



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Bridgepoint Europe VI, L.P.

Private Equity Commitment

Darren Foreman, CAIA
Senior Portfolio Manager

November 7, 2017



Recommendation:

Staff, together with Hamilton Lane, recommends the Board commit up to €100 million to Bridgepoint Europe VI L.P. (the “Fund”).

Firm Overview:

Bridgepoint Europe (‘the firm’) has one of the longest private equity track records in the European middle market. Since 1991, the team has completed and realized 318 investments in the Bridgepoint Europe Funds. In 1998 Bridgepoint raised Bridgepoint Europe I its first external fund (previously they were part of NatWest banking group investing in private equity).

Bridgepoint Europe operates as a single investment team across eight investment offices in Europe and six core sectors – Business Services, Consumer, Financial Services, Healthcare, Manufacturing & Industrials and Technology & Media.

Fund Size

Bridgepoint Europe VI (‘Bridgepoint’ or “GP”) is seeking to raise €5 billion for the Fund. A hard cap has been set at €5.5 billion, excluding the GP commitment of €125 million.

Investment Strategy:

Bridgepoint will invest in businesses up to an enterprise value of €1 billion (core range is €200 million to €600 million). Bridgepoint focuses on investments that have relative entry multiples, strong EBITDA margins, high free cash flow conversion and solid organic growth rates. Bridgepoint has excelled by driving earnings growth by both organic growth and by acquisitions. Acquisitions have helped existing platform companies grow into new geographic areas.

Investment Team:

The Bridgepoint team is made up of 75 investment professionals of 15 nationalities and the team is broadly multi-lingual. The team has successfully evolved through well-planned generational change over the past 30 years.

Bridgepoint’s Investment Committee members are listed in the table that follows.

Name	Role	Yrs. at Bridgepoint	Prior Experience
William Jackson	Managing Partner	31	NatWest Bank
Michael Davy	Partner	28	Arthur Little
Raoul Hughes	COO	29	NatWest Bank
Guy Weldon	CIO	27	NatWest Bank
And 2 of 3 of:			
Frederic Pescatori	Partner	8	L Capital, Calyon, McKinsey
Xavier Robert	Partner	19	Ernst & Young
Chris Busby	Partner	20	PriceWaterhouseCoopers

Investment Instruments:

The Fund will make equity investments in upper middle-market European companies. The Fund may also make investments in temporary (i.e. bridge) financing instruments.

Market Opportunity:

Europe is the world’s single largest trading area, generating 24% of global GDP, the largest exporting region with 34% of global exports, and is home to many world-leading businesses that are exploiting global growth. Europe has over 13,000 companies with revenues between €100 million and €1 billion. In addition, the region’s population has over 600 million people.



Investment Highlights:

Good Performance
Bridgepoint has been a very good performer in PSERS' PM Portfolio. The six commitments to the Bridgepoint Europe Funds have a collective 15.4% Net IRR and a 1.63x TVPI as of 6/30/2017. The Net IRR for the PSERS' PM Portfolio since inception is 11.2%.
One of the few remaining middle market pan-European GPs
Bridgepoint has carefully managed the firm's growth in fund size. They have stayed in the middle market in Europe while some other firms have grown out of the space over the past decade.
Strong Cohesive Partner Group
The Bridgepoint Europe Investment Team is led by a stable group of 20 Partners with an average of 21 years private equity experience (17 years on average with the firm).
Strong Procurement Team
In 2000, Bridgepoint established an in-house procurement team which is one of the key value-add areas in private equity. To date, the team has delivered an estimated savings of more than €100 million for Bridgepoint Europe portfolio companies.
Longstanding Origination Network
New deal origination, is driven by Bridgepoint Europe's long-standing sector focus across eight investment offices in Europe with support from a New York and a Shanghai office. Bridgepoint's long standing local presence throughout Europe helps generate a broad flow of high quality investment opportunities.
Robust Investment Metrics
Bridgepoint Europe has acquired high growing businesses with an average EBITDA margin of 20% for BE IV and BE V, along with a weighted average EBITDA growth of 10% to 15% annually.

Investment / Risk Considerations:

Brexit
Bridgepoint has 26 years' experience investing in the UK market. Bridgepoint is well positioned to capitalize on attractive opportunities that may result from volatility in the UK market.
Liquidity & Leverage Profile
Bridgepoint will seek to use appropriate leverage to optimize the capital structure of its portfolio companies to enhance returns. While equity levels vary by company and industry, Bridgepoint anticipates that equity will typically account for 30%-50% of the initial capital structure.
Importantly, 79% of Bridgepoint's returns since the year 2000 have been generated through EBITDA growth.
At the fund level, it should be noted that the Fund will make use of a capital call bridging facility. This is an efficient use of capital and allows capital to be called from LPs less frequently and helps to eliminate the J-curve. Importantly in BE VI the preferred return will be computed from the date that the Fund provides equity financing for an investment, not from the date of drawdown of capital for it from investors.

PSERS History & Performance:

The table that follows summarizes Bridgepoint Europe's performance with 6/30/17 reported valuations. The investment strategy of Bridgepoint Europe is a multi-sector approach in Western European companies.



Fund (USD M's)		Vintage	Commitments	Contributions	Distributions	NAV	Net IRR	Net MoC
Bridgepoint Europe I	PE	1998	79.6	75.1	135.8	.2	12.4%	1.81x
Bridgepoint Capital II	PE	1998	84.7	81.3	166.3	.4	18.7%	2.05x
Bridgepoint Europe II	PE	2001	342.4	317.9	607.2	6.1	29.4%	1.96x
Bridgepoint Europe III	PE	2005	228.3	249.2	161.6	140.0	2.6%	1.21x
Bridgepoint Europe IV	PE	2008	342.4	370.8	376.3	211.7	11.6%	1.59x
Bridgepoint Europe V	PE	2015	171.2	76.3	15.4	76.9	27.2%	1.21x
Total			1,249	1,171	1,463	435.4	15.4%	1.63x

Portfolio Fit:

A commitment to the Fund will be allocated to the private equity portfolio. An additional commitment to Bridgepoint allows PSERS to continue its relationship with a high-conviction manager. Bridgepoint executes an investment strategy that provides PSERS exposure to the middle market in Europe. Bridgepoint has offered co-investments for PSERS.

The table below summarizes PSERS' projected exposure inclusive of a recommended €125 million commitment to the Fund: (adjusted to 6/30/17)

Investment Type	Active Commitments ¹	%	Market Value	%	Unfunded ¹	%	Total Exposure ¹	%
Private Equity	\$ 15,172.4	65.4%	\$ 5,400.4	67.2%	\$ 3,885.1	70.5%	\$ 9,285.5	68.5%
Special Situations	4,754.8	20.5%	1,049.2	13.1%	991.7	18.0%	2,040.9	15.1%
Venture Capital	2,797.0	12.1%	996.1	12.4%	574.8	10.4%	1,570.9	11.6%
PE Internal	465.4	2.0%	592.8	7.4%	61.5	1.1%	654.4	4.8%
Total	\$ 23,189.5	100.0%	\$ 8,038.5	100.0%	\$ 5,513.2	100.0%	\$ 13,551.7	100.0%

(1) As of June 30, 2017. Includes post Q2'2017 pending/closed commitments.

Investment Committee Disclosure:

Relationship with Hamilton Lane:	Hamilton Lane has committed to the following Bridgepoint Funds, either by way of their Fund of Funds vehicles or on behalf of discretionary client vehicles: Bridgepoint Europe II, III, IV, V and Bridgepoint Development Capital III. Hamilton Lane is on the advisory board of BE Funds III, IV and V
Placement Agent:	Nicolas Smith (Japan) and Triago (France) have thus far been appointed as placement agents in respect to Bridgepoint Europe VI and in the countries noted. All placement fees will be borne by Bridgepoint, not by the Fund
PA Political Contributions:	None Disclosed
PA Impact:	Element a portfolio company in Bridgepoint Europe V has a small regional office in PA with 27 employees
Conflicts:	None Disclosed
First Time Fund With PSERS:	No, PSERS has committed to the following Bridgepoint Europe Funds: £50M to Fund I, £58.7M to Bridgepoint Capital II (secondary purchase with Lexington), €300M to Fund II, €200M to Fund III, €300M to Fund IV, €150M to Fund V and £75M to Bridgepoint Development Capital III
PSERS Allocation Implementation Committee Approval:	November 7, 2017



Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments Darren Foreman Senior Portfolio Manager
External Consultant:	Hamilton Lane



Hamilton Lane

October 25, 2017

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

Re: Bridgepoint Europe VI, L.P.

Dear Trustees:

Bridgepoint Capital Limited ("Bridgepoint") was founded in 1984 as part of National Westminster Bank as NatWest Equity Partners; the General Partner spun out of National Westminster Bank in 2000 and rebranded itself as Bridgepoint. Since its spinout in 2000, Bridgepoint has built a strong brand name through consistent market presence and repeated investment success. In addition to its flagship fund series, Bridgepoint also operates dedicated lower-middle market and growth equity platforms through dedicated teams; in aggregate, the General Partner employs 92 investment professionals across all strategies, with 60 investment professionals dedicated to this product. In addition, Bridgepoint leverages its Operational Support Group and capital markets team to drive value across the portfolio. The Operational Support Group is a dedicated operational team that is active in implementing operational or strategic changes at portfolio companies; the capital markets team optimizes capital structures and manages exit processes through public equity markets. Bridgepoint is targeting €5 billion in commitments from limited partners for its sixth buyout fund, Bridgepoint Europe VI, L.P. (the "Fund"). Bridgepoint expects to hold a first close in Q4 2017 and a final close in Q1 2018. The General Partner will commit at least 2% of commitments to invest in or alongside the Fund.

The Fund will primarily pursue middle-market companies, with a continued emphasis on European companies within the General Partner's six key sectors: (i) consumer, (ii) business services, (iii) media & technology, (iv) healthcare, (v) industrials and (vi) financial services. Investment professionals work to a matrix with both geographic and sector coverage, which facilitates deep sector expertise and a systematic sourcing strategy. Sector teams develop investment themes through which they proactively source investments; local teams use their networks and local market knowledge to differentiate themselves. The professional networks and relationships with management teams generated through this sourcing model provide Bridgepoint a competitive edge in intermediated processes. The General Partner drives value creation through buy-and-build acquisitions, operational improvement and capital structure optimization. The Operational Support Group drives value creation through improvements such as productivity and margin initiatives, internal process improvements and revenue growth initiatives; the capital markets team optimizes capital structures, manages refinancings and leads IPOs for portfolio companies. The Fund will primarily target equity investments in the range of €125 million to €500 million, targeting companies with enterprise values between €200 million and €1 billion. Bridgepoint estimates that the Fund will make approximately 20 investments. Bridgepoint has generated consistent returns across prior funds and has improved its fund management capabilities in Fund V through implementing a bridge facility and careful portfolio construction.

Bridgepoint Europe VI's investment thesis can be summarized as follows:

- Bridgepoint is a strong brand name with local presence in key European markets
- The General Partner has a large investment team with sector and regional expertise that benefits sourcing, decision-making, execution and value creation



Hamilton Lane

- Expertise of Operational Support Group and capital markets team drives value across the portfolio
- Bridgepoint has generated consistent returns across the track record with improvement in fund management capabilities

Hamilton Lane's recommendation is based upon the following analytical factors and is made within the context of Commonwealth of Pennsylvania, Public School Employees' Retirement System's ("PSERS") investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals. The initial review was completed September 26, 2017; the on-site due diligence was conducted October 2, 2017; the fund was approved by Hamilton Lane's Investment Committee on October 16, 2017 and the recommendation to PSERS was issued October 25, 2017.
- 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.
- Detailed Operational Due Diligence, including interviews with Bridgepoint's operations team to review the controls and processes surrounding the firm's finance, fund administration, tax, legal, compliance, IT, HR and accounting functions.
- 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 Hamilton Lane who were involved in the due diligence process for the Fund are:

Tarang Katira – Principal, London Office
Nina Kraus – Senior Associate, London Office
Patrick Donegan – Analyst, London Office
Jerome Kamm – Analyst, London Office

Based on the above, Hamilton Lane recommends that PSERS commit up to €100 million in Bridgepoint Europe VI, L.P. Hamilton Lane 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. Hamilton Lane does not provide legal or other non-investment-related advice.

Sincerely,

Michael Koenig,
Managing Director

Corina English,
Vice President