample includes all funds classified as buyout, growth equity, venture capital, distressed debt, mezzanine, infrastructure, co-investment, real estate, secondaries or special situation strategies contained within the Hamilton Lane Fund Investment Database as of the date of this chart. The All Private Equity sample's performance is calculated on a pooled basis where larger funds have a greater impact than smaller funds. Performance of the funds included in this sample takes into account the effect of fees charged by the fund's GP, but not by Hamilton Lane.

[2] Russell 3000 Index: The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected.

[3] MSCI World ex. US Index: The MSCI World ex USA All Cap Index captures large, mid, small and micro cap representation across 22 of 23 Developed Markets (DM) countries* (excluding the United States). With 7,862 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country.

[4] MSCI Emerging Markets Index: The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets The MSCI Emerging Markets Index consists of the following 21 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

[5] Barclays Aggregate Bond Index: The index measures the performance of the U.S. investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States - including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than one year.

[6] Credit Suisse High Yield Index: Credit Suisse High Yield Index is designed to mirror the investable universe of U.S.-dollar-denominated high yield debt market (rated 5Bs or lower; minimum $75 million outstanding; publicly registered or 144-A; no floating rate or convertible debt). If an issuer has more than two issues outstanding, only the two most liquid are included in the index. Issuers within one year of maturity are removed from the index. Fallen angels must "season" for three months before inclusion.

[7] HFRI Composite Index: An equal-weighted index that includes over 2,200 constituent funds, both onshore and offshore. All funds report assets in USD and net of all fees returns on a monthly basis. No funds-of-funds are included, and all funds have at least $50 million under management or have been actively trading for at least twelve months.

[8] FTSE/NAREIT Equity REIT Index: The FTSE NAREIT All Equity REITs index contains all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria.

[9] Dow Jones-UBS Commodities Index: The Dow Jones-UBS Commodity Index (DJ-UBSCI) is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The DJ-UBSCI is composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). Trading hours for the U.S. commodity exchanges are between 8:00 AM and 3:00 PM ET. A daily settlement price for the index is published at approximately 5:00 PM ET.

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[2] Figure represents Hamilton Lane's 10-year Realized IRR performance versus the S&P 500; as illustrated in our track record which is available upon request.

The Hamilton Lane Realized IRR represents the pooled IRR for those Discretionary Track Record investments that Hamilton Lane considers realized for purposes of its Discretionary Track Record, which are investments where the underlying investment fund has been fully liquidated, has generated a DPI greater than or equal to 1.0 or has an RVPI less than or equal to 0.2 and is older than 6 years. DPI represents total distributions divided by total invested capital. RVPI represents the remaining market value divided by total invested capital. These realized investments represent $4.3 billion of the $25.4 billion of total commitments included in the overall Discretionary Track Record. The Hamilton Lane Realized IRR is measured for the 5-, 7- and 10-year periods ending December 31, 2013. These horizon returns are calculated on a point-to-point basis over the specified time periods. The contributions, distributions and remaining asset values at the beginning and ending dates of the horizon periods are used in calculating these returns. The returns are net of management fees, carried interest and expenses charged by the underlying fund managers, but do not include Hamilton Lane management fees, carried interest or expenses since it is not possible to allocate such items accurately in a composite measured at different points in time. The Hamilton Lane Realized IRR would decrease with the inclusion of these fees, carried interest and expenses. See the hypothetical example below. Hamilton Lane has calculated and presented these returns on a pooled basis using daily cash flows, where vintage years with larger amounts committed to investment have a proportionately larger impact on returns.

The index presented for comparison is the S&P 500, calculated on a Public Market Equivalent (PME) basis. The PME calculation methodology assumes that capital is being invested in, or withdrawn from, the index on the days the capital was called and distributed from the underlying fund managers. Contributions were scaled by a factor such that the ending portfolio balance would be equal to the private equity net asset value. The scaling factor is found by taking the sum of all shares sold (SS), the sum of all shares purchased (SP) and calculating the number of shares the ending value is worth (SEV). Dividing SEV + SS by SP solves for the PME scaling factor. The scaling of contributions prevents shorting of the public market equivalent portfolio in order to match the performance of an outperforming private equity portfolio. Realized and unrealized amounts were not scaled by this factor. The S&P 500 Total Return Index is a capitalization weighted index that measures the performance of 500 U.S. large cap stocks. The comparison between Hamilton Lane performance and the index is not intended to imply that a fund's or separate account's portfolio is benchmarked to the index either in composition or level of risk. The index is unmanaged, has no expenses and reflects the reinvestment of dividends and distributions. The spreads are provided for comparative purposes only. A variety of factors may cause an index to be an inaccurate benchmark for any particular fund or separate account and the indices do not necessarily reflect the actual investment strategy of a fund or separate account.

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The S&P 500 Total Return Index is a capitalization-weighted index of 500 U.S. large cap stocks that assumes all dividends and distributions are reinvested.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity performance of developed markets.

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As of May 19, 2014