

Investment Recommendation

SERS’ Investment Office Staff and SERS’ Private Equity Consultant, StepStone Group, recommend that the State Employees’ Retirement System Investment Committee interview HarbourVest Partners, LLC (“HarbourVest”, the “GP” or the “Firm”) at the July 23, 2024 Investment Committee Meeting to consider a potential investment of up to \$200 million to a separately managed account (SMA) named the HarbourVest PA Co-investment Fund Tranche II L.P. (name TBD; “the Fund”, “the SMA”, or the “Partnership”). SERS has an existing relationship with HarbourVest, as the Firm was previously hired to manage SERS’ private equity emerging manager program in 2014 and began managing “Tranche I” of the co-investment SMA with SERS in 2020. In addition, SERS committed to eight HarbourVest funds-of-funds between 1997 and 2007. As this SMA has been directly negotiated to have a custom investment mandate for SERS, it is a “fund-of-one”, and the proposed commitment will be the fund size. Furthermore, there is no firm closing schedule, but SERS has agreed to target completing legal due diligence and closing by August 30, 2024, should approval be attained.

Investment Rationale

Staff identified HarbourVest PA Co-investment Fund Tranche II as a strong candidate for SERS’ capital commitment as it offers:

- Significant management fee and carry savings that will lower SERS’ annual fee burden
- Bespoke co-investment offering crafted to satisfy numerous SERS objectives and the ability to tailor allocations by geography, sector, and company size to SERS’ specific needs
- Partnership with a leading co-investment intermediary with 40+ years of experience
- High level of coverage with SERS’ existing core PE managers

Investment Risks & Mitigants

Staff identified the following potential risks of a commitment to HarbourVest PA Co-investment Fund Tranche II:

- Adverse selection
- Higher dispersion of investment outcomes

Portfolio Implications

SERS is targeting a commitment to HarbourVest PA Co-investment Fund Tranche II of up to \$200 million, of which approximately \$50 million is expected to be deployed in 2024, representing approximately 6.25% of the strategic plan pacing budget. No more than \$80 million may be deployed in a given calendar year. The portfolio is expected to be heavily diversified across region, sub-strategy, and sector, with the image below displaying SERS’ baseline assumption for portfolio impacts.

PA SERS Private Equity 2024 YTD Commitment Summary												
<i>\$ in Millions</i>												
Fund Name	North America			Europe			Rest of World			Fund / Co-invest Commitment	Total	
	Buyout	Growth	Special Sits	Buyout	Growth	Special Sits	Buyout	Growth	Special Sits			
Clearlake VIII + Sidecar Co-Invest			\$120							\$100	\$20	\$120
HarbourVest Co-investment SMA	\$26	\$8	\$4	\$7	\$2	\$1	\$2	\$1	\$0		\$50	\$50
YTD Total	\$26	\$8	\$124	\$7	\$2	\$1	\$2	\$1	\$0	\$100	\$70	\$170