

Venture Capital Fund Commitment



Aisling Capital IV, LP

August 5, 2015

Aisling Capital IV, LP – Venture Capital Fund

Overview

- Fund size is \$400 Million, with a \$500M hard cap
- Will make investments in companies developing and commercializing important and innovative healthcare products, services and technologies, across a range of financial instruments. The Fund will pursue a multi-strategy investment approach, and may invest in private companies, public companies, equity, debt and other structured securities

Fund Strategy

- Identify differentiated healthcare products, services and technologies that deliver value. This includes important and innovative products that address significant unmet medical needs that will be viewed favorably by multiple stakeholders in the healthcare system
- They will attempt to capitalize on market inefficiencies that are created by cycles of investor sentiment, illiquidity of investments, lack of investor education, contraction of financing and other factors
- Aisling will work with certain portfolio companies to help influence their development. By working with management, Aisling will help create value-building enterprises with multiple opportunities for exit

Investment Team

- Aisling Capital is based in New York City and employs 13 staff members, including 10 investment professionals. Steve Elms and Drew Schiff, MD serve as Managing Partners

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GP “Value Add”

- Favorable macro trends in life sciences - the environment for healthcare and life science investing is becoming increasingly attractive, driven by trends beyond the aging of the global population and the increasing need for biopharmaceutical and medical products. Aisling believes the combination of scientific advances, continued favorable pricing and reimbursement for important therapeutic innovations, an improved regulatory environment, and the opportunity for more efficient clinical development are creating a highly favorable opportunity for life science investing
- Premium valuations achieved by developers of successful healthcare products - companies that make significant advances in drug development are recognized and rewarded by both the financial markets and the pharmaceutical industry through increased ability to finance, higher valuations, and product licensing/acquisition. The impact of these value-determining events is an important variable in the attractiveness of drug development companies
- An expanding universe of pharmaceutical and biotechnology companies has a substantial need for new products, creating opportunities for healthcare investors. Aisling believes that several challenges affecting the pharmaceutical and biotechnology landscape are increasing the need for new products, and many of these products will be sourced from companies formed and fostered by private equity and venture capital investment

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Market Opportunity

- Aisling has developed unique perspectives on rapidly changing trends in science and medicine, capital markets, regulatory and commercial environment and the healthcare industry as a whole. The Fund's multi-strategy approach towards investing in differentiated healthcare products, services and technologies will allow Aisling to leverage this institutional knowledge and diligence across investment structures, and take advantage of the substantial, distinctive deal flow that Aisling has developed. Aisling believes this strategy diversifies risk, while maximizing reward, and increases opportunities for earlier and more consistent liquidity. Furthermore, Aisling believes this strategy takes advantage of the cyclical nature of the life science capital markets and continues the focus on capitalizing on market inefficiencies and managing investment risk that they did in their prior funds

Risks and Mitigants

- Stability of team - Dennis Purcell, who founded Aisling in 2000, has transitioned to a Senior Advisor role in Fund IV. Recent departures of two former Partners raises some concern, but tenure of other staff members and anticipated addition of one Investment Partner and one Operating Partner will strengthen team
- Market environment - Two biggest risks that Aisling faces is approval risk and reimbursement risk. Current environment looks favorable for life science investments and Aisling employs advantageous deal structures and targets revenue generating businesses to lessen these risks

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Performance as of May 31, 2015 (\$ Millions):

	Vintage Year	Invested Capital	Realized Proceeds	Unrealized Value	Total Value	Net Multiple	Net IRR
Fund I	2002	\$435.0	\$917.0	\$6.0	\$923.0	1.75x	20.0%
Fund II	2005	\$553.0	\$391.0	\$452.0	\$843.0	1.39x	5.9%
Fund III	2008	\$547.0	\$517.0	\$615.0	\$1,132.0	1.88x	25.3%

History with PSERS

- This will be PSERS' fourth commitment to Aisling

Board Issues

- Pennsylvania Presence - none
- Placement Agents - none
- PA Political Contributions - none
- Relationship with Consultant - none

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$50 Million plus reasonable normal investment expenses

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July 14, 2015

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

Re: Aisling Capital IV, L.P.

Dear Trustees:

Aisling Capital ("Aisling" or the "Firm") is raising its fourth fund, Aisling Capital IV, L.P. ("Fund IV" or the "Fund"), with a target capitalization of \$400 million. Fund IV will make investments in companies developing and commercializing innovative healthcare products, services and technologies across a range of financial instruments and will have a portfolio of approximately 25 investments ranging from \$10 million to \$40 million per company. Aisling is targeting a first closing for the Fund at the end of June on \$150 million to \$200 million of commitments and expects to hold a final closing by the end of the year. The General Partner will commit a minimum of 2% of the Fund's total commitments.

The Fund will pursue a multi-strategy investment approach, investing in private companies, public companies, equity, debt and other structured securities, and will generally seek to make non-control investments. At a high level, the Fund's investment strategy centers on the Firm's ability to (i) identify differentiated healthcare products, services and technologies that deliver value, (ii) capitalize on market inefficiencies, (iii) manage investment risk, (iv) build valuable and sustainable companies, and (v) invest across a range of structures and stages of development to access the highest quality assets. The Fund will concentrate primarily on investments in companies in the United States. Target companies may be either privately or publicly traded. Investments in public companies typically will be negotiated directly with the companies and will often depend on non-public information provided under confidentiality agreements. The Fund may also make open market purchases of securities in selected circumstances.

Aisling's ability to invest across multiple investment structures and different types of securities provides a significant advantage and differentiates the Firm from many of its competitors in the healthcare investment landscape. The Fund is expected to invest in venture capital, leveraged buyouts, public equities, fixed income and other investment opportunities that allow it to capitalize on the Firm's internal expertise while maximizing the number of attractive investment opportunities. While Aisling's investments have been predominantly in private equity and venture capital, it has broadened its strategy over time, with an increased number of investments that included public equities, debt and royalties in Fund III. The cyclical nature of the healthcare investing environment favors flexibility in investment structure. For example, when valuations are depressed, companies with attractive assets that require capital may be willing to consider an equity-linked debt financing but not an equity capital raise. In addition, the ability to deploy



capital across multiple investment structures reduces the Firm's dependence on particular market conditions to finance its companies and achieve realizations.

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 March 9, 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:

Donna Smolens – Managing Director, Darien Office

Elizabeth Campbell – Vice President, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$50 million in Aisling Capital IV, 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