

Public Investment Memorandum

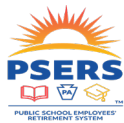
Incline Equity Partners V, L.P.

Private Equity Fund Commitment

Darren C. Foreman, CAIA
Director, Private Markets

Luke M. Jacobs, CFA
Manager, Private Markets

November 20, 2019



Recommendation:

PSERS Investment Office Professionals, together with Hamilton Lane Advisors, L.L.C. (“Hamilton Lane”), recommend to the Board a commitment of up to \$150 million to Incline Equity Partners V, L.P., (“Incline”, “Fund V” or the “Fund”).

Incline Management L.P. was formed in 2011 and is based in Pittsburgh. Incline formerly was called PNC Equity Management Corp. (“PNC”), a wholly owned subsidiary of PNC Financial Services Group. PNC was originally founded in 2001 and through a spin-out led by Jack Glover and Justin Bertram, they formed Incline in 2011. The Principals have managed a total of \$1.375 billion for PNC Equity Partners I, PNC Equity Partners II, Incline Equity Partners III and Incline Equity Partners IV, collectively, completing 39 total platform company acquisitions over the last 18 years.

Firm Overview:

Incline has 29 employees located in two offices, Pittsburgh and NYC. Incline focuses on investing in the lower middle market, with a focus on quality businesses operating in the value-added distribution, specialized light manufacturing and business services sectors. Fund V will seek to continue the investment strategy developed and implemented by the Incline team since 2001. Thematically, the Fund will seek to “start with the end in mind” in order to develop an investment thesis and a value-creation plan tailored to each investment that can transform a smaller, entrepreneurial enterprise into a larger, professional company that will be attractive to both strategic buyers and/or larger private equity funds. The Fund also intends to target companies for Fund V that are likely to benefit from Incline’s active operational improvements. This strategy has been effective in creating portfolio value in both robust and more challenging economic environments in each of the prior funds.

Fund Size:

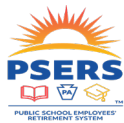
The Fund is seeking Limited Partner equity commitments of up to \$850 million, with a hard cap of \$1.1 billion.

Investment Strategy:

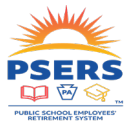
Incline has generated attractive investment returns for its investors through its disciplined investment process developed over the last 18 years. Fund V represents a continuation of the investment strategy that they have developed over this period. Incline’s investment strategy represents an attractive opportunity to invest with an experienced investment manager targeting an underserved niche of the private equity market.

The core elements of Incline’s investment strategy are:

- **Lower Middle Market Specialization** - Fund V intends to continue the Incline strategy of pursuing control-oriented equity investments in lower middle market companies, which is generally defined as companies with enterprise values in the \$100 million to \$450 million range. The lower middle market offers attractive investment opportunities to experienced investors because it remains a less efficient market and because companies in this segment are often more receptive to, and more in need of, operational focus and strategic discipline. Incline’s approach is based on company-specific value-creation strategies which focus primarily on (i) identifying areas for operational improvement, (ii) completing strategic acquisitions and (iii) augmenting a company’s management team and board of directors when appropriate.



- **Active Portfolio Company Management** - Fund V expects to target companies of a size where consistent involvement by their senior management in developing strategies, supporting growth, improving business practices and making acquisitions has the potential to result in meaningful improvements in company performance. Incline has active involvement and will seek to exert influence to achieve a value-creation plan on their investment companies. Incline intends to maintain regular contact with its portfolio company CEO's 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 that is implemented with each new portfolio company in an effort to track the company's tactical progress toward achieving its value-creation strategies. This business metrics measurement package typically includes company-specific operating metrics (e.g., profitability per route, lines per order, calls per day, etc.) as well as historical and forecasted financial information. Moreover, this active approach will often include the participation of one or more of Incline's operating executives on a portfolio company's board of directors. This close interaction allows them to thoughtfully evaluate, and quickly make decisions with respect to, portfolio health and management.
- **Thoughtfully Planned Exit Strategy** - Incline's investment thesis-driven approach to transforming entrepreneurial enterprises into larger, professional companies creates attractive strategic exit options involving buyers seeking to pay a full market price for high quality assets. To accomplish this, Incline "starts with the end in mind" and craft a value-creation strategy specific to each business that focuses on developing the corporate attributes that potential future buyers value most. This strategy typically takes shape early in the investment process from discussions that Incline pursues with industry experts, as well as conversations with competitors, customers, suppliers and potential acquirers of the target company. From these discussions, Incline seeks to form a deeper understanding of the strengths and weaknesses of a company relative to its market position and begins to develop its investment thesis to seek to optimize this position. Once the strategic plan is formed, Incline monitors progress with an eye to showing traction with the growth levers identified during Incline's hold period, leaving additional runway for growth for the next buyer. By balancing value creation execution with leaving a clear growth vision for the next buyer, Incline seeks to maximize return opportunities. Incline displays the benefits of this approach through their return performance – of their 26 investment realizations, 22 have exceeded a gross 2.0x MoC (multiple of cost) while only two showed any loss of capital at all.
- **Three Core Business Sectors** - The Incline team has considerable prior experience investing in Incline's core business sectors: value-added distribution, specialized light manufacturing and business services. Within value-added distribution services, the Incline team has strong expertise and understanding of route-based distribution and "hourglass" distribution business models. These types of value-added distribution business models are, in Incline's experience, generally characterized by significant barriers to entry as a result of route density, regional economies of scale and meaningful supplier and/or customer relationships. For business services, Fund V will generally seek to invest in business models that perform an essential outsourcing function, feature a recurring or predictable revenue stream, possess a strong tie-in to each customer's operations and are not highly dependent on specific personnel. With regards to specialized light manufacturing, Fund V will generally target niche manufacturers who operate in specialized markets, where in Incline's experience customers value the manufacturer's brand or service capabilities and the threat of offshore competition is more limited.
- **Disciplined Investment Process** - In pursuing Fund V's investment strategy, Incline intends to continue to utilize a rigorous investment process that has been refined over their long tenure together and has generated meaningful value creation for investors. Incline believes that this process will allow them to focus resources on those transactions that fit Fund V's investment strategy, while dismissing other transactions in a thoughtful yet efficient manner. Initial evaluations of transactions will typically be discussed among all members of the Incline investment team at regularly scheduled meetings during which Incline will seek to identify value-



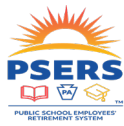
creation opportunities as well as key issues that require further due diligence. As a portfolio investment candidate becomes more actively considered, Incline will work closely with company management and, if applicable, the intermediary, to complete its evaluation, with particular emphasis placed upon these key issues. Incline typically will hold extensive discussions with their network of operating executives as well as with other industry experts to develop a better understanding of a portfolio investment candidate's market and competitive landscape and to further refine the company's value-creation strategy. Incline will seek to market and negotiate debt financing based on its assessment of the appropriate capital structure. Investment proposals containing a proposed capital structure, incentive plan for senior management of the underlying portfolio companies, and employment and other provisions that are customized on a deal-by-deal basis will then be delivered to the company. After acceptance of an investment proposal, Incline leads the due diligence process, manage the scope of work to be performed by the necessary third-party consultants, secure debt financing commitments and negotiate appropriate legal documents. Incline will also typically begin its growth and strategic planning with the company at this stage in order to build buy-in from the management team regarding the company's value-creation plan following the closing. This plan is documented in a thorough analysis that is shared with the portfolio company management team at or around closing. As part of the due diligence process, Incline will typically perform primary management assessments, market analyses, competitive benchmarking, operational assessments, information technology evaluations, financial and accounting analyses, environmental assessments, supplier references and customer references research. Once Incline reaches consensus in its support for the investment, it will be presented to Incline's Investment Committee for formal approval.

Investment Team:

The following list represents the senior management team at Incline who will be dedicated to overseeing the successful execution of the Fund (as of 06/30/19):

Name	Title	Yrs. Experience Firm/Total	Prior Experience
*John "Jack" Glover	Managing Partner	23 / 29	PNC Equity, Wheat First Securities
*Justin Bertram	Senior Partner	21 / 23	PNC Equity, Bear Stearns & Co.
*Leon Rubinov	Senior Partner	8 / 19	Sterling Partners, BCG
Deanna Barry	CFO	7 / 23	PNC Equity, KPMG
John Morley	Partner	6 / 13	H.I.G. Growth Partners, Sorenson Cap.
Joseph Choorapuzha	Partner	4 / 14	Tenex Capital, Centre Lane
April Simile	Partner of Bus. Develop.	7 / 20	Allegheny Valley Bank
Mike Antonelli	Principal	2 / 12	Citigroup, PWC
Cale Grove	Vice President	2 / 7	J.P. Morgan
Brad Phillips	Vice President	2 / 9	Heritage Group, LaSalle Capital
Zack Buzzatto	Vice President	<1 / 10	Credit Suisse
Sarah Halvonik	Sr. Associate of Bus. Develop.	2 / 8	P3R, Bruno Event Team
David Delaini	Co-Controller	<1 / 10	PNC Capital
Jason O'Toole	Co-Controller	3 / 12	PNC Capital
Michele Lindemann	Office Manager	1 / 4	Huntington Bank, American Eagle

*members of the investment committee



Investment Instruments:

Incline Equity Partners V will seek to make control-oriented equity investments.

Investment Highlights:

- Strong Performance History
- Large Market Opportunity
- Disciplined, Comprehensive Sourcing Strategy

Investment/Risk Considerations:

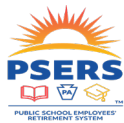
- Team Bandwidth
- Larger Fund Offering

PSERS History & Performance:

This will be PSERS' sixth commitment to an Incline Equity Partners fund. The table below is as of 06/30/19:

Fund (\$M)	Portfolio	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	Net MOIC
*PNC Equity Partners, L.P.	PE	2001	43	39	77	0	21.11%	1.96x
*PNC Equity Partners II, L.P.	PE	2007	68	58	124	0.3	14.81%	2.13x
*Incline Equity Partners III, L.P.	PE	2012	65	68**	94	65	34.83%	2.34x
*Incline Equity Partners IV, L.P.	PE	2017	90	41	0.1	42.6	6.62%	1.04x
Incline Elevate Fund, L.P.	PE	2019	75	0	0	0	NA	NA
Total			\$341	\$206	\$295	\$107	19.99%	1.95x

*The current senior Incline team has also managed the PNC Funds.
** Contribution amount is greater than commitment amount because of recycling.



Portfolio Fit:

A commitment to the Fund will give PSERS' Private Markets portfolio, specifically in the private equity space, exposure to the middle range of the buyout market. A commitment to the Incline Equity Partners V fund will be allocated to the Private Equity sleeve of PSERS' Private Markets portfolio. The table below summarizes PSERS' projected Private Equity exposure as of June 30, 2019 (in millions):

Investment Type	Market Value ¹	%	Unfunded ^{1, 2}	%	Total Exposure	%
Private Equity	\$5,579	64.5%	\$3,707	74.4%	\$9,286	68.1%
Special Situations	\$1,181	13.6%	\$621	12.4%	\$1,802	13.2%
Venture Capital	\$1,078	12.5%	\$591	11.8%	\$1,669	12.2%
Internal Co-invest	\$816	9.4%	\$67	1.3%	\$883	6.5%
Total	\$8,654	100.0%	\$4,985	100.0%	\$13,640	100.0%

¹ As of June 30, 2019; ² Includes commitments approved through October 2019.

Investment Committee Disclosure:

Relationship with Hamilton Lane:	Hamilton Lane will be committing \$70M of discretionary capital to the Fund.
Introduction Source:	PSERS has been an investor since 2001.
Placement Agent:	Incline has not engaged a placement agent in soliciting business from PSERS. However, Incline has retained Sixpoint Partners, as a placement agent to assist in the marketing of the Fund. As a limited partner in the fund, PSERS would fund their pro-rata portion of the expense which is then fully (100%) offset against management fees.
PA Political Contributions:	None Disclosed
PA Presence:	Yes, one investment
Potential Conflicts:	None Disclosed
History with PSERS:	Yes, please see "PSERS History & Performance" on page 5
PSERS Allocation Implementation Committee Approval Date:	November 20, 2019

Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments Darren C. Foreman, CAIA Director Luke M. Jacobs, CFA Manager
External Consultant:	Hamilton Lane



Hamilton Lane

October 25, 2019

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

Re: Incline Equity Partners V, L.P.

Dear Trustees:

Incline Management, L.P. ("Incline") was founded in 2011 by Jack Glover, Justin Bertram and Wali Bacdayan after spinning out of PNC Equity, continuing the equity strategy they developed during their tenures at PNC Equity, focusing on distribution, business services and light manufacturing companies. Incline's flagship investment team consists of three Senior Partners, two Partners, one Principal, three Vice Presidents and five Associates; the investment team exclusively operates out of the General Partner's Pittsburgh office. The investment team is supported by three sourcing professionals and a team of Operating Executives. The General Partner's sourcing efforts are led by April Simile and Sarah Halvonik, who are fully dedicated to the development and management of its firm-wide pipeline and sourcing process. Incline leverages its longstanding relationships driven by a consistent investment focus. Incline's deep bench of Operating Executives are experienced industry professionals that engage in improving leadership, strategy development, acquisition integration, company-specific sourcing and operational diligence. The Operating Partners are functionally focused with deep expertise across the target sectors and are engaged and compensated by portfolio companies, although Incline may recommend their involvement. Incline is targeting \$850 million in commitments for Incline Equity Partners V, L.P. (the "Fund"). Incline expects to hold a first close in December 2019 and a final close in January 2020. The General Partner will commit at least \$35 million of commitments to invest in the Fund.

The Fund will pursue U.S.-based lower middle-market opportunities, a segment of the market in which the General Partner has deployed a significant amount of capital. Incline has exclusively focused on distribution, business services and light manufacturing companies since its inception, allowing it to develop meaningful expertise and industry relationships. The General Partner focuses on four business models, including route-based distribution, "hourglass" distribution, outsourced services and niche manufacturing; companies employing these business models generally operate with high barriers to entry, recurring cash flows, diversified customer bases, high operating margins, stable market share and end-market diversification. Incline's consistent focus on its core sectors and business models has enabled it to develop a market presence of deep networks across investment banks, brokers, private equity sponsors and management team executives, which has led to significant and attractive deal flow. The General Partner seeks to drive organic growth by developing strategic initiatives, replacing management teams and utilizing portfolio company data to improve operations, leveraging its Operating Executives for their industry expertise. Incline may also complete add-on acquisitions, typically in instances when there are barriers to organic geographic / product expansion. The General Partner has exited all realized investments through strategic or financial sales, which demonstrates its ability to scale and institutionalize its portfolio companies for larger financial and / or strategic buyers. The Fund will target 11 to 13 equity investments up to \$100 million in companies with enterprise values up to \$450 million. Incline has produced top-quartile or near top-quartile returns on a net IRR, DPI and TVPI basis across prior funds.

Incline Equity Partners V's investment thesis can be summarized as follows:



Hamilton Lane

- Experienced investment team that has targeted the lower-middle market since inception
- Consistent business model focus enables repeatable value creation
- Attractive performance across prior funds with the proven ability to return capital quickly
- Limited loss ratio demonstrates emphasis on downside protection

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 18, 2019; the on-site due diligence was conducted September 17, 2019; the Fund was approved by Hamilton Lane's Investment Committee on September 30, 2019 and the recommendation to PSERS was issued October 25, 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 Incline'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:

Christian Kallen – Managing Director, Bala Cynwyd Office
Victor DeVincenzo – Senior Associate, Bala Cynwyd Office
Chelsea Yasgur – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$150 million in Incline Equity 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,
Chief Client Officer

Corina English,
Principal