

Venture Capital Fund Commitment



Tenaya Capital VII, LP

August 5, 2014

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Tenaya Capital VII, LP - Venture Capital Fund

Overview

- Fund size is \$350 Million with a hard cap of \$450 Million
- Invest in early-growth and late-stage venture-backed technology companies

Fund Strategy

- Tenaya's team defines "early-growth" 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 Principals: Tom Banahan, Ben Boyer, Stewart Gollmer, Brian Melton and Brian Paul, all of whom have worked together over the last fourteen years
- Team also consists of a CFO and three investment associates
- Tenaya is headquartered in Portola Valley, CA, and also has an office in Wellesley, MA

Tenaya Capital VII, LP – 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 early-growth 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

Market Opportunity

- Tenaya provides targeted exposure to early growth venture backed technology companies in markets such as Enterprise Applications, Enterprise Infrastructure, Consumer, Communications, Electronics, etc

Invest with Strong Syndicate Partners

- Frequent syndicate partners include: Andreessen Horowitz, Benchmark Capital, GSR Ventures and Sequoia Capital.

Tenaya Capital VII, LP – Venture Capital Fund

Risks and Mitigants

- Fund Size - At \$450M, this will be the largest fund that they raise. Mid-stage investment opportunities are very strong
- Valuation multiples – Tenaya typically invests up to 80% of its funds in mid stage companies, limiting its exposure to late stage companies where the valuations are the highest

Performance as of March, 31, 2014 (\$ Millions):

Fund Name	Vintage Year	PSERS Commitment	PSERS Contributions	PSERS Distributions	Remaining Value	Fund Net Multiple	Fund Net IRR
Tenaya Capital IV-P, L.P.	2003	\$75.0	\$72.6	\$77.3	\$31.7	1.5	7.5%
Tenaya Capital V-P, L.P.	2007	\$75.0	\$66.3	\$55.8	\$70.4	1.9	21.5%
Tenaya Capital VI, L.P.	2012	\$50.0	\$22.5	-	\$23.1	1.0	2.8%
PSERS invested funds:		\$200.0	\$161.4	\$133.1	\$125.2	1.6	11.6%

Tenaya Capital VII, LP – Venture Capital Fund

History with PSERS

- This will be PSERS' fourth commitment to Tenaya. PSERS committed \$75 million to Tenaya Capital IV, a 2003 vintage fund, \$75 million to Tenaya Capital V, a 2007 vintage fund, and \$50 million to Tenaya Capital VI, a 2012 vintage fund

Board Issues

- Pennsylvania Presence – One portfolio company in PA employing 72 people with an annual payroll of approximately \$8.0 million
- Placement Agents – N/A
- PA Political Contributions – none
- Relationship with Consultant – none

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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July 16, 2014

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

Re: Tenaya Capital VII, L.P.

Dear Trustees:

Tenaya Capital, LLC (“Tenaya” or the “Firm”) is organizing its seventh venture capital fund, Tenaya Capital VII, L.P. (the “Fund” or “Fund VII”). The Fund will be managed by the same investment team and will continue to execute the same investment strategy as prior funds, which focused on investing in mid-stage to late-stage venture capital-backed technology companies. Tenaya Capital, previously known as Lehman Brothers Venture Partners, spun-out of Lehman Brothers in February 2009 and has been operationally independent since the spin out. 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. Fund VII is targeting \$350 million (\$450 million hard-cap) of commitments. The Firm plans to hold a dry close in October 2014 with the first capital call expected to occur in June 2015. The General Partner will invest 1% of total commitments.

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 and private equity professionals. The on-site due diligence visit was performed on June 9, 2014.
- 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 the Fund are:

Ken Jarvis - Managing Director, Darien Office
Greg Garrett – Managing Director, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million of limited partnership interests in Tenaya Capital 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,

WILLIAM J. INDELICATO
MANAGING DIRECTOR