

Investment Recommendation

SERS Investment Office (“IO”) staff and SERS’ Private Equity Investment Consultant, StepStone Group, recommend that the Investment Committee of the State Employees’ Retirement Board interview LLR Partners (“LLR”, the “GP”, or the “Firm”) at the September 17, 2024 Investment Committee Meeting to consider a potential commitment of up to \$75 million to LLR Equity Partners VII, L.P. (“LLR VII”, or the “Fund”), subject to the satisfactory completion of legal due diligence. SERS has a long-standing partnership with LLR, a Pennsylvania-based manager, having committed to all six of LLR’s previous funds, dating back to 1999 (25-year relationship). This follow-on investment would mark SERS’ seventh commitment with LLR. LLR VII is currently scheduled to hold a final close on October 15, 2024.

Investment Rationale

SERS IO staff identified LLR VII as a strong candidate for a SERS capital commitment, as it offers:

- A long track record with consistently strong net performance since inception;
- Strong quartile rankings against private equity competitors;
- Strong net alpha generation against the Russell 3000 Total Return Index PME benchmark since inception;
- Consistency with SERS’ PE portfolio objectives;
- A stable and experienced team of senior investment professionals;
- Exposure to attractive high growth sectors, with a sector specialist;
- Downside protection features;
- Exposure to a Pennsylvania-based manager.

Investment Risks & Mitigants

SERS IO staff identified the following potential risks of a commitment to LLR VII:

- Fund VI is largely unrealized and will take resources to continue to manage;
- Competitive landscape in the sectors LLR traffics in (technology and healthcare);
- Use of leverage has increased across Funds V-VI.

Portfolio Implications

SERS is targeting a commitment to LLR VII of up to \$75 million, representing approximately 9.4% of the 2024 strategic pacing plan for the PE asset class. The portfolio is expected to be concentrated across sub-strategy, geography, and sector, as LLR will exclusively invest in the United States utilizing its buyout strategy across the technology and healthcare sectors. The image below displays SERS’ baseline assumptions 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 PA Co-investment Tranche II	\$25	\$8	\$4	\$7	\$2	\$1	\$2	\$1	\$0		\$50	\$50
LLR VII	\$75									\$75		\$75
YTD Total	\$100	\$8	\$124	\$7	\$2	\$1	\$2	\$1	\$0	\$175	\$70	\$245