



COMMONWEALTH OF PENNSYLVANIA  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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Public Investment Memorandum

**Bridgepoint Development Capital III, L.P.**

Private Equity Commitment

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**Darren C. Foreman**  
Senior Portfolio Manager

**May 5, 2016**



### **Recommendation:**

Staff, together with Portfolio Advisors, recommends to the Board a commitment of up to £75 million to Bridgepoint Development Capital III, L.P. (the "Fund"). Bridgepoint ("BDC" or the "Firm"), a London, UK private investment firm, is sponsoring the Fund to make investments primarily in fast growing businesses in the European lower middle market with enterprise values of up to £125 million.

### **Firm Overview:**

From its establishment in 1984 until 2000, Bridgepoint operated as a subsidiary of the European banking group, National Westminster Bank ("NatWest"), under the name NatWest Equity Partners. Bridgepoint was founded in June 2000 after Partners and employees completed the acquisition of the management company. Bridgepoint has raised 5 buyout funds and this will be the second lower mid-market buyout fund it has raised. As of December 31, 2015, BDC had made 18 investments and had realized 5 investments which have delivered £390 million of proceeds with an aggregate realized return of 3.4x money multiple and an IRR of 40%. BDC's investment committee is comprised of 3 team members and 3 members from Bridgepoint's buyout fund team. The BDC Partners have an average of 15 years' experience with Bridgepoint and have been involved in 50 transactions for BDC and Bridgepoint Europe which have delivered realized proceeds of €3.4 billion and a money multiple of 2.9x.

The following table lists all private equity funds raised and/or managed by Bridgepoint.

<b>Fund</b>	<b>Vintage</b>	<b>Fund Size</b>
Bridgepoint Europe I	1998	£ 1 Billion
Bridgepoint Europe II	2001	€ 2 Billion
Bridgepoint Europe III	2005	€ 2.5 Billion
Bridgepoint Europe IV	2008	€ 4.8 Billion
*Bridgepoint Development Capital I	2009	£ 300 Million
Bridgepoint Development Capital II	2012	€ 353 Million
Bridgepoint Europe V	2015	€ 4 Billion

\*Bridgepoint did not raise BDC I but took over its management from another GP at the point where only £50M of its capital had been deployed.

### **Market Opportunity:**

- Access to the lower middle market in Europe where 250-300 transactions are completed per year
- Investment opportunities in over 20,000 European companies with revenue between £20M and £125M
- Generally over 60% of transactions in the European lower middle market are completed in BDC's core geographies of the UK, Nordic Region and France
- BDC invests in six sectors: Business Services, Consumer, Financial Services, Healthcare, Manufacturing & Industrials and Media & Technology

### **Portfolio Fit:**

A commitment to Bridgepoint Development Capital III will give PSERS' Private Markets portfolio exposure to the lower middle buyout market in Europe. BDC will focus on fast growing companies in the UK, France and the Nordic Region, which would be complementary to PSERS' Private Markets portfolio. BDC's focus on superior businesses in growth segments and the team's operational experience on top-line initiatives (revenue growth), international expansion and accretive add-on acquisitions should allow the Fund to be a top performer.



**Investment Strategy:**

The Fund will seek to invest in the European lower middle market, where 250 to 300 private equity transactions are completed each year. BDC will target 3 to 5 new investments each year. The Fund will invest in the UK, Nordic Region and France. BDC's investment strategy will focus on the following:

- Fully utilize the parent firm's platform to take advantage of their network of contacts
- Invest in high quality businesses at attractive valuations
- Active ownership by driving value creation and growing revenue and ebitda
- Focus on majority control transactions
- Invest in the enterprise range of £30 million to £125 million
- Seek to invest in repeatable business models where Bridgepoint/BDC has prior experience
- Not actively target turnaround situations

**Investment Team:**

BDC has a dedicated team of 25 professionals that work in offices in London, Stockholm and Paris. The BDC team is led by five Partners: Michael Black, Alan Payne, Adrian Willetts, Johan Dahlfors and Olivier Nemsguern. The five Partners have on average 18 years of private equity experience. The majority of the team has investment banking or management consulting experience. The team includes 16 multiple language speakers. The table below highlights the experience of BDC's five Partners:

Name	Title	Yrs. PE Experience Bridgepoint/Total	Prior Experience
Michael Black	Managing Partner	20 / 20	NatWest Group
Alan Payne	Partner	20 / 20	Deloitte
Adrian Willetts	Partner	21 / 26	Lloyds Development Capital, PWC
Johan Dahlfors	Partner	6 / 14	Argan Capital, Dresdner Kleinwort
Olivier Nemsguern	Partner	2 / 11	Activa Capital, Abenex Capital

**Investment Highlights:**

<b>Attractive Investment Strategy</b>
BDC's platform provides access to attractive growth companies in the European lower middle market where 250-300 transactions are completed per year. Over sixty percent of the lower middle market buyouts in Europe are completed in BDC's core geographies of the UK, Nordic Region and France. The Fund will focus on investments in growth companies that benefit from global growth in markets growing 5% to 15% per year, and have the potential to grow revenue and ebitda of 15% to 20%.
<b>Benefits from Bridgepoint's infrastructure</b>
Bridgepoint has proven private equity discipline and institutional investment quality from 25 years of successful experience. BDC has representation from Bridgepoint Europe's team members which ensures collaboration benefits. The Fund will benefit from the resources of Bridgepoint in the following areas: <ul style="list-style-type: none"> <li>• Fund Administration</li> <li>• Investor Relations</li> <li>• Human Resources</li> <li>• Capital Markets Team</li> <li>• Procurement Specialists</li> <li>• Tax</li> <li>• Reporting</li> </ul>
<b>Strong historical performance</b>
BDC I and BDC II have had excellent performance. BDC I has a net IRR of 19% and BDC II has a net IRR of 43% as of December 31, 2015. The primary driver of the performance has been excellent ebitda growth of the portfolio companies in each fund. Both BDC I and BDC II are expected to achieve approximately a 2.5x multiple of cost over the life of each fund. Both Funds are in the first quartile for IRR and TVPI according to Portfolio Advisors.



**Investment / Risk Considerations:**

<b>Longer economic recovery in Europe</b>
The European recovery is not expected to be uniform and potential risk remains. BDC will focus on fast growing companies which should mitigate the projected overall slow economic growth in Europe. BDC will employ currency hedges to protect against currency volatility in non-Sterling (UK) assets.
<b>Increase in fund size</b>
The hard cap for Fund III is £600M which is a large increase over BDC II which was €353M fund. To date, fund size and underwriting constraints have prevented BDC from pursuing transactions with EV's greater than £75M (£75M to £125M). The increase in fund size will help diversify the portfolio with an expected 13 to 14 portfolio companies versus 11 portfolio companies in each of BDC I and BDC II to date. BDC has continued to invest in the team with an increase in the amount of investment professionals to 25 today. BDC had 16 investment professionals in 2011.

**PSERS History & Performance:**

While PSERS has committed to five Bridgepoint Europe Funds, this would be the first commitment to a Bridgepoint Development Capital Fund. The table below summarizes BDC's investment performance as of December 31, 2015:

Fund (BDC I in GBP and BDC II in Euros MM)	Portfolio	Vintage	# of investments	Fund Size	Realized	NAV	Net IRR	MOIC
BDC I, L.P.	PE	2009	11	£300M	£307	£159	19%	1.95x
BDC II, L.P.	PE	2012	*11	€353M	€120	€283	43%	1.68x

\*BDC II is not yet fully invested and is expected to have 13-15 investments when its portfolio construction is completed.

**Finance Committee Disclosure:**

<b>Relationship with Portfolio Advisors:</b>	None
<b>Introduction Source:</b>	Fund Sponsor
<b>Placement Agent:</b>	None
<b>PA Political Contributions:</b>	None
<b>Potential Conflicts:</b>	We are not aware of Bridgepoint having any investment conflicts.
<b>History with PSERS:</b>	No investments in a BDC Fund but PSERS has invested in 5 Bridgepoint Europe Funds
<b>PSERS Internal Alpha Committee Approval:</b>	May 6, 2016

**Oversight Responsibility:**

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



May 2, 2016

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

Re: Bridgepoint Development Capital III, L.P.

Dear Trustees:

Bridgepoint Capital (“Bridgepoint” or “the Firm”) is seeking to raise £500 million of limited partner interests in Bridgepoint Development Capital III, L.P. (“the Fund” or “BDC III”) with a hard cap of £600 million. The first closing was in mid-April with commitments of £410 million. Founded in 1984, Bridgepoint Capital is among the leading Pan-European mid-market buyout investors. BDC was established in 2009 to address the lower mid-market by utilizing Bridgepoint’s established reputation and experience. BDC III will invest in lower mid-market companies in BDC’s core markets of the UK, France and the Nordic European countries of Sweden, Norway, Denmark, and Finland. Target companies will have enterprise values between £30 million and £125 million and typically require an equity investment between £20 million and £75 million. BDC aims to build a portfolio of thirteen to fifteen investments over the next four to five years. Geographically, the Fund is expected to invest a minimum of 80% in the core markets with more of a weighting towards UK transactions over investments in France and the Nordics. BDC will invest in majority control transactions but may also execute minority investments in attractive growth businesses with minority protections and governance rights for the Fund. The General Partner will commit £10 million to the Fund.

BDC aims to invest in well positioned growth companies, which should benefit from global megatrends and specific sub-sector drivers. Certain European market segments are growing as a result of medium term global trends such as digitalization, changing demographics, and positive structural drivers including outsourcing and consolidating supply chains. International expansion is an additional growth lever and a mitigant against individual country exposure. BDC will work closely with Bridgepoint’s sector experts (Business Services, Consumer, Financial Services, Healthcare, Industrials and Media & Technology) to identify attractive sub-sectors and niches which are of particular relevance for growth in lower mid-market companies.

BDC will capitalize on the scale, reach and know-how of Bridgepoint’s organization to source transactions at attractive prices and provide appropriate financing. The lower mid-market provides the opportunity to compete for primary buyouts and acquire companies that have the potential to grow by professionalizing these businesses and enhancing market positions by introduction of new products/services and selective



acquisitions. BDC's goal is to make companies more attractive for buyers and hence increase valuation at exit.

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 March 14, 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:

Peter Schwanitz – Managing Director, Zurich Office  
Stephan Fleury – Associate, Zurich Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to £75 million in Bridgepoint Development Capital III, 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