

Memorandum

Date: July 31, 2003
To: TRS Board of Trustees
From: Jon Bauman
Subject: Glencoe Capital Partners III, L.P.

Staff has recently completed a due diligence review of Glencoe Capital, LLC. Based on the findings of our research, **Staff recommends that the System invest \$25 million in Glencoe Capital Partners III, L.P. and up to \$25 million in Glencoe Capital Institutional Partners III, L.P.** The Partners have been asked to make a presentation to the Board. Staff has scheduled time for the Investment Committee to ask questions of the Glencoe representatives. A partnership evaluation of Glencoe Capital Partners III, L.P. is attached.

In addition to Glencoe Capital Partners III, L.P. ("Fund III"), Glencoe is raising Glencoe Capital Institutional Partners III, L.P. ("Co-Investment Fund"). Institutional investors who commit at least \$10 million to Fund III are given the opportunity to participate in the Co-Investment Fund. This Co-Investment Fund will co-invest in certain investments made by Fund III as determined by Glencoe in its discretion. The Co-Investment Fund generally will have no carried interest except to the extent that a participating partner invests more capital in a particular portfolio company through the Co-Investment Fund than it invests in the same company through Fund III. In that case, Glencoe is entitled to receive a 10% carried interest on the profits earned from such excess co-investment amount (the carried interest for Fund III is 20%). There is no management fee for the Co-Investment Fund. Staff recommends the System invest in Glencoe Capital Partners III, L.P. and Glencoe Capital Institutional Partners III, L.P. for the following reasons:

- A commitment to Fund III will help fill a position in the buyout sub-asset class and will help the System move closer to reaching the 35% allocation



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for buyouts. Fund III focuses on the smaller end of the middle market and will be a good complement to the System's other middle-market buyout managers, specifically Castle Harlan, Evercore, and Thayer.

- An Executive Network of over 40 Fortune 1000 senior executives and successful entrepreneurs with specialized operational and managerial expertise supports Fund III. Over 75% of the investments in Fund I and II were sourced by the Executive Network, and Glencoe expects this ratio to be similar for Fund III. The Executive Network was founded in 1994 and consists of six industry specialty groups, each focused on one of Glencoe's targeted industries and headed by a Chairman with more than 25 years of senior business leadership experience.
- This is the third buyout fund for Glencoe. Since 1993, Glencoe has invested \$216.8 million and has generated proceeds of \$320.5 million with a remaining market value of \$272 million, representing a 2.7x multiple on invested capital and a net IRR of 67.8% as of March 31, 2003.