



January 1, 2015

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

Re: Equistone Partners Europe Fund V

Dear Trustees:

Equistone Partners Europe ("Equistone" or "the Firm") is seeking to raise €1.75 billion of limited partner interests in Equistone Partners Europe Fund V (the "Partnership", "Fund" or "Equistone V") with a hard cap of €2.0 billion. Equistone is the successor firm to Barclays Private Equity Limited which 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. Barclays was not an investor in Fund IV and will not invest in Fund V. The Firm's principal offices are France (Paris), Germany (Munich) and the UK (London, Birmingham, and Manchester). There is an additional office in Switzerland (Zurich) which operates in close co-operation with the Munich office.

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 France, Germany, Switzerland or the UK. The Fund may selectively invest a portion of its capital in other countries if there is a compelling investment opportunity. In line with Equistone's long-standing strategy, target transactions will comprise opportunities to acquire control stakes from private owners, corporations or financial owners - typically smaller private equity firms. The change of ownership may often be a trigger for a new phase of significant strategic development for the company, either through one or more build-up acquisitions or a program of organic growth. Consistent with the strategy of the existing funds, select minority investments may be made, typically in support of owner managers who are seeking institutional capital to meet their strategic objectives. Target companies typically have enterprise values between €50 million and €300 million where Equistone seeks to invest an initial equity amount of between €25 million and €125 million. This should lead to a diversified portfolio of 25 to 30 companies.

The Fund will adopt a generalist approach to sectors in its portfolio construction. Equistone has experience investing in a diverse range of sectors and this experience is often specifically linked to the geographical market (e.g. there has been more investing activity in the manufacturing sector in Germany and in the services sectors in the UK). Core sectors, such as business support services, consumer/travel, financial services, and manufacturing/specialist engineering form more than 80% of Equistone's historic investing activity. The only limit regarding sectors in the investment restrictions for Fund V is for oil and gas exploration investments which shall not exceed 10% of total commitments.



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 November 13, 2014.
- 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:

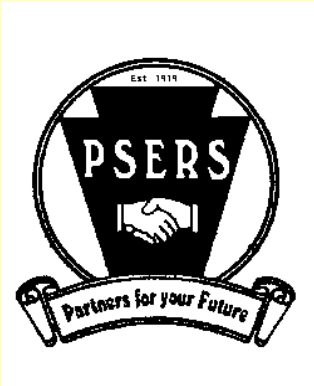
Peter Schwanitz – Managing Director, Zurich Office  
Mario Haidacher – Associate, Zurich Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to €75 million of limited partnership interests in Equistone Partners Europe Fund V. 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



# Private Equity Fund Commitment

## Equistone Partners Europe Fund V, L.P.

January 21, 2015

See Last Page for Disclaimer

Charles J. Spiller, Managing Director,  
Private Markets and Real Estate

# Equistone Partners Europe Fund V, L.P. – Private Equity Fund

## Overview

- The Fund will invest mainly in UK, German and French mid-market companies within the enterprise value range of €50 million to €300 million
- The firm has invested in 128 transactions worth €5.7 billion since 2002
- Equistone expects the fund to have 25 to 30 investments
- The Fund has a target of €1.75 billion and a hard cap of €2 billion
- Equistone is 100% owned by its executive team, completed spinout from Barclays in 2012

## Fund Strategy

- Focus on change of ownership situations, but also selective minority positions alongside management
- Core sectors are business services, consumer/travel, manufacturing/engineering
- Focus on high growth potential companies
- Buy and build strategy – 170 add-on acquisitions since 2002

## Investment Team

- The senior management team members have worked together at the firm for over 14 years and average 27 years of experience
- The current team has 33 investment professionals, plus 19 support staff
- Equistone has 3 offices in the UK, one in France, one in Germany and one in Switzerland

# Equistone Partners Europe Fund V, L.P. – Private Equity

## GP “Value Add”

- Provide strategic challenge and financial support to drive growth, often through internationalization
- Active involvement in the companies operations (as needed)
- Significant focus on buy-and-build approach
- Active board participation

## History with PSERS (new relationship)

### Performance in Euros (Millions) – As of June 30, 2014

Vintage	(Euros in millions)		Unrealized	Realized	Total	Net	Net
		Cost	Value	Value	Value	IRR	MoC
2011	Fund IV	1050.2	1371.4	62.7	1434.1	23%	1.3x
2007	Fund III	2218	1470.6	2270.5	3741.1	9%	1.4x
2005	Fund II	1447.7	383	2263.6	2646.6	15%	1.5x
2002	Fund I	963.5	0	2762.9	2762.9	29%	2.2x

## Market Opportunity

- The UK, France and Germany are the three largest buyout markets in Europe
- There are over 50,000 mid-market companies in the UK, France and Germany
- Equistone (Barclays) has been investing in the UK private equity market for 35 years, the French market 24 years and Germany/Switzerland 16 years

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# Equistone Partners Europe Fund V, L.P. – Private Equity

## Risks and Mitigants

- Large unrealized portfolio – Equistone relies on strong management teams to execute value creation plans. They will get more involved if there are problems that need to be solved. They have 1.3 unrealized investments per investment professional which is manageable
- Currency Risk – There is some currency risk in non-Dollar investments but over long periods of time this risk tends to be diminished due to currencies moving up and down over various periods

## Board Issues

- Pennsylvania Presence – Yes, a Fund IV investment Charles & Alice operates a small plant (applesauce production) in Landisville, PA
- Placement agents – Yes Lazard, but neither the fund nor LPs will pay the cost
- PA political contributions – None
- Relationship with consultant – None

## Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed €75 million plus reasonable normal investment expenses