



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Webster Capital IV, L.P.

Private Equity Fund Commitment

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Manager, Private Markets

February 9, 2018



Recommendation:

Staff, together with Hamilton Lane Advisors, L.L.C. ("Hamilton Lane"), recommends to the Board a commitment of up to \$50 million to Webster Capital IV, L.P., ("Webster IV" or the "Fund").

Founded in 2003 and based in Boston, Webster Capital ("Webster" or the "Firm") is forming the Fund to continue its strategy of making private equity investments within the healthcare services and branded consumer sectors (together, the "Focus Sectors") of the North American lower middle-market.

Firm Overview:

Webster was founded in 2003 by industry veteran Don Steiner who has over 40 years of investing and operating experience in the consumer sector. Today, Webster has a highly experienced, specialized and cohesive team investing in the healthcare services and branded consumer sectors in North America.

Don Steiner, David Malm, John Garbarino, Doug Williams and Chris Casgar (together, the "Partners") comprise the senior leadership at Webster. The five Partners have over 150 years of collective experience operating and investing in growing companies within the Focus Sectors. These Partners are joined by six investment professionals, one dedicated business services professional and two operations professionals who comprise the Webster team. The team is further supported by five senior advisors, each of whom is an industry veteran of major North American healthcare services or branded consumer companies. Webster leverages its senior advisors in the review, due diligence and evaluation of potential investments, as well as with the ongoing operations of its portfolio companies as leaders, advisors and board members.

The Webster team is also supported by a broad network of industry veterans, chief executive officers, consultants, research analysts, and service providers, each with extensive and highly relevant experience in the healthcare services and/or branded consumer sectors. The team leverages this network across the entire deal lifecycle, particularly in sourcing, due diligence and portfolio company management.

The firm has managed three funds since 2003: Webster Capital Founders' Fund LP ("Fund I"), Webster Capital II, LP ("Fund II") and Webster Capital III, LP ("Fund III") (together, the "Prior Funds"). Across its Prior Funds and third-party co-investments, Webster has invested over \$824 million of equity capital in 26 platform investments and 60 add-on acquisitions.

Fund Size:

Fund IV is seeking equity commitments of up to \$650 million, with a hard cap of \$800 million.

Investment Strategy:

Webster seeks to acquire companies with the potential to achieve sustainable double-digit EBITDA growth, which in turn has resulted in consistently strong investment returns for the Firm's limited partners. Webster has achieved this performance by following a proven, repeatable strategy that is based on the following key tenets:

- Narrow Two-Sector Focus
- Disciplined Value Orientation
- Proven Value Creation Strategies



Narrow Two-Sector Focus - Webster invests only in healthcare services and branded consumer sectors. The Firm seeks to be the first institutional capital, targeting companies with revenues between \$20 million and \$200 million and EBITDA between \$3 million and \$20 million. Equity investments generally range from \$20 million to \$60 million in each transaction, typically using moderate leverage and deal structures biased toward full control, enabling Webster to guide all major operational, strategic, capital and leadership decisions. Companies meeting Webster's criteria typically have an attractive product or service proposition, a sizable addressable market and a loyal customer base.

Within healthcare services, Webster also typically seeks lowest cost delivery of care and value-based care opportunities. Within branded consumer, Webster typically seeks proprietary products with leading brand potential, an opportunity for direct to consumer marketing as well as high margins.

Maintaining such a narrow sector-focus should provide the team with several competitive advantages, notably:

- A deep understanding of the healthcare services and branded consumer sectors, including the competitive dynamics, consumer behavior and regulatory insights as well as the conduct of strategic and financial investors to guide optimal buying and selling decisions;
- Pattern recognition allowing the team to move quickly and proactively to originate attractive investment opportunities, identify value-creation potential that may be overlooked by other investors, conduct effective due diligence and mitigate anticipated risks;
- An extensive and continuously growing network of relationships which facilitate access to actionable deal flow as well as prospective management candidates, board members and operating professionals; and
- Actionable expertise that allows the team to make an immediate impact upon acquisition.

The Firm's experience, networks, and investment history in the consumer and healthcare services sectors give the firm an advantage in sourcing, transacting and adding value to opportunities at the intersection of these two sectors, an increasingly important and growing area of the economy.

In the healthcare services sector, the "retailization" of service offerings is underway. As traditional consumer retail experiences a dislocation and storefronts close, healthcare service providers are stepping in to fill the void, leveraging retail locations for both increased visibility and more convenient service for its patient populations. However, like consumer retailers, the healthcare service providers that can best integrate competencies related to real estate strategy, location selection and demand-generation will excel relative to their peers. For Webster, its consumer expertise differentiates the Firm and is an important input into framing the team's strategies and growth plans for investments in this sector.

Similarly, amongst consumers, uncertainty about healthcare costs and safety nets is leading people to proactively manage their risks by eating healthier, exercising more, and engaging "retail" health and wellness services outside of traditional doctor's offices. In the consumer sector, companies catering to these changing consumer sentiments are providing products and services that differentiate themselves by making "health" claims analogous to traditional therapies and prescription medicines. Webster's experience navigating complex regulatory and compliance regimes gives the firm an advantage when pursuing opportunities in these areas.

Disciplined Value Orientation - The cornerstone of Webster's investment strategy is to acquire businesses at value-orientated purchase multiples. This typically means that Webster targets companies that have unrealized potential, like under-exploited channels or gaps in management. The team's extensive sector-specific investing and operating experience, combined with its deep network of industry contacts, gives the Firm insight into differentiated growth strategies that may be less visible to the broader market. Further, it helps Webster better assess overall risk to ensure investments are made with optimal deal structures and control provisions.



Proven Value Creation Strategies - Webster is an active, hands-on investor. The Webster team, along with its network of advisors, collaborates with management to identify initiatives that have the potential to deliver double-digit EBITDA growth during Webster's holding period. These initiatives, designed to balance purposeful investments of capital while limiting risk, fall into two categories:

- Formulating breakout growth strategies
- Professionalizing organizations and institutionalizing processes

Webster's experience focusing on these two categories has yielded a playbook that helps the team make significant and favorable performance improvements within its portfolio companies throughout the lifecycle of its investments with the ultimate goal of maximizing value at exit.

Formulating breakout growth strategies - Webster starts shaping its growth plans for an investment during the underwriting process. It leverages the domain expertise of its investing professionals, senior advisors and network to quickly identify strategic growth initiatives. Webster further validates these strategies with extensive analytics, supported by consulting and regulatory partners, to ensure the team is reaching solid, data-driven judgements about its investment theses. Lastly, Webster translates these strategies into actionable steps that management can take in order to make forward-progress quickly in the early stages of the investment period.

Professionalizing organizations and institutionalizing processes – The Partners' entrepreneurial and operating backgrounds provide them with a deep understanding of what it takes to build great businesses. Webster team members, as well as individuals and consultants from the Webster network, are active value-added contributors who engage with the goal of maximizing impact while efficiently leveraging time. Typically, this takes the form of professionalizing organizations and institutionalizing processes to amplify the effectiveness of management teams. Webster resources maintain board positions to assist management with execution plans, strategic oversight and overall governance.

Investment Team:

The Webster investment team is made up of 11 individuals, comprising five Partners and six investment professionals. Each of these individuals is dedicated principally either to healthcare services and branded consumer investing. The five Partners have over 150 years of collective experience operating and investing in growing companies within the Focus Sectors. Each supporting investment professional has a highly relevant background and brings valuable skills to the execution of the investment strategy.

Name	Title	Yrs. Experience Firm	Prior Experience
David Malm	Managing Partner	12	Halpern Denny & Co.
Donald Steiner	Co-Managing Partner	15	Boston Capital Ventures
John Garbarino	Partner	4	Epic Health Services
Doug Williams	Partner	2	Ralph Lauren Corp.
Chris Casgar	Partner	1	LCatterton
Mehran Ahmed	Principal	6	Gemini Investors
Alicia Alexander	Vice President	4	LaSalle Capital Group
Jarrod Smith	Vice President	3	Newton Strategy Group
Stephanie Pao	Senior Associate	3	Piper Jaffray & Co.
Matthew Beer	Associate	3	Doyle Sailmakers
Charles Smugar	Associate	1	Wells Fargo Securities



Investment Instruments:

Investments will primarily be made by acquiring equity and equity-related securities in private growth companies.

Market Opportunity:

The Firm seeks to acquire companies at value-oriented purchase multiples with the potential to achieve sustainable double-digit EBITDA growth. Typically, this means that Webster targets companies that have unrealized potential, such as opportunities to expand their product/services, markets and distribution channels. In many cases, Webster helps fill gaps in management needed to exploit or capitalize on such growth opportunities. Webster's extensive sector-specific investing and operating experience, combined with its deep network of industry contacts, gives the Firm insight into differentiated growth strategies that may be less visible to the broader market. Further, it helps Webster better assess overall risk to ensure investments are made with optimal deal structures and control provisions. This disciplined approach has resulted in a track record of acquiring investments at single-digit, lower than average industry multiples, followed by compound double-digit growth during Webster's hold period.

As an active, hands-on investor, Webster seeks to consistently apply its value creation playbook of making significant and favorable performance improvements to its investments with the ultimate goal of maximizing value at exit. The Webster team, along with its network of advisors, is highly collaborative, working with management to identify initiatives that have the potential to deliver sustained EBITDA growth during Webster's holding period, with each initiative designed to balance purposeful investments of capital while limiting risk.

To date, the Webster strategy has resulted in consistently positive investment returns for the Firm's limited partners. For Fund IV, Webster will continue to invest in companies of the same size and total equity requirement. This translates to investments generally between \$20 million and \$60 million per portfolio company (including add-on acquisitions for some companies).

Investment Highlights:

Narrow Sector Focus
Webster is focused on investing within specific areas of healthcare services and branded consumer companies. They will be targeting small cap, asset light companies with highly scalable business models.
Proven Value Creation Strategy
The Webster team develops and implements strategies designed to generate sustainable double-digit EBITDA growth. They will also take a hands-on approach to driving operational improvements while mitigating risk.
Seasoned Investment Team with Extensive Industry Relationships
The team has extensive sector-specific experience as both investors and operators. Webster also has a strong bench of 19 Operating Executives/Advisors that drive portfolio company growth.

Investment/Risk Considerations:

Improvements in Portfolio Company Operations Critical to Investment Success
The success of the Fund's investment strategy depends on the effectiveness of efforts to improve the operating performance of portfolio companies following investment. The proper identification and implementation of initiatives important to the achievement of improved operating performance is difficult and often requires substantial resources. The capabilities and resources of a portfolio company, even with the assistance of Webster, may be insufficient to effect such proper identification and implementation, and there can be no assurance that portfolio companies will be successful in achieving improvements in operating performance.
Geographic Concentration Risk



The Fund will focus its investments primarily in companies headquartered in, or with revenues primarily derived from, the United States and therefore will be particularly vulnerable to events affecting companies in this region.

PSERS History & Performance:

This will be PSERS' first commitment to a Webster Capital fund.

Portfolio Fit:

A commitment to Fund IV will give PSERS' Private Markets portfolio, specifically in the private equity space, exposure to the healthcare services and branded consumer industry. Webster's exclusive focus on these two industries and their extensive experience investing in this space will be instrumental in being able to generate attractive returns for the Fund. A commitment to Webster Capital IV will be allocated to the Private Equity sleeve of PSERS' Private Markets portfolio. The table below summarizes PSERS Private Equity exposure as of September 30, 2017 (in millions):

Investment Type	Active Commitments ¹	%	Market Value	%	Unfunded ¹	%	Total Exposure ^{1,2}	%
Private Equity	15,468.5	66.5%	5,269.8	67.1%	3,986.4	70.4%	9,256.2	68.5%
Special Situations	4,446.5	19.1%	1,071.0	13.6%	965.0	17.0%	2,036.0	15.1%
Venture Capital	2,897.0	12.5%	1,007.5	12.8%	656.8	11.6%	1,664.3	12.3%
PE Internal	455.2	2.0%	502.9	6.4%	58.1	1.0%	561.0	4.2%
Total	\$ 23,267.2	100.0%	\$ 7,851.2	100.0%	\$ 5,666.2	100.0%	\$ 13,517.5	100.0%

(1) As of September 30, 2017. Includes post Q3'2017 pending/closed commitments.
(2) Total Exposure is Market Value + Unfunded

Investment Committee Disclosure:

Relationship with Hamilton Lane:	Yes
Placement Agent:	Yes, Campbell Lutyens & Co., Inc. (Although not used for PSERS)
PA Political Contributions:	None Disclosed
PA Presence:	Yes
Conflicts:	None Disclosed
History with PSERS:	No
PSERS AIC Meeting Approval:	February 9, 2018

Oversight Responsibility:

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



Hamilton Lane

January 29, 2018

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

Re: Webster Capital IV, L.P.

Dear Trustees:

Webster Capital (“Webster”) was founded in 2003 by Don Steiner, who was joined by Andrew McKee and Charles Larkin; Mr. Steiner brought on David Malm in 2006, who now serves as Webster’s Managing Partner. Webster’s investment team is comprised of 11 investment professionals, including five partners, one principal, two vice presidents and 3 junior investment professionals. Although the team is relatively new, senior investment professionals have extensive experience in the industry, averaging 28 years of experience. Webster maintains a single office in Boston, which promotes collaboration and cohesion across the firm. Senior investment professionals are segmented into verticals based on the General Partner’s core sectors, facilitating extensive market knowledge and targeted networks. Webster is often seen as a preferred partner due to its sector-focused teams, which contributes to direct deal flow. Webster’s investment committee consists of all five partners, with all decisions regarding new investments, dispositions, follow-on capital and add-on acquisitions requiring a four-fifths vote. Webster is targeting \$650 million in commitments from limited partners for its fourth buyout fund, Webster Capital IV, L.P. (the “Fund”). Webster expects to hold a first close in January 2018 and a final close in Q1 2018. The General Partner will commit at least 3.8% of commitments to invest in the Fund.

The Fund will target North American growth-oriented lower middle-market investments in the healthcare services and branded consumer sectors. For healthcare services investments, Webster seeks to identify value-based, defensible businesses within contrarian themes that are largely untouched by private equity; for consumer investments, Webster seeks to identify strong brands with asset-light models, loyal customer bases and an opportunity for direct to consumer marketing. The General Partner sources deal flow through the extensive networks of investment professionals and Senior Advisors, Webster’s business development platform and buy-side search efforts. Webster seeks to be the first institutional capital in investments and to take a majority ownership in order to guide operational and strategic decisions. Webster seeks to acquire undermanaged companies at single-digit purchase price multiples at discounts to industry averages. The General Partner takes a hands on approach to value creation, driving EBITDA growth through early operational changes; in addition, Webster leverages its network of Senior Advisors and industry contacts to connect portfolio companies with experts in specific fields, who help guide strategic initiatives. Webster also pursues accretive add-on acquisitions to increase EBITDA margins. The Fund will primarily target equity investments in the range of \$20 million to \$60 million, targeting companies with enterprise values between \$20 million and \$100 million. Webster estimates that the Fund will make 15 to 20 investments. The General Partner has generated consistently attractive net returns across prior funds, with top-quartile performance on a net IRR basis in Funds II and III.

Webster Capital IV’s investment thesis can be summarized as follows:

- Webster has an experienced investment team with appropriate recent additions
- Sector specialization drives domain expertise and positions Webster as a partner of choice



Hamilton Lane

- The General Partner maintains a disciplined approach to healthcare services and branded consumer investments
- Attractive returns across prior funds, with strong preservation of capital

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 30, 2017; the on-site due diligence was conducted October 9, 2017; the fund was approved by Hamilton Lane's Investment Committee on December 11, 2017 and the recommendation to PSERS was issued January 29, 2018.
- 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 Webster'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:

Andrea Kramer – Managing Director, Bala Cynwyd Office

John Stake – Vice President, Bala Cynwyd Office

Leah Dowd – Analyst, Bala Cynwyd Office

Jacob Fertell – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$75 million in Webster Capital IV, 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,
Principal