



FLEXSTONE PARTNERS SWEET SPOT PROPRIETARY FRAMEWORK OVERVIEW

Flexstone Partners (“Flexstone”) began executing its co-investment strategy in 2008, as an extension of Flexstone’s primary expertise of investing in small and mid-market growth and buyout funds. As of December 2019, the team has completed 90 co-investments¹ returning a realized MOIC of 3.0x¹ and a realized Gross IRR of 34%¹. Its total MOIC (including partially realized and unrealized investments) is 2.0x¹ and the total Gross IRR is 28%¹.

Over the years, we have honed our co-investing framework to optimize our execution capabilities and due diligence process. Our co-investing philosophy focuses on providing increased exposure to high conviction managers in their core areas of expertise (“Sweet Spot”) in terms of core sectors, geographies, type of deals, investment size bracket, etc. This approach relies on the proven manager selection and primary fund selection abilities of Flexstone’s global investment team. This framework is a key element to strengthen our General Partners (“GPs”) relationships by ensuring efficient execution and to minimize the execution risk as well as consistently aim to deliver attractive risk-adjusted returns to our LPs while mitigating negative selection bias.

SWEET SPOT FRAMEWORK

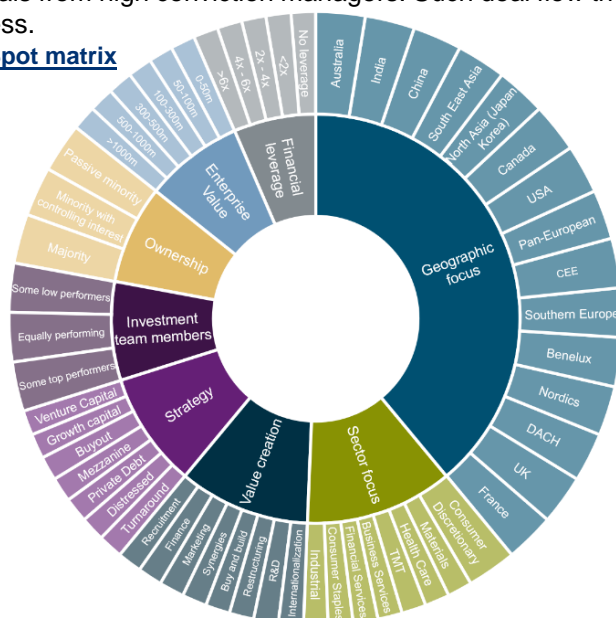
A Sweet Spot investment is an investment for which the fund manager has a specific proven skillset. Research conducted by a major consulting firm² concluded that deals which fall within the fund manager’s Sweet Spot consistently and significantly outperformed opportunistic transactions that strayed from it.

Flexstone systematically analyses the Sweet Spot of GPs through its proprietary scoring system (see matrix below). This qualitative and quantitative data driven scoring system rates each GP according to eight primary criteria. With this tool we seek to assess, in a systematic way, whether a GP has a specific, proven skillset confirmed by a realized track record.

This proprietary tool allows Flexstone’s investment team to efficiently assess the degree of fit between co-investment opportunities and fund managers’ Sweet Spot. Based on whether the investment is a fit, Flexstone’s investment team will decline or proceed with further due diligence on a co-investment opportunity, allowing us to revert to lead GPs in a timely, efficient manner.

Less than 20% of co-investment opportunities offered to Flexstone’s review pass Flexstone’s Sweet Spot filter. This process allows to effectively dedicate due diligence resources and only focus on highly qualified deal flow, i.e., Sweet Spot deals from high conviction managers. Such deal flow then undergoes Flexstone’s thorough due diligence process.

Flexstone proprietary Sweet Spot matrix



Source: Flexstone Partners, for illustration purposes only

¹ Note: Past performance is not a guarantee of future results. Investing in a fund involves significant risks, including loss of all your investment. Valuation and performance data as of December 31, 2019 pro forma for contributions and distributions through September 30, 2019. There can be no assurance that any pending transaction will close, or that any of the terms of such transactions described herein or under discussion will be achieved. Returns includes all co-investments completed by Flexstone Partners Sarl, SAS and LLC since inception.

Unless otherwise indicated, returns are presented on a “gross” basis (i.e. they do not reflect the management fees, carried interest, transaction costs and other expenses that may be paid by investors, which will result in lower returns); and calculated on an average basis. The gross IRR indicated is the combined performance of co-investments taken individually; it does not reflect performance of a Fund that could contain the same investments. Due to fees and costs supported by a Fund, the performance would be lower.

² Source: Bain & Company, Global Private Equity report, 2016

DESCRIPTION OF CRITERIA USED BY FLEXSTONE TO COMPLETE THE SWEET SPOT MATRIX

Flexstone completes and maintains an updated Sweet Spot matrix for each General Partner it co-invests with, whether as part of its normal primary due diligence work or on an ad-hoc basis for the relatively rare instances when a co-investment is completed with a General Partner which is not in our primary portfolios. Whenever Flexstone sources a co-investment opportunity a Sweet Spot matrix will be completed for such transaction. The transaction Sweet Spot matrix is then compared with such deal's lead sponsor Sweet Spot to assess the fit between the transaction and the lead sponsor Sweet Spot in a systematic way. Research has shown that investments which show a good fit have returned on average 2.2x (the "Sweet Spot investments") while investments which show a poor fit have returned on average 1.3x (the "opportunistic investments")².

The eight criteria used in Flexstone's proprietary Matrix are:

- ✓ **Geographic focus**
 - In which countries and regions has the lead investor executed most of its transactions in the past and consistently delivered a strong track record? Does the co-investment opportunity fit that geographic Sweet Spot?
- ✓ **Sector focus**
 - In which industries has the lead investor executed most of its transactions in the past and consistently delivered a strong track record? Does the co-investment opportunity fit that sector Sweet Spot?
- ✓ **Value creation**
 - With what type of value creation strategy has the lead investor executed most of its transactions in the past and consistently delivered a strong track record? Does the co-investment opportunity fit that value creation Sweet Spot?
- ✓ **Strategy**
 - With what type of investment strategy has the lead investor executed most of its transactions in the past and consistently delivered a strong track record? Does the co-investment opportunity fit that strategy Sweet Spot?
- ✓ **Investments team members**
 - Which specific member of the investment team of the lead investor executed most of its transactions in the past and consistently delivered a strong track record? Does the co-investment opportunity fit that investment team members Sweet Spot?
- ✓ **Ownership**
 - What type of ownership structure has the lead investor historically been most comfortable with and has consistently delivered a strong track record? Does the co-investment opportunity fit that ownership Sweet Spot?
- ✓ **Enterprise value**
 - What enterprise value range is the lead investor historically most comfortable with and has consistently delivered a strong track record? Does the co-investment opportunity fit that enterprise value Sweet Spot?
- ✓ **Financial leverage**
 - What level of financial leverage is the lead investor historically most comfortable with and has consistently delivered a strong track record? Does the co-investment opportunity fit that Financial leverage Sweet Spot?

² Source: Bain & Company, Global Private Equity report, 2016

CASE STUDY: PRIMARY CARVE-OUT OF A SWISS LEADING HEALTHCARE SERVICE PROVIDER WITH A CONSERVATIVE RISK ADJUSTED RETURN POTENTIAL

Background: In 2019 Flexstone received the opportunity to coinvest in Project T, a Swiss market leader in elderly care, alongside a top Swiss mid-market fund manager, GP Y.

Flexstone has a longstanding relationship with GP Y being an existing investor in its Fund III (2008), Fund IV (2014) and Fund V (2018) and as an Advisory Board member of both Fund IV and Fund V. Flexstone also completed two secondary investments on Fund III (2017 and 2018) and a co-investment in 2018.

Flexstone’s Sweet Spot assessment was made following two main steps:

I. Sweet Spot assessment of the GP

- XXX Outside of the GP’s Sweet Spot
- XXX In the GP’s Sweet Spot



II. Co-investment fit with the GP’s Sweet-Spot

- XXX Deal characteristic not included in the GP’s Sweet Spot
- XXX Deal characteristic included in the GP’s Sweet Spot

Enterprise Value

The EV was fully in line with the positioning of the GP for its Fund V (from € 200 m to € 2.0 bn for the three existing companies Fund V at the time of the investment).

Leverage

Historically GP Y had adapted levels of leverage with the financial profile of the company. Deals with higher leverage had also been successful. In this case, the leverage was in accordance with the financial attributes of the company and in line with similar deals in Flexstone portfolio.

Sector

Although this type of business in the sector was new for the manager, the team had worked on some potential investments in the sector over the past few years and had built a strong network of advisors in this area.

Co-investment in a domestic primary deal alongside the buyout leader in Switzerland

GP Y is the buyout mid-market leader and has completed successful investments in Switzerland over the years in Switzerland. The firm has a large and experienced team and benefits from a deep network and access to local sector expertise.

Project T is a Swiss regional champion in elderly care services, with premium brand reputation, best-in-class quality standards, and deep understanding of the regulatory environment and customer requirements.

This is a typical GP Y investment in terms of deal size, geographic footprint, and value creation plan.

A business in line with the know-how and the historical achievement of GP Y

GP Y has a strong track record of managing established companies that need organizational changes to improve efficiency and to create synergies. Indeed, lack of structure is a common feature to most mid-market deals under GP Y’s regional focus.

