

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Triton Value Fund (Cayman) L.P.
Global Public Equity

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September 17, 2018



Recommendation:

PSERS Investment Professionals, together with Aksia, LLC recommend that PSERS invest up to \$200 million in Triton Value Fund (Cayman) L.P. (TVF) and/or related investment vehicles (severally and collectively, "Fund"). This recommendation is based on our assessment of the investment strategy, the firm and team's demonstrated ability to execute and the strategic fit within the overall global equity program.

Firm and Vehicle Overview:

Triton was founded in 1997 by Peder Prael. Triton launched its first private equity vehicle in 1999, focusing on Northern European mid-market companies that could be improved through governance and operational enhancements. Triton has since raised a total of €8.7 billion across five private equity vintage year funds and one private debt fund. During this time, Triton noticed opportunities to apply similar operational techniques with small capitalization public companies that were not appropriate candidates for full privatization. In 2009 Triton hired Roger Hagborg to focus on this opportunity. Prior to joining Triton, Mr. Hagborg deployed a similar value creation strategy for Northern European public equities at SEB Investment Management, one of the largest asset managers in Sweden, and at Cevian Capital. Triton deployed €180 million taking minority stakes across nine publicly traded companies. Until 2014 such investments were made within the Triton private equity funds. In 2015 Triton launched an evergreen vehicle, the Triton Value Fund, to exclusively target these opportunities. The Triton partners seeded the vehicle with €60 million of internal capital. TVF currently has €109 million in assets under management.

The Triton platform employs 74 investment professionals. Within the Triton platform, TVF has a dedicated team of six investment professionals based in Stockholm and Frankfurt. In addition, Triton has an arrangement with an independent provider of management services, West Park Management Services, giving the firm access to 31 Senior Industry experts and Operating Partners, who provide technical, operating and governance expertise. The Triton platform maintains offices in London, Jersey, Frankfurt, Luxembourg, Stockholm, Oslo, Shanghai, Copenhagen and Helsinki.

Triton Investment Management Limited ("TIML") is domiciled in the jurisdiction of Jersey and is the Fund's manager. TIML is registered with the Jersey Financial Services Commission and also relies on an exemption from registration as an Exempt Reporting Advisor with the U.S. Securities and Exchange Commission. TIML has appointed Triton Investment Advisors LLP to act as the investment advisor. Triton Investment Advisors LLP is registered with the UK Financial Conduct Authority. TVF is structured as a master feeder. The base currency of the fund is the Euro with a U.S. Dollar share class available.

Market Opportunity:

The Northern European markets that comprise TVF's target market (Nordic and German speaking regions) represents over \$6.4 trillion of GDP and \$5.0 trillion of market capitalization, more than any individual country in the world other than the U.S. and China. These export-heavy countries demonstrate strong fiscal and current account balances and relatively high per capita GDP (Germany \$50,840 and Sweden \$58,350) while Germany's fiscal balance measured 1.12 and Sweden's registered 1.19 in 2017. Forecasts maintain a surplus for both countries out to 2022.¹

A highly-educated and entrepreneurial culture has created a deep pool of more than 1,000 publicly traded small and mid-capitalization companies in the region. In many cases these smaller companies are underfollowed and therefore often trade below intrinsic value. Triton estimates that over half of the companies in its current target universe (market capitalizations €1 billion and below) have fewer than 2 analysts with formal coverage. This dynamic of investor apathy toward small capitalization companies is likely to grow due to the rise of indexing which tends to exacerbate the focus on larger market capitalization companies and a deteriorating business model for sell side research. Recently enacted MIFID II regulations are poised to further pressure research houses. As a result, small capitalization companies frequently lack the benefit of regular interaction with sophisticated shareholders and business operators with larger scale.

¹ IMF "World Economic Outlook", "Fiscal Monitor" April 2018



Ironically, the governance standards within the region are quite shareholder friendly. For example, in Sweden any shareholder can add items to the AGM agenda. By contrast, shareholders in the U.S. typically must engage in proxy fights to achieve this outcome. In Germany, minority shareholders have statutory rights to block decisions, unlike the bylaw-dependent system that U.S. shareholders face. Extraordinary general meetings may be convened by shareholders with just 5% of votes in Germany and 10% in Sweden. Perhaps most importantly, shareholders have the right to nominate supervisory board members without engaging in costly and often publicity-filled proxy contests.

Investment Strategy:

Triton believes that this lack of attention to high quality, misunderstood and often temporarily underperforming smaller companies offers an opportunity to apply a private equity approach within the public markets, achieving attractive investment results without the need to acquire the entire company. Often, a meaningful position may be available through the public markets at discounted valuation even though a full buyout would require an elevated price erasing the valuation gap. TVF seeks to acquire 5-15% of the outstanding shares of a company but is willing to acquire as much as 30% in order to have significant influence.

The manager seeks to utilize the deep network of operating experts and regional knowledge it has accumulated through 20 years of private equity investing in the region to drive business improvements and deliver outsized returns for investors. TVF seeks out fundamentally sound businesses in regions and sectors it knows well that are temporarily trading below fair value. The manager will spend several months to complete due diligence, developing an active plan to enhance operations, assuring that management and shareholder support can be secured, identifying potential candidates to nominate to the board and preparing an ultimate exit plan. TVF will work with management through Board representation, changing personnel and remuneration policies when necessary to apply common private equity tactics for value creation such as:

- **Operational Improvements:** By applying technology and making capital improvements, margins can often be expanded. For example, TVF estimates that small capitalization industrial companies in its target geography have average EBIT margins 35% below their large capitalization counterparts. While some of this differential is due to economies of scale, there is often room to improve return on assets, manage working capital and reduce overhead.
- **Strategic Focus and Growth Initiatives:** By working with management and industry experts, TVF looks to help its portfolio companies identify the most promising product extensions and jettison weaker businesses that are not strategically important and are unlikely to deliver adequate returns on capital.
- **Build and Buy Strategies:** Many of the targeted companies operate in highly fragmented businesses that can benefit from consolidation. In other cases, TVF will encourage acquisitions that expand margins through vertical integration. Such examples allow a company to achieve the scale necessary to itself become an attractive candidate for strategic acquisition by a larger company.
- **Capital Allocation:** Frequently, smaller firms that remain under the control of the founding family will have a sub-optimal capital structure. TVF will utilize its capital markets expertise to work with the management team to rationalize the capital structure while improving liquidity and access to needed funding sources.
- **Governance and Communication:** When necessary, Triton will work with other shareholders to make targeted changes to the governance of the company. While this may involve personnel changes, it can also involve simply correcting misperceptions through improved communications or a dual listing on a more widely recognized exchange.

Triton's typical holding periods are one to four years and exits often involve either block sales of the position or sales of the entire company to strategic players. The manager targets situations that can deliver at least a 2.0x MOIC (multiple of invested capital) from entry levels.



Portfolio Construction:

TVF's portfolio construction is designed to ensure that returns are driven by stock selection and active value plans. Although the manager is aware of broad market movements, tracking error is not a consideration. Key elements of this strategy include:

- **Concentration**
- **Small to Mid-Capitalization Companies**
- **Northern European Exposure**
- **Sectors of Triton Expertise**
- **Unleveraged Long Equity Exposure**
- **Euro Focused**

Investment Instruments:

TVF invests only in listed public equities. There is no provision for side pockets and true private companies will not be acquired.

Investment Team:

The six-person team is led by Roger Hagborg and operated from the Triton offices in Frankfurt and Stockholm. Mr. Hagborg is responsible for organizing the workflow and time allocation of the TVF investment professionals and for recommending investments to the TVF investment committee consisting of Mr. Hagborg, Triton founder Peder Prah, Martin Huth and Christian Caspar. Investment decisions require a majority vote; however, in practice, ideas that cannot achieve a unanimous approval are referred for additional diligence. Key individuals on the TVF team are listed below.

Name	Role	Investment Team	Yrs. Experience Triton / Total	Prior Experience
Roger Hagborg	TVF Portfolio Manager	Yes	9/17	SEB, Cevian
Peder Prah	Triton Founder and Managing Partner	Yes	21/33	Doughty Hanson & Co, Morgan Stanley
Martin Huth	Triton Partner and Investment Committee Member	Yes	15/29	Warburg Pincus, Morgan Stanley, Booz Allen Hamilton
Christian Casper	Triton Senior Advisor and Investment Committee Member	Yes	7/41	McKinsey
Erik Malmberg	TVF Investment Advisory Professional (Stockholm)	Yes	8/11	Goldman Sachs, Swedbank AB
Olof Friberg	TVF Investment Advisory Professional (Stockholm)	Yes	5/8	AT Kearney, SEB Enskilda, The Boston Consulting Group
Karin Mollborg	TVF Investment Advisory Professional (Stockholm)	Yes	1/5	Investor AB, SEB Merchant Banking, PWC
Florian Herger	TVF Investment Advisory Professional (Frankfurt)	Yes	4/11	Bain & Company, Allianz Global
Robert Vosgerau	TVF Investment Advisory Professional (Frankfurt)	Yes	3/4	Deutsche Bank



Investment Highlights:

- Uniquely Positioned Team and Platform
- Attractive Market Niche Provides a Reservoir of Opportunities
- Concentrated, Portfolio Construction Philosophy Delivers an Idiosyncratic Return Stream
- Vehicle Offers Unique Benefits of a Small Fund Within a Large Platform

Investment / Risk Considerations:

- New Fund/Strategy with Short Track Record
- Competing Demands of a Multi-Product Platform
- Tracking Error and Temporary Periods of Underperformance
- Liquidity
- Key Person Issues

Finance Committee Disclosure:

Relationship with Aksia:	None Disclosed
Introduction Source:	Investment Office Staff / Aksia LLC
Placement Agent:	Not used
PA Political Contributions:	None Disclosed
Potential Conflicts:	We are not aware of Triton having any material investment conflicts.
PSERS History with the Investment Manager:	This investment will be PSERS' first investment with the manager.
PSERS Allocation Implementation Committee Approval:	September 17, 2018

Oversight Responsibility:

Investment Office:	Thomas A. Bauer Raymond J. Schleinkofer Jeffrey R. Burton	Deputy CIO, Traditional Investments Senior Portfolio Manager Senior Portfolio Manager
External Consultant:	Aksia LLC	

Manager Recommendation Memo

September 19, 2018

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

Re: Triton Value Fund (Cayman) L.P.

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and hereby recommends a direct allocation to Triton Value Fund (Cayman) L.P. ("TVF") in line with PSERS' Investment Policy Statement, Objectives, and Guidelines. It is further recommended that PSERS invest up to \$200 million in TVF.

Triton was founded in 1997 as a private equity firm based in Stockholm and Frankfurt, with a geographic focus on German-speaking and Nordic countries. Since launch, Triton has invested over €5.7 billion in German and Nordic companies across six private equity funds. While maintaining this geographic focus, the manager has expanded its product offering into other asset classes. Triton launched its first private credit vehicle in 2009 with approximately €500m in commitments, and launched its public-equity activism fund, TVF, in 2015. Triton had been investing in public equities for some time via its private equity funds and made the strategic decision to grow this area of its business when it launched TVF as a standalone vehicle in September of that year. TVF launched with €60 million of partner capital, with the Fund opening to external investors in July 2016.

TVF pursues a friendly activist strategy in small cap companies, typically with a market cap of €200mm to €2bn. TVF focuses on German-speaking and Nordic regions and has a bias towards industrial, business services and consumer stocks. The manager specifically targets fundamentally sound, growing businesses, with an aim to expanding and accelerating that growth, that it believes are misunderstood by the market or are undergoing a transient issue that has resulted in them becoming a temporary 'fallen angel' in terms of share price. Triton typically build positions via purchasing shares in the open market, although will also buy stakes in companies via privately negotiated transactions. Holding periods for positions are expected to be between 1 and 4 years. The preferred exit route is the sale of the entire business to a strategic or financial buyer, the potential for which is key to the team's due diligence process. If this is not possible, the manager will look to privately negotiate the sale of portions of the company or sell shares in the open market.

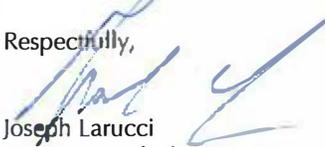
Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines:

- Due diligence of the TVF's investment process, including a review of their investment strategy, investment team personnel and structure, and risk management;
 - Onsite investment due diligence visit conducted June 12, 2018
- Due diligence of TVF's operations, including an operations and infrastructure review, regulatory and compliance review, PPM review, Form ADV review, and Financial Statement Review;
 - On-site operational due diligence visit conducted June 22, 2018
- Evaluation of the TVF strategy within the context of the current investment environment; and
- Appropriateness of TVF as a component of the PSERS portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in TVF, 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 TVF. Aksia manager recommendation memos should be reviewed with other Aksia due diligence materials, including the due diligence reports. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,



Joseph Larucci
 Partner, Head of Equity Strategies



Simon Fludgate
 Partner, Head of Operational Due Diligence