



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Clearlake Capital Partners V, L.P.

Special Situations Commitment

James F. Del Gaudio
Portfolio Manager

November 6, 2017



Recommendation:

Staff, together with Hamilton Lane Advisors, L.L.C. (“Hamilton Lane”), recommends the Board commit up to \$200 million to Clearlake Capital Partners V, L.P. (the “Fund”, or “Fund V”). Clearlake Capital Group, L.P. (“Clearlake” or the “Firm”) is seeking to raise Fund V to continue the Firm’s flexible investment strategy; focused on North American, middle-market companies that are undergoing complex financial, operational or structural change.

Firm Overview:

Clearlake was established in 2006 and is currently managed by José E. Feliciano and Behdad Eghbali (the “Co-Founders”). Based in Santa Monica, California, Clearlake’s team consists of over 40 professionals, including 16 investment professionals, all of which are located in Clearlake’s sole office. Clearlake has been a Registered Investment Adviser with the Securities and Exchange Commission since March 2012. The Firm currently has assets under management of over \$3.7 billion from over 100 institutional investors across two distinct strategies:

Strategy	AUM ¹	Focus
Clearlake Capital Partners (“CCP”)	\$3.2 billion	<ul style="list-style-type: none"> • Control Oriented • Special Situations Equity • Secondary Markets – for Control
Clearlake Opportunities Partners (“COP”)	\$542 million	<ul style="list-style-type: none"> • Non-Control Oriented • Structured Credit and Equity • Secondary Markets – for Yield

(1) AUM as of October, 2017. AUM was calculated using the total limited partner capital commitments plus any appreciation/depreciation in the individual funds. AUM may fluctuate over time as appreciated investments are exited and realized proceeds are distributed to limited partners.

Since inception, Clearlake has raised five distinct funds managed by the Co-Founders together with other Clearlake investment professionals. PSERS previously committed \$57.5 million to Clearlake Capital Partners IV, L.P. (“Fund IV”), a 2015 vintage, \$1.38 billion fund that is approximately 75% invested to date. Clearlake is currently seeking \$2.5 billion for Fund V to continue its focus on North American, middle-market special situations investments within its target industry sectors (industrials and energy; software and technology-enabled services; and consumer).

Market Opportunity:

Clearlake believes that there continues to be an attractive opportunity for special situations and value private equity investing in North America, particularly in small- and medium-sized companies. These companies have historically faced unique challenges across different phases of the economic and credit cycle, as they often have fewer available financing options and a general lack of managerial and/or financial resources to take their companies to the next level. As a result, these companies frequently present more compelling opportunities for value creation, and in many cases, at below-market purchase multiples. As it relates to Clearlake’s specific industry sector focus (industrials and energy; software and technology-enabled services; and consumer), companies in these sectors are undergoing constant change and Clearlake’s extensive experience and relationships across these sectors should set them apart from other distressed investment firms and lead to strong deal flow.

Clearlake has successfully implemented its strategy in several different market environments including before, during, and after the “Great Recession” which resulted in significant credit market dislocation. For the past several years, both equity and credit markets have continued their recoveries. For Fund V, Clearlake anticipates a bifurcated market environment over its five-year investment period, with a continued defensive emphasis on non-cyclical sectors such as software and business services for the first few years. That said, Clearlake does expect to see an inflection point at some point during the Fund’s investment period with increased potential for dislocations that may enhance their investment opportunity set given their special situations focus. As an example, this could provide a cyclical tailwind for industrial deals.



Portfolio Fit:

A commitment to Fund V allows PSERS to continue its relationship with a high-conviction manager that is well positioned to generate strong investment performance across market cycles. The Fund's net return target is in-line with PSERS' objective for the Special Situations portfolio of generating mid-teen plus returns over the life of the investment. Fund V will be allocated to the Special Situations sleeve of PSERS' Private Markets portfolio and the table below summarizes PSERS' projected Private Markets exposure inclusive of a recommended \$200 million commitment:

Investment Type (\$M)	Active Commitments ¹	%	Market Value	%	Unfunded ¹	%	Total Exposure ¹	%
Private Equity	\$ 15,172.4	65.4%	\$ 5,400.4	67.2%	\$ 3,885.1	70.5%	\$ 9,285.5	68.5%
Special Situations	4,754.8	20.5%	1,049.2	13.1%	991.7	18.0%	2,040.9	15.1%
Venture Capital	2,797.0	12.1%	996.1	12.4%	574.8	10.4%	1,570.9	11.6%
PE Internal	465.4	2.0%	592.8	7.4%	61.5	1.1%	654.4	4.8%
Total	\$ 23,189.5	100.0%	\$ 8,038.5	100.0%	\$ 5,513.2	100.0%	\$ 13,551.7	100.0%

(1) As of June 30, 2017. Includes post Q2'2017 pending/closed commitments.

Investment Strategy:

Clearlake pursues a flexible investment strategy targeting companies that are undergoing complex financial, operational or structural change, for which it believes the Firm's expertise and value investing approach, can generate compelling risk-adjusted returns. The Fund will focus primarily on North American, middle-market companies within its target industry sectors (industrials and energy; software and technology-enabled services; and consumer), but will opportunistically seek to take advantage of market dislocations, out-of-favor industries, and companies in transition across different phases of the economic cycle. Investment opportunities often involve (1) bankruptcies, restructurings and turnarounds; (2) companies experiencing legal or regulatory challenges; (3) companies undergoing challenges meeting growth plans; and (4) other major corporate transitions including transformational acquisitions, carve-outs or divestitures. Clearlake anticipates that the Fund V portfolio will be comprised of less than 20 core investments and several toehold investments. Fund V will target investments of \$50 million to \$175 million in target companies with enterprise values typically ranging between \$100 million to \$750 million.

Anticipated Stage / Investment Transaction Focus - Fund V ⁽¹⁾		
Transaction Type	Projected # of Deals	Projected % of Fund
Special Situations/Value Private Equity	7 - 9	50.0%
Distressed Secondary Markets	4 - 5	25.0%
Distressed Private	3 - 4	25.0%
Total	14 - 18	100.0%

(1) According to Clearlake, based on a target fund size of \$2.5 billion.

Clearlake takes a value add approach by identifying private equity investment opportunities or fulcrum securities that provide the ability to control or exercise significant influence in distressed situations. Clearlake's operational improvement approach has evolved into a proprietary framework called O.P.S.[®] (Operations, People, and Strategy). Through O.P.S.[®], Clearlake executes upon its investment thesis to implement change post investment in conjunction with its Executive Council (*see Investment Team*), a network of operating executives and consultants who will, at times, participate in various advisory or direct capacities with portfolio companies and provide Clearlake additional insights into the operating dynamics of an underlying business.



Investment Structure:

Clearlake seeks to generate 25%+ gross returns for targeted investments over typical hold periods of three to five years. Clearlake invests with an emphasis on obtaining control of or exercising significant influence in its portfolio companies as it seeks to create value through active leadership and governance to effect change. The Firm maintains a flexible investment philosophy in special situations, investing across the capital structure in debt or equity securities. This flexibility enables Clearlake to structure transactions to achieve strong investment returns while providing downside protection in a variety of market environments while creating significant equity upside potential. Clearlake has maintained its value discipline, evidenced by the fact that average entry/creation multiples for its investments are typically below market averages.

Clearlake takes a conservative approach to portfolio company leverage given the Firm's focus on operationally and financially challenged companies. Clearlake has typically employed leverage multiples between 0.0x and 5.0x EBITDA across prior fund investments. Clearlake has historically created value through a combination of EBITDA growth, multiple expansion and debt paydown across prior funds; with the majority of value created through multiple expansion. While not always desirable, this makes intuitive sense for Clearlake given their focus on challenged and out-of-favor businesses. Clearlake is typically able to acquire businesses at a discounted multiple, improve operations and market positioning, complete add-on acquisitions at low purchase multiples, and then exit the stabilized businesses at improved multiples.

Investment Instruments:

In private investments, potential securities and instruments used may include a combination of common equity, unsecured debt, secured debt, debtor-in-possession (DIP) loans and bilateral credit facilities and specific investments may make use of features such as convertibility, earn-outs, warrants and make-whole premiums. In capital markets investments, Fund V will concentrate on acquiring material stakes in debt instruments or claims, including control or blocking positions in certain classes of debt or other claims.

Investment Team:

Clearlake is led by its two managing partners, José E. Feliciano and Behdad Eghbali, who co-founded the Firm in 2006. Clearlake's team consists of over 40 professionals, including 16 investment professionals. Clearlake's investment professionals include two Managing Partners, two Partners, one Managing Director, three Principals, two Vice Presidents and six Associates. The Firm's senior investment professionals (VP and above) average ~16 years of experience driving deep expertise and networks within the Firm's target sectors and within the distressed and restructuring communities. The table below summarizes the experience of Clearlake's two managing partners:

Name	Title	Yrs. Experience Clearlake / Total	Prior Experience
José E. Feliciano	Managing Partner and Co-Founder	11 / 21	<ul style="list-style-type: none"> ● Tennenbaum Capital Partners ● govWorks, Inc. ● Goldman, Sachs & Co.
Behdad Eghbali	Managing Partner and Co-Founder	11 / 19	<ul style="list-style-type: none"> ● TPG Capital ● Venus Capital Management ● Turbolinux ● Jefferies ● Morgan Stanley

Clearlake's investment approval process, led by the Firm's Investment Committee ("IC"), is both rigorous and highly selective. While investment decisions formally require unanimous approval by the two Co-Founders, Clearlake encourages a collaborative approach requiring all investment professionals to attend and participate in IC meetings.

As discussed above, O.P.S.[®] (Operations, People, Strategy) is the Firm's proprietary framework for active value enhancement in both traditional private equity and special situations investments. This team includes Tony La Rosa (Managing Director), Amanda Fields (Senior Associate), and Lisa Flanigan (Support).



Further supporting Clearlake's investment team is a network of 20+ operating advisors with substantial experience in the Firm's core target sectors (the "Executive Council") to provide industry expertise and additional insights into operating dynamics of businesses. Executive Council members are not employees of the Firm. As such, compensation and structure for Executive Council members may vary from full-time employment by a portfolio company to specific transactional work related to an individual investment opportunity or to less formal non-exclusive independent contractor consulting arrangements.

Investment Highlights:

Flexible Investment Strategy
The ability to invest across multiple cycles allows Clearlake to capitalize on the convergence between special situations/value private equity and distressed investing. The inherent complexity of these special situations opportunities – whether targeting fulcrum securities in distressed companies, sponsoring a strategic combination, or identifying value private equity opportunities – often dictates a creative approach towards investment structure. Clearlake believes its experience investing in all components of the capital structure provides a more flexible, creative approach to structuring investments than that of traditional private equity or distressed debt investors. This approach also provides downside protection and superior preservation of investment principal in a variety of market environments while creating significant equity upside. Importantly, Clearlake's focus on small- and medium-sized companies preserves the ability to exit investments to larger-cap private investment funds in addition to other typical exit alternatives. Clearlake also differentiates itself from other distressed firms given its industry specialization.
Experienced and Cohesive Investment Team
The Firm's senior investment professionals (VP and above) average ~16 years of experience driving deep expertise and networks within the Firm's target sectors and within the distressed and restructuring communities. The Co-Founders are well tenured, having invested four prior funds in the strategy, and have built the senior team gradually through internal promotions and select external hires. Deal teams are typically comprised of seven investment professionals, including one Co-Founder four additional senior professionals and two junior staff members. Given Clearlake's preference for organic growth of the investment team, their deal-staffing model absolutely helps transcend the experience of senior team members throughout the junior team. With regard to turnover, Clearlake has not experienced any senior departures from the investment team since the prior fundraise.

Investment / Risk Considerations:

Competition
As an active participant in the special situations and distressed markets, Clearlake can be compared to a number of investment managers that invest in special situations. That said, many of these firms, focus on larger transactions than those targeted by Clearlake. Staff agrees with Clearlake that the competitive landscape for special situations and distressed funds focused on the middle market is substantially less efficient than other parts of the investment universe.
Allocation of Investment Opportunities Among Firm Products
In 2015, Clearlake established its COP strategy with \$543 million in commitments. COP was the first among Clearlake's funds fully dedicated to non-control investments, including secondary stressed high yield debt, structured equity and structured credit in small- and medium-sized companies. This was a natural product extension for Clearlake given their investment professionals frequently encounter compelling investment opportunities but without the ability to control or exercise significant influence. Staff reviewed Clearlake's Investment Allocation Policy during diligence and believes it adequately mitigates the concern regarding allocation of investment opportunities among firm products that cannot be readily identified as control or non-control. Investment allocation conflicts not addressed by the policy will be brought to the limited partner advisory board for review.



Liquidity & Leverage Profile

Throughout the Fund's five-year investment period, Clearlake will have the ability to reinvest distributed proceeds that represent a return of capital. As a result, these investment proceeds will increase PSERS' undrawn commitments (up to the amount of its initial commitment) and will be available for recall. After the expiration of the investment period, the Fund will have up to five years to harvest its investments, subject to two one-year extensions with the consent of the limited partner advisory board.

While Clearlake does not employ leverage to enhance returns, they do utilize limited leverage to deploy commitments more efficiently (i.e. working capital). In past funds, Clearlake utilized capital call or other similar revolving facilities (expected to be limited to 25% of Fund V commitments) for cash management purposes and to provide interim financing prior to the receipt of capital contributions such as the need for immediate execution of equity and bank debt purchases in the secondary market.

PSERS History & Performance:

PSERS previously committed \$57.5 million to Clearlake Capital Partners IV, L.P. ("Fund IV"). The table below summarizes PSERS' performance as of June 30, 2017:

<u>Fund (\$M)</u>	<u>Portfolio</u>	<u>Vintage</u>	<u>Commitment</u>	<u>Contributions</u>	<u>Distributions</u>	<u>NAV</u>	<u>Net IRR</u>	<u>Net MoC</u>
Fund IV	SS	2015	\$ 57.5	\$ 42.6	\$ 4.1	\$ 55.6	42.9%	1.40x

Investment Committee Disclosure:

Relationship with Hamilton Lane:	Fourteen discretionary Hamilton Lane clients and commingled products have committed an aggregate \$123.5 million across prior Clearlake funds. Additionally, five discretionary Hamilton Lane clients and commingled products have made co-investments alongside Clearlake totaling approximately \$33.3 million.
Introduction Source:	Fund Sponsor
Placement Agent:	Yes, in connection with the marketing of Fund V, Clearlake has engaged Credit Suisse Securities (USA) LLC ("Credit Suisse"). Credit Suisse will be compensated based on aggregate commitments to Fund V (including any amounts committed to Fund V by PSERS) subject to certain minimums and other requirements. However, such fund commitments exclude commitments by certain entities including entities that prohibit or limit the use and/or compensation of placement agents. The placement fees paid to Credit Suisse will not be borne by the Fund V limited partners. Instead, management fees will be reduced by the limited partner's pro rata share of the placement fees paid.
PA Political Contributions:	None Disclosed
PA Presence:	No
Potential Conflicts:	We are not aware of Clearlake having any investment conflicts.
First Time Fund With PSERS:	No
PSERS Allocation Implementation Committee Approval:	November 6, 2017



Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments James F. Del Gaudio Portfolio Manager
External Consultant:	Hamilton Lane



Hamilton Lane

October 12, 2017

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

Re: Clearlake Capital Partners V, L.P.

Dear Trustees:

Clearlake Capital Group ("Clearlake") was founded in 2006 and has a well-tenured senior investment team with significant experience, having invested four prior funds in the strategy. Since its founding, Clearlake has grown significantly, adding professionals across the platform; in aggregate, the General Partner now employs 41 employees. Clearlake staffs large deal teams, typically comprised of seven investment professionals, allowing Clearlake to deploy adequate resources in distressed and complex opportunities and foster a vertically-integrated organization. Clearlake Co-founders, José Feliciano and Behdad Eghbali, are responsible for managing the organization and work as generalists, while the other investment professionals have developed focus areas. Clearlake is targeting \$2.5 Billion in commitments from limited partners for its fifth buyout fund, Clearlake Capital Partners V, L.P. (the "Fund"). Clearlake expects to hold a first close in Q4 2017 and a final close in January 2018. The General Partner will commit at least 2% of commitments to invest in or alongside the Fund.

The Fund will primarily pursue middle-market special situations investments, with a continued emphasis on North American companies within the General Partner's four core sector verticals: (i) technology & business services, (ii) industrials, (iii) consumer and (iv) healthcare. The General Partner's consistent focus on these four core sectors has allowed it to develop expertise and a competitive advantage, while its broad sector exposure allows it to invest opportunistically. The senior investment professionals' deep networks and reputation as flexible, value-additive partners have driven substantial direct deal flow, often enabling the General Partner to invest at attractive entry prices. Clearlake has the flexibility to invest throughout the capital structure in equity and debt positions, further allowing it to negotiate attractive purchase prices. Regardless of the transaction structure, Clearlake invests with the expectation of ultimately gaining control of the asset or influencing the outcome of a bankruptcy or restructuring process. Clearlake intends to use its control position to implement value creation initiatives through its O.P.S. framework, which seeks to institutionalize its approach to optimizing operations, developing an appropriate organizational structure and refining its investment thesis into actionable strategic initiatives. The Fund will primarily target equity investments in the range of \$50 million to \$175 million, targeting companies with enterprise values between \$100 million and \$700 million. Clearlake estimates that the Fund will make fewer than 20 investments. Clearlake has generated consistently attractive net returns across prior funds, with top-quartile performance in Funds III and IV.

Clearlake Capital Partners V's investment thesis can be summarized as follows:

- Clearlake has an experienced investment team with significant platform growth and increased institutionalization
- The General Partner's consistent focus on middle-market special situations investments drives meaningful direct deal flow



Hamilton Lane

- Flexible strategy enables Clearlake to target complexity, capture market opportunity and add value
- Attractive performance across prior funds with significant near-term realizations expected

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 June 30, 2017; the on-site due diligence was conducted September 7, 2017; the fund was approved by Hamilton Lane's Investment Committee on September 25, 2017 and the recommendation to PSERS was issued October 12, 2017.
- 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 Clearlake'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 – Special Situations component of the portfolio.

The individuals at Hamilton Lane who were involved in the due diligence process for the Fund are:

Andrea Kramer – Managing Director, Bala Cynwyd Office

Andrew Rich – Associate, Bala Cynwyd Office

Julia Butz – Analyst, Bala Cynwyd Office

Roy Walker – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$200 million in Clearlake Capital Partners V, 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,
Managing Director

Corina English,
Vice President