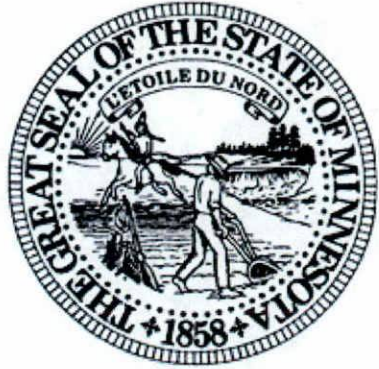


3Q2014 IAC Meeting Materials

IAC Meeting – November 18, 2014

Alternative Investments Program Presentation



Alternative Investments Program Update and Recommendations

Andrew Krech and Ryan Hill



Agenda

- ▶ Program Update and Process Review
- ▶ Recommendations For New Investments
 - NGP XI, L.P., an existing Resource manager
 - Sheridan III, L.P., an existing Resource manager
 - Welsh, Carson, Anderson & Stowe XII, L.P., an existing Private Equity manager
 - Paine & Partners IV, L.P., an existing Private Equity manager
 - Oaktree Principal VI, L.P., a new Private Equity manager
 - TCW Direct Lending VI, L.P., a new Credit manager

Alternative Investments Program Update

»» As of September 30, 2014

Alternative Investments Portfolio

as of September 30, 2014

	Current Level	Target Level	Difference
Market Value (MV)	\$7,623,508,703	\$11,779,441,083	\$4,155,932,380
MV +Unfunded	\$12,044,050,333	\$20,614,021,896	\$8,569,971,563

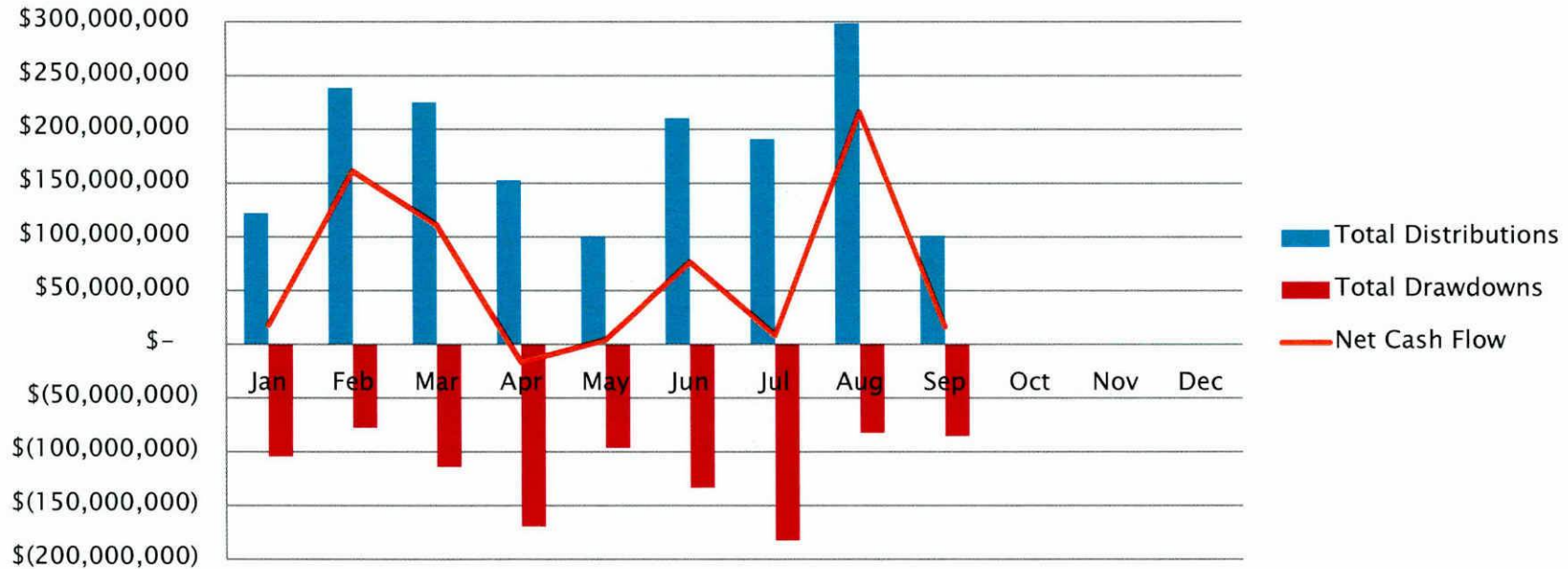
Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$4,601,625,214	\$2,827,594,147	\$7,429,219,362
Real Estate	\$708,418,991	\$140,883,027	\$849,302,018
Resource	\$1,401,710,174	\$978,186,198	\$2,379,896,372
Yield-Oriented	\$911,754,325	\$473,878,256	\$1,385,632,581
Total	\$7,623,508,703	\$4,420,541,629	\$12,044,050,333

Alternatives Portfolio:

- 12.9% of Combined Funds (by MV) as of 9/30/2014
- 12.8% of Combined Funds (by MV) as of 9/30/2013

2014 YTD Cash Flows

Alternative Investments Cash Flow Analysis Calendar Year 2014



Calendar Year to Date Cash Flows			
	Capital Calls	Distributions	Net Cash Flow
Private Equity	\$ (652,433,190)	\$ 931,001,693	\$ 278,568,503
Credit	\$ (87,359,890)	\$ 169,378,721	\$ 82,018,831
Resource*	\$ (253,312,236)	\$ 433,573,919	\$ 180,261,683
Real Estate	\$ (56,525,564)	\$ 106,179,913	\$ 49,654,349
Total	\$ (1,049,630,881)	\$ 1,640,134,246	\$ 590,503,365

* Includes Merit Energy

Staff Due Diligence Process

1. Deal flow review and initial manager meeting
2. Analysis of Fund Strategy
 - ✦ Assess market opportunity
 - ✦ Evaluate fit within existing portfolio
 - ✦ Review with CIO
3. Review of Fund Documents
 - ✦ PPM, DDQ, Annual Reports for existing funds, data room documents, cash flows and portfolio company data
4. Performance evaluation
 - ✦ Compare existing fund returns to reasonably close competitors, compared to various Private Equity peer groups, assessed active funds' final performance potential, On-site manager meeting
 - ✦ Meet with investment staff
 - ✦ In-depth strategy and case study review
 - ✦ Review with CIO
5. Consultation with Callan Associates
6. Reference Checks
7. Final GP Presentation to CIO and internal Investment Committee

Investment Recommendations

- » Commitments to two existing resource managers, two existing and one new private equity managers, and a new credit manager

NGP Fund XI, L.P.

- ▶ NGP was established in 1988 by Ken Hersh, David Albin, John Foster and R. Gamble Baldwin to make private equity investments in lower risk segments of the energy sector
- ▶ NGP has raised over \$10 billion of committed capital across Funds I – X, the majority of which has been invested in acquisition, exploration and development of upstream North American oil and gas assets
- ▶ The SBI committed \$150 million to each of NGP Funds IX (in 2007) and X (in 2012), each of which is still active

NGP Fund XI, L.P.

- Performance of prior NGP Funds as of 6/30/2014:

Fund	Inception Date	Total Commitments (in millions)	MSBI Investment (in millions)	Net IRR from Inception	Net MOIC from Inception	Fund Status
NGP Fund I	1988	\$100	\$0	22%	2.2x	Realized
NGP Fund II	1994	\$37	\$0	16%	1.9x	Realized
NGP Fund III	1995	\$30	\$0	10%	1.5x	Realized
NGP Fund IV	1996	\$150	\$0	10%	1.4x	Realized
NGP Fund V	1998	\$320	\$0	25%	2.0x	Realized
NGP Fund VI	2000	\$370	\$0	73%	5.5x	Realized
NGP Fund VII	2003	\$600	\$0	17%	1.7x	Active
NGP Fund VIII	2005	\$1,300	\$0	13%	1.9x	Active
NGP Fund IX	2007	\$4,000	\$150	19%	1.7x	Active
NGP Fund X	2012	\$3,586	\$150	22%	1.2x	Active

NGP Fund XI, L.P.

▶ Market Opportunity

- Demand for energy increasing as population grows and emerging economies develop
- Industry outspends cash flow to replace production; must rely on external capital
- “Shale Revolution” creates opportunity
 - Public companies sell non-core assets to fund investment in shale plays
 - Unconventional wells are capital intensive, decline quickly, exacerbating need for investment



NGP Fund XI, L.P.

▶ Investment Strategy

- Provide capital to a management team
- Continue to fund companies that demonstrate progress (“feed the winners”)
- Make platform investments that can grow through acquisitions and development (“buy-and-build”)
- Focus on mature assets that need capital infusion and technical expertise
- Invest a majority of capital with repeat, successful management teams
- Benefit from, but do not rely on commodity price appreciation



NGP Fund XI, L.P.

▶ Fund Terms:

- Limited Partnership, targeting \$4.825 billion of total capital, including \$325 million from NGP and the Carlyle Group
- 10-year Fund term, subject to two one-year extensions
- 1.5% Management Fee, with a “fee holiday” through January 1, 2016 on uncalled SBI commitments closed as of December 31, 2014
- 8% preferred return to Limited Partners
- 20% General Partners carried interest



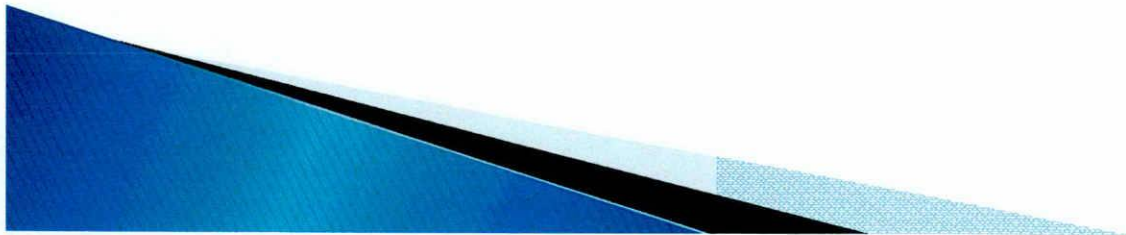
NGP Fund XI, L.P.

- ▶ Staff is recommending a commitment to NGP Fund XI, L.P. of up to \$150 million



Sheridan Production Partners III, L.P.

- ▶ Sheridan was formed in 2006 to make investments in oil & gas properties in the United States
- ▶ Sheridan has raised over \$2.5 billion in two prior funds in 2007 and 2010
- ▶ The SBI committed \$100 million to both Fund I and Fund II



Sheridan Production Partners III, L.P.

- ▶ Performance of prior Sheridan Funds as of 6/30/2014:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception *	Net MOIC from Inception *	Fund Status
Sheridan Production Partners I	2007	\$1.3 billion	\$100 million	14.2%	1.74x	Active
Sheridan Production Partners II	2010	\$1.5 billion	\$100 million	-13.3%	0.81x	Active

Sheridan Production Partners III, L.P.

▶ Market Opportunity

- Large and active market for oil & gas properties
- Public companies focus capital expenditure on properties with high growth potential
- Underinvestment in mature oil & gas fields
- Imbalance between number of mature properties for sale and number of well-capitalized buyers



Sheridan Production Partners III, L.P.

▶ Investment Strategy

- Acquire mature oil & gas producing properties in onshore U.S. basins
- Target properties with high proportion of proven, developed, producing reserves
- Control costs and make judicious capital investment
- Accelerate and enhance production
- Hedge near-term commodity price risk



Sheridan Production Partners III, L.P.

▶ Fund Terms:

- Limited Partnership, targeting \$1.5 billion in total capital, including \$65 million of General Partner commitment
- Management Fee of 1.5% during the Investment Period, 1.25% thereafter
- 15 year Fund term, subject to two one-year extensions
- 8% Preferred Return to Limited Partners
- 20% carried interest to General Partner

Sheridan Production Partners III, L.P.

- ▶ Staff is recommending a commitment to Sheridan Production Partners III, L.P. of up to \$100 million



Welsh, Carson, Anderson & Stowe XII, L.P.

- ▶ Founded in 1979
- ▶ 12 General Partners; 30 Investment Professionals; 25 members of the Resources Group
- ▶ 100% owned by the firm's General Partners and other Investment Professionals
- ▶ 15 prior limited partnerships; over \$20 billion in capital invested
- ▶ Four prior SBI commitments



Welsh, Carson, Anderson & Stowe XII, L.P.

Historical investment performance of Welsh, Carson, Anderson & Stowe as of June 30, 2014:

Fund	Inception Date	Total Commitments	SBI Investment	Net IRR from Inception *	Net MOIC from Inception*	Fund Status
WCAS III	1983	\$81 million	-	9%	1.8x	Realized
WCAS IV	1985	\$178 million	-	14%	2.7x	Realized
WCAS V	1989	\$371 million	-	33%	4.1x	Realized
WCAS VI	1993	\$604 million	-	14%	2.3x	Realized
WCAS VII	1995	\$1.4 billion	-	18%	2.5x	Realized
WCAS VIII	1998	\$3 billion	\$100 million	3%	1.4x	Active
WCAS IX	2000	\$3.8 billion	\$125 million	11%	1.8x	Active
WCAS X	2005	\$3.3 billion	\$100 million	7%	1.5x	Active
WCAS XI	2009	\$3.6 billion	\$100 million	13%	1.5x	Active

*Previous fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) for Funds V-VII were provided by WCAS.

Welsh, Carson, Anderson & Stowe XII, L.P.

▶ Market Opportunity

- Healthcare and information/business services (IBS) markets are large, continue to grow
- IBS and healthcare markets are highly fragmented
- IBS sector must continually innovate; outsourcing common
- U.S. healthcare system is inefficient, complex and constantly evolving, which creates opportunities
- Attractive business models in IBS and healthcare
- Demand for productivity solutions



Welsh, Carson, Anderson & Stowe XII, L.P.

▶ Investment Strategy

- Buy growth businesses in two target industries: (i) information/business services and (ii) healthcare
- Partner with strong management teams
- Build value through operational improvements, internal growth and strategic operations
- Portfolio construction
 - Diversify by time of investment, industry, themes, type, and economic sensitivity
 - Risk-return profile
- Target investments

Welsh, Carson, Anderson & Stowe XII, L.P.

▶ Fund Terms

- Limited partnership
- \$3.0 – \$3.5 billion target; GP commitment \$175 million or 5% of total commitments, whichever is less
- 8% hurdle rate
- 6YR investment period; 4YR unwind
- Management Fees
 - 1.50% on committed during 6YR investment period
 - 1.00% on committed during 4YR unwind



Welsh, Carson, Anderson & Stowe XII, L.P.

- ▶ Staff is recommending a commitment to Welsh, Carson, Anderson & Stowe XII, L.P. of up to \$150 million



Paine & Partners Capital Fund IV, L.P.

- ▶ Paine & Partners was formed in 2006 by W. Dexter Paine III and Kevin Schwartz, along with several investment professionals from Fox Paine & Company
- ▶ The Firm's professionals have invested over \$2 billion across three prior funds in management-led acquisitions, growth equity, and recapitalizations
- ▶ The SBI committed \$40 million to Fox Paine Capital Fund I in 1998, and \$50 million to Fox Paine Capital Fund II in 2000

Paine & Partners Capital Fund IV, L.P.

- ▶ Performance of prior funds is as of 6/30/2014:

Fund	Inception Date	Total Invested Capital	SBI Investment	Net IRR from Inception *	Net MOIC from Inception *	Fund Status
Fund I	1998	\$485 million	\$40 million	7%	1.4x	Realized
Fund II	2000	\$681 million	\$50 million	20%	2.0x	Active
Fund III	2007	\$974 million	N/A	8%	1.4x	Active

- ▶ Performance for food and agribusiness investments, aggregated across Funds II and III:

Fund	Number of Investments	Total Invested Capital	Gross IRR from Inception	Gross MOIC from Inception
Funds II-III	9 platforms w/ 18 additions	\$675 million	73%	2.2x

Paine & Partners Capital Fund IV, L.P.

▶ Market Opportunity

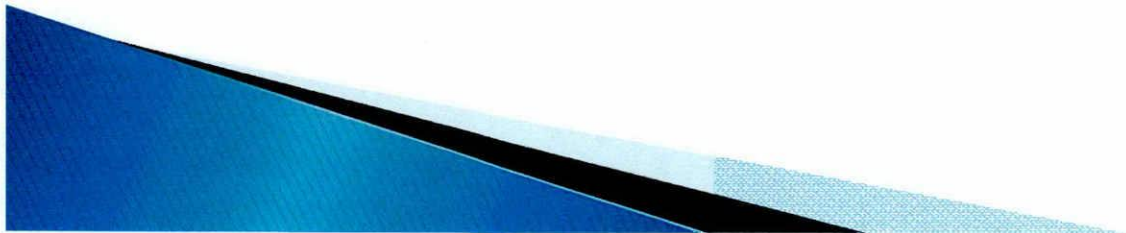
- Supply & Demand Imbalance
 - Rapidly increasing Global Demand for Food
 - Resources are Constrained
 - Declining Productivity Gains
- Favorable Industry Dynamics
 - Large, Fast-growing sector
 - Underserved by Private Equity investment
 - Segments of value chain are fragmented & inefficient



Paine & Partners Capital Fund IV, L.P.

▶ Investment Strategy

- Identify most attractive segments of Food and Agriculture value chain
- Focus on self-sourced deals
- Target complex transactions
- Take control position in target companies
- Partner with management team to create organic growth
- Pursue merger and acquisition opportunities (“buy-and-build”)



Paine & Partners Capital Fund IV, L.P.

▶ Fund Terms

- Limited Partnership, targeting \$800 million of total capital
- 10-year Fund Term, subject to two one-year extensions
- 2% Management Fee
- 8% preferred return to Limited Partners
- 20% GP Carried Interest

Paine & Partners Capital Fund IV, L.P.

- ▶ Staff is recommending a commitment to Paine & Partners Capital Fund IV, L.P. of up to \$100 million



Oaktree Principal Fund VI, L.P.

- ▶ Founded in 1995 by Howard Marks; went public in 2012
- ▶ \$91 billion AUM
- ▶ Oaktree Capital Group (ticker: OAK) ownership structure:
 - 45% Oaktree Principals, Directors and Executives
 - 26% Oaktree employees and institutional investors
 - 29% public shareholders
- ▶ Principals control 96% of voting power
- ▶ No prior SBI commitments to Oaktree

Oaktree Principal Fund VI, L.P.

Historical investment performance of the Global Principal Group as of June 30, 2014:

Despite record issuance of non-investment grade debt,

Fund	Inception Date	Total Invested	Net IRR from Inception *	Net MOIC from Inception*	Fund Status
The Principal Fund	1994	\$540 million	15%	1.7x	Realized
Principal Opps. Fund	1996	\$845 million	5%	1.5x	Realized
Principal Opps. Fund II	2000	\$1.6 billion	18%	1.8x	Realized
Principal Opps. Fund III	2004	\$1.6 billion	10%	1.6x	Realized
Principal Opps. Fund IV	2006	\$4.0 billion	8%	1.5x	Realized
Principal Opps. Fund V	2009	\$3.3 billion	9%	1.3x	Active

* Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) were provided by Oaktree.

Oaktree Principal Fund VI, L.P.

▶ Fund Terms

- Limited partnership
- \$1.5 billion target; \$37.5 million GP commitment (2.5%)
- 8% hurdle rate
- 3YR investment period; 7YR unwind
- Management Fees
 - 1.30% on committed during 3YR investment period
 - 1.30% on committed during 7YR unwind period
 - No management fee after the 11th anniversary of the initial investment date



Oaktree Principal Fund VI, L.P.

- ▶ Staff is recommending a commitment to Oaktree Principal Fund VI, L.P. of up to \$100 million



TCW Direct Lending VI, LLC

- **TCW Asset Management**
 - Founded in 1971
 - \$144 billion AUM
 - 60% owned by The Carlyle Group; 40% owned by TCW management and employees
- **TCW Direct Lending Group**
 - 2013 – Acquired by TCW Asset Management
 - 2000 – Regiment Capital Advisors, L.P.
 - \$3.9 billion invested over five previous funds
 - Led by Richard T. Miller, leader of the DL Strategy since 2000
- No prior SBI commitments to TCW Direct Lending Group

TCW Direct Lending VI, LLC

Historical investment performance of the Direct Lending Group as of September 30, 2014:

Fund	Inception Date	Total Invested	Net IRR from Inception*	Net MOIC from Inception*	Fund Status
Direct Lending I	2000	\$132 million	10%	1.2x	Realized
Direct Lending II	2002	\$270 million	12%	1.2x	Realized
Direct Lending III	2004	\$717 million	6%	1.2x	Active
Direct Lending IV	2007	\$960 million	11%	1.2x	Realized
Direct Lending V	2011	\$1.8 billion	9%	1.1x	Active

* Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) were provided by TCW.

TCW Direct Lending VI, LLC

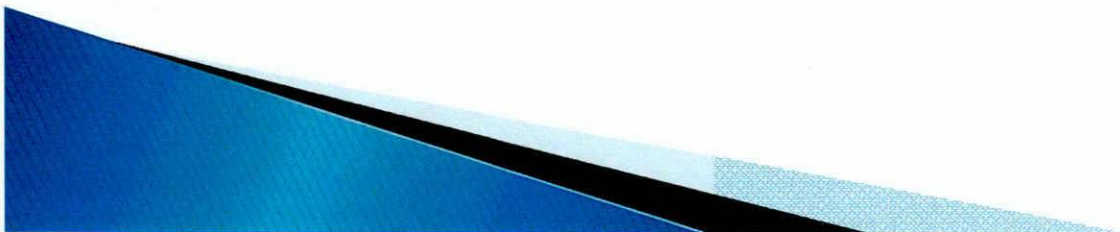
▶ Market Opportunity

- 195,000 middle-market businesses in U.S.
- Equivalent to world's 5th largest economy¹
- Limited access to traditional sources of capital
- Regulatory changes
- Increasing demand for capital since 2010
 - Maintenance capex and expansionary projects
 - Mergers & acquisitions activity
 - Refinancing activity

¹Source: National Center for the Middle Market, Q4'13 Middle Market Indicator.

TCW Direct Lending VI, LLC

- Investment Strategy
 - Direct investments in senior secured loans to middle-market cos.
 - Adjustable-rate loans
 - Libor + spread; closing fees of 1 – 3%
 - Companies with EBITDA between \$15 – \$100 million
 - Deal sizes of \$250 million or less
 - \$25 – \$150 million investment per transaction
 - Loan-to-value between 30 – 50%
 - 10 – 12% net IRR target
 - “Life of investment” approach to manage investments



TCW Direct Lending VI, LLC

▶ Fund Terms

- Private Business Development Company (BDC)
- \$2.5 billion target; \$25 million GP commitment (1%)
- 9% hurdle rate
- 3YR investment period, 3YR unwind
- Management Fees
 - 1.50% on committed during 3YR investment period
 - 0.75% on cost of remaining portfolio during 3YR unwind period



TCW Direct Lending VI, LLC

- ▶ Staff is recommending a commitment to TCW Direct Lending VI, LLC of up to \$100 million

