



Private Equity Fund Commitment

Catterton Partners VII, L.P.

June 21, 2012

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Private Markets and Real Estate

Catterton Partners VII, L.P. – Private Equity Fund

Overview

- Targeted fund size is \$1.2 billion and the hard cap is \$1.5 billion
- Will make control-oriented investments in well-positioned middle market growth companies in the consumer sector primarily in North America
- Catterton Partners VII (Fund VII) will have approximately 15 to 18 investments

Investment Approach

- Fund VII will target consumer companies in the following segments: branded consumer products, retail and restaurants, food and beverage, consumer and marketing services
- Will target equity investments between \$30 million and \$120 million

Investment Team

- Catterton currently has 15 Partners (11 Investment Partners and 4 Operating Partners)
- Collectively these Partners bring in excess of 300 years of aggregate operating, financial, marketing and strategic expertise in the consumer sector
- The Partners are supported by 20 investment professionals, a 9 person finance team, and a group of experienced senior advisors
- Catterton has one office in Greenwich, CT

GP “Value Add”

- The outline of value creation through the disciplined execution of a well-articulated strategic and operating plan is developed prior to the closing of any investment transaction, and is updated annually. The end product is the identification of specific operating improvements and specific action steps to achieve these improvements. Catterton’s strong bias towards control investments enables it to more firmly drive all elements of the value creation process, including ensuring that the management team has the requisite background and to manage the specific needs of the company at all times

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Catterton Partners VII, L.P. – Private Equity Fund

Performance

- Catterton Fund VI which is a vintage 2006 fund, has a net IRR of 9% and MOC 1.3x as of 12/31/11
- Catterton Fund VI-B which is a vintage 2010 fund, has a net IRR of 16% and MOC 1.1x as of 12/31/11
- Catterton Fund V which is a vintage 2003 fund, has a net IRR of 8% and MOC 1.4x as of 12/31/11
- Catterton Fund IV which is a vintage 1999 fund, has a net IRR of 12% and MOC 1.8x as of 12/31/11
- Catterton Fund III which is a vintage 1997 fund, has a net IRR of 0% and MOC 1.2x as of 12/31/11
- Catterton Fund II which is a vintage 1992 fund, has a net IRR of 13% and MOC 1.5x as of 12/31/11

Market Opportunity

- The consumer sector in North America is large and diverse (estimated to be a \$10.5 trillion market)
- Investment opportunities in the targeted consumer segments are numerous and highly attractive
- Access to deals through proprietary investment sourcing methodology and broad and developed network of industry relationships

History with PSERS

- This will be PSERS fourth commitment with Catterton:
 1. PSERS committed \$100 million to Catterton Fund V which is a vintage 2004 fund
 2. PSERS committed \$130 million to Catterton Fund VI which is a vintage 2006 fund
 3. PSERS committed \$75 million to Catterton Growth Fund which is a vintage 2008 fund

Catterton Partners VII, L.P. – Private Equity Fund

Board Issues

- Pennsylvania Presence – Set forth below are Catterton’s PE investments that have a presence in PA:
 - Restoration Hardware: 3 locations and an aggregate of 60 employees
 - Noodles & Co: 2 locations and an aggregate of 60 employees
 - Cheddars: 2 locations and an aggregate of 325 employees
 - Outback Steakhouse: 26 locations and approximately 910 employees
- Placement agents – Ineo Capital has been retained to serve as placement agent for Catterton Fund VII. Any placement fee is payable by Catterton Management Company, LLC and is not a part of the Fund’s organizational expenses nor is it payable by the LPs
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors’ Fund of Funds and Secondary Fund have made the following commitments to Catterton Funds: PAPEF II \$3.2 M – Catterton Fund IV; PASF I \$3.5 M – Catterton Fund V; PASF I \$2.5 M – Catterton Fund VI

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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May 31, 2012

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

Re: Catterton Partners VII, L.P.

Dear Trustees:

Catterton Partners ("Catterton" or the "Firm") is organizing its seventh private equity vehicle, Catterton Partners VII, L.P. ("Fund VII" or the "Fund"). The Fund will pursue control-oriented investments in well-positioned middle market growth companies in the consumer sector, primarily in North America. Catterton expects to build a portfolio of 15 to 18 companies with equity investments ranging between \$40 million and \$100 million. Targeted industry preferences include: Food and Beverage; Consumer Products; Retail and Restaurants; and Consumer and Marketing Services. The Fund will invest in companies with enterprise values greater than \$50 million and that are profitable. As such, Catterton will focus on high growth companies, privately negotiated buyouts, and private investments in public entities. The Firm anticipates being the sole or lead investor in its transactions. Catterton is seeking \$1.2 billion of commitments for the Fund and the General Partner will invest 5% of the total aggregate commitments.

Catterton's investment approach begins with its systematic "Vertical Process." This strategy starts with a "top-down" analysis of the U.S. consumer industry where Catterton segments the industry into the following verticals: Food and Beverage; Branded Consumer Products; Retail and Restaurants; and Consumer and Marketing Services. Catterton then analyzes each vertical and its sub-segments against the key consumer demographic and lifestyle trends, and key economic business model metrics and market fundamentals. By following this approach, Catterton is able to identify sub-segments and specific companies within these those sub-segments where consumer, demographic, economic and brand characteristics simultaneously converge to create investment opportunities. Catterton will seek investment opportunities in sub-segments that are highly inefficient and fragmented and could benefit from economies of scale in purchasing, manufacturing, servicing, sales, and marketing or distribution. Catterton will also seek to identify companies that are positioned to create competitive barriers and serve as the platform for a consolidation strategy. Furthermore, Catterton will focus on identifying companies that have a strong consumer brand or consumer proposition, but have been operationally and financially under-managed.

A majority of Catterton's past investments have been self-originated and/ or proprietary in nature. The "Vertical Process" systematically identifies those industry categories that are attractive, which ultimately results in a long list of potential target companies. This target list is augmented by the natural deal flow resulting from the Firm's well-established reputation with lenders, investment bankers, brokers, lawyers, accountants, and other investment firms.

Catterton's believes that superior and sustainable investment performance over long periods of time is created primarily by improving the operating results in its portfolio companies, as opposed to financial leverage, multiple arbitrage, or other non-operating means. Catterton guides the management teams in its portfolio through active involvement both as an investor and as a Board member. Generally the Firm holds several seats on the Board of Directors of each of its portfolio companies and these seats are often split between the Investment Partner and Operating Partner. Through this role, Catterton has been able to add value to its portfolio companies in the following ways: strategic planning, recruiting and retaining key members of management, fostering growth, and enhancing operating performance.

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 \$150 million of limited partnership interests in Catterton Partners VII, 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,



Portfolio Advisors, LLC