



Investment Committee Memorandum

Hellman & Friedman Capital Partners X, L.P.

Private Equity Asset Class

February 23, 2021

## Investment Recommendation

SERS' Investment Office Staff and SERS' Private Equity Consultant, StepStone Group, recommend that the State Employees' Retirement System Investment Committee interview Hellman & Friedman LLC ("Hellman & Friedman", "H&F", or the "Firm") at the February 23, 2021 Investment Committee Meeting to consider a potential commitment of up to \$125 million to Hellman & Friedman Capital Partners X, L.P. ("HFCP X" or the "Fund"), pending the satisfactory completion of legal due diligence. H&F is targeting capital commitments of \$20 billion.

## Investment Rationale

SERS Staff identified H&F X as a strong candidate for SERS' capital commitment as it offers:

- Strong absolute performance
  - Net returns are attractive, and the attribution of returns comes from demonstrably repeatable sources and capital preservation has been strong.
  - H&F has added significant value to SERS' portfolio over time.
- Strong relative value
  - H&F's track record ranks highly against private peer managers in each of its preceding funds.
  - H&F earns significant alpha above the liquid policy benchmarks.
  - H&F's returns rank favorably to SERS' existing portfolio and have been accretive to portfolio performance.
- A consistent, focused strategy
  - H&F has been singularly focused on the same strategy since inception over 35 years ago, investing out of one global fund.
- A strong senior investment team
  - H&F currently has a large senior investment team with an average tenure at H&F of 17 years.
- Consistency with SERS' portfolio objectives as outlined in the IPS and Strategic Plan.

## Investment Risks

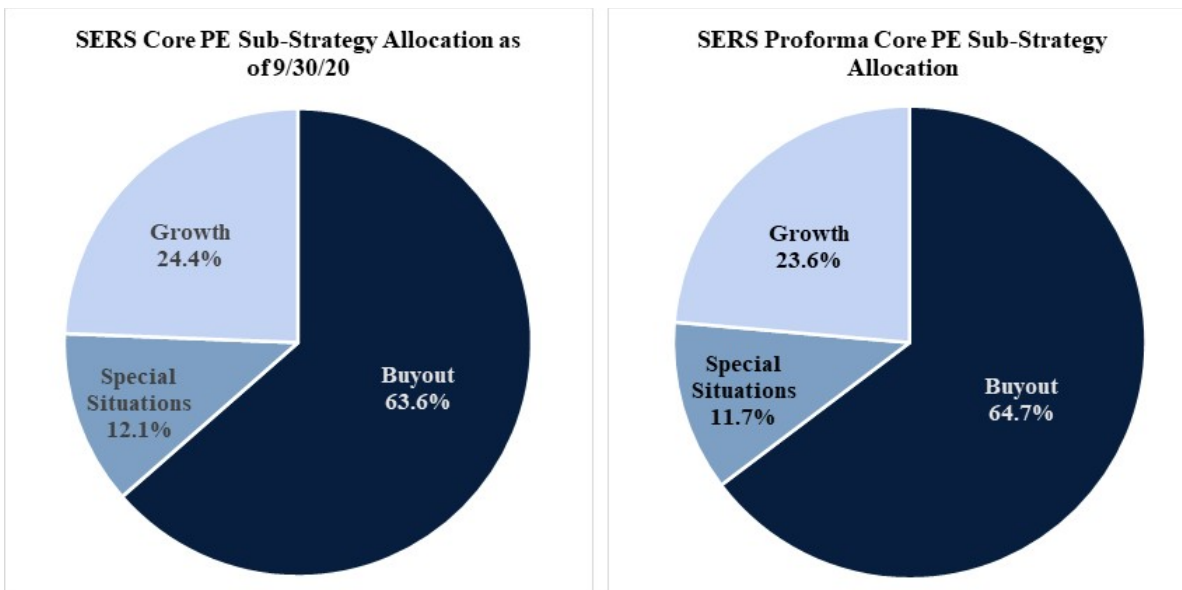
SERS Staff identified the following potential risks of a commitment to H&F X:

- High Purchase Price Multiples
- Relatively Quick Fundraise After HFCP IX
- No Preferred Return Hurdle

## Portfolio Implications

A commitment to HFCP X would be a 2021 vintage allocation in the Private Equity asset class and Buyout sub-asset class. As of September 30, 2020, SERS' market value of Buyout investments was approximately 63.6% of the Core PE portfolio. This commitment aligns with SERS' Strategic Investment Plan initiative of making fewer commitments to top-tier managers. SERS is targeting a commitment of up to \$125 million, or 22.7% of the current strategic plan pacing budget for the Private Equity portfolio. This commitment also reflects a position size of appx. 3.2% within the Core PE portfolio.

The following two charts show the Core PE portfolio allocations by sub-strategy as of September 30, 2020 on the left, and a prospective view of the allocation post a commitment to H&F X on the right.



### Sponsor Overview

Hellman & Friedman was founded in 1984 by Warren Hellman and Tully Friedman and is one of the largest and longest standing private equity firms in the world. The Firm is headquartered in San Francisco with additional offices in New York and London. H&F invests out of one global fund product that focuses on large market buyouts and significant minority positions in high quality businesses with enterprise values ranging from \$1 billion to \$10+ billion, predominantly in the following sectors: software, financial services, internet & media, consumer & retail, and healthcare. To date, the Firm has raised nine institutional funds totaling over \$50 billion and has invested in over 100 companies.

H&F remains 100% employee owned and is led today by Philip Hammarskjold, Patrick Healy, Allen Thorpe and David Tunnell, who have worked together for an average of 25 years. In total, there are 15 Investment Partners, 2 Operating Partners, a Capital Markets Partner and six other Partners. The Investment Partners are supported by 30 investment professionals: six Directors, five Principals, and 19 Associates. In addition, there are 23 professionals focused on IR, tax, legal, finance and talent.

### Investment Strategy

HFCP X will continue the same successful strategy as the prior funds. The Firm will invest out of a single global fund and target high quality, growth businesses with defensible market positions, headquartered predominantly in North America and Europe. H&F focuses on large market buyouts and significant minority equity positions.

The strategy has the following attributes:

- Large and experienced senior investment team, investing out of a single fund.
- Sector-based approach with specialized industry knowledge and deep relationships.
- Target attractive business models with consistent investment characteristics.
- High impact operating expertise formed over decades of experience.
- Diversified, yet concentrated portfolio.

## Management Team

**Patrick Healy**, Chief Executive Officer. Prior to becoming CEO in January 2019, Patrick served as Deputy CEO from 2009 to 2017 and as Co-CEO in 2018. He is a member of the Investment Committee, Chairman of the Compensation Committee, and leads the Firm's London office and European activities. He is currently a Director of TeamSystem and Verisure. Mr. Healy's previous investment activities included Action, Allfunds, AutoScout24, Axel Springer, CarProof, Digitas, DoubleClick, Formula One, Gartmore Investment Management, Gaztransport & Technigaz, Iris Software, Mondrian Investment Partners, Nasdaq, National Information Consortium, Neverfail Springwater, Nets, Nielsen, PowerBar, ProSiebenSat.1 Media SE, Scout24, SimpliSafe, Hostelworld (Web Reservations), Wood Mackenzie, VoiceStream Wireless and Young & Rubicam. Prior to joining the Firm in 1994, Mr. Healy was employed by James D. Wolfensohn Incorporated in New York and Consolidated Press Holdings in Australia. Mr. Healy graduated from Harvard College and earned an MBA, with Distinction, from the Harvard Business School.

**Philip Hammarskjold**, Executive Chairman. Mr. Hammarskjold serves as Chairman of the Firm's Investment Committee and is a member of the Compensation Committee. Prior to transitioning to Executive Chairman in January 2019, Philip served as Chief Executive Officer from 2009 to 2017 and Co-CEO in 2018. He is currently a Director of Caliber Collision and was formerly a Director of numerous portfolio companies, including AlixPartners, Catalina Marketing, Digitas, DoubleClick, Change Healthcare (Emdeon), GeoVera Insurance Group, Goodman Global, Grocery Outlet, Texas Genco and Young & Rubicam. Prior to joining the Firm in 1992, Mr. Hammarskjold was employed by the Corporate Advisory Department of Dominguez Barry Samuel Montagu in Sydney, Australia and by the Merchant Banking Department of Morgan Stanley & Co. in New York. Mr. Hammarskjold graduated *summa cum laude* from Princeton University and earned an MBA from the Harvard Business School, where he was a Baker Scholar.

**David Tunnell**, Partner. Mr. Tunnell is a Partner in the San Francisco office and a member of the Investment Committee. He has played a lead role with numerous H&F investments, including Activant Solutions, Applied Systems, Arch Capital, Blackbaud, Ellucian, GeoVera Insurance Group, Genesys, Hub International, Intergraph, Kronos, OpenLink Financial, Paris Re, Sedgwick CMS, Ultimate Software, Vantage and Vertafore. Prior to joining the Firm in 1994, Mr. Tunnell was employed by the Banking Group of Lazard Frères & Co. in New York. Mr. Tunnell graduated *magna cum laude* from Harvard College and earned an MBA from the Harvard Business School.

**Allen Thorpe**, Partner. Mr. Thorpe is a Partner in the New York office and a member of the Investment Committee. He is a Director of Edelman Financial Engines, MultiPlan and Pharmaceutical Product Development. He was formerly a Director of Activant Solutions, Artisan Partners Asset Management, Change Healthcare (Emdeon), Gartmore Investment Management, LPL Financial, Mitchell International, Mondrian Investment Partners, Sheridan Healthcare, Vertafore and a member of the Advisory Board of Grosvenor Capital Management. Prior to joining the Firm in 1999, Mr. Thorpe was a Vice President with Pacific Equity Partners in Australia and was a Manager at Bain & Company. Mr. Thorpe graduated with Distinction from Stanford University and earned an MBA from the Harvard Business School, where he was a Baker Scholar.