



April 28, 2014

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

Re: Orchid Asia VI, L.P.

Dear Trustees:

Orchid Asia Group Management ("Orchid Asia") is seeking to raise \$750 million of limited partner interests for its sixth institutional private equity fund, Orchid Asia VI, L.P. ("Fund VI" or the "Fund"). The Fund will target equity and equity-related investments that are either headquartered in or with significant operational growth opportunities in China. Orchid Asia will continue to target growth capital investments in mid-market companies requiring equity commitments typically between US\$5 and US\$50 million, and in select cases up to US\$100 million. Orchid Asia will target enterprises in industries which have, or are in the process of creating, barriers to entry or industry leading companies with good growth prospects. These business franchises are typically in industries such as consumer services and products, healthcare, hi-technology and outsourced manufacturing and services. The General Partner expects to hold a first and only closing on the Fund in July 2014.

Orchid Asia is comprised of 25 individuals, including 19 investment professionals, across five offices: Beijing, Guangzhou, Hong Kong, Shanghai and Shenzhen. The team is constituted, largely, by investment professionals who were born and raised in mainland China and each member of the investment team has experience working for multinational organizations and all have previous work and investment experience in China. Each member of the four-person Investment Committee has over 15 years of investment experience in China and has worked together since 2007.

Orchid Asia relies heavily on sourcing investments through the personal networks of its operating executives and from Orchid Asia's investment team. A vast majority of the investments had been sourced either directly or through referrals from entrepreneurs of portfolio companies and their affiliates. Orchid Asia's relationships and industry network have been developed through its 64 prior investments, which provide the team with a distinct competitive advantage in the origination of proprietary deal flow within China.

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:

Chris Ruder - Managing Director, Connecticut Office  
Jonathan English – Managing Director, Hong Kong Office  
Lenis Leung – Vice President, Hong Kong Office  
Weibo Xiong – Senior Associate, Hong Kong Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$75 million of limited partnership interests in Orchid Asia VI, 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

# Private Equity Fund Commitment



## Orchid Asia VI, L.P.

June 12, 2014

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Michael Tyler  
Sr. Investment Analyst, Private Markets

# Orchid Asia VI, L.P. – Private Equity Fund

## Overview

- Fund size : Target \$750 million
- Deal size: \$10-50 million investments
- Geography: Greater China
- Sectors : Opportunistic within fund strategy
- Approach: Back executives who have trained under multinational or western companies
- Value add: Consistently apply proven formula to transform companies from good to great
- Returns: Gross multiple 2.3X, Gross IRR 23.5%

## Fund Strategy

- Focus on Greater China: China with Taiwan, Hong Kong; up to 25% outside
- Back experienced operating executives with western style training
- Invest in companies with barriers to entry and long term sustainable competitive advantages
- Invest in market leading franchises similar to ones that have been successful in the U.S.

## Investment Team

- 4 person Investment Committee, each averaging 15+ years experience
- 19 investment professionals across 5 offices (Beijing, Gangzhou, Hong Kong, Shanghai, Shenzhen); most are born and raised in mainland China
- 5 person Operations Team; strengthens Orchid's value-add capability

# Orchid Asia VI, L.P. – Private Equity Fund

## GP “Value Add”

- GP provides strategic, financial, and acquisition advice to strengthen market position
- Make changes to management team and align interests of management and investors
- Optimize shareholder value through portfolio management by selling underperformers and focusing management time on best companies

## Performance in USD as of December 31, 2013 (\$ Millions)

Fund Name	Vintage Year	PSERS Commitment	PSERS Contributions	PSERS Distributions	Remaining Valuation	Fund Net Multiple	Fund Net IRR
Orchid Asia II	1997	None	-	-	-	1.8x	9.8%
Orchid Asia III	2004	None	-	-	-	3.1x	21.60%
Orchid Asia IV	2007	None	-	-	-	1.5x	12.9%
Orchid Asia V	2010	\$40.0	\$23.50	\$7.70	\$32.00	1.7x	55.10%
<b>All funds since inception:</b>						<b>1.8X</b>	<b>17.40%</b>

Orchid Holdings, L.P. (“Fund I”), vintage 1993, was a smaller fund that only invested in multinational companies in China and is excluded as the strategy is not comparable to later funds

## Market Opportunity

- Large emerging middle class demanding products and services
- Macroeconomic and political conditions more and more favorable for direct investments
- Deregulation has led to new opportunities in financial services, distribution, media, telecom, and other professional services

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# Orchid Asia VI, L.P. – Private Equity Fund

## Risks and Mitigants:

Risk: Uncertainty of Chinese political, economic, legal, investment, & regulatory environment

Mitigant: Orchid's geographically diverse team of Chinese nationals is experienced and well positioned to find opportunities that are created as the investment environment evolves

Risk: Loss of Managing Partner Gabriel Li's leadership and discipline in executing deals

Mitigant: Experienced set of Managing Directors proven capable of running deals in current fund should allow a fully invested fund with the continuity to grow and exit investments

## History with PSERS

- This would be PSERS second commitment with Orchid Asia

## Board Issues

- Pennsylvania Presence - None
- Placement agents – None
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors – Invested through their fund-of-funds in Orchid IV and V

## Recommendation

- Staff, together with Portfolio Advisors LLC, 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.