

Investment Recommendation

SERS’ Investment Office Staff and SERS’ Private Equity Consultant, StepStone Group, recommend that the State Employees’ Retirement System Investment Committee interview PSG Equity L.L.C. (“PSG”, the “GP” or the “Firm”) at the February 21, 2023, Investment Committee Meeting to consider a potential commitment of up to \$75 million to PSG VI L.P. (the “Fund”, “Fund VI” or “PSG VI”), subject to the satisfactory completion of legal due diligence and contract negotiations. The Firm is targeting commitments of \$6.5 billion for Fund VI. PSG expects to close the Fund at the end of March 2023.

Investment Rationale

Staff believes PSG VI represents a strong candidate for SERS’ capital commitment as it offers:

- Strong absolute and relative performance with fast return of capital and a low loss ratio.
- Attractive software market opportunity.
- Lower mid-market buy and build expertise with large resource base.
- Differentiated deal sourcing and M&A capability.
- Experienced and stable team of senior professionals.
- Consistent with SERS’ portfolio objectives and strategic plan.

Investment Risks & Mitigants

Staff identified the following potential risks:

- Software market valuation multiples.
- Most recent fund is largely unrealized.
- Rapid growth in fund size.

Portfolio Implications

A commitment to PSG VI would be a 2023 vintage allocation in the Private Equity asset class and Growth Equity sub-asset class. As of September 30, 2022, SERS’ market value of Growth Equity investments was approximately 21.5% of the Core PE portfolio.

The following two charts show the Core PE portfolio allocations by sub-strategy as of September 30, 2022, on the left, and a prospective view of the allocation post a \$75 million commitment to PSG VI on the right.

