COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

New Mountain Partners V, L.P.

Private Equity Commitment

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Senior Portfolio Manager

Michael Tyler
Portfolio Manager

May 18, 2017

Recommendation:

Staff, together with Portfolio Advisors, recommends the Board commit up to $200 million to New Mountain Partners V, L.P. (the "Fund V" or "Fund"). New Mountain Capital LLC is sponsoring the Fund to continue the Firm's growth-buyout investment strategy.

Firm Overview:

New Mountain Capital, L.L.C. (together with its affiliates, "New Mountain," "NMC" or the "Firm") is a leading alternative investment firm. New Mountain was founded in 1999 and began operations in January 2000, following approximately twenty years of private equity investing by its founding principal, Steven B. Klinsky. Mr. Klinsky had invested through a wide range of market cycles and founded NMC with the principle of focusing on acyclical industries in order to seek to control risk and achieve upside returns. In total, NMC manages over $15.5 billion of assets under management as of September 30, 2016, comprised of over $11.5 billion of committed capital (not all of which has been drawn down) in the Firm's private equity practice (across four funds), $2.3 billion in private credit assets and $1.8 billion in public equity assets. New Mountain has raised over $11.5 billion of committed capital across four private equity funds since inception: New Mountain Partners, L.P. (together with its parallel funds, "Fund I"), began investing in 2000 with approximately $770 million in aggregate commitments; New Mountain Partners II, L.P. (together with its parallel funds, "Fund II"), began investing in 2005 with approximately $1.57 billion in aggregate commitments; New Mountain Partners III, L.P. ("Fund III"), began investing in 2007 with approximately $5.12 billion of aggregate commitments; and New Mountain Partners IV, L.P. ("Fund IV"), began investing in 2013 with approximately $4.13 billion of aggregate commitments (together, the "Funds").

New Mountain is organizing New Mountain Partners V, L.P. (together with its parallel funds, "New Mountain V," "Fund V" or the "Fund") to seek significant long-term capital appreciation typically through direct privately negotiated equity and equity-related investments with the same strategy since inception and same targeted company size it has pursued since Fund II. The Fund is targeting commitments of $5 billion.

Market Opportunity:

New Mountain believes the current market opportunity is very good for the Firm. First, while the macroeconomic outlook is uncertain, New Mountain emphasizes acyclical "defensive growth" niches of the economy that can grow and prosper even in weak macroeconomic times.

Second, the debt markets are heated and may enable financial sponsors to take on excessive risk. However, New Mountain continues to use less debt than the market is willing to provide. When New Mountain does use debt, the buoyant debt markets have enabled New Mountain to finance with few, if any, covenants and at attractive interest rates.

Third, in the current market, "sealed bid" auctions are increasingly overheated, accordingly, New Mountain has often sold its companies in auction. Meanwhile, New Mountain has successfully found attractive purchase multiples through proprietary deals or breaking auctions, resulting in a weighted average EBITDA purchase multiple of approximately 9.1x across the Fund IV portfolio. Furthermore, New Mountain has not bought one new platform company in a traditional "sealed bid" auction since the Firm began.

Finally, New Mountain believes business building is a strategy that works in all parts of the market cycle. New Mountain has consistently emphasized this approach since the Firm's founding and has proven capabilities in this regard. Most importantly, New Mountain believes its team is stronger and deeper than ever, and its list of sector advantages has grown over time, and so the Firm believes it is currently in an improved position for this reason.

Portfolio Fit:

A commitment to the Fund will be allocated to the Private Equity portfolio. An additional commitment to New Mountain will allow PSERS to continue its relationship with a high-conviction manager that is well positioned to execute on its investment strategy of buying into and growing medium-sized companies.

The table below summarizes PSERS' projected exposure inclusive of a recommended $200 million commitment to the Fund:

Investment Type ($mm)	Active Commitments	%	Market Value	%	Unfunded	%	Total Exposure	%
Private Equity	$ 14,028.8	65.8%	$ 5,275.7	68.1%	$ 3,047.1	73.3%	$ 8,322.8	69.9%
Special Situations	4,312.4	20.2%	1,056.8	13.6%	654.4	15.7%	1,711.2	14.4%
Venture Capital	2,568.7	12.1%	950.3	12.3%	382.9	9.2%	1,333.2	11.2%
PE Internal	395.5	1.9%	463.3	6.0%	75.0	1.8%	538.3	4.5%
Total	**$ 21,305.4**	**100.0%**	**$ 7,746.1**	**100.0%**	**$ 4,159.4**	**100.0%**	**$ 11,905.5**	**100.0%**

Investment Strategy:

New Mountain's investment approach has consistently emphasized business building and growth in economically acyclical industries, rather than reliance on excessive risk and debt, as its chosen path to returns. The Fund has targeted commitments of $5 billion and intends to pursue the same well proven and value-added middle market strategy that New Mountain has employed in prior funds. This strategy includes:

(i) Top down identification of proprietary "defensive growth" industries;
(ii) The systematic creation of operational and strategic competitive advantages as a private equity investor in these industries;
(iii) Proactive pursuit of companies in the chosen sectors, with the goal of avoiding auctions;
(iv) Extensive operational and strategic improvements to companies after New Mountain acquires them;
(v) A focus on tight control of risk, typically with moderate use of debt; and
(vi) A commitment to social responsibility, compliance, transparency and client service.

At the same time, New Mountain's team and its operational, sourcing and sector knowledge and resources have been steadily expanded over past years, which should provide the Fund with enhanced capabilities and resources as it begins investing.

Investment Structure:

New Mountain generally seeks to acquire four to five carefully selected middle market companies each year. The Firm typically invests $100 million to $500 million of fund capital per transaction (a target of approximately $300 million on average) in companies with enterprise values typically between $200 million and $1 billion (a target of approximately $500 million on average). New Mountain then works intensively, post-acquisition, to build the value of these companies.

New Mountain places a consistent focus on defensive growth industries – that is, sectors which New Mountain believes can succeed in both robust and weak economic environments but which are also sufficiently large and, in New Mountain's view, growing in order to achieve high valuations and returns at exit. New Mountain favors industries that:

(i) Are being driven by clear and sustainable secular growth factors;
(ii) Have high barriers to competitive entry;
(iii) Show repetitive revenue;
(iv) Have strong cash flow generation with minimal capital expenditure and minimal working capital growth needs; and
(v) Have high returns on assets and opportunities for niche market dominance.

Investment Instruments:

The firm will continue its buy and build concept of middle market private equity value creation. Throughout its history, New Mountain has worked to increase the growth, quality and value of its portfolio companies. Every private equity investment professional at New Mountain supports the Firm's portfolio companies and, as explained above, many members of New Mountain's investment team have previous operational or strategic experience. New Mountain's business building is illustrated by its "social dashboard" which it has published on the Firm's website each year since 2008. As of December 31, 2015, New Mountain's portfolio companies had added or created over 23,100 new jobs during New Mountain's periods of ownership, net of any job losses, and had invested over $3.1 billion on research and development, software development and capital expenditures. New Mountain also supports a wide range of Environmental, Social and Corporate Governance ("ESG") related initiatives.

Investment Team:

New Mountain's team consists of 123 persons, including 77 investment professionals, led by 20 Managing Directors, 17 Senior Advisors (generally equivalent to "Operating Partners" at other firms), 13 Directors and 7 Vice Presidents. Twenty-three of these professionals joined the Firm with prior experience as corporate CEOs, COOs, operating managers, chief information officers, management consultants, in government or in investigative journalism. In addition, the Firm draws upon the experience of its teams of operating managers at its portfolio companies, along with its extended network of industry experts. New Mountain has worked systematically over a period of years to build its team and capabilities. New Mountain's investment team has grown from 15 investment professionals when Fund II began, to 28 investment professionals when Fund III began, to 60 investment professionals when Fund IV began, to 77 at the launch of Fund V. Managing Directors are listed below.

Name	Role	Yrs. Experience	Prior Experience
Steven Klinsky	MANAGING DIRECTOR, Founder, and CEO	33	Forstmann Little
Alex Abularach	MANAGING DIRECTOR	12	Och-Ziff, Sorores PE
Vignesh Aier	MANAGING DIRECTOR	13	McKinsey, Oppenheimer
Raj Alva	MANAGING DIRECTOR	26	Lazard, Kidder-Peabody
Andrew Barous	MANAGING DIRECTOR	11	Peace Corps
David Coquillette	MANAGING DIRECTOR	24	Oakhill, Goldman Sachs
Alberto Delgado	MANAGING DIRECTOR	20+	CCMP Advisors, JP Morgan
Robert Hamwee	MANAGING DIRECTOR	25	Greenwich Street, Blackstone
Joseph Hartswell	MANAGING DIRECTOR	20+	Mount Kellet, AIG, SEC
Matthew Holt	MANAGING DIRECTOR	18	Lehman
Teddy Kaplan	MANAGING DIRECTOR	21	Angelo Gordon, Meyer Duffy
John Kline	MANAGING DIRECTOR	16	GSC, Goldman
Mathew Lori	MANAGING DIRECTOR	20+	CCMP, JP Morgan
Peter Masucci	MANAGING DIRECTOR	13	KKR, Goldman
Andre Moura	MANAGING DIRECTOR	14	McKinsey
Albert Notini	MANAGING DIRECTOR	33	Sonus Networks, Mfgr's Services Ltd
Dan Riley	MANAGING DIRECTOR	17	Credit Suisse First Boston
Ignacio Sarria	MANAGING DIRECTOR	22	Arcano Capital (founder), Deutsche
James Stone	MANAGING DIRECTOR	20+	Blackstone, UBS Warburg
Adam Weinstein	MANAGING DIRECTOR	20+	Deloitte & Touche

Investment Highlights:

Be Best in Class
New Mountain's mission is to be "best in class" among alternative investment managers as measured by returns, control of risk, service to its limited partners and the quality of the businesses it builds. The intention to be "best in class" is central to the Firm's culture and investment approach. The Fund's strategy is designed to work in both strong and weak macroeconomic environments and to emphasize

growth and value-add, rather than risk and debt, as its chosen path to returns.

Consistently Strong Investment Performance

New Mountain's private equity approach has achieved strong returns while simultaneously seeking to minimize risk. From inception through September 30, 2016, New Mountain has invested in 37 portfolio companies, to date, across its four prior private equity funds, generating $8.3 billion of realized proceeds and $16.6 billion of total value. New Mountain's private equity funds have created $8.8 billion of gross gains (realized and unrealized) for its investors since inception through September 30, 2016. All four of New Mountain's prior private equity funds have achieved strong performance to date:

($ in mm) Fund	Loss Ratio	Capital Invested	Realized Proceeds	Total Value	Gains to Date	Gross IRR	Net IRR	Gross MIC	Net MIC
Fund IV (2013)	0.0%	$2,141.4	$118.8	$3,079.5	$938.1	28.4%	23.1%	1.4x	1.3x
Fund III (2007)	1.7%	$4,015.5	$4,130.3	$9,505.2	$5,489.6	19.0%	12.9%	2.4x	1.8x
Fund II (2005)	0.0%	$1,101.6	$2,941.5	$2,961.0	$1,859.4	19.1%	13.7%	2.7x	2.0x
Fund I (2000)	8.2%	$562.0	$1,078.0	$1,078.0	$516.0	28.8%	12.2%	1.9x	1.5x

Focus on Tight Control of Risk

New Mountain has never experienced a private equity portfolio company bankruptcy and no private equity portfolio company has ever missed an interest payment in the history of the Firm. Consistent with the Firm's focus on control of risk, only two New Mountain investments have ever been fully realized at a loss, and only four of its 37 investments to date have ever fallen below original cost, even temporarily. The Firm's fully realized loss ratio is 0.7% and its total unrealized/partially realized loss ratio is only 0.7% of total invested capital as of September 30, 2016. New Mountain used no third party debt in the initial acquisition capital structure of 17 of its private equity investments, while 20 have used third party debt at acquisition, most at 4.0x or less. Finally, New Mountain seeks to acquire leading, cash flow rich companies in non-cyclical "defensive growth" industries which it believes are protected by high barriers to competitive entry. The Firm seeks to diversify its portfolio among industries, perform extensive due diligence prior to investment, and work closely with management to build and support its companies post-investment.

Competitive Advantages in Attractive Industry Sectors

New Mountain seeks to identify what it believes to be the best "defensive growth" sectors top down, repeats this process on an annual basis, and then works to become the most knowledgeable private equity investor in these sectors. In this way, the Firm gains the advantages of a specialized firm while preserving the flexibility of a generalist, and without being forced to invest in any sector at an inopportune time. The Firm can also build expertise in lesser known or smaller sectors that would not support an entire dedicated fund. New Mountain has developed increasingly deep expertise in its chosen sectors over time and is now able to draw upon management talent and experience from prior funds and companies. Additionally, the breadth of New Mountain's sector knowledge and resources has continued to grow each year as the Firm adds new areas of expertise to its already existing specialties. New Mountain has numerous active deep dive sector research teams actively identifying companies to partner with on behalf of New Mountain V. In particular, New Mountain has made at least two platform investments in each of the following areas, all of which may be revisited in New Mountain V: specialty distribution, advanced materials/niche product technologies, "must have" information and data, defensive growth consumer/products, technology-enabled business services, regulatory compliance and cybersecurity, specialized software and healthcare services.

Investment / Risk Considerations:

Competition From Other Middle Market Firms
The activity of identifying, completing and realizing attractive private equity investments is highly competitive, and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions. The Fund will be competing for investments with many other private equity investors, as well as companies, public equity markets, individuals, financial institutions (such as mortgage banks and pension funds), open-ended funds, closed-ended funds, hedge funds and investment funds affiliated with other financial sponsors and other investors. Competition for appropriate investment opportunities may increase, thus reducing the number of investment opportunities available to the Fund and adversely affecting the terms upon which Portfolio Investments can be made. Although New Mountain has not acquired any company in a traditional "sealed bid" auction since the Firm began, the Fund may acquire investments through auctions, and participation in auctions may increase the pressure on the Fund with respect to pricing of a transaction.
Liquidity & Leverage Profile
During the five-year Investment Period, the General Partner has the right to generally recall distributions from a Portfolio Investment where such Portfolio Company has been disposed within 13 months of acquisition. In addition, any amount drawn down to pay the Management Fee, placement fees or Organizational Expenses will, to the extent Limited Partners receive subsequent distributions, be subject to recall by the General Partner. The Fund may within limits provide interim financing to or make Portfolio Investments that are intended to be of a temporary nature ("Bridge Investments") in a Portfolio. Many of the Fund's Portfolio Investments will be highly illiquid, and the Fund may not be able to realize on such Portfolio Investments in a timely manner. It is anticipated that there will be a significant period of time (up to five years or more) before the Fund will have completed making investments in Portfolio Companies. Such Portfolio Investments are currently expected by New Mountain to take from three to five years (or longer) from the date of initial investment to reach a state of maturity when realization of the Portfolio Investment can be achieved. New Mountain has historically used less leverage than other private equity firms, it may use amounts of leverage higher than used historically, as investments in leveraged companies offer the opportunity for capital appreciation and the Fund's investments are expected to include companies whose capital structures may have significant leverage.

PSERS History & Performance:

The table below summarizes New Mountain's performance with 12/31/16 reported valuations. In total the funds are showing a net 13.5% IRR and 1.7 Multiple of Cost (MoC).

Fund (mm's)	Portfolio	Vintage	Commit.	Contribution	Distribution	NAV	Net IRR	MoC
New Mountain I	PE	2000	$193	$161	$243	$ 0	13.7%	1.51x
New Mountain (Allegheny) II	PE	2004	$100	$85	$172	$ 1	14.2%	2.04x
New Mountain III	PE	2007	$300	$303	$283	$253	12.8%	1.77x
New Mountain IV	PE	2013	$100	$58	$ 3	$71	23.8%	1.28x

Finance Committee Disclosure:

Relationship with Portfolio Advisors:	None Disclosed
Placement Agent:	Credit Suisse Securities (USA) LLC – fee will offset management fees
PA Political Contributions:	None Disclosed
PA Impact: 9/30/16	6 portfolio companies; 743 employed; $13mm payroll; $3.4 bb total cost, PSERS share $136 mm; $7.7 bb total market value, PSERS share $349 mm.
Conflicts:	None Disclosed
First Time Fund With PSERS:	No
PSERS Internal Alpha Committee Approval:	May 19, 2017

Oversight Responsibility:

Investment Office:	Charles J. Spiller Darren Foreman	Deputy CIO, Non-Traditional Investments Senior Portfolio Manager
External Consultant:	Portfolio Advisors LLC	

May 9, 2017

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

Re: New Mountain Partners V, L.P.

Dear Trustees:

New Mountain Capital, LLC ("NMC" or the "Firm") recently commenced fundraising efforts for New Mountain Partners V, LP ("Fund V" or the "Fund"). Fund V will have a target of $5 billion with a hard cap of $5.85 billion. NMC will pursue the same well proven and value-added middle market investment strategy that the Firm has employed across its prior four private equity funds. Since inception, NMC has consistently emphasized business building and growth in economically acyclical industries, rather than a reliance on excessive risk and debt, to generate its investment returns. The Firm's investment strategy is based on the following key tenants: (i) top down identification of proprietary "defensive growth" industries; (ii) the systematic creation of operational and strategic competitive advantages as a private equity investor in these industries; (iii) proactive pursuit of companies in these chosen sectors, typically outside of competitive processes; (iv) extensive operational and strategic improvements to portfolio companies post-acquisition; and (v) a focus on the tight control of risk, typically with moderate debt usage.

In Fund V, NMC expects to invest primarily in North American based middle market companies with enterprise values ranging from $200 million to $1 billion (and most likely averaging approximately $500 million). The Firm expects to invest $100 million to $500 million of fund capital per transaction, with an average of approximately $300 million anticipated. Fund V will typically invest in growth equity transactions, management buyouts, leveraged acquisitions, build-ups, recapitalizations, take-privates, control restructurings and pre-public offering opportunities.

Through a formal, top-down and firm-wide process, NMC seeks to identify what it believes to be are the best "defensive growth" sectors on an annual basis. By "defensive growth", NMC seeks to identify sectors that can succeed in both robust and weak economic environments, but which are also sufficiently large and growing in order to achieve high valuations and outsized returns at exit. The Firm favors industries with the following characteristics: (i) clear and sustainable secular growth drivers; (ii) high barriers to entry; (iii) repeat revenue business models; (iv) variable cost structures; (v) strong cash flow generation capabilities with minimal capital expenditure and working capital requirements; and (vi) high returns on assets and opportunities for niche market dominance. Through the Firm's annual process, the team seeks to identify six or seven sectors for priority focus, adding to the list of previously selected "deep dive" sectors. This approach allows NMC to gain the advantages of a specialized firm while preserving the flexibility of a generalist, and without forcing the Firm to invest in any given sector at an inopportune time. The Firm can also build expertise in lesser known or smaller sectors that would not support a dedicated fund.

Portfolio Advisors' 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 on-site due diligence visit was performed on January 27, 2017.
- 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.
- 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 Portfolio Advisors who were primarily involved in the due diligence process for the Fund are:

Gregory Garrett – Managing Director, Darien Office
Geoffrey Kelleman – Vice President, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to $200 million in New Mountain Partners V, L.P. Portfolio Advisors 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. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,

WILLIAM J. INDELICATO

MANAGING DIRECTOR