State of Rhode Island
Office of the General Treasurer

Paine Schwartz Food Chain Fund VI, L.P. - Staff Recommendation

June-2022

RECOMMENDATION: Approve a commitment up to $30 million in Paine Schwartz Food Chain Fund VI, L.P. ("Fund VI") and expand PSP RI Co-Investment Fund, L.P ("PSP Co-Invest") to invest alongside Fund VI. ERSRI committed $30 million to Paine & Partners Capital Fund IV, L.P. ("Fund IV"), a 2015 vintage fund, $50 million to Paine Schwartz Food Chain Fund V, L.P. ("Fund V"), a 2019 vintage fund, and $15 million to PSP Co-Invest, a 2021 vintage vehicle. To-date, PSP Co-Invest has not drawn any capital (other than for organizational expenses) to invest alongside Fund V, which concluded its last platform deal earlier this year. Staff recommends amending the vehicle's legal documents to permit co-investments alongside Fund VI.

Values as of 12/31/2021			Values in USD					Net Performance	
Current Partnerships	Vintage Year/ Initial Investment	Type	Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded	Valuation	Net IRR (%)	Net Multiple of Investment
Paine Schwartz Food Chain Fund IV, L.P.	2015	Buyout	30,000,000	26,309,069	14,535,141	7,610,321	22,528,437	9.63%	1.41
Paine Schwartz Food Chain Fund V, L.P.	2018	Buyout	50,000,000	25,809,432	1,639,190	25,484,654	32,798,744	37.56%	1.33
PSP RI Co-Investment Fund, L.P.	2021	Buyout	15,000,000	147,019	-	14,852,981	51,079	N/M	N/M

ASSET CLASS: Private Equity

SUB-STRATEGY: Buyout & Growth Equity

ALLOCATION: The target allocation for Private Equity is 12.5%, and the allocation as of 5/31 is 15.0%. The pacing plan for the 2022 vintage is $200-250 million committed to 5-10 funds at $20-60 million per fund. Pending approval of this recommendation, ERSRI will have committed $290 million to 10 funds for the 2022 vintage. Given ERSRI's investment pipeline, we do not anticipate additional Private Equity commitments for the 2022 vintage.

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 buyout and growth equity transactions in the sustainable food chain and agribusiness sectors, where they execute an operationally intensive value-add strategy. The firm invests across the agribusiness value-chain, while avoiding purely upstream production businesses with farmland and commodity exposure and purely downstream or consumer product/branded businesses. The firm's core segments include inputs, supply & distribution, value-added processing, and consumer goods & distribution. The strategy targets platforms with differentiated products, services and/or technologies to limit commodity exposure. As of 5/31/2022, the ERSRI Private Equity portfolio's combined exposure to Agricultural Products and Agricultural & Farm Machinery was 4.9%. Pending approval of the above recommendations, Paine Schwartz will represent 5.1% of ERSRI Private Equity exposure (NAV + uncalled capital), representing substantially all of the portfolio's agricultural exposure.

MERITS: Paine Schwartz is a sector expert in the sustainable food chain and agribusiness market. The firm benefits from a relatively less competitive environment. Despite food and agribusiness representing 8.5% of global GDP, there are few private equity groups focused on these sectors, with the sector representing only 2.8% of buyout and 4.4% of growth equity activity in 2021. Paine Schwartz proactively identifies opportunities in this space through a repeatable thesis-driven sourcing model centered on sub-sector deep-dives and each of the firm's 26 food and agribusiness investments were identified through this process. After investment, the team utilizes its internal operations team, the Portfolio Excellence Platform ("PEP"), to drive value creation initiatives across the portfolio. These initiatives often include upgrading the management team, implementing pricing optimization, reducing procurement spending, R&D pipeline prioritization, and completing add-on acquisitions. The firm also receives valuable insights from its Food Chain Advisory Board ("FCAB") which is comprised of six food and agribusiness executives who exclusively provide consultation to Paine Schwartz within the private equity space.

The firm has a deep and experienced investment team of 17, led by CEO Kevin Schwartz and CIO Angelos Dassios. Messrs. Schwartz and Dassios have a long partnership, joining Paine Schwartz in 2001 and 2002 respectively and driving the firm's transformation from a generalist in earlier funds to a sector specialist more recently. The firm further enhanced its senior team with the addition of Dr. Lutz Goedde as Partner. Dr. Goedde has over 25 years of experience in the food and agribusiness sector, most recently serving as Global Leader of McKinsey & Company's Agriculture and Food Practice where he advised companies including Paine Schwartz.

CONCERNS: Prior to Fund V, Paine Schwartz made a few investments in production-oriented assets that suffered from cyclicality and commodity exposure, affecting performance. In Fund V, the firm significantly raised its bar for these types of assets and going forward it will generally avoid farmland or other production-driven investments to limit direct commodity exposure. While not directly investing in these subsegments, the firm's focus on the broader food and agribusiness ecosystem may still result in exposures customers in the production and farmland space. Mitigating this risk is the firm's deep expertise in identifying differentiated and value-additive products and services, particularly in the upstream part of the value chain, which are increasingly mission-critical inputs for their production customers to improve yields. Additionally, Fund VI will be well diversified across different stages of the value chain and furthermore by type of product, considering both crop and protein vertical investments.

ESG: Paine Schwartz is classified as an ESG **Leader**. It is a signatory of the UN Principles of Responsible Investment ("UN PRI"), a supporter of the Task Force on Climate-related Financial Disclosure ("TCFD"), and seeks to align reporting with the American Investment Council's Guidelines for Responsible Investing ("GRI"). Paine Schwartz regularly trains investment professionals on best practices in ESG incorporation. During due diligence, investors use an ESG rubric to identify and summarize ESG risks and value creation opportunities informed by standards from the Sustainability Accounting Standards Board ("SASB"). The firm aims to integrate ESG opportunities into value creation plans and requires portfolio company CEOs and board members to incorporate at least one sustainability and one DEI goal into their bonus compensation. Paine Schwartz provides an annual sustainability report to LPs that provides updates on portfolio company initiatives and typically contains metrics such as Scope 1 and 2 GHG emissions, energy usage, water usage and recycling, waste diverted from landfills, and employee safety. Paine Schwartz is working to enhance its KPI measurement in future iterations.

Paine Schwartz is committed to a culture of equity and inclusion in its firm and portfolio companies. The firm's DEI initiatives include collecting demographic data for the firm and its portfolio, gathering employee feedback at least annually, and providing unconscious bias training. The firm is developing a refined DEI strategy which will include measurable goals and implementation timelines. Paine Schwartz also engaged a 3rd party expert to perform industry benchmarking. The firm intends to become a signatory of ILPA's Diversity in Action Initiative in 2022.

FEES: Fees are in accordance with industry standards. The fund will charge a 2% management fee on committed capital during the investment period and 2% on invested contributions thereafter, with a 100% director, transaction, monitoring, and other fees offset. Carry is 20% after an 8% hurdle is met, with a 50% GP catch-up. PSP Co-Invest is charging only expenses and has a 0% management fee and 0% carry.