

## **PSERB Resolution 2025-40**

**Re: Hg LLP**

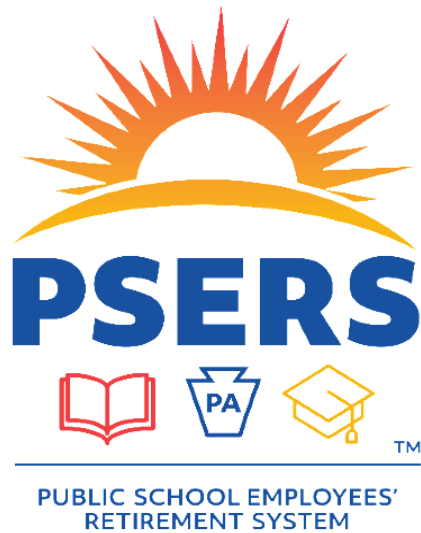
**June 13, 2025**

**RESOLVED**, that the Public School Employees' Retirement Board (the "Board") accepts the recommendation of the Investment Committee and commits an amount not to exceed:

- \$100 million, plus reasonable and normal investment expenses, in Hg Saturn 4, L.P. and/or related investment vehicles;
- €75 million, plus reasonable and normal investment expenses, in Hg Genesis 11, L.P. and/or related investment vehicles; and
- €50 million, plus reasonable and normal investment expenses, in Hg Mercury 5, L.P. and/or related investment vehicles,

in accordance with the recommendation of Ryan Rathman, Senior Portfolio Manager and Aksia, LLC.

The final terms and conditions of the investment are subject to legal due diligence and must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on, or by a memo to that effect appended to, the implementing investment contract.



# Hg LLP

## Private Equity Recommendation

**Ryan Rathman**  
Senior Portfolio Manager

**Tyler Howell**  
Investment Professional

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# Today's Presentation

## *Hg LLP (“Hg”)*

### Main Presentation

1. Asset Class Considerations
  - *Recommendation is consistent with PSERS’ Strategic Asset Allocation (SAA) and current year commitment planning.*
2. Recommendation Overview
  - *PSERS IO and Aksia recommend committing up to: \$100M to Hg Saturn 4, L.P.; €75M to Hg Genesis 11, L.P.; and €50M to Hg Mercury 5, L.P.*
3. Strategy & Expertise
  - *Deeply experienced enterprise software specialist, focused broadly on business-to-business (“B2B”) services in Europe and the United States.*
4. Investment Considerations
  - *Investment expected to face certain risks consistent with Private Equity investments, and IOP believe that Hg has identified appropriate mitigants to those risks.*
5. Investment Highlights
  - *Consistent historical performance and complementary fit with PSERS’ private equity portfolio.*

### Appendix

- Investment Committee Disclosure
- Private Equity Dashboard

# 1. Asset Class Considerations

*Recommendation is consistent with PSERS' Strategic Asset Allocation (SAA) and current year commitment planning.*

## PSERS SAA and Pacing

1. PSERS' SAA has established a target allocation of 12.0% to Private Equity.
2. The current overweight is due to an allocation reduction and slower-than-projected distributions in 2023 and 2024.
3. Aksia's latest pacing analysis suggests \$1.4B-\$2B of annual commitments to reach the target exposure in 2026. IOP propose a range of \$700M-\$1B in 2025 to scale into long term target commitment levels.
4. The pacing analysis is revisited frequently based on the actual performance of the Private Equity allocation and the broader PSERS portfolio.

SAA Allocation	
Private Equity Target	12.0%
Private Equity Actual <sup>1</sup>	14.9%
Pacing Budget for 2025	
Proposed Pacing Budget Range	\$700M - \$1B
Primary Fund Commitments	
YTD Commitments	\$233M
June 2025 Recommendations	~\$285M
Co-Investments	
YTD Commitments	\$10M
<b>Total Primary and Co-Investments</b>	<b>\$528M</b>
Remaining Budget <sup>2</sup>	\$322M
Est. Remaining Primary Fund Recommendations	~\$300M
Expected to be in Target Budget Range?	Yes

1. Private Equity Actual sourced from Verus 2024 Q4 Total Fund Report
2. Remaining to the mid-point of the pacing budget

## 2. Recommendation Overview

*PSERS IO and Aksia recommend committing ~\$185 million to Hg LLP.*

Firm Name	Hg LLP
Investment Professionals / Employees	376 total employees / 186 investment professionals
Fund Name	Hg Saturn 4, L.P. Hg Genesis 11, L.P. Hg Mercury 5, L.P.
Strategy Invested Capital <sup>1</sup>	~\$26.4B (Saturn) / ~\$22.2B (Genesis) / ~\$6.6B (Mercury)
Target Return	20% Net IRR / 2.5x Net MOIC
Target Fund Size / Hard Cap	Saturn: \$12B / No Hard Cap Genesis: €7.5B / No Hard Cap Mercury: €2.5B / No Hard Cap
Recommended Commitment (Up To)	\$100M (Saturn), €75M (Genesis), €50M (Mercury)
GP Commitment	~2%, or \$240M (Saturn), €150M (Genesis), €50M (Mercury)
Fund Structure	Closed-End
PSERS Existing Relationship	Yes
Notable Investment Committee Disclosures <sup>2</sup>	None

### 3. Hg Strategy & Expertise

*Hg invests across three fund strategies and is currently raising: Saturn 4, Genesis 11, and Mercury 5. There is a distinct separation between the investment mandates of each fund series based on target enterprise value ("EV"), with Mercury operating in the lower-mid market (EV < €1 billion), Genesis in the mid-market (EV < €2 billion), and Saturn in the upper-mid market. (EV > \$1.5 billion).*

- 1. Market Opportunity:** The market opportunity is characterized by the long-term sustained growth of spend on enterprise software and services in Europe, underpinned by the recent adoption of artificial intelligence (AI) and active implementation of AI into business systems and workflows.
- 2. Strategy:** Hg operates as a single strategy manager, with a sourcing, diligence, and value creation framework consistent across all fund series. The firm focuses on eight distinct, mission-critical “clusters” in enterprise software, targeting businesses that have a fragmented and diversified revenue base.
- 3. Portfolio Fit:** A commitment to Hg is consistent with portfolio goals to increase exposure to middle-market buyout strategies, specialist single-strategy managers, managers who have demonstrated operational expertise rather than high leverage to drive returns, and sizeable co-investment capacity to cost effectively deploy capital.

## 4. Investment Considerations

*The risks for Hg are consistent with Private Equity buyout strategies*

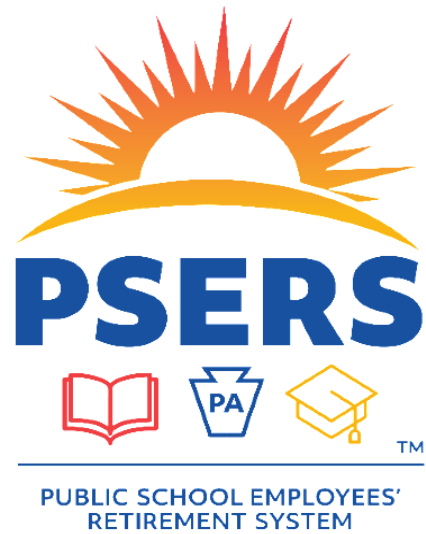
Risk	Detail	Mitigating Factors
Premium Valuations in the Software and Services Sector	Hg targets investments in the software and services sector that have historically been defined by high multiples.	<i>Hg acknowledges that it is investing in a highly priced competitive market but is focused on buying high-quality businesses with high margins and growth. The Firm has successfully maintained positive organic revenue and EBITDA growth through all market cycles.</i>
Cross Fund Investments	Given Hg employs multiple investment mandates based on target equity valuation, they may be more likely to reinvest in the same company across their fund strategies to support continued future growth, creating a natural conflict of interest.	<i>Staff has discussed this issue with Hg as well as other LPs and believes Hg's process for such transactions are properly vetted. Separate investment teams are utilized internally, and third parties are utilized to ensure each strategy is treated fairly. Additionally, Hg has a track record of transparency to their Fund LPACs.</i>
Portfolio Financing	Hg seeks to balance the competing priorities of maximizing returns and making distributions back to investors within a reasonable time frame. To accomplish these goals, Hg has begun utilizing a preferred security at the fund level to make distributions to LPs without selling companies, which they believe have substantial appreciation potential.	<p><i>Hg has several structural mitigants in-place to help protect itself in a downside scenario:</i></p> <ul style="list-style-type: none"> <li><i>• LPs would already have received cash distributions from the use of this preferred security which de-risks their investment.</i></li> <li><i>• There is no recourse to the underlying portfolio investments or ability to foreclose on the portfolio.</i></li> <li><i>• There is no regular interest payment attached to the security that could disrupt fund operations.</i></li> <li><i>• There is no recourse to LPs.</i></li> </ul>

## 5. Investment Highlights

*Hg's specialized expertise matches today's market opportunity*

Highlight	Detail
Right to Win vs Competition	Hg has become the preeminent software and services investor in Europe due to its singular focus since 2007. Through its ongoing engagement in Europe, Hg has tracked numerous companies across its areas of focus, and Hg professionals are assigned to a dedicated cluster to facilitate the associated pipeline and ensure expertise within that cluster. This approach has resulted in a clearly defined pipeline of companies, where strong relationships with vendors, founders and management teams have been developed, and when a transaction culminates, Hg is often the preferred buyer. Even in competitive situations, Hg encounters few European private equity players on a repeat basis, none of which have a dedicated investment strategy that solely targets the European software and services space.
Focus on DPI, Ability to Compound Best Assets	A core tenet of Hg's Fund management philosophy has been to consistently return capital to clients, through any market environment, and on achieving 1.0x being returned in cash on a gross basis in ~5 years. Hg's focus on gross (and net) DPI is designed to optimize both IRR and MOIC outcomes. Hg's focus on liquidity and DPI is driven by its Realization Committee, which helps to manage the Firm's portfolio in order to optimize fund outcomes. Liquidity comes from a combination of refinancings, partial realizations, and full exits.
Co-Invest Opportunities	Hg has had a strong record of offering co-investment opportunities to its Limited Partners, including PSERS. Since 2016, PSERS has co-invested in 8 opportunities, deploying ~\$198 million. The aggregate net performance of those investments as of December 31, 2024, was 23.4% IRR and 1.9x MOIC.





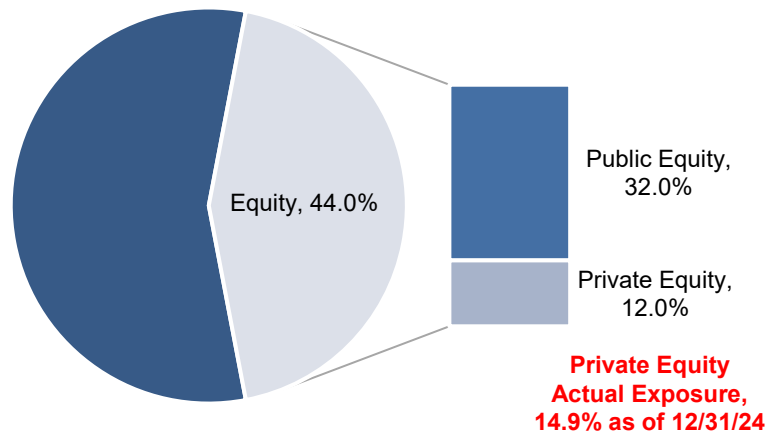
# Appendix

# Investment Committee Disclosure

Disclosure	Response
Relationship with Aksia	<i>As of January 31, 2025, 11 current Aksia advisory and investment management clients have made total aggregate subscriptions and commitments of \$1.8 billion across investments managed by HgCapital, including eight current advisory accounts (\$1.6 billion) and three current investment management accounts (\$150.2 million). As of April 30, 2025, there are six other Aksia clients considering a commitment to Hg Saturn 4; there is one other Aksia client considering a commitment to Hg Mercury 5; and four other Aksia clients considering a commitment to Hg Genesis 11.<sup>1</sup></i>
Introduction Source	Existing Relationship
Compliance with Placement Agent Policy	As confirmed by PSERS' Office of Chief Counsel on May 7, 2025, this investment complies with the Public School Employees' Retirement Board Placement Agent Policy.
PA Political Contributions	No reportable political contributions
PA Presence	None
Potential Conflicts	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
Litigation Disclosure	Hg receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business. To the best of the sponsor's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on the Firm or its funds.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	No
Certification of Diligence Costs	IOP certifies that PSERS paid all travel costs, if any, and was not reimbursed for the travel costs related to due diligence of the fund.

# Private Equity Portfolio

## Target Allocation to Private Equity In Long-Term Strategic Asset Allocation



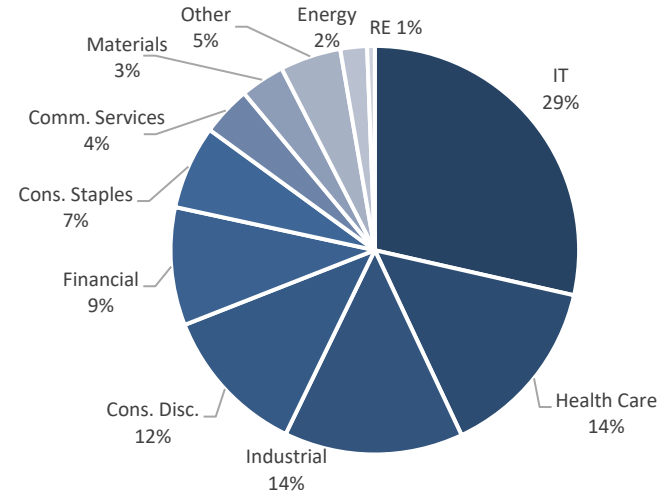
Source: Verus 4Q 2024, "Total Fund Report."

## Recent Fund Commitments (\$M)

2024	
LLR Equity Partners VII	\$125M
Clearlake Capital Partners VIII	\$100M
Summit Partners Growth Equity Fund XII	\$100M
2025	
Stellex Capital Partners III	\$133M
K6 Private Investors, LP	\$100M

Source: PSERS IOP, as of 4/30/25.

## Sector Diversification



Source: Aksia, as of 9/30/2024.

## Portfolio Performance

	Time-Weighted Return					10-Yr PME Analysis	
	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	KS-PME	Direct Alpha
Buyout	4.6%	6.5%	13.3%	11.2%	11.7%	1.0x	1.6%
Growth Equity	9.5%	3.1%	19.7%	19.3%	18.9%	1.3x	9.4%
Venture Capital	6.8%	-1.1%	12.9%	7.8%	7.8%	0.9x	-1.8%
Co-Investment	7.0%	4.9%	16.2%	17.7%	22.9%	1.3x	6.6%
Total Portfolio	5.3%	5.3%	14.5%	12.2%	12.3%	1.1x	2.5%
Benchmark	7.9%	4.5%	13.6%	12.4%	13.0%		

As of: 9/30/2024

\* Color-coding: **outperformance** or **underperformance** vs. benchmark.

\* KS PME and Direct Alpha are calculated compared to Private Equity's PME benchmark (MSCI ACWI IMI with USA Gross, Non-US Net Index, unhedged)

\* Benchmark for TWR comparisons is the PE Policy Benchmark, Burgiss PE Total Market Cap.

Diversification

Performance

Allocation

Activity

April 23, 2025

Board of Trustees  
Commonwealth of Pennsylvania, Public School Employees' Retirement System ("PSERS")  
5 North Fifth Street  
Harrisburg, PA 17101

Re: Hg Saturn 4 A LP ("Saturn"), Hg Genesis 11 A LP ("Genesis") and Hg Mercury 5 A LP ("Mercury") (collectively, the "Funds")

Aksia LLC ("Aksia"), having been duly authorized by Board of PSERS, has evaluated and hereby recommends, in line with PSERS' Investment Policy Statement, Objectives, and Guidelines, an amount not to exceed across three Hg funds as follows: Hg Saturn 4 A LP up to \$100 million, Hg Genesis 11 A LP up to €75 million, and Hg Mercury 5 A LP up to €50 million.

Hg began as Mercury Private Equity ("MPE"), the private equity arm of Mercury Asset Management. Ian Armitage began overseeing MPE in 1990 and negotiated independence in December 2000 under the new moniker, HgCapital. Armitage transitioned from CEO to Chairman in 2007, and Nic Humphries, Hg's Head of TMT at the time, was promoted to CEO and Managing Partner. Beginning with the Firm's sixth fund in 2009, Hg narrowed its scope to focus primarily on software and services companies in Northern Europe. Today, Hg continues to be led by Humphries as Senior Partner and operates out of offices in London (since inception), Munich (1999), New York (2019), San Francisco (2022) and Paris (2022). The Firm maintains three distinct private equity platforms that primarily target controlling buyouts of small (Mercury), medium (Genesis), and large (Saturn) software and services companies in Europe, along with a private debt platform (Titan). The Firm is typically a control investor that seeks to create value through organic growth, M&A, and margin expansion. Hg's investment professionals are organized around industry end-markets that are known internally as clusters and include (i) Healthcare IT, (ii) Fintech, (iii) Insurance, (iv) Technology Services, (v) Automation & Engineering, (vi) Tax & Accounting, (vii) Legal & Regulatory Compliance, and (viii) ERP & Payroll.

Hg's Saturn series is expected to pursue large software and services businesses with enterprise values of \$1.5 billion or more and equity valuations in excess of \$700 million.

Hg's Genesis series is expected to pursue middle market software and services businesses with enterprise values up to €2 billion and equity requirements between €350 million and €750 million.

Hg's Mercury series expected to pursue lower middle market software and services businesses with enterprise values up to €1 billion and equity requirements between €100 million and €300 million.

Targeted businesses for the three funds will likely have a global or Pan-European customer base rather than a single country.

Aksia's recommendation to commit as described above is based upon the following analytical factors and is made within the context of PSERS' investment guidelines:

- Due diligence of the Funds investment process, including a review of the sponsor, investment strategy, market positioning, investment personnel, and risk management;
  - Most recent investment due diligence review conducted April 2025
- Due diligence of the Funds operations, including a review of its organizational structure, service providers, regulatory and compliance, and financial statement analysis;
  - Most recent operational due diligence review conducted April 2025
- Consideration of the Funds strategies within the context of the current investment environment; and
- Consideration of the Funds strategies as a component of PSERS' portfolio

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. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,



Thomas Martin  
Partner, Co-Lead of Private Equity



Simon Fludgate  
Partner, Head of Operational Due Diligence