



Public Investment Memorandum

Clayton, Dubilier & Rice Fund XII, L.P.

Private Equity Commitment

Allocation Implementation Committee
Approval Date: December 29, 2022



Executive Summary

G. Anthony Meadows, Portfolio Manager, and Hamilton Lane Advisors, L.L.C. (“Hamilton Lane”), recommend that the Board commit an amount not to exceed \$100 million, plus reasonable normal investment expenses, to Clayton, Dubilier & Rice Fund XII, L.P. (the “Fund” or “Fund XII”), and/or related investment vehicles.

Fund Name	Clayton, Dubilier & Rice Fund XII, L.P.
Firm Name	Clayton, Dubilier & Rice, LLC (“CD&R”, or the “Firm”)
Target Fund Size / Hard Cap	\$20 billion / \$23 billion
Recommended Commitment Amount	\$100 million
Existing Relationship	No
Asset Class / Sub Asset Class	Private Equity / Buyout
Investment Office Professionals Due Diligence Team (“IOP”)	G. Anthony Meadows, Portfolio Manager Philip S. VanGraafeiland, Intermediate Investment Professional
Investment Office Oversight	Darren C. Foreman, Director G. Anthony Meadows, Portfolio Manager
External Consultant Oversight	Hamilton Lane Advisors, L.L.C.
ESG Policy (Y / N)	Yes

Firm Overview

Founded in 1978, CD&R has distinguished itself in the private equity industry as a business builder. Over their history, the Firm has garnered a reputation for addressing complex divestitures and partnering alongside management teams, entrepreneurs, corporations, and family owners to help businesses achieve their full potential. CD&R is viewed as a value-additive partner, attracting owners who are seeking private equity firms to invest and help build or operationally improve their businesses. The Firm is based in New York and London and employed 226 professionals, including 111 investment professionals, as of September 30, 2022, all devoted to managing the Firm’s single buyout strategy. The team’s concerted effort is supported by more than 30 external advisors who bring deep industry expertise and valuable personal networks to CD&R. The Firm is wholly owned and led by its partner group, including Nathan Sleeper (CEO), David Novak (Co-President), Richard Schnall (Co-President), and Donald Gogel (Chairman).

Market Opportunity

As with previous funds, CD&R anticipates investing Fund XII’s capital into businesses operating in the U.S. and Western Europe. The current macro environment for both geographies is similarly affected by high inflation, volatile public equity markets, elevated geopolitical tension from the Russo-Ukrainian War, and a central bank which has raised interest rates to levels not seen since 2008-2009. The challenges posed by uncertainty and periods of transformational change often cause business owners to re-think business strategies and growth opportunities, each of which frequently incentivize sellers to seek the operationally minded capital provided by CD&R.

CD&R has a track record of successfully investing during challenging markets, such as the Global Financial Crisis (“GFC”), and the Firm seeks to benefit from circumstances which may highlight the general partner’s strengths to sellers. For example, larger conglomerates may seek to carveout a company that needs operational improvement, an aspect where CD&R excels. In such situations, experienced and reputable investors such as CD&R may be able to provide strategic capital and operational capabilities where other potential buyers cannot.



Fund Investment Strategy

CD&R seeks to generate attractive returns by building better businesses. The Firm primarily invests in U.S. and Western European companies within six sectors: business services, consumer/retail, healthcare, industrials, technology, and financial services. CD&R's investment strategies generally fall within four categories: businesses at an inflection point, businesses positioned to capitalize on industry consolidation, complex divestitures, and transformational growth businesses. To address the unique needs of each portfolio company, CD&R utilizes their team's deep sector expertise, operating resources, financing capabilities, and decades of investment experience to implement operational improvements that drive growth, productivity, and innovation.

CD&R primarily focuses on control investments. With control investments, the Firm has greater flexibility to implement value-additive changes. When investing in a non-control position, CD&R typically seeks governance rights that give it substantial influence, still allowing for CD&R to implement improvements. Their target companies are typically large and established, with enterprise values ranging from \$1 billion to \$10 billion.

Partnerships between their portfolio companies and the Firm have been and remain an integral part of the Firm's investment strategy. The Firm allows sellers to maintain a sizeable ownership stake in the business post-sale. This seller-friendly mentality creates alignment among the parties and has produced advantaged sourcing opportunities for the Firm.

Given operational improvement is central to CD&R's mission of building businesses, the Firm has invested in numerous resources that enable and support their value-creation capabilities. In addition to their investment team, CD&R leverages their Operating Resources group, comprised of professionals who average more than 40 years of management leadership experience within more than 80 industry subsectors. Nine of those individuals are full-time Operating Partners employed by CD&R, while the remaining 34 are part-time Operating Advisors. The Operating Advisors are engaged by CD&R's funds and are not partners or employees of CD&R. Members of the Operating Resources Group typically join CD&R with distinguished backgrounds, such as former CEOs of large enterprises. The Firm integrates their functional experience, networks, and operational insight throughout the investment process, including during the sourcing, management, and exiting of a portfolio company.

Similar to previous funds, CD&R Fund XII's strategy will be based on a set of defining principles, including:

- One-Fund Structure and Singular Private Equity Focus
- Deep Industry Insight and Reach
- Advantaged Sourcing
- Strategic Solution-Oriented Capital
- Returns Based on Operational Value Addition
- Highly Disciplined Investment Decision-Making Processes
- Proactive Exit Management

PSERS History & Performance

This commitment would represent PSERS' first investment with CD&R.



Portfolio Fit

A commitment to the Fund would be allocated to the Buyout sleeve of PSERS' Private Equity portfolio. Fund XII complements PSERS current Private Equity portfolio construction by addressing the underweight to mega and large buyout managers illustrated in Hamilton Lane's August 2022 "PSERS Private Markets Strategic Plan" presented to the Board. The table below summarizes PSERS' projected Private Equity portfolio exposure inclusive of a recommended \$100 million commitment to the Fund:

Investment Type	Market Value ¹	Unfunded ^{1,2}	Total Exposure	%	Pending Current Recommendations		
					Jan 2023	Total Exposure	%
					\$ M	\$ M	%
Buyout	\$ 8,347	\$ 3,532	\$ 11,879	70.3%	\$ 100	\$ 11,979	70.5%
Growth Equity	1,257	840	2,097	12.4%	-	2,097	12.3%
Venture Capital	1,027	286	1,313	7.8%	-	1,313	7.7%
Internal Co-Invest	1,364	235	1,599	9.5%	-	1,599	9.5%
Total	\$ 11,995	\$ 4,893	\$ 16,888	100.0%	\$ 100	\$ 16,988	100.0%

¹As of June 30, 2022; ² Includes all commitments up to last Board meeting and/or notational ballot voting

Investment Highlights

- Alignment of Interests
- Strong Historical Performance
- Operating Model
- Single-Strategy Firm

Investment / Risk Considerations

- Unrealized Investments Held Across Prior Funds
- Rising Interest Rate Environment
- Business & Market Risk
- Fund Size

Investment Committee Disclosure

Relationship with Hamilton Lane:	Two discretionary Hamilton Lane clients and/or commingled products have committed an aggregate \$50 million across prior Clayton, Dubilier & Rice funds. Additionally, three discretionary Hamilton Lane clients and/or commingled products have made co-investments alongside Clayton, Dubilier & Rice totaling approximately \$71 million. Lastly, six discretionary Hamilton Lane clients and/or commingled products have made secondary purchases of Clayton, Dubilier & Rice-managed funds totaling \$70 million. Preliminary Hamilton Lane allocation data as of November 21, 2022, indicates that four Hamilton Lane clients, including PSERS, plan to commit an aggregate \$267.8 million to Clayton, Dubilier & Rice Fund XII. Please note that this information is subject to change pending (i) Hamilton Lane's discussions with its other clients, and (ii) decisions made by Hamilton Lane's Allocation Committee, which serves the firm's discretionary clients. Hamilton Lane would provide an update on those possible decisions to PSERS upon request.
Introduction Source:	PSERS IOP
Compliance with Placement Agent Policy:	As confirmed by PSERS' Office of Chief Counsel on December 28, 2022, this investment complies with the Board's policy.



PA Political Contributions:	Yes, disclosed
PA Presence:	Yes, 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.
Litigation Disclosure:	CD&R receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business. To the best of CD&R's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on CD&R 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 there was no travel associated with the due diligence of Clayton, Dubilier & Rice Fund XII, L.P., and PSERS was not reimbursed for any travel costs related to due diligence of the Fund.