



January 4, 2013

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

Re: HgCapital 7, L.P.

Dear Trustees:

HgCapital LLP ("HgCapital" or "The Firm") is seeking to raise HgCapital 7, L.P. ("Fund 7"). Fund 7 will continue the Firm's strategy of control investments in middle market growth buyouts located in Northern Europe with enterprise values between £80 million and £500 million. Fund 7 will target commitments of £1.75 billion with a hard cap of £2.0 billion. The General Partner is expected to contribute at least 1.0% of the Limited Partner Commitments. The Firm anticipates a first close in January and final close in late 2013.

HgCapital 7 will continue to make sector-focused control investments in middle-market companies in Northern Europe. HgCapital expects to invest the majority of the Fund's capital through its four dedicated Sector Teams: Telecom, Media and Technology ("TMT"), Industrials, Healthcare, and Services. Fund 7 is targeting investments with enterprise values between £80 million and £500 million with a typical equity investment between £80 million and £120 million. This should translate into a portfolio of 15 to 20 companies. Control is a key component to HgCapital's investment strategy. Since becoming independent, the Firm has been a control investor and the lead/co-lead investor in all but one portfolio investment.

Fund 7 will employ a pan-regional investment strategy focusing on Northern Europe, particularly the United Kingdom & Ireland (40-60%), Germany (25-40%), Scandinavia (20-30%), and the Benelux region (5-15%)¹. HgCapital will cover these geographies through its offices in London and Munich. HgCapital will look to diversify the Fund across geographies; however, as sector has priority over geography in the Firm's investment strategy, no specific geographic allocation will be targeted. Geographic breakdown for Fund 7 is expected to be similar to the dispersion seen from the previous independent funds, although Scandinavia is currently of greater interest and is expected to account for 20-30% of investments.

Since 1997, HgCapital has focused on middle market investments led by its dedicated Sector Teams in the following areas: TMT, Industrials, Healthcare, and Services. HgCapital seeks to diversify the Fund across these four core sectors, yet maintains flexibility with regard to exact sector allocations in light of

¹ Other Northern European countries are expected to account for the additional 10-20% of capital in Fund 7



changing deal flow and investment dynamics within each sector. Instead, the Fund will employ a “best deal wins” approach to investment decisions.

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 HgCapital 7, L.P. are:

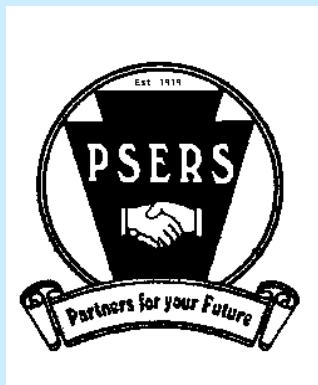
Nicolas von der Schulenburg - Managing Director, Zurich Office
Peter Schwanitz - Managing Director, Zurich Office
Amanda Peacock – Senior Associate, Zurich Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to £75 million of limited partnership interests in HgCapital 7, 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



International Private Equity Fund

HgCapital 7, L.P.

January 24, 2013

Darren C. Foreman
Portfolio Manager, Private Markets

HgCapital 7, L.P. – International Private Equity

Overview

- Firm was established in 1990 and independent since 2000
- The targeted fund size is £1.75 billion with a £2 billion hard cap
- Focus on middle market investments with a range of enterprise value of £80 million - £500 million
- Primarily investments in the United Kingdom, Germany, Scandinavia and the Benelux
- Will invest in 15 to 20 companies

Fund Strategy

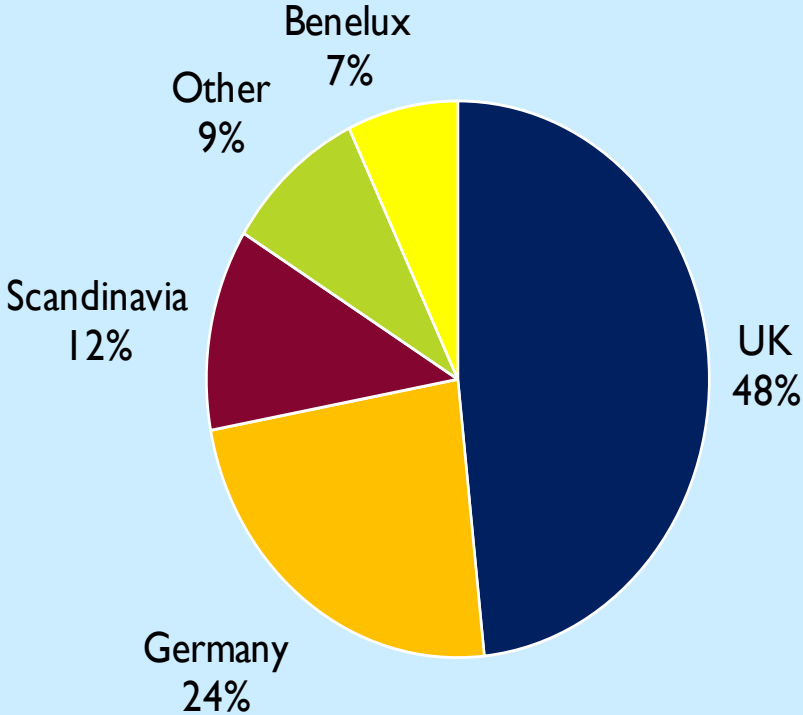
- HgCapital has a sector-based approach to investing, which is undertaken by specialist teams concentrating exclusively on the TMT (telecom, media, technology), industrials, healthcare and service sectors
- HgCapital typically seeks to identify companies with market leading potential, high return on capital and predictable revenues, targeting growth through add-on acquisitions, and performance improvement

Investment Team

- HgCapital has 100 employees, including 13 partners with an average of 16 years experience in private equity
- Offices in Munich and London

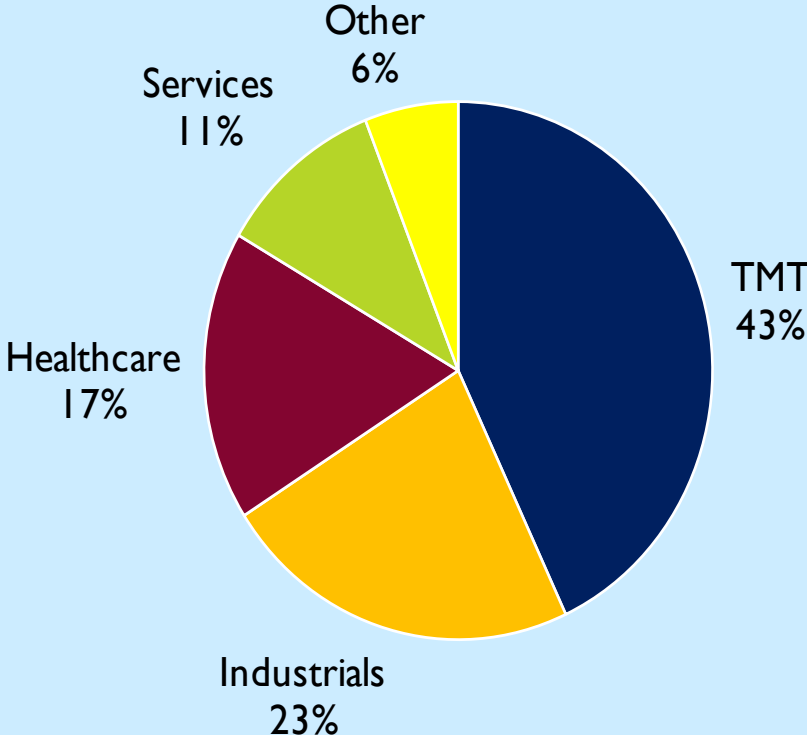
HgCapital 7, L.P. – International Private Equity

Capital Invested by Geography as of September 30, 2012



HgCapital 7, L.P. – International Private Equity

Capital Invested by Sector as of September 30, 2012



HgCapital 7, L.P. – International Private Equity

GP “Value Add”

- Leveraging its long history of successful, control-orientated, hands-on investing, in 1999 HgCapital sought to support the sector teams with dedicated portfolio management resources to implement transformational value creation strategies in its portfolio companies
- Hg creates value by active board participation; project implementation, add-on acquisitions; and using their portfolio review committee

Performance (as of 9/30/12)

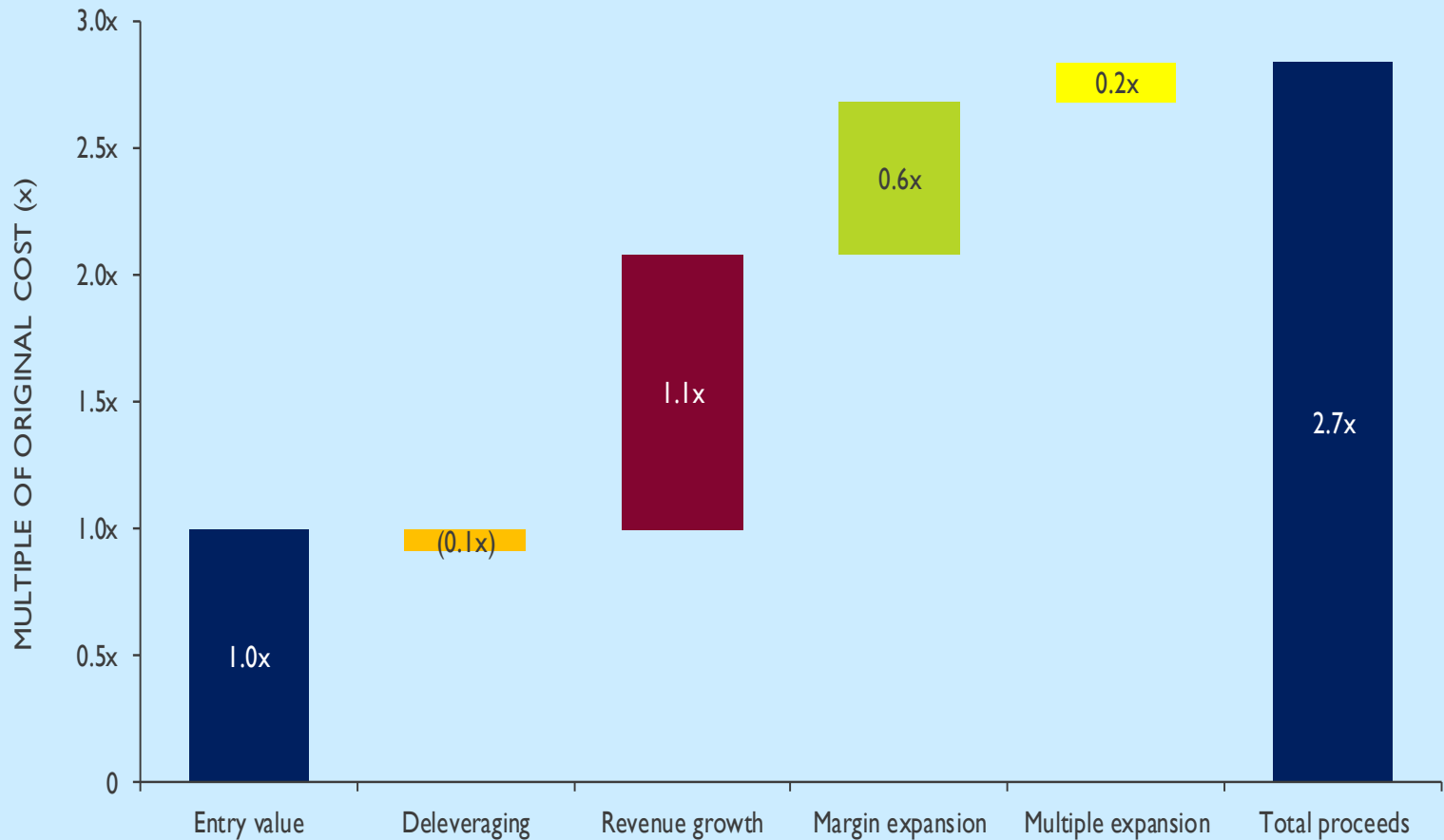
- Hg 6 (2009 vintage) has a net IRR of 4% and 1.1x MOC
- Hg 5 (2006 vintage) has a net IRR of 14% and 1.7x MOC
- MUST 4 (2001 vintage) has a net IRR of 24% and 2.0x MOC
- MUST 3 (1997 vintage) has a net IRR of 11% and 1.5x MOC (liquidated)

Market Opportunity

- In addition, the Firm’s focus on the Northern European middle market (£80 million – £500 million enterprise value) provides access to strong deal flow across market cycles. Compared to large cap buyout space, the European middle market has remained more active across the cycle, with a consistently higher number of deals

HgCapital 7, L.P. – International Private Equity

Historic Value Creation: Realized Portfolio Past 3 Funds



HgCapital 7, L.P. – International Private Equity

History with PSERS

- This would be PSERS first relationship with HgCapital. The Board did approve a \$120 million commitment to HgCapital 6 on September 26, 2008. An internal decision was made by staff not to close due to the financial crisis and PSERS liquidity issues

Board Issues

- Pennsylvania Presence – None
- Placement agents – Credit Suisse is being paid a consultancy fee for their services in relation to the Hg7 fundraising. The payment of this fee is not linked to the retention of any specific (or new) Hg7 investors. Separately, the cost of the placement fee will be borne by HgCapital directly (and not by PSERS or the fund itself)
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors (PAPEF VII) will make a \$8 million commitment to HgCapital 7

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed £75 million plus reasonable normal investment expenses

NOTICE: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.