



November 19, 2012

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

Re: PAI Europe VI, L.P.

Dear Trustees:

PAI Partners ("PAI" or "the General Partner") is seeking to raise €3 billion (approximately \$3.8 billion) of limited partnership interests for its sixth fund, PAI Europe VI L.P. ("the Fund"). PAI expects the Fund to be a continuation of its successful investment strategy deployed in its prior funds focused on upper mid market buyout transactions in Europe. PAI VI will focus mainly on making control equity investments of €100 million to €300 million in upper mid-market companies with enterprise values typically between €300 million and €1.2 billion. The General Partner will invest a minimum of 2% of total commitments.

PAI is one of the oldest sector based investors within Europe since the inception of Paribas Affaires Industrielles. From its headquarters in France, PAI attempts to capitalize on sector capabilities and insights to gain privileged access to transactions across Europe. This effort is supported by local offices in Copenhagen, London, Madrid, Milan, Munich and Luxembourg (non-investment office). These offices are led by senior professionals who work closely with Paris-based sector professionals to source and execute transactions. PAI targets market-leading companies that are often number one or two in their market segments or geographies. These companies typically have attractive characteristics including: higher margins, superior pricing power, the ability to attract high quality management teams, the potential to act as consolidators in their sectors, and "trophy" status for potential acquirers. These characteristics combine to offer the potential for higher growth, profitability and premium valuations on exit, while also providing resilience to economic cycles resulting in lower loss rates.

The Firm is focused on the following five sectors: Business Services, Food & Consumer Goods, General Industrials, Healthcare, and Retail & Distribution. PAI's sector expertise usually allows it to have a competitive advantage when sourcing deals. In addition, gaining early access to target companies or vendors and the ability to tackle complex situations are key competitive advantages of PAI. Also, the Firm's ability to conduct a meaningful dialogue with management teams and to develop its own "outside-in" business plan prior to bidding in an auction differentiates it from other private equity firms. PAI usually only participates in auctions where it can employ its sector expertise and networks and where it has a clear plan to create value post acquisition. The Firm will aggressively pursue a company when it is confident that it has a unique view on the business and its future prospects.



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 prior 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.

The individuals at Portfolio Advisors who were primarily involved in the due diligence process for PAI Europe VI, L.P. are:

Peter Schwanitz - Managing Director, Zurich Office
William Indelicato - Managing Director, Darien Office
Nadine Zangger - Associate, Zurich Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to €100 million of limited partnership interests in PAI Europe 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,

WILLIAM J. INDELICATO
MANAGING DIRECTOR

Private Equity Fund Commitment

PAI Europe VI, L.P.

December 5, 2012

See Last Page for Disclaimer

Darren C. Foreman
Portfolio Manager, Private Markets



PAI Europe VI, L.P. – Private Equity Fund

Overview

- The targeted fund size and hard cap is € 3 billion
- Will invest in middle and large market control buyouts in Europe
- Investments will range from € 100 million to € 300 million in a single transaction
- Invests in companies with enterprise values of €300 million to €1.2 billion
- PAI expects Fund VI to have 12 to 15 portfolio companies

Fund Strategy

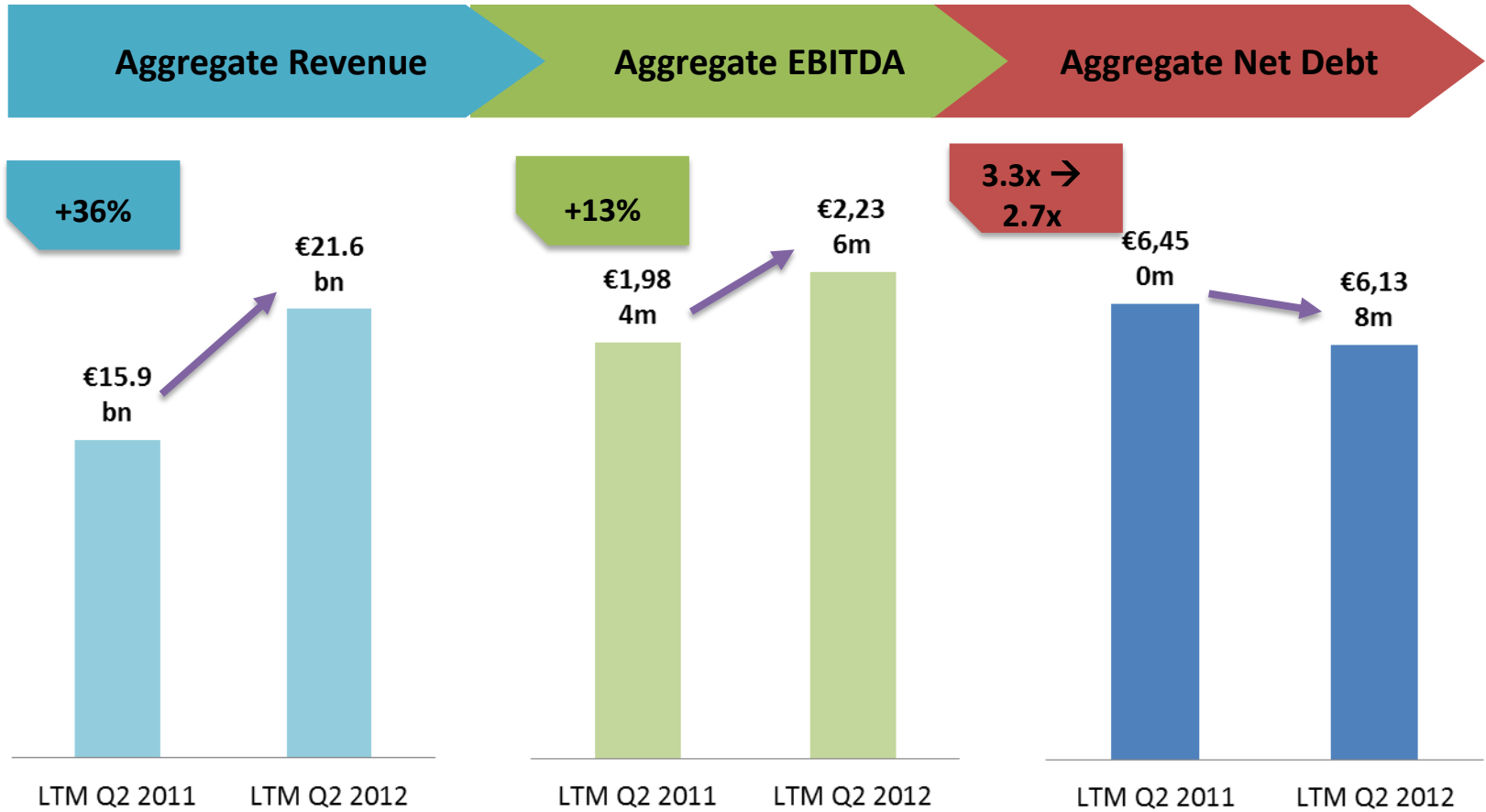
- PAI invests in five core sectors: Food & Consumer, Retail & Distribution, Healthcare, Business Services and Industrials
- PAI targets leading companies that are typically #1 or #2 in their sectors or geographies
- PAI looks for companies with high margins, pricing power and the potential for add-ons

Investment Team

- PAI has a team of 50 investment and portfolio operations professionals
- PAI has 15 Partners with an average of 12 years with the firm
- PAI is headquartered in Paris, France and has 6 additional offices in Europe

Strong Value Creation Despite Macro Environment

Unrealized portfolio (13 companies: PAI Europe III, PAI Europe IV & PAI Europe V)



PAI Europe VI, L.P. – Private Equity Fund

GP “Value Add”

- Through its investments, PAI strives to fundamentally improve the businesses that it owns, increasing both their profitability and long term strategic value. PAI's sector knowledge and longer-term hands-on approach to investment enables the creation of strategic value which in turn secures premium valuations when an investment is sold.
- PAI uses the following attributes to drive value in its portfolio companies: brand development, geographic expansion, new product development and capacity expansion are supported through investment in R&D, marketing, new facilities and acquisitions. Proceeds from cost savings and selling off non-core assets are systematically reinvested to drive growth. As a result of these initiatives, PAI has consistently sold a high proportion of its portfolio companies to trade buyers at superior valuations across financial market cycles.

Performance as of (6/30/2012)

- Fund III a vintage year 2001 fund, has a net 3.3x MOC and a 38.2% IRR
- Fund IV a vintage year 2005 fund, has a net 1.39x MOC and a 9.4% IRR
- Fund V a vintage year 2007 fund, has a net 0.91x MOC and -3.3% IRR

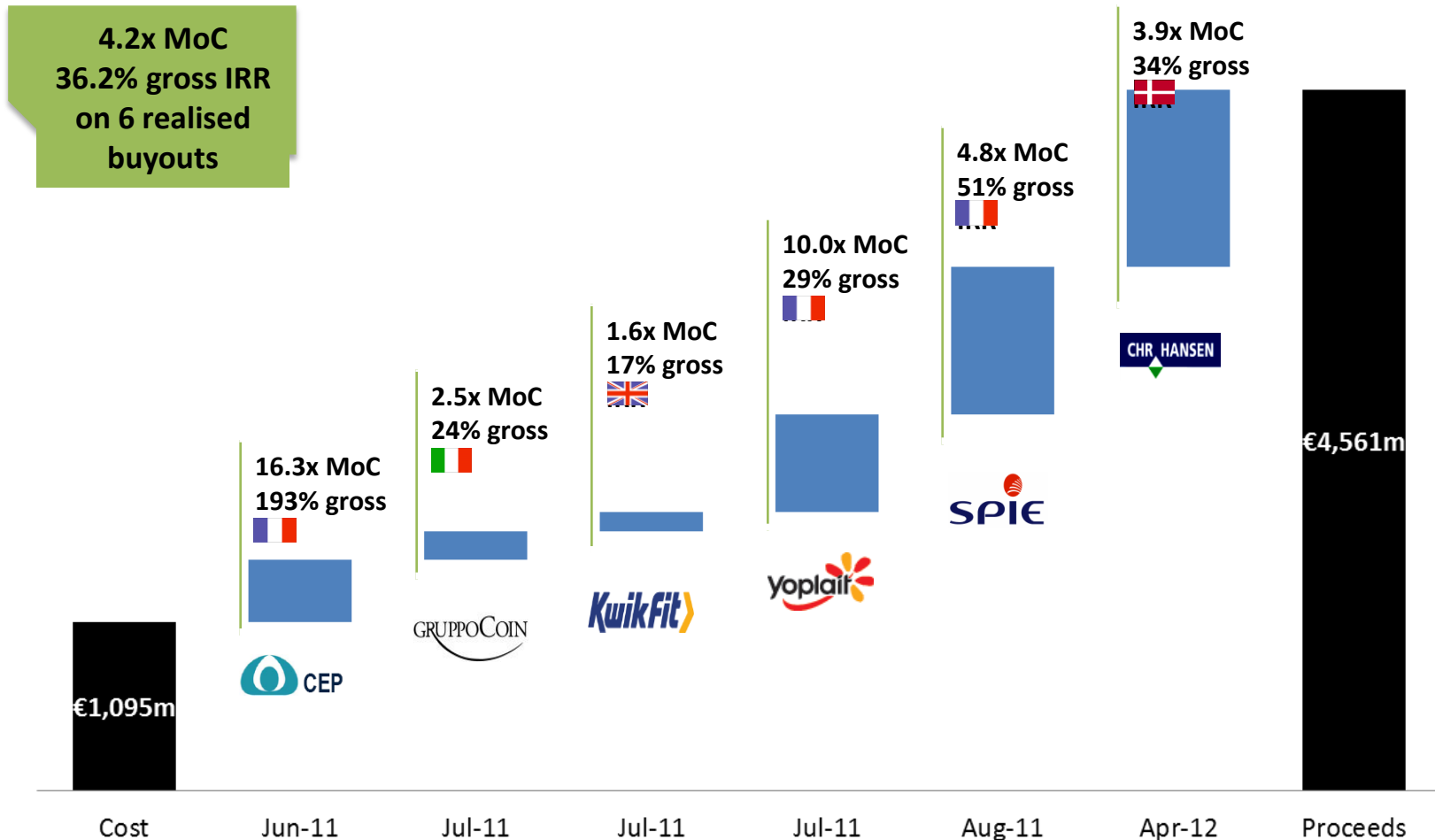
Market Opportunity

- Europe remains the largest economic region in the world with more than a third of Fortune 500 companies. The changing European landscape has created unprecedented market opportunities for PAI mainly through (i) sourcing from stressed sellers, (ii) driving industry consolidation, (iii) focusing on growing sub-sector and (iv) capturing global growth through European domiciled companies generating revenues on a worldwide basis.

See Last Page for Disclaimer

Recent Exits

€4.6 billion proceeds from six exits



PAI Europe VI, L.P. – Private Equity Fund

History with PSERS

- This will be PSERS fourth commitment with PAI. PSERS committed €300 million to PAI Europe III, €100 million to PAI Europe IV and €200 million to PAI Europe V

Board Issues

- Pennsylvania Presence – None
- Placement agents – Rede Partners with assistance from Eaton Partners, HSBC (mid-East and Asia), Sabertia (Latin America). The GP will be paying all placement agent fees.
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors committed \$4 million to PAI Europe IV with their Portfolio Advisors Private Equity Fund III and €4 million to PAI Europe IV through a fund of funds they raised for Sal Oppenheim which is a German bank

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed €100 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.