ABSTRACT

Over the last 20 years, buyout managers targeting the lower end of the market - private companies with enterprise values of $500 million[1] or less - have consistently outperformed public equities and other buyout strategies. The objective of this paper is to examine the sources of those returns and expectations for their persistence in the future.

INTRODUCTION

The range of sizes and types of businesses pursued by buyout managers is now very wide, from single-store retail franchises to large consumer and industrial businesses valued in the tens of billions of dollars. Only about one decade was required, the 1980s, for the buyout market to evolve to this state from its inception, but since that time the largest end of the buyout market has dominated the attention of investors and the press. Large buyout groups such as The Blackstone Group, KKR, and The Carlyle Group, each of which seem capable of raising pools of capital of more than $10 billion every two to four years, make frequent appearances in the popular press. Many of the companies they target, such as Neiman Marcus, PETCO, and Burger King, are well known to most people. Due to this familiarity, as well as other considerations including compelling long-term performance, large- and mega-buyout groups have also garnered tremendous long-term interest from investors.

Despite the highly institutionalized nature, strong and lengthy track records, and deep resource bases of most large- and mega-market buyout managers, Meketa Investment Group believes the small- and middle-market buyout ("SMMBO") space (i.e., companies with enterprise values of between $100 million and $500 million) offers a superior investment opportunity. While large market transactions receive the majority of media attention, the preponderance of buyout transactions is in much smaller companies. For example, 79% of buyout transactions from 1980 to 2002 had a total deal value of $250 million or less.[2] Further, essentially all of the most reputable and esteemed buyout managers either currently operate, or built the track records for which they are known, in the SMMBO space. Finally, as discussed in further detail in this paper, in aggregate, SMMBO managers have outperformed other areas of private equity over both short and long time periods, which we believe is the result of several persistent strategic advantages available to capable SMMBO managers that do not exist, or at least to the same degree, for other private equity strategies.

The Private Equity Investment Opportunity

There are several factors on which investors focus when deciding to invest in private equity. The first is the relative inefficiency of the private market. There is less broadly available information in the private markets, which provides more opportunities for large spreads between actual transaction pricing and what a fully efficient market would bear.

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1 Throughout the document, all asset values and performance are in U.S. Dollars, unless otherwise stated.
2 Source: Mergers & Acquisitions Digest.

The second factor is the ability for private equity managers to improve the companies in which it invests by being a "control" investor. Investors in public equities are generally passive owners of the businesses in which they invest, with small ownership stakes as a percent of the companies' total equity and little influence over key business decisions. In contrast, private equity investors can often take an active role in the oversight and management of a company in which they invest, thus effecting value-added changes to a company's strategy, management team, and capital structure, among others. Control also allows for greater alignment of interest between the owners and management than is common for most public companies. Finally, control often provides an owner more information with which to decide when and how to most profitably exit its investment.

These structural advantages have led to handsome returns for private equity investors, particularly for those whose performance is in the top quartile, as the spread between median and top quartile managers is much greater for private equity than it is for public equity managers.[3]

Market Landscape

While the large end of the buyout market includes only a few dozen managers, all of which are relatively well known to most investors with private equity programs, the universe of SMMBO managers is very large and challenging to navigate. The universe of investment opportunities for SMMBO funds is the largest of any segment of the buyout market, with nearly 25,000 companies in the U.S. producing annual revenues of between $50 million and $250 million.[4] Approximately 500 SMMBO managers now target such companies for investment. As such, it has become increasingly challenging for private equity investors to identify and evaluate top-tier SMMBO managers. A substantial commitment of time and resources is necessary to become familiar with the hundreds of competing firms and identify the characteristics of successful managers. Further, many successful SMMBO managers have loyal limited partner bases and hence limited capacity to accept new investors. As a result, they tend to be less actively engaged in marketing than most of their lower quality peers, so the flow of information from and about SMMBO groups is dominated by lower quality managers.

While the opportunity set for SMMBO managers is very large and segments of it remain relatively inefficient, the large number of managers in the space has made it increasingly competitive. This natural evolution of the space has forced managers to adapt their strategies over time in order to increase their effectiveness and continue to generate superior returns despite increasing competition. Due to this dynamic, many SMMBO managers have sought to develop capabilities that provide competitive advantages, of which the most

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[3] The inter-quartile spread for buyout funds was 18.8% for the ten years ending June 30, 2010 (source: Venture Economics), while the inter-quartile spread for large cap US equity funds was 2.4% for the ten years ending December 31, 2010 (source: Morningstar).

[4] U.S. Census Bureau's Statistics of U.S. Businesses, 2002.

common are listed below:

Operational Expertise: As SMMBO managers generally seek to both grow and improve the businesses in which they invest, some have sought to hone this capability through developing expertise in operating small- and mid-sized businesses. Various models have been developed for this purpose, ranging from creating loose affiliations with individuals who have operating backgrounds, to building out large dedicated teams of operating professionals to work alongside the investment staff.

Deal Sourcing: While less common due to the increasing intermediation of the SMMBO market, some buyout firms have sought to develop enhanced deal sourcing capabilities. Nearly all SMMBO firms seek to develop proprietary deal flow and dedicate some time and resources to this effort. Some, however, have sought to make deal generation a marked competitive advantage through systems and professionals that are dedicated to this purpose. Others have sought to enhance deal flow through affiliations with institutions, like investment banks or other intermediaries.

Industry Specialization: Many SMMBO groups have begun to specialize in specific sectors of the market, most commonly healthcare, technology, media, energy, financial services, and consumer/retail. There is a wide spectrum of specialization, with some firms focusing on only one sector, while others specialize in a handful of areas. Such firms believe that this specialization provides access to unique transactions, improves the effectiveness of due diligence, and allows them to provide portfolio companies with valuable resources.

HISTORICAL PERFORMANCE

Historically, investors have been rewarded for investing in SMMBO funds, as they have consistently been among the best performing segments of both the public and private equity markets. Over long time periods, SMMBO funds have generated a premium over public equities and larger buyout funds. For the twenty-year period ended September 30, 2010, the premium for SMMBO strategies over public equities was 250 basis points per annum, while the premium for SMMBO strategies over large- and mega-market strategies was even greater (340 and 700 basis points, respectively). The table below details the performance of SMMBO funds relative to other private equity strategies and a public market index over various time periods.

Comparative Horizon Performance[5]

As of September 30, 2010

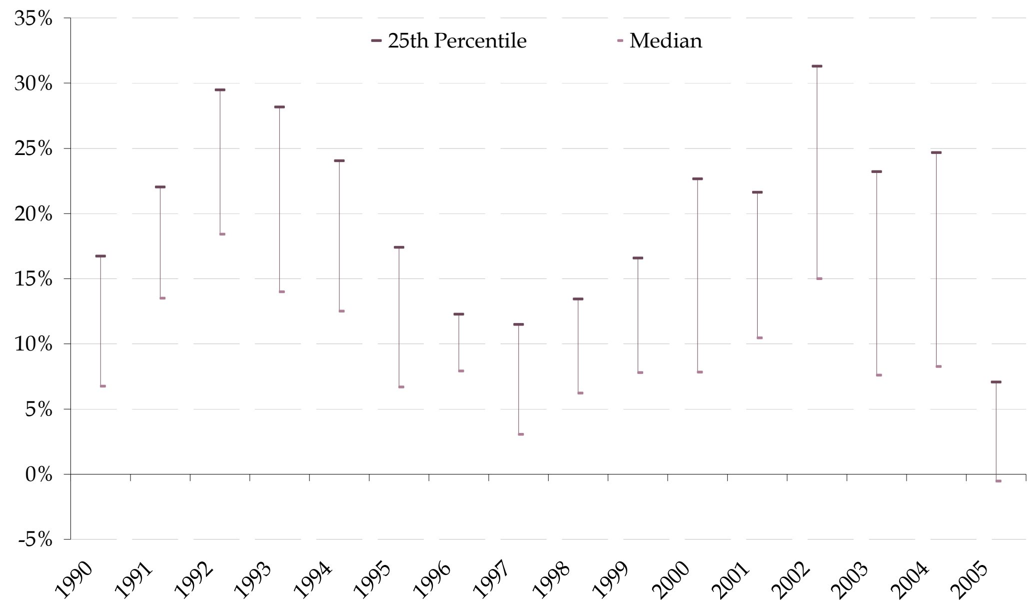
Strategy	1 Year	3 Year	5 Year	10 Year	20 Year
Small-Market Buyout	15.6%	0.0%	8.9%	7.2%	11.9%
Mid-Market Buyout	15.4	0.9	7.2	6.4	11.9
Large-Market Buyout	13.7	-4.9	7.3	7.2	8.5
Mega-Market Buyout	21.4	-3.8	1.1	3.6	4.9
Venture Capital	9.5	-2.0	3.2	-2.1	16.9
Private Debt	12.2	2.1	5.3	6.5	8.1
Russell 3000	*11.0*	*-6.6*	*0.9*	*0.1*	*9.4*
MSCI ACWI	*8.4*	*-7.5*	*2.4*	*1.6*	*5.5*

SMMBO funds could reasonably be expected to underperform larger buyout funds during economic contractions due to the relatively lower resource base and stability of SMMBO portfolio companies. However, the three-year performance data, which generally covers the period of time since the inception of the most recent contraction, does not support that argument. In fact, while SMMBO firms have fewer resources and higher per unit costs than larger buyout firms, SMMBO funds have generally generated more compelling performance over short and long periods of time. Later in this document, we suggest several strategic advantages that we believe explain the primary drivers of the outperformance of SMMBO funds relative to other private equity strategies.

The performance of SMMBO funds has exhibited significant variance, both across time and among funds of any given vintage year. As detailed in the following chart, the median performance of SMMBO funds of various mature vintage years has ranged from as low as 3.1% (1997) to as high as 18.4% (1992). Of note, the best performing vintages of the last 20 years have been those during and immediately following economic contractions. The considerably high performance of the early 1990s and early 2000s vintages immediately followed business cycle troughs reached in March 1991 and November 2001, respectively. Meketa Investment Group believes this is primarily the result of such funds forming during times of relatively low purchase valuations as well as general improvements in the business cycle providing a "tailwind" during the holding periods of underlying investments.

[5] All private equity asset class data represents net-of-fee dollar-weighted returns from Venture Economics. Small-Market Buyout funds represent buyout funds of $500 million or less, Mid-Market Buyout funds represent funds of between $500 million and $2 billion, Large-Market funds represent funds of between $2 billion and $5 billion, and Mega-Market Buyout represents funds larger than $5 billion. Performance for the Russell 3000 and MSCI ACWI indices are time-weighted.

SMMBO Vintage Year Performance[6]



Also notable in the chart above is the considerable spread between the performance of the top quartile SMMBO fund and the median fund. The average spread between the 25th percentile and median for SMMBO funds of vintages 1990 through 2005 was 11.0%, with the highest spread of 16.4% occurring in 2004. As a point of comparison, the average spread between the 25th percentile and median for large- and mega-market buyout funds has been 8.2% based on data available over the same period of time. As such, manager selection is a critical element of investing in SMMBO funds in order to fully participate in the wealth creation capacity of the asset class and receive adequate compensation for the significant risks involved with the strategy.

As further discussed below, Meketa Investment Group believes that in order for SMMBO managers to be consistently successful on both a relative and absolute basis, the managers will need to be highly experienced, well-resourced, differentiated in key areas, such as deal sourcing, industry expertise, or operating capabilities, and disciplined with respect to deal structures and prices.

ADVANTAGES

While the outperformance of SMMBO funds has been persistent and observable over time, its causes are much more difficult to characterize. As SMMBO investments can generally support less leverage due to the lower asset base and less stable earnings relative to larger companies, the performance of SMMBO transactions appears to be less dependent on financial engineering. Anecdotal evidence observed by Meketa Investment Group from hundreds of meetings with SMMBO managers indicates that the sources of returns for any individual transaction may vary widely. Within a given SMMBO manager's portfolio, the

[6] Represents data for U.S. buyout funds of $2 billion and under from Venture Economics.

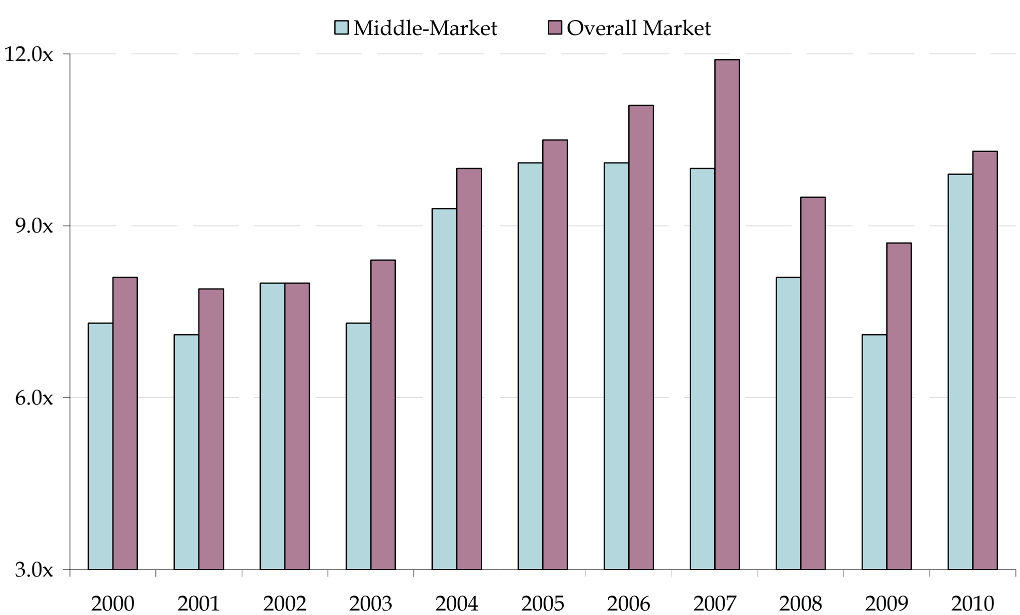
investment theses may vary from one deal to the next, relying alternatively on revenue growth, margin expansion, distressed purchase pricing, or favorable industry or capital market dynamics as drivers of investment performance. However, the means by which SMMBO managers generate investment performance appear to be a distinct advantage for the strategy in that they are numerous and, to a large degree, possible to execute in most market environments. The following section provides a detailed description of the various advantages of the SMMBO strategy.

Valuations

While data for the pricing of private market transactions is sparse, the available data suggests that SMMBO transactions generally occur at a lower purchase multiple than for the rest of the buyout market. From 2000 to 2010, in no single vintage year did the purchase multiple for middle-market transactions exceed those for larger transactions.[7] For the entire decade, the average spread between middle-market and the overall market was 0.9x, representing a 11% discount. In fact, the discount is even greater for smaller market transactions.

One of the primary reasons for these relative discounts is that there are fewer financial intermediaries that serve smaller companies. In addition, there are fewer avenues available for these companies to raise capital on their own. As such, competitive SMMBO managers are frequently able to identify transactions with limited or no competition, or other situations in which they are able to negotiate attractive pricing.

U.S. Transaction Multiples (Enterprise Value / EBITDA)[8]
As of March 2011



[7] Sources: Dealogic and William Blair & Company

[8] Sources: Dealogic and William Blair & Company.

Broad Opportunity Set

With more than 10,000 small- and mid-sized private companies just in the U.S., the universe of SMMBO investment opportunities is larger than any other in the buyout arena. This larger universe will naturally lead to vast differences in the types and quality of companies being considered. This allows SMMBO manager to be very selective when evaluating investment opportunities.

Value Creation

The sophistication, networks, and resources of small- and mid-sized private companies tend to be less developed than for larger organizations. Similarly, they are less likely to be using industry best practices in a number of areas, to be using leading edge software for functions such as finance, accounting, and human resources, and to have sought advice from management consultants. Hence, the companies in this space have much greater room for improvement.

As such, SMMBO managers have sought to apply their resources to help enhance portfolio companies and increase shareholder value. Such enhancements may be achieved through several avenues, including the development of new products, growing market share, effectively monitoring and managing costs, institutionalization of processes, and increasing scale. Competitive SMMBO managers have demonstrated an ability to achieve such enhancements by augmenting or changing management teams, providing strategic advice, improving corporate governance, bolstering financial reporting and operating processes, and introducing the company to new potential customers, distributors, and suppliers. Due to the small size of companies in the SMMBO space, many more opportunities exist to affect such value creation strategies than in larger, more heavily resourced and efficiently managed businesses.

Multiple Expansion via Growth

Companies that have more stability of earnings, higher margins, and better growth prospects command valuations at higher multiples of earnings, all else being equal. Successful SMMBO managers frequently use this dynamic to their advantage by helping companies grow in size, either organically or through acquisitions, such that they are more attractive to potential acquirers and investors upon exit and command a higher multiple of earnings upon exit than at acquisition. This approach of building out from a "platform" company, often deemed "buy and build," has been a genuine source of wealth creation for many SMMBO managers.

Exit Flexibility

Relative to other private market investments, SMMBO investments have more potential avenues for creating liquidity at the end of an investment's holding period. Similar to venture capital, SMMBO investments, once mature, are expected to be of a size where they would be attractive to large strategic buyers or be candidates for initial public offerings. One additional channel of liquidity uniquely available to SMMBO-backed strategies is financial buyers (i.e., other private equity funds). SMMBO investments are typically of the size at maturity where they become attractive candidates for large- or mega-market buyout funds with substantial resources that allow them to seek even greater company growth, operating efficiency, or financial engineering.

Economies of Small Scale

Recent study of buyout performance suggests that the outperformance of SMMBO firms relative to large buyout firms may be attributable, in part, to their smaller firm and team size and the corresponding efficiencies for the investment decision-making process. The study argues that information flows are curtailed in large, hierarchical firms, which inhibits the firms' decision-making processes and value-added capacities[9]. With smaller and less structured teams, SMMBO managers may be poised to more efficiently process information that is relevant to the investment decision-making process than their larger counterparts, which may be directly linked to superior performance.

DISADVANTAGES

Despite the advantages previously described, SMMBO strategies have several significant disadvantages that merit attention and may limit their appeal to certain investors.

Target Company Quality

Relative to larger market transactions, companies in the SMMBO market generally have lower caliber management teams, fewer resources with which to weather business or market challenges, and often compete with larger, more effective firms. Additionally, many of the sources of value creation in SMMBO strategies, such as reducing customer concentration, changing management teams, and growth through acquisition, involve commensurate risks. Further, a failure to successfully execute a SMMBO investment strategy may involve a greater loss of capital relative to a larger market buyout investment, as smaller companies generally have fewer assets to provide a cushion against losses (though they usually have a lower debt burden as well).

Manager Quality & Migration

The buyout market is scalable in the sense that larger investment pools allow managers to generate greater fee income and profit potential without necessarily creating a corresponding increase in costs or risk to themselves. As such, many managers that generated successful track records in the SMMBO space have switched their focus to larger transactions in order to capitalize on this scalability. This transition of many successful SMMBO funds to much larger fund sizes naturally reduces the number of experienced, established managers seeking to invest in the SMMBO space.

High Relative Cost

Smaller funds, all else equal, generally involve higher per-unit costs. As the basis for calculating management fees (aggregate commitments during the investment period) is lower for smaller funds, SMMBO funds generally charge a higher rate of management fees in order to generate enough current income to offset the costs of the resources needed to

[9] Source: "Giants at the Gate: On the Cross-Section of Private Equity Investment Returns," Lopez-de-Silanes, et al.

execute their strategies. These higher rates result in a wider expected spread between gross and net performance for SMMBO funds relative to larger buyout funds, all else equal.

INVESTOR CONSIDERATIONS

There are several other considerations that may impact certain investors' willingness or ability to commit capital to SMMBO funds. First, limited partners with sizeable programs or concentrated strategies may experience challenges accessing SMMBO funds due to the managers' limited capacity to accept large commitments from investors. Most managers seek to limit any single investor to no more than between 10% and 25% of total commitments. Second, some limited partners that have sought to focus on SMMBO strategies over time have had to consider ending long-term relationships with managers that have generated attractive performance but have increased fund size and moved "up market."

Further, the managers in the SMMBO space are not widely known, and hence do not provide the immediate feeling of familiarity and comfort associated with larger private equity firms. They are less likely to have a long-term track record that provides similar assurance. Relative to larger managers, many SMMBO groups have less institutionalized processes and familiarity with the reporting and governance requirements of institutional investors.

Finally, the large size of the SMMBO market makes it more likely that investors could make mistakes with their manager selection. As such, investors will need to be more disciplined regarding manager selection in order to experience success when crafting a portfolio of SMMBO managers.

CURRENT ENVIRONMENT

In 2010, roughly three years following an historic peak in buyout investment activity and valuations, transaction multiples for SMMBO companies rebounded to near their all-time highs. Many attribute these persistently high valuations to an "overhang"of $485 billion of unfunded commitments in the private equity market that was primarily raised from 2005 through 2008 and may require several years yet to work its way into the marketplace. Large-and mega-market funds accounted for a larger proportion of the capital raised during that period, growing from around 22% of total capital raised in 2005 to around 52% of capital raised in 2008. However, the SMMBO market may experience the bulk of the resulting pricing pressure as large- and mega-market funds are forced to move down market where there is greater availability of debt financing for transactions. Evidence of this is the small spread between middle-market transactions and the overall market, which at 0.4x in 2010 was the second smallest spread since 2000.[10] As such, SMMBO managers may experience heightened competition for investments over the near term.

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[10] Source: "Annual Private Equity Breakdown 2011," PitchBook, January 2011.

SUMMARY AND RECOMMENDATION

Due to the size of the SMMBO market opportunity and the consistent need for companies in this space to partner with knowledgeable and well-resourced managers that can help them drive growth and operational efficiency, the SMMBO space makes for a strong cornerstone of private equity portfolios. Historically, investors have been rewarded for their allocations to SMMBO strategies as such funds have, in aggregate, outperformed both public market indices and other buyout strategies over both short and long time periods. Meketa Investment Group believes that the drivers of this outperformance reside in strategic advantages enjoyed by SMMBO managers that are not universally shared by other private equity strategies. These advantages include exploitable market inefficiencies, potential for multiple expansion, more options available for generating liquidity, and, most importantly, numerous methods by which to create tangible, extractable value in portfolio company investments.

Investing in SMMBO funds, however, also involves some significant risks and other considerations for certain investors. Most notably, the small- and middle-end of the buyout market, by its very nature, involves investments in relatively smaller and less stable companies, and partnering with managers that are generally less well resourced and less sophisticated than larger buyout groups. However, we believe this dynamic also creates opportunities for experienced and capable SMMBO managers to differentiate themselves and execute repeatable value-added strategies.

Finally, we believe that the implementation of a successful investment program targeting SMMBO funds involves careful manager selection. In order to achieve returns that adequately compensate investors for the risks involved with SMMBO strategies, Meketa Investment Group believes that the managers selected will need to be highly experienced, well-resourced, differentiated in key areas, and disciplined with respect to capital deployment, use of leverage, and deal sources. Similarly, investors will need to be very disciplined regarding manager selection in order to experience success when crafting a portfolio of SMMBO managers.

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GLOSSARY

Blind Pool: Most private equity partnerships are organized as blind pools, meaning that limited partners commit capital to the partnership before any actual investments are made. At the point of commitment, the limited partners do not know specifically how their capital will be used (hence the term blind pool), and must therefore rely entirely upon the track record and experience of the manager.

Buyout Fund: A buyout partnership uses the partners' capital to purchase existing, established businesses. The acquired firms may be family owned prior to purchase, or may be operating divisions of larger companies seeking to restructure their businesses. In a few cases, the buyout partners may purchase all of the outstanding shares of a publicly traded company, effectively taking it private. Buyout funds are not involved in venture capital or startups.

Buyout partnerships own the acquired companies outright, or in combination with other buyout partnerships. In some cases the buyout partners will replace the existing management with a new team, or the acquired firm will be left autonomous. The buyout partners frequently take one or more board seats in order to ensure control of the business.

Committed Capital: When a private equity partnership is formed, each limited partner agrees to contribute a specific amount of capital to be invested over the life of the partnership. Once the agreement is signed, the limited partners are legally bound and committed to supply the agreed upon capital when it is called for by the manager, or general partner.

Consolidation (Roll Up): Many industries in America are highly fragmented, as the market space is serviced by a large number of locally owned businesses. By consolidating fragmented industries (i.e., purchasing many local businesses), private equity firms can create a single larger company with greater market control, more attractive financial characteristics, and potentially, better pricing flexibility and lower costs.

EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization): The "top line" profits of a private company are the proceeds earned before paying interest and taxes, and adding back depreciation and amortization. Unlike public companies, which are valued as the multiple of bottom line earnings to the stock price (P/E or price to earnings), private companies are valued as the multiple of EBITDA to the total enterprise value.

There is no simple conversion factor that will convert an EBITDA multiple to a P/E for all companies, but in general, a factor of 2 is appropriate. Thus, a private company selling for an EBITDA multiple of 6 is priced about as richly as a public company with a P/E of 12.

EBITDA Multiples: The ratio of a private company's top line earnings to its total enterprise value. See EBITDA above.

Enterprise Value: A measure of a company's value, often used as an alternative to market capitalization. Enterprise Value is calculated as common equity plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

General Partner: The control partner in private equity partnerships, analogous to the portfolio manager of a public stock portfolio. Under the IRS code, the general partner must commit some personal capital to the partnership (a minimum of 1% of the partnership's committed capital), and unlike the limited partners, is liable for leverage and other losses generated by the partnership.

Investment Period: The period of time after a private equity fund is initiated during which the general partner will call capital from the limited partners and make investments. Per contract, the investment period is usually six years. In practice, it is typically three to four years.

IPO (Initial Public Offering): When a private company issues publicly traded stock, it becomes known as a public company. The initial sale of publicly available stock is called the initial public offering, or IPO.

IRR (Internal Rate of Return): The annualized rate of return on capital that is generated or capable of being generated within an investment or portfolio over a period of time, assuming all cash flows can be reinvested at the same rate. Mathematically, the IRR of an investment is the discount rate applied to that investment such that the net present value of the investment is zero.

J-Curve: Many private equity partnerships have small negative returns in their first years of operation. The negative returns result because the partnership's investments have not matured and turned a profit, but the partnership has nevertheless experienced various operating costs. When early deals begin to mature and are liquidated at a profit, the partnership's returns should become positive. Thus, the graph of the partnership's since inception returns versus time can resemble the capital letter "J."

Leverage: Many buyout managers use both equity capital provided by the limited partners and money borrowed from banks or other lenders to finance their investments. Any borrowed money is called leverage. If a deal is successful, leverage can often enhance the returns of the investments substantially. However, too much leverage can cripple an investment with interest and financing costs. Notably, the limited partners are not responsible for the repayment of any borrowed money.

Leveraged Buyouts: A buyout investment of a private or public company wherein the bulk of the purchase price is paid using borrowed money.

Limited Partner: All investors in a Limited Partnership other than the named General Partner are defined under the IRS code as Limited Partners. Limited Partners have only the control rights defined for them in the Private Placement Memorandum, and are generally passive investors in the partnership's deals.

A very important point is that Limited Partner's total liability for all deals made by the partnership are limited strictly by law to the Limited Partner's committed capital. Thus, even if the General Partners borrow a great deal of money (leverage), and lose it all, the lenders have no recourse to the assets of the Limited Partners. In effect, a Limited Partner can lose no more than the amount of money invested.

Multiples and Multiple Expansion: Managers purchasing public common stocks often buy companies with low price to earnings multiples when they believe some factor will induce other investors to bid up the price of the stock without an increase in actual earnings, thus causing the price multiple to expand. In the same fashion, a buyout manager may purchase a private company with a low EBITDA multiple, expecting to profit through an expansion of that multiple. A typical example of a multiple expansion plan is consolidation. Many small companies operating independently may each be priced at relatively low multiples. But if purchased and combined into a larger, cohesive entity, investors might be willing to pay a higher multiple for the aggregate than for any individual component.

Platform Company: Some private equity buyout funds attempt to add value by merging companies into larger, more cost efficient enterprises. This strategy generally begins with the acquisition of a platform company, often a market leader, to which other companies are added.

Private Debt: Many private equity programs include an allowance for or allocation to strategies involved the purchase or issuance of debt in privately held companies. The two most common private debt strategies are mezzanine debt, which is subordinated debt issued to companies that typically bears a high interest rate and some small equity participation, and distressed debt, which involves the purchase of outstanding debt with the expectation of gaining control of a business through a bankruptcy or restructuring process.

Term: The term of a private equity partnership is its expected lifetime, and is specified in the fund's legal documentation. Most partnerships have a term of ten years, with the option to extend the term once or twice by an additional year if the limited partners approve.

The term of a partnership consists of several phases. After the final closing, no new commitments are accepted and the partnership enters the investment phase, contractually lasting up to a total of typically six years, but generally only lasting three to four years, during which time the fund's investments are made. A distribution phase follows, during which mature investments are realized and profits distributed to the partners. The final phase is the liquidation phase, during which all remaining properties and assets are sold in order to terminate the partnership.

Trade Sale: The most prevalent exit strategy for many private equity managers involves selling a company in the private markets, usually through an auction process, to other private equity investors or to larger companies. This type of exit is termed a trade sale.

Venture Capital: Money supplied to entrepreneurs to create new businesses is called venture capital. It is the first stage of financing for any new venture.

Traditionally, the recipient of the venture capital was a small group of entrepreneurs with an idea and a business plan, but no management team, corporate structure, revenues or profits. In the 1990s, however, venture capital was often used to seed established teams of entrepreneurs with well-defined products and in-place corporate structures. Thus, there is great variability in the meaning of venture capital and in the types of deals financed with venture capital money.

Vintage Year: The calendar year of the date upon which a private equity partnership makes its first capital call defined as its vintage year, and is used to differentiate the different funds established over the course of time by a single private equity firm.