



Private Equity Fund Commitment

Blue Point Capital Partners III (B), L.P.

June 21, 2012

See Last Page for Disclaimer

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Private Markets and Real Estate

Blue Point Capital Partners III (B), L.P. - Private Equity Fund

Overview

- Fund size is \$400 million - \$500 million is the hard cap
- Fund will invest \$10 million to \$40 million per deal in control-oriented, equity investments in North America
- Fund will acquire 15 to 20 investments, with revenues of \$20 million to \$200 million

Fund Strategy

- Fund will invest in the firm's preferred regions of the Midwest, Southeast and Pacific Northwest, which correspond to their US regional office locations
- Fund will continue to focus on their lower middle market target sectors of energy and environmental services, engineered components, industrial outsourcing, metals & plastic processing and specialty distribution
- In 2004, Blue Point established a China Office to provide existing portfolio companies with cost saving and revenue generating opportunities

Investment Team

- Blue Point has 7 senior partners, 15 investment professionals, and 9 administrative professionals supporting the team
- The Operating Executives Group (OEG) augments the investment team
- Blue Point has offices in Shanghai, China, Cleveland, OH, Seattle, WA and Charlotte, NC

Blue Point Capital Partners III (B), L.P. - Private Equity Fund

GP “Value Add”

- Blue Point has developed strong competitive positions in their target sectors
- Blue Point has developed deep regional contacts with local entrepreneurs, their advisors and local intermediaries to assist in proactively identifying new opportunities
- Blue Point focuses on non-auction deals by forging personal relationships with management/owners and identifying differentiated opportunities
- Blue Point’s China Office provides a global view of competitive threats

Performance

- BPC I, a 2000 vintage year fund, has a net 1.5x MOC and an 11% IRR (3/31/2011)
- BPC II, a 2006 vintage year fund, has a net 1.3x MOC and a 10% IRR (3/31/2011)

Market Opportunity

- The Partners have invested through a variety of market conditions and business cycles
- Blue Point actively identifies and researches attractive growth areas within each sector

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History with PSERS

- This will be PSERS third commitment to Blue Point
- PSERS committed \$100.6 million to BCP I (2001 vintage year fund), and \$100 million to BCP II (2007 vintage year fund)

Board Issues

- Pennsylvania Presence – 3 PA companies: AWP in Tannersville and Pittsburgh; JTM Foods in Erie and U.S. Drinks in Wilkes-Barre, totaling 329 employees and combined annual payroll of \$13.4 million
- Placement agent – Sixpoint Partners, LLC has been hired for new investor commitments, **(There is no placement agent for PSERS)**
- PA political contributions – None
- Relationship with consultant – In 2007, Silver Cup Partners IV, LP, an SPV formed by Portfolio Advisors and Pomona Capital, purchased a \$10 million BPCP I interest in a secondary transaction from The Ohio Bureau of Workers Compensation

Recommendation

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



May 31, 2012

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

Re: Blue Point Capital Partners III, L.P.

Dear Trustees:

Blue Point Capital Partners (“Blue Point” or the “Firm”) is seeking to raise \$400 million of limited partnership interests in Blue Point Capital Partners III, L.P. (the “Fund” or “BPCP III”). Blue Point will continue the Firm’s established strategy of making control-oriented investments in North American lower middle market manufacturing and business services companies, particularly those located in the Firm’s preferred regions of the Midwest, Southeast, and Pacific Northwest. Blue Point defines the middle market as companies with revenue of \$20 million to \$200 million and EBITDA of \$5 million to \$40 million. The Fund is expected to make equity and equity-related investments of \$10 million to \$40 million in approximately 15 to 20 companies. Blue Point continues to focus on acquiring control of a portfolio company through the following situations: recapitalizations of closely-held companies, management-led buyouts, and the provision of capital to fund growth initiatives. Across the first two funds, Blue Point has acquired an average ownership of 70% at a weighted average enterprise value of 5.0x LTM EBITDA at acquisition. Blue Point is conservative with the use of leverage, averaging 2.5x LTM EBITDA at entry across the portfolio. The firm views management as a partner and prefers to work with committed existing management teams. The Firm will leverage the existing management teams through the use of Blue Point’s own Operating Executive Group.

Blue Point is expected to focus on investment opportunities within its core industries of manufacturing, business services and distribution. Blue Point has developed strong competitive positioning in the following areas within its target sectors:

- Energy Services
- Environmental Services
- Engineered Components
- Industrial Outsourcing
- Processing (Metals & Plastic)
- Specialty Distribution

The Firm actively identifies and researches attractive niche areas within each core sector. Blue Point is looking for mature companies which have a solid management foundation, products that address critical needs for customers, exhibit low technology risk, and are positioned to benefit from consolidation in their market segments.

Blue Point has developed a focused regional strategy in order to create value at several stages of the investment process. Consequently, a majority of portfolio companies are located within driving distance of a regional office, resulting in improved communications and increased involvement with portfolio companies. Additionally, this investment approach has resulted in

sourcing attractive and less competitive investment opportunities. Across the first two funds, 80% of the invested capital has been in companies located throughout the preferred regions and 70% has been executed through proprietary or less competitive situations.

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 Blue Point Capital Partners 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,

A handwritten signature in blue ink, appearing to be 'J. B. G.', is written over a faint circular watermark or seal.

Portfolio Advisors, LLC