



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Lindsay Goldberg V L.P.

Private Equity Fund Commitment

Luke M. Jacobs, CFA
Manager, Private Markets

November 21, 2018



Recommendation:

Staff, together with Hamilton Lane Advisors, L.L.C. ("Hamilton Lane"), recommends to the Board a commitment of up to \$150 million to Lindsay Goldberg V L.P., ("Lindsay Goldberg V" or the "Fund").

Firm Overview:

Lindsay Goldberg was founded in 2001 by Alan E. Goldberg and Robert D. Lindsay. Mr. Goldberg and Mr. Lindsay have known each other since 1978, when they began their careers together at Morgan Stanley & Co. In 1984, they played a principal role in the formation and management of Morgan Stanley Leveraged Equity Fund, L.P., and the precursor to Morgan Stanley's private equity business. During their 11 years together at Morgan Stanley, Mr. Goldberg and Mr. Lindsay worked cohesively in creating Morgan Stanley Private Equity and played integral roles in building it into a successful private equity firm. They were directly responsible for, or played a significant role in, making many of the investments in Morgan Stanley's successful first leveraged equity fund.

Mr. Goldberg spent a total of 22 years at Morgan Stanley. He was instrumental in building Morgan Stanley Private Equity into a successful global private equity firm and served as its Chairman and CEO from February 1998 to January 2001. Mr. Lindsay joined Bessemer Holdings in 1991 and over the ensuing decade, played a central role in building the firm's global private equity business, most recently serving as its Managing General Partner. In 2001, Mr. Goldberg and Mr. Lindsay reunited, combining their substantial expertise in building premier global private equity businesses at Morgan Stanley and Bessemer Holdings, and formed Lindsay Goldberg.

Fund Size & Commitment:

Fund V is seeking equity commitments of up to \$4.0 billion.

PSERS committed \$300 million to Lindsay Goldberg & Bessemer (Fund I) in 2001.

Investment Strategy:

Fund V will seek to invest primarily in high-quality businesses, including in family-owned or founder-led companies where capital is required for growth or value creation. Lindsay Goldberg typically will seek to make control investments through which it can influence strategy and operations, as well as ensure that adequate governance and other protections are in place to protect Fund V's investment. Fund V will typically seek to invest between \$150 million and \$500 million in equity in each portfolio company, either in the initial transaction or in multiple investments made over time, though certain investments may be less than or in excess of such amounts. Notably, Lindsay Goldberg's focus on partnerships with families, founders and management teams has remained consistent since the Firm's inception and is expected to remain consistent over the course of the commitment period for Lindsay Goldberg V.

Four key components of Lindsay Goldberg's strengths are:

1. Relationship driven investors – Their relationship driven investment model should generate superior returns over time. The key elements that underpin this model are: a primary focus on hard-to-access target markets, differentiated sourcing networks tailored for those markets, a collaborative approach to business building, and a reputation as a trusted partner for families, founders, and management teams.
2. Established track record - Since inception, Lindsay Goldberg has raised \$13.4 billion in capital commitments across four funds and invested \$10.2 billion in 50 portfolio companies, representing approximately 247 transactions, including capital projects, follow-on acquisitions and subsequent buyouts of minority equity interests in such portfolio companies. In total,



Lindsay Goldberg's four funds have realized \$15.5 billion of investment proceeds and have an unrealized value of \$4.2 billion, for an aggregate value of \$19.8 billion or 1.9x invested capital, implying a net 1.6x invested capital and a net IRR of 17%. Lindsay Goldberg's most recent fund, Lindsay Goldberg IV L.P., has generated a net 1.7x multiple on invested capital and a net IRR of 55% (realized and unrealized).

3. Cohesive team with broad investment, operating and leadership experience - Lindsay Goldberg's team has broad and varied backgrounds that are highly complementary. The Lindsay Goldberg partner group is comprised of leaders with backgrounds that include decades of private equity experience, service as CEOs of large and growing companies, and histories of distinguished leadership in both the public and private sectors. The team works shoulder-to-shoulder, collaborating on all aspects of sourcing, diligence, and execution. Lindsay Goldberg believes that its team's broad experiences and relationships help develop differentiated insight into and access to prospective investment opportunities.
4. Attractive entry multiples and relatively conservative levels of leverage - Lindsay Goldberg's differentiated sourcing networks, process and value proposition support the Firm's ability to generally avoid overpaying for a business. The average purchase price multiple of the companies that Lindsay Goldberg acquired in 2017 was 7.5x, approximately 3.0x less than the private equity industry average. Additionally, approximately 80% of Lindsay Goldberg's business partners roll or invest significant equity into the partnerships alongside Lindsay Goldberg.

Lindsay Goldberg has generated its high teens net returns while using leverage levels well below the private equity industry average. Like many of its family business partners, Lindsay Goldberg appreciates that relatively conservative balance sheets can strengthen a company's ability to focus on the long-term, weather industry downturns, and position the company for accretive acquisitions across market cycles. On average, leverage levels across Lindsay Goldberg's portfolio companies have been approximately 40% percent lower than the private equity industry average (according to S&P Global Market Intelligence as of 03/31/18).

Team:

Collectively, the Lindsay Goldberg partner group has 190 years of private equity experience and over 105 years of experience in senior industry and/or leadership roles. Additionally, the majority of the Firm's partners with traditional private equity backgrounds have been with Lindsay Goldberg for at least 14 years. Lindsay Goldberg's partner group are both unique among the Firm's peers and integral to their ability to source hard-to-access opportunities, particularly within the Firm's target market of family-owned and founder-led businesses, which are often averse to partnering with traditional private equity.

Name	Title	Yrs. Experience Total/Firm	Most Recent Industry Experience, Education
Alan Goldberg	Partner, CEO & Co-Founder	40/17	Morgan Stanley, New York University
Robert Lindsay	Partner, Chairman & Co-Founder	40/17	Bessemer, Harvard University
Jeff Bunder	Partner	29/2	Ernst & Young, Emory University
John Aiello	Partner	19/6	Goldman Sachs, New York University
Michael Dees	Partner	20/14	Morgan Stanley, Harvard University
Stephen DeFalco	Partner	30/1	Crane & Co., MIT
Eric Fry	Partner	27/3	Morgan Stanley, University of Penn.
Brian Kelley	Partner	34/1	Keurig, Coca-Cola, College of Holy Cross
Chris Laitala	Partner	21/2	H.I.G. Capital, Harvard University
Jack Lew	Partner	14/1	Secretary of Treasury, Harvard University



J. Russell Triedman	Partner	22/17	Bessemer, Brown University
Krishna Agrawal	Managing Director	12/10	Morgan Stanley, New York University
Megan Lundy	Managing Director	10/6	Credit Suisse, Columbia University

Market Opportunity:

Family-owned and founder-led businesses represent an attractive target market to Lindsay Goldberg for several reasons. First, opportunities to invest in these businesses are often hard to access, and these businesses are more likely to ultimately transact in a non-marketed or limited process. Many families and founders go to great lengths to maintain their privacy. As a result, families and founders may be wary of a traditional auction process, in which their confidential information may be disseminated widely to private equity firms and potentially competitors, and in which they are forced to select a partner under a tight timeline. Lindsay Goldberg has a history of nurturing relationships with families and founders over a longer period and by investing resources in its sourcing networks and longstanding relationships, it can access opportunities that may not be readily available to its peers. An added benefit of this extended period of mutual due diligence is that it not only strengthens the relationship, but also fosters an improved ability to develop a roadmap for long-term value creation.

Secondly, Lindsay Goldberg believes that family-owned and founder-led businesses are often strong organizations that have been built to endure for the long-term and are often replete with opportunity for an institutional investment firm to create value through acquisitions and operational improvements. Through Lindsay Goldberg's buy-and-build strategy, to date, Lindsay Goldberg has deployed approximately 45% of its invested capital in follow-on investments.

Finally, the operating and business philosophy of successful family-owned and founder-led businesses often mirrors Lindsay Goldberg's vision of how great businesses should be run: patiently, conservatively and with a healthy degree of risk aversion. Like Lindsay Goldberg, family-owned businesses are generally unlikely to "bet the farm" or "swing for the fences," but rather are often focused on the long-term sustainability and growth of the business. And like Lindsay Goldberg, what often keeps these family owners and founders up at night is what can go wrong, with a focus on managing downside risk at least as much as their upside. Lindsay Goldberg's relatively conservative use of leverage and track record of working collaboratively with families and founders also serves to help differentiate the Firm from other financial buyers.

Investment Highlights:

- **Hard to access target markets.**
- **Differentiated sourcing network.**
- **Collaborative business building.**
- **Reputation as a trusted partner.**

Investment / Risk Considerations:

- **Fund size increase**
- **Organizational change at the onset of Fund IV**



PSERS History & Performance:

The table below summarizes PSERS performance in Lindsay Goldberg & Bessemer (Fund I) as of 09/30/18.

Fund	Vintage	Fund Size	Commitment	Drawn	Distributed	NAV	DPI	MoC	Net IRR
Fund I	2002	\$2.0B	\$300M	\$297M	\$732.7M	\$0.4M	2.34	2.34	34.1%

Portfolio Fit:

A commitment to Lindsay Goldberg V would be allocated to the Private Equity portfolio. This commitment will give PSERS' Private Markets portfolio additional exposure to the large buyout market. Additionally, Lindsay Goldberg's focus on family-owned and founder-led businesses, as well as their attractive returns in prior funds, will give PSERS a unique exposure.

The table below summarizes PSERS' projected exposure as of 09/30/18 (in millions):

Investment Type	Active Commitments ¹	%	Market Value	%	Unfunded ¹	%	Total Exposure ¹	%
Private Equity	\$15,097	68.7%	\$5,229	65.3%	\$3,768	75.6%	\$8,998	69.2%
Special Situations	\$3,580	16.3%	\$1,106	13.8%	\$665	13.3%	\$1,771	13.6%
Venture Capital	\$2,712	12.3%	\$1,046	13.1%	\$480	9.6%	\$1,526	11.7%
PE Internal	\$592	2.7%	\$631	7.9%	\$73	1.5%	\$704	5.4%
Total	\$21,981	100.0%	\$8,013	100.0%	\$4,986	100.0%	\$12,999	100.0%

¹ As of September 30, 2018. Includes pending/closed commitments.

Investment Committee Disclosure:

Relationship with Hamilton Lane:	Yes, discretionary capital for multiple clients in all four prior Lindsay Goldberg funds
Placement Agent:	Not used
PA Political Contributions:	None Disclosed
PA Presence:	Yes
Conflicts:	None Disclosed
History with PSERS:	Yes, PSERS committed \$300M to Fund I
PSERS AIC Meeting Approval:	November 21, 2018

Oversight Responsibility:

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



Hamilton Lane

November 2, 2018

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

Re: Lindsay Goldberg V, L.P.

Dear Trustees:

Lindsay Goldberg was founded in 2001 by Robert Lindsay and Alan Goldberg, who previously worked together for 11 years at Morgan Stanley building out its private equity platform. While Messrs. Goldberg and Lindsay continue to lead the firm, the General Partner has thoughtfully developed a cohesive senior investment team by adding professionals that have deep expertise and networks across its target strategy to supplement its affiliate partner network. The investment team is augmented by Lindsay Goldberg's affiliate partner network, which consists of senior professionals that have significant experience investing and operating across the General Partner's target regions and industries; the affiliate partners are well-respected individuals within their industries and regions, providing the General Partner with unique market insight and advantaged sourcing capabilities. As Lindsay Goldberg continues to target new industries and regions, it has focused on growing its affiliate partner network. The General Partner promotes strong alignment of interests through broad distribution of economics; carried interest is distributed broadly across the investment team down to the vice president-level, while all other professionals participate in a profit sharing program, creating alignment of interests across the organization. In addition, Lindsay Goldberg reserves a meaningful portion of carried interest for deal teams, which is distributed to professionals based on deal-specific performance, leading to additional alignment. Lindsay Goldberg is targeting \$4.0 billion in commitments for its fifth buyout fund, Lindsay Goldberg V, L.P. (the "Fund"). Lindsay Goldberg expects to hold a final close in Q1 2019. The General Partner will commit at least 2.5% of commitments to invest in the Fund.

Consistent with the General Partner's prior funds, the Fund will target investments in founder- and family-owned companies that have established strong market positions but require additional capital to institutionalize and scale. Lindsay Goldberg has consistently maintained a diversified sector approach across the United States and Western Europe, where its investment team and affiliate partners have built substantial expertise and networks; however, the General Partner expected to primarily focus on opportunities in the industrial, services, healthcare and consumer industries in the Fund. Lindsay Goldberg primarily targets control oriented positions while working alongside founders to implement value creation initiatives and build sustainable businesses; the General Partner's ability to work closely with founders, coupled with the affiliate partners' proactive sourcing approach, enables it to directly source opportunities at attractive purchase prices. Post-acquisition, the General Partner primarily seeks to generate value by pursuing accretive follow-on opportunities and actively implementing operational improvements and margin expansion initiatives. Lindsay Goldberg's ability to create organic EBIDTA growth and decrease its initial purchase price multiple through add-on acquisitions enables it to generate additional value at exit through multiple expansion. The Fund will primarily target companies with enterprise values between \$225 million and \$1.3 billion with equity investments in the range of \$150 million to \$500 million. The General Partner has generated attractive gross performance across prior funds; additionally, Fund IV has performed well to date.

Lindsay Goldberg V's investment thesis can be summarized as follows:



Hamilton Lane

- Lindsay Goldberg has an experienced investment team that benefits from an established platform
- Consistent and differentiated approach drives advantaged deal flow and value creation capabilities
- Attractive gross performance across prior funds and top-quartile performance in Fund IV

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 July 2, 2018; the on-site due diligence was conducted July 25, 2018; the Fund was approved by Hamilton Lane's Investment Committee on August 13, 2018 and the recommendation to PSERS was issued November 2, 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 Lindsay Goldberg'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:

Christian Kallen – Managing Director, Bala Cynwyd Office

Spencer Reiter – Analyst, Bala Cynwyd Office

Jacob Fertell – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$150 million in Lindsay Goldberg V, 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