



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Equistone Partners Europe Fund VI, SCSp

Private Equity Fund Commitment

Luke M. Jacobs, CFA
Manager, Private Markets

November 7, 2017



Recommendation:

Staff, together with Hamilton Lane, recommends to the Board a commitment of up to €85 million to Equistone Partners Europe Fund VI, SCSp, ("Equistone VI" or the "Fund").

Equistone ("Equistone" or the "Firm"), a leading Western European private equity firm, is seeking to raise €2.5 billion in commitments to continue its successful strategy of investing in lower mid-market companies in France, Germany, Switzerland and the UK.

Firm Overview:

Equistone was established in November 2011 when the team acquired the business from Barclays Bank PLC. The firm comprises a team of 35 investment professionals operating as an integrated Western European lower mid-market private equity firm via a network of six offices in four countries. Equistone's principal offices are in Munich, Zurich, Paris, London, Birmingham, and Manchester.

Barclays Private Equity Limited was established in the UK in 1979. From 2002 to 2007, Equistone raised three funds comprising institutional capital and parallel vehicles with Barclays' commitment becoming a smaller share of the capital committed in the more recent funds. Following the Equistone team buyout in 2011, Barclays retained its share of the carried interest in Funds I-III but 100% ownership of the general partners as well as the manager, transferred over to Equistone LLP. Fund IV was raised with its final close of €1.5 billion in January 2013. Barclays was not an investor in Fund IV or Fund V and will not invest in Fund VI.

Equistone has operated in its core markets of the UK since 1979, France since 1990 and Germany since 1998. Equistone has operated an office in Switzerland since 2006. A key and distinctive feature of Equistone is the strength and depth of the local investment team members, who are all nationals of the countries in which they operate and native speakers of the local language. Equistone professionals are highly regarded within their markets as experienced, private equity practitioners and enjoy broad business networks across their respective regions.

Fund Size:

Fund VI is seeking equity commitments of €2.5 billion, with a hard cap that the manager has indicated is expected to be approximately €3.0 billion.

Investment Strategy:

The Fund will continue Equistone's successful long-term strategy of investing in lower mid-market companies in select Western European countries, seeking to invest approximately €25 to €150 million in majority buyouts of companies with enterprise values typically between €50 and €300 million or more. In selected cases, the Fund may assume minority stakes in non-control transactions where Equistone seeks to partner with management and provide capital for value creation, predominately with strong protections regarding economic/legal rights and exit management.

This strategy is a natural evolution of Equistone's investing history since it began managing institutional LP capital in 2002. Equistone believes the long-term consistency of its investment strategy provides a significant advantage in both generating high-quality deal flow as well as closing on transactions where credibility and deliverability are key criteria sought by management teams, vendors and their advisers.

The Fund will target successful companies with defensible market positions and growth potential driven by international expansion, product innovation, new market development or a combination thereof. Target companies will typically be based in the core geographies of France, Germany, Switzerland and the UK,



with ancillary activity in the Benelux (Belgium, Netherlands and Luxembourg) region. The Fund may selectively invest a portion of its capital in other countries if there is a compelling investment opportunity. Consistent with Equistone's long-term successful investment strategy, target transactions will comprise opportunities to acquire control stakes from private owners (families and/or private shareholders), corporations or financial owners, public to private transactions and typically smaller private equity firms.

Investment Team:

Equistone has an integrated management structure across all of its offices, which ensures a unified investment strategy and integrated corporate governance and investment-approval process. Led by Managing Partner Guillaume Jacqueau, the management board includes senior members of the investment team from France, Germany and the UK. All of Equistone's professionals participate in a single carried interest pool and investment recommendations are carefully managed by the investment committee comprising senior voting Equistone professionals from each principal office, which ensures alignment of interest and rigorous common standards of investment discipline between local offices, as well as fostering increased international collaboration.

The seven members of Equistone's Management Board are listed below.

Name	Title	Yrs. Experience Firm	Prior Experience
Michael Bork	Senior Partner	18	Dresdner Bank
Gregoire Chatillon	Senior Partner	14	LEK Consulting
Guillaume Jacqueau	Managing Partner / Country Head France	22	BNP Paribas
Rob Myers	Senior Partner / Country Head UK	17	Close Brothers
Steve O'Hare	Senior Partner	14	KPMG
Dirk Scheckerka	Senior Partner / Country Head Germany	15	Granville Baird Capital Partners
Oskar Schilcher	CIO / Senior Partner	14	Deutsche Bank

Investment Instruments:

Fund VI will target buyout transactions in building a diversified portfolio of between 25 and 30 companies. Nearly all of the investments will be acquisitions where Equistone will take a majority stake in the ownership of the business; however, some minority investments may be made where the Fund invests in a private company alongside management and/or private shareholder(s). This will be done with equity instruments. The fund may also make investments in temporary (i.e. bridge) financing instruments as well as hedging instruments at the portfolio company level.

Market Opportunity:

Equistone will invest in companies that are strategically attractive market leaders with significant growth potential, whether organic or via acquisition. Post-acquisition, Equistone provides sustained strategic guidance and challenge to management teams as they pursue their growth objectives, through board representation in a non-executive capacity. Equistone's established value creation methods are pragmatic and locally adapted. They are designed to support management in their strategic development of each business, by any or all of: international expansion, domestic growth and new product development or innovation. A common route for Equistone to enhance portfolio company growth is by



supporting build-up acquisitions. Since 2002, Equistone has supported 80 portfolio companies across Funds I-V (i.e. their existing funds) with a total of 225 build-ups.

Equistone looks for investment opportunities in companies which are already successful operators in their core markets, but which also have the potential to grow and expand internationally. A hallmark of the investment strategy is that each investment is made in partnership with the company's management team, with a shared vision of future growth and development. Equistone believes that a key strength of its business model is the ability to tailor strategic advice in each case according to the specific needs of the company and business plan and as appropriate, introduce skilled executives to develop the business rather than deploying a more rigid operating partner approach. Key areas for strategic input to management teams will include international expansion, strategic M&A, new product innovation and new market penetration. There may be cases where there is a management buy-in element to a transaction, but usually there will be a core group of existing managers who will remain in the target company. Equistone believes that it is a supporter of management teams rather than an operator of companies.

Equistone's value creation strategy is therefore tailored to each situation and geared around building a sustainable, successful relationship with the management team by establishing a common vision for growth and value creation. A key part of this is Equistone's significant experience in successfully aligning the interests of the funds it manages with the interests of portfolio company management teams through appropriate equity participation. Across Funds I-V, the realized investments have generated an average sales compound annual growth rate (CAGR) of 9% and earnings CAGR of 10%. Equistone believes that this demonstrates a strong focus on supporting management teams to drive top-line growth, operating efficiencies and expansion strategies that generate sustained earnings progression.

Investment Highlights:

Long-established Investment Record in Western Europe
Since 2002, in Funds I to V, Equistone has invested €6.7 billion in 144 transactions in France, Germany, Switzerland and the UK., of which 101 have been realized, generating a 2.5x realized return on invested capital and a 33% gross IRR. Equistone believes that its investment success to date has been driven by a consistent focus on identifying and partnering with high-caliber management teams capable of delivering strong growth and producing attractive returns.
Distinctive, Strong Local Market Presence
Equistone's local teams have a high degree of autonomy in their origination and portfolio monitoring practices, which are specifically customized for their local markets. Investment sourcing, due diligence and portfolio company monitoring are typically led by the individual local offices on any given transaction, utilizing their significant networks, market knowledge and expertise, although local teams utilize the networks and expertise of their colleagues in other geographies as appropriate. Equistone believes that this local autonomy is key to management teams and their advisers seeking to partner with Equistone, as the Investment Team is able to operate with the local knowledge, responsiveness and autonomy of a country fund.
Value Creation
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Investment/Risk Considerations:

Largest Fund Size
At €2.5 billion, this will be the largest fund Equistone has raised to date, although it will be consistent with the €2.45 billion raised in 2007. Equistone believes that it can comfortably scale fund size modestly as it has demonstrated this in its previous funds. We think this is justified by the large appetite by existing Equistone investors in their previous funds. Additionally, Equistone has displayed consistent deployment during the investment period in its previous five funds, including the most recent €2.0 billion fund, which is on track to be invested in 3 years.



Risks of a Euro Based Fund

Being that the Fund is denominated in Euro's, there will be fluctuations in the exchange rate. The Equistone team has historically not hedged foreign currency risks at the Fund level, but may so at the portfolio company level.

PSERS History & Performance:

This will be PSERS' second commitment to Equistone. PSERS committed €65 Million to Equistone Partners Europe Fund V in 2015. The table below summarizes PSERS' performance as of 06/30/17: (Euro amounts in millions).

Fund	Vintage Year	Commitment	Contributions	Distributions	NAV	Net IRR	Net MOIC
Equistone V	2015	€65 M	€44.9 M	€0	€53.8 M	13.41%	1.22

Portfolio Fit:

A commitment to Equistone VI will give PSERS' Private Markets portfolio continued exposure to the lower mid-market space in select Western European countries. A commitment to this Fund will be allocated to the Private Equity sleeve of PSERS' Private Markets portfolio. As of June 30, 2017, the Private Markets portfolio was allocated 65.8% Private Equity, 19.7% Special Situations, 12.9% Venture Capital and 2.0% PE Internal (based on total exposure). The table below summarizes PSERS' projected Private Markets exposure inclusive of a recommended €85 million commitment to Fund VI:

Investment Type	Active Commitments ¹	%	Market Value	%	Unfunded ¹	%	Total Exposure ¹	%
Private Equity	\$ 15,260.2	65.8%	\$ 5,400.4	67.2%	\$ 3,973.0	72.2%	\$ 9,373.3	69.2%
Special Situations	4,554.8	19.7%	1,049.2	13.1%	791.7	14.4%	1,840.9	13.6%
Venture Capital	2,897.0	12.5%	996.1	12.4%	674.8	12.3%	1,670.9	12.3%
PE Internal	465.4	2.0%	592.8	7.4%	61.5	1.1%	654.4	4.8%
Total	\$ 23,177.4	100.0%	\$ 8,038.5	100.0%	\$ 5,501.0	100.0%	\$ 13,539.5	100.0%

(1) As of June 30, 2017. Includes post Q2'2017 pending/closed commitments.

Investment Committee Disclosure:

Relationship with Hamilton Lane:	No
Placement Agent:	No
PA Political Contributions:	None Disclosed
PA Presence:	No
Conflicts:	None Disclosed
History with PSERS:	Yes
PSERS AIC Meeting Approval:	November 7, 2017

Oversight Responsibility:



**COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments Luke M. Jacobs, CFA Manager
External Consultant:	Hamilton Lane



Hamilton Lane

October 30, 2017

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

Re: Equistone Partners Europe Fund VI, SCSp

Dear Trustees:

Equistone Partners Europe (“Equistone”) was founded as Barclays Private Equity in 1979 as the private equity division of Barclays Capital, a division within the investment banking arm of Barclays Bank Plc; the General Partner began managing external capital through funds in 2002 and became an independent firm in 2011. The General Partner has developed deep sourcing networks across its three target geographies through longstanding, active and dedicated local teams in the UK, France and DACH region. The investment team is differentially senior, primarily consisting of experienced partners, who drive decision-making, execution, and value creation. The senior investment team has worked together an average of 15 years and has remained stable since the spinout in 2011. Additionally, the General Partner has expanded resources at the mid- and junior-levels in recent years; in aggregate, Equistone employs 36 dedicated investment professionals. Equistone is targeting €2.5 billion in commitments from limited partners for its sixth buyout fund, Equistone Partners Europe Fund VI, SCSp (the “Fund”). Equistone expects to hold a first and final close in March 2018. The General Partner will commit at least 1.5% of commitments to invest in or alongside the Fund.

Equistone seeks to invest primarily in lower middle-market companies in the UK, France and DACH region, with opportunistic investments in the Benelux; the General Partner expects to be flexible in its deployment of capital across its target geographies. The Fund will pursue a generalist investment mandate across sectors, targeting emerging local market leaders with significant potential to grow internationally. Through its prior funds, the General Partner has gained significant experience investing in the industrials, business services and consumer sectors. Deal flow is driven by the deep professional networks of the local teams in the UK, France and DACH region, as each team seeks to leverage its local networks to source off-market opportunities or position itself as a preferred bidder in limited auction processes. The General Partner seeks to drive value by providing active support to help management transform target companies. Deal teams support portfolio company management teams in driving value through organic growth acceleration, strategic repositioning, international expansion and strategic M&A. The Fund will primarily target equity investments in the range of €25 million to €150 million, targeting companies with enterprise values between €50 million and €300 million. Equistone estimates that the Fund will make between 25 and 30 investments. Equistone has generated consistent returns across prior funds, with most funds generating at or near top-quartile IRRs.

Equistone Partners Europe Fund VI's investment thesis can be summarized as follows:

- Equistone's stable and highly experienced investment team drives decision-making, execution and value creation
- The Fund provides concentrated access to lower-middle market deals across multiple geographies



Hamilton Lane

- The General Partner has generated consistent and attractive returns across prior funds

Hamilton Lane's 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 initial review was completed September 12, 2017; the on-site due diligence was conducted October 19, 2017; the fund was approved by Hamilton Lane's Investment Committee on October 30, 2017 and the recommendation to PSERS was issued October 30, 2017.
- 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.
- Detailed Operational Due Diligence, including interviews with Equistone's back office team to review the controls and processes surrounding the firm's finance, fund administration, tax, legal, compliance, IT, HR and accounting functions.
- 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 Hamilton Lane who were involved in the due diligence process for the Fund are:

Tarang Katira – Principal, London Office
Nina Kraus – Senior Associate, London Office
Cyndie Guenoun – Analyst, London Office

Based on the above, Hamilton Lane recommends that PSERS commit up to €85 million in Equistone Partners Europe Fund VI, SCSp. Hamilton Lane 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. Hamilton Lane does not provide legal or other non-investment-related advice.

Sincerely,

Michael Koenig,
Managing Director

Corina English,
Vice President