

Secondary Fund Commitment



Partners Group Secondary 2015 (USD), L.P.

March 12, 2015

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Markets

Partners Group Secondary 2015 (USD), L.P. - Secondary Fund

Overview

- Fund target is €2.5 billion
- Investments will range from €20 million to €100 million per deal
- Purchase of secondary interests in high-quality private equity funds in the US, Europe, and Asia
- Has invested €5.4 billion in secondary investments in 229 transactions

Fund Strategy

- Focus on high quality assets managed by leading investment partners that have shown the ability to create operating value and manage companies through a downturn
- Will primarily pursue buyout funds, venture capital funds, and private debt funds
- Seeks diversified portfolios with a high visibility on near term distributions

Investment Team

- “One team” philosophy: global integrated resources with over 550 employees with capabilities across fund of funds, secondaries, and direct equity
- 18 offices across the globe
- A dedicated secondary team of 23 professionals
- A total of 84 private equity professionals that co-invest, transact secondaries and monitor investments

Partners Group Secondary 2015 (USD), L.P. – Secondary Fund

GP “Value Add”

- Information advantage from existing investments in over 1,150 private markets funds, on 300 advisory boards and over 310 co-investments
- Value Navigator which is a proprietary database of over 7,000 private companies held by 800 private equity funds

Performance (as of 9/30/2014)

Fund Name	PSERS Commitment	PSERS Contribution	PSERS Distributions	Remaining Value	Net Multiple	Net IRR
PG Secondary 2002	None	-	-	-	1.57x	24.0%
PG Secondary 2004	None	-	-	-	1.43x	13.8%
PG Secondary 2006	None	-	-	-	1.20x	4.3%
PG Secondary 2008	\$189.4	\$178.4	\$113.9	\$145.8	1.46x	11.1%
PG Secondary 2011	\$100.0	\$49.2	\$6.5	\$64.7	1.44x	37.6%
PSERS Invested Funds	\$289.4	\$227.6	\$120.4	\$210.5	1.45x	12.7%

Market Opportunity

- 2014 was a strong year for deal flow with more than \$75 billion sourced. 2014 was also the largest year ever in terms of transaction volume. Deal volume is expected to remain high driven by three factors: (1) “portfolio management” sellers continue to access the secondary market to sell non-core positions and manage down the overall number of GP relationships, (2) financial institutions continue to sell assets to comply with regulatory directives, and (3) more general partners are put under pressure by their limited partners to pursue fund restructurings rather than extend the life of their fund

Partners Group Secondary 2015 (USD), L.P. – Secondary Fund

Risk/Mitigant

- Huge organization with various fund offerings – The large organization is an information advantage which helps their deal flow and due diligence on potential secondary investments

History with PSERS

- This would be PSERS third investment in a Partners Group (PG) secondary fund. PSERS invested 150 million Euros in the PG Secondary 2008 Fund and \$100 million in PG Secondary 2011 Fund

Board Issues

- Pennsylvania Presence – N/A
- Placement Agents – None
- PA Political Contributions – None
- Relationship with Consultant – Portfolio Advisors has purchased interests in Partners Group funds on the secondary market but they have not invested during the initial fundraising of any Partners Group funds

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount equal but not to exceed \$100 million plus reasonable normal investment expenses

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February 18, 2015

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

Re: Partners Group Secondary 2015, L.P.

Dear Trustees:

Partners Group (the “Firm”) is seeking to raise up to €2.5 billion of limited partnership interests in Partners Group Secondary 2015, L.P. (the “Fund”). The Fund is the Firm’s fifth institutional secondary Fund. The primary objective of the Fund is to achieve attractive returns on private equity investments acquired through the secondary market. Investments will range from €20 million to €100 million per deal which is consistent with the prior Fund. Partners Group has 18 offices across the world, including: Zug (Switzerland, HQ), London, Guernsey, Luxembourg, Munich, Milan, Paris, New York, San Francisco, Sao Paulo, Houston, Dubai, Mumbai, Singapore, Beijing, Seoul, Tokyo and Sydney. Expected investors in the Fund include: Strathclyde Pension Fund, State of Maryland, IM Trust, Care SUPER and Rio Tinto. The GP will commit 1% of the aggregate commitments of the Limited Partners. A final closing is expected in Q1 2016.

The investment strategy for the Fund is consistent with the value-based strategy that the Firm successfully executed in the four prior Funds. The key principle of this strategy is to acquire attractive assets at a discount to their intrinsic value. In an effort to successfully implement this strategy, the Firm focuses on making investments mainly in high-quality Funds and managers – mostly in assets at their “inflection point” (two to five years old) – and access favorable deal flow and purchase prices through an edge in sourcing, underwriting and execution. The equity ticket will range from €20 m to €100 m which is consistent with the prior Fund. Partners Group focuses on buyout, venture capital and special situation transactions. Of the total committed capital, about 70%-80% is expected to go into buyouts, 20% into venture and the remaining into special situations. Historically 43% of total committed capital has been allocated to North America, 46% to Europe, 6% to Asia and 5% to the rest of the world. The Fund will be diversified by transaction types including mature managers, bank spin-outs and emerging managers. Besides the typical purchase of Fund and portfolio stakes, the Fund may to a small extent purchase portfolios of struggling GPs where the GP remains the manager of the portfolio, and invest in direct secondaries via co-investments.

Partners Group pursues a “portfolio approach” by using its broad industry coverage and large team to regularly connect with clients and industry participants. Over 225 professionals have clear secondary sourcing goals. Further, Partners Group maintains an industry value creation team – which is separate from the core investment team – that concentrates on operational value creation, industry expertise and valuation, and monitoring. The team, which supports the investment analysis on the secondary side as well,



focuses on eight broad industry sectors: healthcare, media and telecommunications, information technology, financials, consumer, industrials, infrastructure and real estate.

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 January 30, 2015.
- 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:

Peter Schwanitz – Managing Director, Zurich Office
Nadine Zangger – Senior Associate, Zurich Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million of limited partnership interests in Partners Group Secondary 2015, 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