



Private Equity Fund Commitment

Strategic Partners Fund VI, L.P.

March 13, 2014

See Last Page for Disclaimer

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Strategic Partners VI, L.P. - Private Equity Fund

Overview

- Fund has a target of \$3.5 Billion, with a hard cap of \$4.0 Billion
- Strategic Partners seeks capital appreciation through the purchase of secondary interests in mature, high quality leveraged buyout funds from investors seeking liquidity prior to the termination of these funds, to a lesser extent they will also purchase a secondary interests in mezzanine, venture capital, distressed securities, fund of funds and other asset classes. The Fund may also, on occasion, make primary investments in underlying funds and direct equity, equity-like and debt investments

Fund Strategy

- Strategic Partners significant experience and substantial presence in the secondary private equity market as one of the largest and most well-respected secondary fund managers will facilitate SP VI's opportunistic focus on a wide range of transactions. Specifically, they expect to invest (and have historically invested) in fund interests and portfolios with an original commitment ranging in size from \$100,000 for a single fund holding to \$500 million or more for a portfolio of funds. SP VI will have emphasis on funds managed by U.S. and Western European sponsors

Investment Team

- Strategic Partners will be managed by a team which is comprised of 30 investment professionals located in New York, London and San Francisco, and is being led by Co-Heads Stephen Can and Verdun Perry, each of whom has been with Strategic Partners since its inception in 2000

Strategic Partners VI, L.P. - Private Equity Fund

GP “Value Add”

- Proven Investment Strategy - SP VI will continue to pursue the strategy followed by their previous funds to maximize risk-adjusted investment returns by focusing on fundamental analysis and extensive information gathering. They will continue to pursue a highly analytical investment approach encompassing detailed analyses of underlying portfolio companies, based upon financial and operational data and comparative industry research. Importantly, Strategic Partners emphasizes rigorous pricing discipline rather than volume
- Dedicated, cohesive team
- Global Sourcing Capabilities - Strategic Partners’ reputation as a buyer of secondary limited partner interests that conducts its business fairly, confidentially and in a timely manner has facilitated the development of strong sourcing relationships with fund sponsors, all classes of private equity investors (who are often repeat sellers) – from institutions to high-net-worth individuals – and referral agents. Because of Strategic Partners’ substantial presence in the secondary market, it has the opportunity to evaluate most of the major competitive secondary transactions
- Broad Execution Capabilities - Strategic Partners’ broad experience and analysis of thousands of secondary transactions during its 13-year history have facilitated the creation of a proprietary database that contains detailed information on over 1,500 funds and their underlying portfolio companies. As a result, Strategic Partners is well positioned to conduct its typical rigorous due diligence in a timely and efficient manner

Strategic Partners VI, L.P. - Private Equity Fund

Performance

- Strategic Partners Fund II, L.P., a 2003 vintage fund, has a net 1.8x MOC and a 34.3% Net IRR
- Strategic Partners Fund II RE, L.P., a 2003 vintage fund, has a net 1.5x MOC and a 20.1% Net IRR
- Strategic Partners Fund III VC, L.P., a 2005 vintage fund, has a net 1.2x MOC and a 6.3% Net IRR
- Strategic Partners Fund III-B, L.P., a 2005 vintage fund, has a net 1.2X MOC and a 6.6% Net IRR
- Strategic Partners Fund III RE, L.P., a 2005 vintage fund, has a net 0.5x MOC and a -11.7% Net IRR
- Strategic Partners Fund IV VC, L.P., a 2008 vintage fund, has a net 1.2X MOC and a 7.0% Net IRR
- Strategic Partners Fund IV L.P., a 2008 vintage fund, has a net 1.5X MOC and a 15.1% Net IRR
- Strategic Partners Fund IV RE, L.P., a 2008 vintage fund, has a net 0.8X MOC and a -3.5% Net IRR
- Strategic Partners Fund V, L.P., a 2011 vintage fund, has a net 1.4X MOC and a 47.0% Net IRR

Strategic Partners VI, L.P. - Private Equity Fund

History with PSERS

- This will be PSERS tenth commitment to Strategic Partners. PSERS committed:
 - \$300 Million to Strategic Partners Fund II, L.P.
 - \$75 Million to Strategic Partners Fund II RE, L.P.
 - \$50 Million to Strategic Partners Fund III VC, L.P.
 - \$200 Million to Strategic Partners Fund III-B, L.P.
 - \$75 Million to Strategic Partners Fund III RE, L.P.
 - \$50 Million to Strategic Partners Fund IV VC, L.P.
 - \$100 Million to Strategic Partners Fund IV, L.P.
 - \$75 Million to Strategic Partners Fund IV RE, L.P.
 - \$150 Million to Strategic Partners Fund V, L.P.

Risks and Mitigants

- Fund Size - They have ramped up their fund size in each prior fund, but have shown the ability to invest these amounts
- Ownership Changes – First fund being raised under Blackstone umbrella. They are a very well respected firm, \$229 Billion AUM, no material impact

Strategic Partners VI, L.P. – Private Equity Fund

Board Issues

- Pennsylvania Presence - N/A
- Placement Agents – Blackstone Advisory Partners and Park Hill Group are acting as placement agents. Fee will be paid directly by General Partner
- PA Political Contributions - none
- Relationship with Consultant - none

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$150 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.



February 18, 2014

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

Re: Strategic Partners Fund VI, L.P.

Dear Trustees:

The Blackstone Group L.P. (together with its affiliates, "Blackstone") is seeking to raise \$3.5 billion for its first secondary fund, Strategic Partners Fund VI, L.P., (the "Fund" or "SP VI"). SP VI will be the first secondary private equity fund sponsored by Blackstone and the sixth managed and led by the Strategic Partners team members. The fund has a hard cap of \$4.0 billion. Blackstone, its affiliates and employee investment programs will invest the lesser of \$60 million or 2% of the Fund's aggregate capital commitments in SP VI. Strategic Partners Fund Solutions Associates VI will serve as the General Partner. Investors in the prior fund which are likely to participate in the Fund include: IBM Pension Fund, OPERS, Minnesota State Board of Investments, New York State Teachers Retirement System, CHUBB, 3M and the Rockefeller Foundation. SP VI held its first closing in December 2013 on approximately \$700 million of commitments. SP V is approximately 98% invested/committed as of early February 2014 and SP VI is expected to commence its investment period in early to late March.

The Fund plans to continue the successful investment strategy employed in its prior funds of purchasing secondary interests of high quality funds in leveraged buyout, mezzanine/distressed, real estate, venture capital, and fund of funds. Strategic Partners VI, L.P. will seek a target allocation of 75% to buyouts, 10% to venture, 10% to mezzanine and 5% to real estate, fund of funds and other funds. SP VI expects to make opportunistic secondary investments in commitments that range in size from \$100,000 for a single fund holding to \$500 million or more for a portfolio of funds. The Fund has negotiated a credit facility that permits up to 35% borrowing of committed capital to potentially leverage the return to investors.

A key factor in the Fund's investment strategy is its focus on buying mature, fully or near fully invested portfolios. On average, executed transactions were 87% funded in SP V. This strategy allows the General Partner to analyze underlying portfolio companies that have had time to mature, and provides better visibility on a portfolio's "impact" positions. Strategic Partners will continue this strategy of focusing on funded portfolios to reduce blind pool risk. In addition, SP Funds have benefited from shorter holding periods and early returns of capital; SP I, SP II and SP V have made cash distributions each quarter since inception, and SP III and SP IV have made distributions since the third quarter of their respective investment periods.



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.
- 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:

Ryan Butler - Managing Director, Connecticut Office
Justin Lux – Senior Associate, Connecticut Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$150 million of limited partnership interests in Strategic Partners Fund 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