

# Oklahoma City Employee Retirement System

*Private Equity Discussion*

May 9, 2024



2018 2019 2020 2021 2022 **2023**

**We are proud to announce that ACG has again been named a Greenwich Quality Leader – recognized as one of the top consultants in the industry.**

**Methodology and Disclosure:** Between February and November 2023, Coalition Greenwich conducted interviews with 708 individuals from 575 of the largest tax-exempt funds in the United States. These U.S.-based institutional investors are corporate, public, union, and endowment and foundation funds with either pension or investment pool assets greater than \$150 million. Study participants were asked to provide quantitative and qualitative evaluations of their asset management and investment consulting providers, including qualitative assessments of those firms soliciting their business and detailed information on important market trends. ACG is one of three firms recognized in the mid-size investment consultant category. The ratings may not be representative of any one client's experience with ACG; rather they are representative of those clients that chose to participate in the survey. The results are not indicative of ACG's future performance. ACG does not pay to have its clients participate in the study.

---

## Table of Contents

Tab 1	Private Equity Portfolio Review
Tab 2	Private Equity Fund Evaluation Reports
Tab 3	Private Equity Recommendations

---

## **Private Equity Portfolio Review**

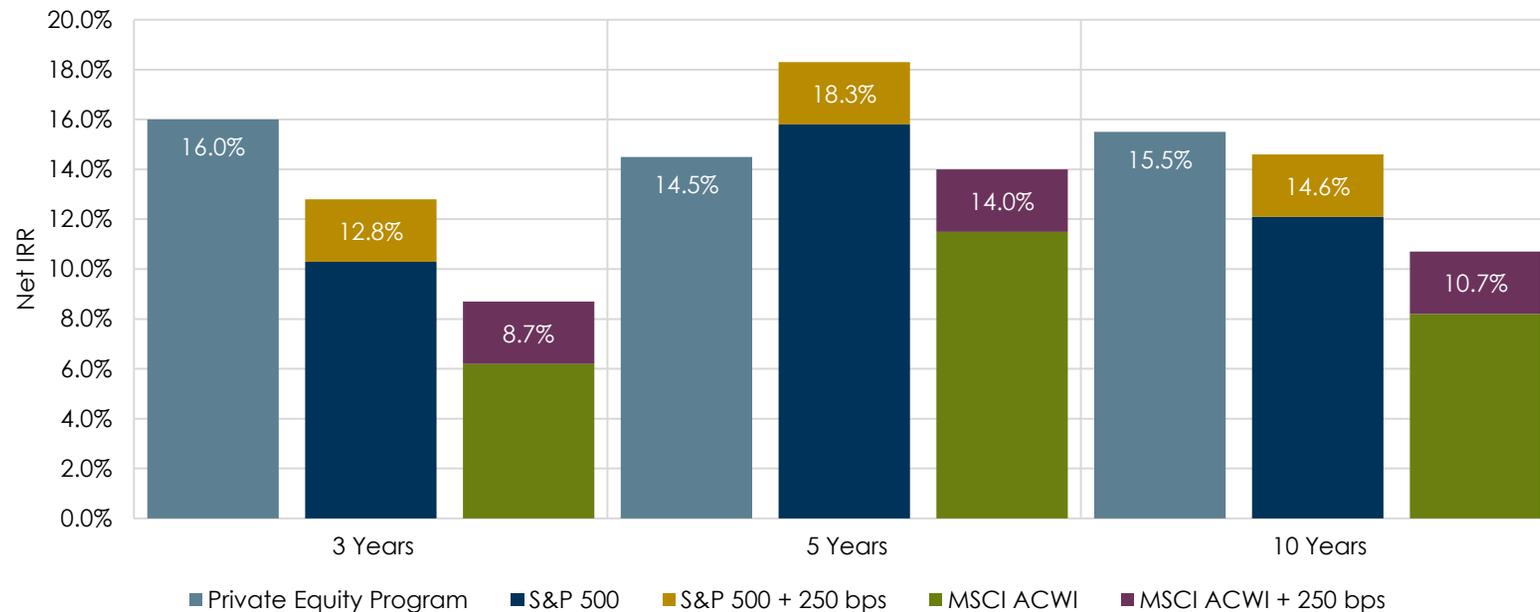
## Private Equity Portfolio Performance vs. Public Markets

### Public Market Equivalent (PME)

- **The OCERS private equity portfolio has consistently outperformed public equities over time.** The S&P 500 rallied over 24% in 2023 which is having a material affect on performance relative to the long-term goal of public equity markets + 250 bps.

### OCERS Private Equity Program Return vs. Public Market Equivalent

For the period ending December 31, 2023



- **The Public Market Equivalent (PME)** is a benchmarking method that was created to help mitigate the issue of cash flow timing by creating a theoretical investment into a given public index using the same cash flows from private equity investments. The result is a more comparable benchmark that can be used to **better evaluate private equity performance versus a public equity benchmark.**

\* Inception – April 2009

**Private Equity**

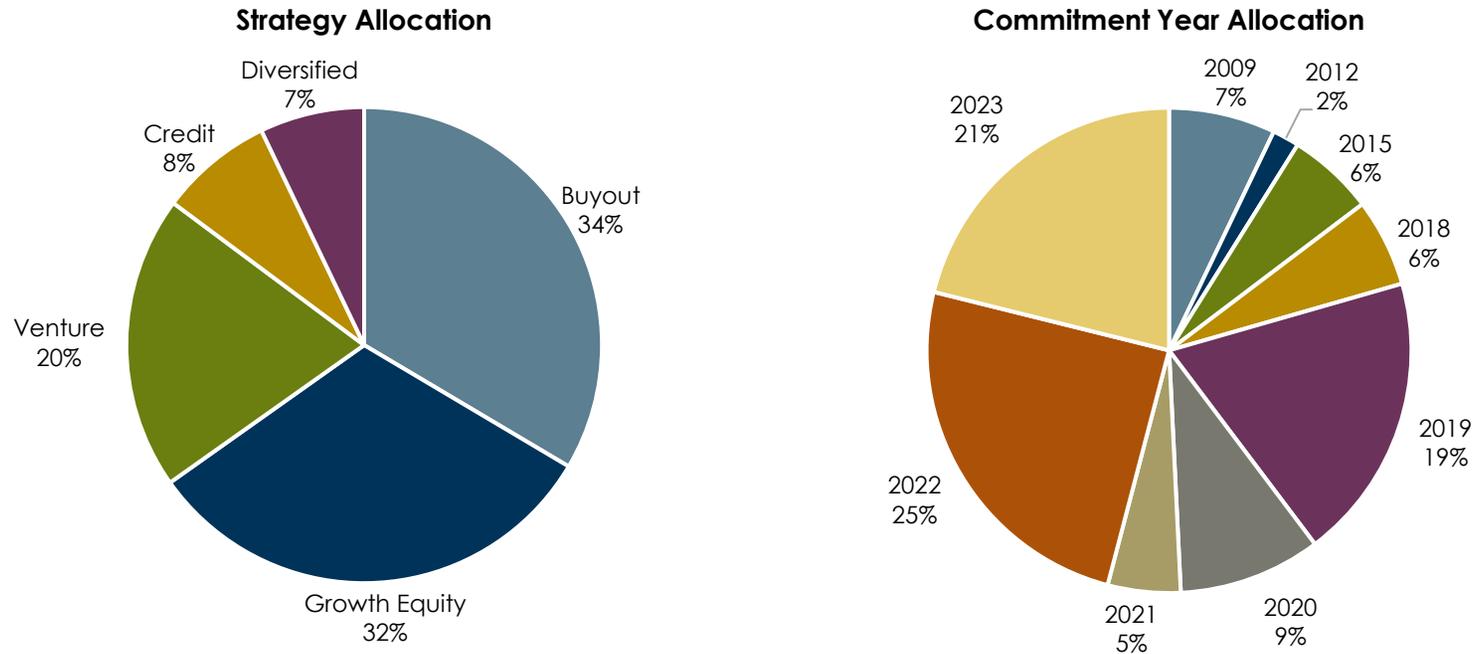
For the period ending December 31, 2023

**Summary of Portfolio Inception to Date**

	Inception Date	Committed	Drawn to Date	Remaining Commitment	Distributions to Date	Adjusted Ending Value	Total Value	Total Value to Paid-in
<b>Total</b>	<b>Apr-09</b>	<b>154,587,000</b>	<b>91,135,928</b>	<b>64,858,273</b>	<b>71,707,317</b>	<b>75,955,599</b>	<b>147,662,915</b>	<b>1.62x</b>
Mesirow V	Apr-09	20,000,000	18,915,123	1,100,000	35,883,949	<b>8,909,429</b>	44,793,378	2.37x
Siguler Guff Distressed Opp Fund III	Apr-09	5,000,000	4,852,816	-	7,869,133	-	7,869,133	1.62x
Warburg Pincus XI	Nov-12	7,500,000	7,500,000	-	10,648,272	<b>2,516,038</b>	13,164,310	1.76x
Warburg Pincus XII	Dec-15	10,000,000	10,000,000	-	11,522,489	<b>8,269,730</b>	19,792,219	1.98x
Apollo Fund IX	Mar-19	6,500,000	6,211,972	1,732,698	2,569,474	<b>6,520,953</b>	9,090,427	1.46x
Warburg Pincus Global Growth	Mar-19	15,000,000	14,130,000	870,000	1,875,750	<b>18,142,343</b>	20,018,093	1.42x
FirstMark COF III	Jun-20	3,750,000	3,844,592	-	94,592	<b>3,503,381</b>	3,597,974	0.94x
FirstMark V	Jul-20	3,750,000	3,300,000	450,000	86,185	<b>4,085,138</b>	4,171,323	1.26x
CVI Credit Value Fund A V LP	Jul-20	10,000,000	7,000,000	3,000,000	-	<b>7,741,450</b>	7,741,450	1.11x
Francisco Partners Agility II	Sep-20	2,020,000	1,588,730	431,270	-	<b>2,106,144</b>	2,106,144	1.33x
Francisco Partners VI	Feb-21	6,067,000	5,584,673	482,327	629,627	<b>6,349,092</b>	6,978,719	1.25x
Warburg Pincus Global Growth 14	Jun-22	15,000,000	4,350,000	10,650,000	115,650	<b>4,343,123</b>	4,458,773	1.03x
Firstmark COF IV	Apr-23	5,000,000	475,000	4,525,000	-	<b>419,955</b>	419,955	0.88x
TrueBridge Fund VIII	Jul-23	5,000,000	100,000	4,900,000	-	<b>43,926</b>	43,926	0.44x
TrueBridge Secondaries I	Aug-23	5,000,000	1,200,000	3,800,000	-	<b>1,390,320</b>	1,390,320	1.16x
Saw Mill Capital Partners III	Nov-23	10,000,000	1,776,772	8,223,228	412,195	<b>1,364,577</b>	1,776,772	1.00x
Francisco Partners VII	Nov-23	7,500,000	56,250	7,443,750	-	-	-	0.00x
FirstMark VI	Dec-23	5,000,000	250,000	4,750,000	-	<b>250,000</b>	250,000	1.00x
Francisco Partners Agility III		2,500,000	-	2,500,000	-	-	-	-
Clayton, Dubilier, & Rice Fund XII		10,000,000	-	10,000,000	-	-	-	-

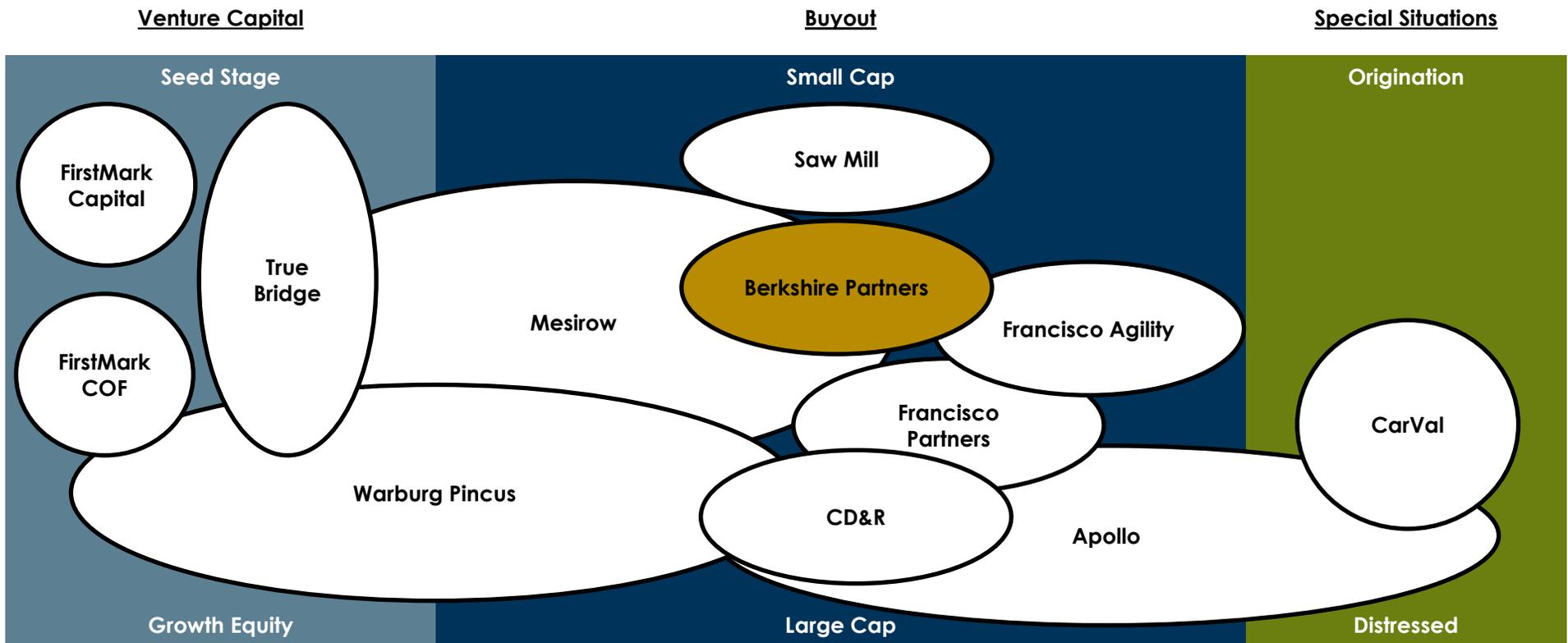
- **Private valuations moderated in 2023, particularly within venture capital. While we expect this to continue in 2024, possible rate cuts in the back half of 2024 could spur an increase in transaction activity.**
- **Many of the portfolio's direct fund commitments are still early in their value creation phases. Recent commitments leave meaningful dry powder to deploy into a more attractive valuation environment over the next 12-24 months.**

**OCERS Private Equity Allocation by Strategy and Commitment Year**



- **Approximately 52% of the private equity portfolio is invested in dedicated Venture/Growth strategies**, with most of this comprised of later-stage Growth Equity (Warburg Pincus).
- The private equity portfolio is still relatively young. **Nearly 79% of the portfolio's exposure is from commitments made beginning in 2019.**
- **The near-term pipeline includes a mix of strategies that can complement the existing portfolio and continue to optimize long-term risk and return.**

Note: Allocation based on Total Exposure, which equals Market Value plus Remaining Commitment. "Diversified" exposure is through fund of funds manager, Mesirow.



- **Managers listed in gold ovals represent new pipeline strategies that are currently raising capital.**
- **Berkshire is a new manager for consideration that would be a good complements to the existing portfolio.** Berkshire offers middle-market buyout exposure across a wide range of industries which complements Francisco Agility's technology focused strategy.

Note: OCERS' investment in Siguler Guff Distressed Opp. Fund III was fully realized through a secondary transaction in December 2021.

### Private Equity Commitment Pacing

Unlike traditional investment vehicles, **private equity funds do not invest capital all at once**. Capital is called from Limited Partners and invested over a period of several years. Distributions are made to Limited Partners as investments are realized. Limited Partners do not control the timing of cash flows. This structure **requires careful balancing of new commitments** to achieve and maintain the target allocation.

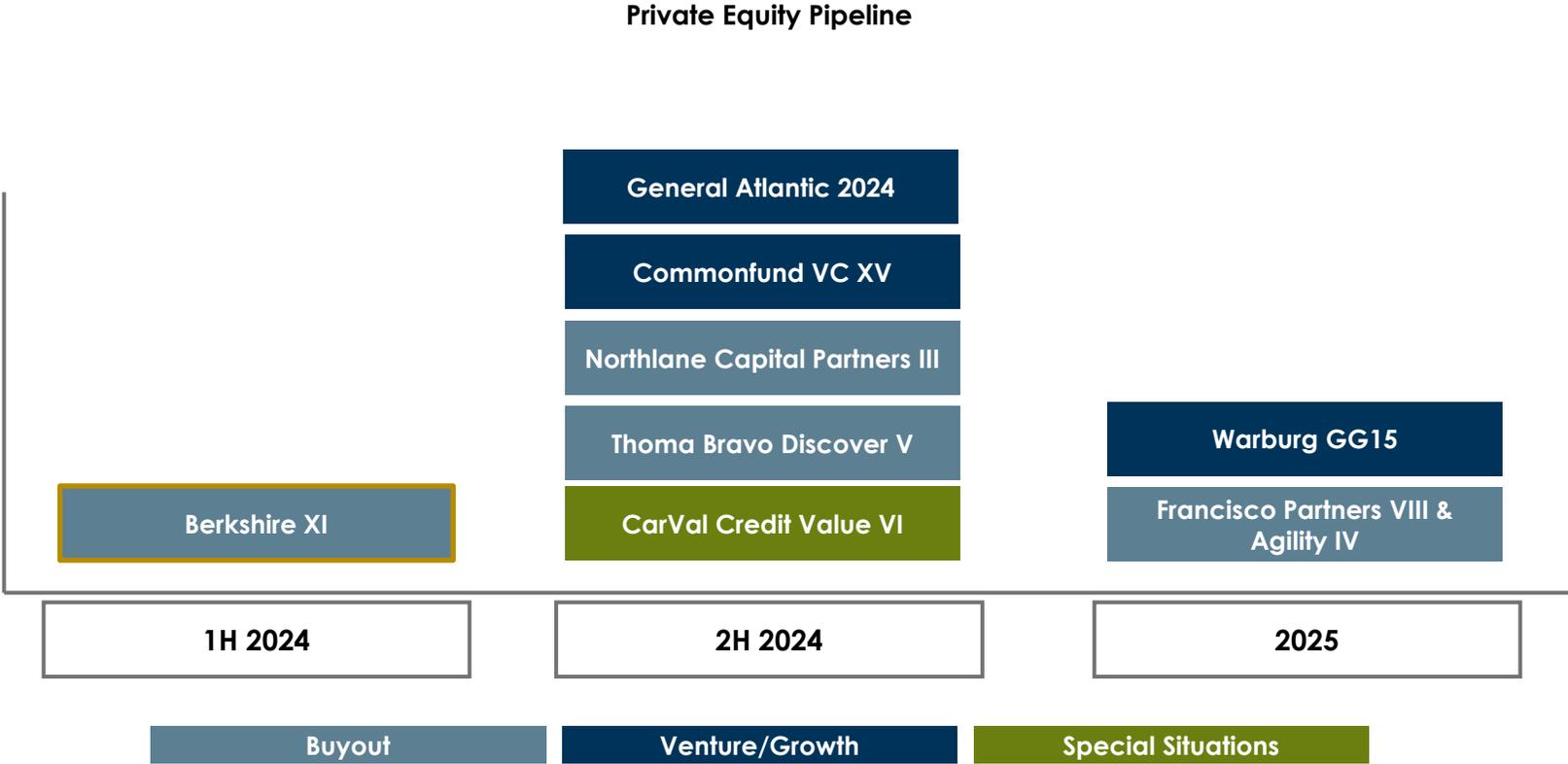
**ACG regularly reviews the pacing model to help ensure that the portfolio remains well-positioned.**

	<u>Present</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
<b><u>Target Commitment Schedule</u></b>						
Venture and Growth		\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Corporate Finance		\$ 30,000,000	\$ 30,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000
<b>TOTAL</b>		<b>\$ 40,000,000</b>	<b>\$ 40,000,000</b>	<b>\$ 30,000,000</b>	<b>\$ 30,000,000</b>	<b>\$ 30,000,000</b>
<b><u>Projected Private Equity Cashflow with New Commitments</u></b>						
Projected Contributions		-18,971,625	-21,250,000	-26,750,000	-35,050,000	-36,098,228
Projected Distributions		9,646,921	13,749,739	17,452,816	24,156,886	28,503,467
Projected Net Cash Flows		-9,324,704	-7,500,261	-9,297,184	-10,893,114	-7,594,761
Projected Cumulative Net Cash Flows		-9,324,704	-16,824,965	-26,122,149	-37,015,263	-44,610,024
Projected Private Equity Market Value	76,054,864	83,330,029	94,700,506	112,398,747	133,323,784	154,184,486
Projected Corporate Finance %		45%	49%	55%	62%	63%
Projected Venture and Growth %		55%	51%	45%	38%	37%
Projected Total Portfolio Value	855,539,000	877,428,985	903,751,855	930,864,410	958,790,343	987,554,053
<b>Projected Private Equity Portfolio Weight</b>	<b>8.9%</b>	<b>9.5%</b>	<b>10.5%</b>	<b>12.1%</b>	<b>13.9%</b>	<b>15.6%</b>

- **In 2023, OCERS increased its private equity target allocation from 10.0% to 15.0%.**
- **An annual commitment pace of \$40 million is appropriate** in the near-term. Steady state annual pace of \$30 million.
- This annual pace equates to a **baseline plan of 3-4 fund commitments per year.**

Private Equity Pipeline

- \$40 million of commitments budgeted for the next 12 months. Baseline plan of 3-4 commitments.
- **Current Recommendations:**
  - **Berkshire Partners Fund XI (\$15 million)** – final closing in July 2024



Note: Boxes outlined in gold represent current recommendations. Pipeline names are in various stages of due diligence and are subject to change.

---

## **Private Equity Fund Evaluation Reports**

### Investment Thesis

Berkshire (the "Firm") provides an attractive option for investors seeking exposure to a proven middle market multi-sector buyout strategy. Differentiating factors include a stable and experienced leadership team, demonstrated track record versus both public markets and peers over 35+ years, and the Firm's consistent focus on investing in high quality middle market companies. In addition, there is strong alignment of interest between the general partner and limited partners due to the large general partner commitment to each fund and the widely spread fund economics across senior professionals.

#### Firm Details

- Berkshire was founded in 1986 by a group of five equal partners. The Firm raised two institutional funds during the 1980s and experienced early success.
- The Firm since transitioned to a broader leadership group with 30 partners today. Two of the founding partners still hold senior advisor positions. Firm ownership is spread broadly across the partners with each owning less than 6.5%, and each investment professional owns less than 6.5% of the carry.
- The Firm's 50+ person private equity group is able to leverage the entire organization including 45+ members in the portfolio support, growth, risk, and operations groups.

#### Investment Strategy

- Control buyouts in primarily North American businesses, with a multi-sector allocation across technology, communications, healthcare, consumer, services, and industrials. Target EBITDA at entry will be \$25-75 million.
- Expect the Fund to develop a sector diversified portfolio. However, the firm more recently intentionally de-emphasized the consumer sector in favor of the healthcare and services & industrials sectors.
- Berkshire leans on their experienced sector specialist teams to drive organic growth to create value. The Firm believes in making "solid middle market" companies "scaled and great".
- The Firm drives growth by accelerating revenue, increasing margins, implementing stronger management teams, and improving scalability.

#### Private Equity Committee

Name	Title	Start
Ross Jones	Managing Director	1994
Josh Lutzker	Managing Director	1998
Mike Ascione	Managing Director	2001

#### Organization

Address	200 Clarendon Street, 35 <sup>th</sup> Floor Boston, MA 02116
Firm Inception	1986
Team Headquarters	Boston, MA
Firm Assets	~\$16 billion
Ownership Structure	100% Partner-Owned Stewardship
Employees / Investment Professionals	175+ / 70+

#### Strategy Information

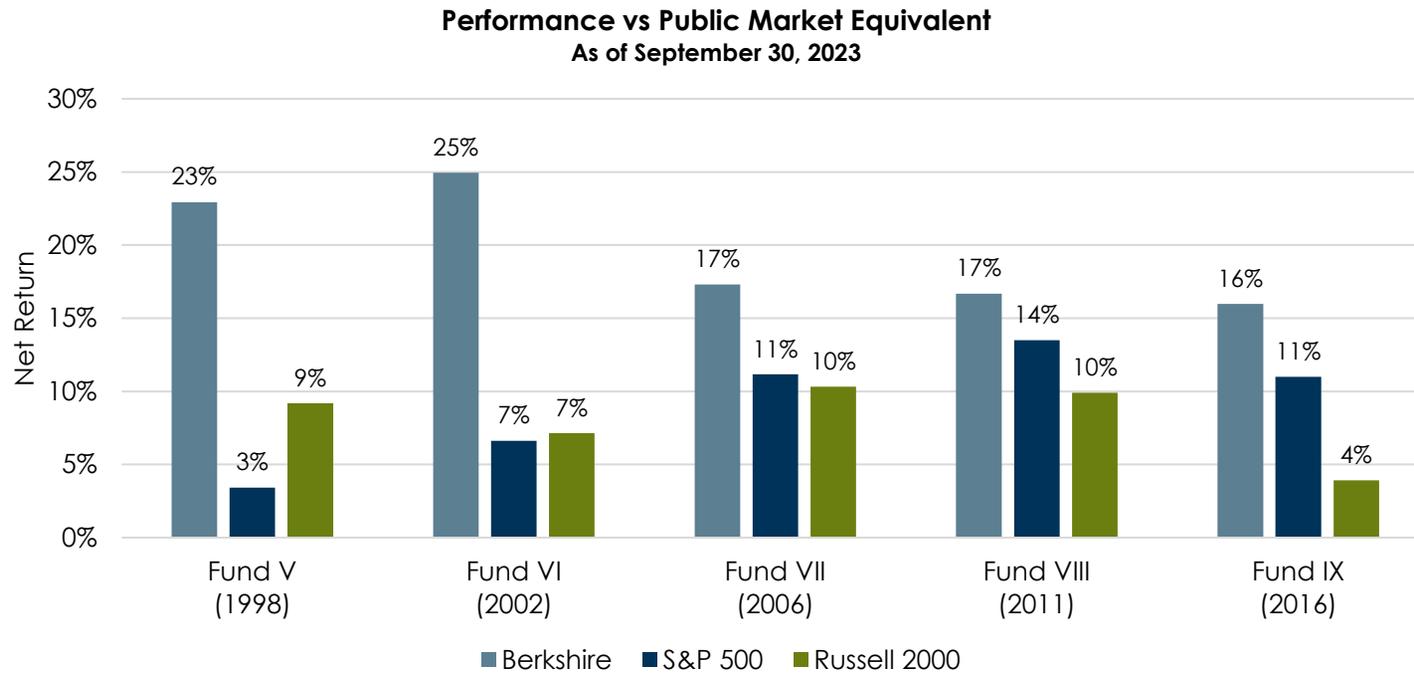
Asset Class / Strategy	Private Equity / Buyout
Target Fund Size	\$6.5 billion
Base Management Fee	Investment Period: 1.5% of Commitments Thereafter: 1.5% of Unreturned Capital
Incentive Fee / Pref. Return	20% / 8%
Investment Period / Fund Term	6 years / 10 years
GP Commitment	8% minimum (\$520 mm at target fund size)
Minimum LP Investment	Stated: \$10 million / ACG Clients: \$1 million
Closing Timeline / Final Close	\$5.2B closed as of April 2024 / July 2024

#### Target Portfolio Characteristics

Geography	N. America	# of Investments	20-25
Enterprise Value	\$200M-2B	Avg. Purchase Multiple	9.6x
EBITDA	\$25-75 million	Avg. Leverage Multiple	5.2x
Equity Check	\$100-500 million		

Summary of Fund Investment Performance vs. Public Market Equivalent (PME)

- The two primary ways to assess relative performance for private equity funds is to compare returns versus the Public Market Equivalent (PME) and a benchmark of other private equity funds.
- Shown below is Berkshire's historical fund performance versus the PME, starting with the Firm's fifth commingled fund which was raised in 1998.
- **Berkshire has consistently outperformed the PME versus both the S&P 500 and Russell 2000.**



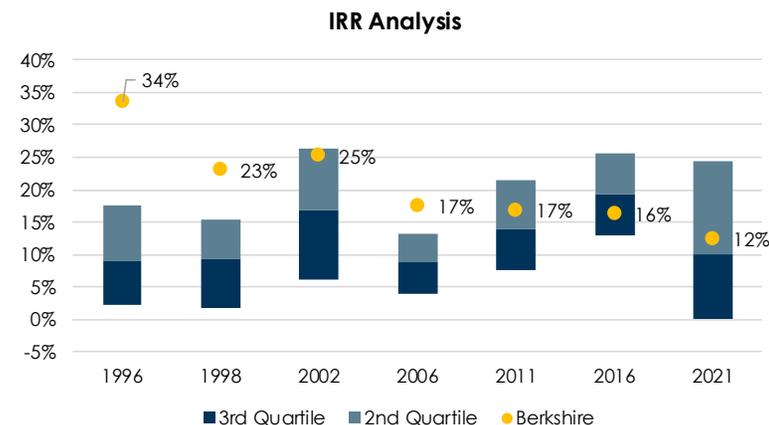
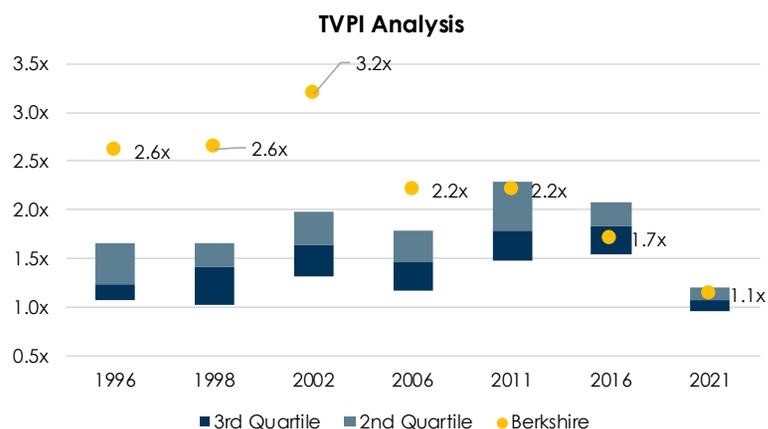
Performance Notes:

1. Public Market Equivalent (PME) offers a comparison of private vs. public market returns by assuming that the private fund cash flows are invested in a given public market index.
2. Fund X (2021 Vintage) performance is not yet material and is excluded from the PME comparison.

Summary of Fund Investment Performance vs. PitchBook Benchmark

- **Berkshire has consistently performed in the 1<sup>st</sup> and 2<sup>nd</sup> quartile versus peers**, as measured by PitchBook North American buyout funds.

Summary of Investment Performance - September 30, 2023									
Fund	Vintage Year	Invested Capital	Realized Value	Unrealized Value	Total Value (Realized and Unrealized)	Net Total Value to Paid-In (net)	Berkshire Net IRR	TVPI/IRR Quartile Performance	
Berkshire Fund I	1984	\$ 51	\$ 211	\$ -	\$ 211	2.9x	34.4%	N/A	
Berkshire Fund II	1986	\$ 98	\$ 316	\$ -	\$ 316	2.5x	19.1%	N/A	
Berkshire Fund III	1992	\$ 141	\$ 748	\$ -	\$ 748	3.8x	55.1%	N/A	
Berkshire Fund IV	1996	\$ 307	\$ 1,129	\$ -	\$ 1,129	2.6x	33.5%	1st/1st	
Berkshire Fund V	1998	\$ 714	\$ 2,634	\$ -	\$ 2,634	2.6x	23.0%	1st/1st	
Berkshire Fund VI	2002	\$ 1,335	\$ 5,988	\$ 123	\$ 6,112	3.2x	25.2%	1st/2nd	
Berkshire Fund VII	2006	\$ 2,614	\$ 8,141	\$ 156	\$ 8,297	2.2x	17.4%	1st/1st	
Berkshire Fund VIII	2011	\$ 4,087	\$ 9,558	\$ 3,262	\$ 12,820	2.2x	16.8%	2nd/2nd	
Berkshire Fund IX	2016	\$ 5,521	\$ 4,741	\$ 6,757	\$ 11,498	1.7x	16.2%	3rd/3rd	
Berkshire Fund X	2021	\$ 3,065	\$ 109	\$ 3,657	\$ 3,765	1.1x	12.4%	2nd/2nd	
<b>Total</b>		<b>\$ 17,932</b>	<b>\$ 33,575</b>	<b>\$ 13,956</b>	<b>\$ 47,531</b>	<b>2.0x</b>	<b>28.0%</b>		



Performance Notes:  
 1. All data in USD millions except IRR and TVPI.  
 2. TVPI = Total Value to Paid-In Capital  
 3. Total figures may not foot due to rounding.  
 4. Benchmark represents PitchBook North American Buyout funds. Performance shown as of September 30, 2023  
 5. Robust benchmark data is not available for 1984, 1986, and 1992 vintage funds.

---

## Private Equity Recommendations

### OCERS Process for Investment in Closed-End Funds with Limited Offering Periods

---

Pursuant to the recommendation of the investment consultant to the Oklahoma City Employee Retirement System (OCERS), the following process in the selection of these types of funds is necessary and prudent for the Oklahoma City Employee Retirement System Board to most effectively carry out its fiduciary responsibility in the on-going development and implementation of its long-term investment strategy. Approval authority for all investment decisions will continue to rest solely with the OCERS' Board of Trustees. Therefore, the OCERS' Board of Trustees will adhere to the following process:

1. The investment consultant will submit investment recommendations to the OCERS' Board of Trustees following due diligence of candidate fund(s) that fit within strategic guidelines. The recommendation from the investment consultant will include:
  - a) Summary recommendation with recommended commitment amount and anticipated cash flow requirements.
  - b) Evaluation report.
  - c) Timeframe for decision.
2. Following the submission of the investment consultant's recommendation, the OCERS' Board of Trustees will then review the investment recommendation and will take one of the following actions within the time allocated for decisions:
  - a) Approve commitment.
  - b) Request additional information.
  - c) Determine not to proceed with investment.

# Private Equity Recommendations

---

## Private Equity Commitment Recommendations

---

ACG has conducted thorough due diligence on the managers and proposed fund offerings on an absolute basis as well as relative to other firms who carry out similar strategies. A recommendation is made for a commitment to the following funds:

<b><u>Manager / Fund</u></b>	<b><u>Recommended Commitment Amount</u></b>
Berkshire Partners Fund XI	\$15.0 million

- Actual commitment to the above funds is subject to review of offering documents and Limited Partnership agreements by legal counsel.
- A commitment to the above funds may be contingent upon the manager's agreement to accept a commitment below the stated minimum commitment amount.
- Based on the nature of these investment vehicles and the limited offering periods, ACG believes the process used to identify and recommend these investment opportunities was prudent and appropriate.

## Disclosures and Legal Notice

---

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as "may", "will", "expect", "anticipate", "project", "estimate", or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG's capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) and any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy's performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

© 2024 Asset Consulting Group. All Rights Reserved. Asset Consulting Group is the sole owner of all rights, title, and interest to the materials, methodologies, techniques, and processes set forth herein, including any and all intellectual property rights. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Asset Consulting Group.