



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Hahn & Company III L.P.
Hahn & Company III-S L.P.

Private Equity Commitment

Michael Tyler
Portfolio Manager

G. Anthony Meadows
Sr. Investment Analyst

May 3, 2019



Recommendation:

PSERS Investment Professionals, together with Hamilton Lane, recommends the Board commit up to a combined \$150 million to Hahn & Company III L.P. and Hahn & Company III-S L.P. (together Hahn & Company, Hahn, or the Fund) with a minimum of 20% allocated to Hahn & Company III-S, L.P.

Firm Overview:

Hahn & Company makes privately negotiated equity investments in South Korea. Hahn & Company focuses solely on South Korea and has developed significant investment experience, operating experience, and business relationships there. They seek to raise \$2.5 billion to invest in companies that have clear value propositions, market leadership, or other competitive advantages, primarily through non-auction deals. The Fund will take controlling stakes to allow it to actively manage its investments and bring its experience in operational improvement to bear. The Fund plans to continue its proven track record of successes by focusing on its disciplined, value-oriented investment strategy, leveraging its extensive local access, local knowledge, and local business network to provide attractive risk-adjusted returns for investors.

Fund Size & Commitment:

Hahn & Company is seeking equity commitments of \$2.5 billion. PSERS is targeting a \$150 million commitment.

Investment Strategy:

Hahn's investment strategy follows its core investment philosophy. That philosophy focuses on five tenets:

1. Attractive entry valuation is a key starting element in driving superior return and minimizing risks;
2. Superior returns require an informational advantage; experience in and knowledge of the business sectors to be evaluated is a Hahn core competency.
3. Active involvement in portfolio companies drives private equity value creation.
4. Sound decision making requires a disciplined, collaborative and repeatable process; when applied to the exclusive focus on South Korea investments, it creates a strong competitive advantage.
5. Local knowledge and personal relationships drive superior deal sourcing, operational improvement and exits.

In line with prior funds, using the core investment philosophy as a roadmap, Hahn will make privately negotiated equity and equity related investments with a strong connection to South Korea primarily via control transactions. Control allows Hahn to exert significant influence as owners of the business and generate investment returns relatively uncorrelated with public market returns. The Fund will make investments in both publicly listed companies and private companies where there is a clear value proposition, market leadership, or other competitive advantage. The Fund will generally hold an investment for five years to construct and grow platforms, adding value, while growing revenue and EBITDA. Multiple exit avenues have been used, among them private sales, public share offerings, and dividend recapitalizations. The fund will thoughtfully manage portfolio diversification, consistent with prior funds.

Hahn's sourcing and operational improvement are its two key competitive advantages. Hahn's status as one of a small number of domestically-licensed private equity firms with sizable capital base and an all-Korean investment team allows unique access to business leaders in South Korea. There is a strong cultural preference to conduct business with local, trusted partners with whom they have long-established professional or personal relationships and who understand local business dynamics. This is particularly true in sourcing investment opportunities, as most deals are done privately, and would not be known to outside investors. This avoids the highly competitive auction processes common in the U.S. and Europe. The ability to be an insider to private deals allows for more thorough due diligence, better networks available to develop post-acquisition operating strategies, more favorable entry multiples, and better deal terms. Their



history of accessing more spin-off deals from *chaebols* (family-owned conglomerates) than any other firm or buyers is evidence that their investment strategy can and should continue to produce superior risk-adjusted returns. In summary, Hahn's focus on the unique domestic situations presented in today's South Korea should continue to result in first quartile performance.

Team:

Hahn & Company's team is experienced and stable; they have significant experience managing investments across multiple economic, financial, and technology market cycles. The senior team is detailed below.

Hahn & Company Senior Investment Professionals					
Name	Title	Age	Total Exp. / Hahn Tenure	Prior Experience	Education
Scott Sang-Won Hahn	CEO	47	24 / 9	MD, CIO of Asia, Head of Korea, Morgan Stanley PE Asia	Harvard, MBA Yale, BA
Keith Kyung-Koo Kim	Managing Director	43	18 / 9	VP, Morgan Stanley PE Asia; McKinsey	Seoul National Univ., BA
Jae-Min Kim	Managing Director	44	19 / 8	Principal, H & Q AP Korea; McKinsey	Yonsei University, BS
Daniel Sung-Kwan Cho	Managing Director	37	12 / 9	Sr. Associate, Coller Capital; Analyst, Morgan Stanley PE Asia	Harvard, MBA Stanford, BA
Anthony Min-Gyu Bae	Managing Director	36	12 / 9	Associate, Morgan Stanley PE Asia	Univ. of Pennsylvania, BA
Jun-Woo Park	Managing Director	36	12 / 9	Analyst, Citigroup Global Markets	Wharton, BA

Hahn & Company Senior Operating and other Professionals				
Name	Title	Focus	Prior Experience	Education
Yeo-Eul Yoon	Chairman	Operations Focus; Portfolio Co. Management	Sony Group, Sony Music	Sophia Univ., BSBA, Harvard, MBA
Pratish S Patel	CFO	Finance, Fund Admin & Investor Relations	Morgan Stanley PE Asia	Syracuse, BS
Dong-Chung Lee	Managing Director	Operations Focus; Portfolio Co Management	Sony Group, LG Group	Myongi Univ., BS
Sung-Ju Kim	Managing Director	Operations Focus; Portfolio Co. Management	Sony Group, Samsung	Chungang Univ., BS



Market Opportunity:

South Korea represents an attractive investment opportunity within Asia that allows investors to capitalize on solid economic growth in a country with advanced infrastructure, well-developed capital markets, strong rule of law, and deregulated free markets. South Korea is the fourth largest economy in Asia, (after China, India and Japan) a member of the Organization for Economic Co-operation and Development (OECD) and G20, has a highly educated workforce, and is geographically well positioned. South Korea is one of only seven countries in the world with per capita income over \$30,000 with more than 50 million population. South Korea has one of the world's strongest fiscal balances and foreign currency reserves. Sovereign credit ratings have been upgraded to be the highest in Asia. The South Korean economy maintains a well-diversified export base to growing emerging markets and high-tech exports to the rest of the world. The rise of world class, diversified *chaebols* has allowed South Korea to develop manufacturing driven global competitiveness with advanced technologies across multiple sectors. These *chaebols* may have dozens or even hundreds of businesses across a wide range of activities. While the strength of these firms has caused South Korea to become a global leader in key industries such as semi-conductors, displays, mobile devices, automobiles, auto parts, IT components, shipbuilding, shipping, and internet related areas of media, gaming, entertainment and e-commerce, the high level of competency needed to compete in any given sector has caused *chaebols* to assess core vs non-core businesses and seek to divest non-core assets. This divestiture of non-core and typically under-managed businesses is central to Hahn & Company's pipeline of investment options.

Investment Highlights:

- Korea Focus on Privately Negotiated Control Investments
- Firm Competitive Advantages
- Focus Investing in Korea's Core Competencies
- Korea Exit Considerations

Investment / Risk Considerations:

- Economic, Political and Social Risks
- Changes in Government Policies
- Relations with North Korea
- General Regulatory Environment
- Korean Private Equity Fund Regulations

PSERS History & Performance:

This is the first Hahn & Company fund in which PSERS is investing.

Portfolio Fit:

A commitment to Hahn & Company would be allocated to the Private Equity portfolio. This commitment will allow PSERS to initiate a relationship with a proven manager in a highly differentiated strategy that is well positioned to execute in South Korea, an underpenetrated private equity market with high barriers to entry.



The table below summarizes PSERS' projected exposure at 12/31/18 inclusive of a recommended \$150 million commitment to the Fund:

Investment Type	Market Value	%	Unfunded ¹	%	Total Exposure ¹	%
Private Equity	\$ 5,227	63.8%	\$ 4,295	72.7%	\$ 9,522	67.5%
Special Situations	\$ 1,200	14.6%	\$ 825	14.0%	\$ 2,025	14.4%
Venture Capital	\$ 1,048	12.8%	\$ 697	11.8%	\$ 1,745	12.4%
PE Internal	\$ 721	8.8%	\$ 93	1.6%	\$ 814	5.8%
Total	\$ 8,195	100.0%	\$ 5,910	100.0%	\$ 14,105	100.0%

¹As of December 31, 2018; plus proposed commitments through May 2019.

Investment Committee Disclosure:

Disclosure issue:	Disclosure:
Relationship with Hamilton Lane:	Hamilton Lane has been an investor of prior funds managed by the General Partner (GP) (including co-investments) dating back to Fund I and is also an investor in Fund III. Otherwise, the GP has never engaged Hamilton Lane in any capacity nor has the GP, its affiliates or employees invested in any programs of Hamilton Lane.
Introduction Source:	Hamilton Lane
Placement Agent:	Not engaged to date, but the GP is planning to retain one to diversify their investor base.
PA Political Contributions:	None disclosed
PA Impact:	None disclosed
Potential Conflicts:	None disclosed
First Time Fund With PSERS:	Yes
PSERS Allocation Implementation Committee Approval:	May 3, 2019

Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments Darren Foreman Director Michael Tyler Portfolio Manager G. Anthony Meadows Sr. Investment Analyst
External Consultant:	Hamilton Lane



April 10, 2019

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

Re: Hahn & Company III, L.P.

Dear Trustees:

Hahn & Company ("Hahn") was founded in 2010 by Scott Hahn, Yeo-Eul Yoon, Keith Kim and Pratih Patel and has since built strong brand value as an established local investor in Korea. The senior investment professionals have worked together since the General Partner's inception and have significant experience investing together. Hahn's investment team is well-staffed with deal leads across the senior and mid-levels and is further supported by an operations team and the Strategic Resources Group. The operations team focuses on portfolio company operations and management and is comprised of eight professionals. Hahn's value creation approach is driven primarily by the operations team; however, the investment team remains involved throughout the life of the investment. The General Partner may have daily onsite interaction with portfolio company management in order to implement strategic operational changes formulated by the investment and operations teams prior to the investment. The Strategic Resources Group is comprised of 12 professionals who undertake various corporate functions, such as HR, IT and ERP at the General Partner and at portfolio companies. Hahn has experienced limited senior turnover, with only one mid-level operations professional departure and one junior investment departure since inception. Hahn is targeting \$1.85 billion in commitments for its third buyout fund, Hahn & Company III, L.P. (the "Fund"). As of April 2019, Hahn had closed on over \$2.1 billion of commitments and expects to hold final close in June 2019. The General Partner will commit at least 2% of commitments to invest in the Fund.

Consistent with the General Partner's prior funds, the Fund will target buyout and roll-up opportunities in Korea. Hahn's deep local networks, among conglomerates in particular, have allowed it to source direct deal flow. The General Partner continues to differentiate itself as having expertise in corporate carve-outs and government auctions and expects additional deal flow to arise from these situations. Hahn seeks to focus on direct sourcing from conglomerates and government auctions to secure fair purchase price multiples, instead of competing with Pan-Asian private equity firms in open auction processes. Hahn maintains a flexible approach to industry focus and expects the Fund's industry exposure to reflect the opportunity set. The General Partner views high value-added manufacturing as Korea's core competency; as such, prior funds have had significant exposure to industrials businesses, such as auto parts and building materials companies. Hahn also targets growth sectors in Korea that are underpinned by increasing goods and services consumption as well as the aging population. Value creation has historically been attributable to EBITDA growth, as a result of improvements from strategic and operational initiatives. The General Partner typically creates value through add-on acquisitions, streamlining organizational structures and installing appropriate corporate governance structures to remove legacy issues in conglomerates, creating incentive plans across all levels, improving operational efficiency and executing new business plans with management teams. The Fund will target approximately eight equity platform investments in the range of \$150 million to \$500 million. The General Partner has generated top-quartile DPI, TVPI and net IRR performance in Fund I, with additional upside expected in Fund II.

Hahn & Company III's investment thesis can be summarized as follows:



Hamilton Lane

- Reputable local investor with a tenured and experienced senior team
- Differentiated by its consistent focus on buyouts in Korea
- Attractive realized returns with limited capital losses to date

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 March 8, 2018; the on-site due diligence was conducted April 3, 2018; the Fund was approved by Hamilton Lane's Investment Committee on May 1, 2018, a performance addendum was completed April 1, 2019 and the recommendation to PSERS was issued April 10, 2019
- 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 Hahn'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 Partnership component of the portfolio

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

Mingchen Xia – Managing Director, Hong Kong Office

Vivienne Watganai – Vice President, Hong Kong Office

Stefanie Chan – Analyst, Hong Kong Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$150 million in Hahn & Company III, 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