



**Report to Board of Administration**

Agenda of: **FEBRUARY 11, 2014**

From: Thomas Moutes, General Manager

ITEM: **III-C**

**SUBJECT: NOTIFICATION OF COMMITMENT OF UP TO \$25 MILLION IN EIG ENERGY FUND XVI, L.P.**

Recommendation:

That the Board receive and file this notice.

Discussion:

*Consultant Recommendation*

Hamilton Lane Advisors, LLC (“Hamilton Lane”), LACERS’ private equity investment consultant (through January 24, 2014), recommended a commitment of up to \$25 million in EIG Energy Fund XVI, L.P. (“EIG XVI”), a projected \$4.25 billion special situations strategy managed by EIG Global Energy Partners as General Partner (“GP” or “EIG”).

*Key Terms of the Fund*

Investment Term	5 years
Fund Term	10 years; plus 3 one-year extensions with advisory board approval
Management Fee	Investment Period: 1.25% of aggregate commitments Post-Investment Period: 1.25% of the net invested capital
Carry / Preferred Return	20% / 8%
GP Commitment	1%

*Background*

EIG (formerly known as Energy Infrastructure Group) was founded in 1982 within TCW Group. EIG spun out of TCW Group in 2010 and currently operates seven offices globally with co-headquarters in Washington, DC and Houston. Since its inception, the GP has invested approximately \$15 billion in over 290 portfolio companies within various sectors including energy, natural resources, and infrastructure. The team consists of 35 investment professionals, 34 supporting professionals, and 11 engineers.

EIG XVI is LACERS’ first fund commitment with the GP. EIG Energy Fund XV, L.P., the prior fund managed by the GP, has earned a net IRR of 18.6%<sup>1, 2</sup> (2010 vintage year).

### *Investment Thesis*

EIG invests primarily in domestic debt and structured equity instruments across various energy-related sectors. The GP seeks project financings where traditional financing options are unfavorable or unattainable to the target companies. These opportunities may arise due to complex operational or tax situations. This allows the GP to structure investments with enhanced terms, which include higher yields to mitigate the j-curve and stronger covenants to ensure capital preservation. Furthermore, the GP assists in value creation by deploying experienced in-house engineers to provide operational support to portfolio companies.

For EIG XVI, the GP intends to build a diversified portfolio of 15 to 20 companies, each with an average investment size of \$300 million. EIG exit strategies typically are executed through a sale or debt pay-down.

### *Placement Agent*

The GP does not outsource its fundraising and does not use placement agents.

### *Staff Recommendation*

Staff concurred with Hamilton Lane's recommendation. The commitment has been consummated pursuant to LACERS Discretion in a Box Policy; no Board action is required.

This report was prepared by Jimmy Wang, Investment Officer I, Investment Division.

RJ:BF:JW:ag

Attachments: 1) Hamilton Lane Recommendation  
2) Workforce Composition  
3) Discretion in a Box

<sup>1</sup>Performance as of September 30, 2013

<sup>2</sup>Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s).



Hamilton Lane



FINAL INVESTMENT REPORT

# EIG Energy Fund XVI, L.P.

Prepared by Hamilton Lane

Philadelphia London Hong Kong Rio de Janeiro San Francisco San Diego New York Fort Lauderdale Tel Aviv Tokyo Singapore

**Fund Information**

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<b>General Partner:</b>	EIG Global Energy Partners (“EIG”)
<b>Fund:</b>	EIG Energy Fund XVI, L.P.
<b>Firm Inception:</b>	1982 (spun out from the TCW Group in 2010)
<b>Target Size / Hard Cap:</b>	\$4.25 billion / \$6 billion
<b>Strategy:</b>	Special situation
<b>Substrategy:</b>	Other
<b>Geography:</b>	Global; primarily U.S.
<b>Team:</b>	35 investment professionals: 1 CEO, 1 CIO, 1 COO, 5 Managing Directors, 2 Executive Directors, 7 Senior Vice Presidents, 8 Vice Presidents, 6 Assistant Vice Presidents and 4 Associates Additional resources: 1 COO, 1 CFO, 1 Head of Capital Development, 1 General Counsel and 30 legal, tax, accounting, finance and capital development professionals
<b>Senior Partners:</b>	Blair Thomas, Kurt Talbot and Randall Wade
<b>Location:</b>	Washington D.C.; Houston, TX; Hong Kong, London, U.K.; Sydney, AU; Seoul, KR and Rio de Janeiro, BR
<b>Industries:</b>	Energy
<b>Equity Investments:</b>	\$300 million average

## Key Terms

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<b>Investment period:</b>	5 years
<b>Fund term:</b>	10 years; + 3 one-year extensions with advisory board approval
<b>Management fee:</b>	Investment period: 1.25% of aggregate commitments Post-investment period: 1.25% of net invested capital
<b>Fee Offset:</b>	100%
<b>Carry / Hurdle:</b>	20% / 8%
<b>GP Commitment:</b>	1%
<b>Key Man:</b>	Any two of Messrs. Thomas, Talbot and Wade

## Investment Highlights

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- Attractive risk-adjusted returns with limited write off ratio
- Experienced and cohesive team of investment professionals supported by a broad technical staff
- Transactions structured to mitigate downside risk and J-Curve effect

## Recommendation

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An investment in the Fund is recommended



## **Important Disclosures**

This presentation has been prepared solely for informational purposes and contains confidential information, the disclosure of which could be harmful to Hamilton Lane. Accordingly, the recipients of this presentation are requested to maintain the confidentiality of the information contained herein. This presentation may not be copied or distributed, in whole or in part, without the prior written consent of Hamilton Lane.

Organization Name    EIG Global Energy Partners, LLC

Date Completed:                    9/6/2013

Address                    1700 Pennsylvania Ave. NW  
                                  Suite 800  
                                  Washington, DC 20006

**TOTAL COMPOSITION OF WORK FORCE**

<b>Occupation</b>	<b>African American Full Time</b>	<b>Hispanic Full Time</b>	<b>Asian or Pacific Islander Full Time</b>	<b>American Indian/ Alaskan Native Full Time</b>	<b>Caucasian (Non Hispanic) Full Time</b>	<b>Total Employees Full Time</b>	<b>Percent (%) Minority Full Time</b>	<b>Gender Full Time</b>	
								<b>Male</b>	<b>Female</b>
Officials & Managers			1		14	15	6.67%	11	4
Professionals	1		5		21	27	22.22%	19	8
Technicians					2	2		2	
Sales Workers									
Office/Clerical	3	1			4	8	50.00%		8
Semi-Skilled									
Unskilled									
Service Workers									
Other									
<b>Total</b>	<b>4</b>	<b>1</b>	<b>6</b>		<b>41</b>	<b>52</b>	<b>21%</b>	<b>32</b>	<b>20</b>

## Discretion in a Box

	<b>Role of Board</b>	<b>Role of Staff</b>	<b>Role of Hamilton Lane</b>
Strategy/Policy	<ul style="list-style-type: none"> <li>Select alternative investments consultant.</li> <li>Approve asset class funding level.</li> <li>Annually review, provide input, and adopt investment policies, procedures, guidelines, allocation targets, ranges, and other assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>With Hamilton Lane and PCA, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>With staff and PCA, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>
Investment Selection	<ul style="list-style-type: none"> <li>Review investment analysis reports.</li> <li>Interview and approve investments in new management groups of amounts greater than \$25 million prior to investment.</li> <li>Interview and approve investments in follow-on partnerships of amounts greater than \$40 million prior to investment.</li> <li>May refer investments to Hamilton Lane and staff for preliminary screening. Such referrals are to be considered only for the purpose of enlarging the candidate pool, and are not to be considered to be a Board endorsement or request for differentiated consideration.</li> </ul>	<ul style="list-style-type: none"> <li>May refer investments to Hamilton Lane for preliminary screening. Such referrals are to be considered only for the purpose of enlarging the candidate pool, and are not to be considered to be a staff endorsement or request for differentiated consideration.</li> <li>Conduct meetings with potential new investments prior to recommending to the Board, if practical.</li> <li>In conjunction with Hamilton Lane, invest up to \$25 million for new partnerships, and up to \$40 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision.</li> <li>In conjunction with Hamilton Lane, make recommendations to Board for approval for investments over \$25 million in new partnerships, or over \$40 million in follow-on funds.</li> <li>Execute agreements.</li> </ul>	<ul style="list-style-type: none"> <li>Conduct extensive analysis and due diligence on investments.</li> <li>Recommend for Board approval investments over \$25 million for new managers, or over \$40 million in follow-on funds.</li> <li>With staff concurrence, approve investment of up to \$25 million for new partnerships, and up to \$40 million in follow-on funds.</li> <li>Provide investment analysis report for each new investment.</li> <li>Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence.</li> <li>Coordinate meetings between staff, Board, and general partner upon request.</li> <li>Negotiate legal documents.</li> </ul>
Investment Monitoring	<ul style="list-style-type: none"> <li>Review quarterly, annual, and other periodic monitoring reports.</li> </ul>	<ul style="list-style-type: none"> <li>Review quarterly, annual and other periodic monitoring reports prepared by Hamilton Lane.</li> <li>Conduct meetings with existing managers periodically.</li> <li>Attend annual partnership meetings when appropriate.</li> <li>Fund capital calls and distributions.</li> <li>Review Hamilton Lane's recommendations on amendments.</li> <li>Execute amendments to agreements.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio.</li> <li>Recommend amendments to staff for approval.</li> <li>Provide quarterly, annual, and other periodic monitoring reports.</li> </ul>