

Commonwealth of Pennsylvania Public School Employees Retirement System

DATE: May 3, 2017
SUBJECT: Aisling Capital IV, LP
TO: PSERS Finance Committee/Board
FROM: Luke M. Jacobs
Portfolio Manager, Private Markets



At the August 2015 Board meeting, the Board approved a \$50 million commitment to Aisling Capital IV, LP, a NYC based venture capital fund that makes investments in innovative healthcare products, services and technologies. I am recommending that PSERS increase our commitment by \$50M. This would bring PSERS total commitment in Aisling Capital IV, LP to \$100 million.

At the time of PSERS' original commitment, Aisling was expecting to raise between \$400 million and \$500 million in fund commitments. Expected commitments as of today appear to be closer to \$250 million. So far, Aisling has raised \$165 million to date. They will have a final close before the end of June 2017. Several existing investors, as well as a couple of new investors (i.e. JP Morgan), plan to come in at that time. Drew Schiff and Steve Elms (Managing Partners at Aisling) will increase their personal investment at that time as well. The total amount of insider support is likely to end up between 6.5% and 7%, well above what was initially earmarked for the Fund. Average deal size in the Fund is approximately \$8.0 to \$15.0 million.

Our recommendation to increase PSERS commitment is based on three premises. First, as an anchor LP in the Fund, we will be given better economics (as explained in Portfolio Advisors Confidential memo). Secondly, the Fund now has additional capacity which enables us to increase our investment. Finally, as shared at the recent Aisling Advisory Board and Annual meetings last month, we have been given excellent insight and visibility into the Fund (see Portfolio Advisor Confidential memo).

The first investment in the fund was made in March of 2016. So far, they have invested \$60 million in 11 portfolio companies. As of 03/31/17, the fund has a carrying value of \$73 million. The portfolio companies appear to be well capitalized to achieve their upcoming clinical, regulatory and financial milestones.



May 3, 2017

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 an expected fund size of approximately \$250 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 20 to 25 investments ranging in size from \$5 million to \$15 million. The General Partner will commit approximately 7% of the Fund’s total commitments. A final close is expected June 22, 2017.

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, PIPES (Private Investment in Public Equity), 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. Also attended the Advisory Board and Annual Meeting on April 20, 2016 and the Annual Meeting on April 19, 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.
- 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
Brian Infante – Associate, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit an additional \$50 million to Aisling Capital IV, L.P. This commitment is in addition to PSERS original commitment of \$50 million which closed on November 4, 2015. 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