



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Catterton Growth Partners III, L.P.

Private Equity Commitment

Darren C. Foreman
Senior Portfolio Manager

October 5, 2015



Recommendation:

Staff, together with Portfolio Advisors, recommends to the Board a commitment of up to \$100 million to Catterton Growth Partners III, L.P. ("Fund III" or the "Fund"). Catterton ("Catterton or the "Firm"), a Greenwich, Connecticut private investment firm, is sponsoring the Fund to make investments primarily in small cap consumer growth vehicles in North America.

Firm Overview:

Catterton was founded in 1989. To date, Catterton has made over 100 investments in the consumer sector through 10 prior funds. The Firm has buyout funds, growth funds and a Latin American focused fund. Catterton Growth Partners III will be managed by an experienced senior team of Michael Farello, Jon Owsley, Howard Steyn, Chris Casgar and a new Operating Partner that will be hired by the end of the year. Michael, Jon and Howard are on the Investment Committee. Additionally, J. Michael Chu, Scott Dahnke and James Hexter will be Investment Committee members. The Fund will have 13 dedicated investment professionals with assistance as needed from other Catterton employees.

Fund Size

Catterton Growth Partners III, L.P. is seeking equity commitments of \$500 million.

Investment Strategy:

The Fund will seek to invest between \$10 and \$50 million in primarily North American consumer growth companies which have the following profile:

- Attractive industry categories such as food and beverage, branded consumer products, retail and restaurants, and consumer/marketing services
- Have exhibited superior growth (sales and contribution margin)
- Have strong market share
- Have strong management in place or recruited by Catterton
- Have established business models with demonstratable consumer demand

Investment Team:

Catterton Growth Partners III will be led by Michael Farello, Jon Owsley and Howard Steyn. J. Michael Chu, Scott A. Dahnke and James Hexter will assist and also be members of the Investment Committee. In total, Catterton has an experienced team of 22 partners, 24 investment and operating professionals and a 13 person finance and legal team. The Fund will have 13 dedicated investment professionals and will work out of one office in Greenwich, CT. The table below highlights the experience of Catterton's key investment professionals:

Name	Title	Yrs. Experience Catterton / Total	Prior Experience
J. Michael Chu	Managing Partner	26 / 33	First Pacific Company, Allied Bank
Scott A. Dahnke	Managing Partner	13 / 27	DB Capital Partners, AEA Investors
Michael Farello	Senior Partner	10 / 28	Dell, McKinsey & Company
James Hexter	Senior Partner	2 / 23	McKinsey & Company
Jon Owsley	Partner	12 / 22	The Parthenon Group, Hale and Dorr
Howard Steyn	Partner	8 / 18	Bain Capital, McKinsey & Company



Investment Instruments:

Investments will be growth equity and at times they may use debt in the capital structure.

Sample portfolio companies:



Market Opportunity:

- Catterton targets investments in the consumer sector, which is the largest segment of the U.S. economy
- Catterton estimates there are in excess of 100,000 companies in their target market
- Each year they review 250 to 300 deals and seek to make 3 to 5 investments per year

Investment Highlights:

Experienced & Cohesive Senior Management Team
Catterton's growth strategy is led by Michael Farello, Jon Owsley and Howard Steyn. Other senior partners that have firm-wide responsibilities but will be on the Investment Committee are: J. Michael Chu, Scott Dahnke and James Hexter. Chu, Dahnke, Farello, and Owsley have all worked together at Catterton for the past 10 years.
Strong benefit from value-add consultants
Catterton has a proprietary relationship with Vault. Vault provides Catterton's portfolio companies with value-add services such as: lean manufacturing, supply chain optimization, sales force effectiveness and other strategies. Catterton also uses outside consultants to assist portfolio companies with strategy, marketing and operations improvements.
Robust and Proprietary Deal Flow
Catterton consistently reviews 250 to 300 potential deals each year. 90% of deals are sourced on a proprietary basis. 13 of 16 Fund I investments were totally proprietary and all 11 of Fund II investments were proprietary.

Investment Considerations:

Sector concentration
The Fund intends to concentrate on investments in the consumer industry. As a consequence The Fund will not be diversified by industry. Any negative consequences such as higher interest rates and higher inflation over the medium term to the US consumer may have implications on The Fund in attaining satisfactory returns.
Public Market Benchmark Returns
Fund II has exceeded the public benchmark (Russell 2000 Growth Index) returns while Fund I has slightly underperformed. However there is a lot of embedded value in Fund I and Fund II. Over time it is expected that both funds will outperform the Russell 2000 Growth Index.



PSERS History & Performance:

Since 2004, PSERS has committed approximately \$480 million to 5 Catterton-managed partnerships. As of March 31, 2015, Catterton generated a 12.8% net IRR and a 1.5x net MOIC for PSERS across their growth funds and a 10.2% net IRR and a 1.6x MOIC across their buyout funds. The table below summarizes PSERS' historical performance with Catterton by partnership and by strategy:

Fund (\$mm)	Portfolio	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	MOIC
Catterton Growth Partners, L.P.	PE	2008	\$ 75	\$ 86	\$ 49	\$ 90	12.8%	1.6x
Catterton Growth Partners II, L.P.	PE	2013	75	41	0	46	12.3%	1.1x
Total (Growth Funds)			\$ 150	\$ 127	\$ 49	\$ 136	12.8%	1.5x
Catterton Partners V	PE	2004	100	101	93	53	6.4%	1.4x
Catterton Partners VI	PE	2006	130	142	173	94	13.7%	1.9x
Catterton Partners VII	PE	2012	100	54	0	59	8.6%	1.1x
Total (Buyout Funds)			\$ 330	\$ 297	\$ 266	\$ 206	10.2%	1.6x

Portfolio Fit:

A commitment to Fund III will give PSERS' Private Markets portfolio exposure to the small growth equity marketplace with a focus on the consumer sector. Catterton's growth funds offer a differentiated strategy which would be complementary to PSERS' Private Markets portfolio. Catterton employs an activist private equity strategy with value creation plans that include growth and operational improvements.

Liquidity & Leverage Profile:

The Fund is expected to be invested ("Investment Period") within six years of its final closing, with the ability to fully recycle realized proceeds within this period. The Fund may provide interim financing ("Bridge Financing") in order to facilitate a portfolio investment. Bridge Financing is recouped within 18 months following the date of the closing on such financing. Additionally, only 3 out of 22 companies in Funds I and II had deal-level debt.



Finance Committee Disclosure:

Relationship with Portfolio Advisors:	Portfolio Advisors hasn't invested in Catterton Growth Partners or Catterton Growth Partners II
Placement Agent:	None used for PSERS
PA Political Contributions:	None Disclosed
PA Presence:	Yes
Conflicts:	None Disclosed
History with PSERS:	Yes
PSERS Internal Alpha Committee Approval:	September 18, 2015

Oversight Responsibility:

Investment Office:	Charles J. Spiller Managing Director Darren C. Foreman Senior Portfolio Manager
External Consultant:	Portfolio Advisors LLC



September 14, 2015

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

Re: Catterton Growth Partners III, L.P.

Dear Trustees:

Catterton (“Catterton” or the “Firm”) was founded in 1989 to provide capital to support the growth of well-positioned companies in targeted categories across the consumer sector. Catterton targets investments in four main verticals within the consumer sector: food and beverage, retail and restaurants, branded consumer products, and consumer/marketing services. The Firm is currently seeking to raise \$500 million of limited partnership interests for Catterton Growth Partners III, L.P. (“CGP III”, “Fund III” or the “Fund”). The General Partner does not intend to go over \$500 million in size. Consistent with the strategy of its predecessor funds, CGP III will seek to make approximately 14 control-oriented investments primarily in North America at an average equity investment of \$10 to \$50 million. The Catterton Growth team (“CGP”) is supported by a broader dedicated investment team and Catterton’s infrastructure. CGP III launched in August 2015 and is expected to hold a first and final closing in October 2015. The General Partner will commit approximately 5% of the Fund’s total commitments.

Catterton’s investment approach begins with its systematic “Vertical Process.” This strategy starts with a “top-down” analysis of the U.S. consumer industry where Catterton segments the industry into the following verticals: Food and Beverage; Branded Consumer Products; Retail and Restaurants; and Consumer and Marketing Services. Catterton then analyzes each vertical and its sub-segments against key consumer demographic and lifestyle trends, and key economic business model metrics and market fundamentals. By following this approach, Catterton is able to identify sub-segments and specific companies within these those sub-segments where consumer, demographic, economic and brand characteristics simultaneously converge to create investment opportunities. Catterton will seek investment opportunities in sub-segments that are highly inefficient and fragmented and could benefit from economies of scale in purchasing, manufacturing, servicing, sales, and marketing or distribution. Catterton will also seek to identify companies that are positioned to create competitive barriers and serve as the platform for a consolidation strategy. Furthermore, Catterton will focus on identifying companies that have a strong consumer brand or consumer proposition, but have been operationally and financially under-managed.

The overlay of this analysis allows Catterton to prioritize attractive trends for investment and to identify categories within its verticals where growth is supported by strong underlying and sustainable consumer trends. The average annual category growth rate of categories invested through CGP I and CGP II was 26%.



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. The on-site due diligence visit was performed on September 1, 2015.
- 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:

William Indelicato – Managing Director, Darien Office
Lenis Leung – Vice President, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million in Catterton Growth Partners III, 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