



Hamilton Lane

January 31, 2022

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

Re: Hg Saturn 3 A, L.P.

Dear Trustees:

Hg Capital LLP (“Hg,” “General Partner”) was founded as the private equity arm of Mercury Asset Management in 1990 to target buyout investments. The General Partner became independent and rebranded to become Hg in 2000. In 2012, the General Partner pivoted to focus exclusively on the software and technology services sectors due to its attractive relative performance and opportunity set; the sectors have been part of its investment mandate since inception. To enable its complete coverage of the software and technology services sector in Europe, the General Partner manages assets across three equity fund products: Hg Mercury, which targets lower, middle-market companies; Hg Genesis, which seeks to invest in upper middle-market opportunities; and Hg Saturn, which focuses on large cap companies with enterprise values of over \$1.5 billion. In addition, the General Partner launched Hg Titan in 2021 to invest in captive junior debt opportunities. Hg has an institutional and cohesive platform with one investment committee across strategies that incorporates senior leaders from across Hg and that has established processes to manage exits, risks and conflicts. Hg is a hands-on investor, applying an integrated approach that leverages the support of its Portfolio Team to drive value creation, leaning into specific value-driving initiatives for Saturn such as international or transatlantic scaling. The General Partner is targeting \$8.5 billion in commitments from limited partners for its third, dedicated upper middle-market buyout fund, Hg Saturn 3 A, L.P. (the “Fund”). Hg expects to hold a first close on February 7, 2022. The General Partner will commit at least 2.0% of commitments to invest in or alongside the Fund.

Through the Saturn product line, Hg targets large cap companies primarily in Northwestern Europe. The General Partner aims to construct a portfolio of 12 investments in the Fund, decreasing portfolio concentration when compared to prior funds. Hg may invest a portion of the Fund in the U.S. but primarily uses its U.S. office to drive add-on activity and provide access to U.S. buyers for its transatlantic portfolio. Hg repeatedly targets eight subsector clusters that it believes exhibit materially faster growth rates and greater resilience than the broader economy: tax & accounting, ERP & payroll, legal & compliance, automotive, SME technology services, capital markets & wealth management IT, insurance, and healthcare IT. Hg applies a systematized approach to sourcing, leveraging its reputation in the software sector, presence in the U.S. and broad market reach with activities in the lower and middle market to source and access global category leaders. Hg seeks control positions to facilitate an active value creation approach. Where it is unable to take a majority position, the General Partner expects to negotiate significant shareholder rights. Common strategic levers used to drive growth across Hg funds include business model optimization to provide clear direction and growing the recurring revenue base; application of data & analytics to unlock potential through utilizing under-used data assets; industry roll-ups to consolidate fragmented end marks through M&A on a local, national or regional basis; investment in business infrastructure to support future growth by enhancing talent, systems and processes. The Fund will target approximately 12 investments of at least \$600 million, targeting companies with enterprise values greater than \$1.5 billion. Hg’s prior funds have generated attractive returns with second- and top-quartile net IRR performance in Funds I and II respectively.

Hg Saturn 3 A, L.P.’s investment thesis can be summarized as follows:



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- Established, upper middle-market software and technology services investor in Europe
- Highly institutional with established processes to manage risks or conflicts
- Platform resources support value creation initiatives, which are similar across company sizes

Hamilton Lane's recommendation is based upon the following analytical factors and is made within the context of the 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 on October 28, 2021; the on-site due diligence was conducted on November 19, 2021; the fund was approved by Hamilton Lane's Investment Committee on December 13, 2021; and the recommendation to PSERS was issued on January 31, 2022.
- 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 Hg Capital'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:

Nina Kraus – Vice President, London Office
Fredrik Green – Associate, London Office
Oscar Scott – Analyst, Sydney Office
Joshua Nicholas – Analyst, London Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$100 million in Hg Saturn 3 A, 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