



Private Equity Fund Commitment

Odyssey Investment Partners Fund V, L.P.

December 9, 2013

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Portfolio Manager, Private Markets

Odyssey Investment Partners Fund V, L.P. – Private Equity Fund

Overview

- Firm was founded in 1998
- The targeted fund size is \$1.75 billion with a \$2 billion hard cap
- Focus on middle market investments with enterprise values between \$100 million and \$600 million
- The fund will primarily make control PE investments in middle-market companies in the United States
- Will invest in 15 to 18 companies

Fund Strategy

- Odyssey will employ a buy and build strategy
- They seek to identify industries with strong fundamental growth characteristics that benefit from economic changes, secular trends and regulatory changes
- The firm will invest in industrial and business services sectors such as aerospace, insurance services, safety & testing, automated equipment, industrial services, equipment rental, automated equipment, energy and packaging

Investment Team

- Senior team of Stephen Berger, Brian Kwait and William Hopkins have worked together for 20 years
- Odyssey has 26 investment professionals
- Offices in New York and Los Angeles

Odyssey Investment Partners Fund V, L.P. – Private Equity Fund

GP “Value Add”

- Odyssey seeks to acquire companies at attractive valuations and generate EBITDA growth by utilizing a buy and build approach to drive significant revenue enhancements, by pursuing add-on acquisitions with the goal of more than doubling EBITDA
- These companies are also small enough and participate in fragmented industries such that Odyssey can have a significant impact during its ownership period by accelerating the company’s organic growth strategies and acquisition efforts, by enhancing its management team

Performance (as of 6/30/13)

<u>Fund Name</u>	<u>Vintage Year</u>	<u>Net Multiple</u>	<u>Net IRR</u>
Fund IV	2009	1.6x	23%
Fund III	2005	2.0x	25%
Fund II	1998	2.0x	15%
Fund I	1991	3.2x	45%

Odyssey Investment Partners Fund V, L.P. – Private Equity Fund

Market Opportunity

- Consistent with the Firm's history, the Fund will target middle-market companies it believes are fundamentally sound but underdeveloped, with annual EBITDA between \$20 million and \$100 million. The Managing Principals believe that this target market provides opportunities to acquire companies that can be significantly improved and transformed into larger, better-managed businesses. Companies within the Firm's middle-market focus are typically large enough to have a strong, defensible market position, frequently within a fragmented market, but small enough such that Odyssey can have a significant impact in a four to six year period by focusing the company's business strategy on profitable growth, enhancing its management team and improving its operations

History with PSERS

- This would be PSERS first relationship with Odyssey

Board

Pennsylvania Presence:

1. Safway Services: Lester Pa – 323, Harrisburg - 49, Sharpsburg – 28
2. Integrated Power Services: Indiana – 142, Washington – 22, Glassport – 67, Philadelphia – 36
3. Pexco – Morganville – 49

Odyssey Investment Partners Fund V, L.P. – Private Equity Fund

Board continued

Placement agents – None

PA political contributions – Brian Kwait made a \$2,500 contribution to Senator Pat Toomey in September of 2011

Relationship with consultant – Commitments made to Odyssey Funds:

Portfolio Advisors FOF VI	\$15M	Odyssey IV
Portfolio Advisors FOF II	\$3M	Odyssey III

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$100 million plus reasonable normal investment expenses

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November 11, 2013

Board of Trustees
Pennsylvania Public School Employees' Retirement System
5 North 5th Street
Harrisburg, PA 17101

Re: Odyssey Investment Partners Fund V, L.P.

Dear Trustees:

Odyssey Investment Partners, LLC ("OIP", "Odyssey", or the "Firm") is seeking to raise \$1.75 billion (hard cap of \$2.0 billion) for Odyssey Investment Partners Fund V, L.P. (the "Fund" or "OIP V"). OIP was founded in 1998 by Steven Berger, Muzzi Mirza, Paul Barnett, Brian Kwait and Bill Hopkins to invest in middle market companies. They had previously worked together since 1993 at the hedge fund, Odyssey Partners, making similar type investments. The Fund will be fully allocated up to the \$2.0 billion hard cap at the time of the first close on December 16, 2013; however, a pre-allocated second and final close will be held in early January 2014 to accommodate Limited Partners with 2014 allocations. The General Partner is expected to contribute at least 3% of total fund capital. Odyssey's investment strategy is to focus on fundamentally sound but underdeveloped middle market companies (EBITDA of \$20 million to \$100 million), where their active involvement as the majority investor will make a meaningful impact on EBITDA within a three to six year time horizon.

Odyssey seeks to identify industries or markets with strong fundamental growth characteristics that benefit from economic changes, secular trends, regulatory changes, and/or market dislocations, generally within the overall macro industry themes of industrials and business services. Some of the areas that Odyssey has focused on in the past and has particular expertise with include: aerospace, insurance services, safety and testing, automated equipment and components, industrial services, equipment rental, energy, and packaging. The middle market companies targeted by Odyssey are typically fundamentally sound, but underdeveloped because of various circumstances including: ownership in generational change, corporate orphans, entrepreneurs that have reached their managerial peak, and companies that have underfunded their growth. These companies within the middle market tend to be large enough to have defensible market positions, yet small enough and participating in fragmented markets, where the expertise of Odyssey's investment professionals can make a meaningful impact on growth.

The Fund primarily invests in companies with the following characteristics: (i) solid business fundamentals and strong franchise value; (ii) products and services that either have or can have a meaningful and sustainable market position; (iii) a compelling value proposition to its customers delivered at attractive margins; (iv) low technology and commodity risk; (v) demonstrable organic and acquisitions growth prospects; (vi) leadership positions in fragmented industries; and (vii) scalable



business models where revenue growth and cost containment can deliver productivity improvements and margin expansion.

Portfolio Advisors' recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals.
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- The strategy proposed for the Fund is appropriate for the Private Equity Partnership component of the portfolio.

The individuals at Portfolio Advisors who were primarily involved in the due diligence process for the Fund are:

Donna Smolens - Managing Director, Connecticut Office
Amanda Peacock – Senior Associate, Connecticut Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million of limited partnership interests in Odyssey Investment Partners Fund V, L.P. Portfolio Advisors makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,

WILLIAM J. INDELICATO
MANAGING DIRECTOR