



Investment Committee Memorandum

CVC Capital Partners VIII

Private Equity Asset Class

April 21, 2020

**Investment Recommendation**

SERS’ Investment Office Staff and SERS’ Private Equity Consultant, StepStone Group, recommend that the State Employees’ Retirement System Investment Committee, subject to further legal due diligence, interview CVC Capital Partners (“CVC”, the “GP” or the “Firm”) at the April 21, 2020 Investment Committee Meeting to consider a potential investment of up to €50 million (approx. \$54 million) in CVC Capital Partners VIII (“CVC VIII”, or the “Fund”).

**Investment Rationale**

Staff identified CVC VIII as a strong candidate for SERS’ capital commitment as it offers:

- Additional exposure to a high-quality private investment manager that has generated strong net returns since inception;
- Additional exposure to a private investment manager that outperforms private peers and public indices;
- Capital preservation as evidenced by a below market loss ratio as of 12/31/19;
- A strategy led by a senior team that has been at the firm for an average of 15 years and invested successfully across economic cycles;
- Increased exposure to attractive pan-European market;
- Exposure to a top performing manager well-known to SERS’ Staff;
- Consistency with SERS’ PE portfolio objectives.

**Investment Risks**

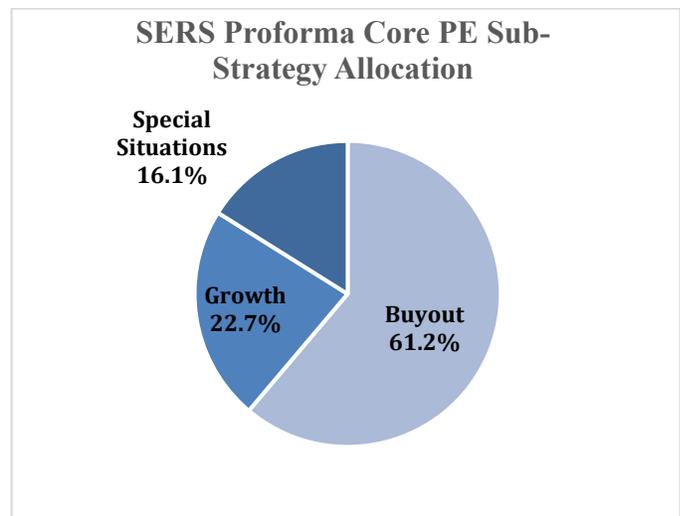
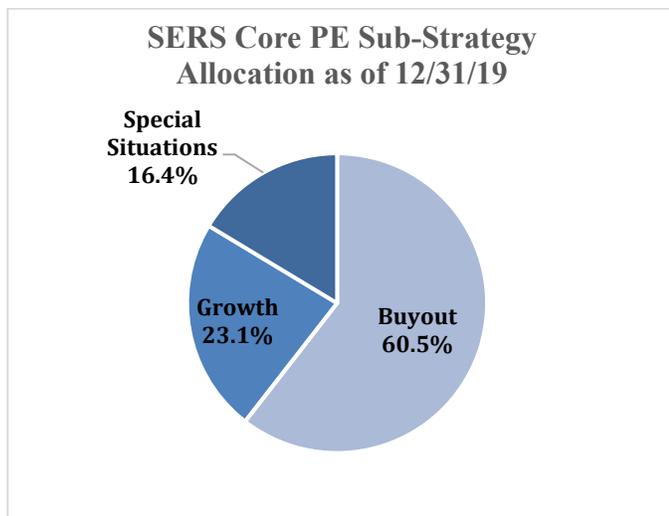
Staff identified the following potential risks of a commitment to CVC VIII:

- CVC has been slowly expanding into regions outside of Europe and North America with mixed results.
- CVC competes for investments in the highly competitive upper middle market and large market.

**Portfolio Implications**

A commitment to CVC VIII would be considered a 2020 vintage allocation to a fund which is categorized in the Private Equity asset class and Buyout sub-asset class. As of December 31, 2019, SERS’ total exposure (market value plus unfunded commitments) to Buyouts represented approximately 60.5% of the total Private Equity portfolio. An allocation to CVC VIII is consistent with the strategic initiatives of “making fewer, larger commitments to top-tier managers” as outlined in SERS’ Strategic Investment Plan. SERS is targeting a commitment to CVC VIII of up to €50 million (approx. \$54 million), which represents 9.4% of the strategic plan pacing budget for the private equity asset class in 2020. A commitment level of €50 million (approx. \$54 million) also reflects a position size of appx. 1.7% within the Core PE portfolio.

The following two charts show the Core PE portfolio allocations by sub-strategy as of December 31, 2019 on the left, and a prospective view of the allocation post a commitment to CVC VIII on the right.



## Sponsor Overview

Founded in 1981 inside Citicorp and later spun out as a separate entity in 1993, CVC Capital Partners raised its first private equity fund in 1996. Today the Firm is led by three Co-Chairmen, Steve Koltes, Donald Mackenzie, and Rolly van Rappard along with 17 other Managing Partners. The leadership team has been at CVC for an average of 18 years. The Firm has 24 offices globally across Europe, the Americas and Asia with nearly 200 investment professionals worldwide. Fifteen of the 24 office are located across Europe and the Americas, with 115 investment professionals. The other nine offices and remaining investment professionals are located throughout Asia.

Since its founding, CVC has been employed a largely pan-European, control-oriented investment strategy with some investments across the Americas and rest of world. Since 1996, the Firm has raised seven flagship funds targeting the same strategy.

## Investment Strategy

CVC Capital Partners VIII is being formed to pursue the same strategy as the predecessor funds: control-oriented investments, predominantly in European and North American, upper middle market to large companies. The Firm has set up legal limits to investments in North America (25%) and regions outside Europe or North America (12.5%). CVC will target companies with enterprise values of €1 billion to €5 billion and equity investments between €200 million to €1 billion. Typically, companies in the UK, Germany or North America will have check sizes on the larger end of the range and companies in smaller countries will be at the lower end of the range.

Each of the geographical teams and sector teams are expected to contribute approximately 1-3 deals per year to the Fund, providing for a well-diversified portfolio. Key features of a typical CVC portfolio company will be a fundamentally sound, well-managed and cash-generative business. CVC seeks businesses operating in stable, non-cyclical markets and having, or have the potential to have the following characteristics: defensive market positions, predictable cash flows, products and services that customers require regardless of cycle, competitive leadership positions domestically, regionally or globally, well-diversified customer bases, diverse product portfolios and broad geographic footprints.

## Management Team

**Steve Koltes**, *Co-Founder and Co-Chairman*, joined CVC in 1988. Steve is a Director on the CVC Advisory Business Board and the SICAV-FIS Board. He is also a member of the Investment Committees for CVC Europe / Americas, CVC Asia, CVC Strategic Opportunities and CVC Growth Partners. Prior to joining CVC, Steve worked for Citicorp from 1980 to 1987 in corporate finance and corporate banking in New York, London and Zurich. Steve holds a BA Degree from Middlebury College.

**Donald Mackenzie**, *Co-Founder and Co-Chairman*, joined CVC in 1988. Donald is a Director on the CVC Advisory Business Board and the SICAV-FIS Board. Donald sits on the Investment Committees for CVC Europe / Americas, CVC Asia, CVC Strategic Opportunities and CVC Growth Partners. Prior to joining CVC, Donald worked at 3i Plc. Donald is a Chartered Accountant and holds an LLB Degree from the University of Dundee, Scotland.

**Rolly van Rappard**, *Co-Founder and Co-Chairman*, joined CVC in 1988. Rolly is a Director on the CVC Advisory Business Board and the SICAV-FIS Board. Rolly is also on the Investment Committee for CVC Europe / Americas, CVC Asia and CVC Strategic Opportunities. Prior to joining CVC, Rolly worked for Citicorp in corporate finance in London and Amsterdam. Rolly holds an MA Degree in Economics from Columbia University, New York, and an LLM from the University of Utrecht, Netherlands.