



BOARD OF RETIREMENT

Staff Report

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Agenda Date: 3/5/2020

Agenda #: 11.

FROM: Don Pierce, Chief Investment Officer

SUBJECT: Aberdeen Standard Co-Investment Fund II Investment Recommendation

RECOMMENDATION:

Approve a \$50 million commitment to the Aberdeen Standard Co-Investment Fund II.

BACKGROUND:

The Manager:

Aberdeen Standard Investments (ASI) is a U.K. based global investment company with over 40 offices globally. Created in 2017 from the merger of Standard Life plc and Aberdeen Asset Management LLC, ASI manages over \$733 billion (as of June 30, 2019) in private equity (PE,) fixed income, multi-asset, alternative (hedge fund), real estate, infrastructure assets, and customized mandates.

SBCERA's relationship with Aberdeen Standard Investments started with a commitment of €182 million (\$206.3 million) in the European Strategic Partners 2004 fund-of-fund. This initial commitment was followed-up with an €25 million (\$28.3 million) commitment to the European Strategic Partners 2008 fund-of-fund. In 2013, SBCERA participated as a founder investor in the Secondary Opportunities Fund (SOF) I with a commitment of \$25 million and has since made similar commitments to SOF II and SOF III. In 2018, SBCERA committed \$40 million to SOF IV. Today, ASI manages over \$13 billion in private equity assets across direct, secondary, fund-of-fund, and co-investments. Total value of SBCERA's investments in the various ASI funds is \$71.8 million as of December 31, 2019.

The ASI Co-Investment Strategy:

ASI has been investing in European PE co-investment opportunities since 1999 and is in the process of raising its first commingled institutional fund. The Edinburgh, Scotland based 6-member co-investment team is part of a broader 40-person private equity team at ASI. Colin Burrow leads the team and has over 23 years of experience in private equity and over 10 years of experience in PE co-investing.

The co-investment strategy at ASI focuses on European mid-market companies that generate €10-50 million in EBITDA using proprietary research that ASI's extensive PE experience and network generates. As a PE market participant and fund-of-fund manager, ASI has the opportunity to leverage its significant resources across various PE platforms to identify attractive investable co-investment opportunities.

Private Equity Co-Invest:

Co-investments in PE provide several benefits and SBCERA's portfolio has benefited from investing in PE co-investments across our MCA relationships. The main advantages are:

1. Blind pool risk - A PE investor's commitment to a fund is based on underwriting a General Partner's ability to source opportunities in the future. There are no assets or financial documents to evaluate and this risk of execution is primarily identified as blind pool risk. As co-investments are a direct investment into a company, blind pool risk is mitigated as financial metrics and company specific information is available for analysis.
2. Fees - General Partners (GP) typically do not charge management and/or performance fees on co-investments and any such fees if charged are on the value of the asset versus on committed capital basis. This benefit's the co-investor by reducing fee drag.
3. Diversification - As co-investments are not limited to a specific GP, fund, sector, country, or region, inclusion of private equity co-investments has diversification benefits to the broader portfolio.

In addition to the general attractiveness of co-investments, SBCERA as a seed investor assisted ASI in formulating key terms for Co-Investment Fund II and therefore offering an opportunity for SBCERA to deploy capital at investor-friendly terms on fees, key-man provision, and advisory board participation.

SBCERA Private Equity Budget Update:

The 2020 Private Equity budget in Exhibit 1 has been updated to reflect the commitment request for the investment in Aberdeen Standard Co-Investment Fund II.

Exhibit 1: Private Equity Budget and Allocations for 2020

Manager	2019 Allocations	2020 Allocations
Total PE Budget	\$500 MM	\$600 MM
Adams Street Partners MCA ¹	-	\$50 MM
Aberdeen Standard Co-Investment Fund II	-	\$50 MM
Ares MCA	\$15 MM	-
Crestline Portfolio Fin. Fund II ⁺	-	\$100 MM
Gramercy MCA	\$25 MM	\$25 MM
Industry Ventures MCA	\$100 MM	\$50 MM
Kayne Anderson MCA	\$100 MM	\$50 MM
Partners Group MCA	-	\$50 MM
Pathway Capital MCA	\$102 MM	\$70 MM
Tennenbaum MCA	\$30 MM	-
Waterfall MCA	-	-
Allocated PE Budget	\$372 MM	\$445 MM
Unallocated PE Budget	\$128 MM	\$155 MM

¹MCA subject to SBCERA Investment Committee and Board approval

⁺Follow-on fund commitment plus reserve for potential MCA

COMMITTEE REVIEW:

This item was reviewed by the Investment Committee at its February 11, 2020 meeting and recommends Board approval, with a 3-0 vote. Trustee Newcomer was absent from the meeting.

BUDGET IMPACT:

Investment Costs are deducted from the Net Asset Value.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Amit Thanki

ATTACHMENTS:

Exhibit A: NEPC Recommendation Memo - Aberdeen Standard Co-Investment Fund II

Exhibit B: NEPC Investment Due Diligence Rating - Aberdeen Standard Co-Investment Fund II
(Confidential)

Exhibit C: Aberdeen Standard Co-Investment Fund II Presentation