



International Private Equity Fund Commitment

Bain Capital Asia Fund III, L.P.

August 5, 2015

See Last Page for Disclaimer

Michael J. Tyler, Portfolio Manager,
Private Markets and Real Estate

Bain Capital Asia Fund III, L.P. – International Private Equity Fund

Overview

- Fund III will primarily invest in Japan, Greater China, India, and Australia, but may also invest in other parts of Southeast Asia
- Investments between \$100 and \$300 million in equity size: some may be in conjunction with other Bain Capital Funds
- Expect a portfolio of 15 companies
- Target of \$2.5 billion fund size

Fund Strategy

- Invest in growth equity, leverage buy-outs, and turnarounds, where they can drive operational improvements
- Focus on five sectors: Industrial, Consumer & Retail, Technology-Media-Telecommunications, Financial & Business Services, and Healthcare

Investment Team

- The fund will be led by 15 Managing Directors and 50 other investment professionals
- Bain Asia has offices in Hong Kong, Shanghai, Tokyo, and Mumbai
- Bain Capital's US and Europe teams provide valuable insights from time to time

GP “Value Add”

- Bain sets a clear strategy for portfolio companies, known as the “Blueprint” plan which sets a clear vision and actionable goals; has a proven ability to build strong management teams with the right talent and skills to execute the “Blueprint”; and has a proven ability to drive focused execution of the elements of the strategy through to conclusion, and ultimately through a formal exit committee process, is able to manage and maximize liquidity events

Bain Capital Asia Fund III, L.P. – International Private Equity Fund

Performance (3/31/15)

- Bain Asia I, vintage year 2007, has a net 1.4X MOC and an 8.2% IRR
 - (Asia I, adjusted to terms of Asia III, would show 1.5X and 11.4% IRR)
- Bain Asia II, vintage year 2012, has a net 1.3X MOC and an 18.4% IRR
- Bain Asia Funds I and II have made 22 investments in Asia; together generated a gross and net multiple of 1.7x and 1.4x, a gross and net IRR of 21.1% and 9.7%, respectively

Market Opportunity

- Asia presents an expanding opportunity for private equity investments. China and India have large populations with higher growth economies; government changes have created opportunities in key sectors and opened up capital markets for liquidity events. In Japan, Abenomics continues to show positive progress, consumer spending is expanding, and there is a large number of target companies with attractive fundamentals. Australia shows economic stability and a number of attractive yet undermanaged companies.

History with PSERS

- This will be PSERS third private equity commitment with Bain; second in Asia
- We have invested in five of their debt funds under the Sankaty divisions in the Bank Loans, Credit Opportunities, and Middle Market Opportunities areas

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Risks and Mitigants

- Economic and Financial Instability Risk: Emerging economies may perform favorably or unfavorably compared with developed economies due to currency fluctuation, inflation, international trade barriers and government policies. Mitigant: focus on more developed sectors, hedge when appropriate, have control investments
- Increasingly competitive market – Increased number of public and private equity investors competing for the best deals. Mitigant: Maintain network that results in proprietary and limited competition; focus on companies with greater potential for Revenue and Ebidta growth.

Board Issues

- Pennsylvania Presence – None
- Placement agents – None
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors manages three funds as a joint GP with UOB (United Overseas Bank of Singapore) and committed no more than US\$10 million to each of Bain Capital Asia I and II. Portfolio Advisors through its funds of funds, (alone, no longer as a joint GP with UOB) plans on committing a similar amount to Asia Fund III

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$150 million plus reasonable normal investment expenses



July 14, 2015

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

Re: Bain Capital Asia Fund III, L.P.

Dear Trustees:

Bain Capital Partners, LLC ("Bain" or the "Firm") is seeking to raise \$2.5 billion (hard cap \$3.0 billion) of limited partnership interests for Bain Capital Asia Fund III, L.P. ("Fund III" or the "Fund"). The Fund will primarily invest in companies headquartered in China, Japan, India, and Australia with the flexibility to make investments in other parts of Asia and the Asia Pacific Region. The Fund will also have the ability to pursue larger investments with an Asian dimension alongside Fund XI, the Firm's global private equity fund, or its successor funds. This provides the Fund with the flexibility of pursuing opportunities that may range in size from \$50 million to \$1 billion. Bain believes that it is well-positioned to capitalize on Asia's growth and attractive investment opportunities given the size and strength of its team in Asia, its global approach to investing supported by more than 350 affiliated investment professionals around the globe (with approximately 60 investment professionals dedicated to Bain Capital Asia) and its value-added, consulting-driven approach in working with its portfolio companies. The Fund intends to hold a single close in September 2015. The final commitment of Bain professionals and related entities alongside Fund III will be at least \$250 million.

Bain targets opportunities with the following characteristics:

- *Leading market position:* The investment team focuses on market leaders with sustainable competitive advantages. These companies have strong and defensible relative market share, which are better positioned to outperform peers in uncertain markets.
- *Strong growth potential:* Bain targets companies with strategic and operational transformation potential through a combination of significant top-line growth, market share gain, margin improvement, capital liberation and multiple expansion from strategic repositioning. Transformation potential includes opportunities for geographical expansion, cross border or within country markets, through increasing sales in new markets and/or developing a more competitive global manufacturing or sourcing footprint, either organically or through acquisitions.
- *Unique competitive angle:* In many competitive situations, the dynamic is improved by Bain Asia's specific competitive angles versus other potential bidders. These arise from Bain Asia's ability to generate differential insights, unique relationships with key influencers and/or a differentiated ability to realize growth potential through operational transformation.



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 June 17, 2015.
- 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:

Jonathan English – Managing Director, Hong Kong Office
Weibo Xiong – Vice President, Hong Kong Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$200 million in Bain Capital Asia Fund III, 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