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Public Investment Memorandum

**Polaris Fund V, L.P.**

Private Equity Fund Commitment

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**Luke M. Jacobs, CFA, CAIA**  
Manager, Private Equity

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Senior Investment Professional, Private Equity

September 21, 2020



**Executive Summary:**

PSERS' Investment Office Professionals ("IOP"), together with Hamilton Lane Advisors, L.L.C. ("Hamilton Lane"), recommend to the Board a commitment of up to a combined ¥10.6 billion (~\$100 M) to Polaris Fund V, L.P. ("Polaris", or the "Fund").

Polaris Capital Group, Ltd. ("Polaris Capital" or the "Firm") is raising the Fund to invest in the small- and mid-cap segment in Japan with a particular focus on corporate carve-outs and business succession transactions. The Fund will follow the same investment strategy and focus that Polaris Capital has deployed since 2004. The Fund is targeting and has a hard cap of combined commitments of ¥150 billion (\$1.4 billion).

Fund Name	Polaris Fund V, L.P.
Firm Name	Polaris Capital Group, Ltd.
Target Fund Size / Hard Cap	¥150 billion / ¥150 billion (~\$1.4 billion)
Recommended Commitment Amount	¥10.6 billion (~\$100 M)
Existing Relationship	No
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Equity / Buyouts
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments Darren C. Foreman, Director Luke M. Jacobs, Manager G. Anthony Meadows, Senior Investment Professional
External Consultant Oversight	Hamilton Lane Advisors, L.L.C.

**Firm Overview:**

Polaris Capital was founded in 2004 through a joint venture between Mizuho and Asset Management One (AMONE). Polaris Capital now is fully owned by its management team. The Firm is headquartered in Tokyo with offices in Osaka, Japan, and Singapore.

Polaris opened the first office in Tokyo in September of 2004 and closed their first fund with committed capital of just under ¥30 billion (~\$282 million) in November 2004. The investment strategy at that time was not as developed or finely distilled as we know it now. While the business succession and carve out transactions formed the backbone of the investment strategy, Polaris also invested in other strategies. These included secondary buyouts, take privates, as well as venture, and turnaround transactions. Polaris realized where their strengths were and were quick to drop the non-core strategies to focus only on what they do best, majority/control mid-cap leveraged buyouts of Japanese companies.

In 2010, the Polaris management team, began the process of acquiring the equity shares from the owners. This would mark the first of multiple acquisitions to gain independent control of the firm.

Additional offices were added over time as the team expanded. An Osaka office was opened in 2011 to increase Polaris' footprint and coverage of businesses and a Singapore office established in 2013 to provide advice to offshore vehicles. Polaris remains the only mid-cap private equity firm with a presence in Osaka, evidence of their commitment to local business owners.

As of 2018, the Polaris management team, still headed by President and Founder, Yuji Kimura, acquired 100% of the ownership in the Firm. Since then, Polaris is managed by a fully independent team with autonomy on all investment committee (IC) and managerial decisions.

**Market Opportunity:**

The Japanese private equity market presents potential investors with a dichotomy of assessing a burgeoning private equity market within a mature and developed economy. Japan's economy is the third largest in the world by nominal gross domestic product (GDP) and is the world's second largest developed economy.

According to the Bank of Japan (BOJ), Japan's economy is likely to continue on an expanding trend over the next few years despite being affected by the slowdown in overseas economies in the near term. Weakness in exports is expected to be countered by private consumption expected to continue increasing as the employment and income situation continues to improve and the government implements countermeasures for the scheduled consumption tax hike.

Aggressive monetary and fiscal policy has been successful at growing the stock market and improve the sentiment of market participants and corporate managers.

Encouragingly, Japan has made significant progress in terms of acceptance of private equity managers and are no longer seen as "vultures." The opportunities for Japanese private equity managers are vast, there are over 2 million small and medium enterprises that are facing succession issues, while many conglomerates are considering carve-outs of their non-core businesses.

**Portfolio Fit:**

A commitment to Polaris will be allocated to the Buyout sleeve, in PSERS' Private Equity portfolio. The table below summarizes PSERS' projected Private Equity exposure, as of March 31, 2020, inclusive of a recommended \$100 million commitment to Polaris Fund V, L.P.:

Investment Type	Market Value	Unfunded <sup>1</sup>	Total Exposure	%	Pending Current Commitments		
					October 2020	Total Exposure	%
Buyout	\$ 4,831	\$ 4,159	\$ 8,990	65.7%	\$ 100	\$ 9,090	64.2%
Special Situation	1,068	761	1,829	13.4%	100	1,929	13.6%
Venture Capital / Growth Equity	1,109	879	1,988	14.5%	269	2,257	16.0%
Internal Co-invest	687	186	873	6.4%	-	873	6.2%
<b>Total</b>	<b>\$ 7,695</b>	<b>\$ 5,985</b>	<b>\$ 13,680</b>	<b>100.0%</b>	<b>\$ 469</b>	<b>\$14,149</b>	<b>100.0%</b>

<sup>1</sup>Includes commitments approved through August 2020

**Investment Strategy:**

The Fund will mainly target investments in Japanese companies or business divisions with enterprise values between ¥11 billion to ¥74 billion (~\$100-\$700 million) which have the potential to expand into the Asian markets. The Co-Investment Fund is expected to invest alongside the Fund in certain investment opportunities that exceed 8% of the aggregate capital commitments to the Fund.

In the selection of portfolio companies, Polaris will primarily consider companies that the Firm believes (i) have established solid businesses that generate stable cash flow, (ii) have mid- and long-term strategies for business growth and management capable of executing such strategies, (iii) are able to maintain stable business relationships with financial institutions, and (iv) have established a detailed investment strategy for the Fund's investment, from investment to exit. The Firm will focus on investing in portfolio companies

that have their primary operations in Japan or that have at least one department or division with operations in Japan.

Polaris will seek to form a diversified portfolio of at least ten portfolio companies during the term of the Fund. In addition to providing the Co-Investment Fund, the Firm may offer co-investment opportunities to certain limited partners and third parties for larger transactions. Polaris will seek to exit each investment within three to four years through a trade sale to a strategic or financial buyer, or through an initial public offering.

Polaris expects that investment opportunities will primarily take the form of (i) change in ownership of family-owned companies; (ii) restructuring, consolidation and divestitures by large conglomerates; and (iii) capital restructuring or going private transactions as part of realignment of ownership structure or restructuring of business strategies.

**Investment Team:**

Polaris' partners have worked together for an average of nearly 15 years and have an average of 19 years of private equity experience. The partners are supported by a strong team of 23 investment professionals.

Polaris' Investment Committee consists of 6 members: including 2 external board members.

Name	Title	Yrs. Experience Polaris / Total	Prior Experience
Yuji Kimura*	Founder, President, and CEO	16 / 27	Mizuho Securities The Industrial Bank of Japan
Akira Inuma*	Partner / CIO	16 / 17	Mizuho Securities The Industrial Bank of Japan
Hideo Mitsuda	Partner / MD & CIO of Polaris CG Singapore (PCGS)	14 / 15	Mizuho Corporate Bank The Industrial Bank of Japan
Toru Kajimura	Partner	15 / 19	Mizuho Corporate Bank The Industrial Bank of Japan
Junpei Yamada*	Partner	13 / 13	RECOF Corporation
Ryoichi Ogawa*	Partner	13 / 21	BCG Mitsui & Co
Zenji Miura*	External IC Member	N/A	ex-CEO of RICOH
Norio Kinouchi*	External IC Member	N/A	ex-CEO of Johnson Diversey Japan

\*Investment Committee Member

**Investment Highlights:**

- Value Creation Strategy
- Strong Deal Pipeline at Attractive Entry Multiples
- Concentrated Investment Approach
- External Investment Committee Members

**Investment / Risk Considerations:**

- Concentration (Country) Risk
- Limitations on Exit Strategies
- Increase in Fund Size
- Business & Market Risk in post-COVID 19 Environment

**PSERS History & Performance:**

This would be PSERS first investment with Polaris.



**Investment Committee Disclosure:**

<b>Relationship with Hamilton Lane:</b>	Hamilton Lane has previously invested in 2 funds and 1 co-investment opportunity on behalf of discretionary clients and has an advisory client, other than PSERS, who has invested in Polaris Funds. The advisory client is also considering a potential commitment to Polaris Fund V.
<b>Introduction Source:</b>	Hamilton Lane <sup>1</sup>
<b>Placement Agent:</b>	Polaris has not engaged a placement agent in soliciting business from PSERS and no placement agent will receive any fees in connection with an investment in the Fund by PSERS.
<b>PA Political Contributions:</b>	None Disclosed
<b>PA Presence:</b>	None
<b>Potential Conflicts:</b>	We are not aware of Polaris having any material conflicts with PSERS' investment in this fund.
<b>Litigation Disclosure:</b>	There are no ongoing or prior litigation proceedings involving Polaris, any of its affiliates or senior investment professionals.
<b>First Time Fund With PSERS:</b>	Yes
<b>PSERS Allocation Implementation Committee Approval:</b>	September 21, 2020

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<sup>1</sup> PSERS wishes to disclose that it was contacted by the placement agent, Lazard Asia Limited in 2019, preceding the adoption of the current Placement Agent Policy. Discussions did not begin with Polaris until PSERS discussed several possible general managers with its consultant, Hamilton Lane.



August 20, 2020

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

Re: Polaris Fund V, L.P.

Dear Trustees:

Polaris Capital Group Co, Ltd. ("Polaris") was established in 2004 as a joint venture between Mizuho Securities and DIAM. The firm became fully independent in 2018 as the senior leadership team increased their ownership to 100%. Polaris has developed a strong local brand in Japan through its long history of control buyout investing across cycles. The General Partner's investment activities are well-managed by a 17-person investment team with support from 3 operations professionals, and 6 finance, investor relations and business development professionals. The senior investment professionals are well-positioned to lead the team with an average of 22 years of experience and 12 years of tenure, demonstrating strategic and organizational cohesion. The General Partner focuses on developing and promoting talent internally and also demonstrates thoughtfulness around long-term institutionalization and talent retention through a broad distribution of economics. Carried interest is distributed across all investment, operations, and middle- and back-office professionals. Polaris is targeting ¥130 billion (\$1.1 billion) in commitments from limited partners for its fund, Polaris Fund V, L.P. (the "Fund"). Polaris held a first close in November 2019 accumulating ¥81.6 billion in commitments from limited partners and held interim closes between December 2019 and July 2020 accumulating ¥35.8 billion in commitments from limited partners. Polaris expects to hold a final close in Q4 2020. The General Partner will commit at least 2.0% of commitments to invest in or alongside the Fund.

Polaris will continue to target mid-market control buyout investment opportunities in Japan that arise from carve-out and business succession situations, leveraging its cycle-tested expertise. The General Partner's increased focus on carve-out investments demonstrates its attractive track record of creating value as well as the increasing opportunity set of divestiture of non-core assets from Japanese corporations. Polaris will maintain a diversified sector focus and has generated attractive performance across its core industries of manufacturing, technology, healthcare, consumer/retail, IT, services and logistics. Polaris is differentiated as an experienced, focused investor, and thus well-placed in the Japan mid-market buyout space to win deals, as competition remains limited with few players. Polaris expects its local relationships and experience to generate advantaged sourcing in corporate carve-outs and business succession transactions. Additionally, the dedicated operations group seeks to strengthen management, drive growth, improve operational efficiencies and complete add-on acquisitions for portfolio companies. The Fund will target approximately 10 to 14 equity investments up to ¥30 billion (\$261 million).

Polaris Fund V, L.P.'s investment thesis can be summarized as follows:

- Polaris is an established, cycle-tested local investor with a tenured and experienced senior team
- Polaris is differentiated by its consistent focus on mid-market buyouts in Japan
- Polaris has generated attractive realized returns and demonstrated a thoughtful portfolio construction approach



# Hamilton Lane

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 October 8, 2019; the on-site due diligence was conducted October 10, 2019; the fund was approved by Hamilton Lane's Investment Committee on October 21, 2019 and the recommendation to PSERS was issued August 20, 2020.
- 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 Polaris's back office 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:

Mingchen Xia – Co-Head of Asia Investments, Hong Kong Office  
Jérôme Kamm – Associate, London Office  
Vivian Kwan – Analyst, Hong Kong Office

Based on the above, PSERS' Investment Office Professionals ("IOP"), together with Hamilton Lane Advisors, L.L.C. ("Hamilton Lane"), recommend to the Board a commitment of up to a combined ¥10.6 billion (~\$100 M) to Polaris Fund V, L.P. ("Polaris", or the "Fund"). 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,  
Chief Client Officer

Corina English,  
Principal