



January 2, 2014

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

Re: Palladium Equity Partners IV, L.P.

Dear Trustees:

Palladium Capital Management, LLC ("Palladium" or "the Firm") launched its fourth private equity fund, Palladium Equity Partners IV, L.P. ("PEP IV" or "the Fund"), to continue the strategy initiated by the previous Fund of making private equity investments in middle market companies focusing on the U.S. Hispanic market. The Fund targets control-oriented equity investments of \$15 to \$75 million in companies with EBITDA in the \$5 to \$25 million range. The Fund expects to target select sectors within a growing Hispanic population including consumer products, business and financial services, healthcare, industrial, and media. Marcos Rodriguez founded Palladium in 1997 and continues to lead the organization today. PEP IV is targeting a fund size of \$800 million, representing a small increase over the \$775 million raised for PEP III. To date, the Firm has closed on approximately \$400 million in commitments for PEP IV from several large limited partners including CALSTERS, NYSCRF, and TXTRS. The General Partner will commit 2% of the aggregate fund capital in the general partnership.

The U.S. Hispanic market provides attractive opportunities for successful private equity investments due to a number of key attributes. This includes a fast growing demographic, a meaningful market size estimated at \$1.2 trillion, increasing purchasing power, and the growth in business creation by Hispanic entrepreneurs. According to the U.S. Census Bureau, approximately 17% or 52 million of the total U.S. population is Hispanic or Latino. The Hispanic population in the U.S. is expected to grow to 57 million by 2015, and double by 2050. By 2060, the Hispanic population is expected to account for more than 30% of the total U.S. population. The number of Hispanic-owned businesses in the U.S. increased by 43.7% to 2.3 million, more than twice the national rate of 18.0% between 2002 and 2007, according to the U.S. Census Bureau. Despite this being a large, rapidly growing market, it still remains largely underpenetrated by private equity capital. The U.S. Hispanic market only represents approximately \$2.0 billion, or 1/1000th, of the \$2.0 trillion U.S. private equity market at this time. The U.S. Hispanic market represents an opportunity to invest in an emerging-like market given its relatively untapped nature, but with the stable and mature infrastructure, capital markets and legal systems of the U.S.

Palladium feels that companies in the middle market provide strong, stable platforms while allowing for attractive organic and acquisitive growth opportunities. The Firm views the current lack of financing alternatives for companies in this market as a competitive advantage. Palladium seeks to structure transactions on more favorable terms and often through less efficient processes where the motivations of the seller are not entirely driven by price. Of the twelve large deals in PEP III, eight have been



acquired through proprietary or non-auctioned type means. As a result, the Firm has seen an average entry multiple in investments of 6.9x EBITDA (6.3x EBITDA when including add-on acquisitions). The Fund expects to target a select set of sectors with a growing Hispanic influence, including consumer products, business and financial services, healthcare, industrial, and media.

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.
- 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:

Gregory Garrett - Managing Director, Connecticut Office
Jeff Gruccio – Senior Vice President, Connecticut Office
Geoffery Kelleman – Senior Associate, Connecticut Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$75 million of limited partnership interests in Palladium Equity Partners 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



Private Equity Fund Commitment

Palladium Equity Partners IV, L.P.

January 23, 2014

Palladium Equity Partners IV, L.P. – Private Equity Fund

Overview

- Fund size is \$800 Million, with a hard cap of \$1.0 Billion
- Palladium is a buyout fund focused on the lower middle-market and is recognized as a leading buyout investor in the U.S. Hispanic market

Fund Strategy

- Palladium will seek to continue their differentiated investment strategy in the U.S. Hispanic market focused on founder transition opportunities in companies with EBITDA of \$5 to \$25 million. Palladium invests in industries where it has strong prior experience mainly in: Consumer, Services, Financial, Healthcare and Media. Seek to transform founder-owned businesses poised for growth. Focus is on Hispanic owners, consumers, and products/services

Investment Team

- Palladium has 22 professionals that have an average of 7 years of experience with Palladium and over 11 years of experience in the private equity industry
- Palladium's team is 75% Spanish speaking and represent eight different Hispanic nationalities

Palladium Equity Partners IV, L.P. – Private Equity Fund

GP “Value Add”

- Working with a network of operating executives, Palladium will target lower-middle market companies well positioned to capitalize on the fast-growing U.S. Hispanic market in industries where the firm has substantial expertise
- Palladium's approach to the investment process is systematic and disciplined:
 - Invest Prudently - Drives prudent valuations and provides framework for new opportunities
 - Create Value - Focused on doubling the EBITDA of underlying founder transition investments
 - Generate Liquidity - Seek to position each portfolio company for attractive liquidity options
- By applying a disciplined investment process and a result driven value creation model, Palladium has demonstrated their ability to systematically generate attractive realizations and risk adjusted returns for investors.

Performance

- Palladium Equity Partners II, a 2000 vintage fund, has a net 2.6x MOC and a 11.0% Net IRR
- Palladium Equity Partners III, a 2005 vintage fund, has a net 1.9x MOC and a 18.0% Net IRR

Palladium Equity Partners IV, L.P. – Private Equity Fund

History with PSERS

- This will be PSERS second commitment to Palladium. PSERS committed:
 - \$57.7 Million to Palladium Equity Partners II

Risks and Mitigants

- Personnel risk - 2 analysts will be hired, more employees will receive carried interest
- Operational risk – 21 of 32 platform investments have been fully or partially realized, only one remaining investment in Fund II

Board Issues

- Pennsylvania Presence -1 portfolio company in PA., employing 954 people
- Placement Agents – Fortress Group Inc., has been hired as Placement Agent, but fee will be paid directly by General Partner.
- PA Political Contributions - none
- Relationship with Consultant - none

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$75 Million plus reasonable normal investment expenses

Notice: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.