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Public Investment Memorandum

Incline Equity Partners VI, L.P.

Private Equity Commitment

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Allocation Implementation Committee  
Approval Date: September 28, 2022



## **Executive Summary**

Luke M. Jacobs, Portfolio Manager, and Hamilton Lane Advisors, LLC, (“Hamilton Lane”), recommend that the Board commit an amount not to exceed \$125 million plus reasonable normal investment expenses, to Incline Equity Partners VI, L.P. (the “Fund”, or “Fund VI”), and/or related investment vehicles.

Fund Name	Incline Equity Partners VI, L.P.
Firm Name	Incline Management, L.P.
Target Fund Size / Hard Cap	\$1.75 Billion / \$2.0 Billion
Recommended Commitment Amount	\$125 Million
Existing Relationship	Yes
Asset Class / Sub Asset Class	Private Equity / Buyout
Investment Office Professionals Due Diligence Team (“IOP”)	Darren C. Foreman, Director of Private Equity Luke M. Jacobs, Portfolio Manager
Investment Office Oversight	Darren C. Foreman, Director of Private Equity Luke M. Jacobs, Portfolio Manager
External Consultant Oversight	Hamilton Lane Advisors, L.L.C.
ESG Policy	Yes

## **Firm Overview**

Incline (the “Firm”) is a Pittsburgh-based private equity firm with a satellite office in New York City. Incline invests across the North American (buyout) middle market. Incline’s buyout strategy focuses on companies in the business services, value-added distribution, and specialized light (or niche) manufacturing sectors. The Incline team is led by Jack Glover, a founding member of Incline, in addition to Leon Rubinov, Joseph Choorapuzha, John Morley and April Simile. Incline has a deep tenured investment team that is supported by a suite of shared resources including a business development unit and an in-house value creation specialist branch known as the Incline Catalyst Group.

The Firm was founded in 2011 as a spin off out of PNC Equity Management Corporation. Incline currently manages three distinct fund platforms across the firm, the Incline Flagship series, the Incline Elevate series, and the Incline Ascent series. Additionally, Incline was the manager of equity investments made by PNC Equity Partners, namely PNC Equity Partners I, L.P. and PNC Equity Partners II, L.P.

Fund VI will be Incline’s ninth investment vehicle and will focus on the core elements of Incline’s investment strategy.

## **Market Opportunity**

Incline believes that its key differentiators and competitive advantages are its longstanding strategy, operationally intensive approach to value creation, and strong network of business relationships. Incline’s competitive advantage starts with investing in “durable businesses with multiple ways to win” across its three core business sectors: value-added distribution, business services, and specialized light (or niche) manufacturing companies.

PSERS IOP believes the middle market offers attractive investment opportunities to experienced investors in this segment. In our experience, companies in this market segment are receptive to the operational focus and strategic discipline brought by Incline’s active portfolio management approach, which can result in meaningful improvements to a company’s performance and growth trajectory.



Additionally, PSERS IOP believes that companies in this sector may not have fully exploited their competitive advantage and/or market opportunity. Incline's active portfolio management approach is based on company-specific value creation strategies which include (i) identifying areas for operational improvement, (ii) completing strategic acquisitions and (iii) augmenting a company's management team and board of directors when appropriate.

Incline has experience in many different types of change-of-control transactions, with their historical transactions having been sourced from corporate, owner-entrepreneur, and private equity sellers in nearly equal proportion.

In Incline's experience, the number of middle market companies for sale at any time is rather large. According to the Pitchbook Q2 2022 Global M&A Report, North American M&A transactions in Incline's targeted size segment (enterprise value of \$250 – \$750 million) represents approximately 30% of all transactions, which still represents a large and significant portion of total deal flow.

### **Fund Investment Strategy**

The companies targeted by Fund VI will typically be of a size where Incline believes their consistent involvement in developing strategies, supporting growth, implementing business practices, and making strategic add-on acquisitions can result in meaningful improvements in the company's performance. Incline's active involvement will seek to exert influence when necessary to achieve a particular company's value-creation plan. Incline will maintain regular contact with its portfolio company management teams 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. The discussions during these interactions will frequently revolve around Incline's business metrics measurement package, or "100-day plan", which is implemented with each new portfolio company in an effort to track the company's tactical progress toward achieving its value-creation objectives.

This business metrics measurement package typically includes company-specific operating metrics, as well as historical and forecasted financial information. Moreover, Incline's active approach often may include the placement of one or more of its operating executives within a portfolio company's management team and/or board of directors (on which Incline generally expects to obtain the right to name a majority of the members). This close interaction allows Incline to thoughtfully evaluate and quickly make decisions with respect to portfolio health and management, thus augmenting Incline's ability to create value within the portfolio company.

Additionally, Incline has attracted many talented business executives in an informal, but effective, operating executive network that helps the Incline leadership team source, evaluate, and manage their investments. Further, existing and former portfolio companies of Incline's prior funds provide access to a pool of operating executives who have leadership positions in their respective industries and communities. PSERS IOP believes that the collective experience of these executives represents a valuable resource. These executives are expected, from time to time, to serve on portfolio company boards and/or advise the portfolio company management team on a variety of matters.

### **PSERS History & Performance** (as of March 31, 2022)

(Dollar amounts in millions)

<b>Investment (Vintage)</b>	<b>Commitment</b>	<b>Contributions</b>	<b>Distributions</b>	<b>NAV</b>	<b>Net IRR</b>	<b>Net MoC</b>
PNC Equity Partners (2001)	\$39.2	\$39.6	\$77.6	\$0.0	21.1%	1.96x
PNC Equity Partners II (2007)	\$68.0	\$58.5	\$125.0	\$0.0	14.8%	2.14x
Incline Equity Partners III (2011)	\$65.0	\$70.0	\$189.0	\$0.6	34.9%	2.71x
Incline Equity Partners IV (2017)	\$90.0	\$78.7	\$60.8	\$73.8	26.8%	1.71x
Incline Equity Partners V (2020)	\$150.0	\$39.7	\$0.0	\$35.9	(15.9)%	0.90x
Incline Elevate Fund (2019)	\$75.0	\$53.8	\$92.3	\$46.9	152.9%	2.59x



Incline Elevate Fund II (2021)	\$80.0	\$0.0	\$0.0	\$0.0	N/A	N/A
<b>Total</b>	<b>\$567.2</b>	<b>\$340.5</b>	<b>\$544.9</b>	<b>\$157.4</b>	<b>21.5%</b>	<b>2.06x</b>

### Portfolio Fit

A commitment to the Fund would be allocated to the Buyout sleeve of PSERS' Private Equity portfolio. The table below summarizes PSERS' projected Private Equity portfolio exposure inclusive of a recommended \$125 million commitment to the Fund:

Investment Type	Market Value <sup>1</sup>	Unfunded <sup>1,2</sup>	Total Exposure	%	Pending Current Recommendations		
					Oct 2022	Total Exposure	%
					\$ M	\$ M	
<b>Buyout</b>	\$ 8,618	\$ 3,728	\$ 12,346	69.4%	\$ 125	\$ 12,471	69.5%
<b>Growth Equity</b>	1,334	948	2,282	12.8%	-	2,282	12.7%
<b>Venture Capital</b>	1,251	224	1,475	8.3%	20	1,495	8.3%
<b>Internal Co-Invest</b>	1,390	306	1,696	9.5%	-	1,696	9.5%
<b>Total</b>	<b>\$ 12,593</b>	<b>\$ 5,206</b>	<b>\$ 17,799</b>	<b>100.0%</b>	<b>\$ 145</b>	<b>\$ 17,944</b>	<b>100.0%</b>

<sup>1</sup>As of March 31, 2022; <sup>2</sup>Includes all commitments up to last Board meeting and/or notational ballot voting

### Investment Highlights

- Investing Dynamics in the Middle Market Space
- Unique Business Development Approach
- Focus on Identifying and Executing on Value Creation Levers
- Portfolio Companies Exhibit Durable, Non-Cyclical Businesses
- Attractive Performance in Prior Funds

### Investment / Risk Considerations

- Effecting Operational Improvements
- Middle Market Valuations
- Largest Fund Size Incline Has Raised



## Investment Committee Disclosure

Relationship with Hamilton Lane:	<p>"Eleven discretionary Hamilton Lane clients and/or commingled products have committed an aggregate \$194.5 million across prior Incline funds. Additionally, one discretionary Hamilton Lane client and/or commingled product has made co-investments alongside Incline Management for approximately \$14.0 million.</p> <p>Preliminary Hamilton Lane allocation data as of September 2, 2022, indicates that five discretionary Hamilton Lane clients and/or commingled products plan to commit an aggregate \$82.5 million to Fund VI. Please note that this information, which is available to PSERS upon request, is subject to change pending further review and decision making between Hamilton Lane and its clients.</p>
Introduction Source:	Existing Relationship
Compliance with Placement Agent Policy:	As confirmed by PSERS' Office of Chief Counsel on September 19, 2022, this investment complies with the Board's policy.
PA Political Contributions:	None Disclosed.
PA Presence:	Yes
Potential Conflicts:	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
Litigation Disclosure:	Incline receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business and to the best of Incline's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on Incline or the Fund.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	No
Certification of Due Diligence Costs:	IOP certifies that there was no travel associated with the due diligence of Incline Equity Partners VI, L.P. and PSERS was not reimbursed for any travel costs related to due diligence of the Fund.