



Private Markets, Private Debt and Real Estate In-House Co-Investment and Secondary Programs

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Charles J. Spiller, Managing Director,
Private Markets and Real Estate

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Fund Strategy

Co-Investments and Secondary Fund Investments in Private Markets, Private Debt and Real Estate, in funds where PSERS is already an investor

Co-Investment Teams

- Charles Spiller, Managing Director of Private Markets & Real Estate
- Darren Foreman, Senior Portfolio Manager in Private Markets for the Private Markets and Private Debt Programs
- William Stalter, Portfolio Manager in Real Estate for the Real Estate and Private Debt Programs
- Laurann Stepp, Portfolio Manager in Real Estate for the Private Debt and Real Estate Programs

Resources

The level of deal flow will require an additional position for both the Private Markets and Real Estate Teams

Review Committee

- James Grossman, Acting Chief Investment Officer (ACIO)
- Charles Spiller, Managing Director of Private Markets and Real Estate
- Mark Heppenstall, Managing Director of Fixed Income
- Gerard Smith, Managing Director of Equities
- John Kemp, Managing Director of Investment Operations

Three of the Managing Directors plus the ACIO are required to approve an investment

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Internal Program – Performance (3q13)

Fund Name	Initial Funded	Commitment	Net IRR
Bridgepoint Capital II (BE I)	2000	\$84.7	19%
Stockbridge Fund 1 (Paine Webber)	2003	\$182.8	66%
StarVest Fund 1	1999	\$30.0	15%
PSERS Internally Managed – Combined	2012	\$174.7	46%
Internal – Private Equity	2012	\$108.7	45%
Internal – Real Estate *	2013	\$30.0	28%
Internal – Private Debt *	2013	\$36.0	5%

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* Composites < 1-year; Returns are nominalized

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Sample Deal Evaluation Criteria for Private Markets and Real Estate:

- A summary of the investment opportunity which includes: company or property information, company or property research, market research that includes competitive analysis, and internal due diligence materials generated by the Fund Sponsor
- Current valuation with details
- Deal structure which includes all debt and equity investors; and amounts of each
- Debt covenant schedule and maturity profile
- Capital needs of the company or property for the next five years
- Amount senior management is investing in the deal
- A list of the Board of Directors and other Advisors
- List of other co-investors and amounts invested by each
- A copy of any third party due diligence reports
- Expected value creation
- Expected holding period until an exit
- Expected mode of exit
- Expected return multiple and IRR

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Sample Deal Evaluation Criteria for Private Debt:

- A summary of the investment opportunity which includes: company information, company research, market research that includes competitive analysis, and internal due diligence materials generated by the general partner
- Details of underlying security
- Deal structure
- Debt covenant schedule and maturity profile
- Capital needs of the company for the next five years
- List of other co-investors and amounts invested by each
- A copy of any third party due diligence reports
- Expected holding period until an exit
- Expected return multiple and IRR

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Why Invest In-house?

- Cost savings
- Strong relationships with Fund Sponsors which should aid deal flow for co-investments
- Adds additional due diligence with the Fund Sponsor
- Potential for better returns with no or reduced fee and no or reduced carry co-investments
- Current trend in the industry

Reporting to PSERS Finance Committee

- An update of each program will be given quarterly in Executive Session

Recommendation

- We are recommending that \$100 million be allocated as a first tranche to both the Private Debt and Real Estate In-House Co-Investment and Secondary Programs
- The range of investment will be up to \$15 million per investment

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