



**Report to Board of Administration**

Agenda of: **APRIL 12, 2016**

From: Thomas Moutes, General Manager

ITEM: **III-C**

**SUBJECT: NOTIFICATION OF COMMITMENT OF UP TO \$25 MILLION IN GREEN EQUITY INVESTORS VII, L.P.**

Recommendation:

That the Board receive and file this notice.

Discussion:

*Consultant Recommendation*

Portfolio Advisors, LLC (Portfolio Advisors), LACERS' Private Equity Consultant, recommended a commitment of up to \$25 million in Green Equity Investors VII, L.P. (the Fund), a projected \$7.5 billion buyout strategy managed by Leonard Green & Partners, LLC (the GP or LGP). This recommendation is consistent with the Private Equity Investments 2016 Strategic Plan adopted by the Board on November 24, 2015.

*Key Terms of the Fund*

Investment Term	6 years
Fund Term	10 years; plus two 1-year extensions at the GP's discretion; and one 1-year extension with Advisory Committee consent
Management Fee	Investment Period: 1.5% of aggregate commitments (\$375,000 per year for LACERS during the investment period) Post-Investment Period: 1% of net invested capital during the first 2 years and 0.75% of net invested capital thereafter
Carry / Preferred Return	20% / 8%
GP Commitment	4% of aggregate commitments (approximately \$300 million)
Fee Offset	100%

*Background*

LGP was founded in 1989 by Leonard Green with a focus on making leveraged buyout investments in growth firms with strong management teams. Currently, the firm is led by John Danhaki and Jonathan Sokoloff, who are supported by 26 investment professionals and 17 support specialists. To date, the GP has raised approximately \$15 billion of capital commitments across six private equity funds and has invested across 83 investments, which have generated nearly \$25.5 billion of total value.<sup>1,2</sup> The GP is located in Los Angeles.

The prior three funds raised by the GP, Green Equity Investors IV, L.P. (2004 vintage); Green Equity Investors V, L.P. (2007 vintage); and Green Equity Investors VI, L.P. (2012 vintage); have earned net IRRs of 11.2%, 18.1%, and 13.4%, respectively.<sup>1,2</sup> LACERS committed a total of \$40 million to Green Equity Investors V, L.P. and Green Equity Investors VI, L.P.

#### *Investment Thesis*

LGP seeks to make equity investments in North American companies with enterprise values between \$500 million and \$5 billion. The GP prefers to invest in a broad range of industries with a preference for retail and consumer, healthcare and wellness, business and consumer services, and distribution. Target companies typically have market-leading positions, attractive growth prospects, solid management teams, and consistent cash flows. The GP assists portfolio companies with achieving growth objectives by constantly engaging with company management and utilizing the GP's network of operational experts.

For the Fund, the GP will construct a portfolio of 15 to 20 investments ranging from \$250 million to \$750 million per transaction, with no individual investment exceeding 20% of aggregate commitments. Furthermore, the GP expects to invest at least 80% of aggregate commitments in North American domiciled enterprises. Exit strategies include initial public offerings and sales to financial institutions or strategic partners, such as other private equity firms or large enterprise firms.

#### *Placement Agent*

The GP does not outsource its fundraising and does not use placement agents.

#### *Staff Recommendation*

Staff concurred with Portfolio Advisors' recommendation. The commitment has been consummated pursuant to the LACERS Discretion in a Box Policy; no Board action is required.

#### *Strategic Plan Impact Statement*

Investment in Green Equity Investors VII, L.P. will allow LACERS to maintain exposure to private equity, pursuant to the strategic objectives contained in the LACERS Private Equity Investments 2016 Strategic Plan by Portfolio Advisors, which is expected to help LACERS achieve satisfactory long-term risk adjusted investment returns (Goal IV).

This report was prepared by Jimmy Wang, Investment Officer I, Investment Division.

RJ:BF:JW:ag

Attachments: A) Portfolio Advisors Recommendation  
B) Workforce Composition  
C) Discretion in a Box

<sup>1</sup>Performance as of September 30, 2015

<sup>2</sup>Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s).



PORTFOLIO  
ADVISORS LLC

Green Equity Investors VII,  
L.P.

April 2016



*FINAL INVESTMENT REPORT*

## FUND INFORMATION

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<b>General Partner:</b>	Leonard Green & Partners, LLC
<b>Fund:</b>	Green Equity Investors VII, L.P.
<b>Firm Inception:</b>	1989
<b>Target Size / Hard Cap:</b>	\$7.5 billion / Not yet determined
<b>Strategy:</b>	Buyout
<b>Sub-Strategy:</b>	Large Cap
<b>Geography:</b>	United States
<b>Team:</b>	38 Professionals and 7 Office/Clerical
<b>Senior Partners:</b>	John Danhaki, Peter Nolan and Jonathan Sokoloff
<b>Location:</b>	Los Angeles, California
<b>Industries:</b>	Retail & Consumer, Healthcare & Wellness, Business & Consumer Services and Distribution
<b>Investment Size:</b>	\$250 million to \$750 million
<b>Recommendation:</b>	Up to \$25.0 million

## INVESTMENT HIGHLIGHTS

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- Strong Long-Term Track Record
- Consistent Experienced Partner Group with Minimal Turnover

# GREEN EQUITY INVESTORS VII, L.P.

## ◆ Firm and Organization Background

- Founded in 1989, the Firm will focus on acquiring market-leading companies with attractive growth prospects, outstanding management teams and strong free cash flow characteristics
- The investment team is comprised of two Managing Partners, ten Partners, five Principals, seven Associates and four Analysts
  - Managing Partners and Partners have an average tenure at LGP of approximately 15 years
  - The investment team is supported by two IR professionals, two Portfolio Operations Officers and a full back office staff including finance, accounting, tax, legal, compliance, IT and administration
- Six previous funds (two 1<sup>st</sup> quartile and four 2<sup>nd</sup> quartile on a net IRR basis), have generated aggregate returns of a 2.0x gross MOIC (1.7x net) and a 36.5% gross IRR (23.6% net) as of September 30, 2015
- Fund VII represents LACERS' third investment in an LGP-sponsored fund

**Leonard Green & Partners Previous Fund Performance**

	GEI I (1990)	GEI II (1995)	GEI III (1999)	GEI IV (2004)	GEI V (2007)	GEI VI (2012)
<b>Net IRR<sup>1</sup></b>	34.8%	14.8%	21.8%	11.2%	18.1%	13.4%
<b>Net MOIC<sup>1</sup></b>	4.3x	2.1x	2.4x	1.9x	1.8x	1.2x
<b>Quartile Ranking<sup>2</sup></b>	1 <sup>st</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>

1) Net IRR and net MOIC shown in the table above are as of September 30, 2015

2) Based on the Cambridge Associates benchmark data for each relevant vintage year as of June 30, 2015. Funds II – VI based on U.S. Buyout Funds and Fund I based on U.S. Private Equity Funds

## Green Equity Investors VII, L.P. (Continued)

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### ◆ Investment Strategy

- Invest in companies with the following attributes:
  - Market-leading franchises and defensible competitive positions
  - Attractive growth prospects
  - Proven management teams
- Invest across a broad range of industries with a preference for companies primarily in the following sectors: Retail & Consumer, Healthcare & Wellness, Business & Consumer Services and Distribution
- Target multi-location businesses with proven unit economics and the ability to materially expand the number of locations as part of the focus on growth
- Invest with proven management teams who have established track records of effectively and consistently driving growth and generating value for shareholders
- Use an outbound calling effort and the networks of the Partners to generate preferential deal flow
- Flexible approach to the form and structure of its investments; historically investments have taken several forms including traditional buyouts, take-privates, recapitalizations, growth capital investments, corporate carve-outs and selective public equity and debt positions
- Construct a portfolio of 15 to 20 investments ranging in size from \$250-\$750 million per transaction in companies with enterprise values between \$500 million and \$5 billion

## KEY TERMS

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<b>Commitment Period:</b>	Six years from the Management Fee Start Date.
<b>Fund Term:</b>	The term will be ten years from the date the General Partner notifies the Limited Partners that the Commitment Period has commenced (the "Management Fee Start Date"); subject to two consecutive one-year extensions at the discretion of the General Partner and subsequently for additional consecutive one-year periods with the consent of the Advisory Board.
<b>Management Fee:</b>	The Fund will pay a management fee to the Firm or an affiliate thereof at the rate of (i) 1.50% per annum of aggregate Commitments from the Management Fee Start Date until the earlier of the end of the Commitment Period or the date a successor fund makes a capital call for a management fee, (ii) 1.0% per annum of aggregate contributions for portfolio investments that have not been the subject of a disposition (less amounts for portfolio investments that are deemed disposed of by way of write-downs or write-offs) (collectively "Investment Related Contributions"), for the next two years and (iii) thereafter, 0.75% per annum of Investment Related Contributions until termination of the Fund.
<b>Fee Offset:</b>	The management fee will be reduced by 100% of any transaction fees, investment banking fees, break-up fees, closing fees, advisory fees, retainer fees, monitoring fees, directors' fees or other similar fees.
<b>Carry / Hurdle:</b>	20% carry /8%
<b>GP Commitment:</b>	4% of aggregate Limited Partner commitments
<b>Key Man:</b>	During the Commitment Period, in the event that either (i) both of the Senior Principals (John G. Danhaki and Jonathan D. Sokoloff) cease to devote substantially all of their business time to the affairs of the investment funds, separate accounts and other vehicles sponsored or managed by the Firm (the "Green Funds") or become incapacitated or (ii) one of the Senior Principals and both of John M. Baumer and Jonathan A. Seiffer cease to devote substantially all of their business time to the affairs of the Green Funds or become incapacitated, the Commitment Period will be suspended. The Commitment Period will resume if, within 150 days of such key person event, the appointment of a qualified replacement or replacements, as the case may be, is approved by either two-thirds of the Advisory Committee or a majority in interest of the unaffiliated Limited Partners, or if a majority in interest of the unaffiliated Limited Partners otherwise elect to resume the Commitment Period. If no such replacement is so approved and no such election to resume is made, then the Commitment Period shall terminate at the end of such 150-day period.

## COMPLIANCE MATTERS

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We have discussed with LGP the applicable regulatory framework in which it and/or the Fund operates, certain compliance policies and procedures that LGP currently has in place and/or that otherwise govern the operations and practices of the sponsor, its employees and/or the Fund and generally found them to be reasonable. By way of background, LGP is registered as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended, and the rules and regulations promulgated thereunder (the "Advisers Act"). The following compliance policies and procedures of LGP were discussed over the course of Portfolio Advisors' due diligence: (i) the identification and handling of conflicts of interest by the Firm; (ii) allocations of investment opportunities; (iii) whether LGP has been examined by a regulator and, if so, whether there were any deficiencies cited (and, if so, the nature of the deficiencies); and (iv) its marketing practices.

# DISCLOSURE STATEMENT

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THE FUND WILL NOT REGISTER AS INVESTMENT COMPANIES UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "COMPANY ACT") IN RELIANCE UPON THE EXEMPTION UNDER SECTION 3(C)(7) THEREUNDER, AND, ACCORDINGLY, THE PROVISIONS OF THE COMPANY ACT WILL NOT BE APPLICABLE TO THE FUND.

AN INVESTMENT IN THE FUND WILL BE SUITABLE ONLY FOR CERTAIN SOPHISTICATED INVESTORS WHO HAVE NO NEED FOR IMMEDIATE LIQUIDITY IN THEIR INVESTMENT. SUCH AN INVESTMENT WILL PROVIDE LIMITED LIQUIDITY BECAUSE INTERESTS IN THE FUND WILL NOT BE FREELY TRANSFERABLE AND MAY GENERALLY NOT BE WITHDRAWN. THERE WILL BE NO PUBLIC OR SECONDARY MARKET FOR INTERESTS IN THE FUND, AND IT IS NOT EXPECTED THAT A PUBLIC OR SECONDARY MARKET WILL DEVELOP.



## DISCLOSURE STATEMENT (CONTINUED)

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Vendor Leonard Green & Partners, L.P.  
 Address 11111 Santa Monica Blvd, Suite 2000  
 Los Angeles, CA 90025

Date Completed: January 14, 2016

Category

**TOTAL COMPOSITION OF WORK FORCE**

<b>Occupation</b>	<b>African American Full Time</b>	<b>Hispanic Full Time</b>	<b>Asian or Pacific Islander Full Time</b>	<b>American Indian/Alaskan Native Full Time</b>	<b>Caucasian (Non Hispanic) Full Time</b>	<b>Total Employees Full Time</b>	<b>Percent (%) Minority Full Time</b>	<b>Gender Full Time</b>	
								<b>Male</b>	<b>Female</b>
Officials & Managers	0	0	0	0	0	0	NA	0	0
Professionals	0	0	7	0	31	38	18.42%	30	8
Technicians	0	0	0	0	0	0	NA	0	0
Sales Workers	0	0	0	0	0	0	NA	0	0
Office/Clerical	0	1	0	0	6	7	14.29%	1	6
Semi-Skilled	0	0	0	0	0	0	NA	0	0
Unskilled	0	0	0	0	0	0	NA	0	0
Service Workers	0	0	0	0	0	0	NA	0	0
Other	0	0	0	0	0	0	NA	0	0
<b>Total</b>	<b>0</b>	<b>1</b>	<b>7</b>	<b>0</b>	<b>37</b>	<b>45</b>	<b>17.78%</b>	<b>31</b>	<b>14</b>

## Discretion in a Box

	<b>Role of Board</b>	<b>Role of Staff</b>	<b>Role of Private Equity Consultant</b>
Strategy/Policy	<ul style="list-style-type: none"> <li>Select Private Equity Consultant.</li> <li>Approve asset class funding level.</li> <li>Annually review, provide input, and adopt investment policies, procedures, guidelines, allocation targets, ranges, and other assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>With Private Equity Consultant and General Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>With staff and General Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>
Investment Selection	<ul style="list-style-type: none"> <li>Review investment analysis reports.</li> <li>Interview and approve investments in new management groups of amounts greater than \$25 million prior to investment.</li> <li>Interview and approve investments in follow-on partnerships of amounts greater than \$40 million prior to investment.</li> <li>May refer investments to Private Equity Consultant and staff for preliminary screening. Such referrals are to be considered only for the purpose of enlarging the candidate pool, and are not to be considered to be a Board endorsement or request for differentiated consideration.</li> </ul>	<ul style="list-style-type: none"> <li>May refer investments to Private Equity Consultant for preliminary screening. Such referrals are to be considered only for the purpose of enlarging the candidate pool, and are not to be considered to be a staff endorsement or request for differentiated consideration.</li> <li>Conduct meetings with potential new investments prior to recommending to the Board, if practical.</li> <li>In conjunction with Private Equity Consultant, invest up to \$25 million for new partnerships, and up to \$40 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision.</li> <li>In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over \$25 million in new partnerships, or over \$40 million in follow-on funds.</li> <li>Execute agreements.</li> </ul>	<ul style="list-style-type: none"> <li>Conduct extensive analysis and due diligence on investments.</li> <li>Recommend for Board approval investments over \$25 million for new managers, or over \$40 million in follow-on funds.</li> <li>With staff concurrence, approve investment of up to \$25 million for new partnerships, and up to \$40 million in follow-on funds.</li> <li>Provide investment analysis report for each new investment.</li> <li>Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence.</li> <li>Coordinate meetings between staff, Board, and general partner upon request.</li> <li>Negotiate legal documents.</li> </ul>
Investment Monitoring	<ul style="list-style-type: none"> <li>Review quarterly, annual, and other periodic monitoring reports.</li> </ul>	<ul style="list-style-type: none"> <li>Review quarterly, annual and other periodic monitoring reports prepared by Private Equity Consultant.</li> <li>Conduct meetings with existing managers periodically.</li> <li>Attend annual partnership meetings when appropriate.</li> <li>Fund capital calls and distributions.</li> <li>Review Private Equity Consultant's recommendations on amendments.</li> <li>Execute amendments to agreements.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio.</li> <li>Recommend amendments to staff for approval.</li> <li>Provide quarterly, annual, and other periodic monitoring reports.</li> </ul>