

# State of Wisconsin Investment Board Private Equity Investing

SWIB Trustees set asset allocation targets for various asset classes, including (equities, fixed income, private equity and real estate). Our private equity holdings consist primarily of two portfolios – the private equity fund, which is invested in and with selected leveraged buy-out and venture capital partnerships, and the Wisconsin private equity, which is dedicated to investments in venture capital partnerships with a concentration in firms sited primarily in Wisconsin and the Midwest. These investments – as with all SWIB holdings – are done within the context of the Board's fiduciary responsibility to the funds we manage.

## PRIVATE EQUITY FUND

For the allocation to private equity, staff works with a consultant to prepare an annual strategic plan, presented to the Trustees. It includes:

- Projected commitments
- Average investment size (\$100 million, 2008)
- Sub-asset class diversification (buyout, special situations, venture capital)
- Sector focus (if any)
- Geographic focus
- Existing GPs raising new funds
- Potential new GP relationships.

The private equity staff participates in a conference call every other week to discuss opportunities currently in the pipeline and also other opportunities that have not yet made the pipeline list. SWIB requires managers interested in presenting a private equity investment opportunity to send a completed Private Placement Memorandum to our consultant and to the attention of the portfolio manager.

## WISCONSIN PRIVATE EQUITY

SWIB Trustees set a specific allocation for the Wisconsin private equity portfolio.

- Future allocations or reallocation of distributions from the existing portfolio will continue to be set by the SWIB Board of Trustees with SWIB staff recommendation.
- The allocation is directed to venture capital funds with a focus on opportunities in Wisconsin and the Midwest.
- After the due diligence process, the Wisconsin private equity staff prepares an investment recommendation which is then presented to the SWIB Board of Trustees for approval.

SWIB requires managers interested in presenting a private equity investment opportunity to send a completed Private Placement Memorandum to our consultant and to the attention of the portfolio manager.

## DUE DILIGENCE – BOTH PORTFOLIOS

- The Private Equity Fund staff and Wisconsin Private Equity staff (the “staff”) and the private equity consultant work together during the due diligence process, designed to identify the best funds for completing the annual strategic plan and/or Board specific allocations.
  - The consultant reviews every Private Placement Memorandum it receives and shares its initial review with staff. Staff does refer some Private Placement Memoranda to the consultant.
  - The screening of the Private Placement Memorandum provides a preliminary view of the firm, track record and strategy for fit within SWIB’s private equity portfolios.
  - If the preliminary screening is favorable, a meeting will be scheduled with the General Partner (“GP”) either in-person or via conference call.
- The initial meeting will provide a more in-depth view on the team with consideration including:
  - Experience and depth of the professionals

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- Key person risk
- Relevant experience
- Firm turnover
- Ownership structure and carried interest allocation
- Succession plan
- An analysis will be conducted on the firm's track record
  - Historical return profile (net IRR, multiple, realized vs. unrealized)
  - Comparison to funds of the same vintage year
  - Attractiveness in the current and expected market conditions
  - Ability to generate attractive returns through different markets
- Other areas of interest include
  - Sub-asset class strategy (buyout, special situation, venture capital)
  - Sourcing (auction vs. proprietary)
  - Exit strategy
  - Geographic focus
  - Consistency of strategy over time (deal size, sector, stage)
  - Control or minority investment
  - Operational expertise
  - Competition
  - Conflicts
- If the initial meeting is favorable, the consultant will ask the GP to complete a due diligence questionnaire that provides more detailed information than the initial review (the areas of interest are the same as listed above with additional areas of interest specific to each GP).
- There is a considerable amount of time spent analyzing the data and making reference calls to:
  - Current and former investors regarding: General observations about the GP; willingness to invest in future funds of the GP; considerations about how responsive the GP is to investors' needs.
  - Current and former portfolio company CEOs regarding: How the GP works with management teams; the GP's value added to the business; willingness to work with the GP in a different company.
  - Investment professionals no longer with the firm regarding: What it was like to work for the GP; circumstances surrounding leaving the firm.
- If the review of the questionnaire and calls is favorable, a meeting in the GP's office is scheduled.
- After the onsite meeting, the consultant's due diligence team submits its final report to the consultant's investment committee.
- The investment committee decides whether the consultant makes a recommendation to its clients to invest in the fund.
- SWIB requires a written confirmation from the consultant that the fund meets the fiduciary standard for SWIB in particular.
- If SWIB staff decides to invest in the fund, a formal internal recommendation is made to the Private Markets Managing Director along with the consultant's final investment report.
- If the recommendation is approved by the Private Markets Managing Director, an outside legal firm is engaged to review the fund's legal documents