



COMMONWEALTH OF PENNSYLVANIA  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

---

---

Public Investment Memorandum

**Bain Capital Fund XII, LP**

Private Equity Fund Commitment

---

---

**Darren C. Foreman, CAIA**  
Senior Manager, Private Markets

**Luke M. Jacobs, CFA**  
Manager, Private Markets

**May 19, 2017**



### **Recommendation:**

Staff, together with Portfolio Advisors, recommends to the Board a commitment of up to \$150 million to Bain Capital Fund XII, LP ("Fund XII" or the "Fund"). Bain Capital ("Bain" or the "Firm"), one of the world's leading private alternative asset management firms, is establishing the fund to invest in businesses with sustainable competitive advantage and opportunities to drive transformational operational change.

### **Firm Overview:**

Bain Capital has one of the most experienced and stable teams in private equity, built on a consensus-oriented and collaborative partnership culture. Nineteen Managing Directors form the senior leadership team of North America. With an average tenure of more than 14 years with the Firm, this group brings strong personal relationships, close collaboration and efficient, well-informed decision making.

Bain Capital Private Equity's 88 investment professionals in North America are supplemented by teams in Europe and Asia. This allows the team to leverage the collective scale, experience, and judgment of 215 global investment professionals to enhance its understanding of businesses within a global context, perform deeper and more rapid diligence on global investments, as well as boost its credibility with sellers and management teams.

### **Fund Size**

Fund XII is seeking equity commitments of up to \$7.0 billion, with a hard cap at an additional 10-15% of capital.

### **Investment Strategy:**

Bain Capital Private Equity's investment strategy is powered by a combination of deep global vertical expertise and local market knowledge, leveraging differentiated diligence capabilities, and the ability to tackle complex situations. They invest behind their transformational insights and change capabilities - trying to understand where they can grow revenue and profits differentially in a low growth world and where they can create the most impact in the companies they own. Investing behind consolidation platforms, research and development, salesforce innovation, and operating improvements can create break-out growth.

They typically underwrite their investments to target a 20%+ gross IRR and a 2.5x+ gross multiple of money, with adjustments based on particular risk factors including geographic, company-specific, and industry specific risks. More importantly, Bain Capital evaluates investments across a range of possible outcomes and favor deals that offer asymmetrical upside.

### **Investment Team:**

The Bain Capital North America Private Equity team consists of approximately 90 investment professionals based in Boston and New York. The team is well-positioned to capitalize on investment opportunities for several key reasons:

- Highly experienced and stable team, where Managing Directors have an average tenure of more than fourteen years with Bain.
- Large team of approximately 88 North America-based investment professionals allows Bain to source, select and execute on a vast range of investment opportunities.
- Sector-focused orientation enhances Bain's sourcing capabilities, increases the effectiveness of the due diligence process, and develops differentiated insight and conviction on new opportunities.
- Dedicated Portfolio Group whose scale and depth truly support management teams in executing operational transformation at portfolio companies.



- Full integration with Bain Capital's global network which provides sector insights and market access to find, diligence and transform companies.

Name	Title	Yrs. Experience Firm	Prior Experience
Darren Abrahamson	Managing Director	11	Monitor Group
Steven Barnes	Managing Director	20	Price Waterhouse
Joshua Bekenstein	Managing Director	32	Bain & Co.
John Connaughton	Managing Director	27	Bain & Co.
Ryan Cotton	Managing Director	13	Bain & Co., Boston Red Sox
Matt Freeman	Managing Director	5	eXelate, IPG Ventures
Chris Gordon	Managing Director	19	Bain & Co.
Ken Hanau	Managing Director	1	Weiss, Peck & Greer
Blair Hendrix	Managing Director	16	SleepMed, Mercer Consulting
David Humphrey	Managing Director	15	Lehman Brothers
John Kilgallon	Managing Director	5	Citadel Securities
Ian Loring	Managing Director	20	Berkshire Partners
Phil Loughlin	Managing Director	20	Eagle Snacks, Norton Company
Kim McCaslin	Managing Director	10	Capital One Financial
Devin O'Reilly	Managing Director	11	Bain & Co.
Stephen Pagliuca	Managing Director	27	Bain & Co., Peat Marwick & Co.
Joe Robbins	Managing Director	9	Sentient Jet, Boston Consulting Group
Jeff Scherer	Managing Director	10	McKinsey & Co.
Stephen Thomas	Managing Director	9	Bain & Co.

### **Investment Instruments:**

With their investment mandate, they may make investments using either equity and/or debt instruments. The fund may also make investments in temporary (i.e. bridge) financing instruments too.

### **Market Opportunity:**

Bain Capital's investment strategy is designed to deliver strong returns by identifying high potential businesses and working hands-on with management teams to help grow and enhance the performance of those companies. The investment strategy focuses their sourcing, selection and diligence on businesses that have a sustainable competitive advantage, where the team has conviction about substantial strategic and operational transformation and a view on the industry or market dynamics that is more positive than conventional wisdom.

Bain Capital has applied this same successful core investment approach since 1984 to invest in approximately 300 companies worldwide. Investments have included traditional buyouts, growth capital investments and turnaround situations, many of which have required transformative change, both strategically and operationally, to realize attractive returns. Thanks to its substantial and experienced team, Bain Capital is able to dedicate a significant amount of time, resources and effort to take a proactive approach to sourcing. They cultivate the most attractive investment opportunities that they see, building close relationships with owners and management teams, often well before the start of a formal sale processes, to position itself as a differentiated buyer and value-added partner.



Management teams and founders recognize the value of Bain Capital's significant resource commitment to help their companies grow and compound equity value at higher rates. In addition, it is believed that corporate selling counter-parties value the capabilities of the team to understand complexity and undertake significant transitions in corporate carve-outs. This proven and differentiated investment strategy has generated strong returns across Bain's investments. Fund XII will seek to pursue that same investment strategy going forward.

**Investment Highlights:**

<b>Experienced, sector focused, globally integrated team</b>
Team of 215 private equity investment professionals with a strategic mind-set, local knowledge and global capabilities, to source "Bain Capital type" investments and provide hands-on support to drive transformational change in portfolio companies post-acquisition.
<b>Proven and differentiated strategy to drive high performance returns</b>
Starts with the sourcing and selection of attractive investment opportunities with significant strategic and operational potential, continues through the active ownership where they execute the strategy and culminates with optimizing the exit of each investment.
<b>Exceptional alignment with limited partners</b>
Through significant Bain employee co-investment (at least \$800M) alongside the fund and a strong commitment to the private partnership model.

**Investment/Risk Considerations:**

<b>Track record of Funds IX &amp; X</b>
Bain Capital has generated strong returns across its previous funds, most of which rank in the top quartile. Funds IX & X rank in the third quartile. Bain has spent much time and effort enhancing the Firm's investment decision process in order to improve the performance of the portfolio.
<b>Historically High Gross / Net Spread</b>
Due to strong historical performance, Bain Capital has charged premium carry on its funds, which created a wider gross/net spread than traditional fee structures for large buyout funds. They have improved their fee and carry structure starting with Fund XI, which created two distinct classes of investors with different management fee and carry percentages: Class A (1.5% fee & 20% profit share) and Class B (0.75% fee and 30% profit share).
<b>Recent Turnover / Capacity</b>
Since 2012, 17 Principal or Managing Director level individuals have departed the firm or transitioned to Senior Advisor roles. Despite the large number of departures on the investment team, the Firm has a very deep, global, experienced team in place.

**PSERS History & Performance:**

Since 2012, PSERS has committed \$330 million to three Bain Capital managed partnerships. Two of which (Bain Capital Asia Fund II and Bain Capital Asia Fund III) are not managed through the Bain Capital North American team. As of December 31, 2016, the Bain Capital Fund XI has generated a 28.4% net IRR and a 1.44x net MOIC for PSERS. The table that follows summarizes PSERS' historical performance for Bain Capital Fund XI and Asia Fund II (Asia Fund III is a new fund):

(As of 12/31/2016)

<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>Net MOIC</u>
Bain Capital Fund XI	PE	2014	100.0	51.2	18.3	55.3	28.4%	1.44x
Bain Capital Asia Fund II	PE	2012	100.0	95.5	50.8	95.4	19.7%	1.53x



**Portfolio Fit:**

A commitment to Fund XII will give PSERS' Private Markets portfolio exposure to the large market space with a proven firm that has created value-add in its portfolio companies. They have global industry expertise in the following five sectors:

- Consumer & Retail
- Financial & Business Services
- Healthcare
- Industrials
- Technology, Media & Telecommunications

Their deep vertical expertise, built upon approximately 300 investments completed by Bain Capital Private Equity globally, allows Bain Capital to proactively identify attractive investment opportunities based on key industry themes and develop these leads, often long before they become formalized sale processes.

The table that follows summarizes PSERS exposure in the various strategies in Private Markets:

Investment Type (\$mm)	Active Commitments	%	Market Value	%	Unfunded	%	Total Exposure	%
Private Equity	\$ 14,028.8	65.8%	\$ 5,275.7	68.1%	\$ 3,047.1	73.3%	\$ 8,322.8	69.9%
Special Situations	4,312.4	20.2%	1,056.8	13.6%	654.4	15.7%	1,711.2	14.4%
Venture Capital	2,568.7	12.1%	950.3	12.3%	382.9	9.2%	1,333.2	11.2%
PE Internal	395.5	1.9%	463.3	6.0%	75.0	1.8%	538.3	4.5%
<b>Total</b>	<b>\$ 21,305.4</b>	<b>100.0%</b>	<b>\$ 7,746.1</b>	<b>100.0%</b>	<b>\$ 4,159.4</b>	<b>100.0%</b>	<b>\$ 11,905.5</b>	<b>100.0%</b>

**Finance Committee Disclosure:**

<b>Relationship with Portfolio Advisors:</b>	Portfolio Advisors has invested in Bain Capital Funds VI, VII, VIII & IX
<b>Placement Agent:</b>	No
<b>PA Political Contributions:</b>	None Disclosed
<b>PA Presence:</b>	No
<b>Conflicts:</b>	None Disclosed
<b>History with PSERS:</b>	Yes – refer to page 3
<b>PSERS AIC Meeting Approval:</b>	May 26, 2017

**Oversight Responsibility:**

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



May 9, 2017

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

Re: Bain Capital Fund XII, L.P.

Dear Trustees:

Bain Capital, L.P. (“Bain Capital”, “Bain”, or the “Firm”) was founded in 1984 and has pioneered a consulting-based approach to private equity investing, partnering closely with management teams to build market-leading businesses and improve operations. Bain Capital is seeking \$7 billion in commitments from limited partners for its twelfth private equity fund, Bain Capital Fund XII, L.P. (“Fund XII” or the “Fund”). Bain anticipates the Fund will be capped at 10%-15% above target, implying a cap ranging from \$7.7 billion to \$8.05 billion. Bain Capital expects to hold a first and final closing in July 2017 at its hard cap. Bain Capital expects to hold a first and final closing in July 2017 at its hard cap. The General Partner, Bain Capital professionals and related entities will commit at least \$800 million to invest in or alongside the Fund.

The Fund will primarily pursue investments in companies headquartered in North America and may make investments in companies based in other parts of the world. The Fund will primarily target equity investments in the range of \$200 million to \$500 million, with the ability to pursue smaller or larger transactions (up to \$1 billion). Bain Capital estimates that the Fund will make approximately 15-20 investments. The Firm aims to partner with management in driving operational improvements, either as the sole sponsor or working in conjunction with one or more partners. While Bain is typically a majority shareholder in its investments, the Firm will consider making a minority investment in a company when the investment team feels confident in being able to structure governance rights including a board seat and/or veto rights, as well as a strong relationship with management and the board of directors.

Bain Capital’s investment strategy features three distinct competencies:

- Focused sourcing on specific sectors where the Firm can leverage its industry experience and relationships to identify opportunities for differential insights and value creation.
- Disciplined selection process, which focuses on strongly defensible market positions, situations with transformational potential, and/or assets that can be acquired at attractive valuations.
- Opportunities to utilize its dedicated Portfolio Group, as well as investment professionals with strategy consulting and operating backgrounds, to pursue revenue growth through business transformation.



Bain has applied this same core investment approach since 1984. Investments have included traditional buyouts, growth capital investments and turnaround situations, many of which have required transformative change (both strategically and operational), to realize attractive returns.

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 April 5, 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.
- 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:

Gregory Garrett – Managing Director, Darien Office  
Elizabeth Campbell – Senior Vice President, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$150 million in Bain Capital Fund XII, 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