



COMMONWEALTH OF PENNSYLVANIA  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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Public Investment Memorandum

**Platinum Equity Small Cap Fund, L.P.**

Private Equity Fund Commitment

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**Luke M. Jacobs, CFA**  
Manager, Private Markets

**February 8, 2018**



### **Recommendation:**

Staff, together with Hamilton Lane Advisors, L.L.C. (“Hamilton Lane”), recommends to the Board a commitment of up to \$200 million to Platinum Equity Small Cap Fund, L.P., (“Platinum Small Cap” or the “Fund”).

Founded in 1995 and based in Los Angeles, Platinum Equity Capital Partners, LLC (“Platinum” or the “Firm”) is a global, operationally focused investment firm that manages approximately \$13 billion in assets across four successful funds (Platinum Funds I – IV) raised by Platinum since 2004 with commitments from institutional investors. A pre-fund portfolio was invested between 1995 and 2004 with capital provided by the founder and principal executives. Platinum has established this Fund with a target of \$1 billion in capital commitments.

### **Firm Overview:**

Platinum was founded in 1995 by Tom Gores, an entrepreneur and business operator who continues to lead the firm today as its Chief Executive Officer. Mr. Gores is surrounded by a core group of 10 executives who have been with the firm an average of 17 years and who together with Mr. Gores created, expanded and refined the M&A&O (Mergers, Acquisitions and Operations) model. The next tier of executives includes 34 principals with comprehensive expertise across the full spectrum of transaction origination, execution, value creation and divestiture. The full organization comprises approximately 200 employees of which more than 100 are professionals dedicated to the investment process including operations specialists, with hands on expertise from the board room to the factory floor, and real world experience in company operating positions prior to joining Platinum.

The investment team is complimented by a highly institutionalized support platform comprising professionals with significant experience across key functions including investor relations, fund administration, marketing, finance, accounting, legal, tax and HR. Many of these professionals have also worked at Platinum for a significant portion of their careers and continue to help expand and evolve the platform.

### **Fund Size:**

The Fund is seeking equity commitments of up to \$1.0 billion, with a hard cap of \$1.5 billion.

### **Investment Strategy:**

Platinum’s investment strategy for the Fund is consistent with Platinum’s other private equity funds, is to invest primarily in underperforming businesses and apply operational improvements to those businesses to create value and generate attractive investment returns.

The Fund will opportunistically target companies that are experiencing operational difficulty but exhibit strong underlying business characteristics including (i) long term customer relationships, (ii) product and services or other elements that make the customer base and associated revenues “sticky” and predictable, (iii) established brands, and (iv) sizable market shares.

Platinum may consider a broad range of transactions, including without limitation management and leveraged buyouts, recapitalizations, privately negotiated control and minority investments, consolidations and roll ups, spin offs and carve outs, and growth equity investments. Because of its comprehensive operations focus and capabilities, Platinum believes it is able to identify and acquire non-core or underperforming assets of companies whose value is being negatively impacted by operating challenges. Platinum will create value by improving the company’s operations and integrating add-on acquisitions.



The Fund will focus on companies with less than \$450 million of revenues and \$45 million of EBITDA across North America and Europe. The Firm's approach is not industry specific, but in the past has invested in technology, transportation and logistics, materials, equipment rentals, manufacturing and other service businesses. Platinum believes it is well-positioned to capitalize on opportunities across a wide variety of industries because its fundamental approach is not sector focused, but instead focuses on the business characteristics of the target and the dynamics of the transaction.

Platinum began in 1995 by acquiring and fixing small software businesses facing operational risks. Over time, the Firm methodically expanded (i) the capabilities and focus to businesses in industries beyond software and technology and (ii) its ability to execute its strategy in larger and more complicated transactions with higher equity commitments and greater potential for value creation. In addition, Platinum has focused on building portfolio companies into market leaders not only through internal growth, but also through the integration of add-on acquisitions.

### **Investment Team:**

The following list represents the individuals who will be dedicated to the Fund as well as Platinum's senior executives who will be involved in overseeing the successful execution of the Fund:

<b>Name</b>	<b>Title</b>	<b>Yrs. Experience Firm</b>	<b>Prior Experience</b>
Tom Gores	Chairman and CEO	23	Ventech Software
Mark Barnhill	Partner	16	Fleishman-Hillard Inc.
Bryan Kelln	Partner	11	Nortek, Inc.
Jacob Kotzubei	Partner	16	Goldman Sachs
Johnny Lopez	Partner	21	Ventech Software
Louis Samson	Partner	10	CIBC World Markets
Mary Ann Sigler	Chief Financial Officer & Chief Compliance Officer	14	Ernst & Young
Robert Wentworth	Partner	21	Alden Electronics
Robert Wymbs	Partner	18	McKinsey & Company
Philip Norment	Partner	21	Pilot Software
Jason Leach	Senior Vice President	13	Sun Capital Partners
Nick Fries	Senior Vice President	11	Credit Suisse
Joe Onwueghbusi	Senior Vice President	12	Merrill Lynch
Fernando Goni	Principal	<1	The Gores Group

### **Investment Instruments:**

Private equity investments in equity, equity-oriented, or debt securities or other instruments (including preferred equity, bank loans, and participations purchased in connection with or with a view towards making equity investments) that offer equity-like returns of underperforming companies.

### **Market Opportunity:**

Platinum has demonstrated its ability to identify and execute successful small cap transactions through a variety of market cycles, and believes it is well-positioned to generate meaningful investment opportunities for the Fund. Platinum believes the following factors to be of particular relevance in describing the current opportunity in the small cap space:



- Large addressable market with high levels of transaction activity: There are more than 650,000 companies across North America and Developed Europe with less than \$450 million of revenue. Platinum believes that levels of transaction activity are also higher in the smaller end of the market given the larger pool of buyers and sellers, which results in a deeper and more liquid marketplace. For example, approximately 96% of LBO deals completed across North America and Developed Europe since the beginning of 2012 were in companies with less than \$450 million of revenue.
- Strong potential for operational value-add: The Firm will benefit from investing in smaller companies that benefit greatly from Platinum's operationally focused investment strategy since among other characteristics they tend to have less professionalized businesses, less sophisticated management teams and operate in less efficient markets.
- Ability to build market leaders: The smaller end of the market lends itself well to consolidation strategies where multiple business can be combined to create a market leader. Platinum has extensive experience in creating additional value through sourcing and integrating strategic add-on acquisitions. The Firm has distinguished itself by acquiring businesses, and also complex carve outs of business units or collections of corporate assets that can be integrated into portfolio companies to further improve scale, build competitive advantage and create value, using its in-house operations team to drive the integration.
- Wide-range of exit routes: Smaller companies tend to have a wide range of potential exit routes driven primarily by the larger base of acquirers for smaller businesses.

### **Investment Highlights:**

<b>Strong Track Record</b>
Platinum has a long and successful track record over more than 22 years across multiple industries and cycles. They have generated a 2.9X gross return multiple on \$4.6 billion of cash invested across 99 realized platform investments. Including an additional 31 unrealized platform investments, Platinum has generated a 2.3X gross return multiple on \$8.1 billion of cash invested. Specifically for PSERS, since inception through 12/31/17, the Firm has generated a net TVPI of 1.8X and a net IRR of 31.05% (realized and unrealized).
<b>Consistent and Proven Investment Approach</b>
The Fund will benefit from the same proprietary M&A&O investment approach that has been developed and refined by Platinum since 1995 and deployed in all investments since inception. Platinum believes this is highly differentiated from other private equity firms, fully integrates operations into investment processes and focuses on (i) low entry pricing, (ii) meaningful operational value creation potential, and (iii) strong downside protection.
<b>Robust Deal Pipeline</b>
Platinum has a dedicated business development group focused on deal sourcing. This group employs a multilayered approach that utilizes coverage, transaction development and business intelligence resources to generate transaction opportunities. Their screening process identifies between 1,000 and 1,500 transaction opportunities per year, a number of which are in deals that Platinum believes would be a good fit for the Fund.

### **Investment/Risk Considerations:**

<b>Other Fund Obligations</b>
Platinum's senior investment professionals, as well as other employees of the Firm, will be involved in other investment activities of the firm, including Funds I, II, III and IV. These efforts will require these individuals to dedicate substantial amounts of their time to the existing portfolio of investments, outside of this Fund. PSERS believes Platinum's long history of managing and overseeing multiple funds in an efficient manner mitigates this risk.
<b>Risks of Effecting Operating Improvements</b>
The Fund intends to invest in underperforming assets with the goal of improving the financial performance of such



assets by implementing operating improvements. The activity of identifying and implementing potential operating improvements in these companies entails a high degree of uncertainty.

**PSERS History & Performance:**

This will be PSERS' fifth commitment to a Platinum Equity fund. PSERS has committed to Platinum Equity Capital Partners Funds I, II, III and IV.

**Portfolio Fit:**

A commitment to the Fund will give PSERS' Private Markets portfolio, specifically in the private equity space, exposure to the smaller end of the buyout market. This is a large addressable market with high levels of transaction activity. A commitment to the Platinum Small Cap Fund will be allocated to the Private Equity sleeve of PSERS' Private Markets portfolio. The table below summarizes PSERS' projected Private Equity exposure as of September 30, 2017 (in millions):

Investment Type	Active Commitments <sup>1</sup>	%	Market Value	%	Unfunded <sup>1</sup>	%	Total Exposure <sup>1, 2</sup>	%
Private Equity	15,468.5	66.5%	5,269.8	67.1%	3,986.4	70.4%	9,256.2	68.5%
Special Situations	4,446.5	19.1%	1,071.0	13.6%	965.0	17.0%	2,036.0	15.1%
Venture Capital	2,897.0	12.5%	1,007.5	12.8%	656.8	11.6%	1,664.3	12.3%
PE Internal	455.2	2.0%	502.9	6.4%	58.1	1.0%	561.0	4.2%
<b>Total</b>	<b>\$ 23,267.2</b>	<b>100.0%</b>	<b>\$ 7,851.2</b>	<b>100.0%</b>	<b>\$ 5,666.2</b>	<b>100.0%</b>	<b>\$ 13,517.5</b>	<b>100.0%</b>

(1) As of September 30, 2017. Includes post Q3'2017 pending/closed commitments.

(2) Total Exposure is Market Value + Unfunded

**Investment Committee Disclosure:**

<b>Relationship with Hamilton Lane:</b>	Yes, as an LP in this fund.
<b>Placement Agent:</b>	No
<b>PA Political Contributions:</b>	None Disclosed
<b>PA Presence:</b>	Yes
<b>Conflicts:</b>	None Disclosed
<b>History with PSERS:</b>	Yes
<b>PSERS AIC Meeting Approval:</b>	February 8, 2018

**Oversight Responsibility:**

<b>Investment Office:</b>	Charles J. Spiller Deputy CIO, Non-Traditional Investments	Luke M. Jacobs, CFA Manager
<b>External Consultant:</b>	Hamilton Lane	



# Hamilton Lane

February 7, 2018

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

Re: Platinum Equity Small Cap Fund, L.P.

Dear Trustees:

Platinum Equity, LLC ("Platinum") was founded in 1995 by Tom Gores, following his departure from the Gores Group; the General Partner initially focused on small software investments, but has since institutionalized its platform. In addition to its small buyout platform, Platinum also operates its flagship, large cap buyout platform. Platinum intends to utilize an allocation committee, consisting of a senior investment professional from each functional area including the investment committee, compliance / legal, and investor relations departments, to ensure allocation decisions across products are fair and equitable. The allocation committee will remain independent from any diligence activities related to a specific investment under consideration in order to maintain a non-biased decision making process. Tom Gores, Johnny Lopez, Philip Norment, Jacob Kutzubei and Louis Sampson will comprise the investment committee, representing the same investment committee as the flagship funds, which will benefit knowledge sharing and decision making across product lines. Platinum is targeting \$1.0 billion in commitments from limited partners for Platinum Equity Small Cap Fund, L.P. (the "Fund"). Platinum expects to hold a first and final close in April 2018. The General Partner will commit at least 3.0% of commitments to invest in the Fund.

The Fund will maintain an industry agnostic investment approach, targeting small-cap companies demonstrating complex and distressed business and transactional characteristics. While Platinum primarily invests in companies domiciled in the United States, the General Partner expects to make a limited number of investments in Europe, where Platinum has prior small-cap and lower middle-market investment exposure. The General Partner's flexible mandate allows opportunistic investment resulting in a diversified portfolio with reduced exposure to macroeconomic risk compared to sector focused funds. Consistent with its flagship funds, Platinum expects to target operationally challenged companies that present opportunities for top- and bottom-line performance improvement. The General Partner expects to leverage its integrated Mergers, Acquisitions and Operations approach to engage operations professionals at the beginning stages of initial diligence to drive a swift recovery of invested capital to mitigate downside risk. The General Partner largely differentiates itself from lower middle-market peers through its industry agnostic approach, expanded regional focus throughout Europe and the breadth and depth of its operating platform. The Fund will primarily target equity investments less than \$200 million, targeting companies with enterprise values less than \$500 million. The General Partner has established a robust pipeline of compelling opportunities within the Fund's targeted range that present attractive underwriting cases with reduced downside risk through attractive entry pricing. Platinum estimates that the Fund will make 20 to 30 investments. The General Partner has generated consistent top-quartile net performance across prior flagship funds. Platinum has invested approximately \$1.1 billion across 41 investments, generating a 22.2% gross IRR, in prior small-cap deals.

Platinum Small Cap Fund's investment thesis can be summarized as follows:

- Platinum is an established organization led by experienced and cohesive senior investment professionals



# Hamilton Lane

- Deep operational capabilities fully integrated throughout the investment process
- The Fund's flexible mandate allows Platinum to take advantage of unique, complex situations
- Attractive aggregate historical performance within the Fund's investment criteria

Hamilton Lane's recommendation is based upon the following analytical factors and is made within the context of Commonwealth of Pennsylvania, Public School Employees' Retirement System's ("PSERS") investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals. The initial review was completed October 2, 2017; the on-site due diligence was conducted January 23, 2018; the fund was approved by Hamilton Lane's Investment Committee on February 5, 2018 and the recommendation to PSERS was issued February 7, 2018.
- 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.
- Detailed Operational Due Diligence, including interviews with Platinum's back office team to review the controls and processes surrounding the firm's finance, fund administration, tax, legal, compliance, IT, HR, and accounting functions.
- 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 Hamilton Lane who were involved in the due diligence process for the Fund are:

Andrea Kramer – Managing Director, Bala Cynwyd Office

Mark Adelman – Analyst, Bala Cynwyd Office

Patrick Burnette – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$200 million in Platinum Equity Small Cap Fund, L.P. Hamilton Lane 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. Hamilton Lane does not provide legal or other non-investment-related advice.

Sincerely,

Michael Koenig,  
Managing Director

Corina English,  
Principal