PORTFOLIO ADVISORS LLC

CPBI Southern Alberta Professional Development Day 2014

May 2014

The New Face of the Private Markets: Advantage…Investors?

Topics of Discussion

- I. The Basics
- II. Program Structure and Design
- III. Private Equity - 2014 and beyond
- IV. North America/Europe/Asia

This presentation represents Portfolio Advisors' general opinion of the private equity market and this analysis is not intended to be complete and material aspects of the opinions expressed herein may change at any time.

I. The Basics

What is Private Equity?

- Investments in non-public securities across different strategies
  - These strategies may include, among others, the following:

Strategy	Description	Sample Sectors
Leveraged Buyout	Generally use a combination of debt and equity to purchase control of companies	Small Cap; Mid Cap; Large Cap
Venture Capital	Generally use equity to purchase an influential position in an emerging company or technology	Early/Seed; Multi-Stage; Late Stage/Growth Equity
Special Situations	Generally involves the purchase of debt for growth, control or trading profit	Distressed Debt Trading; Distressed for Control; Mezzanine

Benefits of Private Equity Investments*

- Private Equity investments may offer the opportunity to achieve attractive rates of return while improving portfolio diversification

Performance

Long-term private equity returns may out-perform public equities**

- Portfolio Advisors believes it is possible to out-perform public index benchmarks.
- Actual returns will vary depending on manager selection and economic conditions

Diversification

Private equity generally involves access to private and smaller companies

- 125,702 private companies vs. 4,560 public companies with revenue over $10 mm in the U.S.***
- Private equity can be diversified by style, sector, industry, geography, stage, time/vintage

Risk/Return Profile

Portfolio Advisors believes the introduction of private equity into a balanced portfolio of investments may help reduce volatility and improve the risk/return profile

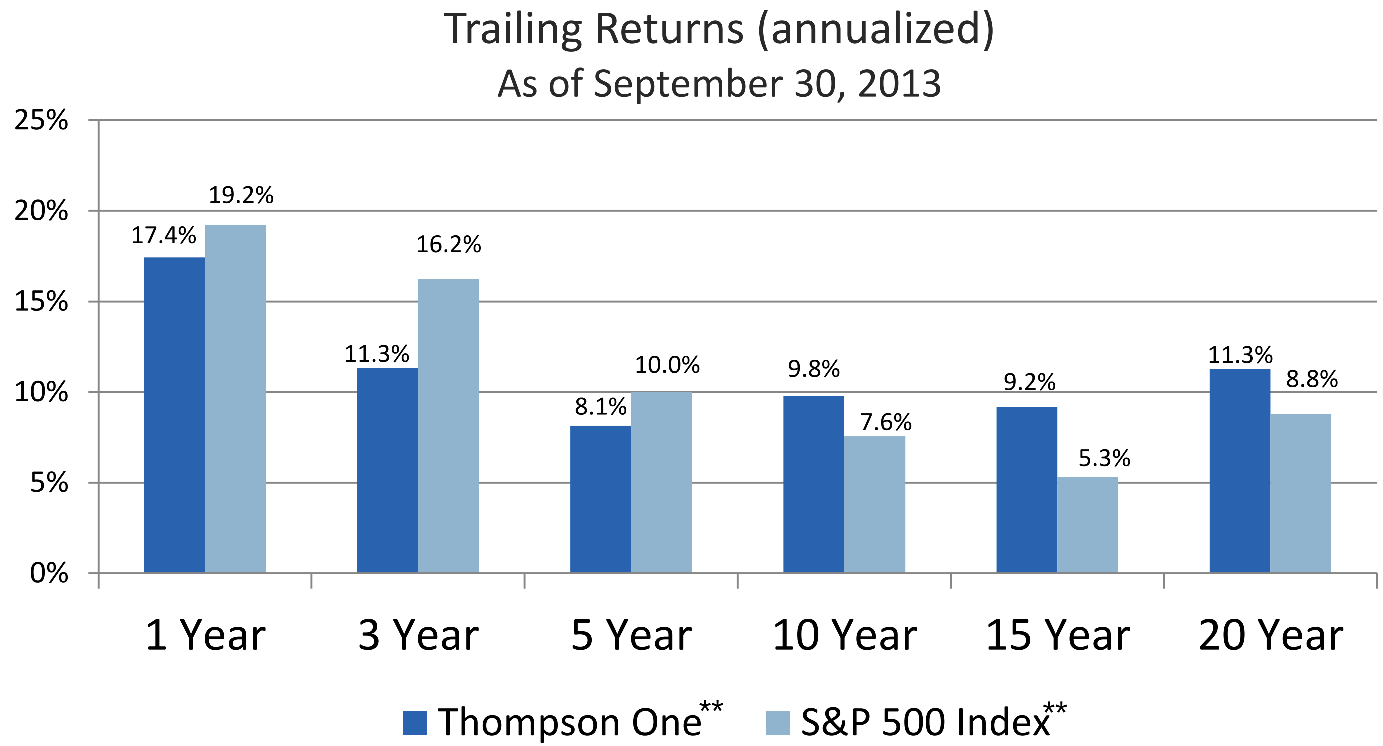
* *The foregoing represents Portfolio Advisors' general opinion of the private equity market and this analysis is not intended to be complete and material aspects of the foregoing may change at any time.*

** *Investing in the private equity asset class involves a substantial degree of risk and there is no guarantee that any private equity investment will outperform public securities. Source: Private Equity Adapts to Darwinian Forces; http://www.atkearney.com/index.php/Publications*

***Source: *Data as of May 13, 2014, S&P Capital IQ, www.capitaliq.com*

PE Index vs. S&P 500 Index

- One, three and five year figures reflect public market outperformance; however, PE consistently outperformed the S&P 500 by approximately 200 to 400 bps across the 10, 15 and 20 year time horizons*



* *Source for the chart above: Thomson One all private equity funds data as of September 30, 2013, www.thomsonone.com and the S&P 500 Index via the Bloomberg Professional Service (Bloomberg Terminal). There is no guarantee that private equity markets or any specific private equity investment will outperform the public market or that any private equity investment will be profitable and an investor could lose all or a portion of its investment therein.*

** *Please see the "Benchmark Endnotes" in the Appendix hereto for definitions for additional information.*

Distinguishing Characteristics of Private Equity

- Private Equity generally targets sectors with attractive growth and value propositions
- Investment and divestment process is often non-public, allowing the owner/management to take a long-term strategic view
- Private/non-public process may result in:
  - Effective deal generation ("proprietary networks")*
  - Favorable purchase price negotiations*
  - Efficient exit management (buyer, price, timing)*
- Specific know-how/expertise can make a difference:
  - Sectors, markets, technologies, competition etc.
  - Structuring, valuation
- Importance of accumulated experience:
  - Due diligence, negotiation, valuation, exits
  - Active approach to value creation
- Private equity may strengthen alignment of interests among various stakeholders

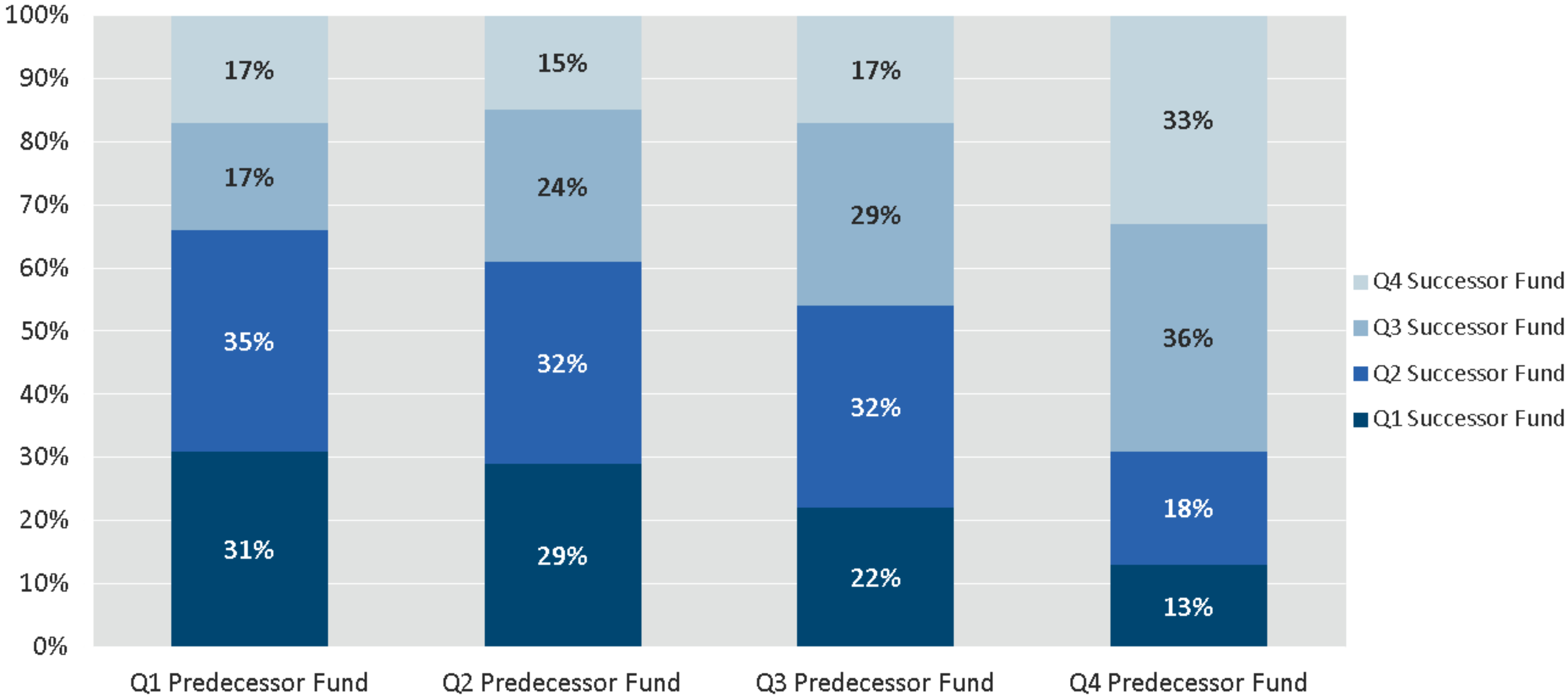
* *There is no guarantee that any private equity investment will result in more effective deal generation, more favorable pricing or more efficient exit management than a public investment process.*

Management of Private Equity Portfolios

- The significant resource requirements and specialized skills required for selection in private equity lead many investors to rely on a competent external partner. Such partners may be able to provide:
  - Access to preferred funds
    - Experienced fund managers
    - Emerging fund managers
    - Specialized fund strategies
  - Financial and operating expertise, structuring skills and accumulated experience
  - Proactive portfolio management through different specific market cycles
  - Dedicated resources in due diligence, monitoring and reporting
  - Significant "Back Office" administration

Performance of Private Equity Managers

- "Performance persistence" underscores the importance of gaining access to preferred private equity fund managers*
  - A 2013 study by Preqin shows substantial "performance persistence" for First Quartile private equity funds, e.g., 31% of First Quartile funds managed to achieve First Quartile performance with their successor fund; 66% achieved "First Half" performance **

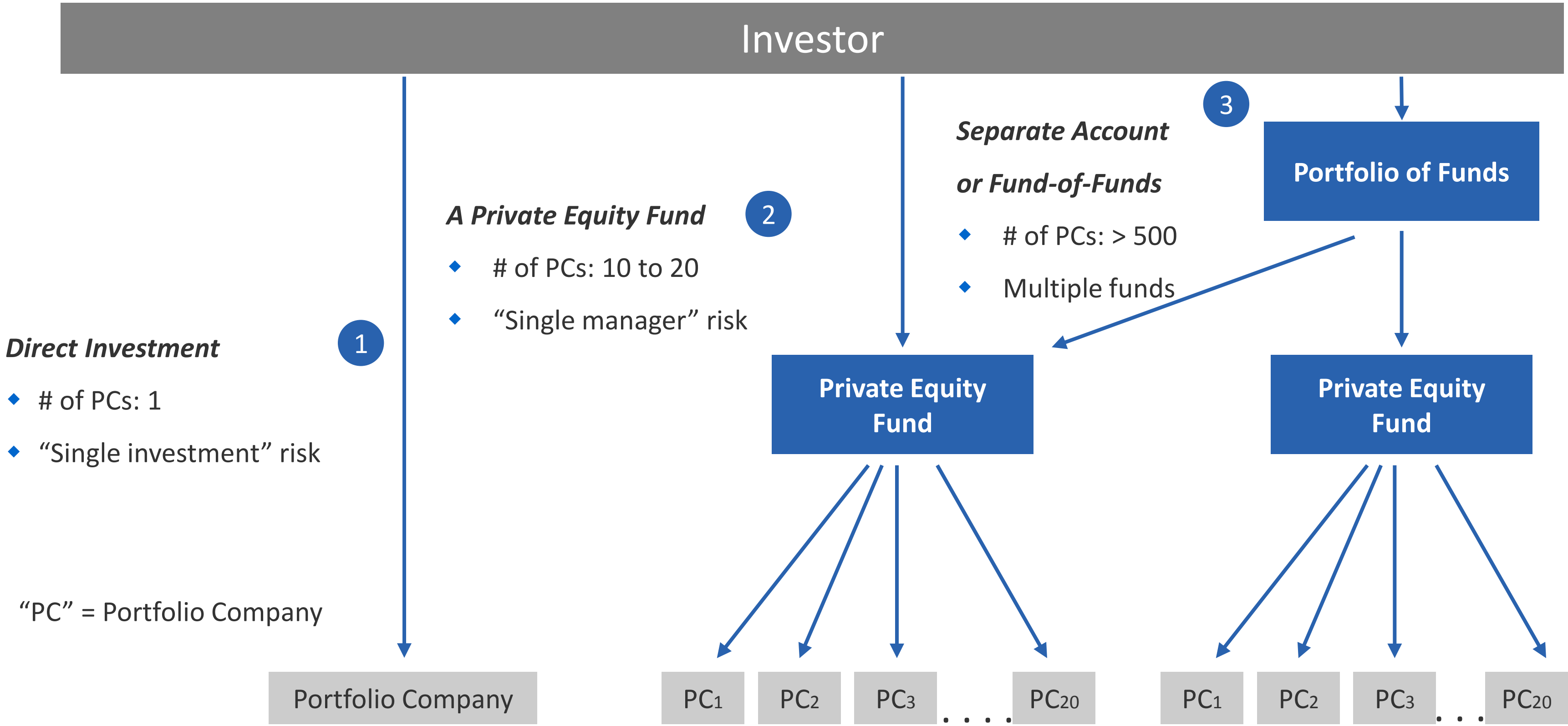


* *Past performance is not indicative of future results.*
** *Source: 2013 Preqin Private Equity Fund of Funds Review; www.preqin.com*

II. Program Structure and Design

Private Equity Investment Options

- Three examples of how investors may obtain private equity investment exposure*
- A fund-of-funds may help provide more diversification than a single fund or single company



* *Nothing herein implies that investments made through a separate account or fund-of-funds are inherently less risky than a direct investment and/or an investment in a private equity fund.*

Advantages and Disadvantages of Options

- Each alternative has advantages and disadvantages*

Form of Investment	Advantages	Disadvantages
Direct Investment	• Generally higher return potential • Control/flexibility of investment choice • No fund-level fees	• "Single Company" risk • Potentially high information and search costs (selection difficult) • Monitoring can be time intensive and costly • May distract from other potential investments
Private Equity Fund Investment	• More diversification than a single direct investment • Outsourcing of activities to investment professionals	• "Single manager risk," given the decision to invest in one manager/segment • Access to preferred funds may be difficult – minimum amount/access/acceptance
Portfolio of Funds Investment (Separate Account or Fund-of-Funds)	• Broader diversification potential • Further outsourcing of activities • Potentially greater access to preferred funds	• Potentially higher cost and expenses, "fees on fees"

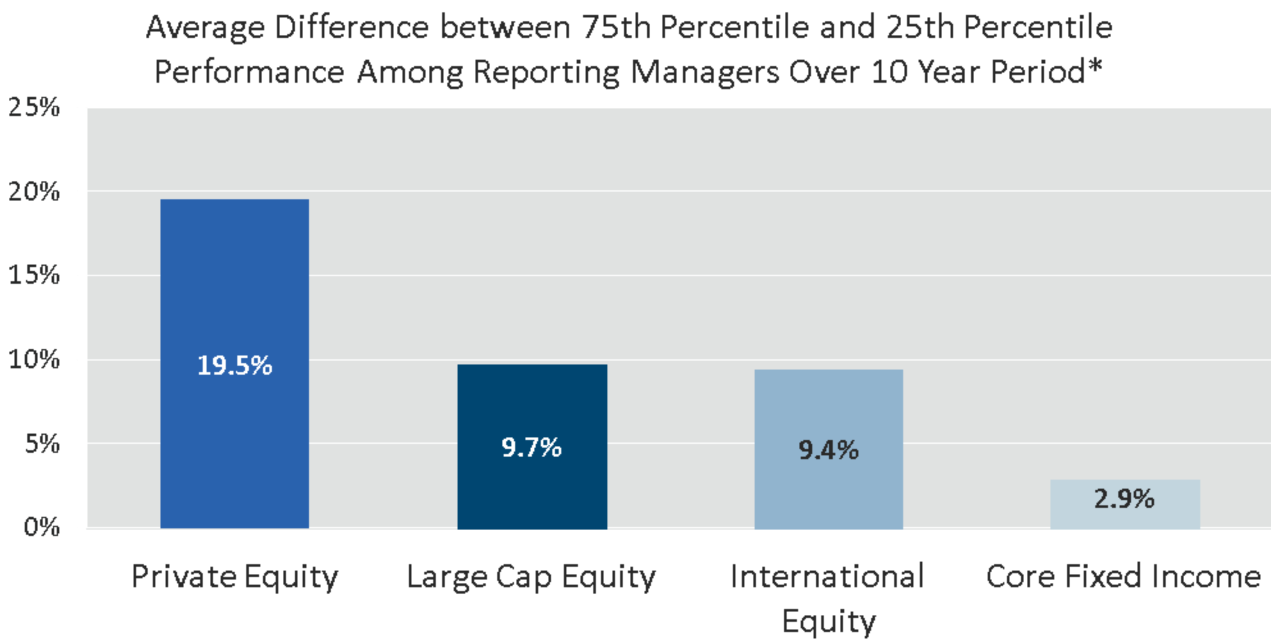
* *The foregoing represents the general opinion of Portfolio Advisors and its understanding of various types of private equity investments and is not intended to be a complete or exhaustive description of private equity.*

Thoughts on Structuring a Disciplined PE program

- Investors may consider the following factors in designing, implementing and managing a disciplined private equity program including, but not limited to:
  - Set exposure target for private equity
  - Agree on a long-term, consistent annual or bi-annual commitment pace
    - By taking a long-term view and committing to private equity investments during all economic cycles, investors can seek to mitigate the risk of the disparity in the performance of individual teams and also seek to dilute the risk of any temporary downturn
  - Review "actual versus planned" at least once a year through tactical planning sessions
  - Potentially tilt commitments to reflect views on certain sub-sectors
  - Emphasize diversification and investment manager selection
  - Size commitments to reflect perceived manager risk

Importance of Manager Selection

- Experience in manager selection can make a difference in long-term performance
- The dispersion of returns in private equity highlights the importance of access to preferred sponsors
- Dedicated resources and relationships can be critical in identifying and gaining access to preferred funds



* *The above represents the difference between the 75th percentile and the 25th percentile performance among those managers reported in the data from the following source for the years 1999-2008: Clearbrook Perspectives; http://clearbrookglobal.com/where/clearbrook_perspectives.cfm; Revisiting the Yale Model, March 2010 (eVestment Alliance and Cambridge Associates)*

Diversification*

- Portfolio Advisors believes diversification is a necessary precaution when investing in closed end funds and an asset class with a large disparity between the returns of top and lower quartile fund managers
- Diversification can be achieved by strategy, manager, time/vintage year, geography and industry including, but not limited to, the following examples:
  - *Buyout* – diversify by size and geography (U.S. & ROW)
  - *Special Situations* – diversify by debt, mezzanine and multi-strategy
  - *Venture Capital* – diversify by focus and stage
  - *Primary Investments* – commitments to "blind pool" investments, each of which generally draws down funds over a 4 to 6 year period
  - *Secondary Investments* – purchase of interests of private equity funds on the secondary market – individual funds or portfolios of funds that are often significantly funded
    - Broad Diversification
      - Strategy, manager, time/vintage year, industry, geography and valuation fluctuations
    - Pricing Advantages
      - Potential opportunities to purchase assets at a discount relative to fair market value
      - Potential ability to better value and price funded assets
      - Reduction of blind pool risk
    - Shortened Duration
      - Acquisition of seasoned assets may speed the deployment of capital, may reduce hold periods and typically provides early liquidity

* *This slide represents Portfolio Advisors' general understanding of diversification within the private equity market and this analysis is not intended to be complete and material aspects of the foregoing may change at any time. There is no guarantee that greater diversification of a portfolio will mitigate the inherent risks of investing in private equity and investors could lose all or a portion of any investment.*

III. Private Equity – 2014 and Beyond

How Did We Get Here?

- “Private equity managers have an estimated $3.2 trillion in assets under management globally,” says Preqin, which provides data and research on private equity. “Private equity has been largely out of reach for retail investors who typically do not meet accredited investor rules and do not have several million to invest,” said Nadia Papagiannis, director of alternative fund research at Morningstar.

- HOWEVER...

* *Source: http://www.fa-mag.com/news/private-equity-funds-want-retail-investors-14056.html?section=43*

How Did We Get Here? (continued)

- "…the challenge that private equity managers face as the U.S. pension fund industry shifts away from a defined benefit model and increasingly embraces the defined contribution approach that has gained popularity abroad. Defined benefit pension plans have traditionally been one of the major sources of funding for private equity in the U.S. Private equity accounts for 10 percent of fund allocations for most mature defined benefit plan managers, according to Hartley Rogers, New York–based chairman of Hamilton Lane, an investment management firm that advises institutional investors on private equity allocations."

- "Defined benefit plans are nearly a decade into what appears to be a terminal decline, driven by funding volatility, increased competition and changes in the workplace. As these plans decrease in size and take on shorter-dated liabilities, the private equity industry has to think more carefully about how it is going to make itself more attractive to defined contribution schemes."

* *Source: "Broadening the Appeal of Private Equity for Pension Plans" Institutional Investor Aaron Timms. August, 2013.*

Square Peg – Round Hole?

- Can private equity providers address the following issues in serving defined contribution/retail participants?
  - Pace of Investment
  - Daily Valuation
  - Liquidity
  - Transparency
  - Auditable Operational Processes

Big Players/Small Clients

- Larger private equity firms have been "first movers" in terms of designing fund offerings for smaller investors.

- "KKR has revealed plans to launch a new fund aimed at high-net-worth investors with a $10,000 minimum. Every other large private equity firm is likely to make a similar move in due time, experts predict, but investors must be convinced on fees before these products can take off."

- "Altegris has filed with the SEC to launch the Altegris KKR Private Equity Master Fund, which will be run by Altegris Advisors and StepStone but will invest at least 70% in KKR funds. The fund will be marketed by Altegris, using its distribution platform which deals with registered investment advisors and brokers. The new fund will be open to accredited investors with a net worth of more than $1 million or an annual income of more than $200,000."

* *Source: Suter, Laura. "KKR's New Wealth-Market Fund Will Spark Rivals to Follow." FundFire. May, 2014. Web.*

Big Players/Small Clients (continued)

- “The fund will invest at least 80% in private equity, with the rest presumably being cash or other instruments held to meet liquidity requirements. While the fund will invest in pure private equity funds it will also allocate to secondary investments and co-investments, which will help to put cash to work more rapidly.”

- “The KKR and Altegris product is not unique. Carlyle Group struck a similar deal with Central Park Group last year to offer its private equity funds with a minimum $50,000 investment. And more firms are likely to follow.”

- “More experimentation with product by asset managers will be seen, says Josh Lerner, a professor of investment banking at Harvard Business School: ‘My guess is we'll see some experimentation with the models, it is still very early going. I suspect we’ll see a variety of experimentation and models before it settles down.”

*   *Source: Suter, Laura. “KKR's New Wealth-Market Fund Will Spark Rivals to Follow.” FundFire. May, 2014. Web.*

Increased Oversight/Increased Transparency

- "Title IV of the Dodd-Frank Act directed the Commission to implement a number of provisions designed to enhance the oversight of private fund advisers, including registration of advisers to hedge funds, private equity funds and other private funds that were previously exempt from SEC registration. The SEC's implementation of required rulemaking under Title IV is complete. As a result of the Dodd-Frank Act and the SEC's new rules, the number of SEC-registered private fund advisers has increased by more than 50% to 4,153 advisers."

- "Throughout 2013 and continuing into 2014, Commission staff has launched an initiative to conduct focused, risk-based exams of newly registered private fund advisers. These "presence" examinations are more streamlined than typical examinations, and are designed both to engage with the new registrants to inform them of their obligations as registered entities and to permit the Commission to examine a higher percentage of new registrants."

* *Source: Testimony on "Oversight of the SEC's Agenda, Operations and FY 2015 Budget."*

IV. North America/Europe/Asia

United States – Current Status

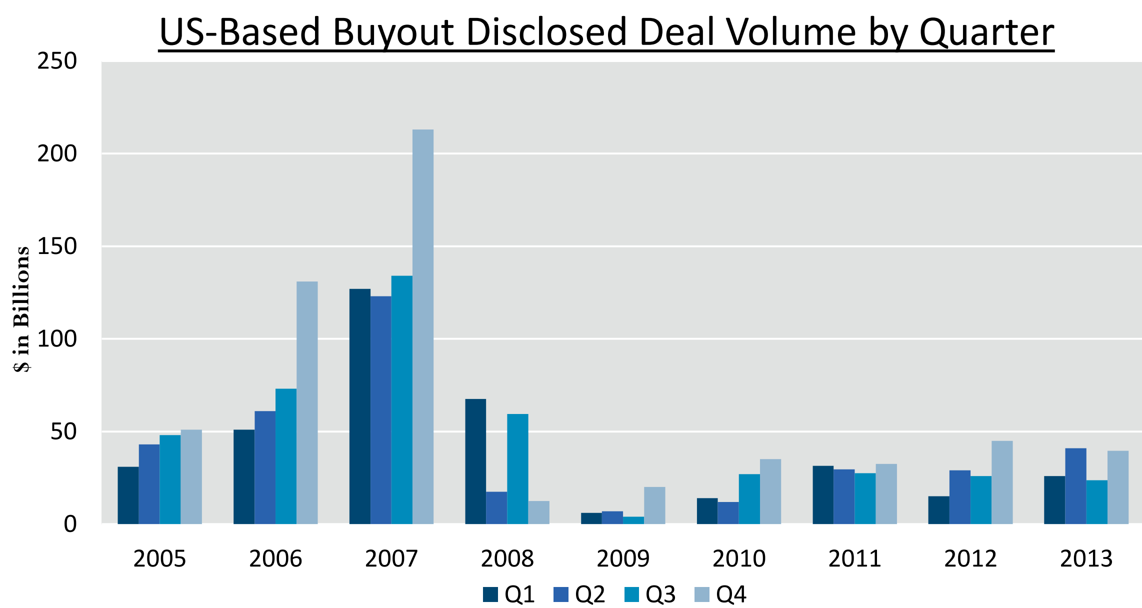
Recovery continues with modest growth

- GDP is expected to grow modestly in 2014 on similar growth rates in 2013
  - Q1-2013: 1.1%; Q2-2013: 2.5%; Q3-2013: 4.1%*
- Interest rates remain at historical lows but the Fed is cutting back on bond purchases
  - Fed announced they were tapering bond buying program by $10 billion on December 18, 2013
  - The Fed said its benchmark interest rate is likely to stay low "well past the time that the unemployment rate declines below 6.5 %, especially if projected inflation continues to run below" their 2% goal.
- Housing market continues to improve with prices for and sales of existing and new homes increasing throughout the U.S.
  - Inventory of existing and new homes is at a low
- Stock market was strong through 2013
  - Low interest rates have pushed investors further out on the yield curve including rotation into equities
- Energy Boom in US, driven by increased production from hydraulic fracking and horizontal drilling techniques, will continue to be a growth driver
  - Approaching point of being self sufficient in North America as a result of the combined increases in production from the US, Canada and Mexico
  - Manufacturing jobs from the developing world are returning to the US

* *U.S. Bureau of Economic Analysis, "Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product, "www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=1" (accessed January 6, 2014).*

United States – Private Equity Views

- Buyouts
  - Slowly improving economy, low interest rates, and more accommodating capital markets are expected to encourage deal activity, across the mid-market and large end of market, in 2014
  - M&A activity is expected to be healthy with higher purchase price multiples and availability. Opportunity to realize value in mature portfolios
  - There appears to be plenty of add-on deal flow and opportunities for dividend recaps

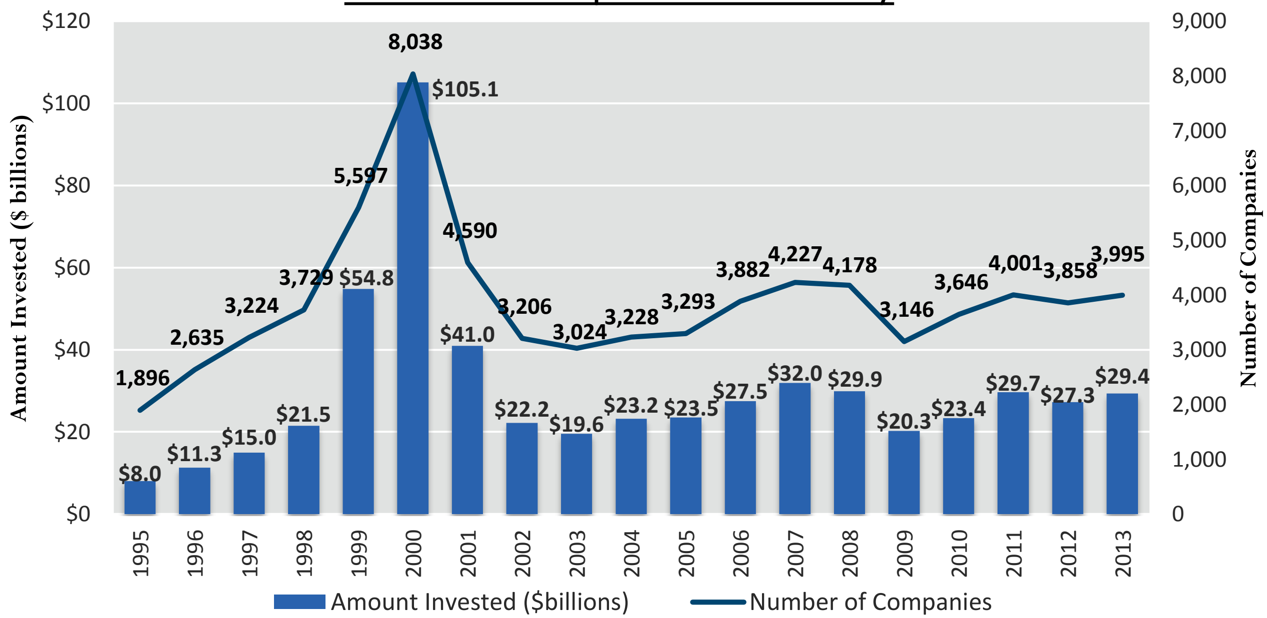


* Source: Thomson Reuters – Buyouts, January 1, 2014 Issue 1

United States – Private Equity Views

- Venture Capital
  - Companies with multi-billion dollar balance sheets will likely continue to be active acquirers
  - Lower overall supply of capital in the venture industry and concentrated in fewer firms
  - Venture investors have gravitated to backing more established companies, anticipating the likelihood of earlier exits, but valuations are getting frothy in certain sectors
  - Uncertainty over the impact of healthcare reform has affected transaction volume in the life sciences area
  - Continued focus on a select number of managers

US Venture Capital Deal Activity



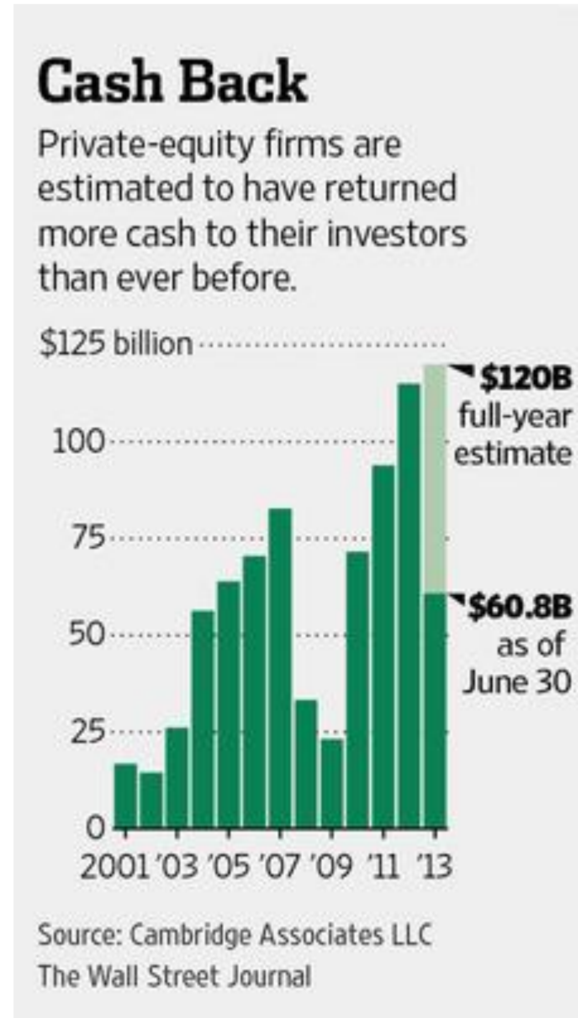
* *Source: PricewaterhouseCoopers/National Venture Capital Association – MoneyTree Report, January 17, 2014.*

United States – Private Equity Views

- Special Situations
  - Quantitative easing driving appetite for yield in riskier credits. Return of covenant-lite and PIK-toggle deals
  - Mark-ups in debt prices make certain trading strategies less compelling, but there continues to be opportunities for event-driven/company-specific distressed-for-control situations, especially in lower middle market
  - Sellers market in the secondary space making patience, sourcing and structuring key differentiators
  - With the rebound in the credit markets, the mezzanine space is somewhat less compelling. Opportunities remain in lower middle market
  - Investors in the energy space continue to see opportunities

Record Private Equity Distributions

- At an estimated $120 billion, net distributions to LPs in 2013 exceeded the previous record of $115 billion set in 2012
- LPs received gross distributions of ~12% *(or $360 billion)* of all capital committed to private equity funds versus the ~8% *(or $240 billion)* called by GPs, according to Triago
- This record liquidity for investors helped to lift annual private equity fundraising by ~35% to an estimated $365 billion, the highest level since 2008



Europe – Current Status

The Macro Picture is improving

- Interest for Europe has consequently increased and markets have seen inflows
- Tail risks have receded, significant structural progress, upswing on track
- Euro crisis continues to fade, uplift gaining momentum, periphery rebounding
  - Peak fiscal pain in late 2012
  - Monetary policy is gradually gaining traction, the worst of austerity is over and global demand is holding up nicely
  - The crisis countries are catching up with the Eurozone average again - Italy, Spain, Portugal and Ireland now have a current account surplus; Greece was on track to balance its current account in late 2013
  - In the UK, the housing market and financial services are recovering; real wage growth should support recovery in 2014
  - Germany, Europe's biggest economy, experienced a growth of 0.7% in Q2-2013 and 0.3% in Q3-2013 mainly thanks to domestic private and public consumption*

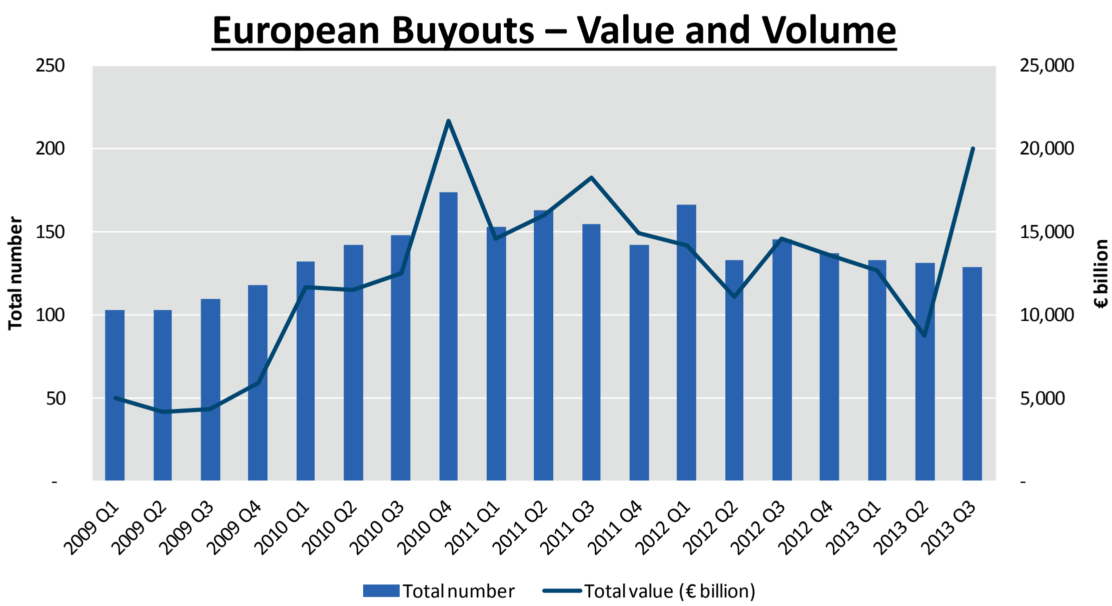
* *Trading Economics, "www.tradingeconomics.com/germany/gdp-growth" (accessed January 6, 2014).*

Europe – Private Equity Views

Private Equity – turning the corner

- Better economic situation is fueling deal activity back to normality
- Large number of proven, well established managers that can take advantage of new opportunities
- Fundamentally most attractive:
  - German Speaking and Nordic countries - high number of attractive opportunities, especially within the small-/mid-cap segment, the "Mittelstand"; strong manufacturing base; export orientation to Asia; availability and conditions of debt financing are improving
- Attractive:
  - UK - largest and most mature European private equity market; most similar to the US; rebounding economy, but competitive and debt financing for small-/mid-caps still challenging
- Opportunistic:
  - France and Italy - investment activity slightly increasing since government change (France) and financial crisis (Italy); broad Private Equity market in France; strong base of "Mittelstand" companies in Northern Italy
- Challenged:
  - Spain and CEE - Spain´s Private Equity market is consolidating, opportunities seem to be in distressed; CEE still suffering from financial crisis, most attractive is Poland (often covered by Pan-European groups)

Europe – Private Equity Views



* *Source: Ernst & Young: European buyouts watch, Q3 2013*

Asia – Private Equity Views

- China:
  - The private equity market is expanding from minority growth and pre-IPO investments to include control, cross-border, distressed/credit and industry-focused opportunities
  - Both fundraising and investment pace were down in 2013 from the prior three years
- India:
  - Consolidation among GPs is still ongoing as fund sizes decrease while a historical low Rupee provides a more conducive environment for capital deployment
  - Demographic trends continue to be positive drivers of growth in consumer, infrastructure and other sectors
  - Persistent inflation (~9%) and currency weakness has led to higher interest rates
  - Increasing use of secondary market by PE funds to generate exits and liquidity
- Japan:
  - Exit activity has increased through strategic sales, attracting interest from pan-Asia managers
- General:
  - Strong economic growth of select Southeast Asia countries such as Indonesia and Vietnam facilitate the emergence of local managers, while pan-Asia funds continue to access these markets selectively, focusing on larger transactions
  - Recent challenges across various capital markets in Asia enhance the competitive advantage of pan-Asia funds; investment experience through multiple market cycles, access to global relationships and expertise in financial structuring position regional managers to potentially outperform their single-country counterparts

Asia – Private Equity Views*

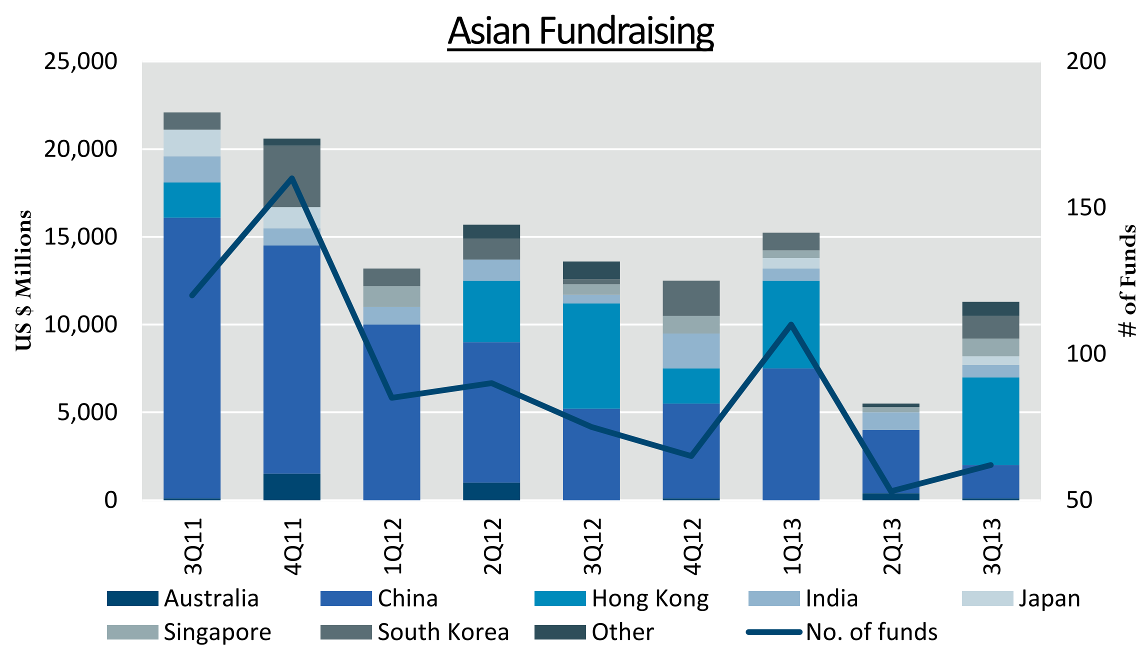
Asia Economic Fundamentals Remain Intact

- Economic growth across Asia continues to outpace growth of developed economies
- The Asia region is at an inflection point, leading to a higher quality of growth going forward
  - The Chinese economy has stabilized and showing signs of accelerated growth in 3Q13
  - The Japanese economy is tracking towards a modest recovery, both business investment and corporate profits improved during 2Q13
  - The Australian economy continues to rebalance growth towards domestic consumption
  - Despite concerns on high inflation and an elevated current account deficit, economic indicators suggest that the India economy has reached a bottom and is positioned for recovery in FY2014

* *International Monetary Fund Data Mapper with World Economic Outlook (October 2013) Dataset, http://www.imf.org/external/datamapper/index.php.*

Asia – Private Equity Views

- Market showing signs of maturity as fundraising and investment pace were generally down in 2013 from the prior few years



* *Source: Asian Venture Capital Journal, Volume 26, Number 39, October 15, 2013*

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