



Investment Committee Memorandum

LLR Equity Partners VI, L.P.

Private Equity Asset Class

July 28, 2020

Investment Recommendation

SERS’ Investment Office Staff and SERS’ Private Equity Consultant, StepStone Group, recommend that the State Employees’ Retirement System Investment Committee interview LLR Partners (“LLR”, the “GP” or the “Firm”) at the July 28, 2020 Investment Committee Meeting to consider a potential commitment of up to \$50 million to LLR Equity Partners VI, L.P. (“LLR VI”, “Fund VI” or the “Fund”), subject to the satisfactory completion of legal due diligence.

Investment Rationale

Staff identified LLR VI as a strong candidate for SERS’ capital commitment as it offers:

- Exposure to a Pennsylvania-based manager that supports the local state economy;
- A long track record with strong net performance since inception;
- Strong quartile ranking against private equity competitors;
- Strong net alpha generation against the Russell 3000 Total Return Index benchmark since inception, far exceeding SERS’ 3.0% excess return above the benchmark index;
- A stable and experienced team of senior investment professionals;
- Exposure to attractive sectors, with a sector specialist;
- Consistency with SERS’ PE portfolio objectives.

Investment Risks

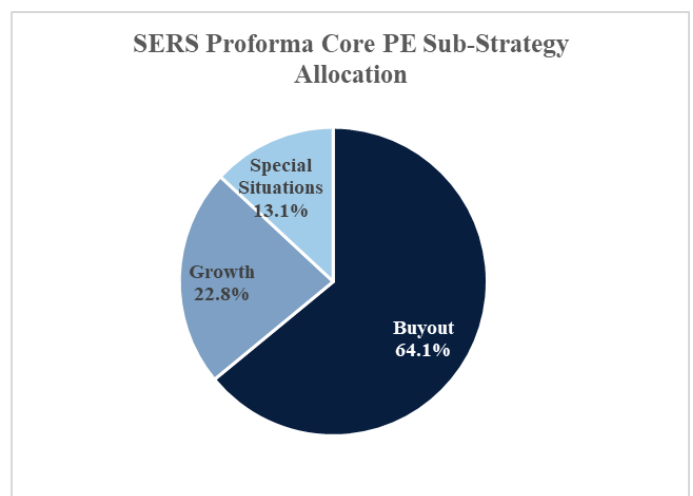
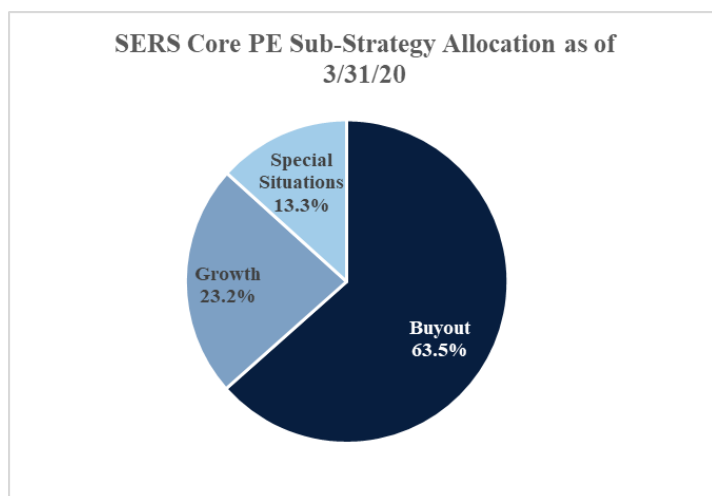
Staff identified the following potential risks of a commitment to LLR Partners VI:

- Fund V portfolio is largely unrealized and will take resources to manage;
- Risks associated with a potential prolonged recession;
- High valuation businesses dependent on further growth.

Portfolio Implications

A commitment to LLR VI would be a 2020 vintage allocation, in the Private Equity asset class and Buyout sub-asset class. As of March 31, 2020, SERS’ market value of Buyout investments was approximately 63.5% of the Core PE portfolio. This commitment aligns with SERS’ Strategic Investment Plan initiatives of making fewer commitments to top-tier managers. SERS is targeting this commitment of up to \$50 million, or 9.0% of the strategic plan pacing 2020 budget for the private equity. This commitment also reflects a position size of approximately 1.5% within the Core PE portfolio.

The following two charts show the Core PE portfolio allocations by sub-strategy as of March 31, 2020 on the left, and a prospective view of the allocation post a commitment to LLR VI on the right.



Sponsor Overview

LLR Partners is a Pennsylvania-based private equity firm focused on lower middle-market (“LMM”) healthcare and technology companies, with an emphasis on the U.S. Mid-Atlantic region. The firm invests in both minority and control equity positions in growth businesses. LLR relies on thesis-driven, industry-focused investing in companies with strong revenue growth, recurring revenue, intellectual property, and competitive differentiation.

The firm was founded in 1999 by Ira Lubert, Seth Lehr and Howard Ross to help local companies grow. The investment strategy was regional and generalist, but most investments were in technology and healthcare sectors with stable business models. Since inception, LLR has raised and managed five institutional funds. With the Founders still at the firm, LLR’s team has grown to 76 professionals – 34 investment professionals, including nine Partners, six value creation and 12 business development professionals.

Investment Strategy

Since inception, LLR has been focused on investing in lower middle-market growth companies operated in markets where LLR has a competitive edge and expertise. While LLR’s investment strategy has been consistent, it has evolved over the years. Earlier funds had some investments outside of the technology and healthcare sectors. Starting with Fund IV, the strategy is fully devoted to a specialist technology and healthcare approach with the following attributes:

- Lower middle-market growth at a reasonable price.
- Flexible and entrepreneur-friendly approach.
- Thesis-driven healthcare and technology-focused approach.
- Dedicated proprietary sourcing effort.
- High recurring revenue business models.
- Strong competitive differentiation, often with intellectual property.
- Operational value creation focus.

Management Team

Sasank Aleti, Partner. Mr. Aleti joined LLR in 2011. His prior experience includes Founder of Cadence Capital Partners (search fund); Analyst at LLR from 2003-2006; Investment banker at UBS. Mr. Aleti received M.B.A. from the Harvard Business School and B.S. from the New York University.

Mitchell Hollin, Partner. Mr. Hollin joined LLR in 2000. His prior experience includes Co-Founder of Advanta Partners; Patricof and Co. Ventures (renamed Apex Partners). Mr. Hollin received M.B.A. and B.S. from the Wharton School of the University of Pennsylvania.

Seth Lehr, Partner. Mr. Lehr is the co-founder of LLR. His prior experience includes Managing Director and Group Head of Investment Banking, Legg Mason. Mr. Lehr received M.B.A. and B.S. from the Wharton School of the University of Pennsylvania.

Michael Levenberg, Partner. Mr. Levenberg joined LLR in 2013. His prior experience includes Private equity Sr. Associate at Monument Capital Group, investment banker at Jefferies and PWC Transaction Services. Mr. Levenberg received B.S. from the Wharton School of the University of Pennsylvania.

Scott Perricelli, Partner. Mr. Perrecelli joined LLR in 2001. His prior experience includes Private equity Associate at Advanta Partners and Investment banker at William Blair. Mr. Perrecelli received an M.B.A. from the Kellogg School of Management at Northwestern University and B.S. from Bucknell University.

David Reuter, Partner. Mr. Reuter is the co-founder of LLR. His prior experience includes Arthur Andersen audit and assurance and strategy/process consulting. Mr. Reuter received B.S. from Lehigh University. He is also a CPA in Pennsylvania (inactive).

Howard Ross, Partner. Mr. Ross is the co-founder of LLR. Prior experience includes partner-in-charge at Arthur Andersen's Philadelphia region growth company practice. Mr. Ross received B.S. from the Wharton School of the University of Pennsylvania. He is also a CPA in Pennsylvania (inactive).

Jack Slye, Partner. Mr. Slye joined LLR in 2010. Prior experience includes healthcare consultant at Deloitte. Mr. Slye received B.S. from the University of Maryland and M.B.A. from the Wharton School of the University of Pennsylvania.

David Stienes, Partner. Mr. Stienes joined LLR in 2000. Prior Experience include Arthur Andersen audit and assurance. Mr. Stienes received B.B.A. from the James Madison University. He is also a CPA in Pennsylvania (inactive).