



Investment Committee Memorandum

NB PA Co-investment Fund LP

Private Equity Asset Class

February 25, 2020

Investment Recommendation

SERS’ Investment Office Staff recommend that the State Employees’ Retirement System Investment Committee, subject to further legal due diligence, interview Neuberger Berman Alternative Advisors, LLC (“Neuberger Berman”, “NB” or the “Firm”) at the February 25, 2020 Investment Committee Meeting to consider a potential investment of up to \$200 million to a separately managed account named the NB PA Co-investment Fund LP (“the SMA”, or the “Partnership”). SERS has not previously held an investing relationship with Neuberger Berman. 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 June 30, 2020 should approval be attained.

Investment Rationale

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

- SMA strategy represents meaningful step forward in achieving funding objectives set out in PPMAIRC report;
- Bespoke co-investment solution crafted to satisfy numerous SERS objectives;
- Partnership with a top performing co-investment intermediary;
- High level of coverage with SERS’ existing core PE managers determined by cross checking Neuberger Berman track record and reference calls with SERS’ PE managers. SERS will benefit from joining with Neuberger Berman’s existing capacity, relationship history and negotiating power;
- Extendibility of partnership to other parts of Neuberger Berman’s platform including secondaries and private credit.

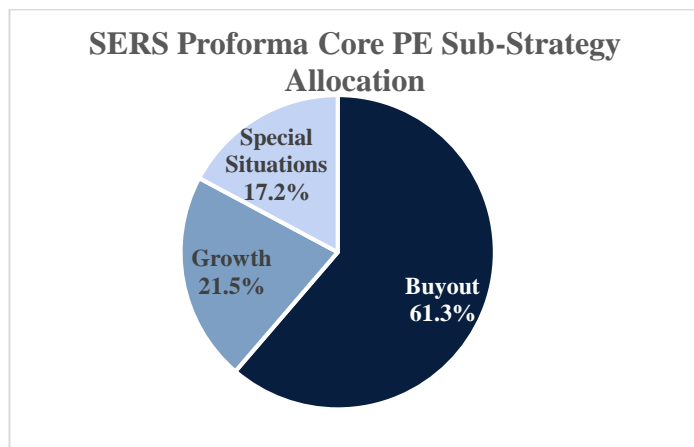
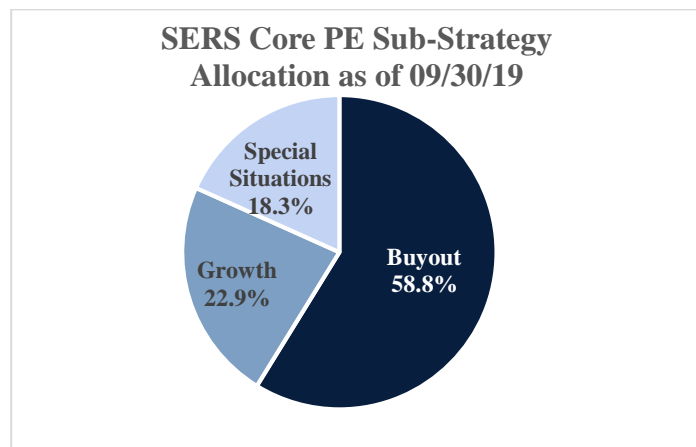
Investment Risks

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

- Risk of Adverse Selection.
- Higher Volatility of Co-investment Distribution.

Portfolio Implications

A commitment to NB PA Co-investment Fund would be considered an allocation across the 2020-2024 vintages, which is categorized in the Private Equity asset class and is expected to allocate to the Buyout sub-strategy. An allocation to NB PA Co-investment Fund is consistent with the strategic plan initiatives of pursuing co-investment opportunities and fee savings as outlined in SERS’ Strategic Investment Plan. SERS is targeting a commitment to the SMA of up to \$200 million, of which approximately \$60 million is expected to be deployed in 2020, representing approximately 10% of the strategic plan pacing budget. A commitment level of \$200M also reflects an expected fully stabilized position size of approximately 5% within the Core PE portfolio. The table below outlines SERS’ private equity commitments year to date that are either approved or pending approval by the Board, including a potential commitment to the SMA.



Sponsor Overview

Established in 1939, Neuberger Berman is a leader in a broad range of global investment solutions tailored to institutions and individuals through customized separately managed accounts, mutual funds, and alternative investment products. Neuberger Berman is a private, independent, employee-owned investment manager with approximately 500 current employee owners as of September 30, 2018. The Firm has over 2,000 employees in 34 cities globally and manages approximately \$356 billion of assets as of the end of 2019.

NB Private Equity has been an active and successful private equity investor since 1987. NB Private Equity manages over \$80 billion of investor commitments across fund and direct investments since inception and commits approximately \$10 billion annually. NB Private Equity has a global presence with over 160 investment professionals in offices in the United States, Europe, Asia and Latin America.

Investment Strategy

The investment strategy of the NB PA Co-investment Fund will center on the development and implementation of a customized global private equity solution designed to help launch an institutionalized co-investment program. The main objective of the SMA will be to create long term outperformance compared to public markets, while focusing on Neuberger Berman's unique "mid-life" co-investment strategy to limit volatility and downside risk. This will be achieved through three key areas: portfolio construction, deal sourcing and due diligence & monitoring.F

Management Team

David Morse is a Managing Director of Neuberger Berman, and is the Global Co-Head of Private Equity Co-Investments. He is also a member of Co-Investment, Private Debt and Private Investment Portfolios Investment Committees. Mr. Morse is currently a Board Observer of Behavioral Health Group, C.H. Guenther, CSC, and ProAmpac, all of which are portfolio companies of our dedicated co-investment funds. Mr. Morse joined Lehman Brothers in 2003 as a Managing Director and principal in the Merchant Banking Group where he helped raise and invest Lehman Brothers Merchant Banking Partners III L.P. Prior to joining Lehman Brothers, Mr. Morse was a founding Partner of Hampshire Equity Partners (and its predecessor entities). Founded in 1993, Hampshire is a middle-market private equity and corporate restructuring firm with \$825 million of committed capital over three private equity funds. Prior to Hampshire, Mr. Morse worked in GE Capital's Corporate Finance Group providing one-stop financings to middle-market buyouts. Mr. Morse began his career in 1984 in Chemical Bank's middle-market lending group. Mr. Morse holds an M.B.A. from the Tuck School of Business at Dartmouth College and a B.A. in Economics from Hamilton College. Mr. Morse is a member of the M.B.A. Advisory Board of the Tuck School, a member of the Alumni Council of Hamilton College, and a member of the Board of Trustees of the Berkshire School.

David Stonberg is a Managing Director of Neuberger Berman and is the Global Co-Head of Private Equity Co-Investments. He is also a member of the Co-Investment, Private Investment Portfolios, Renaissance, Secondary and Real Estate Secondary Investment Committees. Before joining Neuberger Berman in 2002, Mr. Stonberg held several positions within Lehman Brothers' Investment Banking Division including providing traditional corporate and advisory services to clients as well as leading internal strategic and organizational initiatives for Lehman Brothers. Mr. Stonberg began his career in the Mergers and Acquisitions Group at Lazard Frères. Mr. Stonberg holds an MBA from the Stern School of New York University and a BSE. from the Wharton School of the University of Pennsylvania.

Paul Daggett, CFA is a Managing Director of Neuberger Berman and a senior member of the Firm's Private Investment Portfolios group where he leads investments in private equity and venture capital funds and direct co-investments in venture capital, growth equity and buyout transactions. Mr. Daggett sits on the Limited Partner Advisory Boards of a number of venture capital and private equity fund relationships and has Board of Directors and Observer seats for a number of direct venture and growth capital investments on behalf of Neuberger Berman Funds. Prior to joining Neuberger Berman in 2004, Mr. Daggett worked in the European Equity Derivatives Group at JPMorgan Chase & Co. He holds an MBA from the Cox School of Business at Southern Methodist University and a BEng, with honors, in Aeronautical Engineering from the University of Bristol. Mr. Daggett is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA) and holds the Chartered Financial Analyst designation.

Michael Kramer is a Managing Director of Neuberger Berman. He is a member of the Co-Investment, Credit Opportunities, Marquee Brands and Private Investment Portfolios Investment Committees as well as a member of the Board of Directors for Marquee Brands. Mr. Kramer is currently a board observer for By Light Professional IT Services, which is a portfolio company of our dedicated co-investment funds. Before joining Neuberger Berman in 2006, Mr. Kramer was a vice president at The Cypress Group, a private equity firm with \$3.5 billion under management. Prior thereto, he worked as an analyst at PaineWebber Incorporated. Mr. Kramer holds an MBA from Harvard Business School and a BA, cum laude, from Harvard College.

Joana Rocha Scaff is a Managing Director of Neuberger Berman, Head of Europe Private Equity and a member of the Co-Investment, Private Investment Portfolios and Strategic Capital Investment Committees. Previously, Ms. Scaff worked in investment banking covering primarily the telecommunications, media and information services sectors. Ms. Scaff worked in the investment banking division of Lehman Brothers, and prior to that at Citigroup Global Markets and Espirito Santo Investment. She advised on corporate transactions including M&A, financial restructurings and public equity and debt offerings in the United States, Europe and Brazil. Ms. Scaff received her MBA from Columbia Business School and her BA in Business Management and Administration from the Universidade Catolica of Lisbon. Ms. Scaff is a member of the LP Committee of the BVCA – British Private Equity Association. Ms. Scaff is a member of the Limited Partner Advisory Committee of multiple European private equity funds.

Elizabeth Traxler is a Managing Director of Neuberger Berman and a senior member of the Firm's Private Investment Portfolios group where she invests in private equity funds and directly co-invests equity into sponsor-owned portfolio companies. She is also a member of the Strategic Capital Investment Committee. Prior to joining Neuberger Berman, Ms. Traxler was at Wachovia Capital Partners (now known as Pamlico Capital), where she focused on making growth equity and buyout investments across a broad range of industries. Ms. Traxler also worked at Wachovia Securities in the Leveraged Capital Group, which provided senior and mezzanine debt in "one-stop" financings for private equity-backed transactions. She is currently a Board Observer for several private companies and Advisory Board member for a number of private equity funds. Ms. Traxler received an MBA from the Kellogg School of Management at Northwestern University and a BA, cum laude, in Economics from Vanderbilt University.

Jacquelyn Wang is a Managing Director of Neuberger Berman and a senior member of the private equity investment team. Prior to joining Neuberger Berman in 2007, Ms. Wang worked in Corporate Development at Verizon Communications focused on corporate M&A. Previously, Ms. Wang worked at Spectrum Equity Investors, where she was responsible for sourcing, executing and evaluating buyout and growth equity investments in media, technology and telecom. Ms. Wang began her career in the investment banking division of Lehman Brothers advising on corporate transactions in the communications and media industries. Ms. Wang received an MBA from The Wharton School of the University of Pennsylvania and a BA with honors from The Johns Hopkins University.

Patricia Miller Zollar is a Managing Director of Neuberger Berman and a leader of the Firm's Private Investment Portfolios practice. She is a member of the Co-Investment, Private Investment Portfolios, and NorthBound Investment Committees. Additionally, Ms. Zollar sits on the advisory boards of a number of funds including those managed by Arcadius Capital Partners, Argand Partners, Base10 Ventures, Clearlake Capital, GenNx360 Capital Partners, Linx Partners, Vista Equity Partners and The Vistria Group. Before the management buyout of Neuberger Berman, Ms. Zollar co-headed and co-founded the Lehman Brothers Partnership Solutions Group, a Wall Street business focused on developing strategic opportunities with women- and minority-owned financial services firms. The innovation of the Partnership Solutions Group was chronicled in a case study for the Harvard Business School. Before rejoining Lehman Brothers in 2004, Ms. Zollar was a vice president in the Asset Management Division of Goldman Sachs. Ms. Zollar began her career as a Certified Public Accountant in the Audit Division of Deloitte & Touche. She received her MBA from Harvard Business School and her BS, with highest distinction, from North Carolina A&T State University, where she formerly served as Chairperson of the Board of Trustees and which conferred her an honorary Doctorate degree. Ms. Zollar is a member of the Executive Leadership Council and Economic Club of NY. She also serves on the executive board of the National Association of Investment Companies and The Apollo Theater.