



Public Investment Memorandum

Clearlake Opportunities Partners III, L.P.

Private Credit Commitment

March 29, 2022



Executive Summary

James F. Del Gaudio, Director, together with Hamilton Lane Advisors, LLC ("Hamilton Lane"), recommend that PSERS commit an amount not to exceed \$100 million plus reasonable, normal investment expenses to Clearlake Opportunities Partners III, L.P. (the "Fund", "Fund III" or "COP III") and/or related investment vehicles. This recommendation is based on our assessment of the investment strategy and our evaluation of Clearlake Capital Group, L.P. ("Clearlake" or the "Firm") and its affiliates.

Fund Name	Clearlake Opportunities Partners III, L.P.
Firm Name	Clearlake Capital Group, L.P.
Target Fund Size / Hard Cap	\$1.5 billion / expected to be \$2.5 billion
Recommended Commitment Amount	\$100.0 million
Existing Relationship	Yes
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Credit / Mezzanine
Investment Office Professionals Due Diligence Team ("IOP")	James F. Del Gaudio, Director Sean T. Sarraf, CFA, CAIA, Intermediate Investment Professional Michael J. Severance, Junior Investment Professional
Investment Office Oversight	James F. Del Gaudio, Director
External Consultant Oversight	Hamilton Lane Advisors, LLC

Clearlake was established in 2006 and is currently managed by co-founders José E. Feliciano and Behdad Eghbali. Headquartered in Santa Monica, California, Clearlake's team consists of approximately 80 professionals, including 35 investment professionals. In June 2020, Clearlake acquired WhiteStar Asset Management ("WhiteStar"), a Dallas-based Collateralized Loan Obligation ("CLO") manager, with approximately \$9.7 billion of AUM and 30 professionals. The Fund is expected to benefit from the Firm's acquisition of WhiteStar, which provides extensive expertise in the structured products and performing credit space. As of September 2021, Clearlake managed approximately \$60 billion in total including WhiteStar assets.

Clearlake is targeting \$1.5 billion in capital commitments for the Fund and seeks to generate attractive risk-adjusted returns by investing in non-control special situations investments, utilizing Clearlake's sector-focused approach targeting investments in technology, industrial, or consumer businesses. PSERS and Clearlake have an established partnership dating back to 2015, having previously committed \$666.1 million to six Clearlake-managed funds and six co-investments across the private equity and private credit portfolios. Listed below are PSERS' prior Clearlake fund commitments:

- \$57.5 million to Clearlake Capital Partners IV, L.P. in 2015 ("Fund IV")
- \$100 million to Clearlake Capital Partners V, L.P. in 2017 ("Fund V")
- \$100 million to Clearlake Opportunities Partners (P) II, L.P. in 2019 ("COP II" or "Fund II")
- \$150 million to Clearlake Capital Partners VI, L.P. in 2019 ("Fund VI")
- \$75 million to Clearlake Flagship Plus Partners, L.P. in 2020 ("Flagship Plus")
- \$85 million to Clearlake Capital Partners VII, L.P. in 2022 ("Fund VII")



Market Opportunity

Clearlake believes that there continues to be an attractive opportunity for the Fund to pursue non-control investments utilizing the Firm's sector-focused approach which targets technology, industrial, and consumer businesses. Target companies may have faced unique challenges across different phases of the economic and credit cycles, as they often have fewer financing options available and lack the managerial and/or financial resources to execute operational improvements. As a result, these companies may frequently present more compelling opportunities to generate strong risk-adjusted returns, and in many cases, investment opportunities at more attractive yields. While compelling opportunities are often generated during periods of significant uncertainty or widespread economic downturn, Clearlake has demonstrated the ability to source, execute, and manage investment opportunities through a variety of market environments – in periods of elevated volatility or dislocation, as well as periods of economic expansion or recovery.

Clearlake should be well-positioned in the current market environment for numerous reasons. First, by focusing on floating rate securities, Clearlake's investments provide a partial hedge against inflation and optimize for cash yield in a rising rate environment. Secondly, given the current volatility in public markets, Initial Public Offerings may be delayed or abandoned resulting in attractive opportunities for firms like Clearlake to provide capital solutions or alternative financing. Lastly, given the Fund's all-weather approach, Clearlake also seeks to generate attractive returns in periods of economic or geopolitical uncertainty by focusing on strong downside protection via seniority in the capital structure, strong governance rights, and upside optionality through equity conversion mechanisms.

Investment Strategy

The Fund will seek to continue Clearlake's strategy of special situations investing by focusing on non-control investments, where the Clearlake team believes it has a comparative advantage to achieve attractive risk-adjusted returns. The Firm maintains a flexible investment philosophy and will invest across the capital structure in debt and/or equity securities. The Fund will focus on structured equity investments and special situations credit in target companies that are seeking a capital solution and/or undergoing an operational transformation. Potential investments involve complex structures that may include convertible, participating or redeemable preferred equity and debt with warrants, earnouts, or other equity-linked features. Clearlake will continue to invest in the technology, industrial, and consumer sectors where it has significant expertise. Clearlake seeks to generate 20% gross returns (15% net) for targeted investments over typical hold periods of three to five years and expects a substantial portion of their targeted return (40% - 70%) to be contractual in nature. The functional currency of the Fund is the U.S. Dollar and given its focus on North American investments, Clearlake does not anticipate using currency hedges.

Clearlake anticipates that the COP III portfolio will be comprised of 18 – 22 core investments in addition to several toehold investments. The Fund will target investments of \$50 million to \$150 million with a focus on North America (at least 75%). Importantly, Clearlake has no current exposure to Russia, Belarus, or Ukraine and does not anticipate investing in these geographies prospectively. The specific breakdown of COP III's expected transaction types will depend on the market environment. Clearlake's flexibility should enable the Firm to structure transactions to achieve strong investment returns while emphasizing downside protection.

Clearlake takes a value-added approach toward its control and non-control investments as it seeks to identify situations that enable significant influence. In addition to value creation tools employed by traditional private equity investors, Clearlake believes it has the ability to drive value in special situations by providing resources and operational expertise that smaller private equity firms or distressed debt investors typically do not possess. Clearlake's operational improvement approach has evolved into a proprietary framework called O.P.S.®. Through O.P.S.®, Clearlake seeks to execute upon its investment thesis to implement change post-investment in conjunction with its Executive Council. As such, the Firm seeks to leverage its sector specific expertise, its strong combination of special situations, private equity, and distressed investing experience, and its proprietary O.P.S.® framework to drive value at its portfolio companies.



Investment Structure and Leverage Profile

The Firm maintains a flexible investment philosophy in special situations, investing across the capital structure in debt and/or equity securities. This flexibility enables Clearlake to structure transactions to achieve strong investment returns, providing downside protection in a variety of market environments while maintaining significant equity upside potential. Clearlake expects COP III to minimize the J-curve through significant income generation from debt securities.

Clearlake takes a conservative approach to portfolio company leverage given the Firm's focus on operationally and financially challenged companies. In past funds, Clearlake has utilized subscription capital call facilities for cash management purposes to provide interim financing prior to the receipt of capital contributions. Subscription facility borrowings are typically repaid within 360 days. The COP strategy has not historically utilized permanent fund-level leverage for the purpose of enhancing returns, however, the partnership agreement does provide flexibility up to 30% of aggregate Fund commitments.

Investment Instruments

The following table summarizes the investment instruments used across the COP strategy:

COP Strategy	Instrument Description
Opportunistic Credit	For opportunistic credit, the Fund may, for example, (i) structure its investment in a company as senior secured debt, but employ the use of warrants and other instruments to create equity-like upside participation, or (ii) invest in debt of a fundamentally sound company with a stressed capital structure that may have one or more tranches of debt trading at a discount to par. These investments will generally take the form of credit instruments with cash or payment-in-kind ("PIK") yield characteristics and may also have the opportunity for equity-like or other upside participation.
Structured Equity	Structured equity is an investment approach that largely uses a preferred equity instrument (i.e., convertible, participating or redeemable structures) with assorted corporate governance and economic rights, including board representation, cash and/or PIK dividends, distribution and liquidation preferences, and negative covenants. An investment may include a contractual return or current yield component and/or a significant equity ownership stake.
Reorganization Equity	For reorganization equity, Clearlake expects that a subset of the Fund's credit investments may go through further transition or need to reorganize, and Clearlake believes it has the sponsorship capability to shepherd these investments through reorganization by exerting significant influence during the restructuring process and be a value-added sponsor post restructuring. In these situations, the Fund may be involved in the restructuring process and may own reorganized equity securities upon completion of a restructuring.



Portfolio Fit

The Fund will be allocated to the Mezzanine bucket of PSERS' private credit portfolio and the table below summarizes PSERS' projected exposure inclusive of a recommended \$100 million commitment, as of September 30, 2021:

Investment Strategy (\$M)	NAV	Unfunded	Additional Commitments	Pro-Forma Total Exposure	%
Distressed & Special Situations	\$2,745.4	\$1,295.6	\$275.0	\$4,315.9	44.4%
Direct Lending	\$1,222.5	\$724.6	\$0.0	\$1,947.2	20.0%
Mezzanine	\$547.2	\$195.8	\$336.0	\$1,078.9	11.1%
Real Estate Credit	\$316.5	\$580.1	\$0.0	\$896.6	9.2%
Specialty Finance	\$151.6	\$137.2	\$450.0	\$738.8	7.6%
Real Assets Credit	\$435.4	\$75.6	\$0.0	\$511.1	5.3%
Structured Credit	\$234.4	\$0.0	\$0.0	\$234.4	2.4%
Total Portfolio	\$5,656.62	\$3,008.97	\$1,061.00	\$9,726.59	100%

Source: Burgiss, as of 9/30/2021

Note: Additional commitments inclusive of a recommended \$100 million commitment to COP III and five additional board-approved commitments post 9/30/2021. Total Portfolio figures inclusive of currency hedge not shown in the table.

A commitment to the Fund allows PSERS to maintain exposure to a high-conviction manager and strategy which has the potential to generate outsized returns while emphasizing strong downside protection in the structuring of its underlying investments. Furthermore, a commitment to Fund III adds exposure to 'new economy' businesses which frequently offer a high degree of recurring revenue and are generally within sectors that have proven somewhat resilient in a variety of market environments.

Investment Highlights

- Experienced Senior Investment Team
- Flexible Investment Approach
- Downside-Focused Mindset
- Strong Performance To-Date of Predecessor Funds and Co-Investment
- Portfolio Fit / Exposure to New Economy Sectors

Investment / Risk Considerations

- Growth of Team to Manage Increase in Assets Under Management ("AUM")
- Allocation of Investment Opportunities
- Limited Prior Fund Distributions To-Date
- External Minority Ownership
- Fees on Committed Capital



Investment Committee Disclosure

Relationship with Hamilton Lane	Twenty-eight discretionary Hamilton Lane clients and commingled products have committed an aggregate \$896.3 million across prior Clearlake funds. Additionally, seventeen discretionary Hamilton Lane clients and commingled products have made co-investments alongside Clearlake totaling approximately \$427.6 million. Preliminary Hamilton Lane allocation data as of February 25, 2022, indicates that one discretionary Hamilton Lane client and commingled product plans to commit an aggregate \$30 million to Fund III. Please note that this information is subject to change pending client by client discussions at Allocation Committee and is available to PSERS upon request.
Introduction Source	Prior relationship with the Fund Sponsor
Placement Agent	In accordance with Board policy, no placement agents were used, and no payments from or on behalf of PSERS to placement agents shall be made in connection with securing PSERS' investment in the Fund. Any placement fees charged to the Fund in connection with securing commitments from other investors (excluding PSERS) will result in a corresponding reduction to PSERS' management fees.
PA Political Contributions	None Disclosed
Potential Conflicts	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
PSERS History with the Investment Manager	Yes, PSERS has committed \$666.1 million across six Clearlake-managed funds and six co-investments
Litigation Disclosure	Clearlake 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.
Disclosure of External Manager-Paid Travel	Clearlake reimbursed and/or paid the following amounts related to PSERS IOP travel during the last two calendar years: 2020: \$0 2021: \$0
Certification of Due Diligence Costs	IOP certifies that there was no travel associated with the due diligence of Fund III, and PSERS was not reimbursed for any costs related to the due diligence of Fund III.
PSERS Allocation Implementation Committee Approval	March 29, 2022