



COMMONWEALTH OF PENNSYLVANIA  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

---

---

Public Investment Memorandum

**Incline Elevate Fund, L.P.**

Private Equity Fund Commitment

---

---

**Darren C. Foreman, CAIA**  
Director, Private Markets

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

**April 26, 2019**



### **Recommendation:**

PSERS Investment Professionals, together with Hamilton Lane Advisors, L.L.C. ("Hamilton Lane"), recommends to the Board a commitment of up to \$75 million to Incline Elevate Fund, L.P., ("Incline Elevate", "Elevate" or the "Fund").

Incline Management, L.P. ("Incline" or the "Firm") was formed in 2011 and based in Pittsburgh. Incline formerly was called PNC Equity Management Corp. ("PNC"), a wholly owned subsidiary of PNC Financial Services Group. PNC was originally founded in 2001 and through a spin out, formed Incline in 2011. The Principals have managed a total of \$1.375 billion for PNC Equity Partners I, PNC Equity Partners II, Incline Equity Partners III and Incline Equity Partners IV, collectively, completing 34 total platform company acquisitions over the last 17 years. Incline has established this Fund with a target of \$250 million in capital commitments.

### **Firm Overview:**

Incline has 23 employees located in two offices, Pittsburgh and NYC. Incline focuses on investing in the lower middle market, in quality businesses operating in the value-added distribution, specialized light manufacturing and business services sectors. Incline Elevate will have a dedicated investment team that will be complimented by the significant resources of the Incline platform. In order to strengthen its capabilities in the lower middle market, Incline recruited two highly accomplished and successful lower middle market investment professionals, Tom Ritchie and Evan Weinstein, who together with Jack Glover, will lead Elevate's investment activities. Tom joined Incline in 2018 after spending thirteen years at CI Capital, where he was a Managing Director and one of four partners. While at CI Capital, he executed over 40 platform and add-on acquisitions across the distribution, business services and specialized manufacturing sectors. Evan also joined Incline in 2018 from PAI Partners, a Pan-European private equity firm. Before joining PAI in 2016, Evan spent ten years at CI Capital where he was responsible for the execution and management of transactions across the distribution, business services, specialized manufacturing and consumer products sectors.

### **Fund Size:**

The Fund is seeking Limited Partner equity commitments of up to \$250 million, with a hard cap of \$300 million.

### **Investment Strategy:**

Incline Elevate represents an extension of the investment strategy that Incline has developed and successfully implemented since inception. We believe that this investment strategy represents an attractive opportunity to invest with an experienced investment manager targeting an underserved niche of the private equity market. The key difference between Incline's core funds and the Elevate fund is the enterprise value of the companies they would be investing in. The lower middle market is generally defined as companies with enterprise values of between \$30M and \$150M. The threshold for Incline is the enterprise value of a company. Any opportunities above \$70M of enterprise value will be invested in the core funds, any enterprise values below that amount would be invested in the Elevate fund. The elements of Elevate's investment strategy are:

- **Lower Middle Market Specialization** - Elevate intends to continue Incline's strategy of pursuing control-oriented equity investments in lower middle market companies, which will be defined as companies with \$70 million of enterprise value or less. The lower middle market offers attractive investment opportunities to experienced investors because it remains a less efficient market and because companies in this segment are often more receptive and more in need of operational



focus and strategic discipline. Across its portfolio, Elevate will actively implement company-specific value-creation strategies focusing primarily on (i) identifying areas for operational improvement, (ii) completing strategic acquisitions, and (iii) augmenting a company's management team and board of directors when appropriate.

- **Comprehensive, Firm Wide Sourcing Strategy** - Elevate will leverage Incline's years of business development and strong market presence to drive deal flow and a growing pipeline of future opportunities for the Fund. Incline's sourcing strategy, led by dedicated business development professionals, April Simile and Sarah Halvonik, supports portfolio value creation through branding and marketing, investment origination, and external resource development. Incline proactively cultivates a network of resources across the U.S. and Canada comprised of intermediaries, executives, attorneys, accountants, and consultants in order to increase the flow of quality deals that fit within the investment strategy of its funds, including Elevate. The high touch nature of the plan seeks to provide early identification of opportunities, allowing the Firm to also leverage its network of industry executives to analyze and better understand potential new opportunities. This, coupled with a strong brand identity, often positions Incline as the "buyer of choice" for sellers.
- **Active Portfolio Company Management** - Elevate expects to target companies of a size where consistent involvement by their equity partner in developing strategies, supporting growth, improving business practices and making acquisitions has the potential to result in meaningful improvements in company performance. This active involvement seeks to exert influence to achieve a particular company's value-creation plan. Elevate intends to maintain regular contact with its portfolio company CEOs through scheduled weekly or bi-weekly conference calls, quarterly board of directors meetings and annual progress update meetings, as well as through frequent unscheduled meetings and conference calls. These discussions are in an effort to track the company's tactical progress toward achieving its value-creation strategies. This close interaction allows it to thoughtfully evaluate, and quickly make decisions with respect to portfolio health and management.
- **Focus in Three Core Business Sectors** - The Elevate Partners have considerable prior experience investing in Incline's core business sectors, as these are the same sectors where the Elevate Fund will invest in. By focusing within the value-added distribution services, business services, and specialized light manufacturing sectors, Incline offers a long history of investing, strong expertise and a thorough understanding of these market segments.
- **Trusted Operating Executive Network** - In addition to being able to quickly and more thoroughly investigate investment opportunities in the core business sectors, the Elevate Partners have built a strong network of relationships with operating executives specific to each business model. This network will be used for origination purposes, in both sourcing as well as assistance with due diligence, portfolio management and value creation. Oftentimes, these operating executives will also serve on a portfolio company's board of directors.
- **Disciplined Investment Process** – In pursuing the Fund's investment strategy, the Elevate Partners intend to utilize a rigorous investment process designed to focus resources on those transactions that fit Elevate's investment criteria while filtering out other transactions in a thoughtful yet efficient manner. Initial evaluations of transactions will typically be discussed among all members of the Elevate investment team at regularly scheduled meetings during which they will seek to identify value creation opportunities, as well as key issues that require further due diligence. As part of the due diligence process, the Elevate team will typically perform primary management assessments, market analyses, competitive benchmarking, operational assessments, information technology evaluations, financial and accounting analyses, environmental assessments, supplier references and customer references research. Once Elevate reaches consensus in its support for the investment, due diligence findings and its outline of post-closing value-creation initiatives will be presented to the Investment Committee for formal approval.



### **Investment Team:**

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

<b>Name</b>	<b>Title</b>	<b>Yrs. Experience Firm/Total</b>	<b>Prior Experience</b>
John "Jack" Glover	Managing Partner	23 / 23	Wheat First Securities
Tom Ritchie	Partner*	<1 / 17	CI Capital, UBS Investment Bank
Evan Weinstein	Partner*	<1 / 15	PAI Partners, CI Capital
Deanna Barry	Managing Director, CFO	7 / 22	KPMG
April Simile	Managing Director of Business Development	6 / 6	Allegheny Valley Bank
Victor Martinelli	Vice President*	1 / 3	CIP Capital, Barclays Bank
Sarah Halvonik	Senior Associate Business Development	1 / 1	P3R
Jason O'Toole	Controller	2 / 11	PricewaterhouseCoopers

\*Dedicated to Elevate strategy

### **Investment Instruments:**

Elevate will seek to make control-oriented equity investments.

### **Market Opportunity:**

Incline has historically focused on the lower middle market and we continue to believe it is the most attractive sector of the private equity market due to its ability to generate strong risk-adjusted returns:

- **Underlying market is very large.** The number of lower middle market companies for sale at any time is large. According to PitchBook's\* Q3 2018 report, middle market M&A transactions under \$100 million represented roughly 70% of all M&A volume with disclosed values under \$1 billion in 2017.
- **Relatively lower purchase price multiples.** The common belief is that purchase price multiples in the lower middle market tend to be lower as compared to multiples paid for larger businesses for several reasons. First, sale processes for lower middle market companies tend to be less efficient than those for larger companies. Smaller transactions are typically executed by investment banking boutiques and business brokers with fewer resources than their more sophisticated counterparts. Second, in addition to sale processes being less efficient, senior and mezzanine debt capital is often not as readily available in this segment of the market. Lastly, small companies frequently lack some key element of a complete business strategy or management team.

\*PitchBook Data, Inc. delivers data, research and technology covering the private capital markets, including venture capital, private equity and M&A transactions.



- **Room for improvement.** Companies in the lower end of the middle market are appealing because they often have not fully exploited their competitive advantage and/or market opportunity. Accordingly, smaller companies are generally more responsive to changes that strengthen their management teams, strategic plans and/or operations practices. In smaller companies, it is often easier to identify best practices and operational adjustments that will grow a company and enhance enterprise value beyond a strict reliance on financial leverage or exit multiple arbitrage.

**Investment Highlights:**

- Strong Track Record
- Specialization in Lower Middle Market
- Strong Deal Pipeline
- Disciplined Investment Review and Due Diligence Process
- Active Portfolio Involvement
- Operating Executive Value-Add

**Investment/Risk Considerations:**

- New Strategy
- New Additions to Team
- Other Fund Obligations
- Risks of Multiple Offices

**PSERS History & Performance:**

This will be PSERS' fifth commitment to an Incline fund. PSERS has committed to PNC Equity Partners I, PNC Equity Partners II, Incline Equity Partners III, and Incline Equity Partners IV.

**Portfolio Fit:**

A commitment to the Fund will give PSERS' Private Markets portfolio, specifically in the private equity space, exposure to the lower end of the buyout market. A commitment to the Incline Elevate 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 December 31, 2018 (in millions):

Investment Type	Market Value	%	Unfunded <sup>1</sup>	%	Total Exposure <sup>1</sup>	%
Private Equity	\$5,227	63.8%	\$4,295	72.7%	\$9,522	67.5%
Special Situations	\$1,200	14.6%	\$825	14.0%	\$2,025	14.4%
Venture Capital	\$1,048	12.8%	\$697	11.8%	\$1,745	12.4%
PE Internal	\$721	8.8%	\$93	1.6%	\$814	5.8%
<b>Total</b>	<b>\$8,195</b>	<b>100.0%</b>	<b>\$5,910</b>	<b>100.0%</b>	<b>\$14,105</b>	<b>100.0%</b>

<sup>1</sup> As of December 31, 2018; plus proposed commitments through May 2019.



**Investment Committee Disclosure:**

<b>Relationship with Hamilton Lane:</b>	Yes, Hamilton Lane will commit discretionary capital for multiple clients into the Fund
<b>Introduction Source:</b>	PSERS has been an investor since 2001
<b>Placement Agent:</b>	Incline has not engaged a placement agent in soliciting business from PSERS and no placement agent will receive any fees in connection with an investment in the Fund by PSERS. Incline has retained Sixpoint Partners, as a placement agent to assist in the marketing of the Fund. The General Partner will bear the costs (through an offset against the Management Fee or otherwise) of all such organizational expenses in excess of \$1.75M, if any, and of any placement agent fees payable to Sixpoint Partners with the formation of the Fund.
<b>PA Political Contributions:</b>	None Disclosed
<b>PA Presence:</b>	Yes, two investments
<b>Potential Conflicts:</b>	None Disclosed
<b>History with PSERS:</b>	Yes, please see PSERS History & Performance on page 4
<b>PSERS Allocation Implementation Committee Meeting Approval:</b>	April 26, 2019

**Oversight Responsibility:**

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



# Hamilton Lane

April 1, 2019

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

Re: Incline Elevate Fund, L.P.

Dear Trustees:

Incline Management, L.P. ("Incline") was founded in 2011 by Jack Glover, Justin Bertram and Wali Bacdayan after spinning out of PNC Equity, continuing the equity strategy they developed during their tenures at PNC Equity, focusing on distribution, business services and light manufacturing companies. Incline has formed a dedicated investment team for the Elevate product, comprised of existing Incline professionals and strategic senior-level hires. Thomas Ritchie and Evan Weinstein were hired in 2018 as dedicated Elevate Partners given their experience and success investing across the lower middle-market over nine years at CI Capital Partners. The dedicated Elevate team has access to the shared resources across the broader Incline platform, including business development, operations and finance professionals, which allows Incline to differentiate from small buyout managers. The General Partner's sourcing efforts are led by April Simile and Sarah Halvonik, who are fully dedicated to the development and management of its firm-wide pipeline and sourcing process. Incline leverages its longstanding relationships driven by a consistent investment focus. Incline's deep bench of Operating Partners are experienced executives that engage in improving leadership, strategy development acquisition integration, company-specific sourcing and operational diligence. The Operating Partners are functionally focused with deep expertise across the target sectors and are engaged and compensated by portfolio companies, although Incline may recommend their involvement. Incline is targeting \$250 million in commitments for its first dedicated small-cap buyout fund, Incline Elevate Fund, L.P. (the "Fund"). Incline held a first close in March 2019. The General Partner will commit at least \$10 million to invest in the Fund.

The Fund will pursue U.S.-based lower middle-market opportunities, a segment of the market in which the General Partner has deployed a significant amount of capital. Incline has consistently focused on distribution, business services and light manufacturing companies since its inception, allowing it to develop meaningful expertise and industry relationships. The General Partner focuses on four business models, including route-based distribution, "hourglass" distribution, outsourced services and niche manufacturing; companies employing these business models generally operate with high barriers to entry, recurring cash flows, diversified customer bases, high operating margins, stable market share and end-market diversification. Incline's consistent focus on its core sectors and business models has enabled it to develop a market presence of deep networks across investment banks, brokers, private equity sponsors and management team executives, which has led to significant and attractive deal flow. The General Partner seeks to drive organic growth by developing strategic initiatives, replacing management teams and improving operations while selectively targeting add-on acquisitions. Incline has exited all realized investments through strategic or financial sales, which is driven by its ability to identify exit channels pre-investment through its extensive experience operating across its core sectors. The Fund will target 10 to 12 equity investments in the range of \$15 million to \$30 million in companies with enterprise values ranging from \$25 million to \$70 million. Incline has produced top-quartile or near top-quartile performance across its prior funds, in which it invested 80% of capital within the Fund's target strategy.

Incline Elevate Fund's investment thesis can be summarized as follows:



# Hamilton Lane

- Experienced senior investment team benefitting from an institutionalized platform
- Focus on target sectors has led to significant deal flow and value creation capabilities
- Consistent and attractive performance across prior funds

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 January 11, 2019; the on-site due diligence was conducted January 30, 2019; the Fund was approved by Hamilton Lane's Investment Committee on February 11, 2019 and the recommendation to PSERS was issued April 1, 2019
- 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 Incline'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 Markets 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

Stephen Caplan – Analyst, Bala Cynwyd Office

Chelsea Yasgur – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$75 million in Incline Elevate 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,  
Chief Client Officer

Corina English,  
Principal