



# Private Debt Fund Commitment

## Clearlake Capital Partners IV, L.P.

April 30, 2015

# Clearlake Capital Partners IV, L.P. – Private Debt Fund

## Overview

- Fund size is \$1.0 Billion with a hard cap of \$1.35 Billion
- Targets special situations and stressed/distressed opportunities involving small and medium-sized companies undergoing complex financial, operational or structural change where significant market inefficiencies and mispricing of assets and securities may occur

## Fund Strategy

- Successful strategy of investing in special situations and stressed/distressed opportunities in small and medium sized companies
- Target opportunities created by market dislocation, out-of-favor industries and companies in transition, across all phases of an economic and/or credit cycle while trying to improve operations and add value post-investment
- Invest for control of company and/or security or significant influence and create value through active leadership and governance. Senior investment professionals have served on 45 board of directors or creditors' committees to date

## Investment Team

- Clearlake is based in Santa Monica, CA and was founded by Jose Feliciano and Behdad Eghbali
- The founders are supported by 13 investment and administrative professionals. The Clearlake team is also supported by an additional six employees and/or consultants with roles in administration, compliance and fund accounting

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## GP “Value Add”

- Superior track record - since its inception, Clearlake has generated superior risk-adjusted returns for its investors, while remaining focused on principal protection
- Differentiated investment strategy - target opportunities may include: bankruptcies, restructurings and turnarounds; companies experiencing legal or regulatory difficulties; companies undergoing challenges meeting growth plans or shifting industry dynamics; and other major corporate transitions including transformational acquisitions, carve-outs or divestitures. Clearlake believes that its strategy is unique and differentiated amongst its peers
- Specialization and experience of the team - the Clearlake team members bring complementary private equity, special situations and distressed investment experience to the Fund, and together form a cohesive and experienced investment team that combines expertise in private equity buyouts, capital markets and special situations investing, restructuring, advisory and management consulting
- Competitive advantage in sourcing - Clearlake’s origination efforts in special situations are research-intensive and proactive. This origination model is differentiated within the distressed investing community because it integrates the industry focus of a traditional private equity firm with the restructuring and capital markets expertise of a distressed investor

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## Market Opportunity

- Small and medium-sized companies have historically faced unique challenges across different phases of economic and credit cycles, as they often have fewer financing options available and lack the managerial and/or financial resources to take their companies to the next level. As a result, these companies frequently present more compelling opportunities for value creation and, in many cases, investment opportunities at more attractive purchase multiples

## Risks and Mitigants

- Stability of team - Recent departure of former founder raises some concern of stability of organization going forward. Two co-founders have good track record with previous investments and have built a cohesive firm
- Changing market conditions – Reduced inefficiency in special situations among small and medium sized companies, which would limit investment opportunities for the Fund. Clearlake has maintained disciplined approach and sources unique investment opportunities during different phases of economic cycle

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## Performance as of December 31, 2014 (\$ Millions):

	Vintage Year	Invested Capital	Realized Proceeds	Unrealized Value	Total Value	Net Multiple	Net IRR
Fund I	2006	\$225.8	\$268.6	\$24.9	\$293.5	1.1x	6.40%
Fund II	2009	\$499.7	\$414.9	\$441.8	\$856.7	1.6x	21.90%
Fund III	2012	\$770.7	\$321.4	\$641.6	\$963.0	1.2x	23.70%

## History with PSERS

- This will be PSERS' first commitment to Clearlake

## Board Issues

- Pennsylvania Presence – Three portfolio companies in PA., employing 129 people and an additional 229 project based employees
- Placement Agents – Park Hill Group, LLC
- PA Political Contributions – none
- Relationship with Consultant – Portfolio Advisors is an investor in Clearlake Capital Partners III

## Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$75 Million plus reasonable normal investment expenses.

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April 8, 2015

Board of Trustees  
Pennsylvania Public School Employees' Retirement System  
5 North 5<sup>th</sup> Street  
Harrisburg, PA 17101

Re: Clearlake Capital Partners IV, L.P.

Dear Trustees:

Clearlake Capital Group, L.P. ("Clearlake" or the "Firm") is seeking to raise \$1 billion of capital commitments for Clearlake Capital Partners IV, L.P. ("Clearlake IV" or the "Fund") to continue the Firm's strategy of investing in special situations, distressed, and value private equity investments in small- and medium-sized companies. The Fund is significantly oversubscribed and is expected to hold a first closing at or near the \$1 billion target on May 20, 2015. A second and final closing is targeted for the end of June. While the General Partner has not yet set a hard cap, it does not anticipate raising more than \$1.35 billion, excluding its commitment of 2% of total commitments up to \$20 million.

Clearlake is seeking to continue its strategy of investing in special situations, distressed and value private equity investments in small- and medium-sized companies. The Fund will invest in companies that are undergoing complex financial, operational or structural change, for which it believes the Firm's expertise and value investing approach can generate exceptional risk-adjusted returns. The Fund will target investments of between \$25 million and \$100 million in companies that are undergoing significant change and/or are in underserved industries or markets. These investment opportunities often involve bankruptcies, restructurings and turnarounds; companies experiencing legal or regulatory challenges; companies undergoing challenges meeting growth plans; and other major corporate transitions including transformational acquisitions, carve-outs or divestitures.

Clearlake is focused on such situations, especially those involving small- and medium-sized companies, because they are often overlooked relative to large, widely followed restructurings and corporate buyouts. Clearlake uses a differentiated sector-driven investment philosophy, investing across the capital structure in debt or equity securities as appropriate and effecting transactions in which the Firm exercises control or has significant influence. The Fund will focus primarily on investment opportunities in those industries in which the Clearlake team has substantial expertise, including: industrials, energy and power; technology, communications and business services; and consumer products and services, as this model typically provides the Firm with the flexibility to capture attractive opportunities in a variety of market environments.



Portfolio Advisors' recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals. The on-site due diligence visit was performed on November 12, 2014.
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- The strategy proposed for the Fund is appropriate for the Private Equity Partnership component of the portfolio.

The individuals at Portfolio Advisors who were primarily involved in the due diligence process for the Fund are:

John Kyles – Managing Director, Darien Office  
Elizabeth Campbell – Vice President, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$75 million of limited partnership interests in Clearlake Capital Partners IV, L.P. Portfolio Advisors makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,

WILLIAM J. INDELICATO  
MANAGING DIRECTOR