



COMMONWEALTH OF PENNSYLVANIA  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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Public Investment Memorandum

**L Catterton VIII, L.P.**

Private Equity Commitment

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**Darren C. Foreman**  
Senior Portfolio Manager

**February 12, 2016**



**Recommendation:**

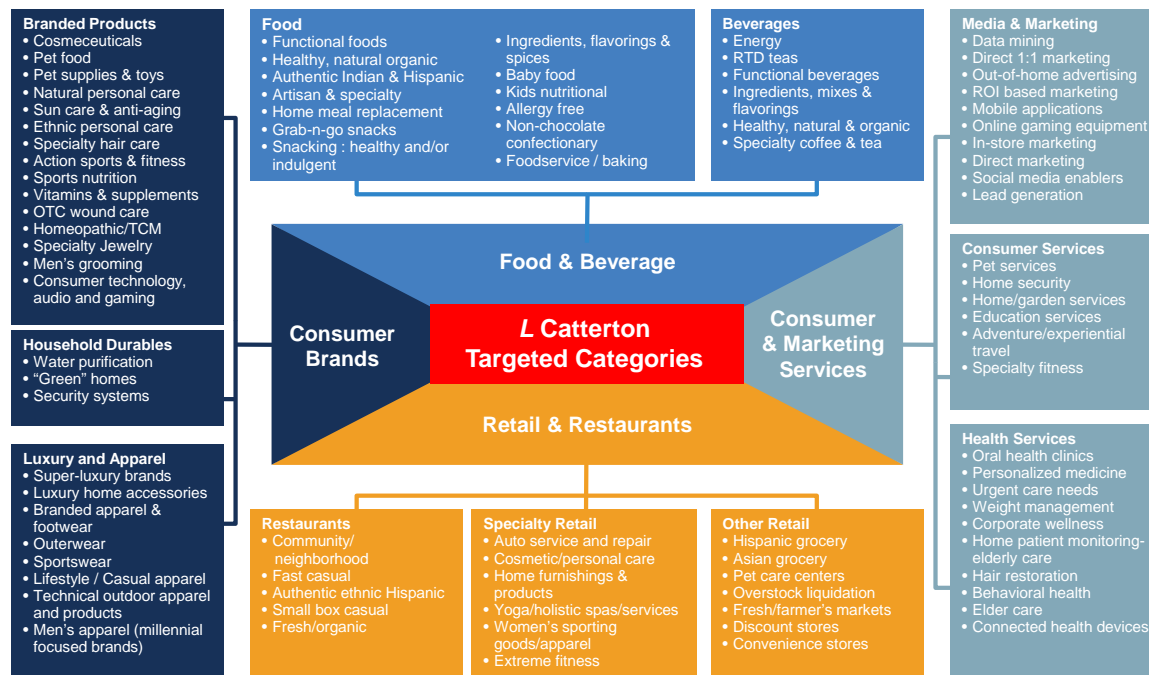
Staff, together with Portfolio Advisors, recommends to the Board a commitment of up to \$100 million to L Catterton VIII, L.P. ("Fund VIII" or the "Fund"). L Catterton ("Catterton or the "Firm"), a Greenwich, Connecticut based private investment firm, is sponsoring the Fund to continue their North American, consumer-focused buyout strategy.

**Firm Overview:**

Catterton was founded in 1989 and operates as the manager of a group of affiliated private equity and related investment vehicles that focuses on providing growth capital in support of well-positioned and distinctive businesses in attractive consumer categories in all major markets around the world. In January 2016, Catterton entered into a strategic partnership with LVMH and Group Arnault, to combine Catterton and its team with L Capital (the private equity firm and related funds previously owned by LVMH); now operating under the name of L Catterton. The combined firm is led by Global Co-CEO's J. Michael Chu and Scott Dahnke, who have been with Catterton for 26 years and 13 years, respectively. The Firm operates through six (6) distinct fund strategies including: Its flagship North American-focused buyout fund (legacy Catterton), North America Growth fund (legacy Catterton), pan-Latin American fund (legacy Catterton), pan-European fund (legacy L Capital), pan-Asian fund (legacy L Capital) and a global Real Estate fund (legacy L Capital). Since inception to date, L Catterton has made over 140 consumer-related investments globally through 15 prior funds.

**Investment Strategy:**

Fund VIII is seeking equity commitments of \$2.5 billion to build a diversified portfolio (10 to 20 companies) of primarily North American, middle market growth companies across the consumer sector. The Fund will pursue control-oriented investments where it will provide between \$50 and \$250 million of equity capital per transaction (or up to \$500 million inclusive of co-investment) in companies with EBITDA ranging \$15 million to \$150 million. Targeted companies will be in attractive categories within the consumer sector, and moreover, in companies that the Fund believes will have real and sustainable competitive advantages and attractive risk/return investment characteristics. The Fund will focus on the following verticals within the consumer sector: (1) Food & Beverage; (2) Retail & Restaurants; (3) Branded Consumer Products; and (4) Consumer & Marketing Services.





**Investment Structure:**

Catterton has historically led a majority of buyout investments to date, and anticipates being the sole or lead investor or having significant control provisions in each investment made by the Fund. The target holding period is three to five years. When applicable, the Fund but will return capital earlier. Key criteria are the investment IRR, cash-on-cash return, the availability of appropriate exit opportunities, and the risk/return profile of the investment.

**Investment Instruments:**

The Fund will invest in middle-market companies in the consumer industry that have passed the concept risk stage. As such, later stage companies seeking growth capital, privately negotiated buyouts, and private investments in public entities will be the focus.

**Market Opportunity:**

Catterton targets investments predominately in the North American consumer sector. At ~\$12 trillion in the United States alone, this represents the largest segment of U.S. GDP at about 70%. Furthermore, Catterton's targeted verticals within the consumer sector (food & beverage, retail & restaurants, branded consumer products, and consumer & marketing services) represent over 50% of the U.S. consumer sector. Catterton estimates that there are in excess of 100,000 companies within the Fund's targeted market. Today, consumers are increasingly enabled by new technologies and are rapidly shaping and instantly participating in new trends as they emerge. In addition, the rate of globalization and overall growth of the global consumer market continues to evolve and expand at an increasing pace. Catterton believes this cross-border growth creates an opportunity for both new investments and for their existing portfolio companies; specifically, new sources of revenue in support of an enhanced supply-chain.

**Investment Team:**

The Fund will be managed by an experienced and dedicated senior team led by the Global Co-CEO's (J. Michael Chu & Scott Dahnke), two Managing Partners (Andrew Taub & Nikhil Thukral), four Investment Partners (Neda Daneshzadeh, Marc Magliacano, David Meidecorn & Mark Grabowski) and five Operating Partners (James Hexter, Julian Mack, Sebastian Katch, Marc-David Bismuth & Steve Salzinger). In total, Catterton's U.S. buyout team includes 65 total investment and operating professionals, including 22 partners. In addition, Catterton draws on its global capabilities for deal flow and market insights from its 40 partners and more than 120 investment and operating employees globally, including those from its Growth (North America and European), Latin American, Asian, and Real Estate funds. The Fund's investment committee ("IC") will be responsible for overseeing Fund's investment activities and is comprised of the following seven investment professionals:

Name	Title	Yrs. Experience Catterton / Total	Prior Experience
J. Michael Chu	Global Co-CEO	26 / 35	First Pacific Company, Allied Bank
Scott A. Dahnke	Global Co-CEO	13 / 27	DB Capital Partners, AEA Investors, info USA, McKinsey & Co.
James Hexter	Senior Partner	1 / 23	McKinsey & Co.
Andrew Taub	Managing Partner	19 / 25	Gold Coast Beverage, Cooper & Lybrand, Dean Witter
Nikhil Thukral	Managing Partner	11 / 22	MidOcean Partners, DB Capital Partners
Neda Naheshzadeh	Partner	10 / 19	Bed Bath & Beyond, McKinsey & Co., Morgan Stanley
David Heidecorn	Partner	18 / 30	Nantucket Holding Company, GE Capital
Marc Magliacano	Partner	9 / 17	North Castle Partners, NMS Capital, Nations Banc

Catterton's investment team and operating partners are further supported by 15 additional professionals who are part of Vault, a consulting firm that is exclusive to Catterton and its portfolio companies. Vault provides detailed services focused on functional areas including marketing, sales, e-commerce, information technology, lean manufacturing, supply chain optimization, procurement, project management, talent management and executive recruitment. Moreover, Vault provides these services



and capabilities in a bespoke manner allowing it to engage both on rapid and short term projects with limited staff or longer term assignments supported by deeper teams. According to Catterton, Vault's services are obtained at significantly lower costs versus leading third-party firms of similar capability.

### **Investment Highlights:**

<b>Experienced &amp; Cohesive Senior Management Team</b>
Catterton's North American buyout strategy is actively managed by an experienced and dedicated senior team led by Michael Chu, Scott Dahnke, Andrew Taub, Nikhil Thukral, Neda Daneshzadeh, Marc Magliacano, David Heidecorn and Mark Grabowski. In aggregate, Catterton's U.S. buyout team includes 65 total investment and operating professionals, including Vault. This Fund's eight-person IC averages 25 years of total experience and averages 13 years at Catterton. Catterton has experienced considerable stability among its staff, with minimal senior-level departures over the past five years except for Operating Partners transitioning to permanent roles at portfolio companies.
<b>Strong Track Record</b>
Since inception in 1989 through September 30, 2015, Catterton has invested or committed to invest ~\$3.5 billion in 86 companies through its buyout funds. Non-control deals have not been made by Catterton's buyout funds since 2001 and are no longer part of the flagship fund's investment strategy. Catterton's buyout track record, excluding non-control deals, includes 62 control investments. 38 of these investments had been realized or partially realized, generating a 38% gross IRR / 2.5x gross MOIC. In aggregate, Catterton's 62 control investments generated a 28% gross IRR (15% net) / 1.9x gross MOIC (1.6x net) as of September 30, 2015. L Catterton ultimately expects this portfolio (at exit across the 62 control investments) to generate a 28% gross IRR (17% net) / 2.8x gross MOIC (2.3x net).
<b>Public Market Equivalent Returns</b>
In aggregate, Catterton's three prior buyout funds outperformed the S&P 500 Index by 370 basis points, using the Direct Alpha method, as of September 30, 2015. Each of Fund V (2004 VY), Fund VI (2006 VY) and Fund VII (2013 VY) outperformed the index by 70 basis points, 610 basis points, and 1,270 basis points, respectively. This demonstrates Catterton's ability to generate alpha above and beyond the public markets.

### **Investment Considerations:**

<b>Sector Concentration</b>
Catterton operates a consumer-focused investment strategy, targeting high-growth companies. As a result, the Fund will not be diversified by sector and portfolio companies may be more susceptible to higher volatility due to their limited product lines, markets or financial resources. In addition, negative headwinds, such as higher interest rates or higher inflation, can impact U.S. consumer spending and therefore, have implications on portfolio company performance. While there is risk associated with any sector-focused strategy, the consumer sector is the largest segment of the U.S. economy, representing ~70% of U.S. GDP. Furthermore, Catterton's targeted sectors (food & beverage, retail & restaurants, branded consumer products, and consumer & marketing services) represent > 50% of the U.S. consumer sector. Catterton has a proven consumer-focused strategy, with a track record dating back to 1989, and only invests in companies they believe will have real and sustainable competitive advantages and attractive risk/return dynamics.
<b>Formation of Strategic Partnership With LBMH &amp; Arnault Group</b>
In January 2016, Catterton entered into a strategic partnership with LVMH and Group Arnault, to combine Catterton and its team with L Capital (the private equity firm and related funds previously owned by LVMH). While the announcement of this alliance represents a significant organizational change for Catterton, the Fund will continue to be managed by the same professionals, without any change in strategy, scope, and decision making. The Fund should also benefit from the affiliation with LVMH given their reputation as a leader in the global luxury market; with a market cap of ~\$80 billion and annual revenues of ~\$40 billion.



**PSERS History & Performance:**

Since 2004, PSERS has committed \$580 million to 6 Catterton-managed partnerships (PSERS just closed a \$100 million commitment to Growth Partners III). As of September 30, 2015, Catterton generated a 10.5% net IRR and a 1.6x net MOIC for PSERS across their buyout funds and a 12.3% net IRR and a 1.4x MOIC across their growth funds. The table below summarizes PSERS' historical performance with Catterton by partnership and by strategy as of September 30, 2015:

<b>Fund (\$mm)</b>	<b>Vintage</b>	<b>Commitment</b>	<b>Contributions</b>	<b>Distributions</b>	<b>NAV</b>	<b>Net IRR</b>	<b>MOIC</b>
Catterton Partners V	2004	\$ 100	\$ 101	\$ 93	\$ 56	6.6%	1.5x
Catterton Partners VI	2006	130	142	173	98	13.7%	1.9x
Catterton Partners VII	2013	100	54	20	68	17.8%	1.3x
<b>Total (Buyout Funds)</b>		<b>\$ 330</b>	<b>\$ 298</b>	<b>\$ 266</b>	<b>\$ 222</b>	<b>10.5%</b>	<b>1.6x</b>
Catterton Growth Partners	2008	\$ 75	\$ 88	\$ 49	\$ 90	12.0%	1.6x
Catterton Growth Partners II	2013	75	51	0	60	14.7%	1.2x
<b>Total (Growth Funds)</b>		<b>\$ 150</b>	<b>\$ 139</b>	<b>\$ 49</b>	<b>\$ 150</b>	<b>12.3%</b>	<b>1.4x</b>
<b>Grand Total (Catterton)</b>		<b>\$ 480</b>	<b>\$ 436</b>	<b>\$ 314</b>	<b>\$ 371</b>	<b>10.8%</b>	<b>1.6x</b>

**Portfolio Fit:**

A commitment to Fund VIII will be allocated to PSERS' Private Equity Portfolio. L Catterton VIII will bring exposure to consumer growth investments in the middle market. The firm has a strong and stable deal team that has had good consistent returns. PSERS' Investment Office has seen strong co-investment deal flow from the firm for the internal co-investment program.

**Liquidity & Leverage Profile:**

The Fund is expected to be invested within six years of its final closing ("Investment Period"), with the ability to fully recycle realized proceeds within this period. Other than providing interim financing ("Bridge Financing") to facilitate a portfolio investment, L Catterton does not employ fund-level leverage as part of its investment strategy. That said, L Catterton may employ modest leverage at the individual portfolio company level, which the firm categorizes as being < 2.5x EBITDA.

**Finance Committee Disclosure:**

<b>Relationship with Portfolio Advisors:</b>	Portfolio Advisors hasn't invested in any of Catterton's buyout funds
<b>Placement Agent:</b>	None used for PSERS
<b>PA Political Contributions:</b>	None Disclosed
<b>Conflicts:</b>	None Disclosed
<b>History with PSERS:</b>	PSERS has committed to the following Catterton Funds: Partners V, Partners VI, Partners VII, Growth Partners I, Growth Partners II and Growth Partners III
<b>PSERS Internal Alpha Committee Approval:</b>	February 11, 2016



**Oversight Responsibility:**

<b>Investment Office:</b>	Charles J. Spiller      Deputy CIO, Non-Traditional Investments Darren C. Foreman      Senior Portfolio Manager
<b>External Consultant:</b>	Portfolio Advisors LLC



February 12, 2016

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

Re: L Catterton Partners VIII, L.P.

Dear Trustees:

L Catterton (“L Catterton” or the “Firm”) is raising its eighth flagship buyout fund, L Catterton Partners VIII, L.P. (“L Catterton VIII”, “LC VIII”, “Fund VIII” or the “Fund”). L Catterton is seeking \$2.5 billion of commitments for LC VIII and anticipates on holding a first close in Q1 2016 and expects to hold a final close no later than in Q2 2016. The General Partner will commit to invest the lesser of 5% of total commitments of the Fund or \$100 million. The Fund will pursue control-oriented investments in well-positioned middle market growth companies in the consumer sector that have passed the concept risk stage, primarily in North America. L Catterton expects to build a portfolio of 15 to 16 companies with equity investments ranging between \$50 million and \$250 million, or a total of up to \$500 million inclusive of co-investment capital. Targeted industry preferences include: Food and Beverage; Consumer Products; Retail and Restaurants; and Consumer and Marketing Services. The Fund will invest in companies with enterprise values greater than \$100 million and that are profitable. As such, L Catterton will focus on high growth companies, privately negotiated buyouts, and private investments in public entities. The Firm anticipates being the sole or lead investor in its transactions. All investments in the Fund will be control-oriented. The Firm seeks to structure its investments in a manner which: (i) protects its investment through preferred liquidation status; (ii) provides it with the ability to make management changes if necessary; and (iii) allows it to control the nature and timing of the exit.

L Catterton’s investment approach begins with its systematic “Vertical Process.” This starts with a “top-down” analysis of the U.S. consumer industry where the team segments the industry into the following verticals: Food and Beverage; Branded Consumer Products; Retail and Restaurants; and Consumer and Marketing Services. Analysis is performed on each vertical and its sub-segments against key consumer demographic and lifestyle trends, key economic business model metrics and market fundamentals. By following this approach, L Catterton is able to identify sub-segments and specific companies within these sub-segments where consumer, demographic, economic and brand characteristics simultaneously converge to create investment opportunities. L 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. L Catterton will also seek to identify companies that are positioned to create competitive barriers and serve as the platform for a consolidation strategy.



Furthermore, L Catterton will focus on identifying companies that have a strong consumer brand or consumer proposition, but have been operationally and financially under-managed.

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 January 29, 2016.
- 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 L Catterton Partners VIII, 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