



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Strategic Partners Fund VII, L.P.

Secondary Fund Commitment

Charles J. Spiller
Deputy CIO, Non-Traditional Investments

February 12, 2016



Recommendation:

Staff, together with Portfolio Advisors, recommends to the Board a commitment of up to \$250 million to Strategic Partners Fund VII, L.P. ("SP VII" or the "Fund"). Strategic Partners ("Strategic Partners" or the "Firm"), a New York City based investment firm, is sponsoring the Fund to focus on acquiring secondary interests in mature leveraged buyout funds on a global basis.

Firm Overview:

Strategic Partners was established in 2000 and since its founding has raised over \$17 billion dedicated to private equity and real asset fund solutions. SP VII is the seventh global private equity secondary fund managed and led by the Strategic Partners team members. With over 15 years of experience, Strategic Partners is recognized as an innovative and market-leading secondary private equity investor, with broad transaction capabilities on a global scale through its network of strong relationships, as well as a leading reputation for executing transactions on a fair, timely and confidential basis. The Strategic Partners team of 36 investment professionals is led by Founder and Co-Head, Stephen H. Can and Co-Head, Verdun S. Perry, each of whom have been with Strategic Partners since its inception.

Fund Size

Strategic Partners Fund VII, L.P. is seeking equity commitments of \$5.75 billion.

Investment Strategy:

SP VII will invest opportunistically in cases where a prospective seller's original commitment ranges in size from \$100,000 for a single fund holding to \$1 billion or more for a portfolio of funds. While SP VII has a global investment mandate, it is anticipated that most of its commitments will be made to funds managed by U.S. and Western European sponsors. Like its predecessor funds, SP VII will seek significant capital appreciation primarily through the purchase of secondary interests in mature, high-quality leveraged buyout funds from investors seeking liquidity prior to the termination of these funds, with secondary interests in mezzanine, venture capital, distressed securities, fund of funds and other asset classes also considered. The Fund may also, to a lesser extent, make primary investments in underlying funds and direct equity, equity-like and debt investments.

Investment Team:

SP VII will have an investment committee that is responsible for approving all investments by the Fund and is composed of Strategic Partners' senior team members in New York, London and San Francisco. The investment committee for SP VII will be identical to that of SP VI, including the following senior investment professionals of Strategic Partners – Stephen Can, Verdun Perry, Joshua Blaine, Peter Song, David Corey, Boriana Karastoyanova, Brian D. Kolin, Mark A. Bhupathi and David H. Symons. Investment committee approval will require the affirmative approval of a majority of the nine votes, with each investment committee member casting one vote. The table below highlights the experience of the key investment professionals:

Name	Title	Yrs. Experience Firm / Total	Prior Experience
Stephen Can	Sr. Managing Director, Founder & Co-Head	15 / 22	IBM Pension Fund
Verdun Perry	Sr. Managing Director, Co-Head	15 / 17	Morgan Stanley
Joshua Blaine	Sr. Managing Director	14 / 15	JP Morgan
Peter Song	Managing Director, COO and Genl. Counsel	15 / 15	Fried, Frank, Harris, Shriver & Jacobson
David Corey	Principal	14 / 14	Davis Polk & Wardwell



Name	Title	Yrs. Experience Firm / Total	Prior Experience
Boriana Karastoyanova	Director	13 / 13	Citigroup
Brian Kolin	Director	13 / 13	GN Capital
Mark Bhupathi	Director	11 / 11	Citigroup
David Symons	Director	11 / 11	Cooper-Horowitz

Investment Instruments:

Investments are considered secondary purchases of mature, high-quality private investment funds.

Market Opportunity:

- Strategic Partners believes, as a result of the extraordinary expansion of the primary private equity industry, compounded with investors' increased desire to actively rebalance their private equity portfolios, control liquidity needs and manage general partner relationships, the secondary market has become a key portfolio management tool for investors globally.
- Given the dramatic growth (and relatively strong performance) of primary private equity funds, the growth in secondary market transaction volume continues to reflect the trend of diverse sellers looking to manage illiquid portfolios.
- The secondary private equity market will continue to provide experienced, top performing secondary managers with a compelling opportunity to generate attractive risk-adjusted returns for investors.

Investment Highlights:

A Proven Investment Strategy
While focusing on fundamental analysis and extensive information gathering, Strategic Partners pursues a highly analytical investment approach encompassing detailed analyses of underlying portfolio companies. They are able to re-price private equity and alternative assets based on current company and industry dynamics.
A Deep & Cohesive Team
The firm is comprised of 36 dedicated investment professionals located in New York, London and San Francisco, and led by Founder and Co-Head Stephen Can and Co-Head Verdun Perry, who have each been with Strategic Partners since its inception. The nine senior Strategic Partners professionals which comprise SP VII's Investment Committee, have been together for an average of over 13 years.
A Global Sourcing Network
Strategic Partners is one of the most active secondary buyers in the world, if not the most active, completing on average one-to-two transactions per week, often from repeat sellers. Since their inception, they have completed over 900 transactions with sellers of all type, size and geography.

Investment Considerations:

Fund Size
The Fund size, targeted at \$5.75 billion, will be the largest fund the firm has raised thus far. Deploying a large amount of capital may be a challenge and have an impact on its approach to deal flow and investing.
Public Market Benchmark Returns
The previous six Strategic Partners funds have outperformed the MSCI World Index by 9.0%.

PSERS History & Performance:



Since 2000, PSERS has committed approximately \$1.1 billion to six Strategic Partners managed partnerships. As of June 30, 2015, they have generated a 19.2% net IRR and a 1.59x net MOIC for PSERS. The table below summarizes PSERS' historical performance by partnership:

Fund (\$mm)	Portfolio	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	MOIC
Strategic Partners I	PE	2001	200	193	303	4	16.8%	1.59x
Strategic Partners II	PE	2003	300	264	462	11	34.2%	1.79x
Strategic Partners III	PE	2005	200	212	213	82	7.0%	1.37x
Strategic Partners IV	PE	2008	100	88	115	33	14.5%	1.60x
Strategic Partners V	PE	2011	150	107	73	107	29.3%	1.63x
Strategic Partners VI	PE	2014	150	46	8	56	74.7%	1.38x
Total			\$ 1,100	\$ 912	\$ 1,176	\$ 297	19.2%	1.59x

Portfolio Fit:

A commitment to Fund VII will give PSERS' Private Markets portfolio additional exposure to the secondary market. The volume in secondary transactions hit a new record of \$42 billion in 2014, and 2015 exhibited sustained market momentum with \$40 billion of deal volume. Because there continues to be only a few established secondary purchasers that combine Strategic Partners' strong performance, industry-leading footprint and access to the global platform of the world's largest alternative asset manager, PSERS believes they are well-positioned to capitalize on the demand for liquidity options for illiquid assets.

Liquidity & Leverage Profile:

The Fund is expected to be invested ("Investment Period") within four years of its final closing, with the ability to extend for an additional one-year. The General Partner may, to the extent deemed prudent in its discretion, cause the Fund to employ leverage on a Fund-wide basis or as part of structuring targeted investment opportunities. The Fund also may hedge certain market risks through the use of derivative instruments.

Finance Committee Disclosure:

Relationship with Portfolio Advisors:	Portfolio Advisors has not invested in Strategic Partners
Placement Agent:	None used for PSERS
PA Political Contributions:	None Disclosed
PA Presence:	N/A
Conflicts:	None Disclosed
History with PSERS:	Yes
PSERS Internal Alpha Committee Approval:	Approved on 02/11/16

Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments
	Luke M. Jacobs Portfolio Manager
External Consultant:	Portfolio Advisors LLC



February 12, 2016

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

Re: Strategic Partners Fund VII, L.P.

Dear Trustees:

The Blackstone Group L.P. (together with its affiliates, "Blackstone") is seeking to raise \$5.75 billion with a hard cap of \$6.5 billion for Strategic Partners Fund VII, L.P., (the "Fund" or "SP VII"). SP VII will be the second secondary private equity fund sponsored by Blackstone and the seventh managed and led by the Strategic Partners (the "Firm" or "SP") team members. Blackstone, its affiliates and employee investment programs will invest the lesser of \$115 million or 2% of the Fund's aggregate capital commitments in SP VII. SP VII will hold its first closing on January 29th, 2016, on approximately \$2.0 billion of commitments. A final close is expected to take place at the end of the first quarter 2016. SP VI is approximately 97% invested/committed as of the end of January 2016 and SP VII is expected to commence its investment period in mid to late March. Strategic Partners plans to continue the successful investment strategy employed in its prior funds of purchasing secondary interests of high quality funds in leveraged buyout, mezzanine/distressed, real estate, venture capital, and fund of funds. The Fund will seek a target allocation of 75% to buyouts, 10% to venture capital, 10% to mezzanine and 5% to distressed, real assets, fund of funds and other funds. SP VII expects to make opportunistic secondary investments in original commitments that range in size from \$100,000 for a single fund holding to \$1 billion or more for a portfolio of funds.

A key factor in the Fund's investment strategy is its focus on buying mature, fully or near fully invested portfolios. On average, executed secondary transactions were 86% funded in both SP V and SP VI. This strategy allows the General Partner to analyze underlying portfolio companies that have had time to mature, and provides better visibility on a portfolio's "impact" positions. Strategic Partners will continue this strategy of focusing on funded portfolios to reduce blind pool risk. In addition, SP funds have benefited from shorter holding periods and early returns of capital; all funds have made cash distributions each quarter since the first year of their respective investment periods. Strategic Partners has demonstrated expertise in closing secondary transactions in a professional, timely and flexible manner that meets the needs of both sellers and fund managers. The Firm has established efficient processes, completing on average one to two transactions per week. Strategic Partners' demonstrated ability to close quickly and with certainty makes the Fund a preferred buyer among institutions looking to sell their private equity portfolios.



Portfolio Advisors' recommendation is based upon the following analytical factors and is made within the context of Commonwealth of Pennsylvania Public School Employees' Retirement System's ("PSERS") investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals. The on-site due diligence visit was performed on December 8, 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:

Nicolas von der Schulenburg – Managing Director, Zurich Office

Mario Haidacher – Senior Associate, Zurich Office

Stephan Fleury – Associate, Zurich Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$250 million in Strategic Partners Fund VII, 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