



SBCERA / Adams Street Partners: Emerging Manager Initiative

April 2025



SB|cera

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ASP/SBCERA Headwaters Fund



San Bernardino County Employees'
Retirement Association



Headwater: (*noun*) a tributary stream of a river close to or forming part of its source.

Agenda

- **Background / Summary**
- **Philosophy**
- **Thesis**
- **Execution / Structure**
- **Merits / Risks**
- **Adams Street Partners**



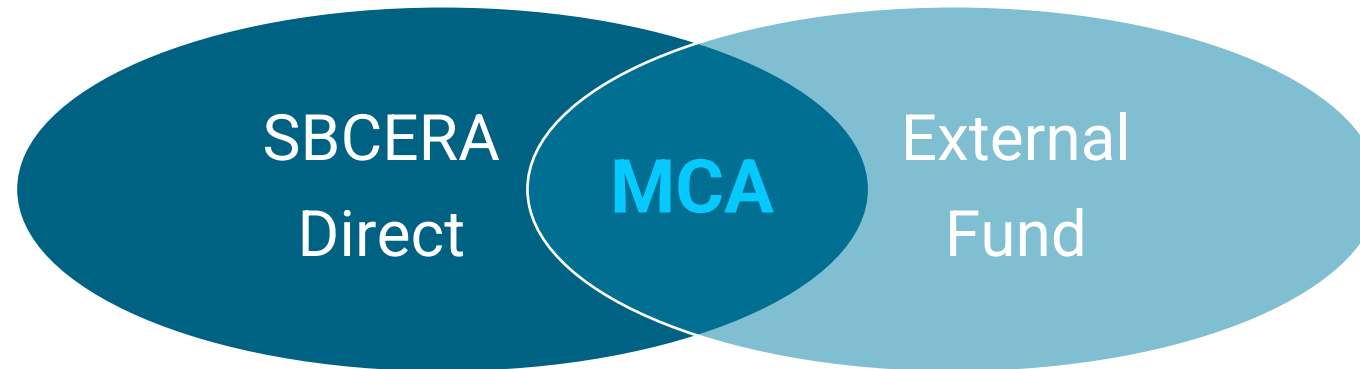
San Bernardino County Employees'
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Background

- **In June 2024, the Board expressed interest in a program focused on emerging managers; CEO Debby Cherney also shared enthusiasm for the idea.**
- **SBCERA staff had already been evaluating this idea; after internal conversation, we prioritized our research over the following months to identify the best path for implementation.**
- **Areas of research included multiple vectors, including the examination of different asset classes and various methods of accessing the marketplace.**

Background

- Staff considered numerous asset classes and concluded that private equity combined both the highest impact on our program as well as the greatest feasibility of successful realization.
- Staff also assessed several avenues of accessing this market, settling on application within our MCA structure.

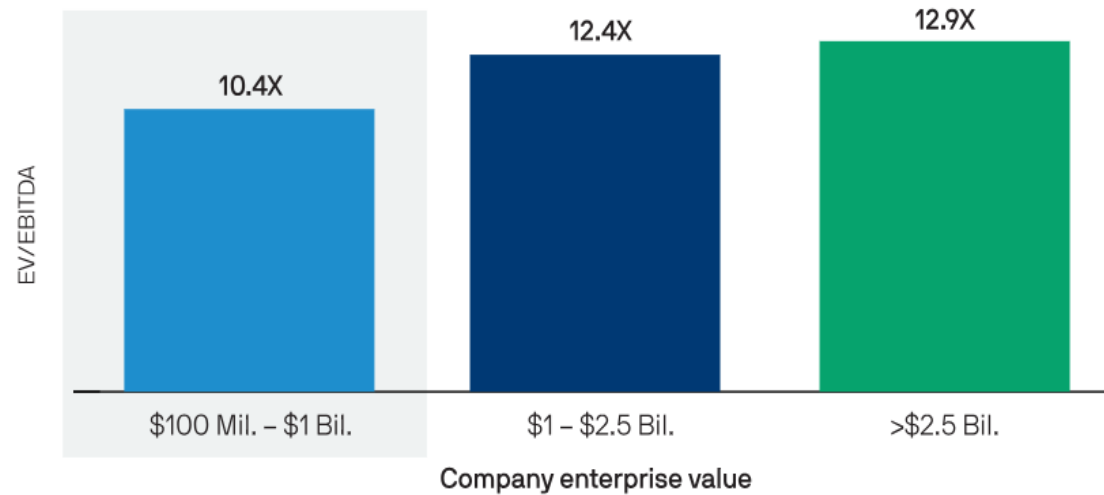


Summary

- **The main benefits of investing in emerging managers include:**
 - Higher potential alpha
 - Idiosyncratic risk/return diversification
 - Better alignment of interests
 - Longer-term partnerships with attractive characteristics
- **These advantages align philosophically with SBCERA's core investing pillars, and our organization is uniquely positioned to prosecute the opportunity.**
- **Staff has determined that the private equity asset class represents the best opportunity for this initiative and is recommending Adams Street Partners as our partner in execution.**

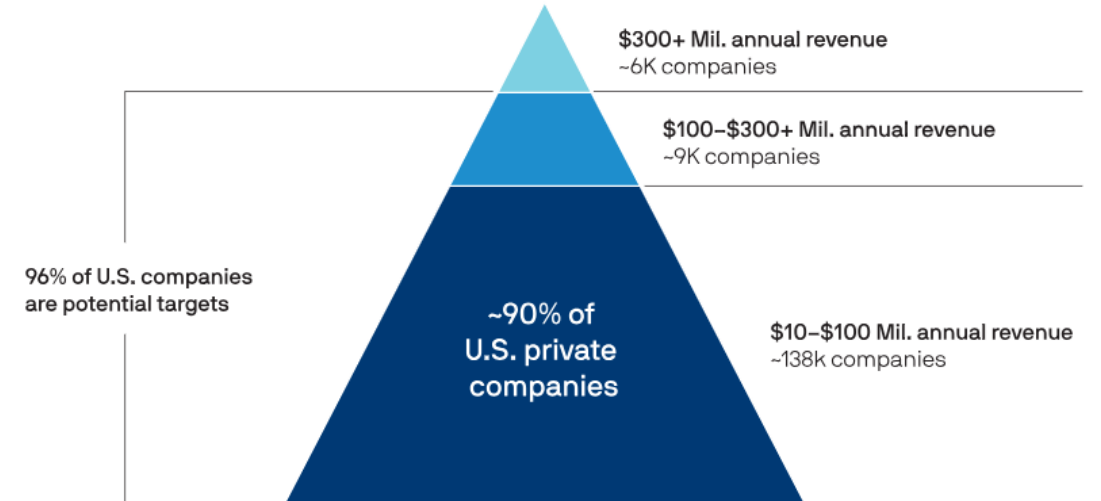
Philosophy: Value

Exhibit 2a: Median purchase multiples by enterprise value (2010 – Q3 2023)¹



¹Source: Pitchbook. Median Transaction Value / EBITDA Multiples of US buyout deals occurring between 2010 and Q3 2023.

Exhibit 1: Universe of private companies in the U.S. by size

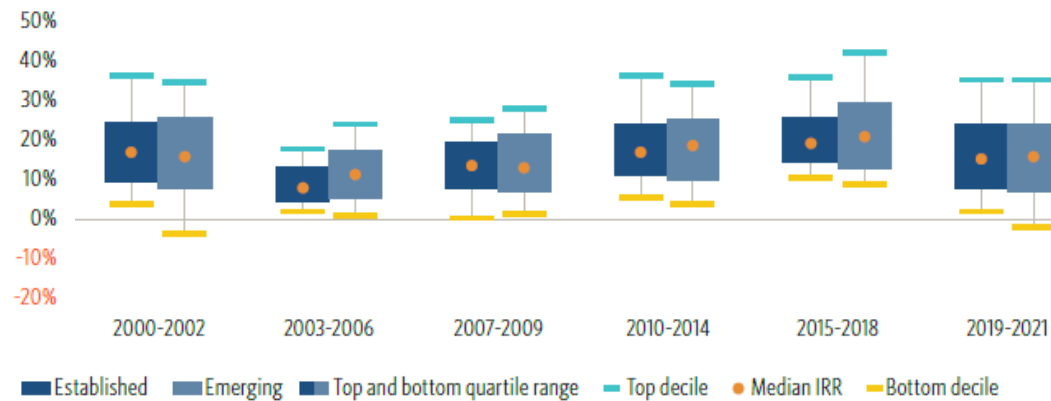


Source: FactSet as of 2/28/2024.

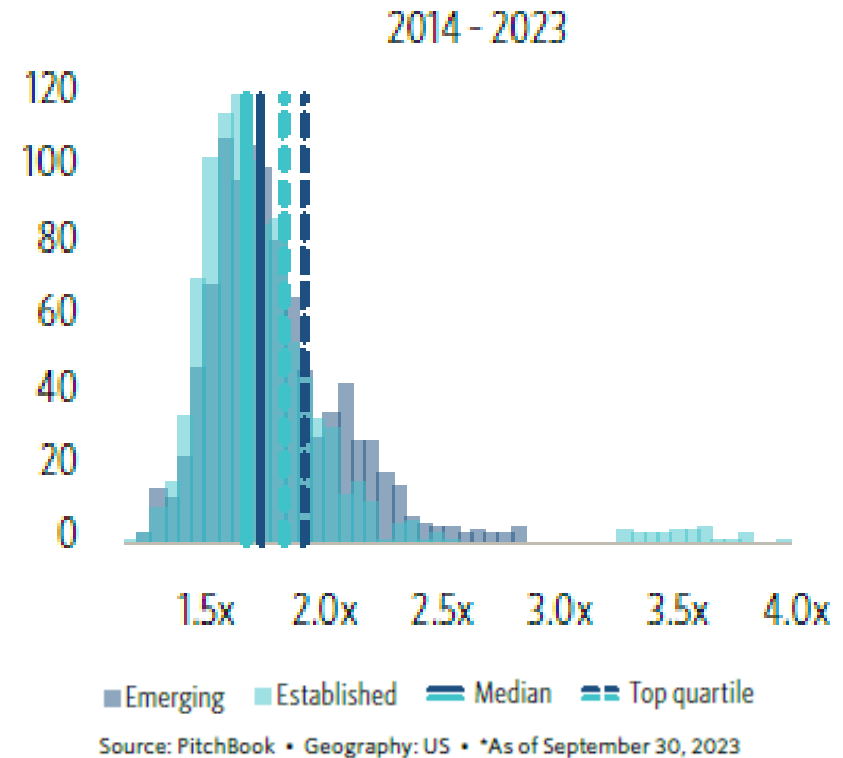
Smaller buyout managers benefit from lower entry multiples; this is driven by greater supply, unique sourcing, lower institutionalization and industry specialization.

Philosophy: Value

Buyout fund net IRR dispersion by vintage cohorts and manager experience*



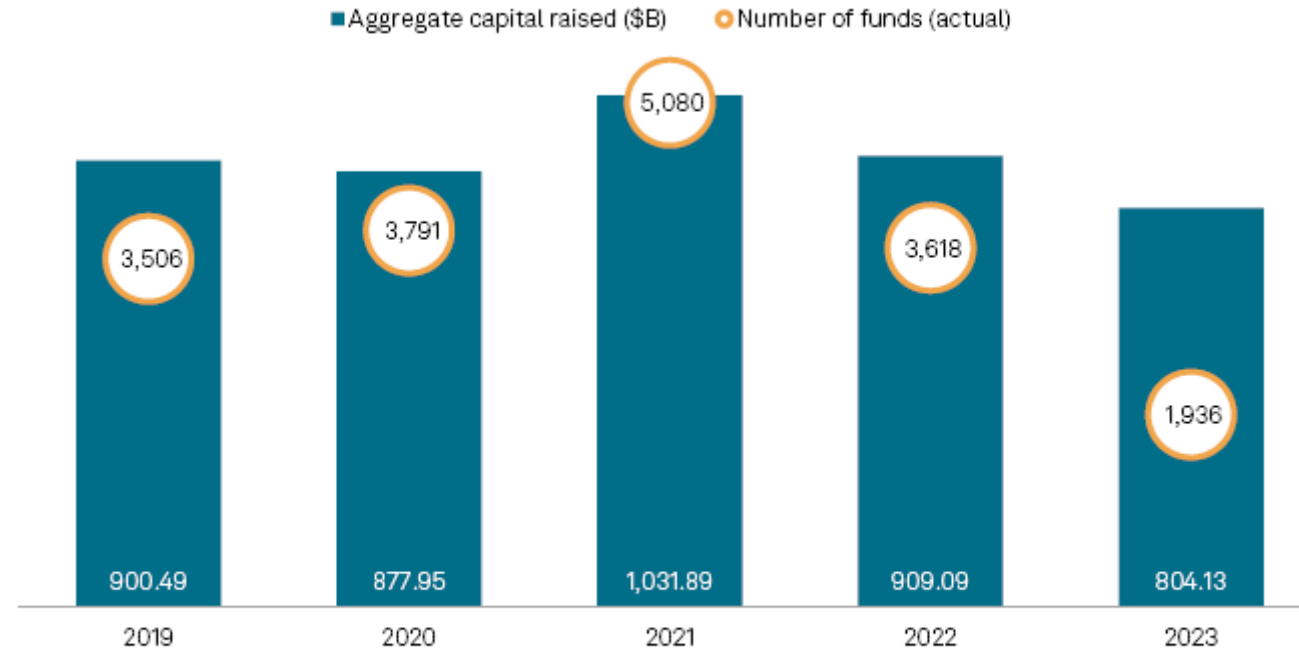
Buyout fund pooled TVPI simulation results by time frame and manager experience*



Performance for emerging managers has historically shown higher return potential but greater dispersion over time, highlighting the importance of active manager selection.

Philosophy: Opportunistic

Private equity/venture capital fundraising, 2019–2023



Data compiled Jan. 12, 2024.

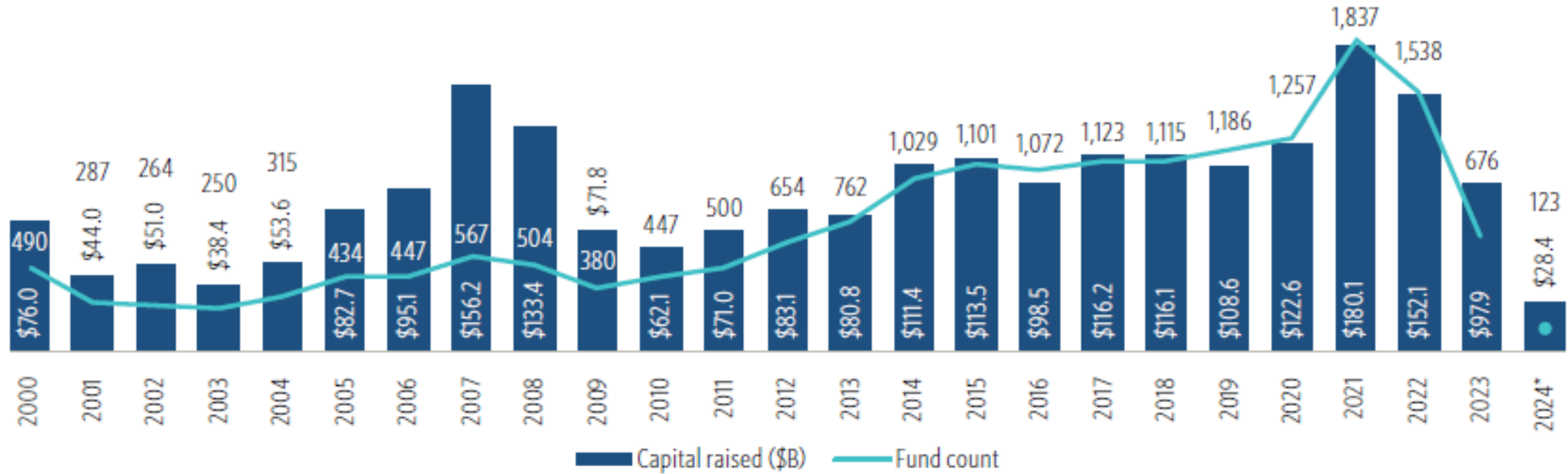
Analysis includes private equity and venture capital funds with final close between Jan. 1, 2019, and Dec. 31, 2023. Funds in the analysis are limited to venture capital, balanced, buyout, co-investment, co-investment multi-manager, direct secondaries, fund of funds, growth, hybrid, hybrid fund of funds, PIPE, secondaries, or turnaround fund types.

Source: Preqin Pro.

A market gap exists for fundraising by emerging managers; the top 10 fundraises accounted for 28% of total dollars raised in 2023 versus 18% in 2022.

Philosophy: Opportunistic

Fundraising activity by emerging managers

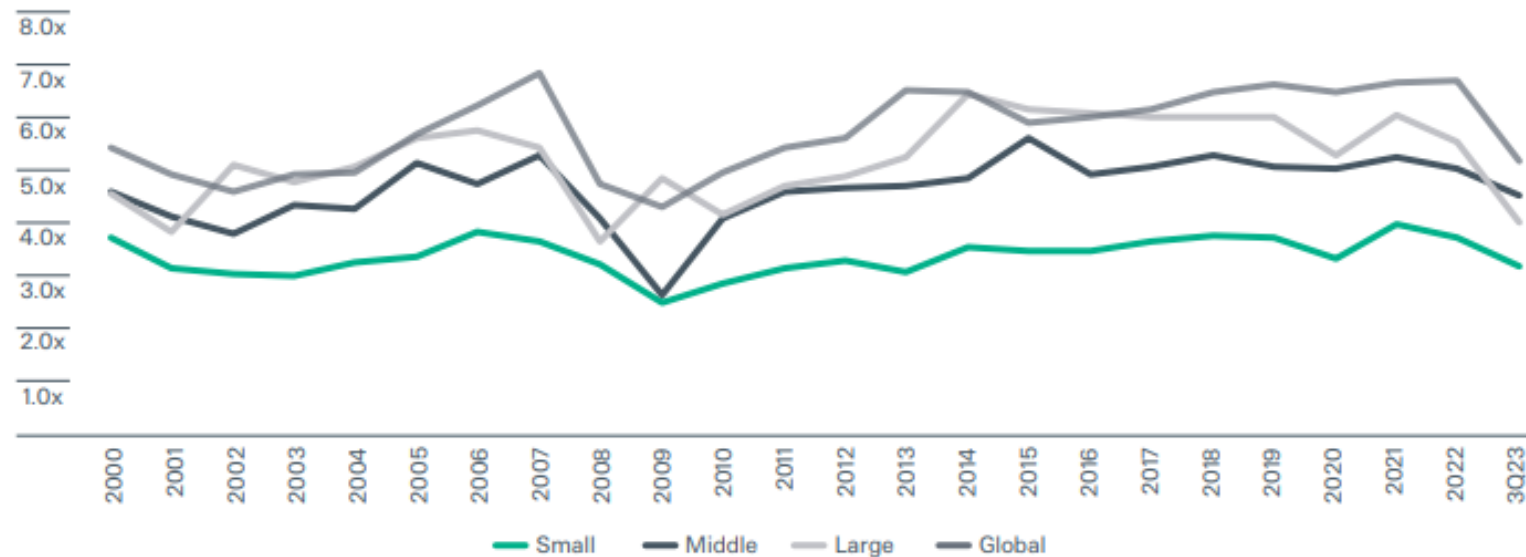


Source: PitchBook • Geography: US • *As of March 17, 2024

Lack of LP commitments have dampened fundraising by new managers, despite a continued need from both existing emerging managers and new startup managers.

Philosophy: Income

FIGURE 6: MEDIAN LEVERAGE MULTIPLES FOR NORTH AMERICAN BUYOUTS



Smaller buyout transactions typically utilize less leverage, thereby freeing up additional free cash flow to invest in growth initiatives or business operations.

Philosophy: Income

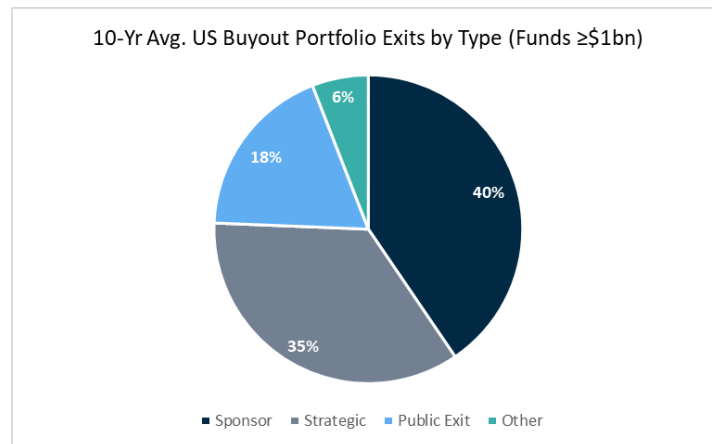
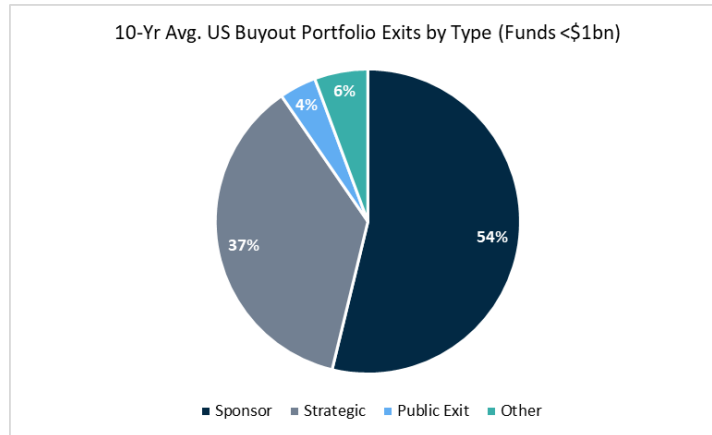
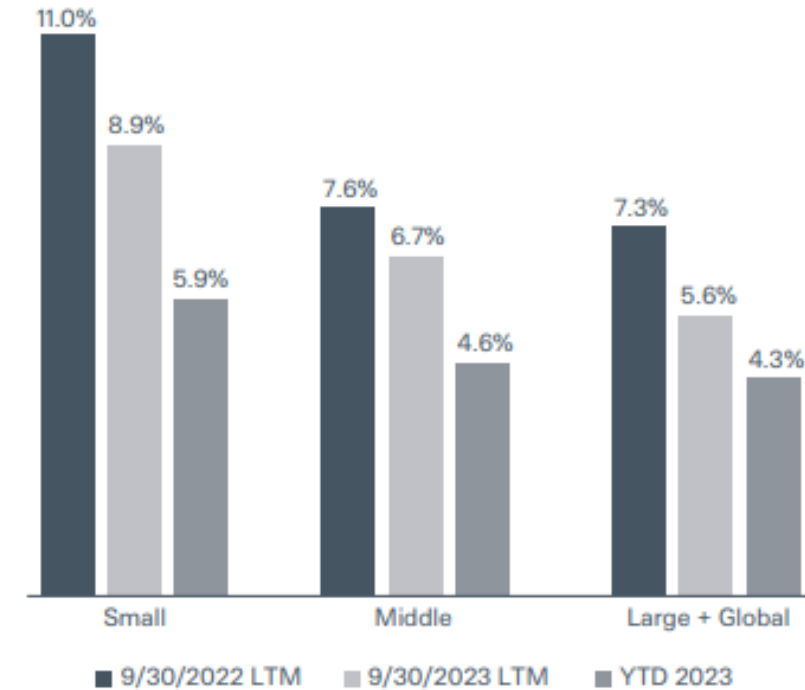


FIGURE 3: BUYOUT EXIT ACTIVITY (3Q21-3Q23)



Source: SPI by StepStone, September 2023.
 Note: Reflects percent of deal count (exits/total).

Smaller managers typically generate higher levels of exit activity for multiple fundamental and market-related reasons, leading to earlier and higher DPI.

SBCERA Thesis

- **Staff believes that SBCERA can benefit from investing in emerging managers in private equity through a formal program.**
 - Expectation for attractive risk-adjusted returns on both an absolute and relative basis.
- **Staff believes Adams Street is the right partner for implementation.**
 - Consistent and demonstrated history of success in manager selection for close to 50 years.
- **Staff believes investing early will accrue relationship advantages over time.**
 - Pipeline of partners to complement existing private equity program.
 - Potential for capacity rights and fee-advantaged co-invest.
- **Staff believes all partners are aligned and incentivized to succeed**
 - Proper execution results in a “win-win-win” for SBCERA, Adams Street and managers.

Execution

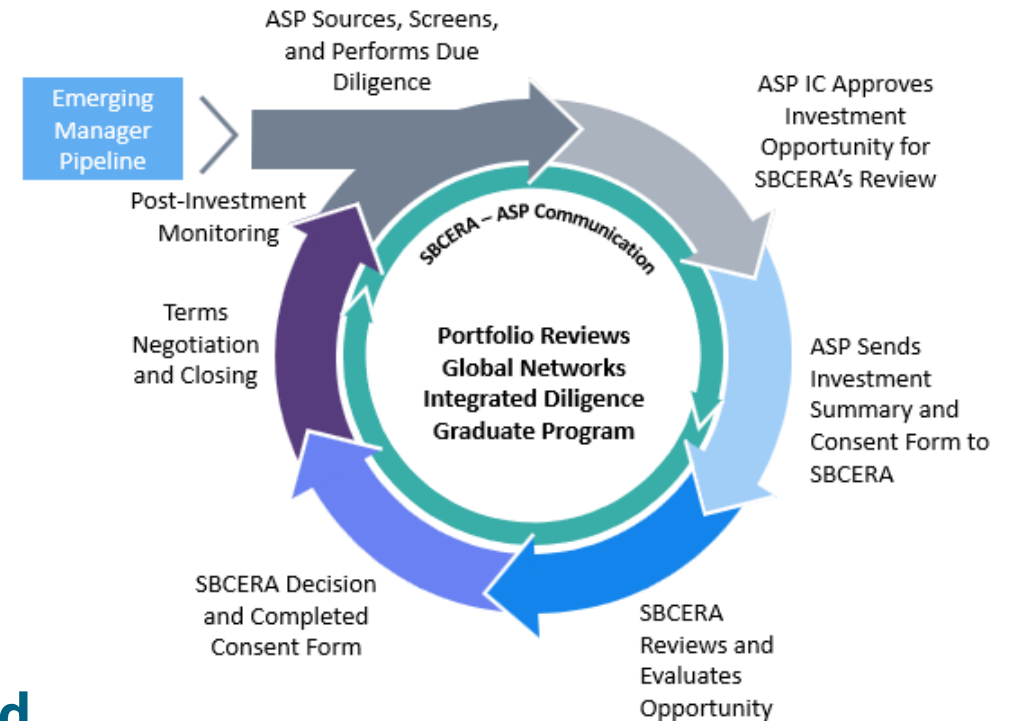
- Staff is proposing an initial \$200mm customized fund of one (“The Headwaters Fund” or “The Fund”) with Adams Street Partners.
- The Fund will commit to 8-10 fund investments over a 3-year period (average investment \$20-25mm).

Characteristic	Definition
Vintage	Managers raising Funds I-III
Style	Primarily buyout
Geography	Primarily US; projected ~75% US, ~25% ROW
Sector	Approximately 20% each to Technology, Healthcare, Services, Industrials, and Other

- Fees have been negotiated and are attractive on both a relative and absolute basis.

Execution

- **Adams Street to conduct initial screening on potential partnerships.**
- **Adams Street to perform pre-investment due diligence and receive approval from internal Investment Committee.**
- **Staff to have final discretion on approval of managers presented by Adams Street.**
- **Adams Street to finalize legal agreements and documentation.**



Adams Street to provide biennial updates to SBCERA investment committee regarding process, portfolio construction and performance.

Risks / Mitigants

- **Broad investment mandate could drive investment indecision.**
 - *Mitigant: Adams Street has a long history of diligence with managers; this combined with SBCERA involvement/experience from other relevant relationships should drive decisive action.*
- **Higher chance of failure exists with funds earlier in their lifecycle.**
 - *Mitigant: Adams Street examines both investment and operational factors in their diligence, e.g., GP experience/track record, GP commitment, and past relationship notes from prior firms.*
- **Longer duration in private equity obscures ability to grade initiative.**
 - *Mitigant: SBCERA has a longer-term horizon as compared to other LPs. Furthermore, the ballast of current income throughout the rest of the portfolio affords flexibility.*
- **Commitment to Headwaters presents an opportunity cost in money deployed.**
 - *Mitigant: \$200mm commitment represents 1.25% of the entire SBCERA portfolio.*
 - *Mitigant: "No risk it, no biscuit."*

Q&A

Adams Street Partners - Presentation