



Private Equity and Venture Capital Fund Commitment

Summit Partners Growth Equity Fund IX, L.P. and Summit Partners Venture Capital Fund IV, L.P.

June 11, 2015

Summit Partners Growth Equity Fund IX, L.P. and Summit Partners Venture Capital Fund IV, L.P – Private Equity and Venture Capital Funds

Overview

- Summit Growth Equity Fund size is \$3 billion and the Summit Venture Capital Fund size is \$600 million.
- Seek to proactively identify and invest in best in class growth companies and deliver post-investment services to increase value.
- Investment size requiring more than \$60 million in equity will be allocated to Summit IV and investments smaller than \$60 million will be allocated to Summit VC IV.
- Summit was established in 1984, has raised 12 growth equity and venture capital funds and has approximately \$10B active capital under management.

Fund Strategy

- Summit's target markets must have sufficient size and growth potential to enable portfolio companies to increase their revenues and profits substantially.
- Summit attempts to maximize investment returns by often pursuing companies that have no previous professional equity investors, thereby reducing valuations.
- Targeted industries include business services, communication technology and services, consumer products, education, energy, financial services, healthcare and life sciences, industrial products, internet and information services, media and entertainment, semiconductors and electronics, and software.

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GP “Value Add”

- Summit utilizes a well established “cold-calling” Associate program that leads to proprietary deal flow. Approximately 70% of the Firm’s historical investments were sourced through this program.
- By generating these sourcing leads, Summit can develop deeper relationships with management teams over time, conduct more thorough diligence and provide the firm advantages in winning.
- Summit’s disciplined fundamental research has generated a proprietary database of more than 230,000 companies.
- Summit has lead or co-lead in over 90% of its portfolio companies to date.

Market Opportunity

- Since inception, Summit’s principal strategy has been to invest in privately held companies with a proven business model, a record of revenue and earnings growth and a leadership team capable of sustaining that growth. They will invest in market leading companies in several growth sectors.

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Investment Team

- Summit has a proactive strategy that requires a large, experienced staff to continuously monitor deal sources, review potential opportunities and work diligently to close investments on a timely basis.
- Summit's growth equity and venture capital managing directors have been investing together at the Firm for 14 years on average.
- Staff of approximately 90 investment professionals, one of the largest in the growth equity industry, allows them to cultivate deal and sector expertise at multiple layers within the organization.
- Summit's staff is in one of three offices: Boston, Menlo Park (CA.), or London.

Risks and Mitigants

- Average investment size has continued to increase with recent funds – Historically the average investment size has increased with each subsequent fund. This fits into Summit's strategic plan to build a more concentrated and consistently sized portfolio.
- Senior management transition plan – Two senior members of management team will transition to senior advisor roles. Firm has successfully managed transitions in the past and has developed a thoughtful and systematic plan for future transitions.

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Performance

	Invested Capital	Realized Proceeds	Unrealized Proceeds	Total Value	Gross MOIC
All Summit Growth Funds					
Realized	\$ 4,738.0	\$ 17,231.5	\$ 21.6	\$17,253.1	3.6
Unrealized	\$ 3,688.1	\$ 819.0	\$ 4,885.4	\$ 5,704.4	1.5
Total	\$ 8,426.1	\$ 18,050.5	\$ 4,907.0	\$22,957.5	2.7
All Summit Venture Funds					
Realized	\$ 338.5	\$ 1,002.7	\$ 10.3	\$ 1,013.0	3.0
Unrealized	\$ 454.4	\$ 8.6	\$ 618.8	\$ 627.3	1.4
Total	\$ 792.9	\$ 1,011.2	\$ 629.1	\$ 1,640.3	2.1
All Funds					
Realized	\$ 5,076.5	\$ 18,234.2	\$ 31.9	\$18,266.1	3.6
Unrealized	\$ 4,142.5	\$ 827.6	\$ 5,504.2	\$ 6,331.8	1.5
Total	\$ 9,219.0	\$ 19,061.7	\$ 5,536.1	\$24,597.8	2.7

History with PSERS

- This will be PSERS' fourth commitment to Summit Partners. PSERS committed \$100 million to Summit Partners Growth Equity Fund XIII, a 2011 vintage fund, \$25 million to Summit Partners Venture Capital Fund III, a 2011 vintage fund, and \$200 million to Summit Partners Credit Fund II, a 2014 vintage fund.

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Board Issues

- Pennsylvania Presence – none.
- Placement Agents – none.
- PA Political Contributions – none.
- Relationship with Consultant – none.

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$100 Million plus reasonable normal investment expenses in Summit Partners Growth Equity Fund IX, L.P.
- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$50 Million plus reasonable normal investment expenses in Summit Partners Venture Capital Fund IV, L.P.

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May 20, 2015

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

Re: Summit Partners Growth Equity Fund IX, L.P. and Summit Partners Venture Capital Fund IV, L.P.

Dear Trustees:

Summit Partners ("Summit", or the "Firm") is currently organizing its ninth growth equity fund, Summit Partners Growth Equity Fund IX, L.P. ("Summit IX" or "Fund IX") and its fourth late-stage venture capital equity fund, Summit Partners Venture Capital Fund IV, L.P. ("Summit VC IV" or "Fund VC IV"), seeking to raise \$3.0 billion and \$600 million, respectively. The funds are extensions of Summit's prior growth equity and late-stage venture capital funds, which focus on providing expansion capital to profitable, growing companies with strong successful management teams. Investments will be allocated to the two funds based on the size of investments, generally with investments requiring more than \$60 million equity investment allocated to Summit IX and investments smaller than \$60 million allocated to Summit VC IV. The General Partner will invest a minimum of 4% of the aggregate commitments to Summit IX or \$120 million maximum, directly or indirectly through parallel entities, to the Fund and its investments and a minimum of 4% of aggregate commitments to Summit VC IV.

Since the Firm's inception in 1984, Summit's overall strategy has been to invest in market-leading privately held companies with a proven business model, a record of revenue and earnings growth and the leadership capable of sustaining that growth. Summit seeks to invest primarily in the U.S. in the following sectors: technology, healthcare, and growth products and services (including financial services, business services, consumer, energy and other growth industries). Summit uses proactive investment origination techniques to find and create investment opportunities, often before the companies seek outside capital, and has been the first institutional investor in approximately 79% of investments to date. The Firm seeks to limit its downside exposure by structuring preferred equity-like positions that scale down as portfolio companies meet or exceed financial projections. Summit believes that this investment strategy properly motivates management teams to achieve their stated goals while protecting the invested capital.

Summit will look to provide capital for growth initiatives, expansion and/or shareholder liquidity to well-established, category-leading companies with attractive unit-level economics. In general, Summit seeks companies that don't need the Firm's capital, as they are often already cash-flow positive and profitable but are looking to grow faster than internally generated cash can support. Approximately 88% of the companies in Summit's portfolio were profitable at the time of the Firm's investment. Summit believes that entrepreneurs who have successfully achieved and maintained profitability have demonstrated a unique



discipline to manage growth despite limited resources and have proven their ability to recognize and respond to the external forces that influence a company's success.

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 April 23, 2015.
- 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:

Greg Garrett – Managing Director, Darien Office

Amanda Peacock – Senior Associate, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million of limited partnership interests in Summit Partners Growth Equity Fund IX, L.P. and up to \$50 million of limited partnership interests in Summit Partners Venture Capital Fund IV, 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,

A handwritten signature in blue ink, appearing to read "W. Indelicato", is written over a light blue horizontal line.

WILLIAM J. INDELICATO
MANAGING DIRECTOR