



# Private Equity Fund Commitment

NGP Natural Resources X, L.P.

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

# NGP Natural Resources X, L.P. – Private Equity Fund

## Overview

- The Fund will focus on investing in oil & gas exploration, midstream, and oilfield service companies
- NGP expects to invest from \$50 million to \$250 million per transaction
- NGP expects a portfolio of 30 to 35 companies
- The Fund has a target of \$4 billion and a hard cap of \$4.25 billion

## Fund Strategy

- NGP typically executes a buy-and-build strategy through its oil and gas production portfolio companies, in which existing production assets are acquired in a series of transactions funded by NGP's equity capital and management team equity, supplemented by third party debt capital. Investment results are primarily driven by the portfolio company management team's ability to operate at lower costs while acting to increase production volumes, cash flows and asset values

## Investment Team

- The founding members of NGP have been investing in the oil and gas sector for 22 years
- The current NGP team consists of 35 investment professionals
- NGP has offices in Irving and Houston, Texas; Santa Fe, New Mexico; and Stamford Connecticut

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## GP “Value Add”

- Value is created through improved management of assets, optimization of the capital structure, and increasing volumes of production and reserves (among the Fund’s oil and natural gas production companies). NGP does not rely on increasing commodity prices to generate returns, and acts to preserve value through hedging techniques that protect against negative commodity price trends

## Performance

- NGP IX a vintage year 2007 fund, has a net 1.4x MOC and a 21% IRR as of 6/30/2011
- NGP VIII a vintage year 2005 fund, has a net 1.3x MOC and a 11% IRR as of 6/30/2011
- NGP VII a vintage year 2003 fund, has a net 1.9x MOC and a 22% IRR as of 6/30/2011
- NGP VI a vintage year 2000 fund, has a net 5.5x MOC and a 73% IRR as of 6/30/2011

## Market Opportunity

- The Energy industry has provided a favorable environment for the application of NGP’s investment strategy and unique methodology for over two decades. NGP believes the global demographic and macro-economic factors together with favorable industry dynamics, will drive sizable capital investment benefiting thousands of companies in the following industries: oil and gas production, oilfield services, and energy midstream

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## History with PSERS

- This will be PSERS first private equity commitment with NGP

## Board Issues

- Pennsylvania Presence – None
- Placement agents – None
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors has committed \$5 million to Natural Gas Partners VIII, L.P., \$11 million to Natural Gas Partners IX, L.P., and \$20 million to NGP Natural Resources X, L.P.

## Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$100 million plus reasonable normal investment expenses

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September 16, 2011

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

Re: NGP Natural Resources X, L.P.

Dear Trustees:

Natural Gas Partners (“NGP” or “the Firm”) is organizing its tenth private equity fund, NGP Natural Resources X, L.P. (“NGP X” or “the Fund”). NGP X is an extension of the nine prior NGP funds, which focused on investing in oil & gas production, midstream, and oilfield services companies. NGP X will target investments in businesses primarily in oil and natural gas production, but also midstream energy and oilfield service industries. NGP typically executes a buy-and-build strategy through its oil and gas production portfolio companies, in which existing production assets are acquired in a series of transactions funded by NGP’s equity capital and management team equity supplemented by third party debt capital. Investment results are primarily driven by the portfolio company management team’s ability to operate at lower costs while acting to increase production volumes, cash flows and asset values. NGP assists its companies by lowering transaction costs and helping the company achieve the lowest possible cost of capital, including the use of public markets where available. While most of NGP’s investment results are likely attributable to these operational improvements, a reliable multiple expansion is also achieved when companies grow to certain size thresholds.

The Fund also intends to pursue opportunities in businesses in the food and agriculture industry and water resources and services industry. Although this is a new strategy for the Firm, NGP believes that these industries have many characteristics supporting investment that are similar to the favorable characteristics of the energy industry. However, the aggregate amount invested in the food & agriculture and water resources & services industries will be limited to no more than 10% of the Fund’s committed capital. In conjunction with this new strategy, NGP has hired two senior investment professionals to focus solely on this area. NGP believes that a number of key dynamics of the energy industry have supported the successful application of NGP’s investment strategy over a long period of time, including in particular, the enormous size of the industry, its highly fragmented nature with active consolidators and its active transaction market. Many of these same dynamics are present in the food & agriculture and water resources & services industries. Accordingly, NGP believes these industries will provide attractive opportunities.

Consistent with the prior NGP funds, NGP intends to invest the majority of the Fund’s capital in North America, but the Fund will be opportunistic on a global basis should quality transactions arise. Over 95% of NGP’s historical fund capital has been deployed in the U.S. and Canada. Within North America NGP’s total capital invested by region since inception is as follows: 28% Canada, 25% Texas, 19% Mid-Continent, 12% Rocky Mountains, 6% Gulf Coast, 4% Gulf of

Mexico, and 2% California. Expected investment size will range from \$50 million to \$250 million per transaction. Expected deal pace is six to ten deals per year.

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, private equity professionals and CEOs of portfolio companies.
- 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.

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million of limited partnership interests in the Fund. 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 be 'J. P. ...', is written over a light blue horizontal line.

Portfolio Advisors, LLC