

March 11, 2021

Motion: That the Nebraska Investment Council (the Council) Defined Benefit Plans and Cash Balance Benefit Plans (DB/CBB) make a \$50 million commitment to Genstar Capital Partners X, L.P. (Genstar X) subject to completion of a legal review and satisfactory agreement of terms.

*The Council's current Genstar investments: \$50 million commitment to Genstar VIII (DB/CBB) 2017
\$50 million commitment to Genstar IX (DB/CBB) 2019*

Council Staff (Staff) is recommending a "re-up" with Genstar X based on FIT and FUND. Regarding FIT, Genstar VIII and Genstar IX have provided the Council with excellent results in the large buyout sub-sector of the portfolio. This sub-sector has been outperforming the portfolio's performance over time in terms of Net IRR. Staff likes Genstar X as an opportunity to being successful in large buyouts. Below are some Net IRR data points over time for Genstar VIII and Genstar IX, the Council's large buyout sub portfolio (includes the Genstar funds) and the total DB/CBB portfolio:

	<u>3Q 17</u>	<u>3Q 18</u>	<u>3Q 19</u>	<u>3Q 20</u>
Genstar VIII	N/A	91.1%	47.2%	30.2%
Genstar IX	N/A	N/A	(21.0%)	35.3%
NIC Large B/O	9.9%	13.2%	13.7%	14.8%
DB/CBB	11.1%	11.7%	11.8%	12.0%

FUND perspective, Staff likes the fund manager's combination of People, Process and Performance:

People

- **Leadership is long tenured.** CEO J-P Conte has been with Genstar since 1995. President Ryan Clark has been there since 2004. There are now seven Managing Directors: Conte, Clark, Rob Rutledge (17 years at firm), Tony Salewski (13 years), Eli Weiss (12 years), David Golde (12 years) and Katie Solomon (9 years).
- Genstar's **Strategic Advisory Board (SAB) has 29 members.** They are former operating executives in Genstar's four industry specialties of Software, Financial Services, Industrial Technology, and Healthcare.
- **Of Genstar's 44 employees, 25 are investment staff.** Does not include 29 SAB Members.

Process (Strategy and Platform)

- **Genstar uses a "Buy and Build" middle market strategy.** Genstar will acquire a portfolio company, then focuses on **add-ons, improving operations and talent management** to drive value.
- **Genstar uses add-ons to add value.** From Fund II (1996) to Fund IX (2019), Genstar has made 78 platform investments and 622 add-ons. For Fund VIII and IX, there have been an average of 5 add-ons for every platform buy.
- **SAB Members are an extension of staff to source, diligence and manage companies post acquisition.**
- Ms. Solomon oversees talent management across the portfolios. **She has a systematic process to grade teams and leverages the Genstar network when hiring executives.** 81% of the last 36 CEO hires were from the network.
- In Funds V-IX, Industry specialties are **Financial Services** (31% of Fund V-IX deal average), **Industrials** (25%), **Software** (24%), and **Healthcare** (20%).
- The loss rate for Fund V-IX activity is just 3.5%.

Performance (As of 9/30/2020)

- Here is unlevered performance of recent Genstar private equity funds:

<u>Fund</u>	<u>Vintage</u>	<u>Fund Net IRR</u>	<u>All PE Quartile</u>	<u>Fund Net TVPI</u>	<u>All PE Quartile</u>
Genstar IX	2019	18.5%	1st	1.2x	1st
Genstar VIII	2017	23.8%	1st	1.6x	1st
Genstar VII	2015	25.7%	1st	1.8x	1st
Genstar VI	2012	33.7%	1st	2.3x	1st
Genstar V	2007	15.1%	1st	2.0x	1st

Terms and Conditions

- The Management Fee is 1.75% on committed capital amount in the Investment Period, 1.75% on invested capital.
- Preferred rate is 8% and the GP's share of the Carry is 20%.