



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Platinum Equity Capital Partners IV, L.P.

Private Equity Fund Commitment

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Recommendation:

Staff, together with Portfolio Advisors, recommends to the Board a commitment of up to \$300 million to Platinum Equity Capital Partners IV, L.P. ("Fund IV" or the "Fund"). Platinum ("Platinum" or the "Firm"), a Los Angeles based investment firm, is sponsoring the Fund to invest primarily in undervalued, undermanaged and underperforming businesses and execute operations-intensive transformations that meaningfully create value.

Firm Overview:

Platinum is a global private equity firm headquartered in Los Angeles with offices in New York, Boston, London and Singapore. The firm was founded in 1995 by Tom Gores, an entrepreneur and business operator who continues to lead the firm today as Chief Executive Officer. Mr. Gores is surrounded by a core group of 11 executives who have been with the firm an average of 15 years. The full organization comprises 160 employees, of which more than 100 are professionals dedicated to the investment process. The investment team is complemented by a highly institutionalized support platform comprising professionals with significant experience across key functions including investor relations, fund administration, marketing, finance, accounting, legal, tax and HR. From its inception, Platinum and its employees have had one primary focus: managing capital in operations-focused buyouts of underperforming companies to create maximum returns while carefully controlling risk and doing so in a repeatable and scalable manner.

Fund Size

Fund IV is seeking equity commitments of \$4.5 billion, with a hard cap of \$5.5 billion.

Investment Strategy:

Fund IV will opportunistically target companies that are experiencing operational difficulty but exhibit strong underlying business characteristics including (i) long term customer relationships, (ii) products and services or other elements that make the customer base and associated revenues "sticky" and predictable, (iii) established brands, (iv) sizable market shares, and (v) value locked in the balance sheet. The fund may consider a broad range of transactions, including without limitation: management and leveraged buyouts, recapitalizations, privately negotiated control and minority investments, consolidations and roll ups, spin offs and carve outs and growth equity investments. Fund IV will invest primarily in North America and Western Europe but will also review opportunities in other geographies.

Investment Team:

Investment and disposition decisions of Fund IV will be made by an Investment Committee comprising Tom Gores, Jacob Kotzubei, Johnny Lopez, Philip Norment, Louis Samson, Robert Wentworth and any other individual designated as a member of the Investment Committee by the General Partner and approved by the LP Advisory Committee. The table below highlights the experience of the key investment professionals:

Name	Title	Yrs. Experience Firm / Total	Prior Experience
Tom Gores	Chairman and CEO	21 / 21	Ventech Software
Mark Barnhill	Partner	14 / 29	Omnicom Group
John Diggins	Partner	20 / 20	Dun and Bradstreet
Eva Kalawski	Partner and General Counsel	19 / 19	Pilot Software
Bryan Kelln	Partner	9 / 27	Nortek Inc.



Name	Title	Yrs. Experience Firm / Total	Prior Experience
Jacob Kotzubei	Partner	14 / 21	Goldman Sachs
Johnny Lopez	Partner	21 / 21	Ventech Software
Philip Norment	Partner	19 / 31	Pilot Software
Louis Samson	Partner	9 / 20	CIBC World Markets
Mary Ann Sigler	Chief Financial Officer & Chief Compliance Officer	12 / 37	Ernst & Young, LLP
Robert Wentworth	Partner	19 / 33	Alden Electronics, Ernst & Young, LLP
Robert Wymbs	Partner	16 / 23	McKinsey & Company

Investment Instruments:

The fund will make private investments in equity, equity-oriented, or debt securities or other instruments (including preferred equity, bank loans and participations purchased in connection with a view towards making equity investments).

Market Opportunity:

Platinum has demonstrated its ability to identify and execute successful transactions through a variety of market cycles, and believes it is well positioned to generate meaningful investment opportunities for Fund IV. In-house capabilities allow the Firm to conduct diligence on transactions that other competitors may avoid, and to continue diligence in some cases where competition may outbid Platinum initially but later withdraw because the operational risk in the transaction is too high. Historically, Platinum has emerged in many cases as the only bidder capable and willing to take on the operational risk issues inherent in a particular transaction. Further, Platinum has shown particular effectiveness in navigating periods of economic uncertainty driven by market volatility. The Firm's emphasis on downside protection and its deep operational capabilities are invaluable in helping its portfolio companies remain stable during recessionary downturns and flourish during periods of recovery and growth.

Investment Highlights:

<p>A Proven Investment Process</p> <p>Platinum has developed a fully integrated Mergers, Acquisitions and Operations (M&A&O) process that is highly differentiated in the market, in which highly experienced operating executives are assigned at a granular level in the earliest stages of the acquisition process.</p>
<p>Stable, Experienced and Cohesive Management Team</p> <p>The Senior Principals have worked together for an average of approximately 15 years. Collectively, they are responsible for all of the firm's investments since inception. Platinum believes that the experience, cohesiveness and stability of its organization have been key factors in the consistent execution of its investment strategy.</p>
<p>Exceptional Track Record</p> <p>Since inception through March 31, 2016, Platinum has invested \$3.4B across 61 fully and partially realized platform investment, generating a Gross multiple of 2.7X. Including an additional 26 unrealized platform investments, Platinum has generated a Gross multiple of 2.2X and a gross IRR of 68.5%. The previous three Platinum funds have outperformed the S&P 500 Index by 26.07%.</p>
<p>Market Opportunity</p> <p>Platinum began in 1995 by acquiring and fixing small software businesses facing operational risks. Over time, the Firm methodically expanded (i) its capabilities and focus to businesses in industries beyond software and technology and (ii) its ability to execute its strategy in larger and more complicated transactions with higher equity commitments and greater potential for value creation. In addition, Platinum has focused on building portfolio companies into market leaders not only through internal growth, but also through the integration of add on acquisitions.</p>



Investment/Risk Considerations:

Fund Size
This will be the largest fund that Platinum has raised, at \$4.5 Billion. Long time presence in this market niche, robust deal pipeline, as well as stability of the leadership team should not hinder deployment of capital over time.
Ability to Replicate Performance
As part of Staff's recommendation for a re-up commitment to Platinum, we recognize this is based on the assumption that Platinum will continue to execute on its operations focused buyouts and generate attractive returns going forward. Their fund sizes have increased with each successive fund. These funds have been able to demonstrate Platinum's continued ability to generate strong investment returns as its funds and transactions have grown in size.
Liquidity & Leverage Profile
The Fund is expected to be invested ("Investment Period") within six years of its initial closing. The fund may guarantee loans or provide interim equity or debt financing (i.e. bridge financing) in order to facilitate an investment in, or acquisition of, a portfolio company.

PSERS History & Performance:

Since 2004, PSERS has committed approximately \$625 million to three Platinum managed partnerships. As of March 31, 2016, they have generated a 31.3% net IRR and a 1.83x net MOIC for PSERS. The table below summarizes PSERS' historical performance by partnership:

<u>Fund (\$mm)</u>	<u>Portfolio</u>	<u>Vintage</u>	<u>Commitment</u>	<u>Contributions</u>	<u>Distributions</u>	<u>NAV</u>	<u>Net IRR</u>	<u>MOIC</u>
Platinum I	PE	2004	125	97	247	10	59.9%	2.64x
Platinum II	PE	2007	300	289	349	132	14.6%	1.68x
Platinum III	PE	2012	200	127	70	123	30.2%	1.55x
Total			\$ 625	\$ 514	\$ 668	\$ 266	31.3%	1.83x

Portfolio Fit:

A commitment to Fund IV will give PSERS' Private Markets portfolio continued exposure to a top tier firm. The fund will benefit from its proprietary (M&A&O) investment approach that has been developed and refined by Platinum over the past 21 years. This fully integrated, operations-intensive strategy is highly differentiated. It is disciplined and process-oriented and has been market and cycle tested across 188 platforms and add on investments.

Finance Committee Disclosure:

Relationship with Portfolio Advisors:	Portfolio Advisors has invested in Platinum funds.
Placement Agent:	Yes, but 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 15, 2016



Oversight Responsibility:

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