



State of Rhode Island Board Presentation

# **BPEA Fund VII**

May 2018

# Focused on Delivering Higher Returns at Lower Risk – Consistently and at Scale

The objective of our Investment Program is to provide investors with broad-based exposure to the **higher rates of economic growth in Asia**, but with a **lower level of risk** than investing via the public markets; and to generate returns far in excess of those available in the Asian public markets

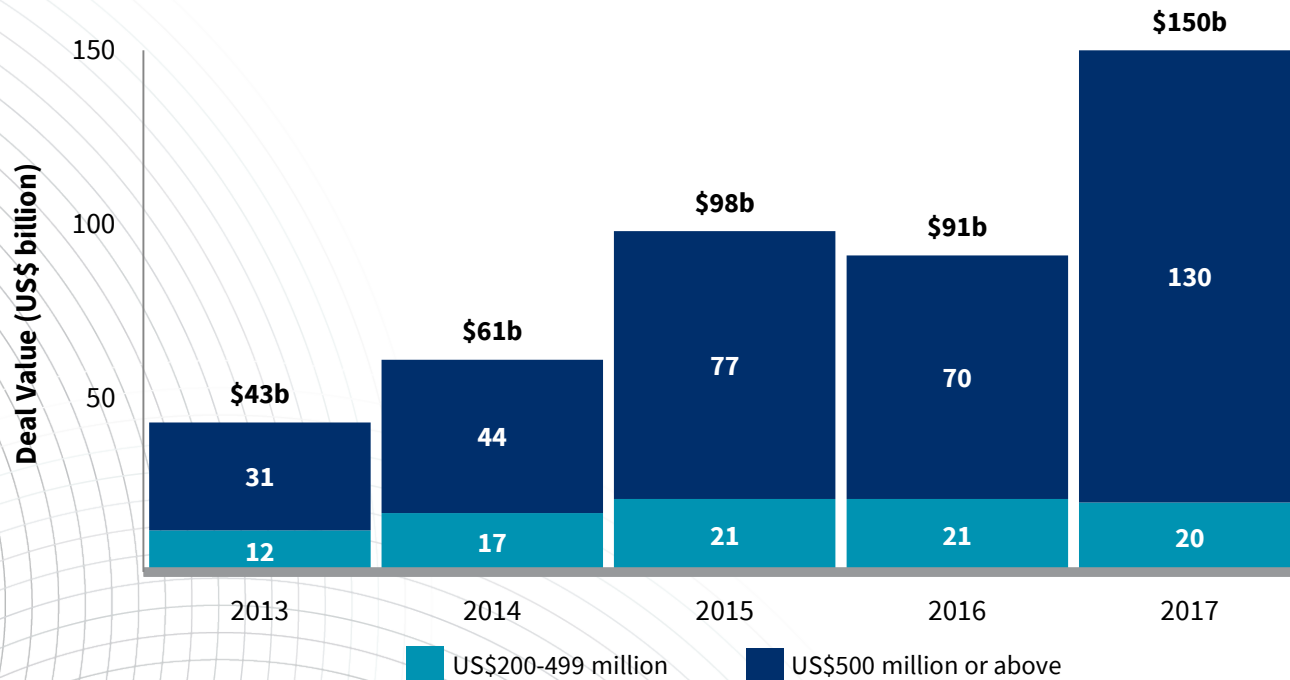
And to continue to manage and evolve an institution that is capable of achieving this objective **consistently** and **at scale**, so that it can deliver a **predictable** and **meaningful** impact on investors' returns

# Investment Strategy Focused on Taking Advantage of the Growing Asian Buyout Opportunity

## Characteristics of large cap buyouts

- Multiple levers to drive value creation
- Larger established businesses
- Resilient to downturns
- Ability to access leveraged finance
- Attract best management teams

## Asian Buyout Market (2013 - 2017)



Consolidation /  
Roll ups

Complex Corporate  
Carve Outs

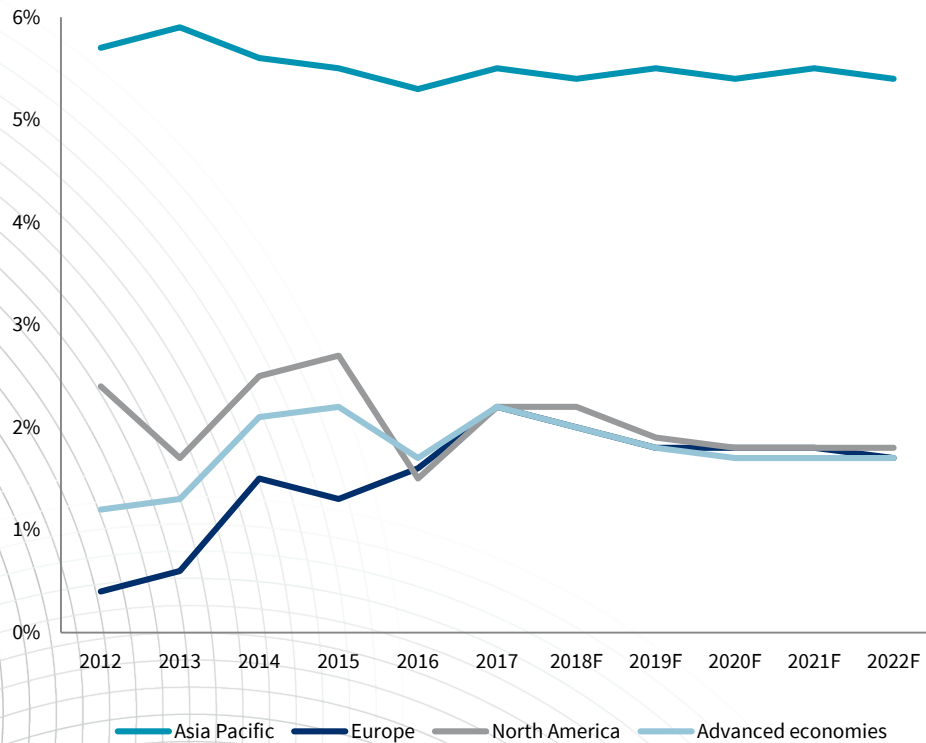
Take  
Privates

Generational  
Change

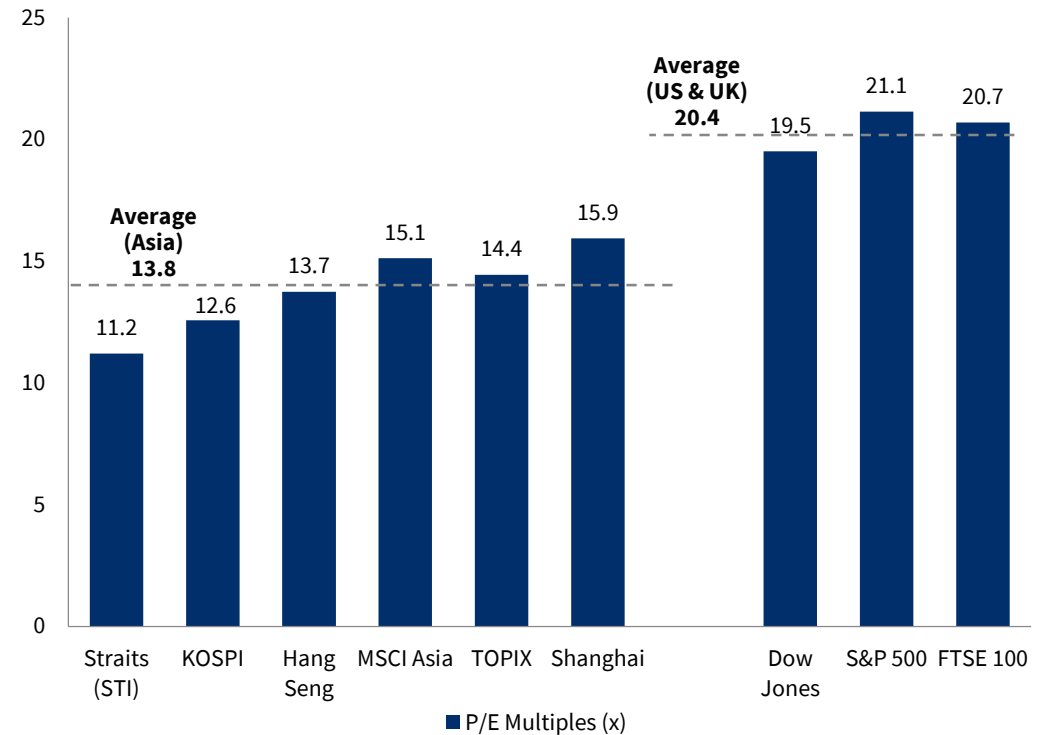
Corporate  
Partnering

# Asia Can Offer Both Higher Growth and More Attractive Entry Valuations

## Asian Economic Growth Far Outpaces the Developed World<sup>1</sup>

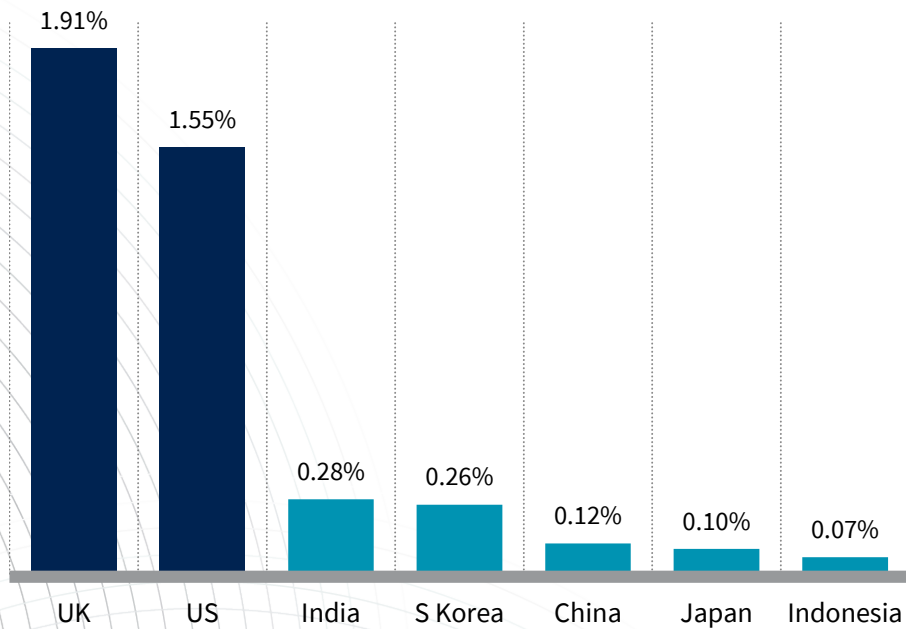


## Asian Public Markets Trade at a Discount<sup>2</sup>

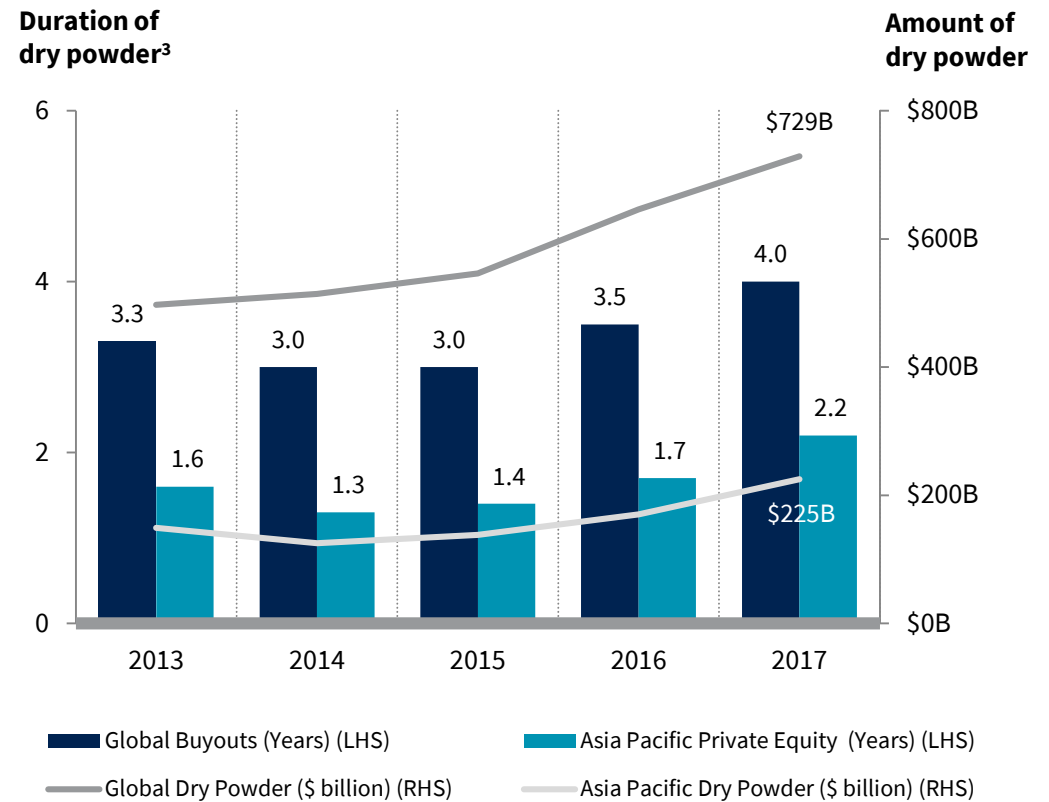


# Yet Asian Private Equity Remains Significantly Underpenetrated

## Global Private Capital Penetration<sup>1</sup>



## Global & Asia Dry Powder<sup>2</sup>



1. Private capital investment as a percentage of GDP. Source: EMPEA, February 2018;  
 2. Source: Bain & Company; Preqin  
 3. Value of dry powder / actual or projected equity value of transactions completed in future years

# BPEA's Comprehensive Coverage Across the Region



Total

**156** **\$10.4bn**  
Team Invested



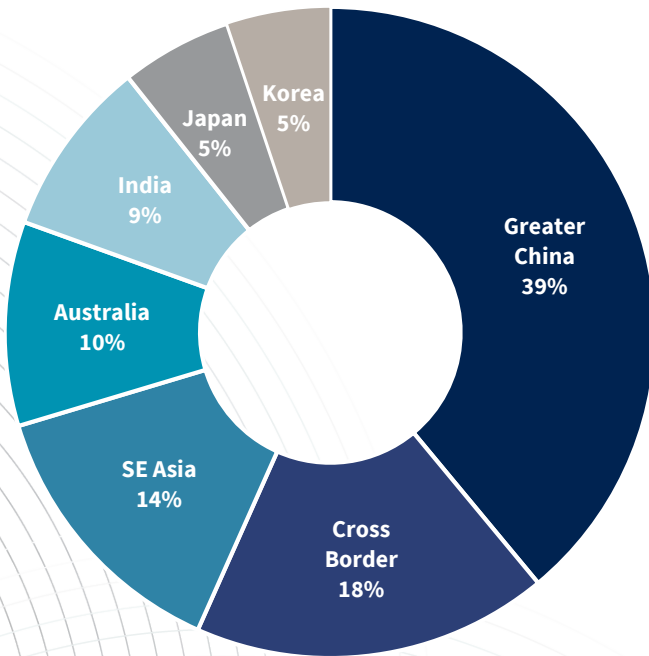
**200**

**BPEA Advisor Network**

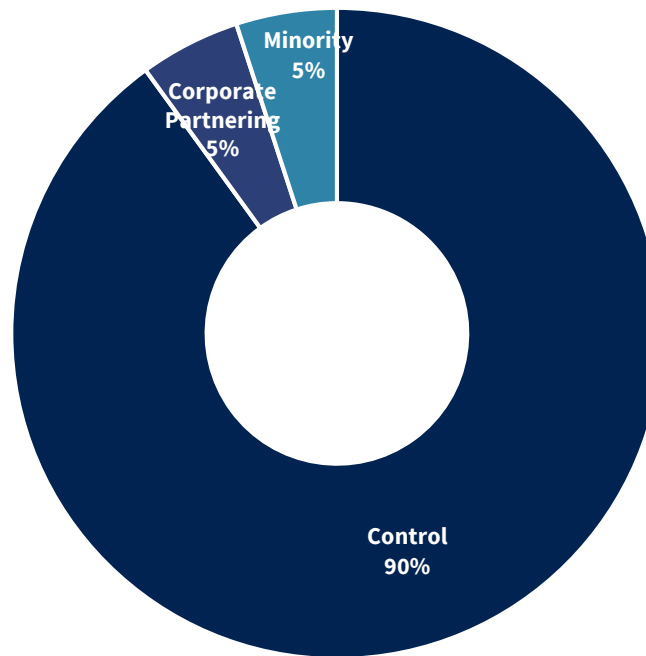
Former CEOs, CFOs, Non-Executive Directors  
and Industry Experts across 19 countries

# Fund VI Diversified Portfolio Construction

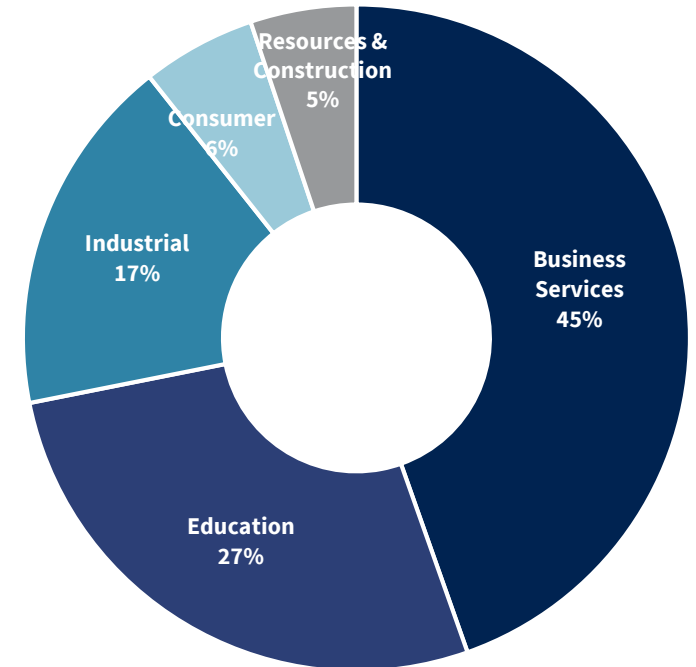
## Investment by Geography



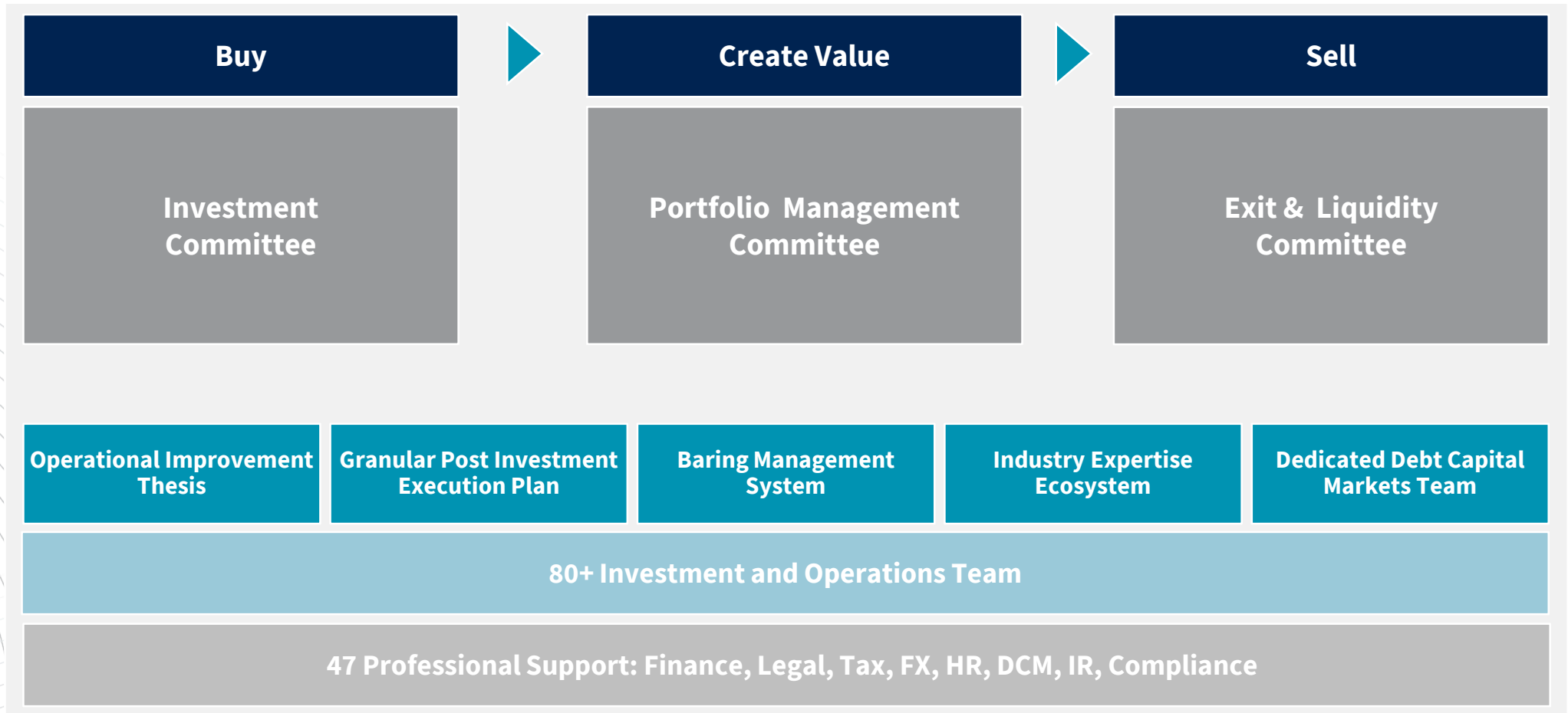
## Investment by Type



## Investment by Sector

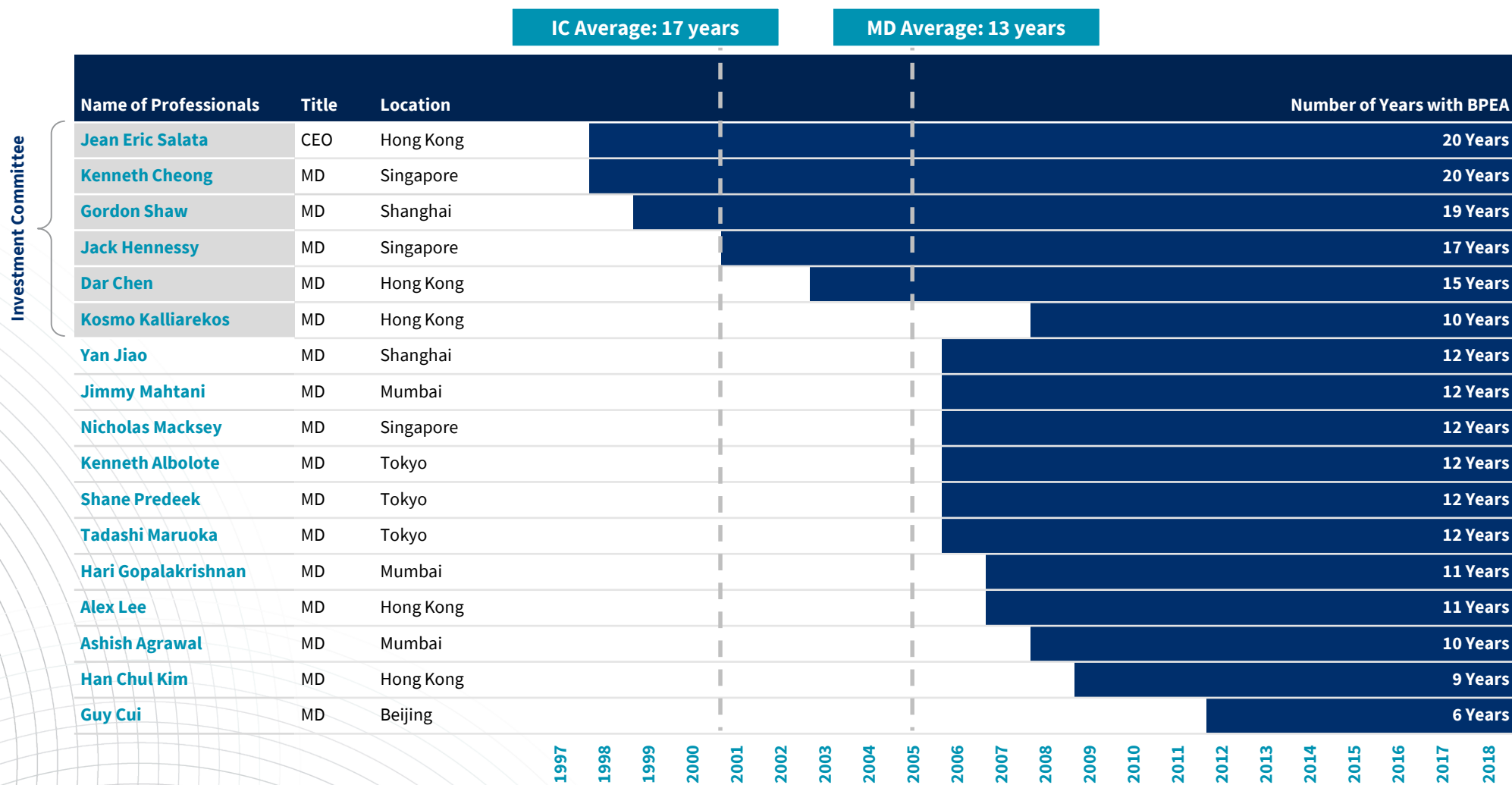


# BPEA Executive Committee Processes Drives Consistent Outcomes





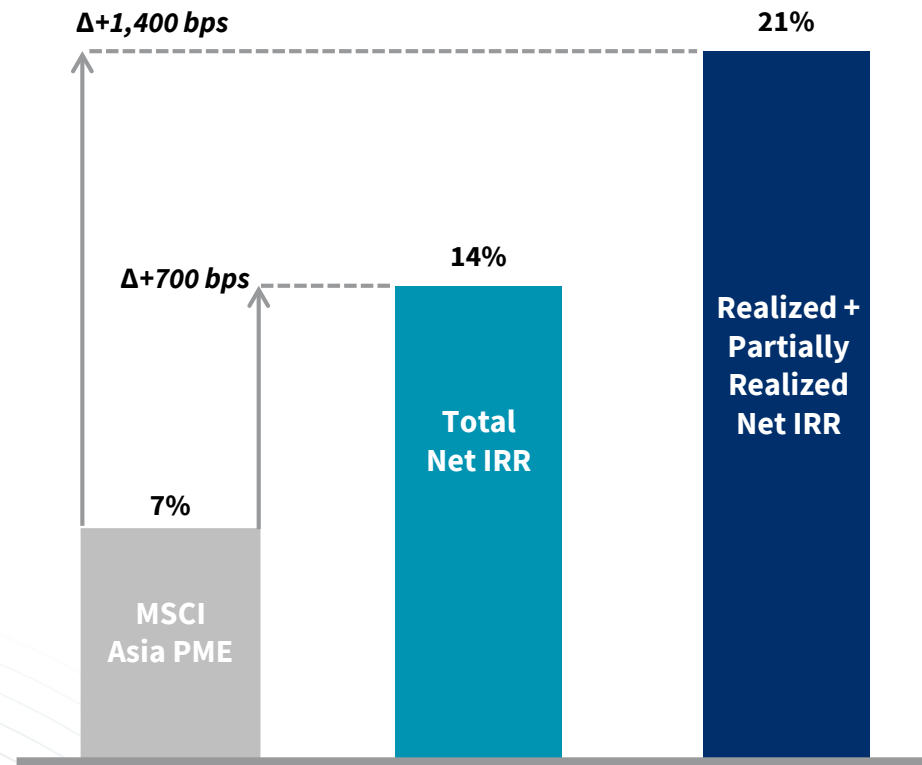
# Deep and Cohesive Leadership Team



The most stable, longest serving senior leadership team in Asia PE

# BPEA's Net Returns Have Outperformed the Public Markets

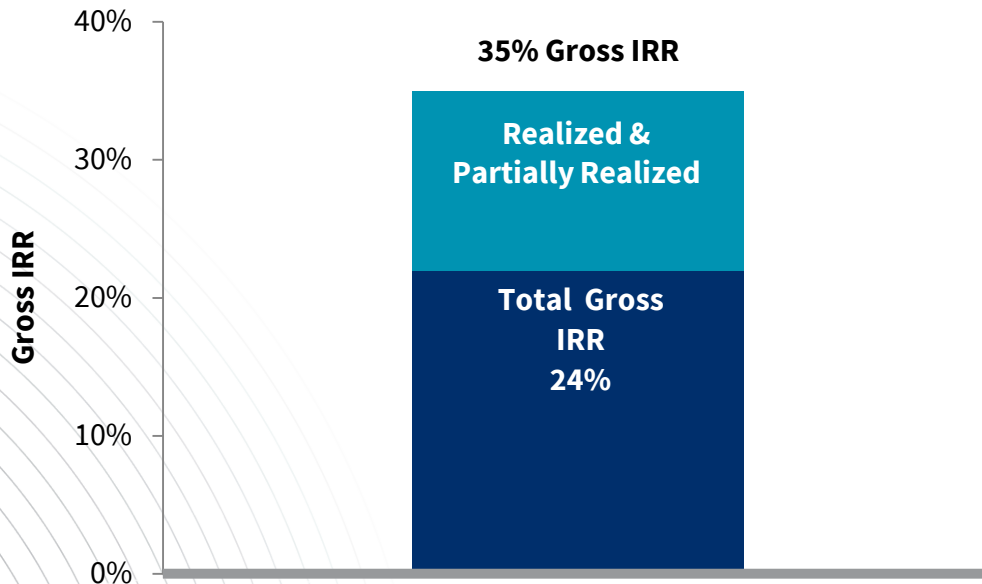
## BPEA Fund III-VI Net IRR vs. MSCI Asia PME<sup>(1)</sup>



(1) As of December 31, 2017. MSCI Asia PME Total Return – Individual portfolio company cash flows are mirrored to MSCI Asia Total Return Index. MSCI Asia Total Return Index does not provide data prior to 2000, so BPEA performance is provided for Funds III to VI, and does not include BPEA Fund I, BPEA Fund IIa and BPEA Fund IIb which were all raised prior to 2003, the point at which the Firm became fully independent and ceased making venture capital investments.

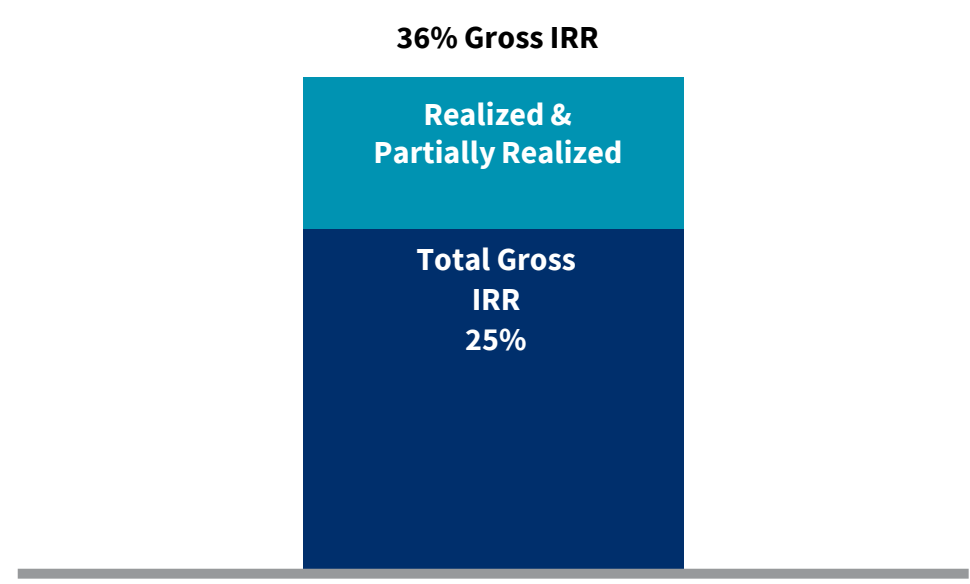
# Large Deals and Buyout and Corporate Partnering Investments Have Outperformed

## Buyout and Corporate Partnering Investments



- Total Invested Capital: \$5.1 billion in 22 investments
- Gross Multiple (Realized & Partially Realized): 2.2x
- Loss Ratio: 2.7%

## All Equity Investments above \$100 million



- Total Invested Capital: \$5.6 billion in 24 investments
- Gross Multiple (Realized & Partially Realized): 3.1x
- Loss Ratio: 3.2%

Comprised of all control, joint control and corporate partnering investments in BPEA Fund V and BPEA Fund VI, including intended control deals

# BPEA Has Consistently Delivered for Investors

As of March 31, 2018 USD million	Cost	Total Value	MOIC	Gross IRR	DPI	Cambridge DPI Quartile <sup>1</sup>
<b>Fund VI (2015 Vintage)</b>						
Realized & Partially Realized	332	693	2.1x	60%		
Unrealized	2,777	3,590	1.3x	17%		
<b>Total</b>	<b>3,109</b>	<b>4,283</b>	<b>1.4x</b>	<b>22%</b>	<b>25%</b>	<b>1<sup>st</sup></b>
<b>Fund V (2011 Vintage)</b>						
Realized & Partially Realized	1,596	3,285	2.1x	25%		
Unrealized	1,344	1,657	1.2x	7%		
<b>Total</b>	<b>2,940</b>	<b>4,941</b>	<b>1.7x</b>	<b>18%</b>	<b>58%</b>	<b>2<sup>nd</sup></b>
<b>Fund IV (2007 Vintage)</b>						
Realized & Partially Realized	1,041	2,687	2.6x	17%		
Unrealized	302	240	0.8x	n.m.		
<b>Total</b>	<b>1,343</b>	<b>2,927</b>	<b>2.2x</b>	<b>14%</b>	<b>166%</b>	<b>1<sup>st</sup></b>
<b>Fund III (2005 Vintage)</b>						
Realized & Partially Realized	420	1,508	3.6x	91%		
Unrealized	68	71	1.1x	1%		
<b>Total</b>	<b>488</b>	<b>1,579</b>	<b>3.2x</b>	<b>81%</b>	<b>279%</b>	<b>1<sup>st</sup></b>
<b>LP Co-Investments</b>						
Realized & Partially Realized	342	1,074	3.1x	34%		
Unrealized	2,346	2,698	1.2x	18%		
<b>Total</b>	<b>2,688</b>	<b>3,773</b>	<b>1.4x</b>	<b>29%</b>	<b>33%</b>	

(1) BPEA Fund III & IV vs Cambridge Associates, PE & VC Index and Benchmark Statistics as of September 30, 2017 (Asia/Pacific PE & VC Fund Since Inception Analysis)  
 BPEA Fund V & VI vs Cambridge Associates, PE & VC Index and Benchmark Statistics as of September 30, 2017 (Buyout (US & Ex US) Fund Since Inception Analysis)  
 Fund III & IV DPIs are Adjusted Distributed / Paid-In Capital based on recallable distribution excluded method

# Case Studies

# Company A

**Investment Date:**

August 2013

**Geography:**

India

**Transaction Value at Entry:**

\$467 million

**Fund Equity Investment:**

\$194 million (Fund V)  
\$70 million (Co-invest)

**Entry Valuation:**

6.4x FY Dec'13 EV/EBITDA

**Deal Structure:**

Common Equity

**Sector:**

IT Services

**Ownership Percentage:**

71%

**Status<sup>1</sup>:**

Partially Realized

**Current Valuation<sup>1</sup>:**

3.4x multiple / 37% IRR

**Company A is an India-based IT services and business process management provider with clients across the US, Europe and Asia**

## Transaction Background

- Favorable view of the IT Services sector in India which is a sector in which the country has a dominant global market position
- One of BPEA's senior team members has more than a decade of experience investing in and divesting from IT Services outsourcing businesses in India and originated the opportunity to invest via a relationship with the founder

## Investment Thesis

- Defensible business characterized by long-term customer relationships and high switching cost
- Asset-light, predictable USD-denominated annuity revenue with consistent free cash flow generation
- Continued demand for IT services from high quality but low cost India-based providers
- BPEA identified strategies to improve client mining, capacity utilization and increase workflow "Offshore" to low-cost countries

# Company A - Value Creation Initiatives

## Return Drivers

### 1 Strategic Transformation

Shift towards digital from traditional IT, including new brand identity and focus on higher growth industries, has led to a re-rating of the company and significantly higher trading multiple

### 2 Reorganization

Changes to Board structure (7 new Board members), and recruiting high quality senior management (new CEO and upgraded 11 of 16 senior management positions) to drive new sales from larger accounts and increase share of wallet from top 20 clients

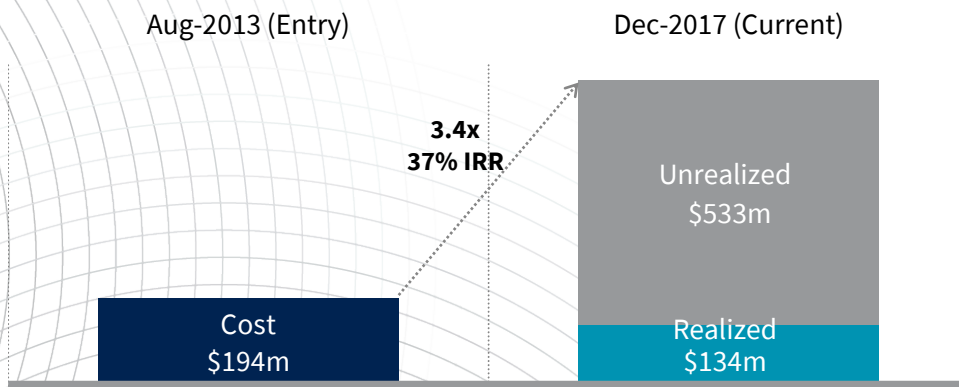
### 3 Capacity Expansion

Expanded capacity in India and established new delivery centers in the US and Romania to provide onshore-nearshore services to global clients

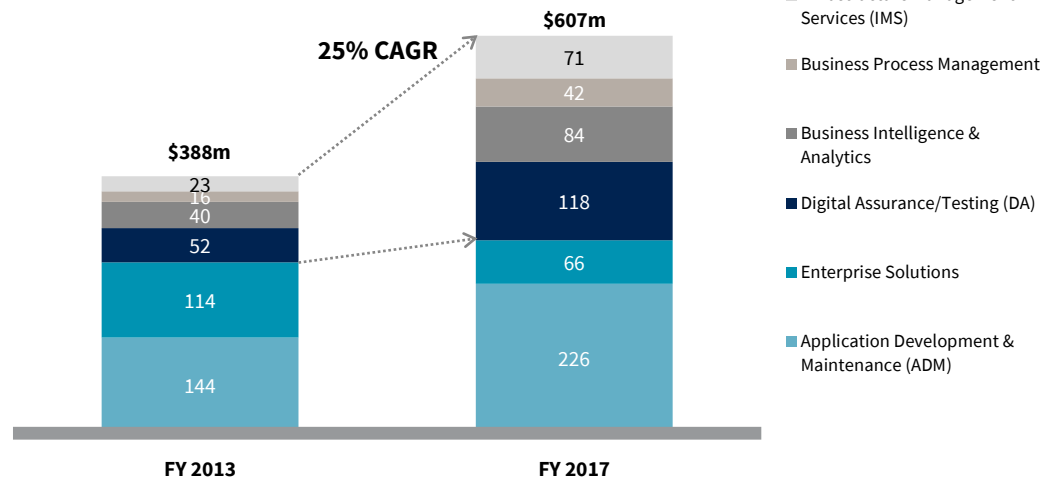
## More Than 60% Capital Returned

## Revenue Growth Driven by Digital Services

### Fund Equity Value



### Revenue by Division



# Company B

Investment Date:  
January 2018

Geography:  
Cross Border

Transaction Value at Entry:  
\$1.1 billion

Fund Equity Investment:  
\$396 million (Fund VI & Co-Invest)

Entry Valuation:  
9.3x FY Sep'17 EV/EBITDA

Deal Type:  
Control

Sector:  
Education

Ownership Percentage:  
100%

Status:  
Unrealized

**Company B is a market-leading educational services business that provides a comprehensive suite of testing services to 'high stakes' test sponsors globally**

## Transaction Background

- Subsidiary of a non-profit that was lacking attention/direction given strong focus on cashflow generation as opposed to growth
- BPEA had tracked the business for 15+ years, well in advance of a formal process launch
- Worked with former CEO, co-founder and two industry experts to provide conviction on growth potential
- BPEA pre-empted the formal process, signing transaction 1-month in advance of schedule laid out by vendors

## Investment Thesis

- Global market leader in a stable education services sector with attractive fundamentals
- Significant barriers to entry underpinned by long-term, sticky customer relationships diversified across end-markets
- Long track record of generating robust EBITDA margins and FCF conversion (5-year average of 32% and 73% respectively)
- Significant revenue generated from APAC
- Carve-out of undermanaged division of a non-profit offers a series of identifiable value-creation opportunities



# Company B - Value Creation Initiatives

## Return Drivers

- 1 Organic Growth**

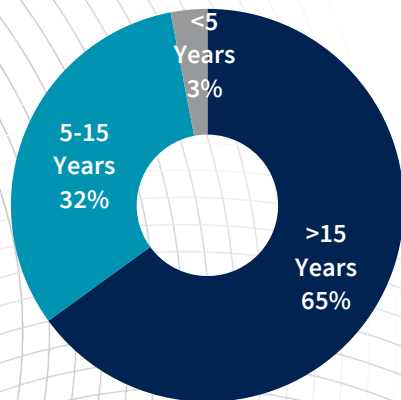
Increase focus on driving organic growth through investment in sales headcount, redesigned incentive schemes, and a new sales coverage model
- 2 International Markets**

Further expand into international markets, particularly in Asia, where opportunity exists to leverage brand, scale, and technology to meet indigenous demand
- 3 Cost Optimization**

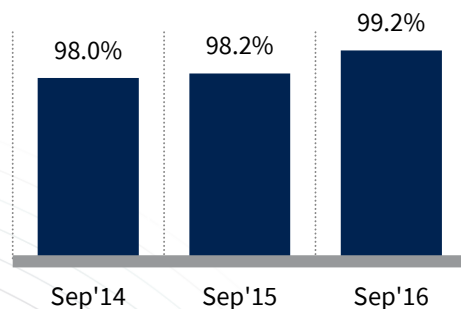
Cost savings opportunity through outsourcing of data centers, contact centers, global operations and finance functions, and IT systems consolidation

## Sticky, Long-Term Customer Base

### Customer Relationship Length

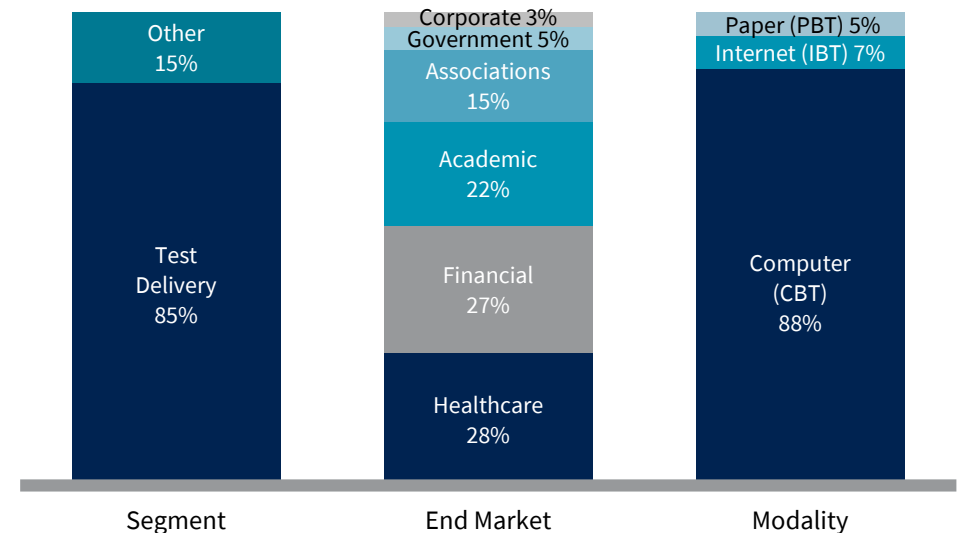


### Customer Retention – Last 12 months Ending



Typical contract length: 5 years

## Revenue Breakdown (FY2017)



# Fund Terms

# Fund Terms

## Target Fund Size

- **\$5.5 billion**

## Investment Period

- **Five years from the Final Close**

## Term

- **Eleven years from the Final Close (subject to two consecutive one year extensions)**

## Management Fee

- **During Investment Period: 1.75% of capital commitments**
- **After Investment Period: 1.50% of invested capital**

## Carried Interest Terms

- **Preferred return: 8% per annum compounding**
- **Carried Interest: 20%**
- **Waterfall: Whole fund (European)**

# Conclusion

# BPEA Differentiation

## 1 Institutional Platform

- Team of over 150 across eight Asian offices
- Advises over \$11bn of capital commitments
- Embedded processes for consistency, value creation and risk mitigation

## 2 Highly Stable, Integrated Team

- 17 deal team Managing Directors working together for an average of 13 years
- Six Executive IC members for an average of 17 years

## 3 True Pan-Asian Geographic Coverage

- Active across the entire Asia Pacific region with proven cross border credentials
- Strategy focused on buyouts and corporate partnering deals where opportunity to leverage BPEA's experience and platform is greatest
- Backed by exponential growth in addressable market in past four years

## 4 20 Year Track Record

- 45 realizations generating 2.4x / 33% IRR<sup>(1)</sup>
- \$3.8bn of proceeds generated in 2017 and 2018 YTD delivering 3.0x / 27% IRR<sup>(2)</sup>
- Funds III, IV and VI are all top quartile for DPI in their respective vintages, and Fund V ranks second quartile<sup>(3)</sup>

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