



February 16, 2012

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

Re: Tenaya Capital VI, L.P.

Dear Trustees:

Tenaya Capital, LLC ("Tenaya" or the "Firm") is organizing its sixth venture capital fund, Tenaya Capital VI, L.P. (the "Fund" or "Fund VI"). The Fund will be managed by the same core investment team and will continue to execute the same investment strategy as of Tenaya Capital V, L.P., which focused on investing in mid- to late-stage venture capital backed technology companies. Tenaya Capital, previously known as Lehman Brothers Venture Partners, formally spun-out of Lehman Brothers in February 2009 and is now a completely independent entity. The Firm is managed by five investment professionals, Tom Banahan, Ben Boyer, Stewart Gollmer, Brian Melton, and Brian Paul, who have worked together over the last ten years while at Lehman Brothers Venture Partners and Tenaya.

Tenaya will seek to build a portfolio of approximately 30 to 40 companies that is diversified across segments of the technology industry, including software, communications, enterprise infrastructure and electronics. The majority of the Fund's investments are expected to be mid-stage where companies have demonstrated initial product or revenue traction, and are seeking to scale their operations. Tenaya defines the "mid-stage" as companies that are in the initial stages of revenue generation (typically up to \$5 million per quarter), where the management team has commercialized a product and is focused on operational execution to grow the business. The Firm believes that this represents an attractive opportunity for private investment as the risks of technology development and market acceptance have been reduced, while the potential for significant revenue growth remains. The average ownership percentages of portfolio companies in Fund V and IV were 7.0% and 8.4%, respectively.

On a selective basis, Tenaya will also evaluate late-stage investment opportunities as a part of an overall portfolio risk/ return management strategy. It is anticipated that the average initial portfolio company investment will be \$5 to \$10 million, with follow-on financings bringing the total investment to \$10 to \$15 million. The Fund's investments will generally be in the form of common stock or convertible preferred stock. The holding period for portfolio company investments is generally four to seven years. The Firm expects to invest primarily in the United States, but will make international investments on a selective basis. International investments are expected to be consistent with the Firm's U.S. model, where Tenaya is co-investing with strong early-stage syndicate partners.

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 \$50 million of limited partnership interests in Tenaya Capital VI, 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 be 'J. P. [unclear]', written in a cursive style.

Portfolio Advisors, LLC

Venture Capital Fund Commitment

Tenaya Capital VI, L.P.

March 8, 2012

See Last Page for Disclaimer

Luke Jacobs
Sr. Investment Analyst, Private Markets



Tenaya Capital VI, L.P. - Venture Capital Fund

Overview

- Fund size is \$300 Million with a hard cap of \$400 Million
- Invest in mid- to late-stage of the technology venture capital funding lifecycle

Fund Strategy

- Tenaya's team defines "mid-stage" as companies that are in the initial stages of revenue generation (typically up to \$5 million per quarter), where the management team has commercialized a product and is focused on operational execution to grow the business
- The Principals believe that this represents an attractive opportunity for private investment as the risks of technology development and market acceptance have been reduced, while the potential for significant revenue growth remains

Investment Team

- Tenaya is managed by five investment professionals: Tom Banahan, Ben Boyer, Stewart Gollmer, Brian Melton and Brian Paul who have worked together over the last ten years
- Team also consists of a CFO and three associates
- Tenaya is headquartered in Woodside, CA, and also has an office in Waltham, MA

Tenaya Capital VI, L.P. – Venture Capital Fund

GP “Value Add”

- An equal partnership that has worked as a team for over a decade
- Established member of the venture industry’s leading investment syndicates
- Proven investment selection strategy
- Market leadership position in mid-stage venture capital
- Strong, proprietary dealflow in late-stage venture capital
- Track record of executing to the Firm’s stated strategy
- Strong investment performance
- Continued success after the spinout from Lehman Brothers

Performance

- Tenaya Capital IV, a vintage 2003 fund, has a net 1.4x MOC and a 8.0% net IRR
- Tenaya Capital V, a vintage 2007 fund, has a net 1.4x MOC and a 20.3% net IRR

Market Opportunity

- Tenaya provides targeted exposure to emerging high-growth market segments such as Mobile Apps., SaaS, Storage, etc.
- Tenaya’s long-term returns have been strong on an absolute and relative basis, with liquidity conditions continuing to improve

Tenaya Capital VI, L.P. – Venture Capital Fund

History with PSERS

- This will be PSERS third commitment to Tenaya. PSERS committed \$75 million to Tenaya Capital IV, a 2003 vintage fund, and \$75 million to Tenaya Capital V, a 2007 vintage fund

Board Issues

- Pennsylvania Presence – One portfolio company in PA employing 39 people with an annual payroll of approximately \$4.6 million
- Placement Agents – Lazard has been hired for new investor commitments. (There is no placement agent for PSERS)
- PA Political Contributions – none
- Relationship with Consultant – none

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$50 Million plus reasonable normal investment expenses

Notice: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.