



Public Investment Memorandum

Clearlake Flagship Plus Partners L.P.

Special Situations Commitment

James F. Del Gaudio
Senior Portfolio Manager

Sean T. Sarraf
Investment Professional

July 14, 2020



Executive Summary

PSERS' Investment Office Professionals ("IOP"), together with Hamilton Lane LLC ("Hamilton Lane"), recommend that PSERS invest \$75 million in Clearlake Flagship Plus Partners L.P. (the "Fund" or "Flagship Plus"). This recommendation is based on our assessment of the investment strategy and our evaluation of Clearlake Capital Group, L.P. and its affiliates ("Clearlake" or the "Firm").

Fund Name	Clearlake Flagship Plus Partners L.P.
Firm Name	Clearlake Capital Group, L.P.
Target Fund Size / Hard Cap	\$1 to \$1.5 billion / TBD
Recommended Commitment Amount	\$75 million
Existing Relationship	Yes
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Equity / Special Situations
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments James F. Del Gaudio, Senior Portfolio Manager Sean T. Sarraf, Investment Professional
External Consultant Oversight	Hamilton Lane LLC

Clearlake was established in 2006 and is currently managed by José E. Feliciano and Behdad Eghbali (the "Co-Founders"). Clearlake has been a Registered Investment Adviser with the Securities and Exchange Commission since March 2012. Based in Santa Monica, California, Clearlake's team consists of 70 professionals, including 28 investment professionals, all of whom are located in Clearlake's Santa Monica office. In June 2020, Clearlake acquired WhiteStar Asset Management, a Dallas-based CLO manager, with approximately \$6 billion of AUM and 20 professionals. As of March 31, 2020, Clearlake managed approximately \$24 billion of institutional capital.

Clearlake anticipates raising approximately \$1 to \$1.5 billion in capital commitments for the Fund and seeks to generate attractive risk-adjusted returns by investing both alongside the Clearlake Capital Partners ("CCP") and Credit Opportunities Partners ("COP") strategies (collectively referred to as the "Flagship Funds") in larger transactions, and on its own in other tactical or special situations opportunities. These distressed and special situations adjacencies will span the entire capital structure across both private and public markets, including credit and equity.

PSERS and Clearlake have an established partnership dating back to 2015 which represents \$510.9 million of total exposure (NAV plus unfunded commitments) across the Private Credit and Special Situations portfolios as of March 31, 2020. To date, PSERS has committed \$468.4 million across four Clearlake-managed funds and four co-investments. Listed below are PSERS' prior Clearlake fund commitments:

- \$57.5 million to Clearlake Capital Partners IV, L.P. in 2015 ("Fund IV")
- \$100 million to Clearlake Capital Partners V, L.P. in 2017 ("Fund V")
- \$100 million to Clearlake Opportunities Partners (P) II, L.P. in 2019 ("COP II")
- \$150 million to Clearlake Capital Partners VI, L.P. in 2019 ("Fund VI")



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 70 professionals, including 28 investment professionals. Clearlake's investment professionals include two Managing Partners, three 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, and have 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	14 / 24	<ul style="list-style-type: none">● Tennenbaum Capital Partners● govWorks, Inc.● Goldman, Sachs & Co.
Behdad Eghbali	Managing Partner and Co-Founder	14 / 22	<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 that requires all investment professionals to attend and participate in IC meetings.

Further supporting Clearlake's investment team is a network of operating advisors (the "Executive Council") 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.

Market Opportunity

The advent of Flagship Plus speaks to a significantly expanded opportunity set available to Clearlake following the onset of COVID-19 and ensuing economic dislocation. Having raised \$8.4 billion in 2019 between Fund VI and COP II, Clearlake was well-positioned to take advantage of the economic dislocation precipitated by COVID-19, deploying roughly \$2.1 billion via secondary accumulations since March 2020 at an average discount of 20% to par value. However, the global pandemic has created an unprecedented need for ongoing liquidity as well, paving the way for a long-tailed distress cycle.

Today's economic dislocation is exacerbated by the peak transaction multiples paid for companies, and significant financial leverage used to fund deals prior to the current market volatility. This distress has caused considerable constraints for both public and private companies across Clearlake's core sectors, which the Firm believes could take several quarters or years to resolve. These constraints are expected to lead to numerous opportunities to deploy bespoke capital solutions as the private and public markets adapt to new levels of market volatility. Clearlake believes that the current global economic dislocation of the "real economy" and current financial market rebound is divorced from economic reality and thus provides a unique opportunity to invest in special situations and adjacent opportunities. The Firm's total addressable market of the Clearlake Flagship Funds markedly increased, as well as in complementary investments, which has created alternative points of entry which are expected to continue to grow for the foreseeable future. Clearlake's relationships, long established track record, and reputation in the market for constructively executing tailored types of investments, coupled with Clearlake's purpose-built strategy to invest in dislocation should enable Flagship Plus to take advantage of this growing pipeline of new opportunities.



Investment Strategy

Flagship Plus will serve both as an overage vehicle investing alongside Clearlake's Flagship Funds in larger transactions and investing on its own in other tactical, distressed or special situation adjacencies. The Fund is viewed by Clearlake as a tactical allocation which allows them to compete in their core sectors (industrials, consumer, and technology) for deals that may not meet the return profile CCP or COP but still represent an attractive risk-adjusted return opportunity. Flagship Plus also will seek to capitalize on opportunities in dislocated assets that do not fit neatly in the CCP & COP mandates such as mezzanine, structured credit, public equity, and senior loan investments.

Flagship Plus is targeting 20-25 investments, with an initial position size target of 5%, and average check size of \$50 - \$200 million, the Fund seeks to generate a 12-15% net return, through investing in a combination of credit, hybrid (structured credit/equity), and equity securities. The targeted exposure ranges to these categories are wide, as allocations will depend on overage availability and tactical market opportunities that emerge throughout the recovery. However, Clearlake estimates roughly 10-50% of the fund will be credit investments, while hybrid and equity investments will both represent between 20-50% of the total allocation.

Investment Instruments

The Fund has a very flexible mandate and its investments are expected to take many forms which may include: control positions, influential minority or non-control positions, special situations, and distressed or structured solutions investments. Investments may be at any level(s) of an issuer's capital structure and include public or private equity, equity-like securities, publicly traded or privately issued or traded debt instruments, preferred equity, first- and second-lien debt instruments, high yield debt instruments, private investments in public equity, interests in business development companies, and debt of collateralized loan obligations.

Portfolio Fit

A commitment to the Fund will serve to further expand PSERS' relationship with Clearlake, increasing exposure to the Flagship Funds on a fee-advantaged basis, while gaining exposure to tactical opportunities which should benefit from compelling market tailwinds, stemming from the COVID-19 dislocation. A commitment to Flagship Plus will be allocated to the Special Situations sleeve of PSERS' Private Equity portfolio.

The table below summarizes PSERS' projected Private Equity exposure inclusive of a recommended \$75 million commitment to Flagship Plus:

Investment Type	Market Value	%	Unfunded ¹	%	Total Exposure ¹	%
Buyout	\$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%

Source: Burgiss Private-I – as of March 31, 2020.

1) Includes post Q1'2020 pending/closed commitments



Investment Highlights

- Experienced and Cohesive Investment Team
- Expanded Opportunity Set Following the Onset of COVID-19
- Fee Structure
- Strong Performance Across Prior Funds
- Leveraging the Clearlake Platform

Investment / Risk Considerations

- Special Situations Portfolio Fit
- Expanded Mandate to Include Tactical Adjacencies
- Impact on Future Co-investment Opportunities
- Ability to Deploy Larger Capital Base
- Acquisition of WhiteStar Asset Management

Investment Committee Disclosure

Relationship with Hamilton Lane	Twenty-two discretionary Hamilton Lane clients and commingled products have committed an aggregate \$510.5 million across prior Clearlake funds. Additionally, nineteen discretionary Hamilton Lane clients and commingled products have made co-investments alongside Clearlake totaling approximately \$242.1 million.
Introduction Source	Fund Sponsor
Placement Agent	<p>Neither Clearlake, nor any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person or entity to act as a placement agent in connection with PSERS' investment in the Fund.</p> <p>In connection with the marketing of the Fund more broadly, Clearlake has engaged Credit Suisse Securities (USA) LLC ("Credit Suisse"). Credit Suisse may be compensated based on aggregate commitments to Flagship Plus 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 (including PSERS).</p> <p>As confirmed by PSERS' Office of Chief Counsel on July 14, 2020, this investment complies with the Public School Employees' Retirement Board Placement Agent Policy.</p>
PA Political Contributions	None Disclosed
Conflicts of Interest	We are not aware of Clearlake having any material conflicts.
PSERS History with the Investment Manager	PSERS has invested in four prior funds (CCP Funds IV, V, & VI and COP II) and four co-investments.
Litigation Disclosure	Clearlake receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has or may have a material effect on Clearlake (including the General Partner and Management Company), the Fund, or any prior funds.
PSERS Allocation Implementation Committee Approval	July 19, 2020



Hamilton Lane

July 13, 2020

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

Re: Clearlake Flagship Plus Partners, L.P.

Dear Trustees:

Clearlake Capital Group, L.P. ("Clearlake") was founded in 2006 as a sector-focused investment firm specializing in private equity, special situations and opportunistic credit. The senior investment professionals at Clearlake are well-tenured and highly experienced within their targeted core sectors, averaging 18 years of industry experience and 10 years with the firm. The investment team also benefits from its Operations, People, Strategy group ("O.P.S") which employs a proprietary framework to manage value enhancement across the portfolio. Clearlake has thoughtfully grown both the investment and operational teams as it's assets under management have grown, ensuring it is properly staffed to continue to deploy capital and manage the unrealized portfolio. The General Partner emphasizes internal development and balances promoting internally with adding additional external resources. All investment professionals at Clearlake are eligible for a discretionary bonus based on performance. Carried interest is also distributed broadly across the firm as a retention tool. Clearlake is currently raising capital from limited partners for its fund, Clearlake Flagship Plus Partners, L.P. (the "Fund"). Clearlake expects to hold a first close in August 2020, and a final close in Q4 2020. The General Partner will commit at least 5.0% of commitments to invest in or alongside the Fund.

Clearlake has launched the Fund as an extension of Clearlake's core strategies in order to capture the attractive and diverse opportunity set that has evolved due to acute liquidity and financing needs that have resulted from COVID-19. Clearlake anticipates opportunities in distressed & special situations particularly in the secondary credit and equity markets, alternative capital solutions for high quality companies who are looking to fix their balance sheet or offensively consolidate their industry, as well as completing complex financings, asset dispositions and carve-out transactions. Clearlake is seeking to create a blended portfolio across the capital structure, where the Fund will both benefit from the attractive credit and equity deal flow that the General Partner has targeted across its Capital and Opportunities vehicles, while also capitalizing on opportunities that have a risk-return profile lower than Clearlake has historically sought. Clearlake has consistently remained focused on the industrial, software and technology-enabled services and consumer sectors, areas in which senior professionals specialize in and have developed significant experience. Clearlake also intends to continue to focus the majority of capital into North American businesses. The Fund will target approximately 20 to 25 equity investments.

Clearlake Flagship Plus Partners' investment thesis can be summarized as follows:

- Institutionalized platform with a strong brand name within the private equity and distressed middle-market space
- Flexible investment strategy of pursuing opportunities across the capital structure into operationally and financially challenged businesses
- Attractive performance across prior Clearlake Capital vehicles



Hamilton Lane

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 24, 2020; the on-site due diligence was conducted July 1, 2020; the fund was approved by Hamilton Lane's Investment Committee on July 13, 2020 and the recommendation to PSERS was issued July 13, 2020.
- 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 Equity Partnership component of the portfolio.

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

John Stake – Principal, Bala Cynwyd Office
Jeff Sowden – Associate, Bala Cynwyd Office
Meghan Suriano – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$75 million in Clearlake Flagship Plus Partners, 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