



State of Rhode Island
Office of the General Treasurer

Wynnchurch Capital Partners VI, L.P. - Staff Recommendation

December-2023

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): **Approve a commitment of up to \$30 million to Wynnchurch Capital Partners VI, L.P. (“Wynnchurch VI”).** ERSRI previously committed \$40 million to Wynnchurch Capital Partners V, L.P. (“Wynnchurch V”), a 2020 vintage fund (exposure in *Appendix 1*, performance in *Appendix 2*).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): **Approve a commitment of up to \$1 million to Wynnchurch Capital Partners VI, L.P. (“Wynnchurch VI”).**

ASSET CLASS: Private Equity (ERSRI), Private Growth – Private Equity (OPEB)

SUB-STRATEGY: Middle Market Buyout (US and Canada)

ALLOCATION:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): The target allocation for private equity is 12.5% and the allocation as of 10/31/2023 is ~17.7%. The preliminary pacing plan for the 2024 vintage is \$200 million committed to 5-10 funds at \$15-40 million per fund. Pending approval of the recommendations above, this \$30 million commitment would represent ERSRI’s first 2024 vintage commitment within Private Equity.
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): The target allocation for Private Growth is 5.0% and the Private Equity sub-strategy is targeted to be ~80% of the asset class (i.e., 4.0% at the OPEB Trust level). The actual allocation to Private Equity as of 10/31/2023 is ~0.67%. The preliminary pacing plan for the 2024 vintage is \$9 million committed to 5-10 primary funds at \$0.5-2 million per fund. Pending approval of the recommendations above, this \$1 million commitment would represent OPEB’s first 2024 vintage commitments within Private Equity.

PORTFOLIO FIT:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): ERSRI’s Private Equity allocation is composed of a core of buyout strategies, complemented by venture capital, growth equity, and opportunistic credit investments. Rhode Island targets 60-80% of the allocation to be in buyout strategies and seeks to build a portfolio diversified by geography, sector, and company size. The fund’s strategy fits well within this portion of the buyout portfolio as it will target middle market industrial and manufacturing companies. Pending approval of the proposed recommendations, Wynnchurch would represent 2.9% of ERSRI’s Private Equity portfolio and 3.9% of the buyout exposure (NAV + uncalled commitment) (see *Appendix 4*).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): The Private Growth portfolio allocates to Private Equity (as described above) and Non-Core Real Estate strategies and is ramping up to its target allocation through commitments made in tandem with ERSRI. Pending approval of the recommendations, Wynnchurch would represent ~5.2% of OPEB’s Private Growth exposure and ~6.5% of its Private Equity exposure (see *Appendix 5*).

MERITS:

- [Strong Fund Performance and Momentum](#): Prior Wynnchurch funds have demonstrated strong performance and Momentum. Wynnchurch has achieved a net multiple of 1.9x and a net IRR of 22% since inception. Wynnchurch V, a 2020 vintage fund, is still immature and has a net multiple of 1.2x and a net IRR of 14%. The firm’s strong performance can be attributed, in part, to their ability to source deals at low multiples relative other middle market

buyouts. Wynnchurch utilizes their established reputation in the industry as well as their contacts with investment banks to find companies that have been difficult to sell. They specifically target companies that are underperforming, stressed and distressed, and healthy companies that can be purchased at a discount.

- **Consistent Investment strategy:** Wynnchurch has been targeting industrial and manufacturing companies since Fund II. Wynnchurch has significant prior investing and operating experience in the space as well as existing business relationships. Wynnchurch has spent extraordinary time and resources to understand the industry dynamics around industrial and manufacturing and will keep focusing on those investments for Fund VI.

CONCERNS:

- **Rapid Expansion in Fund Size:** Fund size has increased dramatically and rapidly since inception. Fund size increased from \$163 million (Fund I) in 2000, to \$350 million (Fund II) in 2006, to \$600 million (Fund III) in 2010, to \$1.27 billion (Fund IV) in 2015 and to \$2.2 billion (Fund V) in 2020. Target size is \$3 billion for Fund VI and there is a very strong investor demand in today's environment.
 - **Mitigant – Management Experience in Prior Expansions:** Wynnchurch has gained experience in dealing with larger fund size in the past two decades. Fund performance hasn't deteriorated as a result of rapid expansion.
- **Comparatively High Loss Ratio:** The fund's loss ratio for fund IV is above 20%, which is higher than many of its peers. This ratio has trended downward since inception, however, this volatility still poses a risk that may require more operational attention or a shift in leadership.
 - **Mitigant – Fund-level Return Consistency & Experienced Operations Team:** The firm has a consistent track record of fund-level returns. Wynnchurch has also fine-tuned their processes especially in regard to due diligence and has started to implement value creation sooner with newly acquired portfolio companies.
- **Relatively Small Senior-Level Investment Team:** Wynnchurch has a smaller team of senior investment professionals compared to other similar sized firms in middle market buyout. With the number of active portfolio companies growing year over year, the senior team must rely heavier on the firms mid-level and junior employees. This could pose a risk as these folks have less investment experience.
 - **Mitigant – Investment Committee & Strong Processes:** The firm has established strong processes and senior-level resources in origination and operations. Wynnchurch also has a centralized investment committee and a long-tenured team of senior-level management. Additionally, the firm has a high level of continuity within its team and continues to recruit more associate level professionals.

ESG: Wynnchurch Capital Partners is rated as an **Integrator** with respect to their ESG practices.

- **ESG:** Wynnchurch has an established ESG policy. ESG is being considered during investment due diligence and portfolio monitoring process. Wynnchurch partners with a third-party provider, Tablecloth, to measure and track ESG metrics. The firm is currently implementing the ESG Data Convergence Initiative framework across its portfolio companies in Funds V. This initiative involves the assessment of greenhouse gas emissions, work-related injuries, board diversity, net new hires, and employee engagement surveys. Wynnchurch expects to deliver its first annual ESG report in 2024.
- **DEI:** Wynnchurch has a DEI Policy. The firm has been recruiting candidates from diverse backgrounds and has partnered with several organizations to promote DEI, including SEO (Sponsors for Educational Opportunity) and Girls Who Invest. In May 2023, Wynnchurch signed on to the ILPA Diversity in Action Initiative. Wynnchurch's DEI Committee is committed to looking for improvements in the program and may implement more initiatives in the future. Wynnchurch recognizes their deficiencies as it relates to diverse representation and has taken steps towards improving; we will continue to monitor their progress.

FEES: Fees for Wynnchurch are in-line with industry standards.

- **Management Fee:** The Fund will charge a fee equal to 2% of commitments during the investment period; thereafter, through the 10th anniversary of the date on which the Partnership begins investing, 2% of invested capital; thereafter, 1.5% of invested capital. The management fee will be offset by 100% of all director, transaction, monitoring, and other such fees.
- **Carried Interest:** 20% carried interest on a deal-by-deal basis. 8% preferred return.

Appendix 1: ERSRI Prior Fund Exposure

Current Partnerships	Fund Exposure*						
	Vintage Year/ Initial	Type	Amount		Amount	Amount	Valuation
	Investment		Committed	Amount Drawn	Distributed	Unfunded	
Wynnchurch Capital Partners V, L.P.	2020	Buyout	\$40,000,000	\$ 28,348,637	\$ 537,544	\$11,960,111	\$33,560,212

*Data as of 6/30/2023

Appendix 2: ERSRI Prior Fund Performance

Current Partnerships	Vintage Year/ Initial	Type	Net Performance*			Public Market Equivalent (PME)	
			Net IRR (%)	Net Multiple of Investment	Distributed to Paid-In Capital	MSCI ACWI Net Index PME IRR**	Fund Excess Return (Fund IRR - PME)
Wynnchurch Capital Partners V, L.P.	2020	Buyout	14.63%	1.20	0.02	4.16%	10.47%

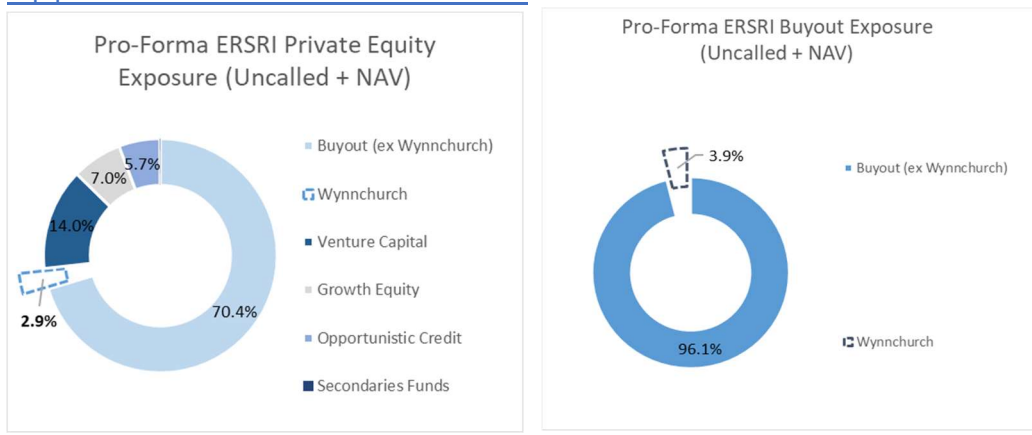
*Data as of 6/30/2023

** Long Nickels PME Methodology

Appendix 3: ERSRI Private Equity Buyout Managers

Manager	Buyout (ERSRI)		
	Geographic Focus	Sector Focus	Size
Advent International	Global	Diversified	Large
Altaris Capital Partners	North America	Healthcare & Lifesciences	Middle
Bain Capital	North America	Diversified	Large
Baring Private Equity Asia	Asia	Diversified	Large
Birch Hill Equity Partners	North America	Diversified	Middle
Carlyle Group	Asia	Diversified	Large
Centerbridge Partners	Global	Diversified	Middle
Charlesbank Capital Partners	North America	Diversified	Middle
CVC Capital Partners	Europe	Diversified	Large
EnCap Investments	North America	Energy	Middle
Endeavor Capital	North America	Diversified	Small
Eureka Equity Partners	North America	Diversified	Small
First Reserve	Global	Energy	Middle
ECM Equity Capital Management	Europe	Diversified	Middle
Green Equity - Leonard Green & Partners	North America	Diversified	Middle
Hastings Equity Partners	North America	Energy	Small
Havencrest Capital Management	North America	Healthcare & Lifesciences	Small
Nautic Partners	North America	Diversified	Middle
Nordic Capital	Europe	Diversified	Middle
Oaktree Capital Management	Europe	Diversified	Middle
Odyssey Investment Partners	North America	Diversified	Middle
Paine Schwartz Partners	North America	Diversified	Middle
Parthenon Capital	North America	Diversified	Middle
Pollen Street Capital	Europe	Business & Financial Services	Middle
Providence Equity Partners	North America	Media, Entertainment, & Communication	Middle
Riverside Company	North America	Diversified	Middle
RLH	North America	Business & Financial Services	Middle
Siris Capital Group	North America	Software & IT	Middle
Southwest - Gen Cap America	North America	Diversified	Small
Tenex Capital Management	North America	Diversified	Middle
Thoma Bravo	North America	Software & IT	Middle
TPG Capital	Global	Diversified	Large
Trilantic Capital Management	Global	Diversified	Middle
Vinci Capital	Latin America	Diversified	Middle
Wynnchurch Capital	North America	Manufacturing & Industrial	Middle

Appendix 4: ERSRI Portfolio Fit



Appendix 5: OPEB Portfolio Fit

