

Grove Street's Evaluation Process

Proactive Deal Sourcing

Typical of a every high quality private equity firm, most of GSA's investment opportunities are sourced pro-actively. Grove Street has a unique combination of industry expertise and relationships that have made it possible to develop a highly effective approach to identifying and gaining access to high quality private equity funds. Most investments are developed through GSA's proactive efforts to identify and call on attractive teams well before they launch their fundraising efforts. As part of its proactive effort, GSA also identifies specific geographic regions and/or areas of industry specialization and seeks out the best performing funds in these targeted arenas. In the first four years of operation, Grove Street has sourced well over 1500 investment opportunities and made commitments to over 80 of these firms. In many cases GSA has been able to gain substantial allocations for its clients with teams that were heavily over-subscribed

Reactive Deal Sourcing

GSA has, in a remarkably short period of time, developed an outstanding reputation for the quality of its investment process as well as a reputation as an investor that can add value to fund management teams well beyond just capital. Grove Street also is one of the few "blue chip" institutional investors that is willing and able to work with new and emerging teams. As a result, Grove Street is seeing a growing stream of both blue chip referrals as well as the most promising new and emerging teams. Between proactive and reactive deal flow, GSA sees over 500 fund opportunities per year

Initial Screening Process

Once in contact with a prospective fund, GSA's investment staff will utilize the information provided through the team's private placement memorandum, prior financial statements and road show for the preliminary review focusing on:

- The fit with the criteria and objectives of the client investment programs we manage
- The financial track record of the team, as a group and individually - first quartile performance is expected
- Overall quality of the management team
- Logic of the fund's strategy and potential for future success
- Appropriateness of the fund's terms and conditions

Grove Street respects the investment teams' time and does not use a formal questionnaire. However, in order to complete the initial screening process, GSA will often request additional specific information with respect to the management team, strategy and track record prior to scheduling a meeting. A Grove Street partner participates in reviewing every fund proposal.

If a fund is of interest based upon the material presented, GSA will usually conduct a number of independent reference checks from its own network of industry contacts to gauge the reputation, quality and stability of a team. It is virtually certain that GSA will have close ties to a number of people who have invested with the team or team members. These checks are typically transparent from the fund manager's perspective and held in strict confidence. The confidentiality of all material received by Grove Street from the fund manager is also strictly respected.

First Meeting With a Fund Manager

GSA engages one of its Partners early in the process to meet with teams, identify critical issues for each opportunity, and focus the due diligence in a timely fashion on those groups in which we are most likely to invest. A Grove Street partner is always present at these meetings, which usually take place in GSA's offices but may also be held at another location if mutually convenient. The purpose of the first meeting will be to:

- More fully understand the qualifications and dynamics of the management team, including deal sourcing capability
- Explore further the investment strategy of the group and its decision making process
- Understand the organizational structure of the team and the group's relationships with limited partners and sponsors, if any
- Begin detailed analysis of prior realized and unrealized investment performance
- Discuss proposed terms and conditions, alignment of interest factors, and any potential conflicts of interest
- Identify and discuss any potential deal-breaking issues such as key business terms

GSA will endeavor to provide immediate feedback at the meeting and timely communication of those issues viewed as critical to reaching a decision. Information gathering and due diligence efforts focus on the critical issues first.

Quick "No"

GSA may, at any point in the process, determine not to move forward with an investment proposal. If we decide not to invest, we do our best to communicate this in a timely, open and constructive manner. A quick no is far superior to a long drawn out process with wasted effort by both parties. If a team is rejected, Grove Street encourages open communications and is usually willing to provide some details on the rationale for its decision and, where possible, constructive suggestions. GSA recognizes that often a private equity investment decision is a very close judgment call. In these cases, Grove Street will seek to stay in contact with the team, monitoring its progress and hopefully retaining an option to participate in a later fund managed by the team.

"Soft Circle, Subject To..."

If initial reference checks and the outcome of the initial meetings with the team are positive, GSA can usually give a team an indication of interest with a "soft circle", pending completion of in-depth due diligence. Grove Street will usually ensure that a reasonable allocation in the fund will be available for GSA's programs and, where necessary, can provide the fund manager a target date by which GSA will be able to complete the due diligence. The quality of GSA's early due diligence and the experience of Grove Street's partners makes it unlikely that GSA's detailed due diligence will result in a reversal of the soft circle decision.

"Don't Know, Issues Are..."

On rare occasions, GSA will be literally on the fence regarding a given opportunity. In these cases, we will communicate our position and the key issues to the team. We then focus our due diligence on these critical issues as early in the evaluation process as possible.

Full Due Diligence Process

The due diligence process is led by the GSA partners with support from the investment staff. We recognize that the critical issues which require the most in-depth evaluation can vary dramatically from one opportunity to the next. GSA's team has the experience and resources to quickly identify and evaluate the most important of these issues. Information requests are based on what is truly relevant to the decision.

The overriding factor in selecting partnerships is clearly the expected future financial performance of the team. GSA uses an internal checklist composed of the underlying criteria that further define expected future performance of an investment opportunity.

Performance is evaluated according to the lifecycle stage of a fund:

- For teams with well established track records, GSA verifies the realized performance, analyzes the unrealized investments and determines if the performance can be sustained
- For new and emerging teams, GSA will review the past performance of individual team members, analyze any unrealized investments and focus on the team's compatibility and strategy versus their competitors

The organizational and managerial structure of the fund is also assessed:

- Based on its confidential, independent sources of due diligence, GSA will frequently know which team members are responsible for transactions and is often aware of potential instability within a team well before the current limited partners
- Grove Street is well positioned to evaluate the appropriateness of an organizational structure and the interpersonal dynamics of a firm
- Issues such as the depth of the team, succession, turnover, compensation, vesting and workload are evaluated

Reference checks at this stage include a wide range of sources including co-investors, CEOs and CFOs of portfolio companies, auditors, limited partners, competitors and others. At this stage, GSA will generally request the fund's audited financial statements and quarterly statements.

"Hard-Circle"

If the outcome of the due diligence process is positive, GSA "hard circles" a commitment to the fund to reconfirm access to an appropriate allocation. Our objective is to indicate as quickly as possible to the fund manager that we are on board, subject to review of the legal documentation.

Legal Review and Closing

Grove Street prefers to participate in the first closing of a fund to maximize input on legal issues, to assure desired allocation to the fund and to support the general partner's fundraising efforts. We work with experienced outside counsel. The attorneys provide a comprehensive review of the documents and employ an extensive checklist of issues. In addition, legal documents are compared against the offering memorandum to confirm consistency. The attorneys provide GSA with a written memorandum that summarizes each issue and, based on the attorneys' judgment, prioritizes the issues presented. GSA reviews business issues and "deal breaker" legal issues directly with the fund managers, and instructs the attorneys as to the priority of all remaining issues for review with the fund manager's attorney.

Monitoring and Value Addition

Grove Street aims to build a peer-to-peer relationship with fund managers and work closely with them between fund cycles. GSA's partners will take advisory board seats in cases where we have made a large commitment or with new teams where we can add value. Day to day interactions include discussions of performance, underlying investments, deal flow, personnel issues, and compliance with agreements and stated strategy. Monitoring includes attending annual meetings and participating on the advisory boards of the funds. However, most important are the on-going, off-cycle informal meetings, during which in-depth conversations and reviews take place.

Grove Street can add value beyond the scope of the typical institutional investor, including deal flow, assistance with staffing strategies, insight into the market and industry trends, and referral to other potential limited partners for the fund in cases where GSA's introduction would be useful. In those rare circumstances of a major restructuring or a stressful team transition within an organization, GSA's partners' operating experience is particularly helpful in playing lead roles in negotiations.