



Public Investment Memorandum

Clearlake Capital Partners VI, L.P.

Special Situations Commitment

James F. Del Gaudio
Senior Portfolio Manager

November 6, 2019



Recommendation:

PSERS Investment Office Professionals, together with Hamilton Lane Advisors, L.L.C. (“Hamilton Lane”), recommend the Board commit up to \$200 million to Clearlake Capital Partners VI, L.P. (the “Fund”, or “Fund VI”). Clearlake Capital Group, L.P. (“Clearlake” or the “Firm”) is seeking to raise Fund VI 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 59 professionals, including 24 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. Clearlake has managed over \$10 billion of institutional capital since inception and its senior investment principals have led or co-led over 100 portfolio company investments.

Strategy	AUM ¹	Focus
Clearlake Capital Partners (“CCP”)	\$7.5 billion	<ul style="list-style-type: none"> • Control Oriented • Special Situations Equity • Secondary Markets – for Control
Clearlake Opportunities Partners (“COP”)	\$2.0 billion	<ul style="list-style-type: none"> • Non-Control Oriented • Structured Credit and Equity • Secondary Markets – for Yield
Co-Investment Vehicles	\$1.8 billion ²	<ul style="list-style-type: none"> • Value Private Equity • Structured Equity

(1) AUM as of June 30, 2019. Pro-forma for the partial sale of Perforce Software, which closed on July 1, 2019, and inclusive of Dragon Co-Investment Partners, L.P., which closed on September 25, 2019. 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.

(2) Includes Dragon Co-Investment Partners, L.P., which closed on September 25, 2019.

Since inception, Clearlake has raised seven 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, \$100 million to Clearlake Capital Partners V, L.P. (“Fund V”), a 2017 vintage \$3.62 billion fund, and \$100 million to Clearlake Opportunities Partners II, L.P. (“COP II”), a 2019 vintage \$1.40 billion fund. Clearlake is currently seeking \$5 billion for Fund VI to continue its focus on North American, middle-market special situations investments within its target industry sectors (industrials & energy, software & 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 & energy, software & 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 VI, Clearlake anticipates a bifurcated market environment over its six-year investment period, with a growing emphasis on defensive, non-cyclical sectors (such as software and business services) which should mitigate the impact of a potential economic contraction.

Portfolio Fit:

Clearlake's investment strategy will serve to complement PSERS' existing portfolio and a commitment to Fund VI will enable PSERS to continue its relationship with a high-conviction manager. A commitment to Fund VI will be allocated to the Special Situations bucket of PSERS' Private Markets portfolio.

The table below summarizes PSERS' projected Private Markets exposure inclusive of a recommended \$200 million commitment to Fund VI:

Investment Type	Market Value ¹	%	Unfunded ¹	%	Total Exposure	%
Private Equity	\$5,579	64.5%	\$3,707	71.5%	\$9,286	67.1%
Special Situations	\$1,181	13.6%	\$821	15.8%	\$2,002	14.5%
Venture Capital	\$1,078	12.5%	\$591	11.4%	\$1,669	12.1%
Internal Co-invest	\$816	9.4%	\$67	1.3%	\$883	6.4%
Total	\$8,654	100.0%	\$5,185	100.0%	\$13,840	100.0%

(1) As of June 30, 2019. Includes post Q2'2019 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 & energy, software & 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 VI portfolio will be comprised of less than 20 core investments and several toehold investments. Fund VI will target equity investments of \$100 million to \$500 million in target companies with enterprise values typically ranging between \$200 million to \$2 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 and has typically employed leverage multiples up to ~5.0x EBITDA across prior fund investments. That said, Clearlake may go up to ~6.0x leverage in certain situations where companies are experiencing solid growth. 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 VI will concentrate on acquiring material stakes in debt instruments or claims, including control or blocking positions in certain classes of debt or other claims. In capital markets investments, Fund VI will concentrate on acquiring material stakes in debt instruments or claims, including control or blocking positions in certain classes of debt or other claims. As such, it is expected that Fund VI will have similar limitations to Clearlake's previous funds such as a limitation on the amount of publicly traded non-control equity investments held by Fund VI as a percentage of aggregate commitments.

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 59 professionals, including 24 investment professionals. Clearlake's investment professionals include two Managing Partners, three additional Partners, six Managing Directors, two Vice Presidents, nine Associates, and two analysts. The Firm's senior investment professionals (VP and above) average over 17 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	13 / 23	<ul style="list-style-type: none"> ● Tennenbaum Capital Partners ● govWorks, Inc. ● Goldman, Sachs & Co.
Behdad Eghbali	Managing Partner and Co-Founder	13 / 21	<ul style="list-style-type: none"> ● TPG Capital ● Venus Capital Management ● Turbolinux ● Jefferies ● Morgan Stanley

Clearlake's Investment Committee ("IC") is comprised of the two Co-Founders, and the investment decisions formally require unanimous approval. 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. As part of the *O.P.S.*[®] team, Tony La Rosa, current Managing Director of Clearlake and previous Chief Information Officer of Ivanti, a cross-fund investment, helps implement various value add-initiatives at portfolio companies and oversees Clearlake's IT infrastructure operation.

Further supporting Clearlake's investment team is a network of 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
- Experienced and Cohesive Investment Team
- Strong Investment Performance Across Prior CCP Funds
- Fund IV Performance to Date
- Fund V Performance to Date
- Co-Investment Opportunities
- Recycling of Invested Capital

Investment / Risk Considerations:

- Increased Fund Size / Growth of Team to Manage Increasing AUM
- Competition
- Allocation of Investment Opportunities Among Firm Products
- Liquidity & Leverage Profile

PSERS History & Performance:

PSERS previously committed \$57.5 million to Fund IV and \$100.0 million to Fund V as part of Clearlake's flagship, control-oriented strategy, and \$100 to their non-control strategy via COP II. In addition, PSERS has committed \$60.6 million to co-investments with Clearlake.

The table below summarizes PSERS' performance with Clearlake as of June 30, 2019:

Fund (\$M)	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
Fund IV	2015	\$57.5	\$68.0 ¹	\$38.0	\$69.9	31.8%	1.59x
Fund V	2017	100.0	48.0	1.5	71.5	63.9%	1.52x
Total (Funds IV & V)		\$157.5	\$116.0	\$39.6	\$141.4	37.6%	1.56x
Co-Investments	N/A	\$60.6	\$47.6	-	\$ 58.8	19.9%	1.24x
Total		\$218.1	\$163.6	\$39.6	\$200.2	36.8%	1.47x

¹Contributions exceed commitments due to recycling of distributed capital

PSERS' commitment to COP II is not included in the table above given the fund had not called capital until August 2019.



Investment Committee Disclosure:

Relationship with Hamilton Lane:	Nineteen discretionary Hamilton Lane clients and commingled products have committed an aggregate \$303.5 million across prior Clearlake funds. Additionally, twelve discretionary Hamilton Lane clients and commingled products have made co-investments alongside Clearlake totaling approximately \$126.1 million.
Introduction Source:	Fund Sponsor
Placement Agent:	Clearlake has not engaged a placement agent in soliciting business from PSERS and no placement agent will receive any fees in connection with an investment in the Fund by PSERS. In connection with the marketing of Clearlake Capital Partners VI, L.P. ("Fund VI"), Clearlake Capital Group, L.P. (the "Investment Manager") has engaged Credit Suisse Securities (USA) LLC ("Credit Suisse"). Credit Suisse will be compensated based on aggregate commitments to Fund VI subject to certain minimums and other requirements. However, such fund commitments exclude commitments by certain entities, including PSERS and other entities, which prohibit or limit the use and/or compensation of placement agents.
PA Political Contributions:	None Disclosed
PA Presence:	Yes
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, 2019

Oversight Responsibility:

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



Hamilton Lane

October 28, 2019

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

Re: Clearlake Capital Partners VI, 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 five prior funds in the strategy. Since its founding, Clearlake has grown significantly, adding professionals across the platform. In aggregate, the General Partner now employs 59 employees, split between 24 investment professionals and 35 other employees. The General Partner 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. The investment team is supported by a group of Executive Council members who provide operational and industry insights and visibility into portfolio company-specific dynamics. In 2013, Clearlake established its Operations, People, Strategy framework consisting of four in-house operating professionals to work in conjunction with the Firm's Executive Council and provide support to the investment team. Clearlake is targeting \$5.0 Billion in commitments from limited partners for its sixth buyout fund, Clearlake Capital Partners VI, L.P. (the "Fund"). Clearlake expects to hold a first close in December 2019 and a final close in Q1 2020. The General Partner will commit at least 3% of commitments to invest in or alongside the Fund.

The Fund will primarily pursue special situations, distressed debt and private equity investments in small and mid-sized businesses in the United States, with an opportunistic approach to international investments. Clearlake's targeted businesses typically are undergoing financial, operational or structural challenges in which the senior investment professionals can provide significant value add improvements. The General Partner remains opportunistic in its investment structure and intends to capitalize on dislocations that it identifies through its thematic sourcing approach. Additionally, Clearlake has significant expertise investing in both credit and equity markets, allowing it to efficiently deploy capital despite the macroeconomic environment. The General Partner focuses on a diversified set of sectors, including software & technology, consumer, healthcare and industrials, in which the investment professionals have developed significant knowledge and expertise. Clearlake's sector expertise allows it to identify attractive investment opportunities and position it as a preferred partner due to its knowledge of the competitive landscape, as well as the ability to flexibly invest. The General Partner's value-add capabilities are driven by its construction approach to operational improvements and its ability to boost portfolio company performance post-acquisition. Clearlake engages its Executive Council to work with management teams and drive operational improvements, benefitting the businesses' financial metrics. The Fund will target 16 to 20 equity investments in the range of \$100 million to \$500 million, targeting companies with enterprise values between \$200 million and \$2 billion. Clearlake has generated consistently attractive net returns across prior funds, with top-quartile performance in Funds III, IV and V.

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

- Established organization with significant investment and operating expertise



Hamilton Lane

- Consistent focus on targeted regions and sectors with an emphasis on the technology vertical
- Opportunistic and flexible strategy enables the General Partner to provide value across market cycles
- Attractive performance across prior funds

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 August 30, 2019; the on-site due diligence was conducted October 10, 2019; the fund was approved by Hamilton Lane's Investment Committee on October 28, 2019 and the recommendation to PSERS was issued October 28, 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 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

John Stake – Principal, Bala Cynwyd Office

Andrew Rich – Associate, San Francisco Office

Daniel Crossan – Analyst, Bala Cynwyd Office

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