



Public Investment Memorandum (Updated)

New Mountain Partners VI, L.P.

Private Equity Fund Commitment

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July 6, 2020



Recommendation:

PSERS Investment Office Professionals, together with Hamilton Lane Advisors, L.L.C. (“Hamilton Lane”), recommend the Board commit up to \$175 million to New Mountain Partners VI, L.P. (the “Fund”, or “Fund VI”). New Mountain Capital, L.L.C., (“New Mountain”, “NMC” or the “Firm”) is raising Fund VI 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 \$8 billion.

Firm Overview:

New Mountain Partners was established in 1999 and is currently led by founder Steven Klinsky. Based in New York City, the Firm consists of 162 staff members, including 97 investment professionals. In total, NMC manages over \$23 billion of assets under management as of September 30, 2019, comprised of over \$16.6 billion of active private equity funds, \$5.4 billion in private credit assets, approximately \$550 million in net lease assets and approximately \$630 million in public equity assets. New Mountain has raised over \$17.7 billion of committed capital across five private equity funds since inception. Additionally, New Mountain is currently raising New Mountain Strategic Equity Fund I, L.P. (“Strategic Equity Fund”), targeting \$750 million of commitments. The Strategic Equity Fund seeks significant long-term capital appreciation typically targeting direct privately negotiated equity and equity-related investments using the same overall investment philosophy, while focusing on non-control investments.

Strategy	AUM ¹	Focus
New Mountain Partners Private Equity Funds	\$16.6 billion	Mid-market Buyout Strategy
New Mountain Partners Private Credit	\$5.4 billion	Credit Strategy was created in 2008 and applies the firm’s “defensive growth” investment philosophy towards pursuing attractive credit investment opportunities in the U.S. middle market. New Mountain aims to generate current income and capital appreciation through investments in debt securities at all levels of the capital structure.
New Mountain Partners Net Lease Assets	\$550 million	Strategy began in 2016 and capitalizes on the firm’s expertise in underwriting middle market companies to provide best-in-class real estate financing capabilities to leveraged and sponsored companies. Transactions include sale-leasebacks, existing net lease acquisitions, build-to-suits, and forward take-out commitments of all real estate asset types, emphasizing operationally critical corporate properties.
New Mountain Public Equity Assets	\$630 million	New Mountain’s public equity strategy, New Mountain Vantage, was launched in 2006 and utilizes the firm’s strengths in research and business building to non-control positions in the U.S. public equity markets. New Mountain Vantage manages both Long/Short and Long Only products in both private and regulated funds

(1) AUM as of September 30, 2019.

Since inception, New Mountain Partners has raised over \$17.7 billion of committed capital across five private equity funds: New Mountain Partners, L.P., began investing in 2000 with approximately \$770 million in aggregate commitments; New Mountain Partners II, L.P., began investing in 2005 with approximately \$1.57 billion in aggregate commitments; New Mountain Partners III, L.P., began investing in 2007 with approximately \$5.12 billion of aggregate commitments; New Mountain Partners IV, L.P., began investing in

2013 with approximately \$4.13 billion of aggregate commitments; and New Mountain Partners V, L.P., began investing in 2017 with approximately \$6.15 billion of aggregate commitments.). New Mountain has never had a private equity portfolio company placed into bankruptcy or missed a debt payment on any private equity fund investment since the Firm began.

Market Opportunity:

New Mountain places a consistent focus on defensive growth industries, sectors which can succeed in both robust and weak economic environments 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 variable cost structures; (v) have high cash flow generation with minimal capital expenditure and minimal working capital growth needs; and (vi) have high returns on assets and opportunities for niche market dominance. 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 is able to support the Firm's portfolio companies and many of which have had previous operational or strategic experience.

Portfolio Fit:

New Mountain Partners VI will give PSERS exposure to defensive growth companies in our private equity portfolio. A commitment to Fund VI will be allocated to the Buyouts sleeve of PSERS' Private Markets portfolio.

The table below summarizes PSERS' projected Private Markets exposure inclusive of a recommended \$175 million commitment to Fund VI:

Investment Type	Market Value ¹	Unfunded ^{1, 2}	Total Exposure	%	Pending Current Commitments		
					March 2020	Total Exposure	%
Buyouts	\$ 5,405	\$ 3,942	\$ 9,347	66.7%	\$ 385	\$ 9,732	67.6%
Special Situations	1,184	761	1,945	13.9%	-	1,945	13.5%
Venture Capital / Growth Equity	1,076	706	1,782	12.7%	-	1,782	12.4%
Internal Co-invest	870	69	939	6.7%	-	939	6.5%
Total	\$ 8,535	\$ 5,478	\$14,013	100.0%	\$ 385	\$14,398	100.0%

¹As of September 30, 2019; ²Includes commitments approved through December 2019

Investment Strategy:

New Mountain's investment approach has consistently emphasized business building and growth in economically non-cyclical industries, rather than reliance on excessive risk and debt, as its chosen path to returns. The Fund has a targeted capitalization of \$8 billion and intends to pursue the same 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 New Mountain's 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.



New Mountain currently seeks to acquire approximately seven 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 \$100 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. The team will place 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 variable cost structures; (v) have high cash flow generation with minimal capital expenditure and minimal working capital growth needs; and (vi) have high returns on assets and opportunities for niche market dominance.

New Mountain's targeted investment strategy is based on four investment principles employed by the Firm since its inception:

- i. A generalist approach, combined with proactive pursuit of what New Mountain believes are the highest quality opportunities within carefully selected "defensive growth" industries;
- ii. An intense focus on investor "value-added" and a proven ability to help to build businesses after an investment is made;
- iii. Emphasis on strong downside protection, control of risk and active company governance; and
- iv. Continued pursuit of superior risk-adjusted returns, combined with timely, intelligent exits and strong return performance to date.

Consistent with its approach since Fund II, the Fund expects to invest primarily in North American companies with enterprise values of \$100 million to \$1 billion (a target of approximately \$500 million on average). The Fund expects typically to invest \$100 million to \$500 million per transaction (a target of approximately \$300 million on average).

Investment Team:

New Mountain Partners is working to establish itself as a lasting, preeminent institution, with a strong and enduring culture. The Firm's culture is built around its mission to be "best in class" among alternative investment managers. A positive emphasis is placed on: (i) intellectual honesty without personal politics; (ii) a flat organization with "hands on" active senior leadership; (iii) rapid opportunities to advance based on merit; (iv) shared rewards; and (v) ethics, rigor and a dedication to being the very best. New Mountain relies on all members of its team to achieve its results. A wide array of New Mountain team members have played key roles in each of the Firm's successful past efforts. The Firm is continually adding to its team over time, and itself seeks to become a "new mountain" in the field of private equity for the decades ahead. New Mountain has also built significant institutional processes as it has grown to ensure transparency internally and has continued to develop the team over time through a variety of tools.

New Mountain's team consists of 100 Investment Professionals, led by 28 Managing Directors, 20 Senior Advisors, 14 Directors and 11 Vice Presidents. In addition, the Firm draws upon the experience of its Management Advisory Board, teams of operating managers at New Mountain's portfolio companies and specialist industry consultants. New Mountain's Investment Team has been carefully assembled from top talent drawn from some of the nation's most respected firms and institutions. New Mountain's Investment Team has grown from 15 Investment Professionals when Fund II began, to 100 during the fund raise of New Mountain VI, including 29 professionals with prior operating experience in positions such as corporate CEOs, operating managers, chief information officers, and management consultants.



New Mountain also seeks to be a leader in service to its limited partners. New Mountain Capital has 43 employees dedicated to finance, operations, compliance, legal and administration across the firm. The Firm provides extensive multi-page thesis letters to its investors explaining its investment strategy at the time each investment is made. New Mountain supports public disclosure of its overall fund returns, and seeks to provide limited partners with ready access to its Managing Directors and staff. New Mountain emphasizes client service as a fundamental part of its mission statement, and strives to be an industry leader with respect to socially responsible investing, including the creation of its “social dashboard” which it has made available on its website each year since 2008 and a robust ESG policy and program.

The table below summarizes the experience of the Firm’s Key Persons and Transaction Leaders*:

Name	Title	Yrs. Experience New Mountain Partners / Total	Prior Experience
Steven Klinsky**	Managing Director, Founder and Chief Executive Officer, Firm & Private Equity	21 / 38	Forstman Little Goldman, Sachs & Co.
Matthew Holt**	Managing Director & President, Private Equity	19 / 21	Lehman Brothers Holdings Inc.
Adam Weinstein**	Managing Director, Head of Firm Operations and Chief Financial Officer	15 / 19	Deloitte & Touche, LLP
Vignesh Aier	Managing Director	14 / 16	McKinsey & Co. OppenheimerFunds, Inc.
Prasad Chintamaneni	Managing Director	1 / 26	Cognizant Merrily Lynch
Joe Delgado**	Managing Director	5 / 26	CCMP Capital Advisors, LP (formerly JP Morgan Partners)
Lars Johansson	Managing Director	13 / 15	Goldman, Sachs & Co.
Harris Kealey	Managing Director	12 / 14	Deutsche Bank Securities Inc.
Lewis Klessel**	Managing Director	3 / 29	Bain Capital, LP The Home Depot, Inc. McKinsey & Company Ernst & Young
Peter Masucci**	Managing Director	16 / 20	KKR Goldman, Sachs & Co.
Andre Moura**	Managing Director	11 / 15	McKinsey & Company
Robert Mulcare	Managing Director	13 / 15	McKinsey & Company
Albert Notini**	Managing Director	13 / 35	Sonus Networks, Inc. Manufacturers' Services Ltd. Hale & Dorr
Kyle Peterson	Managing Director	9 / 13	McKinsey & Company
Jack Qian	Managing Director	13 / 15	Morgan Stanley

*There are additional New Mountain Managing Directors who are not included in the list above.

**Key Person



Investment Highlights:

- Consistently Strong Investment Performance
- Focus on Tight Control of Risk
- Consistent Investment Strategy & Execution
- Deep Management Team & Organizational Resources
- Competitive Advantages in Attractive Industry Sectors
- Proprietary & Proactive Transaction Flow, with Proven Ability to Acquire without Auctions
- Strong Alignment of Interests

Investment / Risk Considerations:

- Larger Fund Size
- Macroeconomic Risk/Environment

PSERS History & Performance:

PSERS is invested in five funds managed by New Mountain Partners. A summary of fund data and performance is presented below (as of 12/31/19).

Fund (\$M)	Portfolio	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	Net MOIC
New Mountain Partners, L.P.	PE	2000	192	161	243	0	13.7%	1.51x
New Mountain Partners II, L.P.	PE	2004	100	85	172	1.0	14.2%	2.03x
New Mountain Partners III, L.P.	PE	2007	300	305*	407	234	13.5%	2.10x
New Mountain Partners IV, L.P.	PE	2013	100	91	88	77	22.9%	1.83x
New Mountain Partners V, L.P.	PE	2017	200	106	2.5	123	15.7%	1.20
Total			\$892	\$748	\$913	\$435	14.1%	1.80x

*Contribution amount is greater than commitment amount because of recycling.



Investment Committee Disclosure:

Relationship with Hamilton Lane:	Hamilton Lane, on behalf of its discretionary clients, has committed approximately \$205 million across 12 client accounts to New Mountain funds. Additionally, approximately 4 Hamilton Lane clients have invested ~\$43.6 million in co-investments alongside New Mountain funds.
Introduction Source:	Fund Sponsor
Placement Agent:	New Mountain Partners has not engaged a placement agent in soliciting business from PSERS and no placement agent will receive any fees in connection with an investment in the Fund by PSERS. In connection with the marketing of New Mountain Partners VI, L.P. ("Fund VI"), New Mountain Capital LLC (the "Investment Manager") is using select regional placement agents in certain non-U.S. jurisdictions such as Japan. Separately, New Mountain expects to sign a private wealth management agreement for high net worth clients with Goldman Sachs & Co. for Fund VI.
PA Political Contributions:	None Disclosed
PA Presence:	Yes, sixteen investments.
Potential Conflicts:	We are not aware of New Mountain Partners having any investment conflicts.
Litigation Disclosures:	The Fund receives communications from regulators and is 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 the Fund.
First Time Fund With PSERS:	No
PSERS Allocation Implementation Committee Approval:	February 11, 2020 for a \$175 million commitment July 6, 2020 for an additional \$75 million commitment (\$250M total)

Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments Darren C. Foreman Director, Private Markets Luke M. Jacobs Manager
External Consultant:	Hamilton Lane Advisors, L.L.C.



Hamilton Lane

June 23, 2020

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

Re: New Mountain Partners VI, L.P.

Dear Trustees:

New Mountain Capital, LLC ("New Mountain") was founded in 1999 by Steve Klinsky, David Wargo and Robert Grusky to invest in growth-oriented businesses within defensive industries. Mr. Klinsky continues to serve as the firm's CEO. In addition to its private equity products, the General Partner also manages vehicles dedicated to private credit and public equity investments. New Mountain benefits from a cohesive senior team that averages 19 years of industry experience and 12 years within the firm. Investment professionals are organized onto deal teams following the General Partner's deep sector dive, which is completed at the beginning of each year, while also incorporating individuals' prior experiences. Transaction Leaders, with support from mid- and junior-level professionals, identify, research and present compelling sub-verticals to the broader investment team. New Mountain has established an extensive network of Operating Partners that it leverages throughout the investment process. In addition to expanding the investment team's sourcing network, New Mountain's Operating Partners and 16 Senior Advisors enhance the firm's value creation capabilities through their sector and functional expertise. New Mountain is targeting \$8.0 billion in commitments from limited partners for its sixth control buyout fund, New Mountain Partners VI, L.P. (the "Fund"). New Mountain expects to hold a first close in April 2020 and final close in June 2020. The General Partner will commit at least 4.0% of commitments to invest in or alongside the Fund.

Consistent with prior funds, the Fund will target defensively-positioned North American companies within growing industries. Despite raising larger funds, New Mountain has not shifted upmarket and instead has completed more investments, demonstrating commitment to its core strategy. The General Partner identifies sectors of focus through a top-down, thematic approach to industry selection. New Mountain systematically selects six to seven themes to focus on at the beginning of the year. Over its prior funds, the General Partner has primarily pursued investments within the healthcare, business services and information technology sectors. New Mountain's current industries of focus exhibit sustainable, secular growth, high barriers to entry, recurring revenue, variable cost structures and strong cash flow generation with minimal capital expenditure & working capital needs. The General Partner leverages its Operating Partners and Senior Advisor network to drive direct deal flow through industry relationships and to assist in executing value creation initiatives across the portfolio. In addition to staffing at least one Operating Partner per deal, a Senior Advisor typically serves in a Chairman role, offering sector specific knowledge and expertise to portfolio companies. New Mountain is primarily focused on driving EBITDA growth through implementing technological efficiencies, expanding sales efforts and completing add-on acquisitions. The Fund will target approximately 25 equity investments in the range of \$100 million to \$500 million, targeting companies with enterprise values between \$100 million and \$1 billion. New Mountain has generated top-quartile or near top-quartile performance across prior mature funds.

New Mountain Partners VI's investment thesis can be summarized as follows:

- Reputable brand name with an experienced, senior investment team



Hamilton Lane

- Consistent focus on defensive businesses within growth-oriented industries
- Attractive relative performance across market cycles 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 December 19, 2019; the on-site due diligence was conducted January 10, 2020; the fund was approved by Hamilton Lane's Investment Committee on January 27, 2020 and the recommendation to PSERS was issued June 23, 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 New Mountain'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 Markets 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
Victor DeVincenzo – Investment Director, Bala Cynwyd Office
Chelsea Yasgur – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$250 million in New Mountain Partners VI, 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