



State of Rhode Island
Office of the General Treasurer

The Baring Asia Private Equity Fund VIII, L.P. - Staff Recommendation

August-2021

RECOMMENDATION: Approve a commitment of up to \$50 million to The Baring Asia Private Equity Fund VIII, L.P. (“BPEA VIII”). ERSRI committed \$15 million to BPEA VI (2015 vintage) and \$50 million to BPEA VII (2018 vintage).

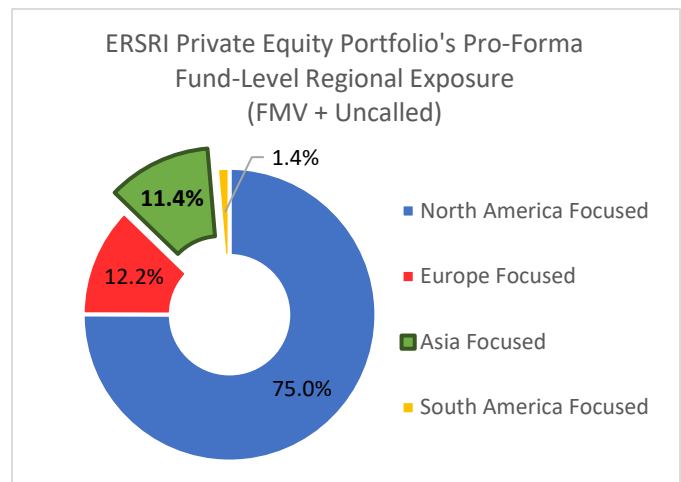
ASSET CLASS: Private Equity

SUB-STRATEGY: Asia large and middle-market buyout

ALLOCATION: The target allocation for private equity is 12.5%, and the actual allocation as of 7/31 is 10.9%. The pacing plan for private equity is \$300 million per year committed to 5 - 10 primary funds per year at \$20 - \$60 million per primary fund. Pro-forma for allocations for ERSRI, including those recommended at this SIC meeting, show ERSRI will commit \$395 million to the 2021 vintage year. Since BPEA VIII is not expected to make its first investment until 2022, it is considered a 2022 vintage fund and is not included in this \$395 million figure.

PORTFOLIO FIT: ERSRI has centered its private equity portfolio around a core of US-focused middle-market buyout strategies that often have a sector specialization and/or operational value-add approach. ERSRI underweights its allocation to the larger end of the market, especially in the US, and looks to concentrate its large market exposure among a small number of managers that are highly diversified across sector and region. Given the ERSRI Private Equity portfolio’s target weighting to Asian markets of 8% (target range of 0-20%) and that the Asia market is large and highly diversified, ERSRI has not replicated its US Private Equity strategy of targeting sector and regionally focused funds, instead using larger commitments to larger funds to provide efficient exposure across geographies and sectors in the region in terms of portfolio construction. The economic growth trends and less mature nature of the private equity market in Asia makes the larger end of the market in that region more attractive relative to the large end of the US private equity market.

Baring Private Equity Asia’s (“BPEA’s”) flagship buyout strategy targets control buyouts of companies with enterprise values between \$500 million and \$2 billion in the pan-Asian region. BPEA’s core markets include China, India, Japan, Korea, Southeast Asia, Australia, and Cross-Border investments for which Asia represents a meaningful driver of future returns. The BPEA platform is diversified by sector, with its four largest sectors being technology services, business services, education, and healthcare. The fund will aim to source companies with leading positions in niche markets that can maintain pricing power and margins. After acquiring a company, BPEA will employ its Baring Mobilization System, a value-add playbook through which the firm drives systematic growth. BPEA establishes concrete targets around financial and operating metrics for its leadership teams and regularly measures and discusses each portfolio company’s progress towards these goals. One of BPEA’s key drivers of organic growth is the introduction of new tech-enabled products and resources to streamline sales and operations. BPEA will also make use of bolt-on acquisitions to further accelerate growth both within and across borders. Upon approval of the recommended commitment, BPEA would represent approximately 6.3% of the total ERSRI Private Equity portfolio.



MERITS: A key strength of BPEA is its large size and regional breadth. The firm has a strong international reputation owing to its extensive history investing across Asia since 1997. BPEA has an experienced leadership team with an average tenure of 15 years at the BPEA and a total of over 60 private equity investment professionals distributed amongst nine regional offices in Asia, Australia, and the U.S. The investment staff is divided into regional teams each located in its target geography, allowing the firm to run in-depth due diligence on local opportunities with boots on the ground. Investment opportunities are presented before a centralized investment committee led by CEO Jean Eric Salata. The IC approves the best ideas by region and allocates to regions where the opportunity set is most attractive and gain ample diversification across the continent without needing to deploy in any given geography when market conditions are relatively unfavorable. This team construction has allowed BPEA to maintain active teams in sub regions even in prolonged period of unattractive market conditions without putting capital at risk in those regions. These teams can then be first movers when a market becomes attractive or mature enough for investment.

BPEA's local investment teams also benefits from the broader resources of the organization, which employs a variety of in-house specialist functions. This includes a 61-person Professional Support Team who provide expertise on areas such as debt capital markets, digital & data, portfolio monitoring, and finance. The BPEA team also employs its three-person Baring Senior Portfolio Advisory Board (BSPAB) made up of former CEOs and head executives who provide mentoring and support to new BPEA portfolio company CEOs.

CONCERNS: Fund VIII is targeting total commitments of \$8.5B, which would be approximately \$2B greater than the prior fund. Given the increased fund size, BPEA expects to source more platforms and complete more add-ons, adding additional execution risk. This is mitigated by the firm's track record of successfully growing its fund sizes, most recently in the case of Fund VII which was \$2.5B larger than Fund VI. Additionally, Fund VIII expects to allocate up to 10% of its capital to growth stage investments rather than traditional buyout. This would represent a minor change to the stated approach of the prior funds but is mitigated by the fact that growth investments are expected to be limited and targeted in situations where BPEA has high conviction. Additionally, while BPEA has focused on buyout, its portfolio companies often express growth-like characteristics given the growth tailwinds of the geographies in which the firm invests. As a result, BPEA is well versed in underwriting investments with strong growth prospects.

ESG: BPEA is categorized as a **Leader** on ESG. The firm established its ESG policy in 2013 and became a UNPRI signatory in 2019. The firm recently hired its first dedicated internal ESG specialist and aims to establish an ESG Advisory Council. ESG efforts are overseen by the firm's COO and the investment team incorporates a detailed ESG review of every company during diligence. The firm is working on standardizing ESG KPI collection and currently carries out a SASB-based ESG survey across its portfolio companies on an annual basis. As part of BPEA's value-added plan, BPEA will set ESG targets alongside financial and operational performance targets.

BPEA has a culture of promoting Diversity & Inclusion at the firm and portfolio company levels, providing unconscious bias training to all staff, joining the Diversity in Action Initiative by Institutional Limited Partners Association (ILPA), encouraging and promoting diversity within portfolio company boards, and engaging with portfolio companies' senior management to share best practices that promote D&I through workshops and networking events.

FEES: The fees are in accordance with industry standards. There is a 1.75% management fee on committed capital during the investment period, followed by a 1.5% annual fee on net invested capital thereafter. Carry is 20% with an 8% preferred return.