

NEUBERGER BERMAN

# Pennsylvania State Employees' Retirement System: Co-Investment Strategic Partnership Proposal

February 25<sup>th</sup>, 2020



## Executive Summary

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- ☑ **Co-Investments are a fee-efficient way to build core PE exposure and deepen GP relationships**
  - Reduced fees and expenses with management fees based on invested capital, not committed
  - Co-Investment partnership allows SERS to access cost-savings of co-investment while mitigating risks of in-house execution by partnering with a firm with significant dedicated resources
  
- ☑ **Focus on mid-life co-investments**
  - Seek to drive faster return of capital from mid-life transactions
  
- ☑ **Large experienced team with an attractive Co-Investment track record**
  - Global team with over 55 private equity professionals involved in co-investments
  
- ☑ **Full turnkey solution with an integrated alternatives platform**
  - Ability to pivot and evolve given changing needs of SERS
  - Private equity platform with multiple investment capabilities and ability to serve as a “one stop shop”
  
- ☑ **Access to onsite workshops and training experiences for SERS employees in NB offices**
  - Extension of staff model
  
- ☑ **Ability for SERS to leverage broader Neuberger Berman platform<sup>1</sup>**
  - Across ODD, ESG, buy-side research, risk management, asset allocation committee, data science and technology
  
- ☑ **NB would be pleased to partner with SERS on a \$200 million Co-Investment Program**
  - 5 year investment period
  - 10 year fund term from final day of investment period with 2 one year extensions (at GP discretion)

Note: Past performance is not indicative of future results. Includes data since 2009 – 3Q 2019. Information is as of September 30, 2019 unless otherwise indicated. On actual investments, the Composite Realized IRR and Composite Total IRR do not reflect the actual performance of any Fund or the return achieved by any individual investor. These related return results are unaudited.

1. Subject to Neuberger Berman's policies and procedures, including certain information barriers within Neuberger Berman that are designed to prevent the misuse by Neuberger and its personnel of material information regarding issuers of securities that has not been publicly disseminated. Past performance is not indicative of future results.

# Neuberger Berman Overview

Singular and long-term focus on investing for our clients



1. As of December 31, 2019. Firm assets under management (AUM) includes \$106.1 billion in Equity AUM, \$160.4 billion in Fixed Income AUM and \$89.2 billion in Alternatives AUM. Alternatives "AUM and Committed Capital" reflects Alternatives AUM as well as all committed capital since inception for private equity strategies. Committed Capital since inception reflects all contractual commitments, including those still in documentation, to fund investments, including those which have since been realized, advised by NB Alternatives Advisers LLC and its affiliates or predecessors (the oldest mandate of which was founded in 1981).

2. Average retention level for senior investment professionals (i.e., managing directors, senior vice presidents and Principals) (including retirements) 2013 – 2018.

3. Among organizations with over 1,000 employees by Pensions & Investments. For additional information on the criteria for the award, please visit <https://www.pionline.com/specialreports/best-places-to-work/20181210>

4. Awarded by UN-supported Principles for Responsible Investment. Please refer to the Performance Information Footnotes for more information on the PRI scores.

## Neuberger Berman Private Equity

A leading global private markets business that can work collaboratively with large and sophisticated institutional clients to develop programs that meet their goals, leveraging our extensive capabilities



ESTABLISHED 30 YEARS AGO

OVER 220 PRIVATE EQUITY PROFESSIONALS

APPROXIMATELY \$10 BILLION COMMITTED ANNUALLY<sup>3</sup>

OFFICES IN U.S., EUROPE, ASIA AND LATIN AMERICA

LEVERAGES THE RESOURCES OF NEUBERGER BERMAN

ESG INTEGRATION ACROSS INVESTMENT ACTIVITIES

<sup>1</sup> As of September 2019. Committed Capital represents commitments since inception of the private equity businesses advised by NB Alternatives Advisers LLC, the oldest of which was founded in 1981. Includes commitments still in process of documentation.

<sup>2</sup> Includes estimated allocations of dry powder for diversified portfolios consisting of both fund and direct investments. Therefore, AUM may vary depending on how mandates are committed over time.

<sup>3</sup> Average over the past three years (2016 – 2018).

## SERS Coverage Team

### PE PROGRAM MANAGERS



**David Stonberg**  
*Global Co-Head of Private Equity  
Co-Investments  
28 Years of Experience*



**David Morse**  
*Global Co-Head of Private Equity  
Co-Investments  
33 Years of Experience*



**Chris Crevier**  
*Managing Director  
26 Years of Experience*

### RELATIONSHIP MANAGER

### LEGAL, FINANCE & REPORTING SENIOR LEADERS



**Michael Kramer**  
*Managing Director  
23 Years of Experience*



**Jackie Wang**  
*Managing Director  
17 Years of Experience*



**Patricia Miller Zollar**  
*Managing Director  
32 Years of Experience*



**Chris Neira**  
*Legal  
Managing Director  
24 Years of Experience*



**Kelly Maughan**  
*Finance  
Senior Vice President  
27 Years of Experience*



**Judy Marcus**  
*Client Reporting  
Senior Vice President  
17 Years of Experience*

## Co-Investment Due Diligence Resources

We leverage both proprietary firm and third-party industry experts

### ~40 Buy-Side Research Analysts

- **Industry experts** across consumer, utilities, healthcare, media, telecom, energy, financial services, industrials and technology
- **Average of 18 years experience**

### Big Data Capabilities

- **Dedicated team** led by Chief Data Scientist
- Focused on integrating “big data” into investment research processes

### 230+ Alternatives Professionals Globally

- Includes professionals with expertise in **credit, insurance, etc.**

### NB Private Equity Network

- ~5,500 underlying portfolio companies (active)
- 530+ fund commitments (active)
- 160+ LPAC seats (active)<sup>(1)</sup>

### Third Party Research



### Expert Networks



Subject to Neuberger Berman's policies and procedures, including certain information barriers within Neuberger Berman that are designed to prevent the misuse by Neuberger Berman and its personnel of material information regarding issuers of securities that has not been publicly disseminated. As of June 2019, unless otherwise indicated.

1. Includes Limited Partner Advisory Committee observer seats.

## Commitment to ESG and Diversity

### Environmental Social Governance

- **A+ rating** for both 2019 Assessment Report on ESG Strategy & Governance as well as Indirect Private Equity (most recent assessment)<sup>(1)</sup>
- Dedicated ESG Investing team supports strategy-specific ESG integration across our platform<sup>(2)</sup>
- Actively integrate ESG factors into our private equity diligence for both fund and direct investments

### Private Equity Diversity

- **~30%** of the private equity team are women<sup>(3)</sup>
- Active and deep relationships across numerous women- and diversity-focused industry groups and events
- Strong emerging manager GP relationships

1. Awarded by UN-supported Principles for Responsible Investment. Please refer to the Performance Information Footnotes for more information on the PRI scores.

2. Subject to Neuberger Berman's policies and procedures, including certain information barriers within Neuberger Berman that are designed to prevent the misuse by Neuberger and its personnel of material information regarding issuers of securities that has not been publicly disseminated.

3. As of January 1, 2020.



## Additional Disclosures

## Summary Risk Factors

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Prospective investors should be aware that an investment in any NB Private Equity Fund (the "Fund" or "Funds") is speculative and involves a high degree of risk that is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in the Fund and for which the Fund does not represent a complete investment program. An investment should only be considered by persons who can afford a loss of their entire investment. The following is a summary of only certain considerations and is qualified in its entirety by the Confidential Private Placement Memorandum of the Fund (the "Memorandum") and prospective investors are urged to consult with their own tax and legal advisors about the implications of investing in the Fund. Fees and expenses can be expected to reduce the Fund's return. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Memorandum or limited partnership agreement (as amended, restated or otherwise modified from time to time, the "Partnership Agreement") of the Fund.

**Market Conditions.** The Fund's strategy is based, in part, upon the premise that investments will be available for purchase by the Fund at prices that the Fund, the general partner of the Fund (the "General Partner") or NB Alternatives Advisers LLC (the "Adviser") considers favorable and which are commensurate with the targeted returns described herein. To the extent that current market conditions change or change more quickly than Neuberger Berman Group, LLC or an affiliate (collectively, "Neuberger Berman") currently anticipates, investment opportunities may cease to be available to the Fund or investment opportunities that allow for the targeted returns described herein may no longer be available.

**No Assurance of Investment Return.** There can be no assurance or guarantee that the Fund's objectives will be achieved, that the past, targeted or estimated results presented herein will be achieved, or that investors in the Fund ("Investors") will receive any return on their investments in the Fund. The Fund's performance may be volatile. An investment should only be considered by persons who can afford a loss of their entire investment. Past activities of investment entities sponsored by Neuberger Berman provide no assurance or guarantee of future results. The Fund's intended strategy relies, in part, upon the continuation of existing market conditions in certain countries (including, for example, supply and demand characteristics or continued growth in GDP) or, in some circumstances, upon more favorable market conditions existing prior to the termination of the Fund. No assurance or guarantee can be given that investments meeting the Fund's investment objectives can be acquired or disposed of at favorable prices or that the market for such investments (or market conditions generally) will either remain stable or, as applicable, recover or improve, since this will depend upon events and factors outside the control of the Fund's investment team. Notwithstanding anything in this presentation to the contrary, Neuberger Berman, the Adviser or the General Partner may vary its investment processes and/or execution from what is described herein. The returns shown herein include returns generated by reinvested cash capital or profits. Without such reinvestment, the returns shown in this presentation will have been lower.

**Legal, Tax and Regulatory Risks.** Legal, tax and regulatory changes (including changing enforcement priorities, changing interpretations of legal and regulatory precedents or varying applications of laws and regulations to particular facts and circumstances) could occur during the term of the Fund that may adversely affect the Fund or its partners.

**Performance of the Fund and No Operating History.** The Fund and the General Partner will be newly-formed entities with no operating history for prospective investors to evaluate.

**Default or Excuse.** If an Investor defaults on or is excused from its obligation to contribute capital to the Fund, other Investors may be required to make additional contributions to the Fund to replace such shortfall. In addition, an Investor may experience significant economic consequences should it fail to make required capital contributions.

**Indemnification.** Under certain circumstances, the Fund is responsible for indemnifying the Adviser, the General Partner and their respective affiliates for losses or damages.

## Summary Risk Factors (continued)

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**Leverage.** The Fund's investments are expected to include underlying portfolio companies whose capital structures may have significant leverage. These companies may be subject to restrictive financial and operating covenants. The leverage may impair these companies' ability to finance their future operations and capital needs. The leveraged capital structure of such investments will increase the exposure of the portfolio companies to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the portfolio company or its industry.

**Use of Leverage.** The General Partner will have the right to cause the Fund to borrow money in order to, among other things, make Fund Investments and pay Fund expenses in lieu of funding such amounts by calling capital contributions from the Investors. In addition, the Fund may borrow funds for the purpose of making distributions to Investors, generally in anticipation of amounts to be received by the Fund from Fund Investments. Using borrowings to delay calling capital contributions or to accelerate distributions will generally be utilized by the General Partner to increase the Investors' rate of return on their interests in the Fund or in some cases to normalize distributions. In the event that the Fund has aggregate losses, the Investors may receive a lower return on investment than they would have received had no borrowings been utilized.

**Impact of Outstanding Borrowings on Investor Returns.** In the event that a Fund uses a credit facility, it is expected that interest will accrue on any outstanding borrowings at a rate lower than the Fund's preferred return, which does not accrue on such borrowings and will begin accruing when capital contributions to fund such Investments, or repay borrowings used to fund such Investments, are actually advanced by Investors to the Fund. As a result, the use of a credit facility with respect to Investments and ongoing capital needs may reduce or eliminate the preferred return received by the Investors and accelerate or increase distributions of carried interest to the General Partner.

**Highly Competitive Market for Investment Opportunities.** The activity of identifying, completing and realizing attractive investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance or guarantee that the Fund will be able to locate, consummate and exit investments that satisfy the Fund's rate of return objectives or realize upon their values or that it will be able to invest fully its committed capital.

**Reliance on Key Management Personnel.** The success of the Fund will depend, in large part, upon the skill and expertise of certain Neuberger Berman professionals. In the event of the death, disability or departure of any key Neuberger Berman professionals, the business and the performance of the Fund may be adversely affected.

**Potential Conflicts of Interest.** There may be occasions when the Adviser, the General Partner and/or advisors to the Fund and their affiliates will encounter potential conflicts of interest in connection with the Fund's activities including, without limitation, the activities of Neuberger Berman and key personnel, the allocation of investment opportunities, conflicting fiduciary duties and the diverse interests of the Fund's limited partner group. There may be disposition opportunities that the Fund cannot take advantage of because of such conflicts.

**Limited Liquidity.** There is no organized secondary market for Investors' interests in the Fund, and none is expected to develop. There are restrictions on withdrawal and transfer of interests in the Fund.

**Material, Non-Public Information.** By reason of their responsibilities in connection with other activities of Neuberger Berman, certain employees of the Adviser, the General Partner, the advisors and their respective affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The Fund will not be free to act upon any such information. Due to these restrictions, the Fund may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

THE FOREGOING DOES NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS AND CONFLICTS INVOLVED IN THIS OFFERING OR AN INVESTMENT IN THE FUND. POTENTIAL INVESTORS SHOULD READ THIS PRESENTATION, THE MEMORANDUM, THE SUBSCRIPTION AGREEMENT AND THE PARTNERSHIP AGREEMENT OF THE FUND IN THEIR ENTIRETY BEFORE DECIDING WHETHER TO INVEST IN THE FUND AND SHOULD CONDUCT THEIR OWN DILIGENCE OF THE OPPORTUNITY AND IDENTIFY AND MAKE THEIR OWN ASSESSMENT OF THE RISKS INVOLVED. TO THE EXTENT ANY INFORMATION PRESENTED HEREIN IS INCONSISTENT WITH THE PARTNERSHIP AGREEMENT, THE PARTNERSHIP AGREEMENT SHALL CONTROL.

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Where an unrealized investment has been valued by the general partner of the fund, there can be no assurance that these values will ultimately be realized upon disposition of the investments. The values of unrealized investments are estimated, inherently uncertain and subject to change. Actual returns on unrealized investments will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, legal and contractual restrictions on transfer that may limit liquidity, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the valuations used in the prior performance data contained herein are based. Accordingly, actual realized returns on unrealized investments may differ materially from the returns indicated herein.

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