



State of Rhode Island
Office of the General Treasurer

CVC Capital Partners IX (A) L.P. - Staff Recommendation
April-2023

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): **Approve a commitment of up to €30 million to CVC Capital Partners IX (A) L.P. (“CVC IX”)**. ERSRI previously committed \$20 million to CVC European Equity Partners III, L.P. (“CVC III”), €16.5 million to CVC European Equity Partners IV, L.P. (“CVC IV”), €20 million to CVC European Equity Partners V, L.P. (“CVC V”), €15 million to CVC Capital Partners VI, L.P. (“CVC VI”), €35 million to CVC Capital Partners VII (A), L.P. (“CVC VII”), and €40 million to CVC Capital Partners VIII (A), L.P. (“CVC VIII”).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): **Approve a commitment of up to €1 million to CVC Capital Partners IX (A) L.P. (“CVC IX”)**.

Active CVC Funds as of 9/30/2022							Net Performance			
Current Partnerships	Vintage Year/ Initial Investment	Type	Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded	Valuation	Net IRR (%)	Net Multiple of Investment	
CVC European Equity Partners III	2001	Buyout	\$20,000,000	23,760,732	59,551,716	297,277	1,440,406	41.02%	2.57	
CVC European Equity Partners IV	2005	Buyout	€ 16,500,000	21,302,146	41,386,006	1,873,384	26,482	17.11%	1.94	
CVC European Equity Partners V	2008	Buyout	€ 20,000,000	29,451,077	57,150,680	284,884	879,664	20.27%	2.29	
CVC Capital Partners Fund VI	2014	Buyout	€ 15,000,000	21,259,270	19,364,966	1,539,521	17,862,359	14.88%	1.75	
CVC Capital Partners Fund VII, L.P.	2017	Buyout	€ 35,000,000	35,796,539	5,227,125	5,454,032	49,553,183	20.54%	1.53	
CVC Capital Partners VIII	2021	Buyout	€ 40,000,000	14,200,964	-	26,463,451	14,601,710	N/M	N/M	

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

SUB-STRATEGY: Large and Upper Middle Market Buyout

ALLOCATION:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): The target allocation for Private Equity is 12.5% and the allocation as of 3/31/2023 is ~16.5%. The current pacing plan for the 2023 vintage is \$200 million committed to 5-10 funds at \$15-40 million per fund. Pending approval of the recommendations above, ERSRI’s 2023 vintage commitments will be ~\$85 million.
- [Rhode Island OPEB System Trust](#): The target allocation for Private Growth is 5.0% and the Private Equity sub-strategy is targeted to represent ~80% of the asset class (i.e. 4.0% at the OPEB Trust level). The actual allocation as of 3/31/2023 is ~0.5%. The current pacing plan for 2023 is \$9 million committed to 5-10 primary funds at \$0.5-2 million per fund. Pending approval of the recommendations above, OPEB’s 2023 vintage commitments to Private Equity will be ~\$3 million.

PORTFOLIO FIT:

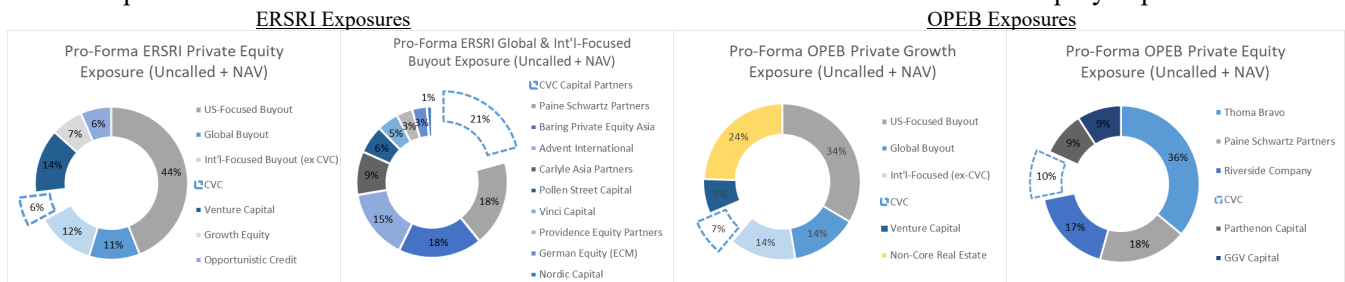
- [Rhode Island Employees Retirement Systems Pooled Trust](#): ERSRI’s Private Equity allocation is composed of a core of buyout strategies, complemented by venture capital, growth equity and opportunistic credit investments. Rhode Island targets 60-80% of the allocation to be in buyout strategies and seeks to build a portfolio diversified by geography, sector, and company size. Most of ERSRI’s buyout exposure is composed of U.S.-focused middle-market strategies, with additional diversification provided through investment managers targeting international markets. CVC’s flagship Europe/Americas strategy fits well within the latter segment of the buyout portfolio. CVC IX will primarily invest in companies domiciled in Europe, with no more than 25% of fund investments being in other geographies and the bulk of ex-European exposure concentrated in North America. The fund will be diversified by sector and provide exposure to a

range of company sizes at the large end of the middle market, with average company enterprise values between €1 billion and €5 billion and average equity investment sizes of €250 million to €1.5 billion. Investments will be majority buyouts and the portfolio is expected to include 30 to 40 positions. Rhode Island has chosen to partner with a handful of managers that can provide access to private companies across countries (see table below) to maintain strategic exposures to a wide range of geographies. Pending approval of the proposed recommendations, CVC would represent ~5.6% of ERSRI's Private Equity portfolio and ~19.6% of the international-focused buyout exposure (NAV + uncalled commitment).

Global & Int'l-Focused Private Equity (ERSRI)				
Manager	Exposure in MM USD* (NAV+Uncalled)	Geographic Focus	Sector Focus	Size
CVC Capital Partners (Pro Forma)	157	Europe	Diversified	Large & Upper Middle Market
Paine Schwartz Partners	140	Global (Majority US)	Sector-Focused (Food & Ag)	Middle Market
Baring Private Equity Asia	136	Asia	Diversified	Large & Upper Middle Market
Advent International	115	Global	Diversified	Large & Upper Middle Market
Carlyle Asia Partners	71	Asia	Diversified	Large & Upper Middle Market
Pollen Street Capital	46	Europe	Sector-Focused (Business & Financial Services)	Middle Market
Vinci Capital	35	LatAm	Diversified	Middle Market
Providence Equity Partners	26	Global (Majority US)	Sector-Focused (Communications & Media)	Large & Upper Middle Market
German Equity Partners (ECM)	24	Europe	Diversified	Middle Market
Nordic Capital	8	Europe	Diversified	Middle Market

*Using 3/31/2023 EUR-USD Exchange Rate

- Rhode Island OPEB System Trust:** The Private Growth portfolio allocates to Private Equity (as described above) and Non-Core Real Estate and is ramping up to its target allocation through commitments made in tandem with ERSRI. OPEB's exposure to Private Equity currently includes four buyout commitments and one venture capital commitment. Pending approval of the proposed recommendations, CVC would represent 6.9% of OPEB's Private Growth bucket and 9.2% of OPEB's Private Equity exposure.



MERITS:

- Institutional Profile with Extensive Resources:** CVC has invested in the European buyout market since 1981 and is raising its ninth flagship pan-European fund. The firm manages almost €140 billion of assets, of which European/Americas private equity represents ~50%. CVC Europe/Americas has a global team of ~165 investment professionals across 15 country teams and dedicated sector teams focusing on healthcare, technology, financial services, and sports, media and entertainment (SME). The firm also benefits from an 8-person internal Capital Markets Team and 8-person Operations Team. The Capital Markets team maintains extensive relationships with local banks and alternative debt providers in each of its regions to help facilitate optimal financing for portfolio companies. CVC's Operations Team contributes to the due diligence process and provides support companies in their value creation initiatives post-acquisition.
- Flexible Investment Approach:** CVC has a centralized investment committee process allowing it to effectively compare opportunities across its broad scope. Fund IX will be diversified by company size, sector, and geography with the largest sector and country exposures for a fund historically under 20% in each case. In addition to its focus on Europe and North America, the firm can also opportunistically deploy up to 12.5% to companies domiciled in Latin America and Asia. CVC is among a small set of firms with sufficient resources and on-the-ground presence to facilitate comprehensive coverage of the global upper middle market buyout space and build a best-ideas portfolio which takes advantage of its wide reach.
- Consistent Strong Performance:** The CVC Europe/Americas strategy has consistently generated first or second quartile performance in terms of both investment multiple and IRR through various economic conditions, sectors, and geographies. The firm is focused on consistently producing realizations and has generated over €35 billion in proceeds since 2017.

CONCERNS:

- **Concern – Fund Size Increase:** CVC is targeting a fundraise of €25 billion and has not implemented a hard-cap. This is a step up from its prior target of €17.5 billion for Fund VIII (€22.3B raised). The increase in fund size paired with a rise in competition at the large end of the buyout market may make it more difficult to win deals and will require additional resources to monitor its growing portfolio.
 - **Mitigant – Team Growth:** CVC has continued to grow its team to keep pace with its growing portfolio, hiring 54 net new investment professionals since 2017 for the Europe/Americas team. This should provide ample staffing to source new investments and monitor the existing portfolio.
 - **Mitigant – Disciplined Strategy:** CVC has maintained a consistent strategy, targeting companies with average investment size of between €300-500 million and enterprise value of €1.25-2 billion in each of its last five flagship funds, all while stepping up its fund size.
- **Concern – Increased Local Competition:** Despite the macro volatility of the past year, dealmaking remained strong in European private equity in 2022 with Pitchbook estimating a 13% y/y increase in deal count over the previous peak in 2021. An increasing share of these deals are investments of over €100 million and European private equity dry powder is at an all-time high, reflecting a greater degree of competition.
 - **Mitigant – Dedicated Local Presence:** CVC continues to win deals as a brand name buyout investor with an extensive local presence. The firm spends years establishing relationships with target companies and can respond quickly to opportunities as they arise, mitigating competitive pressures.
 - **Mitigant – Dampened Fundraising Environment:** Contrasting to the growth in deals done in 2022, the year represented a significant fundraising challenge, with a drop of off ~50% in capital raised y/y. 2022 capital raised was its lowest since 2014 across the fewest number of funds since 2006. CVC remains among a minority of managers able to continue to grow its capital base, demonstrating its continued value as a long-term partner to prospective portfolio companies.

ESG:

- **ESG:** CVC is classified as an ESG **Leader**. The firm maintains a Responsible Investing Policy overseen by its ESG Committee. CVC has a dedicated ESG resources comprised of a Head of ESG and an ESG Manager that support deal and operations teams to assess ESG risks and opportunities in due diligence conducts deeper reviews of portfolio company ESG practices after acquisition. CVC requests over 50 ESG KPIs on an annual basis from its portfolio companies in alignment with frameworks such as SASB, GRI, TCFC, and the ESG Data Convergence Initiative. Most CVC portfolio companies also receive ESG ratings from EcoVadis every year. The firm is a signatory of the U.N. Principles for Responsible Investment.
- **DEI:** CVC is committed to a culture of equity and inclusion. The firm established a DE&I committee in 2016 and appointed a Global Head of DE&I in 2022. CVC is an ILPA Diversity in Action signatory and a founding member of Level20 which is dedicated to improving gender diversity in the European PE industry. CVC monitors company diversity data and collects diversity KPIs. Internally, the firm has set a target that 25% of Investment Officers and 30% of credit Investment Officers be female by 2025.

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

- **Management Fees:** CVC IX will charge a 1.5% management fee on commitments during the investment period, stepping down to 1.25% on invested capital thereafter, with a 100% offset for portfolio company expenses. This compares favorably to peers who will often charge a 2.0% management fee on committed capital during the investment period and 1.5-2.0% on investment capital.
- **Carried Interest:** Carried interest is 20% over a 6% hurdle on a deal-by-deal basis with a 100% catch-up. The hurdle rate is slightly below market and the deal-by-deal carry is a GP-friendly practice compared to a fund-level carry structure.