



January 1, 2015

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

Re: HGGC Fund II, L.P.

Dear Trustees:

HGGC, LLC (“HGGC” or the “Firm”), was founded in 2007 by Jon M. Huntsman, the Founder and Chairman of Huntsman Chemicals, and Robert (“Bob”) C. Gay, former Managing Director of Bain Capital. HGGC was formerly known as Huntsman Gay Global Capital. HGGC is a middle market private equity firm based in Palo Alto, CA. Since the Firm’s founding, HGGC has deployed approximately \$1.3 billion of capital across 17 investments with a predominant focus on North American middle market buyouts. The Fund is seeking aggregate Limited Partner capital commitments of \$1.0 billion with a hard cap set at \$1.25 billion. The Firm has closed on approximately \$1 billion to date and has visibility towards the hard cap at this time. A final close is expected in the first quarter of 2015.

The Firm has launched HGGC Fund II, L.P. (the “Fund” or “Fund II”) to continue its primary strategy of making control investments in middle market companies with scalable business models, strong strategic positions, experienced management teams and which have the potential for substantial capital appreciation through clearly defined plans for growth and profit improvement. The Firm looks to drive value in these companies through its relationships and investing experience. In regards to investment size, the Firm will invest \$25 to \$100 million in companies that are generating EBITDA of \$15 to \$75 million. HGGC’s demonstrated investment strategy is based on superior deal flow focused on core segments, deal execution capabilities, portfolio management and aligned incentives.

HGGC targets middle-market companies that it can transform in a meaningful way and strives in its due diligence process to identify the ways in which a company will be different and more valuable at exit. The Firm seeks situations where it believes it can add value, often by collaborating with management teams and the founder/sellers. One of the Firm’s main investment considerations relates to a target company’s competitive position, and whether the company has the necessary tools to scale and transform in order to achieve a higher exit multiple.

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 December 9, 2013.



- 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:

Gregory Garrett – Managing Director, Darien Office
Geoffrey Kelleman – Senior Associate, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million of limited partnership interests in HGGC Fund II, 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 read "WJ Indelicato", is written over a light blue horizontal line.

WILLIAM J. INDELICATO
MANAGING DIRECTOR



Private Equity Fund Commitment

HGGC (Huntsman Gay Global Capital) Fund II, L.P.

January 21, 2015

See Last Page for Disclaimer

Charles J. Spiller, Managing Director,
Private Markets and Real Estate

HGGC Fund II, L.P. – Private Equity Fund

Overview

- The Fund will invest in North American middle market buyouts
- Core sectors are information services, industrials and consumer
- HGGC will seek to make \$100 million investments in 8 to 12 companies
- The Fund has a target of \$1.0 billion and a hard cap of \$1.25 billion
- Targeted returns are 25% IRR and 2x to 3x gross MoM (multiple of money)

Fund Strategy

- In the consumer sector the focus is on companies with established market positions in niche segments that are looking to leverage this position to both grow further within their core market segment
- HGGC looks for platforms that support an accelerated growth path through organic and inorganic efforts (add-on acquisitions) in the industrial sector
- In the information services sector they seek to invest in businesses that are disrupting traditional businesses or models, particularly where incumbents are selling legacy or outdated platforms that consumers are looking to replace or upgrade

Investment Team

- The senior management team members have worked together for over 14 years and average 27 years of experience
- The current team has 20 investment professionals, plus 15 support staff
- 5 of the 7 Investment Committee members have been with the firm since 2008
- GP commitment is currently \$75 million to the Fund
- HGGC operates out of one office in Palo Alto, CA

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HGGC Fund II, L.P. – Private Equity Fund

GP “Value Add”

- Detailed post-close action plan – These action plans focus on addressing strengths, weaknesses and opportunities found during due diligence, with the goal of improving the company’s strategic position, optimizing operations, strengthening management and capitalizing on industry trends. Investment professionals work together with each individual company’s management team to develop and implement unique growth strategies best suited for the company. The strategies are built upon focused marketing and sales plans, operating objectives, organizational structure and strategic investments. Capital spending programs are prioritized with the goal of producing sustained growth

History with PSERS (new relationship)

Performance – As of September 30, 2014

<u>Fund Name</u>	<u>Vintage Year</u>	<u>Net Multiple</u>	<u>Net IRR</u>
Fund I	2008	1.7x	20%

Market Opportunity

- Through its sourcing channel, as well as through broad relationships & networks of the Firm, HGGC has been able to generate superior deal flow, evaluating 450-550 investment opportunities annually
- Each week, HGGC generates numerous investment opportunities through its extensive network of investment banks, business brokers and business relationships

HGGC Fund II, L.P. – Private Equity Fund

Risks and Mitigants

- Firm turnover – This was partly due to the closing of smaller offices. HGGC has “right-sized” the team in one office in Palo Alto, CA. The firm has strengthened its Investment Committee with its last two hires. Gary Crittenden joined from Citigroup where he was CFO. Gary was also CFO at American Express and Sears. The firm also hired James Learner who has 27 years of experience structuring leveraged buyouts while leading the Kirkland & Ellis law office in Europe. The firm has also tightened its key person language which gives LPs protection against senior people leaving the firm

Board Issues

- Pennsylvania Presence – Yes, iQor a Fund I portfolio company has an office in Bethlehem and employs 686 people
- Placement agents – HGGC is using Evercore. The fee will be offset against management fees
- PA political contributions – None
- Relationship with consultant – Yes, Portfolio Advisors’ fund of funds (PAPEF VIII) has committed \$5 million to HGGC Fund II

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.