



## **Paine Schwartz Food Chain V Co-Investment SPV - Staff Memo**

**RECOMMENDATION:** Approve a commitment up to \$15 million in Paine Schwartz V Co-investment SPV. ERSRI committed \$30 million to Paine & Partners IV, a 2015 vintage fund and \$50 million to Paine Schwartz V, a 2019 vintage fund. This was proactively sourced by ERSRI.

**ASSET CLASS:** Private Equity

**SUB-STRATEGY:** Buyout

**ALLOCATION:** The target allocation for private equity is 11.25% (increased in 2017 from 7%) and the current allocation as of 9/30 is 8.5%. The pacing plan for private equity is \$270 million per year resulting in 5 - 10 primary fund commitments per year at \$20 - \$60 million per primary fund. Achieving the increased allocation target will require ERSRI to make larger fund commitments or commit to an increased number of GPs. Small funds or capacity constrained funds make it difficult to deploy increased commitment sizes, and ERSRI does not want to over diversify with the additional managers either. To solve this, ERSRI is employing a strategy of setting up co-investment SPVs with current GPs for additional exposure at fee reduced arrangements and investing in secondaries of existing GPs to form deeper partnerships. Secondaries and co-investment vehicles may be part of the \$270 million annual pacing plan with a target of \$5 - \$60 million per fund. It is not anticipated that secondaries or co-investment will be more than 20% of the private equity allocation.

**PORTFOLIO FIT:** ERSRI has emphasized deploying into middle and lower middle-market buyout strategies with a sector focus and/or operational value-add strategy. Paine Schwartz's strategy encompasses each of these focus areas. The firm invests in middle market buyouts and growth equity investments in the sustainable food chain sector where they execute an operationally intensive value-add strategy.

**MERITS:** Paine Schwartz has expertise in the sustainable food chain market. Despite the size of the agribusiness sector there are few dedicated private equity groups focused on it. The firm uses a thesis-driven sourcing process centered on sub-sector deep dives to identify target opportunities proactively. The team leverages a group of industry thought leaders, the Food Chain Advisory Board, and a value-add operations group, the Portfolio Excellence Platform, to assess opportunities and drive operational value. Fund V is 9% invested and is likely to generate a significant amount of co-investment opportunity.

**CONCERNS:** Paine Schwartz generally avoids farmland investments and limits direct commodity exposure. However, the input, production, services, and processing businesses they do focus on can be negatively affected by cyclicity in the underlying markets they operate in. Moreover, there is potential that most of the co-investment opportunity will be in the larger buyout deals with more commodity exposure rather than the smaller growth equity investments. To assure the vehicle achieves the desired exposures staff will have a veto right on prospective deals (otherwise the GP maintains discretion). Additionally, the size and nature of this vehicle may get access to smaller growth equity opportunities that are of insufficient size for other investors.

**FEES:** Fees are attractive at 0% management fee and 0% carry.