Delray Beach Police Officers' Retirement System

Private Equity Fund Search
May 2024

MARINER

Disclosures

IMPORTANT DISCLOSURE INFORMATION

This material is provided for informational and educational purposes only. It is confidential and not intended for distribution to the public. Mariner Institutional compiled this report for the sole use of the client for which it was prepared. It does not consider any individual or personal financial, legal or tax circumstances. As such, the information contained herein is not intended and should not be construed as individualized advice or recommendation of any kind. Where specific advice is necessary or appropriate, individuals should contact their professional tax, legal, and investment advisors or other professionals regarding their circumstances and needs.

Mariner Institutional uses the material contained in this evaluation to make observations and recommendations to the client, however the strategies listed may not be suitable for all investors and there is no guarantee that the strategies listed will be successful. Any information contained in this report is for informational purposes only and should not be construed to be an offer to buy or sell any securities, investment consulting, or investment management services. Additionally, the analysis provided, while generally comprehensive, is not intended to provide complete information on each of the management organizations or their underlying strategies. Please refer to their respective Form ADVs, pitch books, and/or offering documents for complete terms, including risks and expenses.

Information is based on sources and data believed to be reliable, but Mariner Institutional cannot guarantee the accuracy, adequacy or completeness. The information provided is valid as of the date of distribution or the as-of date indicated and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after such date. Any opinions expressed herein are subject to change without notice. The information was obtained from sources deemed reliable, but we do not guarantee accuracy, timeliness, or completeness. It is provided “as is” without any express or implied warranties.

There is no assurance that any investment, plan, or strategy will be successful. Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results, and nothing herein should be interpreted as an indication of future performance.

The source of data and figures provided is generally the respective managers, including their Form ADVs, pitchbooks, offering documents and other similar documentation. Additional information included in this document may contain data provided by 3rd party subscriptions, index databases or public economic sources.

Return data presented in the “Track Records” is provided for historical and informational purposes only. The results shown represent past performance and do not represent expected future performance or experience. Past performance does not guarantee future results. Returns stated are net of fees, which may include: investment advisory fees, taxes and other expenses. When client-specific performance is shown, Mariner Institutional uses time-weighted calculations, which are founded on standards recommended by the CFA Institute. In these cases, the performance-related data shown are based on information that is received from custodians. As a result, this provides Mariner Institutional with a reasonable basis that the investment information presented is free from material misstatement.

Mariner Institutional is an investment adviser registered with the U.S. Securities and Exchange Commission (“SEC”). Mariner is the marketing name for the financial services businesses of Mariner Wealth Advisors, LLC and its subsidiaries. Investment advisory services are provided through the brands Mariner Wealth, Mariner Independent, Mariner Institutional, Mariner Ultra, and Mariner Workplace, each of which is a business name of the registered investment advisory entities of Mariner. For additional information about each of the registered investment advisory entities of mariner, including fees and services, please contact Mariner or refer to each entity’s Form ADV Part 2A, which is available on the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). Registration of an investment adviser does not imply a certain level of skill or training nor does it constitute an endorsement of the firm by securities regulators.

RISK FACTORS

As presented in this report, although investing in private equity funds can be beneficial, it is also important to consider the associated risks. Investing in private equity funds is higher risk, may involve speculation, and is not suitable for all investors. Prospective investors should be aware of the long-term nature of an investment in private equity funds. Investments (direct or indirect) in private equity are typically illiquid. Other general risks and important considerations associated with private equity funds include, but are not limited to: volatilities in political, market and economic conditions; extensive and frequently changing regulation; downturns in demand; changes to private equity values and taxes; valuation and appraisal methodologies; interest rates; and environmental issues. The risks outlined herein do not purport to cover all risks or underlying factors associated with investing in private debt funds. Please refer to the respective offering documents for complete information.

Private Equity Vehicles and Strategy Overview

Private Equity Vehicle Characteristics

	Direct PE Investments	Multi-Manager Co-Investment Fund	Fund of Funds	Secondary Funds
Investment Diversification	One fund with 10+ underlying investments	One fund with 20–60 underlying investments from multiple GPs, which are diversified by industry and strategy	One fund with 15–25 underlying fund investments from multiple GPs, which each have 10+ underlying investments (200+ companies)	Similar to Fund of Funds (FOFs) structure but eliminated blind pool risk since underlying funds have existing investments (1,000+ companies)
Vintage Year Diversification	Limited, only achieved through making investments each year	Limited, only achieved through making investments each year	Typically, 4 years	Typically, 4+ years depending on capital deployment strategy
Term	10 years plus extensions	10 years plus extensions	10-15 years plus extensions	10-12 years plus extensions
Capital Deployment Time Frame	3-6 years	3-6 years	4-8 years	4-5 years
Time Until Initial Distribution	3-5 years	3-5 years	3-5 years	Can be within 1 year[1]
Range of Fund-Level Fees	Management fee 1.50-2.50% on commitment; performance fee[2] 20% on profits over a 6-10% hurdle rate[3]	Management fee 1.00-1.25% on commitment (or drawn capital); performance fee 10-15% on profits over an 8% hurdle rate	Management fee 0.50–1.00% on commitment; performance fee typically 5% on profits over an 8-10% hurdle rate	Management fee 0.75-1.25% on commitment; performance fee 10-15% on profits over an 8-10% hurdle rate
Fees on Underlying Holdings (Second Layer)	n/a	None to minimal – fees generally only paid on investments done alongside “fund-less” sponsors which represent a small portion of the portfolio	1.50-2.50% management fee on commitment and a performance fee of 20% of profits over a hurdle rate between 6-10%	1.50-2.50% management fee on commitment and a performance fee of 20% of profits over a hurdle rate between 6-10%

[1] Early distributions from secondary funds may be used to offset capital calls.
[2] The performance fee is commonly referred to as “carried interest” or just “carry.”
[3] The hurdle rate of returns is commonly referred to as “preferred return.”
For illustrative purposes only. Intended as a general representation but should not be construed as exhaustive.

What is a Multi-Manager Co-Investment Fund?

- A multi-manager co-investment fund is a private equity (PE) fund managed by a general partner (GP) who sources, performs due diligence on, and selects co-investments to build a diversified portfolio of companies.
- While a GP of a multi-manager co-investment fund may negotiate a structure with the primary GP that includes limited decision-making input, the vast majority of co-investment exposure is usually passive in nature (no control) with the primary GP controlling the underlying company, executing its company strategy, and timing an exit from the company with limited input from its co-investors.
- Unlike a direct co-investment where an LP is investing directly into one deal alongside a GP, an LP will pay the GP of a multi-manager co-investment fund both fees and profit-sharing on their commitment. The standard fees for a multi-manager co-investment fund are roughly half of a direct PE fund's fees, but unlike secondaries and fund of funds structures, there is little to no second layer of fees as the underlying co-investments made by the multi-manager co-investment fund GP generally have no management fee or profit-sharing associated with them.

Multi-Manager Co-Investment Fund				
Co-Invest 1 with GP 1	Co-Invest 2 with GP 2	Co-Invest 3 with GP 3	…	Co-Invest 10+ with GP 10+
1	2	3		★
20 to 60 companies				

Candidate Overview

Candidates

Based on our research process, we present the following candidates:

Firm	Fund
Apogem Capital LLC (Apogem)	Apogem Secondary Fund VII, LP (ASF VII)
Glouston Capital Partners, LLC (Glouston)	Glouston Private Equity Opportunities VII, L.P. (GPEO VII)
Neuberger Berman LLC (NB)	NB Strategic Co-Investment Partners V
Schroders Capital Management (US) Inc. (Schroders)	Schroder Capital Private Equity Global Direct IV

The source of data and figures provided on subsequent slides is generally the respective managers. Certain data represents Mariner's view and could differ from the manager's interpretation.

Candidate Summary – Secondary Funds

Characteristics	Apogem	Glouston
PE AUM	$40 Billion	$2 Billion
Ownership	Wholly-owned subsidiary of New York Life Insurance Company	Independent, 100% employee-owned
Investment Team / Locations	11 dedicated professionals / Chicago and Cleveland, OH	12 dedicated professionals / Boston
Fund Size Target / GP Commitment	$1 Billion / 2%	$450 Million / 1%
Geography	90%+ North America	80%+ North America
Position Count	30-40 transactions; 200-300 companies	40-60 transactions; ~1000 companies
Vehicle Types by Invested Capital	80%+ Secondaries; up to 20% Primaries	90%+ Secondaries; up to 10% Primaries
Strategy Breakdown	75%+ Buyout	70%+ Buyout
Strategy Focus	North American Small and Middle Market Buyout	North American Buyout
Annual PE Committed / Active GP Relationships	~ $1 Billion / 300+	~$150 Million / 100+
Target Return (net)	16-17% IRR; 1.6-1.7x TVPI	14-17% IRR; 1.5-1.7x TVPI

Candidate Summary – Co-investment Funds

Characteristics	NB	Schroders
PE AUM	$80 Billion	$94 Billion
Ownership	Independent, 100% employee-owned	44% publicly traded, 52% owned by the Schroder family, 4% owned by employees
Investment Team / Locations	55 PE professionals, 19 deal captains across primaries and co-investment / Global offices with headquarters in New York	60 PE professionals, 51 focused on primary and co-investment / Global offices with co-heads in New York, Zurich, and Singapore
Fund Size Target / GP Commitment	$2.25 Billion / 1%	$800M / 1%
Geography	70-75% North America, 20-30% Europe, 0-5% Rest of World	40% North America, 40% Europe, 20% Asia
Position Count	30-40 co-investment deals	30-40 co-investment deals
Vehicle Types by Invested Capital	90%+ Buyout, <10% Growth Equity	80% Buyout, 20% Growth Equity
Deal Structure	50% Co-underwrite deals, 35% Mid-life deals 15% Syndication deals	Majority Co-underwrite deals
Company Size	Majority Large and Mega Market[1]	Majority Lower Middle Market and Middle Market[2]
Annual Deal Flow / Close Rate	500+ deals / <10%	800+ deals / 6%
Target Return (net)	20% IRR; 2.0x TVPI	20% IRR; 2.0x TVPI

[1] Mariner defines the Large Market as $1.5B-$5B Total Enterprise Value (TEV) at entry, and the Mega Market as >$5B TEV.
[2] Mariner defines the Lower Middle Market as <$250M TEV at entry, the Middle Market as $250M-$1B TEV, and the Upper Middle Market as $1B-$1.5B TEV.

Investment Team – Secondary Funds

Firm	Key Decision-Makers	Team Stability
Apogem	Bart Shirley, Mike Griech, and Mike Zeleniuch lead the secondary investment team. An eight-person Investment Committee makes the final decision on secondary investments. The committee includes the trio mentioned above and other senior members of Apogem, including Chris Stringer (President and Head of PE), Chip Moelchert (Senior Advisor), Louise Smith (PE primaries), Richard Wiltshire (PE co-investments), and Todd Milligan (GP stakes).	MD Chris Hanrahan left the firm in 2020, MD Curt Futch joined in 2020 and subsequently departed in 2022. The team added Director Stanley Xu in 2023.
Glouston	Six Partners of the firm form the Investment Committee that reviews all transactions. Robert Di Geronimo leads the investment team. We expect Aaron Bright and John Cancellieri to lead most of the transactions of GPEO VII.	No turnover at the VP level and above in the past five years.

Investment Team – Co-investment Funds

Firm	Key Decision-Makers	Team Stability
NB	The team is led by co-heads David Morse and David Stonberg and 17 additional deal captains stationed in five offices around the world who are supported by 50+ investment professionals at various levels. Outside of the co-heads there are two deal captains dedicated exclusively to co-investment – Michael Kramer and Jackie Wang. The other deal captains split time between the co-investment and primaries strategies. The Investment Committee is made up of 12 members across primaries and co-investment. Morse, Stonberg, Kramer, and Wang are all members.	There was one deal captain departure during the previous fund and three deal captains internally transferred but these four were replaced with seven new deal captains. None of the departures were fully dedicated to co-investment.
Schroders	The team managing the day-to-day of Global Direct IV consists of co-heads Jeremy Knox, Vahit Alili, and David Bajada, and five Investment Committee members. This group is supported by the broader private equity team. The IC has final decision-making power for all investments. The Schroders private equity platform operates as one global unit with team members first broken out by geographic coverage and each region has its own head.	The team has historically been very stable with just one notable departure at the senior level in recent years. Maria Claudia Prieto, former co-head of Global Direct and co-head of European investment left Schroders in 2023.

Key Differentiators – Secondary Funds

Firm	Key Strengths	Points to Consider
Apogem	• Focus on North American lower middle market that are typically less efficient with higher return potential. • Solid performance with the current team since 2012. • Ability to lead complex GP-led transactions that enhance return potentials.	• The target fund size is twice of the predecessor, and the fund is expected to include some larger transactions. • Team turnover including departure of two managing directors in the past five years. The core team remains intact. • Parent company New York Life provided $200M anchor capital to the fund, which is 20% of the target fund size and an increase from the parent's commitment to the predecessor fund.
Glouston	• Focus on high-quality North American buyout assets that are typically less risky. • Small and nimble, transact in the less competitive smaller end of the secondary market. • A proprietary risk model for due diligence.	• Earlier track record was below average before the team pivoted away from VC/Growth to focus on less risky assets. • Most of the transactions are sourced through intermediaries, where pricing may be competitive. • Glouston is phasing out of the primary fund-of-funds business and focusing on secondaries only, which could dampen the GP relationship development.

CANDIDATE OVERVIEW

Key Differentiators – Co-investment Funds

Firm	Key Strengths	Points to Consider
NB	• Incorporating all three sub-types of co-investment deals allows for more flexibility. Mid-life deals are less common given the complexity and additional risk, but we feel the firm's platform and team are positioned to execute deals of this type. • NB has a deep and experience team. The co-heads are supported by 19 deal captains, including two dedicated to co-investment. There are 50+ investment professionals, often with direct buyout experience, involved to varying degrees.	• The fund is large relative to peers and NB has an additional $8B held in co-investment focused separately managed accounts (SMAs). This amount of capital may price NB out of smaller deals in the middle market. • Succession planning for Morse and Stonberg. Both are committed through this fund, but Stonberg is now also the Deputy of NB Alts and Morse has not committed involvement in future funds.
Schroders	• The Schroders' private equity platform is led by an experienced and stable senior management that is supported by a deep and robust team. The team has 51 investment professionals focused on primary and co-investment investing. • Schroders focuses on the lower middle market (LMM) and middle market (MM), taking advantage of smaller, more lucrative deals that larger co-investment funds may not be able to.	• The fund changed fee structure from the predecessor fund. The management fee was reduced to 1.0% from 1.5%, and carried interest was increased from 10% to 12.5%. We believe this is an overall cost increase to clients, but it aligns better with fund performance. • The fund target is nearly a 100% increase from Fund III's $440M final close. An increase in fund size could result in investment size drift up.

Key Terms

Product	Investment Management Fee	First/Final Close	Preferred Return	Carried Interest	Fund Duration
Apogem ASF VII	• 1.00%[1] on commitments in the first four years • Step down by 10% each year to 0.90%, 0.81%, and so on.	Dec. 2023 / Dec. 2024	8%	10%	10 years from final close, up to 3x one-year extensions
Glouston GPEO VII	• 1.10% on commitments in the first four years • Year 5-10 – 1.10% on invested capital initially, then reduced by 6% each year • Year 11-12 – reduced by 25% each year • Year 13 and beyond – reduced by 25% from the prior year or 1% of NAV, whichever is less • No fee after the fund term ends	Mar. 2022 / Dec. 2024	8%	10%	10 years from final close, up to 4x one-year extensions
NB Co-Investment V	• 1.0% on commitments during the investment period (4 years) • 1.0% on LP's pro rata original cost of the unrealized portfolio after the investment period	Q3 2023 / Q3 2024	8%	10%[2]	10 years, up to 2x one-year extensions at GP discretion
Schroders Global Direct IV	• 1.25% on commitments during the investment period (5 years) • 85% of the previous years fee after the investment period	Q2 2024 / Q2 2025	8%	12.5%	10 years, up to 3x one-year extensions at GP discretion

[1] Apogem offers a 10bps management fee discount for Mariner clients. The discounted management fee is 0.90%, then step down to 0.81%, 0.73% and so on.
[2] NB charges carried interest based on a modified American distribution waterfall.

INVESTMENT MANAGER AND FUND

Performance Comparison

PERFORMANCE COMPARISON

Apogem Secondary Funds Track Record

	PA Capital Secondary Fund IV	PA Capital Secondary Fund V	PA Capital Secondary Fund VI
Vintage Year	2011	2016	2021
Fund Size ($M)	134.8	275.0	613.6
% of Fund Invested	109%	103%	62%
# of Transactions	32	41	37
# of Underlying Funds	36	71	64
Net IRR	15.2%	19.0%	54.1%
Net Unlevered IRR	15.2%	18.4%	36.2%
Net TVPI	1.62x	1.79x	1.69x
Net Unlevered TVPI	1.62x	1.68x	1.42x
Avg. Discount to NAV	15%	2%	4%
Loss Ratio (% of $ Invested)	3.4%	2.2%	1.1%

Source: Apogem Capital - Data as of September 30, 2023
Apogem Capital was rebranded from PA Capital in 2022. Previous funds were not renamed due to their close-ended nature. Funds I-III are not included due to different team and structure from the current strategy – 50-75% of those funds were invested in venture assets, each fund has a size under $60M and investment period less than two years.

PERFORMANCE COMPARISON

Glouston Secondary Funds Track Record

	GPEO I	GPEO II	GPEO III	GPEO IV	GPEO V	GPEO VI	GPEO VII[1]
Vintage Year	2002	2005	2007	2011	2014	2018	2022
Fund Size ($M)	35.5	148.8	350.0	403.0	465.4	324.0	256.9
% of Fund Invested	100%	100%	99%	105%	109%	112%	56%
# of Transactions	26	38	46	53	59	69	18
# of Underlying Funds	31	56	98	136	131	115	33
Net IRR	11.1%	0.4%	7.4%	14.0%	18.9%	32.7%	n/m[2]
Net Unlevered IRR	11.1%	0.5%	7.3%	13.0%	15.0%	21.1%	n/m[2]
Net TVPI	1.44x	1.02x	1.42x	1.66x	1.67x	1.71x	1.44x
Net Unlevered TVPI	1.44x	1.02x	1.45x	1.69x	1.72x	1.81x	1.62x
Avg. Discount to NAV	30%	2%	27%	19%	7%	6%	17%
Loss Ratio (% of $ Invested)	1.1%	17.3%	9.7%	7.5%	4.3%	0.7%	0.2%

Source: Glouston Capital - Data as of September 30, 2023

[1] Fund VII is raising capital until December 2024.

[2] IRRs are not meaningful at this stage of the fund life.

NB Co-investment Funds Track Record

	NB Co-Investment Partners Fund II	NB Co-Investment Partners Fund III	NB Co-Investment Partners Fund IV
Vintage Year	2012	2016	2020
Fund Size ($M)	1,097	1,523	2,112
% of Fund Invested	87%	91%	82%[1]
# of Investments	33	31	37[1]
Net IRR[2]	8.0%	19.8%	16.1%
Net TVPI	1.34x	2.18x	1.33x
Net DPI	1.14x	1.02x	0.07x
Loss Ratio (% of $ Invested)	32.0%	5.1%	1.0%

Source: Neuberger Berman LLC - Data as of December 31, 2023
1 As of May 6, 2024, Fund IV is 90% committed across 41 underlying portfolio companies.
2 Net IRR shown excludes the impact of any fund-level subscription facilities.

Schroders Co-investment Funds Track Record

	Schroders Global Direct I[1]	Schroders Global Direct II[1]	Schroders Global Direct III
Vintage Year	2013	2017	2020
Fund Size ($M)	343	867	445
% of Fund Invested	100%	100%	74.8%
# of Investments	40	70	31
Net IRR[2]	13.4%	22.8%	13.3%
Net TVPI	2.01x	2.38x	1.25x
Net DPI	1.46x	0.77x	-
Loss Ratio (% of $ Invested)	19.2%	3.1%	2.9%

Source: Schroders Capital Management - Data as of December 31, 2023

[1] Global Direct I & II are a synthetic representation of Schroders Capital full co-investment track record: (synthetic) Global Direct I groups all co-investments completed between 2013–2016, and (synthetic) Global Direct II all co-investments completed between 2017 and December 2020, when Global Direct III was actively investing. The track record excludes venture capital and early stage biotech co-investments, which are outside the scope of this fund.

INVESTMENT MANAGER AND FUND

Narratives

Apogem Capital LLC

Firm Overview

Apogem Capital is a wholly-owned subsidiary of New York Life Insurance Company (NYL). The firm has $39 billion AUM and focuses on middle market private equity and private debt investing. Apogem was established in April 2022, combining PA Capital (PA) and two other NYL affiliates. PA was founded in 1997 and managed private equity strategies in fund of funds, co-investments, and secondary funds. PA entered into a strategic partnership with NYL in 2020 and has gradually integrated into NYL. Apogem is headquartered in New York City and has offices in Chicago, Richmond, VA, Cleveland, OH, and Austin, TX.

Team Overview

Apogem's 11-person dedicated secondaries team is led by MDs Bart Shirley, Mike Griech, and Mike Zeleniuch. Shirley, Griech and Zeleniuch, along with Director Mary LaRocco have been working together since 2008 before joining PA in 2012. The team most recently added Director Stanley Xu in 2023. Additional support is provided by the other junior members of Apogem's broader private equity platform. The secondaries team mainly works from the Chicago office.

Investment decisions are made by Apogem's eight-person Secondary Investment Sub-Committee, comprising of Shirley, Griech and Zeleniuch, as well as Senior Advisor Chip Moelchert, Apogem President and Head of Private Equity Chris Stringer, MD Louise Smith (primaries), MD Richard Wiltshire (co-investments), and MD Todd Milligan (GP Stakes).

Strategy Overview

Apogem Secondary Fund VII (ASF VII) seeks to generate attractive risk-adjusted returns by building a diversified portfolio of investments across the private equity secondary market with a focus on North American middle market buyout deals. The team intends to leverage Apogem's platform across primaries and co-investments to generate secondaries deal flow across both traditional (LP-led) transactions and more complex, GP-led secondary deals. Apogem has deep experience in middle market private equity investing and has more than 300 private equity GP relationships. Fund VII will primarily target funds below $2B investing in portfolio companies with enterprise values under $500M.

Apogem leverages its existing GP relationships to source opportunities. The team considers more than 100 opportunities annually with a focus on transaction sizes at the smaller end of the market (typically $10M to $100M). Initial screens consider GP quality and alignment of interests, portfolio valuations, industry concentration and cycle risk. For transactions of interest, advanced due diligence comprises a full assessment of qualitative and quantitative factors, detailed company models, stress tests, management meetings and reference calls. Apogem leverages its deep internal database as part of the underwriting process.

Expectations

ASF VII targets a net IRR of 18% and net TVPI of 1.8x. We believe a more conservative net 16-17% IRR and 1.6-1.7x TVPI is achievable, which is still higher than broader secondary PE returns. Apogem's relevant earlier vintages have generated 1.7-1.8x net TVPI and 16-21% net IRR.

The Fund plans to invest 30+ transactions in 200+ portfolio companies predominately in North America. We expect 40-50 transactions investing in 200-300 portfolio companies. The portfolio assets will be largely buyouts (75%) but will also include growth equity (10%) and other assets. Complex GP solutions and traditional LP transactions are each expected to make up half of the portfolio.

Points to Consider

ASF VII targets $1B, nearly twice the size of the prior fund, and is expected to invest in larger transactions. The underlying portfolio companies may include more middle market exposures relative to the lower middle market companies of the prior funds. The size increase and moving upmarket may result in lower returns than the prior fund, though we believe it will still be competitive.

Managing Director Curt Futch departed Apogem in 2022, only two years after he joined the team. He was brought in to complement the team's capability in credit and distressed transactions. The deal sourcing in those areas did not flourish as anticipated. We do not consider the loss of Futch a material impact on the strategy. He was with the team for a short period of time, compared to the other senior members of the team who have worked together for over a decade.

NYL provided $200M anchor capital to ASF VII, 20% of the target fund size. This is an increase from the $75M anchor capital provided for the prior fund, which was 15% of the targeted fund size at the time. We consider this a demonstration of the parent company's commitment to the team and strategy.

Recommendation Summary

We recommend Apogem Secondary Fund VII for clients seeking diversified secondaries private equity exposure. We consider the fund appropriate for clients to either initiate a PE program or build on to an existing PE portfolio. We like the strategy's focus on the North American middle market buyout deals and its flexible investment approach in both traditional and complex transactions. The team's ability to lead GP-led deals stood out among peers of similar sizes. GP-led deals have been enhancing the return profile of the previous vintages, and we expect they will continue to be an important contributor to ASF VII. We are also pleased to see the growth of the investment team as the fund size scales up, while maintaining their rigorous underwriting process.

Glouston Capital Partners, LLC

Firm Overview

Glouston Capital Partners (GCP) is a 100% employee-owned investment firm based in Boston, MA. The Firm mainly manages secondary private equity investments, with experience in primary PE fund of funds and co-investments historically. Through its 27-year history, GCP has invested close to $3 billion of committed capital in comingled vehicles and SMAs. Most of GCP's clients are institutional investors and over 50% of the Firm's total assets under management are with public pensions.

The Firm was initially formed in 1994 as a PE-focused subsidiary of The Permal Group. Through a management buyout in 2017, GCP becomes wholly employee-owned. Nowadays, GCP is owned by six partners and employs 21 professionals in total, including 12 in the investment team.

Team Overview

The investment team is led by the six partners of the Firm, who form the Investment Committee (IC). On average, the IC members have 25 years of experience. They are supported by two mid-level investment professionals and four junior members. Deal teams are typically formed with three or four members, including at least one partner, a mid-level investment professional, and an analyst.

The Firm encourages a collaborative culture. All employees at the Vice President level and above are eligible to receive allocations of carried interest. All employees receiving carried interest allocations are required to commit to the Fund at a minimum amount determined by the carry allocation percentage.

Strategy Overview

GPEO VII seeks to invest in a portfolio of secondary transactions, including traditional LP interests, GP-led, and fund of fund interests. The Fund will target high-quality assets that GCP knows well, predominantly North American buyouts. The targeted $450M fund size allows the team to be selective in the secondary market that transacts around $100 billion annually.

Transactions are mainly sourced through broker relationships that GCP has nurtured through its 20+ years of history. The team has developed a very disciplined investment process. Models are built at the underlying portfolio company level and aggregated for the underwriting of fund interests, incorporating qualitative assessments through reference calls with other participants in the PE industry. A differentiated component of GCP's due diligence is the integration of their proprietary risk model. The qualitative model incorporates six risk elements weighted by three types of transactions that the Firm may invest in, then calculates a set of minimum required rates of returns used for setting the target price range. The Fund has set restrictions on single company and GP concentrations to ensure portfolio diversification. A maximum of 130% of the total fund size may be invested with recycling and leverage. GPEO VII clearly stated that no management fees would be charged after the term ends, which is a maximum of 14 years after the final close.

Expectations

GPEO VII targets a net IRR of 14-18% and 1.5-1.7x net multiple. We believe the target multiple and a mid-teens IRR are achievable, based on our understanding of the investment strategy and GCP's relevant track record. Funds invested in the past decade using a similar strategy to GPEO VII have generated returns in-line with the target, especially with TVPIs consistently at the higher end of the target (1.7x).

GPEO VII is expected to invest predominately in North American buyout assets (over 70%). About half of the portfolio is anticipated to be invested in traditional LP transactions (40-60%). In addition, the Fund may invest up to 40% in GP-led deals and around 20% in fund of fund interests acquired through secondary transactions. A total of 40-60 transactions are estimated for the Fund targeting $450M, including 100-140 underlying investments. Transaction sizes are kept small and will be in the $5-50M range generally. The Fund may use leverage up to 35% and is allowed to commit up to 10% in primaries.

Points to Consider

The returns of earlier GPEO vintages were poor. The Firm has since adjusted its strategy to focus on high-quality buyout assets and parted ways with a Managing Director who advocated for the venture assets which were the source of the underperformance. The funds that follow the current strategy have performed very well to date.

The great majority of GCP's transactions are sourced through intermediaries, and the high-quality assets GCP focuses on are usually priced close to fair value. The competitive nature of intermediated deals and light discount at purchase may pose challenges to the fund's return potential. Leverage and capital recycling have been applied to recent vintages to help enhance the returns with initial success.

GCP's primary fund of funds and co-investment business seems to have diminished in recent years, which may dampen the team's access to high-quality GPs. The healthy growth in GCP's secondary business gives us confidence in the Firm's stability.

Recommendation Summary

We recommend GPEO VII, a private equity secondary fund, to clients in the early stage of developing their PE portfolios. Investors new to PE may use GPEO VII as their sole allocation to ease into a PE program. The Fund may not be the best fit for clients seeking international exposure or significant outperformance to the broader PE market.

GPEO VII seeks to invest in a diversified portfolio of high-quality North American buyout assets through secondary transactions. GCP has nearly 20 years of experience investing in the secondaries strategy and has developed a disciplined investment process. Relevant vintages of the strategy have generated a 14%+ net IRR and 1.7x net TVPI.

Neuberger Berman LLC

Firm Overview

Neuberger Berman (NB) is an asset manager based in New York and founded in 1939. The firm manages over $400 billion in assets across equities, fixed income, and alternatives. It employs over 2,600 employees in over a dozen offices globally. Since its spin out from Lehman Brothers in May 2009, the firm has been 100% employee-owned. Within Neuberger Berman, the Private Investment Portfolios and Co-Investment group (PIPCO) manages the primary and co-investment private equity assets of the firm. NB commits over $10 billion annually to strategies across fund of funds, secondaries, co-investments, private credit, and specialty strategies and currently employs over 200 professionals in offices on four continents.

Team Overview

The strategy is managed by co-investment co-heads David Morse and David Stonberg. They lead a team of 17 Deal Captains supported by an additional 50+ investment professionals, all within the PIPCO team. Four professionals are dedicated solely to the co-investment strategy, David Morse, David Stonberg, Michael Kramer, and Jackie Wang. The other 15 Deal Captains split their time in various degrees between primaries and co-investments, though a co-investments should be the largest area of focus for any Deal Captain. A typical deal team is comprised of a Deal Captain, a VP, and an Associate. Stonberg and Morse require hires to have experience doing direct private equity deals either through investment banking or in a private equity shop.

The Investment Committee for PIPCO serves as the main guiding force during deal due diligence. It is chaired by Anthony Tutrone, Head of PIPCO, and is comprised of 13 other senior members of the PIPCO team including Stonberg, Morse, Kramer, Wang, Paul Daggett, and Elizabeth Traxler

Strategy Overview

The Fund's strategy incorporates all three sub-sections of co-investment including Traditional, Co-underwrite, and Midlife deals. The allocation is expected to be roughly 15% Traditional, 50% Co-underwrite, and the remainder Midlife. We believe the knowledge within the team stemming from their buyside experience is critical in correcting misalignment issues inherent in midlife transactions. The team expects a higher level of return from Co-underwrite and Midlife relative to Traditional, with an added expectation of a higher IRR for midlife due to the expected shorter life of those investments. This mix is unique within the co-investment space and differentiates the strategy relative to peers who normally focus exclusively on co-underwrite and syndicated transactions.

The fund targets 30-40 holdings, diversified by sector and GP. It will primarily be a buyout fund but will invest a di minimis amount (less than 10%) in growth deals. Geographically, it's expected to be roughly at 70-75% US, 20-30% Europe, and 0-5% ROW. We expect that median deal would be in the upper middle market to large end of the buyout space.

Expectations

We expect the fund to produce a net 20% IRR and 2.0x TVPI. The fund should have lower loss and impairment ratios than direct buyout peers, which average roughly 20%. We expect the portfolio to be diversified in the ways stated in the strategy section, and not to rely on any one sector, GP, or geographic region for a significant portion of returns.

Points to Consider

We note the amount of capital held outside of the commingled vehicle dedicated to co-investment in order to provide transparency on the full amount of capital the team needs to put to work. While the fund size is only increasing modestly from the prior vintage, the amount of capital outside the commingled fund that needs to be invested in co-investment deals increased more than 40%, from $1.4 billion to $2 billion per year. The strategy's focus on the larger end of the buyout market could be a key consideration when comparing the fund against peers in terms of size.

Fund II was as an underperformer, even ex-energy, where the team no longer focuses. The performance of Fund II has not improved in line with the overall market in the past three years and now stands as a third-quartile fund. This decreases the attractiveness of the aggregate track record. We remain confident in the strategy based on the strength of Fund III (top quartile performer) and Fund IV's strong start.

As part of our evaluation of the team, we attempt to assess the potential for future leadership changes. Currently Morse and Stoneberg are committed through this fund, and Tutrone has expressed that he will announce his retirement two or three years before it really happens. However, Stonberg has taken on responsibilities as Deputy of NB Alts, and we are unsure if Morse will continue past Fund V. Stonberg seems to be the successor to Tutrone, and if Morse steps down then Kramer, Wang, Joana Rocha Scaff, or Michael Smith were listed as potential candidates for his position.

Recommendation Summary

We are recommending NB Strategic Co-Investment Partners V as a co-investment option for clients looking for exposure to global buyout transactions alongside the firm's preferred GPs. The Fund will be diversified by sector, geography, GP, and co-investment deal type similar to Fund IV. The large and experienced PIPCO team, which continues to be a differentiator compared to peers, empowers the strategy to invest not just in co-underwrite and syndicated co-investment transactions but also in more complex midlife deals. The strategy has generated impressive returns in its most recent funds and maintains the deep due diligence process necessary to execute the more complicated types of co-investment deals such as midlife transactions. The strategy is appropriate for clients that are either starting or looking to enhance a private equity program. This fund may be used either as a complement to a private equity fund of funds allocation or as a step between a fund of funds program towards direct private equity.

Schroders Capital Management (US) Inc.

Firm Overview

Schroders Capital, formerly Adveq, was founded in Switzerland in 1997 and is a wholly owned subsidiary of Schroders Plc. Schroders Capital serves as the private markets arm of Schroders and was formed as a result of a merger between Schroders Plc and Adveq in 2017. The firm re-branded its private market strategies from Schroders Adveq to Schroders Capital in 2021. Today, Schroders Capital has over $94B in assets under management, with approximately $17B in Private Equity. The firm has nearly 500 employees and nearly 200 total investment professionals. Within Private Equity, the firm offers primary, secondary, and co-investment strategies. The firm is listed on the London Stock Exchange where approximately 44% of its shares trade. The Schroder family maintains approximately 52% ownership and the firm's employees own the remaining percentage.

Team Overview

The firm has 60 PE investment professionals, 51 of which are focused on primary and co-investment investing. The team managing the day-to-day of Global Direct IV consists of co-heads Jeremy Knox, Vahit Alili, David Bajada, and the five Investment Committee (IC) members. This group is supported by the broader private equity team. The IC has financial decision-making power for all investments.

The Schroders private equity platform operates as one global unit with team members first broken out by geographic coverage across North America, Europe, or Asia. Each region has its own head. Lee Gardella serves as the head of North America, Richard Damming serves as the head of Europe, and Viswanathan Parameswar serves as the head of Asia.

Strategy Overview

Schroders focuses on transactions across US, Europe, and Asia mainly targeting lower middle market and middle market buyouts and growth deals. The fund will participate primarily in co-underwrite co-investments, alongside GPs that Schroders invests with through its primary vehicles or has a close relationship. Co-underwriting allows Schroders to conduct due diligence on deals in parallel with the sponsoring GP. The $800M fund is expected to contain 30-40 holdings. with equity checks of $15-30M in companies with median EBITDA of $20M and enterprise value (EV) of $200M. The investments will be made over a five-year investment period.

Schroders leverages its robust primary platform of 300+ GP relationships and $1B deployed annually to provide access to high quality co-investment deal flow. The process starts with a qualitative screen, followed by a prequalification due diligence when the deal team creates an initial IC memo and discusses with the IC. Following that, the deal team conducts "4 Eye Reviews" where they meet with at least two IC members one on one to discuss the investment. Schroders also retains GuidePoint, an expert network, to assist in its due diligence. Then the recommendation will be brought to the IC for final approval, requiring a unanimous vote.

Expectations

Global Direct IV targets net 20% IRR and 2.0x TVPI. We believe these are reasonable return targets and in line with what we would expect a low fee co-investment strategy to produce. The fund series' historic performance, outside of Fund I, is in line with this expectation. Fund II (2017 vintage) and Fund III (2020) are both on track to reach the targeted return expectations. Fund I, while short of the 20% and 2x return target, included multiple investment types that the firm no longer pursues as it has enhanced its strategy based on lessons learned.

Points to Consider

In Fund III the carried interest was 10% and the management fee was an average of 1.05%. In Fund IV the fees will be 12.5% carry and management fee of 0.88%. The decreased management fee is below the 1.00% average among peers, but the carry is higher than what we prefer. Assuming Schroders hits a net 2.0x TVPI, the new fee structure will cost clients an additional $2,000 per $1M commitment. We were able to get comfortable with this because the clients will be paying for performance rather than just the management of the overall fund.

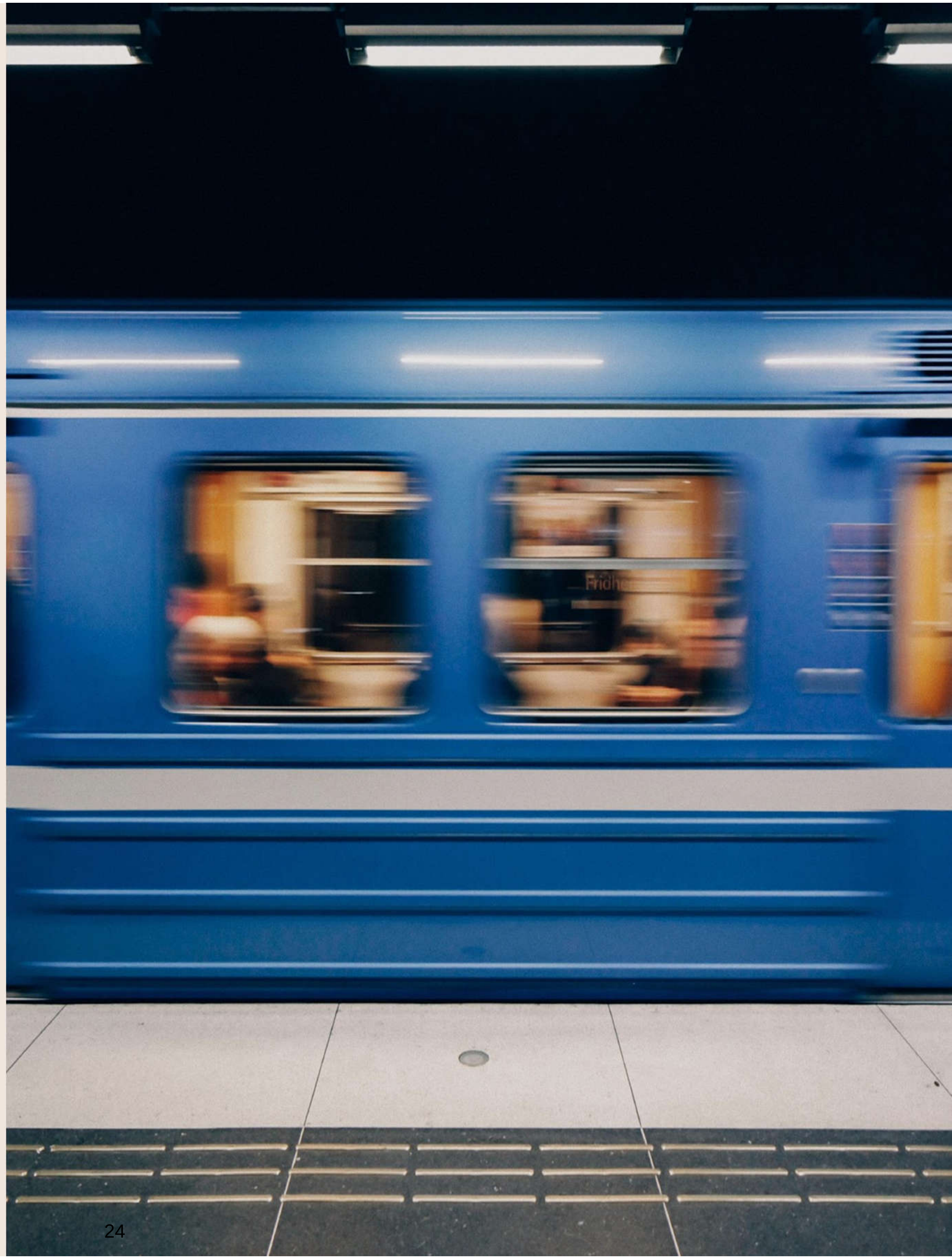
The fund targets $800M, which is a nearly 100% increase in fund size from Fund III's $440M final closing size. An increase in fund size could result in potential size drift upward from Schroder's middle market focus historically. The firm has started to experience some upward drift as seen in median TEV of $356M in fund III compared to $114M in fund I and $160M in fund II.

There has been some team transition since Fund III. Co-head Maria Claudia Prieto, based in Zurich, left Schroders in 2023. Her departure coincided with the other two co-heads Ethan Vogelhut and Parameswar, being promoted to head of American buyouts and head of Asia, respectively. For the Global Direct fund series moving forward Knox, Alili, and Bajada will serve as the co-heads overseeing the US, Europe, and Asia sleeves, respectively.

Recommendation Summary

We recommend Schroders Capital Private Equity Global Direct Fund IV (GD IV) as a co-investment option for clients looking to gain global exposure to the lower middle market and middle market across both buyout and growth investments. The fund targets companies with total enterprise value (TEV) below $1B at entry, but over the history of the fund series has been much more conversative with a median TEV of $200M. The fund is managed by an experienced and deep team that works within the US, European, and Asian markets. The group has a long tenure at Schroders and has done over 100 co-investments since starting the platform over 10 years ago. GD IV will primarily participate in co-underwrite co-investment deals alongside high-quality GPs the firm partners with through its robust primary platform. The primary platform has deployed $12B since inception and has relationships with over 300 GPs providing ample deal flow for the co-investment strategy.

Glossary



Glossary

Alternative Investments: Broadly, investments in assets or funds whose returns are generated through something other than long positions in public equity or debt. Generally includes private equity, private debt, real estate, and hedge funds.

Buyouts: Investments made to acquire majority or control positions in businesses purchased from or spun out of public or private companies, or purchased from existing management/shareholders public equity shareholders in "going private" transactions, private equity funds or other investors seeking liquidity for their privately –held investments. Buyouts are generally achieved with both equity and debt. Examples of various types of buyouts include: small, middle market, large cap, and growth.

Carried Interest: Also known as "carry" or "promote." A performance bonus for the GP based on profits generated by the fund. Typically, a fund must return a portion of the capital contributed by LPs plus any preferred return before the GP can share in the profits of the fund. The GP will then receive a percentage of the profits of the fund (typically 15.0-20.0%). For tax purposes, both carried interest and profit distributions to LPs are typically categorized as a capital gain rather than ordinary income.

Capital Commitment: The total out-of-pocket amount of capital an investor commits to invest over the life of the fund. This commitment is generally set forth on an investor's subscription agreement during fundraising and is accepted by the GP as part of the "closing" of the fund.

Catch–up: A clause in the agreement between the GP and the LPs of a fund. Once the LPs have received a certain portion of their expected return, often up to the level of the preferred return, the GP is entitled to receive a majority of the profits (typically 50.0%-100.0%) until the GP reaches the carried interest split previously agreed.

Co-investments: Investment made directly into a company alongside a General Partner's investment, rather than indirectly through a fund.

Co-Underwrite Co-Investments: A co-investment deal where the co-investor is brought into the process during the GP's due diligence and has a chance to participate more actively in the due diligence and negotiation of the deal prior to close.

Crossover Funds: Contain both private and public securities in their portfolio. While this isn't a new concept, managers of these funds may employ a long/short strategy with respect to that portion of their portfolio that is held in the public securities.

Deal Flow: Defined as the total number of private equity deals that a firm has received during a set period of time.

Distressed Debt: Strategies that purchase the debt of companies that are troubled, have defaulted, are on the verge of default, or are seeking bankruptcy protection. Investors have been referred to as "vultures" as they pick the bones of troubled companies. Investment structures of focus include subordinated debt, junk bonds, bank loans, and obligations to suppliers.

Distribution: When an investment by a fund is fully or partially realized, the proceeds of the realizations may be distributed to the investors. These proceeds may consist of cash, or, to a lesser extent, securities.

Dry Powder: Capital that has been committed to a limited partnership and has not yet been called or may be called again ("recycled").

EBITDA: A measure of annual corporate cash flow defined as earnings before interest, taxes, depreciation and amortization. This measure of annual cash flow is intended to make comparisons between different industries more relevant. Multiples of EBITDA are a generally accepted method for valuing private companies and describing the amount of leverage.

Glossary

Fund of One: Similar to a fund of funds but has a single investor as the sole limited partner. Portfolio can be constructed to investor's unique objectives and preferences. Investor retains opt-out and termination discretion.

General Partner (GP): A class of partner in a partnership. The GP makes the decisions on behalf of the partnership and retains liability for the actions of the partnership. In the private equity industry, the GP is solely responsible for the management and operations of the investment fund while the LPs are passive investors, typically consisting of institutions and high net worth individuals. The GP earns a percentage of profits.

Internal Rate of Return (IRR): The compound interest rate at which a certain amount of capital today would have to accrete to grow to a specific value at a specific time in the future. Basically, it is the average return on capital over the lifetime of the investment. This is the most common standard by which GPs and LPs measure the performance of their private debt portfolios and portfolio companies over the life of the investment. IRRs are calculated on either a net (i.e., including fees and carry) or gross (i.e., not including fees and carry) basis.

J-Curve: The IRR of a private investment plotted versus time. The J-curve refers to the fact that net IRRs in the early years of a fund are generally negative, dominated by drawdowns for fees and investments. As investments accrete in values and are gradually liquidated, returning capital and profits, the fund works through the J-curve and begins to show positive IRRs and multiples of investors' capital.

Leverage: The use of debt to acquire assets, build operations and increase revenues. By using debt (in either the original acquisition of the company or subsequent add-on acquisitions), investors attempt to achieve investment returns beyond which they could achieve using equity capital alone. Increasing leverage on a company also increases the risk that assets and revenues will not increase sufficiently to generate enough net income and cash flow to service the increased debt load.

Leveraged Buyout (LBO): The purchase of a company or a business unit of a company by an outside investor using mostly borrowed capital.

Limited Partner (LP): A passive investor in a Limited Partnership. The General Partner (GP) is liable for the actions of the partnership, while the LPs are generally protected from legal actions and any losses beyond their original investment. The LPs receive income, capital gains and tax benefits.

Management Fee: A fee paid to the Investment Manager for its services, typically as a percentage of aggregate capital commitments. Management fees in a private equity fund typically range from 1.25% to 2.5% of commitments during the fund's investment period, and then step down to the same or a lower percentage based on the fund's "invested capital" remaining in investments. Venture capital funds tend to have higher management fees than traditional private equity funds.

Mezzanine: An unsecured debt instrument that is subordinated to the senior debt in a company but ranking senior to any equity claims. The instrument may include equity features such as warrants or options.

Multiple of Invested Capital (MOIC): The total return on an investment as measured by (Total Money Out)/(Total Money In). Multiple of cost and IRR are the two most common measures of performance in private equity-style Limited Partnerships.

Glossary

Preferred Return: The minimum return that the GP needs to achieve in order to receive carried interest. After the cost basis of an investment is returned to the LPs, they will also receive additional proceeds from the investment equal to a stated percentage, often 6.0-8.0%. Once the preferred return is paid, then the GP will be entitled to its carried interest on all profits realized from the investment in excess of zero (i.e. not limited to the portion above the preferred return).

Primary Commitment Platform: A Primary Commitment Platform can be any amount of capital in various forms including, funds, separately management accounts, proprietary capital, etc. that is used to commit to closed-end private equity vehicles run by General Partners. The most common form of platform would be a fund of fund program.

Private Equity: May refer to the non-exchange-listed common equity of a corporation or a set of investment strategies that generally invest in that type of asset. Since such investments are illiquid, investors must be prepared for investment horizons from 5.0 to 10.0 years. A generic term that encompasses four distinct strategies in the market for private investing: Venture Capital, Leveraged Buyout, Growth Equity, Special Situation/Distressed Debt Investing

Public Market Equivalent (PME): A private equity benchmark that represents the performance of a public market index expressed in terms of an IRR, using the same cash flows and timing as the investor's investment activity in private equity. The PME serves as a proxy for the return the investor could have achieved by investing in the public market. The PME benchmark return assumes cash flows are invested at the end of each day

Secondary Investment: Investment in a private equity partnership interest from a current limited partner, often at a discount to its reported net asset value

Special Situations: Private Equity funds that do not fall into the category of buyout, growth or venture capital funds. Special situations funds include distressed debt. Special situations funds typically follow investment strategies that result in more rapid draw-downs and return of capital than traditional private equity funds.

Stage of Financing: relates to the timing of the investment. Seed (start up) invest at the very beginning and face the highest potential return, longest holding period, and greatest risk. At the end of the spectrum is late term financing, getting in after the initial setup and majority of the work has been completed. The expected return turnaround time is shorter and thus, smaller in size versus seed financers.

Venture Capital: is the supply of private equity financing to start up companies that do not have a sufficient track record to attract investment capital from traditional sources. Typically, VCs invest in smaller, less mature companies, usually in high growth industries. Start ups lack tangible assets that can be used for collateral and are unlikely to produce positive earnings for several years. Venture capitalists provide management insight, have the right to hire and fire key managers, provide access to consultants, accountants, lawyers, investment bankers, and other businesses that might purchase the start up company's product. The focus of the VC's attention includes business plans, intellectual property rights, operating history, start up management team, legal issues, and exit plans. Exit plans may include strategic sales or initial public offerings.

Vintage Year: The year in which a private fund had its final closing.

MARINER

Access to a wealth of knowledge and solutions.