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Public Investment Memorandum

**LLR Equity Partners VI, L.P.**

Private Equity Fund Commitment

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**Patrick G. Knapp, CFA**  
Portfolio Manager

**Darren C. Foreman, CAIA**  
Director

July 16, 2020



**Executive Summary:**

PSERS' Investment Office Professionals ("IOP"), together with Hamilton Lane Advisors, L.L.C. ("Hamilton Lane"), recommends to the Board a commitment of up to \$200 million to LLR Equity Partners VI, L.P. ("LLR VI", "Fund VI", or the "Fund").

LLR Partners ("LLR" or the "Firm") is raising the Fund to continue its long history of investing in U.S. growth equity opportunities. That history spans five funds with aggregate committed capital of approximately \$3.6 billion.

Fund Name	LLR Equity Partners VI, L.P.
General Partner	LLR Capital VI, L.P.
Target Fund Size / Hard Cap	\$1.4 billion / \$1.6 billion (exclusive of GP commitment)
Recommended Commitment Amount	\$200 million
Existing Relationship	Yes
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Equity / Venture Capital & Growth Equity
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments Darren C. Foreman, Director Patrick G. Knapp, Portfolio Manager
External Consultant Oversight	Hamilton Lane Advisors, L.L.C.

**Firm Overview:**

LLR is a North American-focused investment firm managing a series of investment vehicles aimed solely on privately held, lower middle market businesses with the opportunity for rapid growth and high profitability. The Firm was founded in 1999 with a commitment to partner with exceptional entrepreneurs and management teams, providing capital and strategic support to help them achieve their growth objectives. Since inception, LLR has raised and managed nearly \$3.6 billion in capital dedicated to growth equity opportunities through five private funds. Over the last two decades, LLR has invested in more than 100 companies and closed more than 150 add-on acquisitions. LLR's operates out of two offices in Philadelphia, PA, with nearly all its investment team operating out of the Firm's Arch Street location.

**Investment Strategy:**

Since inception, LLR has consistently invested in lower middle market growth companies. The Firm concentrates on companies with \$10 - \$75 million in revenue and less than \$100 million in enterprise value. This space provides LLR a significant pool of potential investment opportunities as well as multiple exit options. Companies of this size appeal to a diverse group of strategic and financial buyers and carry the potential to go public. LLR targets market leaders with strong organic growth and high gross margins where there are obvious opportunities to catalyze higher growth rates, either organically or through a buy and build strategy.

LLR embraces a partnership approach with its portfolio companies that begins in the origination process. LLR maintains a 15-person dedicated Business Development Team focused exclusively on identifying new portfolio companies and add-on acquisitions. This team leverages technology and traditional marketing techniques to source opportunities through both direct outreach and continued development of LLR's already established brand in the space. LLR recognizes the importance of developing relationships well in



advance of the capital needs of a company to position themselves as the partner of choice and potentially avoid competitive auction processes. Contrary to some private equity firms, LLR takes a very opportunistic approach to deal structure and seeks to listen to the goals, needs, and concerns of their entrepreneur partners and craft solutions to meet them. They are comfortable taking either majority or minority positions and negotiating creative structures to align interests, create competitive differentiation for themselves, and develop opportunities with compelling risk/reward characteristics.

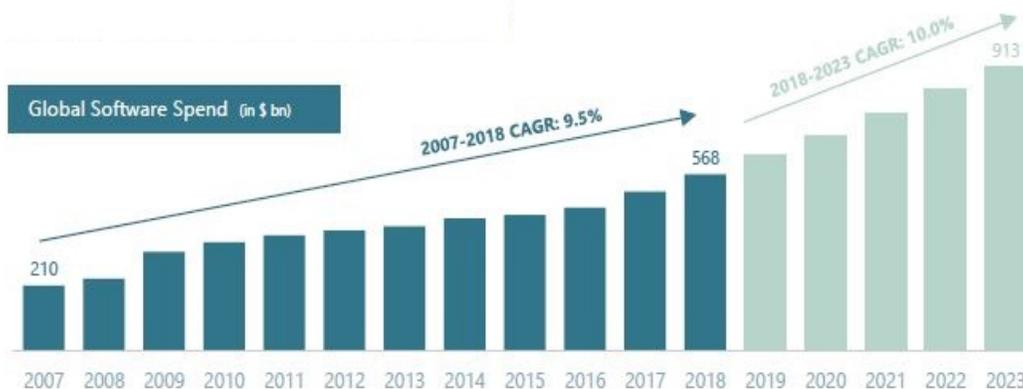
Since LLR III, the Firm has been organized across two sector teams covering technology and healthcare. Team members specialize early in their career at LLR and begin the process of building industry relationships and specialized knowledge. Over time, the expectation is that investment team members develop subject matter expertise within specific sub-sectors of either tech or healthcare. This specialization allows for the regular development of investment theses which result in research projects to uncover their full validity, extent, and actionability. As these research projects develop, the Deal Team leverages LLR's Business Development Team to fully map out the universe of businesses which align well with each theme. With the opportunity fully vetted, these two teams collaborate in proactive outreach to develop the relationships necessary to execute deals in select companies.

In keeping with their commitment to create long-term value by growing their portfolio companies, LLR has built dedicated internal and external resources across merger and acquisition execution, human capital, strategy, and operational improvement. Beginning in the transaction process and continuing throughout their involvement with a company, LLR's Value Creation Team works closely with both LLR's investment team and portfolio company management to identify key risks and initiatives which, if successful, can meaningfully increase revenue and/or earnings and position the portfolio company to sell for a higher multiple of cash flows at exit.

### **Market Opportunity:**

The Firm will continue to pursue North American lower middle market opportunities with between \$10 million and \$75 million in revenue and less than \$100 million enterprise values. This segment of the market represents a large and fragmented opportunity set. The North American Industry Classification System (NAICS) Association estimates that there are more than 187,000 companies that fit this profile (\$10 million - \$100 million revenue). LLR has operated in this market for more than two decades. The Firm will leverage its long history, extensive industry relationships, and broad sourcing resources to identify and execute on compelling themes and market niches in the technology and health care sectors.

**Technology:** Total IT spend in North America surpassed \$1.25 trillion in 2018 and is expected to grow at a compound annual growth rate ("CAGR") of 3.6% through 2022.<sup>1</sup> Software continues to be one of the fastest-growing segments of total IT spend (~8%), which is fueled by even faster growth in cloud computing, security, and mobility.



Source: Gartner, Forecast: Enterprise IT Spending by Vertical Industry Market, Worldwide, 2017-2023, 2Q19 Update

<sup>1</sup> Gartner Market Databook 1Q19 Update (April 10, 2019)



Strategic M&A activity also remains strong across the sector, though lower than prior years. However, overall tech M&A activity in 2019 still amounted to 3,640 deals valued at \$461 billion.<sup>2</sup> The nature of these deals seems to be shifting from a focus on capturing economics of scale and synergies to expanding business lines and capabilities with 90% of tech deals in the first three quarters of 2019 falling into this category.<sup>3</sup> This shift speaks to the continued opportunity in identifying disruptive innovation and in the consolidation of fragmented subsectors of technology.

**Healthcare:** The U.S. healthcare market is large and growing with spending now exceeding \$3.6 trillion per year and projected growth rates of 5.4% through 2028 according to the Centers for Medicare & Medicaid Services. This spend is supported by meaningful market trends. For example, according to the US Census Bureau, the number of US citizens age 65+ will nearly double by 2060. Other major themes include an increasing cost burden on consumers, trends toward value-based reimbursement, constantly shifting Medicare reimbursement rates, provider consolidation, increasing tech adoption, and continual innovation in patient care.

While still early, it should also be noted that the disruption caused by COVID-19 may result in an improved investment environment. Historically, periods of extreme volatility have been followed by above average returns in subsequent vintage years for private equity. Investing into this environment with a blue-chip manager is an ideal situation.

**Portfolio Fit:**

A commitment to LLR VI will give PSERS' Private Equity portfolio, specifically in the growth equity space, exposure to high growth tech and healthcare companies with a manager that has historically provided attractive alpha relative to public markets. A commitment to the Fund will be allocated to the Venture Capital/Growth Equity sleeve of PSERS' Private Equity portfolio. The table below summarizes PSERS Private Equity exposure as of December 31, 2019 (in millions) inclusive of a recommended \$200 million commitment to LLR VI:

Investment Type	Market Value <sup>1</sup>	Unfunded <sup>1, 2</sup>	Total Exposure	%	Pending Current Commitments		
					August 2020	Total Exposure	%
Buyouts	\$ 5,410	\$ 3,954	\$ 9,364	66.9%	\$ -	\$ 9,364	65.6%
Special Situations	1,211	675	1,886	13.5%	75	1,961	13.7%
Venture Capital / Growth Equity	1,183	666	1,849	13.2%	200	2,049	14.4%
Internal Co-invest	797	101	898	6.4%	-	898	6.3%
<b>Total</b>	<b>\$ 8,601</b>	<b>\$ 5,396</b>	<b>\$13,997</b>	<b>100.0%</b>	<b>\$ 275</b>	<b>\$14,272</b>	<b>100.0%</b>

<sup>1</sup>Adjusted market values as of March 31, 2020; <sup>2</sup>Includes commitments approved through June 2020

<sup>2</sup> Source: 451 Research's M&A KnowledgeBase

<sup>3</sup>Bain & Company "The New Realities of Tech M&A"



### **Investment Team:**

The LLR Partners team is led by nine Partners supported by 52 additional investment professionals split by functional responsibility.

<b>Group / Functional Responsibility</b>	<b># of Team Members</b>	<b>Responsibility</b>
Deal Team	38 (includes Partners)	Identification, evaluation, and cultivation of investments
Value Creation Team	8	Operational diligence and post-closing value creation activities
Business Development Team	15	Sourcing of portfolio companies and add-on acquisitions

The Deal Team is split between the technology and healthcare sectors, with approximately 2/3<sup>rd</sup> of professionals focused on technology and 1/3<sup>rd</sup> focused on healthcare. This split is in line with expectations of the split of the Fund investments. The LLR team operates predominately out of Philadelphia, PA with select Business Development Team members operating out of key markets where they maintain an active local presence in the business community.

LLR embraces a “promote from within” mentality. There are several examples of Partners who started with the Firm as analysts. Unsurprisingly, this leads to a very tenured team, with LLR’s Partners possessing an average of 16 years with the Firm.

In addition to the investment team members, LLR has a 15-person team focused on finance and firm operations.

### **Investment Highlights:**

- Significant History With PSERS
- Experienced, Stable, and Successful Team Within a Premier Growth Equity Firm
- Success Across Cycles and Market Environments
- Direct Sourcing with a Thematic Bent
- Internal Commitment
- Succession Planning
- Modest Use of Leverage

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

- Return Dispersion
- Unrealized Portfolios
- Development of Value Creation Team



**PSERS History & Performance:**

PSERS previously committed to five funds with LLR Partners totaling over \$700 million in commitments.

The table that follows summarizes PSERS' performance with LLR Partners as of March 31, 2020:

<b>Fund (\$M)</b>	<b>Vintage</b>	<b>Commitment</b>	<b>Contributions</b>	<b>Distributions</b>	<b>NAV</b>	<b>Net IRR</b>	<b>Net MoC</b>
LLR Equity Partners	1999	\$60.7	\$61.3	\$131.5	\$0	21.7%	2.2x
LLR Equity Partners II	2004	\$75.0	\$75.0	\$135.7	\$0.4	12.4%	1.8x
LLR Equity Partners III	2008	\$174.7	\$168.3	\$311.2	\$34.8	16.6%	2.1x
LLR Equity Partners IV	2013	\$200.0	\$184.0	\$208.6	\$159.3	25.6%	2.0x
LLR Equity Partners V	2017	\$200.0	\$123.9	\$19.5	\$113.3	6.86%	1.1x
<b>Total</b>		<b>\$710.4</b>	<b>\$612.5</b>	<b>\$806.6</b>	<b>\$307.8</b>	<b>18.4%</b>	<b>1.8x</b>

Contributions may exceed approved commitments due to the recycling of distributions.

**Investment Committee Disclosure:**

<b>Relationship with Hamilton Lane:</b>	None
<b>Introduction Source:</b>	Existing PSERS Relationship
<b>Placement Agent:</b>	LLR 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.  The Fund has engaged with Asante Capital Group Advisors to engage new LP investors. Any fees in connection with the use of placement agents are subject to a 100% offset of the management fee paid by PSERS per PSERS' Placement Agent Policy, est. March 6, 2020; updated June 12, 2020).
<b>PA Political Contributions:</b>	None Disclosed
<b>PA Presence:</b>	Yes, ten portfolio companies employing 934 Pennsylvanians.
<b>Potential Conflicts:</b>	We are not aware of LLR having any material conflicts.
<b>Litigation Disclosures:</b>	The Fund receives communications from regulators and is involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has, or may have, a material effect on the Fund.
<b>First Time Fund with PSERS?</b>	No
<b>PSERS Allocation Implementation Committee Approval:</b>	July 20, 2020

**Oversight Responsibility:**

<b>Investment Office:</b>	Charles J. Spiller Deputy CIO, Non-Traditional Investments Darren C. Foreman Director Patrick G. Knapp Portfolio Manager
<b>External Consultant:</b>	Hamilton Lane Advisors, L.L.C.



June 3, 2020

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

Re: LLR Equity Partners VI, L.P.

Dear Trustees:

LLR Partners ("LLR") was founded in 1999 to specialize in lower middle-market growth equity investing. The senior investment team at LLR is highly experienced and cohesive with an average of 27 years of private equity experience and 16 years tenure. Investment professionals at LLR are aligned in sector specific verticals at the analyst level, cultivating deep expertise and a broad network of industry relationships developed over time. The General Partner benefits from an in-house business development team to thematically and regionally source potential company targets for portfolio and add-on acquisitions. LLR also leverages an internal value creation team to institutionalize and accelerate growth within portfolio companies. Additionally, the General Partner has access to a network of external consultants, entrepreneurs-in-residence and senior operating partners to provide functional and industry expertise and relationships. LLR's deep focus on internal development and promotions, expansion of the junior team, and broad distribution of incentives down to the senior associate level has led to the development and retention of talented investment professionals. Lastly, the General Partner benefits from being organized in a Partnership model which has led to strong cohesion and collaboration among the senior investment team. LLR is targeting \$1.4 billion in commitments from limited partners for its sixth fund, LLR Equity Partners VI, L.P. (the "Fund"). LLR expects to hold a first close in June 2020. The General Partner will commit at least 5.0% of commitments to invest in or alongside the Fund.

Since inception, LLR has focused on growth-oriented companies within the lower middle-market, thus developing broad relationships and a deep understanding of the market. LLR has always invested within the healthcare and technology sectors, over time refining its investment thesis in order to capitalize on the most attractive market dynamics. The Fund is expecting allocations of about 65% technology and 35% healthcare in line with their dedicated investment team sizes. LLR is founder-friendly and agnostic in regards to ownership percentage, positioning the firm as a partner of choice which leads to a larger set of actionable opportunities. LLR will target various transaction types including buyouts, growth equity and recapitalizations in businesses with varying levels of profitability, further broadening its deal pipeline. Regardless of economic control, the General Partner maintains influence over portfolio companies primarily through board representation. LLR structures investments with downside protection providing further control over company outcomes. Overall, LLR most often is the lead or sole investor, further enabling the General Partner to play an active role in portfolio company growth. The Fund will target approximately 24 to 26 equity investments in the range of \$20 million to \$75 million. LLR has consistently generated top-quartile or near top-quartile returns across prior funds.

LLR Equity Partners VI's investment thesis can be summarized as follows:

- Experienced and cohesive senior investment team with deep sector expertise
- Consistent lower middle-market and sector focus with a flexible control approach has helped generate attractive deal flow
- Attractive performance across various market cycles



# Hamilton Lane

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 28, 2019; the on-site due diligence was conducted May 14, 2020; the fund was approved by Hamilton Lane's Investment Committee on June 1, 2020 and the recommendation to PSERS was issued June 3, 2020.
- 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 LLR'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:

John Stake – Principal, Bala Cynwyd Office  
Victor DeVincenzo – Director, Bala Cynwyd Office  
Meghan Suriano – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$200 million in LLR Equity 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,  
Chief Client Officer

Corina English,  
Principal