



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Trilantic Capital Partners VI (North America), L.P.

Private Equity Fund Commitment

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April 16, 2018



Recommendation:

Staff, together with Hamilton Lane Advisors, L.L.C. ("Hamilton Lane"), recommends to the Board a commitment of up to \$150 million to Trilantic Capital Partners VI (North America), L.P. ("Trilantic VI" or the "Fund").

Founded in 2009 and based in New York City, Trilantic Capital Management L.P. ("Trilantic", "Trilantic North America", or the "Firm") is forming the Fund to continue its strategy of making private equity investments within the business services, consumer, and energy sectors of the North American middle-market.

Firm Overview:

Trilantic was formed in 2009 by five founding partners who acquired the Lehman Brothers Merchant Banking business from the estate of Lehman Brothers Holdings Inc. with the support of Reinet Investments S.C.A. ("**Reinet Investments**" and together with its affiliates, "**Reinet**"), an investment vehicle listed on the Luxembourg Stock Exchange. The founding partners were all senior members of the Lehman Brothers Merchant Banking team.

The Firm seeks to make control and significant minority investments in fundamentally sound and growing companies and acquisition platforms in North America. With particular focus on risk management, differentiated investment strategy and active post-acquisition value creation, Trilantic North America has consistently delivered strong risk-adjusted returns to its investors while maintaining conservative financial leverage in its fund portfolios. The Partnership will seek to build on Trilantic North America's long history of investments in North America, focusing on three primary industry sectors: Business Services, Consumer and Energy.

The Firm currently has 42 employees based in New York and Texas. The Partnership will be invested and managed by four Managing Partners: Charlie Ayres, Danny James, Chris Manning and Jon Mattson, all of whom have worked together since 2007. These Managing Partners, together with the other Trilantic North America Partners and Principals (the "**Team**"), collectively have over 280 years of finance and private equity investing experience and possess a blend of diverse and complementary skills, expertise and professional relationships. As of March 31, 2018, the core senior Team has worked together for over 15 years and manage \$7.9 billion in total capital commitments in six private equity fund families. The Team is further supported by a group of highly seasoned senior advisors, a dedicated investment team and support function professionals, as well as two Reinet designees on the Investment Committee.

Fund Size:

Fund VI is seeking equity commitments of up to \$2.25 billion, with a hard cap of \$2.75 billion.

Investment Strategy:

Trilantic North America employs a differentiated investment strategy, the elements of which are:

- Partner with founder, family-owned businesses
- Provide flexible capital in Structured Preferred Investments which provide downside protection through a yield component and a senior claim on company stock relative to common stockholders
- Execute on "buy and build" strategy
- Use prudent leverage
- Create value through active post-acquisition involvement



Trilantic expects to make control or significant minority investments in middle market companies in North America with strong fundamentals, favorable growth prospects and enterprise values primarily in the range of \$100 million to \$1 billion, although the Firm may opportunistically review companies outside of this range. Trilantic North America has maintained a strict middle market focus since Fund III and continues to believe that middle market companies represent highly attractive investment opportunities as they are often poised for significant growth but have limited access to the capital necessary to expand organically or through acquisition. The Partnership is expected to benefit from the Firm's extensive experience and excellent reputation in partnering with middle market companies.

The elements of Trilantic North America's differentiated investment strategy are underpinned by strong commitment to risk management.

Uncompromising Focus on Risk-Adjusted Returns

The funds managed by Trilantic North America have generated strong risk-adjusted returns. Trilantic North America has consistently achieved its stated return objectives of base case returns of 2x to 3x gross investment MOIC over a three to five-year investment horizon, with a gross investment IRR target of greater than 20%. The funds have generated strong returns while maintaining conservative financial leverage in the fund portfolios.

Disciplined Investment Approval Process

Trilantic North America's formal investment approval process is a cornerstone of its risk management practices. They employ a highly selective investment evaluation process supported by rigorous due diligence reviews and informed by the Team's macro-economic viewpoint. The investment approval process is designed to enable the Team to fully vet all the important considerations of a potential investment, including merits and risks, and is intended to facilitate frequent updates by the deal team as well as to promote timely feedback from other members of the Team.

Sector Focused but Not Sector Driven

The Partnership will continue to focus on sectors in which Trilantic North America has significant resources and expertise and will opportunistically capitalize on its diversified sourcing relationships and capabilities. While the Partnership may invest in other sectors, the primary sectors of focus remain consistent with prior funds: Business Services, Consumer and Energy. Trilantic North America has deep industry knowledge within and across each sector and sub-sector.

Portfolio Diversification

Consistent with the portfolio construction of prior funds, the Partnership will seek to achieve portfolio diversification by vintage and sector and expects most of its equity investments to fall within a range of \$50 million to \$200 million per investment.

Strict Middle Market Focus

The Partnership expects to make control or significant minority investments in middle market companies in North America with strong fundamentals, favorable growth prospects and enterprise values primarily in the range of \$100 million to \$1 billion, although the Firm may opportunistically review companies outside of this range. Trilantic North America has maintained a strict middle market focus since Fund III and continues to believe that middle market companies represent highly attractive investment opportunities as they are often poised for significant growth but have limited access to the capital necessary to expand organically or through acquisition. The Partnership is expected to benefit from the Firm's extensive experience and excellent reputation in partnering with middle market companies.

Manage Environmental, Social and Governance Considerations

Trilantic North America and the Team are committed to the evaluation of the ESG risks and opportunities associated with its investments. The Team considers material ESG issues in the course of its pre-acquisition due diligence and in the monitoring of portfolio companies to the extent reasonably practical under the circumstances. ESG issues can have a substantial impact on an organization's ability to generate or maintain economic value, as well as environmental and social value for itself and its



stakeholders; therefore, the Team considers ESG analysis a critical component of its investment approach.

Investment Team:

The Firm currently has 42 employees based in New York and Texas. The Partnership will be invested and managed by four Managing Partners: Charlie Ayres, Danny James, Chris Manning and Jon Mattson, all of whom have worked together since 2007, with the investment committee of the Fund including the Managing Partners, all deal-related Partners (noted below) and two Reinet designees. These Managing Partners, together with the other Trilantic North America Partners and Principals, collectively have over 280 years of finance and private equity investing experience and possess a blend of diverse and complementary skills, expertise and professional relationships. The core senior Team has worked together for over 15 years and currently manages \$7.9 billion in total capital commitments in six private equity fund families. The Team is further supported by a group of highly seasoned senior advisors, a dedicated investment team and support function professionals, as well as two Reinet designees on the Investment Committee.

- Partners and Principals take leading roles in sourcing, evaluating, structuring and executing investments.
- Vice Presidents and Senior Associates play active/secondary leading roles in sourcing, evaluating, structuring and executing investments under guidance of Partners and Principals.
- Associates play active roles in evaluating, structuring and executing investments under the guidance of other Trilantic North America team members.

Name	Title	Yrs. Experience Firm	Prior Experience
Charlie Ayres	Chairman of NA, Managing Partner	15	Lehman Bros., Midocean, DB Capital, McCown De Leeuw
Danny James	President of NA, Managing Partner	23	Lehman Bros.
Chris Manning	Chairman of TEP NA, Managing Partner	18	Lehman Bros., The Wing Group
Jon Mattson	Managing Partner	11	Lehman Bros., Investcorp, DB Capital
Charles Fleischmann	Partner	3	Investcorp, JPMorgan
Glenn Jacobson	Partner	13	Lehman Bros.
Jeremy Lynch	Partner	17	Lehman Bros.
Jamie Manges	Partner	10	Lehman Bros., Lazard
Li Zhang	Partner	18	Lehman Bros.
Grant Palmer	Partner	11	Lehman Bros.
Ron Mackey	Principal	7	Morgan Stanley
Andy Hopping	Principal	10	Lehman Bros.
Chris Murphy	Principal	5	The Sterling Group
Ted Rosenwasser	Principal	4	Oak Hill
Dan Siegman	Principal	5	Invus

Investment Instruments:

The Fund may make equity and equity-oriented investments (including, without limitation, preferred stock, debt securities purchased in connection with such equity and equity-oriented investments, or which have equity-like returns, bridge financings and temporary investments in mezzanine securities).



Market Opportunity:

Trilantic has a strong heritage of partnering with founder, family-owned businesses having invested in 33 such companies (representing \$4.1 billion of aggregate capital committed) in North America. Their “buy-in” approach leads Trilantic to seek companies with whom they can share the visions and objectives of the founders and families, ensure alignment of interest with management, and ultimately become a trusted advisor to the company. This focus has resulted in the firm possessing an excellent reputation as a value add partner and being frequently considered the partner of choice by founders and families. Leveraging this reputation has resulted in access to unique deal flow due to the advocacy of this founder/family network.

Flexible capital and bringing individualized solutions to companies is a key tenet of the Trilantic process. As an example, control transactions may not be the right partnership solution for a particular company. Trilantic has creatively structured significant minority investments in the form of structured preferred securities in \$1.6 billion of aggregate committed capital. These types of Structured Preferred Investments, coupled with appropriate governance and alignment, can deliver compelling private equity-type returns while providing downside protection and represents a key strategic differentiator in a competitive market. It provides potential access to larger, high-quality companies that are not seeking a change of control. In addition, due to a tailored solution, Trilantic is able to execute many of these investments outside of competitive processes, allowing conversations with the owners to focus on partnership and alignment as opposed to focusing solely on price.

Trilantic North America has established a history of creating value through post-acquisition involvement. The post-acquisition work plan is carefully designed by the Trilantic deal team in collaboration with a portfolio company's management team and is tailored to facilitate the portfolio company's growth objectives. Areas of post-acquisition focus vary by investment and typically include governance, strategic planning, growth initiatives, operational improvements, capital structure decisions and exit planning. In a number of cases, accelerated growth is executed through a buy and build strategy. Trilantic works closely with portfolio company management on carrying out the strategy and are actively involved in identifying acquisition targets, performing due diligence, refining capital structure and providing execution and integration support.

Investment Highlights:

Partnership Focus
Trilantic has a history of partnering with founder/family owned companies to execute on identified growth plans and provide customized capital solutions. We believe the reputation Trilantic possesses within the founder/family network results in advantaged sourcing and positions them as a preferred investment partner within this target market.
Active Involvement
Trilantic is deeply involved with driving value add in portfolio companies. For example, they have executed a buy and build strategy to accelerate growth in a number of investments. In these situations, the Trilantic team works closely with portfolio company management on carrying out the strategy and are actively involved in identifying acquisition targets, performing due diligence, refining capital structure and providing execution and integration support.
Risk Management
Risk is a primary consideration throughout the investment process. Trilantic focuses on selectivity, diversification, downside protection through creative capital structures, and driving returns without excessive leverage contribute to attractive risk adjusted returns.
Consistency
The team's consistent focus and execution has flowed through to consistent investor outcomes with each of the three prior funds netting mid-teens IRRs through 12/31/2017 (Fund III: 16.6%, Fund IV: 14.3%, Fund V: 16.3%) ¹ . Funds III and IV span the financial crisis of 2008.

¹ Fund III performance represents that of a generic LP. Funds IV and V performance are actual PSERS returns.



Moderate use of Leverage
As of 9/30/17, the weighted average portfolio leverage (Net Debt / EBITDA) in Trilantic Fund V was 2.8x.
Use of Structured Preferred Securities
These securities offer private equity returns while providing downside protection. Additionally, a built in exit mechanism and governance rights may be included.

Investment/Risk Considerations:

Highly Competitive Market for Investment Opportunities
The activity of identifying, completing and realizing attractive private equity investments is highly competitive and involves a high degree of uncertainty. While we view Trilantic's reputation and network to be a distinct competitive advantage, we expect Trilantic to encounter competition from other entities having similar investment objectives.
Energy Sector Risk
Historically each Trilantic fund's energy sector investments has been limited to no more than 1/3 rd of such fund's capital commitments; Trilantic VI will also have this 1/3 rd limitation. Investments in the energy sector may be subject to a variety of risks related to the inherent uncertainty of the energy ecosystem and the volatility of commodity prices.

PSERS History & Performance:

This will be PSERS third fund with the team at Trilantic. PSERS prior fund investment history is below:

Investment					Transactions		Valuation	Performance			
Investment	Vintage	Age ¹ (Years)	Commitment	Measurement ² Date	Cumulative Contributions	Cumulative Distributions	Valuation	IRR	TVPI	DPI	RVPI
<i>Private Equity</i>											
1 Trilantic Capital Partners IV L.P.	2007	9.95	76,752,676	9/30/2017	79,140,339	110,980,189	17,622,792	14.49	1.62	1.40	0.22
2 Trilantic Capital Partners V (North America), L.P.	2013	5.03	100,000,000	9/30/2017	91,358,247	47,009,988	76,731,009	16.28	1.35	0.51	0.84
Total: Private Equity			176,752,676	9/30/2017	170,498,586	157,990,177	94,353,801	14.95	1.48	0.93	0.55

Portfolio Fit:

A commitment to Trilantic VI will give PSERS' Private Markets portfolio, specifically in the private equity space, exposure to the business services, consumer, and energy industries. Trilantic's focus on these industries and their extensive experience partnering with founder/family owned firms will be instrumental in being able to generate attractive returns for the Fund. A commitment to Trilantic VI will be allocated to the Private Equity sleeve of PSERS' Private Markets portfolio. The table below summarizes PSERS Private Equity exposure as of September 30, 2017 (in millions):

Investment Type	Active Commitments ¹	%	Market Value	%	Unfunded ¹	%	Total Exposure ^{1,2}	%
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%
Total	\$ 23,267.2	100.0%	\$ 7,851.2	100.0%	\$ 5,666.2	100.0%	\$ 13,517.5	100.0%

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

(2) Total Exposure is Market Value + Unfunded



Investment Committee Disclosure:

Relationship with Hamilton Lane:	None
Placement Agent:	There is no placement agent associated with or compensated for PSERS investment. Evercore was involved in allocations from LPs other than PSERS. Magenta was used for investors in the Middle East.
PA Political Contributions:	None Disclosed
PA Presence:	Yes, Highgate Hotels (1,421) and Fluid Delivery (108) solutions which employ a combined 1,529 Pennsylvanians
Conflicts:	None Disclosed
History with PSERS:	Yes, please see chart on the prior page under "PSERS History and Performance".
PSERS AIC Meeting Approval:	April 16, 2018

Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments Darren C. Foreman, CAIA Senior Manager, Private Markets
External Consultant:	Hamilton Lane



Hamilton Lane

April 3, 2018

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

Re: Trilantic Capital Partners VI, L.P.

Dear Trustees:

Trilantic Capital Management L.P. ("Trilantic") was formed in 2009 when former professionals of Lehman Brothers Merchant Bank completed a spinout from Lehman Brothers. Trilantic is currently led by its founders, Charles Ayres and Danny James, and is supported by a deep Partner bench of talented deal leads. Having worked together at Lehman Brothers prior to the spin out, the senior investment team is experienced and cohesive. Trilantic employs a total of 35 professionals across two offices, split between 28 investment professionals and 7 other employees. Trilantic's experienced team of senior professionals is organized by sector, which has helped the General Partner to develop networks in a vertical and has aided in sourcing founder-owned businesses in targeted sub-sectors. Through this focus, investment professionals develop significant expertise to help identify attractive underlying business fundamentals and execute on thematic investing. Trilantic's investment decision-making is led by an experienced investment committee, which is chaired by Mr. Ayres, and all investment approvals require a majority. Trilantic has shown a commitment to develop talent internally; the General Partner has experienced limited turnover as it continues to build out its mid-level talent by promoting from within. The General Partner remains focused on building a platform with a clear succession plan and has been thoughtful to build out a deep bench of senior talent to continue running the firm through the next generation. Trilantic is targeting \$2.25 billion in commitments for its sixth buyout fund, Trilantic Capital Partners VI, L.P. (the "Fund"). Trilantic held a first close in November 2017 and expects to hold a final close in 2Q 2018. The General Partner will commit at least 2% of commitments to invest in the Fund.

The Fund will target investments in North American companies within the industries of business services, consumer and energy. Trilantic seeks to invest with founder, family-owned businesses and partner with management teams to implement growth initiatives. Investment professionals specialize by industry and work to identify subsectors with underlying attractive economic fundamentals in targeted sectors to broaden and create differentiated deal flow within founder networks. The General Partner encourages existing management teams to roll over significant equity, allowing for continued involvement and alignment between the founders and the General Partner. In order to maintain alignment and involvement with active founders while positioning the company for further growth, the General Partner offers creative structuring solutions. In many cases, Trilantic seeks to work alongside founder teams to institutionalize company operations, build out management teams to succeed founders and further position the company for continued growth; Trilantic adds value through collaboration with founders in order to better position a company for a strategic or financial sale. The General Partner seeks to limit downside risk through structuring investments with a preferred structure, coupon component and conservative leverage. The Fund will primarily target equity investments in the range of \$25 million to \$200 million, targeting companies with enterprise values between \$100 million and \$1.0 billion. Trilantic estimates that the Fund will make 15 to 20 investments. The General Partner has generated consistent net performance across market cycles.

Trilantic Capital Partners VI's investment thesis can be summarized as follows:



Hamilton Lane

- The General Partner has a cohesive and experienced investment team with a deep Partner bench
- Trilantic utilizes a strategic partnership model alongside founders
- Ability to limit downside through structuring position and conservative leverage
- The General Partner has generated consistent returns across market cycles

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 June 28, 2017; the on-site due diligence was conducted October 16, 2017; the Fund was approved by Hamilton Lane's Investment Committee on November 13, 2017 and the recommendation to PSERS was issued April 3, 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 Trilantic'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:

Christian Kallen – Managing Director, Bala Cynwyd Office

Alyssa Fried – Analyst, Bala Cynwyd Office

Greg DiSanto – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$150 million in Trilantic Capital Partners VI, 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