



COMMONWEALTH OF PENNSYLVANIA  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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Public Investment Memorandum

**Sixth Cinven Fund, L.P.**

Private Equity Commitment

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**Darren C. Foreman**  
Senior Portfolio Manager

**February 12, 2016**



## **Recommendation:**

Staff, together with Portfolio Advisors, recommends to the Board a commitment of up to €100 million to the Sixth Cinven Fund, L.P. ("Fund 6" or the "Fund"). Cinven ("Cinven" or the "Firm"), a London, UK private investment firm, is sponsoring the Fund to make investments primarily in Industrials, Business Services, Consumer, Financial Services, Healthcare and TMT (technology, media, telecom) in Western Europe.

## **Firm Overview:**

Cinven was founded in 1995 and has raised 5 buyout funds. To date, Cinven has made 87 investments and realized or listed 63 investments which have delivered €27.3 billion for investors. The Firm has one strategy and raises buyout funds that focus on investing in Western Europe. Cinven uses sector expertise and local country experience to target companies where it can strategically drive revenue growth both in Europe and globally. Cinven's investment committee is comprised of Stuart McAlpine, David Barker, Peter Catterall, Nicolas Paulmier and Hugh Langmuir. Joseph Wan and Immo Rupf lead the internal portfolio team which is group of specialists responsible for providing operational support to the portfolio companies. The portfolio team works with portfolio companies to ensure that value creation strategies are effectively implemented. Cinven's capital markets team is led by Matthew Sabben-Clare and Soren Christensen. The capital markets team spends time analyzing the financial structure of investments. The capital markets team helps refinance existing debt to improve terms when appropriate.

## **Fund Size**

Sixth Cinven Fund, L.P. is seeking equity commitments of €5.5 billion.

## **Investment Strategy:**

The Fund will seek to invest between €150 and €600 million of equity primarily in Western European companies in the healthcare, industrials, TMT, consumer, business services and financial services sectors which have the following profile:

- Attractive business with high quality management teams
- Multiple strategies for value creation
- Resilience to economic and market cycles
- Multiple exit options

## **Investment Team:**

Cinven is led by Stuart McAlpine, Managing Partner and Hugh Langmuir, Executive Chairman. The 21 Partners are comprised of investment, finance, operating and investor relations professionals located across the firm's offices. Cinven has 65 dedicated investment professionals that work in offices in London, Paris, Frankfurt, Milan and Madrid. The portfolio team has offices in New York and Hong Kong. The table below highlights the experience of Cinven's Investment Committee:

Name	Title	Yrs. Experience Cinven / Total	Prior Experience
Hugh Langmuir	Executive Chairman	24 / 24	Bain & Company, Citigroup
Stuart McAlpine	Managing Partner	19 / 19	Royal Bank Scotland, Ernst & Young
David Barker	Partner	19 / 19	
Peter Catterall	Partner	18 / 18	Pricewaterhouse Coopers
Nicolas Paulmier	Partner	16 / 25	Electra, Sanofi



### **Investment Instruments:**

The Fund will make equity investments in Europe that focus on management buyouts, management buy-ins and at times in investee companies for additional capital needs.

Sample portfolio companies:

- HEG (Hose Europe Group) – a leading provider of mass hosting services (domain registration, website hosting, etc.)
- CeramTec – leader in ceramic ball heads for hip joints
- Avolon – global aircraft leasing company
- CPA Global – leading provider of Intellectual Property management services and software
- Gondola – market leading restaurant operator in the UK casual dining sector

### **Market Opportunity:**

- 30% of the Global Fortune 500 companies are headquartered in Europe
- ample European transaction volume (€63.7 billion in 2013 and €49 billion in 2014)
- Europe has a high level of private and family-owned businesses (85% in Spain and 75% in Germany are family-owned), this presents a great opportunity for private equity investment
- Cinven has reviewed 700 opportunities in Fund 5 and invested in 13 companies

### **Investment Highlights:**

<b>Consistent Investment Strategy</b>
Cinven has invested solely in European buyouts. The Firm's core investment strategy has remained consistent for 25 years. Cinven does not operate an asset gathering model and does not manage any separate accounts for investors. Their strategy is focused on generated good returns through European buyout investments.
<b>Strong benefit from internal portfolio team</b>
The Portfolio Team is deployed on targeted, project-oriented basis, working with the deal teams against specific initiatives. The goal is to identify the largest growth opportunities where their expertise can assist a company and its management team in accelerating growth.
<b>Internal Capital Markets team provides value</b>
Cinven's Capital Markets team has provided value in structuring debt on new portfolio companies. They achieve the best terms available in the marketplace. The Capital Markets team has developed expertise in equity capital markets. Cinven has listed businesses on a number of stock exchanges (NYSE, Stockholm, London, Euronext Paris, etc.).

### **Investment Considerations:**

<b>Low economic growth in Europe</b>
Even though economic growth in Europe is low, Cinven has been able to perform well. Most of Cinven's portfolio companies have substantial revenues outside of Europe. Cinven has executed IPOs during challenging stock markets. Cinven has also been able to sell businesses to large global trade buyers during difficult economic times.
<b>Currency volatility</b>
At the fund level, Cinven does not employ foreign exchange hedging as the timing and amount of distributions is unpredictable and option based hedging strategies are expensive.



**PSERS History & Performance:**

In 2007, PSERS committed €150 million to the Fourth Cinven Fund and in 2012 committed €100 million to the Fifth Cinven Fund. As of September 30, 2015, Cinven's composite has generated an 8% net IRR and a 1.4x net MOIC for PSERS across their buyout funds. The table below summarizes PSERS' historical performance with Cinven:

Fund (\$mm)	Portfolio	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	MOIC
Fourth Cinven Fund, L.P.	PE	2007	\$198	\$205	\$215	\$69	7%	1.4x
Fifth Cinven Fund, L.P.	PE	2012	125	89	32	91	19%	1.3x
<b>Total</b>			<b>\$ 323</b>	<b>\$ 294</b>	<b>\$ 247</b>	<b>\$ 160</b>	<b>8%</b>	<b>1.4x</b>

**Portfolio Fit:**

A commitment to the Sixth Cinven Fund will give PSERS' Private Markets portfolio exposure to the large buyout market in Europe. Cinven's focus on good companies (not turnarounds), initiatives such as buy and build, 15 plus years of investing in its targeted sectors in Europe, would be complementary to PSERS' Private Markets portfolio. Cinven employs an activist private equity strategy with value creation plans that include internationalization, post-merger integration, digital technologies, pricing and cash management.

**Liquidity & Leverage Profile:**

The Fund is expected to be invested ("Investment Period") within six years of its final closing, with the ability to fully recycle realized proceeds within this period. The Fund may provide interim financing ("Bridge Financing") in order to facilitate a portfolio investment. Bridge Financing is recouped within 18 months following the date of the closing on such financing.

**Finance Committee Disclosure:**

<b>Relationship with Portfolio Advisors:</b>	Portfolio Advisors Private Equity Fund II committed \$3.3 million to the Third Cinven Fund
<b>Placement Agent:</b>	None used for PSERS
<b>PA Political Contributions:</b>	None Disclosed
<b>Conflicts:</b>	None Disclosed
<b>History with PSERS:</b>	Yes, PSERS committed 150M Euros to Cinven IV and 100M Euros to Cinven V
<b>PSERS Internal Alpha Committee Approval:</b>	February 12, 2016

**Oversight Responsibility:**

<b>Investment Office:</b>	Charles J. Spiller Darren C. Foreman	Managing Director Senior Portfolio Manager
<b>External Consultant:</b>	Portfolio Advisors LLC	



February 12, 2016

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

Re: Sixth Cinven Fund, L.P.

Dear Trustees:

Cinven Limited (“Cinven” or the “Firm”) is seeking to raise €5.5 billion (no hard-cap) of limited partnership interests in the Sixth Cinven Fund, L.P. (“the Fund”, “Cinven 6”) with a targeted first close on April 28, 2016. While this is Cinven’s sixth commingled institutional Fund since 1996, the Firm has been investing in private equity on behalf of institutional clients since 1977. The Partners and Executives of Cinven will invest 2% of total commitments in the Fund. Cinven focuses on lead control positions in strongly performing or market leading, cash flow generative companies either with headquarters in Europe or with European strategies that have been underdeveloped in some way, and in which it has identified strategies to accelerate growth either in Europe or globally. Cinven’s control-focused ownership approach allows it to enhance core operations and effect change – either in the company’s strategy and/or its operations. Cinven’s portfolio team works with the deal team to leverage functional capabilities that will drive growth. These capabilities may include merger integration (a key feature of the Fund 5 portfolio, given the number of buy and build investments made); pricing; salesforce effectiveness; internationalization; and digital/disruptive technologies. While revenue growth, rather than cost reduction, is a hallmark of Cinven’s approach to value creation, they do seek to create operational improvements in every portfolio company.

As with the prior Funds, Cinven expects the Fund to be well diversified by industry and region. Investing from offices in London, Paris, Frankfurt, Milan and Madrid, Cinven’s 65 investment professionals have been organized into teams that focus on the following sectors: business services, financial services, consumer, healthcare, industrials, and telecoms & media (TMT). The Cinven Funds’ portfolio companies typically have the benefits of established or fast growing operations, scale, price and product leadership, and strong brand identities. As a result they are typically able to attract high calibre management teams, capital markets confidence and offer a broader range of exit opportunities. Cinven has a disciplined investment focus and will not typically invest in early-stage businesses or heavily loss-making companies. These characteristics also help to ensure that the Cinven Funds’ portfolio companies have a certain downside protection and are less vulnerable to market cycles. The Fund is targeting corporate spinoffs and other investment opportunities where it can be the sole or joint lead investor. Cinven will not invest if there is no path to exercise control over the strategy. The Fund will invest in 12 to 20 portfolio companies (three to



five transactions per year). A maximum of 15% of the Fund can be invested in one deal. Over the past four years, Cinven has deployed about €1.1 billion per year on average.

Portfolio Advisors' 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 on-site due diligence visit was performed on November 30, 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:

Peter Schwanitz – Managing Director, Zurich Office  
Nadine Zangger – Vice President, Zurich Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to €100 million in the Sixth Cinven Fund, 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