



To: San Bernardino County Employees' Retirement Association

From: Allan Martin, Partner; Sam Austin, Partner; Sean Gill, Partner;
Chris Hill, Senior Consultant

Date: February 11, 2020

Subject: Aberdeen Standard Investments European Co-Investment Fund II

Summary

San Bernardino County Employees' Retirement Association ("SBCERA") is seeking to commit \$50 million to the European Co-Investment Fund II ("ECF II") from Aberdeen Standard Investments ("ASI") to expand its existing relationship with this manager. SBCERA has previously committed to the Secondary Opportunities Fund Series (Funds I, II, III and IV) as well as earlier Standard Life diversified funds (European Strategic Partners 2004 and 2008). Committing at the first close will provide SBCERA with reduced management fees, in addition to discounts for the size of the \$50 million commitment. Recently, SBCERA approved committing \$600 million to private equity funds in 2020 as part of its strategic plan pacing analysis. In January 2020, an MCA with Adams Street Partners was discussed for \$150 million.

NEPC has reviewed ASI's capability to execute the strategy and subject to SBCERA's comfort with the issues outlined in the accompanying memorandum, NEPC supports the staff's recommendation for a \$50 million investment in ASI ECF II.

Background

Standard Life Aberdeen plc is an investment company, created in 2017 from the merger of Standard Life plc and Aberdeen Asset Management plc ("AAM").

- Aberdeen Asset Management plc ("AAM") was formed in 1983 through a management buyout and grew significantly through a combination of strategic acquisitions and organic growth; it was initially listed on the London Stock Exchange in 1991.
- Standard Life plc traces its roots back to 1825; the company was initially listed on the London Stock Exchange in 2006.
- Standard Life Investments was formed in 1998 as a private limited company and a wholly owned subsidiary of Standard Life Investments (Holdings) Limited, which in turn was a wholly owned subsidiary of Standard Life plc.

Following the merger, AAM and Standard Life Investments Limited and their respective subsidiaries together come under the Aberdeen Standard Investments ("ASI") brand as the asset management division of Standard Life Aberdeen plc.

The organization operates in equities, fixed income, commercial real estate and other alternatives asset classes. It also strives to create innovative investment solutions, such as multi-asset and liability-driven products, as well as absolute return funds and quantitative investments.



Clients include banks, national and corporate pension funds, insurers, sovereign wealth funds and other investment institutions, plus intermediaries managing money for private investors.

Within Aberdeen Standard Investments ("ASI"), the group manages over £64 billion in private markets assets across real estate, private equity, infrastructure, strategic credit, venture capital and natural resources. The private markets business comprises over 400 professionals in 19 offices across the world. In private equity, the team manages approximately £10 billion across primaries, secondaries and co-investments.

The European Co-Investment Fund II's primary objective is to co-invest alongside high-quality sponsors, predominantly in buyout opportunities in the European middle-market. It will also have the ability to acquire equity co-investments through the secondary market. ECF II will leverage the Team's experience and relationships to source, diligence and execute co-investments with target returns of over 2.0x and 20% IRR on all investments. The Fund will be a continuation of ASI's co-investment strategy which has deployed over €550m in 50 European transactions since 2013. This includes 18 investments made in the Predecessor Funds.

ECF II will be deployed over a three-year period (with the potential for limited recycling for an additional 18-month period) into 15-20 underlying investments, diversified by geography and sector. The Fund will be focused in Europe with a maximum of 20% invested in companies headquartered outside Western Europe. The target average investment amount will be €13-18 million per company with a maximum of 15% of total commitments (or, if higher, up to €45 million) deployed in a single co-investment. The Fund will predominantly invest in businesses with EBITDA in the range of €10-50 million. The Fund will focus on co-underwriting transactions, investing alongside private equity funds at the transaction date as well as selective post completion syndicated transactions. Most of the investments will be made without paying fees or carried interest ("economics") to the underlying private equity sponsor. Up to 20% of the Fund will be deployed in transactions with material economics. This allows the Fund to take advantage of a growing opportunity set ASI sees from specialist fund-less sponsors sourcing differentiated deal flow in attractive sector niches. In addition, it allows the fund to invest in single asset continuation fund structures alongside private equity funds where ASI has a longstanding fund relationship.

Conclusion

The proposed commitment to ECF II should be complementary to existing commitments in the SBCERA private equity program, thus NEPC supports the staff's recommendation for a \$50 million investment in the ASI ECF II.